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TURKEY

(Brief for Mr. McNamara's April 1978 Visit)

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ITINERARY

Fil

Itinerary--Norway, Turkey
April 6-14, 1978

DATE	TIME	GMT		REMARKS
April 6	1600	2100	Depart Washington (National)	EA Shuttle B727
Thurs.	1658	2158	Arrive New York (La Guardia)	
	1900	0001	Depart New York (JFK)	PA002 B747 non-stop
April 7	0740	0640	Arrive London	
Fri.	0850	0750	Depart London	BE642 Trident non-stop
	1045	0945	Arrive Oslo	[illegible] 1055 SK514
			Lunch with Mr. Tidemand- [illegible] 411010 [illegible]	[illegible] 1350
	p.m.		Depart Oslo [illegible] res 141309 [illegible]	by car
			Arrive Noresund	
	2000		Opening dinner	
April 8	0800-0900		Breakfast	
Sat.	a.m.		Meeting session	
	1230-1400		Lunch	
	p.m.		Meeting session	
	1930		Dinner	
April 9	1030	0930	Depart Oslo	SK453 DC9 non-stop
Sun.	1130	1030	Arrive Copenhagen	
	1215	1115	Depart Copenhagen	SR401 DC9 non-stop
	1335	1235	Arrive Zurich	
	1550	1450	Depart Zurich	SR322 DC8 non-stop
	2035	1735	Arrive Istanbul	
	2200	1900	Depart Istanbul	TK906 DC9 non-stop
	2250	1950	Arrive Ankara	Buyuk Ankara
April 10	0900-1030		Meet with Finance Minister	
Mon.	1045-1215		Meet with Economic Coordination Minister	
	1215-1300		Meet with Prime Minister	
	1300-1430		Working lunch with Prime Minister	
	1500-1600		Meet with Energy Minister	
	1600-1700		Meet with SEE Minister (at Prime Ministry)	
	1700-1930		Rest at hotel	
	2000-2200		Cocktails hosted by Finance Minister, to meet Chairman, Presidents or Directors General of SEEs and agencies dealing w/Bank projects only (TEK, TKI, TCZB, DYB, SEKA, DSI, Topraksu, Extension Service, Sumerbank, SPO, MPB)	
April 11				
Tues.	0830-0945		Meet with Industry Minister	
	1000-1115		Meet with Agriculture Minister	
	1115-1230		Meet with Public Works Minister	
	1245-1400		Lunch hosted by Finance Minister to meet Deputy Prime Ministers and key ministers	
	1600		Depart Ankara	TK141
	1655		Arrive Istanbul	
	1745		Depart Istanbul	TK444
	1840		Arrive Antalya	Hotel Antalya

DATE	TIME	GMT		REMARKS
April 12 Wed.	0830-0915		Drive Antalya to Perge	
	0915-1015		Visit Perge	
	1015-1045		Drive from Perge to Aspendos	
	1045-1145		Visit Aspendos	
	1145-1245		Visit Irrigation Rehabilitation Project at Koprucay	
	1245-1330		Depart Koprucay for Side	
	1330-1500		Lunch at Side	
	1500-1600		Visit Side	
	1600-1730		Depart Side	Antalya Hotel
	1830-1845		Depart Antalya for airport	
	1920		Depart Antalya	TK445
	2020		Arrive Istanbul	Hilton Hotel
April 13 Thurs.	0800-9000		Breakfast w/Prime Minister at Istanbul Hilton	
	0900-1230		Visit Gecekondu slum areas and other parts of Istanbul to get idea of urban problems	
	1230-1430		Lunch with Mayor and Governor of Istanbul	
	1500-1730		Visit TSKB Office for meeting w/leading Turkish entrepreneurs	
	1730-1830		Drive to Airport	
	1915		Depart Istanbul	TK152
	2010		Arrive Ankara	Buyuk Ankara
April 14 Fri.	0800-0900		Meet with Reconstruction Minister	
	0915-1100		Wrap-up meeting w/Finance and Economic Coordination Ministers	
	1200	0900	Depart Ankara	TK125 DC9 non-stop
	1255	0955	Arrive Istanbul	
	1415	1115	Depart Istanbul	AF607 B707 non-stop
	1630	1430	Arrive Paris (Orly)	
	2000	1800	Depart Paris (CDG)	AF053 SST CONCORDE
	1655	2155	Arrive Washington (Dulles)	

Party for Burke — 8pm —

CKW
April 4, 1978

MR. MCNAMARA'S ITINERARY

April 9,	Sunday	:	Arrive Ankara (from Copenhagen) 22.50 on TK 906 Overnight at Büyük Ankara Hotel, Ankara
		8.40	Leave Hotel
April 10,	Monday	: 9.00-10.00	Meeting with Finance Minister
		10.30-11.00	Meeting with Prime Minister
		11.30-13.00	Meeting with Prime Minister, accompanied by Ministers of Economic Coordination and Finance SPO Undersecretary and Officials of SPO and Ministry of Finance
		13.00-14.30	Working lunch with Prime Minister
		15.00-16.00	Meeting with Energy and ~~Energy and~~ Natural Resources Minister
		16.15-17.00	Meeting with Economic Enterprises Minister
		17.15-19.30	Rest at Hotel
		20.00-22.00	Reception at Büyük Ankara hosted by Finance Minister to meet Directors General of SEE's and other agencies dealing with Bank Projects.
		Overnight at	Büyük Ankara Hotel, Ankara
April 11,	Tuedsay	: 8.30- 9.30	Meeting with Industry Minister
		9.45-10.45	Meeting with Agriculture Minister
		11.00-12.00	Meeting with Public Work Minister
		12.15-14.30	Lunch hosted by Finance Minister to meet Deputy Prime Ministers and Key Ministers.
		15.00-~~16.00~~ 30-16:30	Meeting with Transport Minister
		~~18.30-~~ 17.00	Leave for Antalya accompanied by the Minister for Tourism and Information

		Overnight at Motel Antalya
April 12, Wednesday :	8.30- 9.15	Drive Antalya to Perge
	9.15-10.15	Visit Perge
	10.15.10.45	Drive from Perge to Aspendos
	10.45-11.45	Visit Aspendos
	11.45-12.45	Visit Irrigation Rehabilitation Project at Köprüçay
	12.45-13.30	Drive Köprüçay for Side
	13.30-15.00	Lunch at Side
	15.00-16.00	Visit Side
	16.00-17.30	Drive Side-Antalya Hotel
	18.30-18.45	Antalya Hotel-Airport
	19.30-20.20	Antalya - İstanbul
		Overnight at İstanbul Hilton
April 13, Thursday :	8.00 -	Breakfast at Hotel Çınar hosted by Prime Minister for Wrap-up meeting
	9.30-10.30	Meeting with Reconstruction Minister at Hotel Çınar
	10.45-12.15	Wrap-up meeting with Finance Minister at Hotel Çınar
	12.30-14.30	Lunch with Governor and Mayor of İstanbul
	15.00-17.30	Hilton Hotel for meeting with leading Turkish enterpreneurs.
	18.00 -	Free
April 14, Friday :	9.00-12.00	Visit to Gecekondu Areas.
8:30 - 9:30 Journalists (in McN suite)	Afternoon :	Departure from Turkey

ANNEX A

MR. MCNAMARA'S TENTATIVE ITINERARY

April 9, Sunday:

Arrive Ankara(from Copenhagen) 19.25 on TK974
Overnight at Buyuk Ankara, Ankara.

April 10, Monday:

9:00-10:30 - Meeting with Finance Minister
10:45-12:15 - Meeting with Economic Coordination Minister
12:15-13:00 - Meeting with Prime Minister
13:00-14:30 - Working lunch with Prime Minister
15:00-16:00 - Meeting with Energy Minister
16:00-17:00 - Meeting with SEE Minister (at Prime Ministry)
17:00-19:30 - Rest at Hotel
20:00-22:00 - Cocktails, hosted by Finance Minister, to meet Chairman, Presidents or Directors General of SEEs and agencies dealing with Bank projects only (TEK, TKI, TCZB, DYB, SEKA, DSI, Topraksu, Extension Service, Sumerbank, SPO, MPB)
Overnight at Buyuk Ankara, Ankara.

April 11, Tuesday:

8:30- 9:45 - Meeting with Industry Minister
10:00-11:15 - Meeting with Agriculture Minister
11:15-12:30 - Meeting with Public Works Minister
12:45-14:00 - Lunch hosted by Finance Minister to meet Deputy Prime Ministers and key Ministers.
Late afternoon - Leave for Antalya
Overnight at Hotel Antalya.

April 12, Wednesday:

8:30- 9:15 - Drive Antalya to Perge
9:15-10:15 - Visit Perge
10:15-10:45 - Drive from Perge to Aspendos
10:45-11:45 - Visit Aspendos
11:45-12:45 - Visit Irrigation Rehabilitation Project at Koprucay
12:45-13:30 - Drive Koprucay for Side
13:30-15:00 - Lunch at Side
15:00-16:00 - Visit Side
16:00-17:30 - Drive Side - Antalya Hotel
18:30-18:45 - Antalya Hotel - Airport
19:20-20:20 - Antalya - Istanbul (TK 445)
Overnight at Istanbul Hilton

April 13, Thursday:

9:00-12:30 - Visit Gecekondu slum areas and other parts of Istanbul to get idea of its urban problems.
12:30-14:30 - Lunch with Mayor and Governor of Istanbul
15:00-17:30 - Visit TSKB Office for meeting with leading Turkish entrepreneurs.
17:30-18:30 - Drive to Airport
19:15-20:10 - Istanbul - Ankara (on TK 152)
Overnight at Buyuk Ankara, Ankara.

April 14, Friday:

9:00-10:00 - Meeting with Reconstruction Minister
10:15-12:30 - Wrap-up meeting with Finance and Economic Coordination Ministers
12:30-14:30 - Lunch hosted by Economic Coordination Minister
14:30-16:30 - Rest
17:00-18:30 - Wrap-up meeting with Prime Minister
Overnight at Buyuk Ankara, Ankara.

April 15, Saturday:

Leave Ankara for Istanbul 6:30 on TK 913
Leave Istanbul for Zurich 9:15 on SR 323

AIRPORT STATEMENT

AIRPORT STATEMENT

I am delighted to be back in Turkey for my third visit as President of the World Bank. I greatly appreciate your Government's invitation and look forward to discussions with your leaders.

In the 10 years since my first visit in 1968, much has happened in Turkish development. Despite the adverse turn in the world economy, your country's rate of growth has been impressively high. You have raised standards of living and improved development prospects. Turkey's relations with the World Bank Group have grown significantly in this period. Turkey is one of our major borrowers and occupies an important place in our operations. Since 1968, Bank Group operations have totalled over $1.4 billion: in recent years averaging over $200 million a year. The World Bank is assisting Turkey through a major and diversified program, covering the development of its agriculture, industry, energy, transport and rural and urban development.

Your country's impressive record of economic growth reflects the effective collaboration between the public and private sectors, and the rich endowment of human resources on which Turkey can rely. I have every confidence that with such resources, and with appropriate economic policies, the present economic difficulties can be overcome and the vast potential of Turkey be constructively harnessed for the benefit of its people.

In discussions during the next five days, I hope to exchange views with your leaders on their program for restoring Turkey to sound economic health. We shall also seek to establish a sound basis for an expanded partnership between Turkey and the World Bank. In accord with your Government's readiness to take necessary, and often difficult, measures that provide the basis for sound economic development, and in the expectation that such a basis will be established shortly,* the World Bank is prepared to assist in any way it can. I hope therefore that we can define a practical arrangement for an effective participation by the Bank in the sectors to which the Government has given priority and for expeditious and effective use of Bank funds. We want to help Turkey achieve her social and economic development goals in both the rural and urban areas, as well as sound expansion of public infrastructure and industrial investment. These, I understand, are your central aims, and it will be the World Bank's goal to support them.

(* essential if agreement with IMF has not been reached before visit)

Cleared with: Mr. Merriam

C

STATE DEPARTMENT NOTES

and

MAPS OF TURKEY AND ISTANBUL

ANNEX C

background notes

Turkey

department of state * january 1976

OFFICIAL NAME: Republic of Turkey

GEOGRAPHY

Turkey lies partially in Europe and partially in Asia, sharing common borders with Greece and Bulgaria on the northwest, the U.S.S.R. and Iran on the east, and Iraq and Syria on the south. The Bosphorus, the Sea of Marmara, and the Dardanelles, known collectively as the Turkish Straits, connect the Black and the Mediterranean Seas.

The coastal areas enjoy sufficient rainfall to support considerable vegetation. A variety of crops, ranging from tea in the northeast to tobacco in the west and cotton in the south, is grown on those relatively narrow coastal plains. The coastal regions, particularly in the south and west, enjoy mild winters.

Inland, wheat is the principal crop grown on much of the rolling terrain of the western regions of the Anatolian Plateau. This plateau generally becomes more mountainous and less productive toward the east.

Winters are quite severe in eastern Turkey but only moderately so in the western Anatolian Plateau. To the southeast, the terrain has a mean elevation of 3,000 feet above sea level and is treeless, sparsely populated, and crisscrossed by mountain chains. The Tigris and Euphrates Rivers rise in eastern Turkey and flow southward to the Persian Gulf through Iraq and Syria. The largest all-Turkish river is the Kizil Irmak, which flows northward east of Ankara to the Black Sea.

PROFILE

Geography

AREA: 296,000 sq. mi. (slightly smaller than Tex. and La. combined). CAPITAL: Ankara (pop. 2.57 million). OTHER CITIES: Istanbul (3.86 million), Izmir (1.66 million), Adana (1 million).

People

POPULATION: 40 million (1975 est.). ANNUAL GROWTH RATE: 2.5% (1975). DENSITY: 125 per sq. mi. ETHNIC GROUPS: 90% Turk, 7% Kurd. RELIGIONS: Islam (98%), Christian, Jewish. LANGUAGES: Turkish, Kurdish, Arabic. LITERACY: 55%.

Government

TYPE: Parliamentary democracy. INDEPENDENCE: 1923. DATE OF CONSTITUTION: October 25, 1961.

BRANCHES: *Executive*–President (Chief of State), Prime Minister (Head of Government). *Legislative*–bicameral Parliament (Grand National Assembly) includes 450-member National Assembly and 184-member Senate. *Judicial*–Court of Cassation, Council of State.

POLITICAL PARTIES: Justice (JP), Republican People's (RPP), National Salvation (NSP), others. SUFFRAGE: Universal over 21. POLITICAL SUBDIVISIONS: 67 Provinces.

FLAG: White crescent and star on a red field.

Economy

GNP: $35.9 billion (1975 est.). ANNUAL GROWTH RATE: 7%. PER CAPITA INCOME: $893. PER CAPITA GROWTH RATE: 6%.

AGRICULTURE: *Land* 35%. *Labor* 68%. *Products*–cotton, tobacco, cereals, sugar beets, fruit, nuts.

INDUSTRY: *Labor* 16%. *Products*–textiles, food processing, mining.

NATURAL RESOURCES: Coal, chromite, copper, boron, oil.

TRADE: *Exports*–$1.532 billion (1974): cotton, tobacco, fruit, nuts, livestock products, textiles. *Partners*–FRG 21%, US 12%, Switzerland 9%, Italy 6%. *Imports*–$3.777 billion (1974): machinery, transport equipment, metals, mineral fuels, fertilizers, chemicals. *Partners*–FRG 19%, US 12%, UK 11%, Italy 11%.

OFFICIAL EXCHANGE RATE: 15 Turkish lira=US$1.

US AID RECEIVED (FY 1946-FY 1974): *Economic* $2.7 billion; *military* $3.9 billion.

MEMBERSHIP IN INTERNATIONAL ORGANIZATIONS: UN and its specialized agencies, CENTO, associate member of EC, Council of Europe, NATO, OECD, Regional Cooperation for Development (RCD).

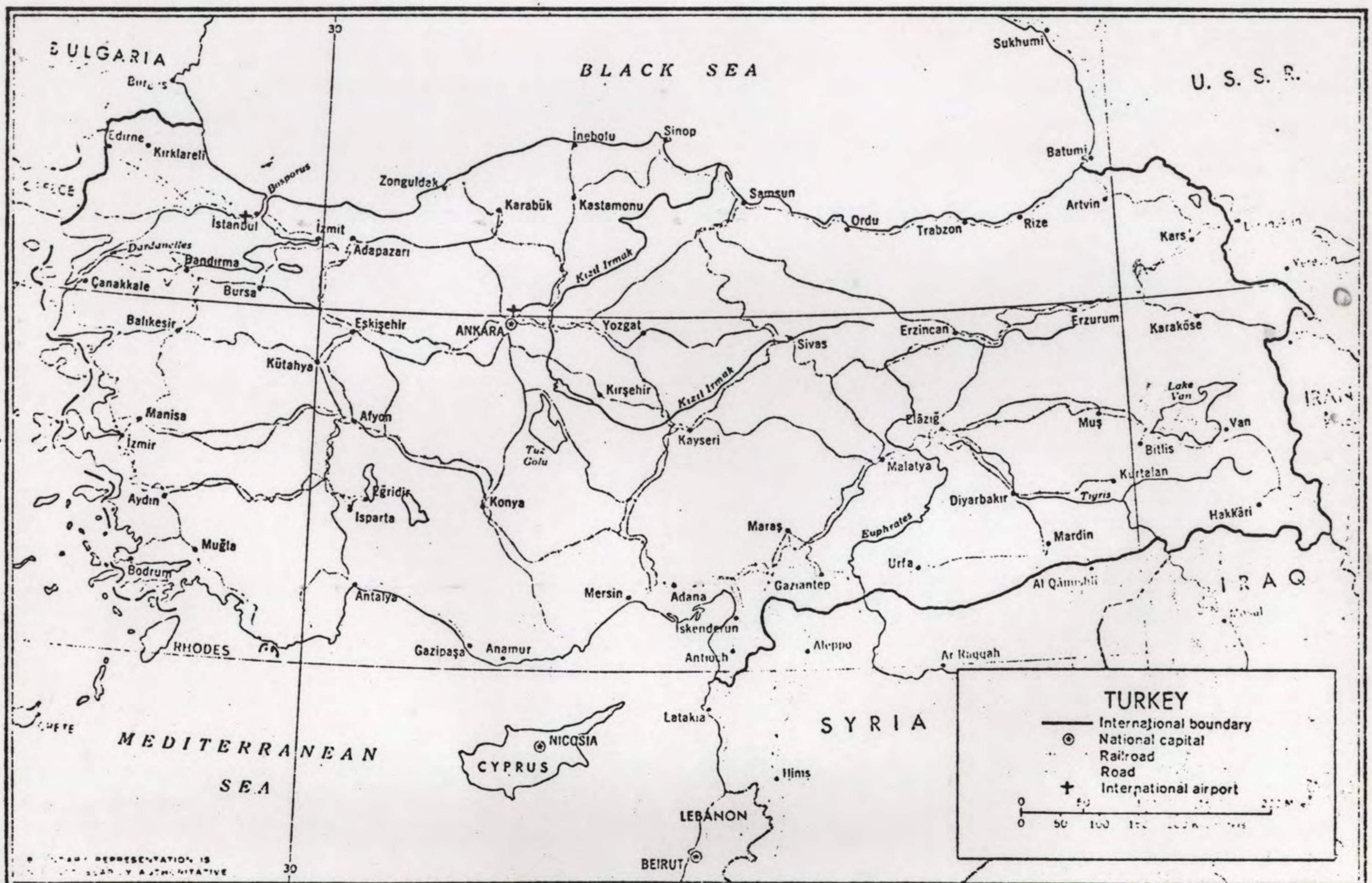
PEOPLE

Urban areas have experienced tremendous growth since 1950 as a result of the movement of villagers to the cities. Squatter dwellings can be seen around the city peripheries, posing a constant challenge to the municipalities to provide essential services.

About 65 percent of the populace are villagers. Population is more dense along the coastal regions and in the western half of the country than it is in the east and southeast. The largest city is Istanbul.

Most Turkish Moslems belong to the Sunni sect. The state recognizes no established religion and is secular in form. There is no legal discrimination against the non-Islamic minorities, which consist mainly of small groups of Greeks, Armenians, and Jews.

The Kurds, who number about 3 million, constitute an ethnic and linguistic minority, although not a religious one. They live in poor, remote sections of the east and southeast, areas which have not kept pace



BULGARIA
BLACK SEA
U. S. S. R.
Sukhumi
Edirne
Kırklareli
Bosporus
Zonguldak
İnebolu
Sinop
Batumi
Samsun
Karabük
Kastamonu
Artvin
Ordu
Trabzon
Rize
Kars
İstanbul
İzmit
Adapazarı
Dardanelles
Bandırma
Kızıl Irmak
Çanakkale
Bursa
Balıkesir
Eskişehir
ANKARA
Yozgat
Sivas
Erzincan
Erzurum
Karaköse
Kütahya
Kırşehir
Lake Van
Manisa
Afyon
Elâzığ
Muş
Van
İzmir
Kayseri
Bitlis
Tuz Golu
Malatya
Kurtalan
Aydın
Eğridir
Konya
Diyarbakır
Tigris
Isparta
Hakkâri
Muğla
Maraş
Euphrates
Mardin
Bodrum
Urfa
Antalya
Mersin
Adana
Gaziantep
Al Qâmishli
IRAQ
İskenderun
RHODES
Gazipaşa
Anamur
Antioch
Aleppo
Ar Raqqah
Latakia
SYRIA
MEDITERRANEAN SEA
NICOSIA
CYPRUS
Hims
LEBANON
BEIRUT
30
TURKEY
International boundary
National capital
Railroad
Road
International airport

517430 9-75

with the economic and social development of most of Turkey.

HISTORY

The Republic of Turkey was founded by Mustafa Kemal (later named Ataturk) in 1923 after the collapse of the 600-year-old Ottoman Empire. The Empire, which at the peak of its influence controlled vast stretches of North Africa, southeastern Europe, and western Asia, had failed to keep pace with the social and technological developments of Europe in the 19th century. The rise of nationalism was a centrifugal force which impelled several nations of the Empire to seek their independence, leading to its progressive fragmentation. This process reached its culmination in the disastrous Ottoman participation as one of Germany's allies in World War I. Defeated, shorn of much of its former territory, partially occupied by forces of the victorious European states, the Ottoman structure was repudiated by Turkish nationalists who rallied under the leadership of Ataturk. After a bitter war against invading Greek forces, the nationalists expelled them from Anatolia. The sultanate and caliphate, the temporal and religious ruling institutions of the old Empire, were abolished, and Turkey became a Republic.

The new Republic turned its back on the imperial ambitions and traditions of the Empire and concentrated on modernizing and Westernizing the ethnically Turkish core of the old Empire–Anatolia and Thrace. The series of social, political, linguistic, and economic reforms and attitudes introduced by Ataturk before his death in 1938 forms the ideological basis of modern Turkey. Referred to as Ataturkism, its meaning, continued validity, and applicability are the subject of frequent discussion and debate in Turkey's political life.

Turkey did not participate in World War II until shortly before its end, but this brief belligerency facilitated its status as a charter member of the United Nations. The difficulties faced by Greece in quelling a Communist rebellion and demands by the Soviet Union, shortly after the end of World War II, for Turkey's cession of some of its eastern territory and for military bases in the Turkish Straits, led to the declaration of the Truman doctrine in 1947. Large-scale U.S. military and economic aid began at this time. Turkey's contribution of a highly effective brigade to the U.N. forces during the Korean conflict was tangible evidence of its determination to help prevent Communist aggression, and recognition of this led to Turkey's entry into the North Atlantic Treaty Organization (NATO) in 1952.

The one-party rule (Republican People's Party–RPP) established by Ataturk in 1923 lasted until the 1950 elections, when the Democrat Party came to power. From 1950 until May 1960 the Democrat Party ruled, with Celal Bayar as President and Adnan Menderes as Prime Minister. Economic difficulties and internal political tensions culminated in a military coup d'etat on May 27, 1960. The Committee of National Union (CNU) governed while a new Constitution was written, a referendum was held to approve it, and elections carried out. A return to civilian government came with the convening of the Grand National Assembly (GNA) on October 25, 1961.

In the elections of October 1961, no party won a dominant position; however, the RPP was the dominant party in the coalition governments from 1961 to early 1965. In the October 1965 general elections the Justice Party (JP) came to power alone and remained in power until the elections of October 1969, when it was returned with a reduced percentage of the popular vote but with a sizable majority of National Assembly seats.

Disruptions of public order began in 1968 and progressively increased over the next 3 years as extremists of the left, an aberration of the elitist trend in Turkish politics, took to the streets in opposition to the populist government. A countermovement of extremists on the right emerged: clashes between left and right became more frequent, and more than a score of student-aged youths lost their lives.

In March 1971 the apparent inability of the JP government to bring a halt to the continuing incidents of violence in Turkey's large cities and the dissatisfaction of the Turkish military at the failure of the JP government to pursue reforms with the speed and vigor deemed by the military as necessary led to a political crisis. The senior military officers called for the replacement of the JP government by one which could attain these objectives.

A new Prime Minister, Nihat Erim, was designated by the President in March 1971 to establish a reform, nonparty government composed of independents and members of the GNA from the three largest political parties.

Nihat Erim resigned as Prime Minister in May 1972, but "above party" governments continued, first under the premiership of Ferit Melen (May 1972-April 1973) and then Naim Talu (April 1973-October 1973).

National elections held in October 1973 were won by the Republican People's Party, led by Bulent Ecevit who became premier of a coalition consisting of the RPP and the rightist

TRAVEL NOTES

Climate and Clothing–Clothing and shoe needs in Turkey are about the same as for Washington, DC. However, Ankara winters are more severe, with more snowfall; and Adana has a climate similar to Charleston, SC.

Health–Public health standards in the larger centers are generally on a par with those in the US, but care must be taken in rural areas. In general, tap water is potable in Istanbul and Ankara. Turkish law requires that at least one pharmacy be open in a given neighborhood at all times.

Telecommunications–Telephone and telegraph services, domestic and international, are generally dependable. During peak hours circuits are often overloaded and delays ensue.

Transportation–More than 20 scheduled airlines connect Turkey with all parts of the world. Istanbul and Ankara are the primary international airports. Turkish Airlines and Turkish state railways serve many points within Turkey, Europe, and the Middle East.

Buses and share cabs (dolmus), although somewhat crowded, provide satisfactory local transportation. Taxis are readily available. Main roads are fairly good in the large centers; secondary roads are generally adequate.

National Salvation Party (NSP). In September 1974 Prime Minister Ecevit resigned because of differences with the NSP, and an interim government under Dr. Sadi Irmak (Independent Senator) took over until April 1975, when President of the Justice Party and former Prime Minister Suleyman Demirel headed a coalition consisting the JP, NSP, and several other smaller conservative parties.

GOVERNMENT

Turkey is a parliamentary democracy operating under a Constitution approved by referendum on July 9, 1961, and put into full operation in October.

The President is chosen by the Grand National Assembly from among its members for a single 7-year term. He promulgates the laws enacted by the GNA or, within 10 days, returns the law with the reasons for his veto. Laws vetoed by the President may be reenacted by the GNA; presidential promulgation is then required within 10 days.

The President designates a Prime Minister, usually the leader of the political party or coalition of parties which can command a majority of votes in the National Assembly. The Prime Minister, as Head of Government, administers the government's general policies. Working with him is the Council of Ministers (Cabinet) whose members are selected by the Prime Minister from the GNA or from among private citizens qualified to be elected to the GNA.

The GNA is a bicameral parliament composed of the National Assembly and the Senate of the Republic. National Assembly members are directly elected to 4-year terms. The Senate has 150 members popularly elected to 6-year terms, 19 life members from the former CNU, 15 members designated by the President, and former Presidents of the Republic. The GNA has the usual parliamentary powers of enacting, amending, and repealing laws. Bills are first debated in the National Assembly, and a mixed committee decides questions on which the two houses cannot agree. The power of interpellation is vested exclusively in the National Assembly.

The Court of Cassation sits at the apex of Turkey's regular judicial system and serves as a court of last instance in most cases. The Council of State has a similar function in the administrative court system. The Constitutional Court, added to the judicial system by the 1961 Constitution, reviews, on appeal, the constitutionality of laws and, when necessary, hears cases against the President and other senior officials.

Each of the 67 Provinces is headed by a provincial governor appointed by the central government.

Principal Government Officials

President - Fahri Koruturk
Prime Minister--Suleyman Demirel

Ministers

Foreign Affairs–Ihsan Sabri Caglayangil

READING LIST

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National Defense—Ferit Melen
Interior—Oguzhan Asilturk
Finance—Yilmaz Ergenekon
Justice—Ismail Muftuoglu
President, Republican Senate—Tekin Ariburun
President, National Assembly—Kemal Guven
Chief, Turkish General Staff—Gen. Semih Sancar
Ambassador to the U.S.—Melih Esenbel
Ambassador to the U.N.—Ilter Turkmen

Turkey maintains an Embassy in the U.S. at 1606 23d St., NW., Washington, D.C. 20008, and Consulates General in Chicago, Los Angeles, and New York.

POLITICAL CONDITIONS

Turkey's body politic is divided into a majority, which is conservative and frequently traditional in outlook, and a sizable minority, which seeks more rapid implementation of the secular, Westernizing, statist philosophy propounded by Ataturk. This fundamental dichotomy underlies the party structure within which a populist party and an elitist party have been most prominent since 1950 and helps to explain the recurrent political difficulties which Turkey has experienced since 1950.

Political Parties

Turkey has two major parties, three others with sufficient strength to form parliamentary groups, and several minor political parties.

The populist Justice Party, founded in 1961 and currently headed by Prime Minister Suleyman Demirel, inherited much of the political support enjoyed by the Democrat Party, which was overthrown in the 1960 military coup and subsequently banned. The JP places great emphasis on private capital participation in the development process. It has considerable support from among Turkey's rural majority, as well as from business and artisan groups.

The Republican People's Party, headed by Bulent Ecevit, has basically adhered to the paternalistic approach to Turkey's economy which Ataturk originated, but since 1965 it has advocated an even greater role for the state through its espousal of a "left-of-center" philosophy. This party commands a high degree of support from among the urban population, civil servants, military officers, and others who regard it as the repository of Ataturk's traditions.

Another political group, originally called the National Order Party, was organized by a group of conservatives following the 1969 elections. This conservative, religious party was banned in May 1971 following the Constitutional Court ruling that it had been attempting to make use of religion for political purposes. It regrouped in 1973 under the name of National Salvation Party, again led by conservative Necmettin Erbakan, and was the third strongest party in the 1973 elections.

The Republican Reliance Party, led by Turhan Feyzioglu, was a centrist grouping which broke with the RPP in 1967. In 1969 it won a sufficient number of seats to make it a recognized parliamentary group, but then it steadily lost support.

In December 1970 a group of dissident JP deputies, led by former Speaker of the National Assembly Ferruh Bozbeyli, formed the Democratic Party. This party is generally viewed as a rallying point for the more conservative former JP members.

In July 1971 the Turkish Labor Party, the only noteworthy Socialist party in the country, was banned by a ruling of the Constitutional Court. It had received less than 3 percent of the popular vote in general elections. The other minor parties generally range from the center to the right of the political spectrum, an orientation less important on occasion than the ethnic, sectarian, or regional identifications of certain of these groupings.

All parties recognize the importance of economic development, although they differ on the best means for its achievement. The nation is united on the need to achieve a settlement of the Cyprus dispute acceptable to the Turkish community on the island, as well as on the necessity to use whatever measures might be required to forestall an imposed, unacceptable solution. Turkey's participation in NATO is supported by all parties, except the now-banned Turkish Labor Party.

As of January 1976 the political parties held the following number of seats in the Grand National Assembly:

Senate

Justice Party	78 seats
Republican People's Party	60 seats
National Salvation Party	5 seats
Republican Reliance Party	4 seats
Nationalist Action Party	1 seat
Democratic Party	0
Turkish Unity Party	0
Independents	2 seats
Vacancies	0
Presidential Appointees	15 seats
"Life Senators"	19 seats
TOTAL	184 seats

National Assembly

Justice Party	159 seats
Republican People's Party	189 seats
National Salvation Party	48 seats
Republican Reliance Party	10 seats
Nationalist Action Party	3 seats
Democratic Party	24 seats
Turkish Unity Party	1 seat
Independents	14 seats
Vacancies	2 seats
TOTAL	450 seats

ECONOMY

The economy is largely agricultural (mainly cotton, tobacco, and grains). About two-thirds of the labor force is engaged in farming and related occupations. Government-owned or controlled enterprises account for about half of the aggregate industrial output of the public and private sectors.

The 1960's were the longest period of sustained and rapid economic growth in Turkey's history. The 1950's witnessed inflation and a series of balance-of-payments crises. At the end of 1969 inflation and balance-of-payments problems reemerged. In August 1970 the government undertook a major economic stabilization and reform program. The Turkish lira underwent a 40 percent devaluation, to 15 per U.S. dollar. Currency gains from the devaluation have been used to strengthen official reserves. Export expansion was also accorded high priority.

Turkey continues to be dependent in part on external assistance for economic development and to help meet its debt obligations. The OECD has provided about $3.4 billion from 1963 through 1973 in financial assistance and debt relief. The IMF and the European Monetary Agreement, a lending agency composed of a number of European countries, also have assisted Turkey with standby arrangements and short-term credits.

Turkey signed an agreement of association with the European Communities in 1963. In mid-1971 Turkey entered the second, or "transitional," stage of its association with the European Economic Community (Common Market), which provides free entry of Turkish industrial exports to the Common Market, improved access for agricultural goods, and up to $195 million in credit for investment in industrial projects. In turn, Turkey's tariffs will be progressively reduced or curtailed for the Common Market's products over a year period.

With an annual per capita income of about $893 at the current exchange rate, Turkey is attempting to narrow the gap between its economy and the thriving West European economies. Economic development with financial stability is a major domestic policy. Turkey's central economic problem is the need for increased foreign exchange earnings to match the growing cost of the imports required for development. In addition, much of the industrial sector is still devoted to assembly rather than basic manufacture and is dependent on high-cost imports.

Turkey is in the process of stimulating the expansion of exports in order to earn the foreign exchange necessary to import the capital investment items and raw materials required to sustain a high rate of growth. It also recognizes that high-cost, protective industry must undergo major adjustment if it is to be competitive as Turkey moves toward full membership in the EC.

FOREIGN RELATIONS

Turkey is a member of NATO, which it joined in 1952 and which is still its major foreign alliance. It is also an important regional member of CENTO, which has its headquarters at Ankara. Turkey has been an effective proponent of collective security within the U.N. framework, and it participates in a number of U.N. specialized agencies.

Since World War II Turkey has expended about 30 percent of its annual budget for defense. It jealously guards its frontiers and places special emphasis on modernizing its armed forces. The provisions of the Montreux Convention of 1936, implemented and enforced by Turkey according to the convention, regulate the use of the Turkish Straits. The prominence of Turkey's security problems has resulted in its international alliances and has contributed to its eagerness to fulfill its NATO military commitments; increasing Soviet naval activity in the eastern Mediterranean underscores the continuing importance of the southeastern flank of NATO.

During the past few years Turkey has taken steps to normalize its daily relations with the Soviet Union. In August 1971 Turkey and the People's Republic of China established diplomatic relations. The Republic of China then suspended relations with Turkey.

U.S.-TURKEY RELATIONS

Turkish-American friendship dates to the late 18th century and was first officially sealed in a treaty of 1830. During World War II there was a flow of some lend-lease materials to Turkey, but the present close relationship really began with the agreement of July 12, 1947, which implemented the Truman doctrine. The United States is trying to assist Turkey in moving toward greater economic and military self-reliance. As part of the cooperative efforts toward that end, the U.S. has lent and granted Turkey about $3 billion in economic and $4 billion in military assistance.

Several thousand U.S. military personnel and their dependents are stationed in Turkey. They staff several communications/electronics facilities, a major air base at Incirlik near Adana, and a number of smaller facilities scattered throughout the country. Two NATO headquarters near Izmir also have sizable U.S. contingents.

Cyprus

U.S.-Turkish relations have been severely tested since July 1974, when Turkey evoked the 1960 Treaty of Guarantee for Cyprus and sent troops there to protect the Turkish Cypriot community following the overthrow of the Cyprus Government by mainland Greek officers in the Cypriot National Guard. The ensuing civil war on Cyprus led to Turkish occupation of the northern part of the island, and efforts in 1974 and 1975 to find a peaceful solution through negotiation have proved unavailing.

An obstacle to progress on Cyprus was Turkey's stated reluctance to negotiate on the issue while a U.S. arms embargo against her remained in effect. This embargo had been imposed on Turkey by the U.S. Congress on February 5, 1975, for Turkey's unauthorized use of U.S.-furnished military equipment during the July-August 1974 Cyprus operation. Legislation partially lifting the embargo was passed by Congress in October 1975, but during the period it was in effect the U.S. gave Turkey no military aid, sold no arms, and did not even permit the delivery of equipment already paid for.

Military Relations

Turkish resentment toward what was viewed as an unjust act resulted, on July 25, 1975, in Turkey's taking over U.S. bases and declaring invalid the 1969 Defense Cooperation Agreement (DCA), the basis of U.S. military presence in Turkey. As of July 26, primary operations at U.S. bases ceased. Negotiations between the United States and Turkey for a new DCA began in October 1975, after the partial lifting of the embargo, and are still continuing. As of this writing, no U.S. military or intelligence operations in Turkey have been resumed.

Opium

Turkey is one of seven countries permitted to export opium, in accordance with international agreements, to meet the world's legitimate medical requirements for opium-based drugs such as morphine and codeine. (India is the world's largest legal exporter; Turkey ranks second with about 20 percent of the market.) Opium-poppy cultivation has existed in Turkey for centuries, and it is an important part of the livelihood for thousands of Turkish villagers in the western Anatolian Plateau. In addition to the cash return for the opium gum, the byproducts of poppy products are important to the farmer as the seeds are used for oil and flavoring and the stalks used for fuel and fodder.

In the past a significant portion of the opium has been diverted at the farm from legal production and smuggled out of Turkey to France and other countries where it was processed into heroin. The impact of drug abuse, particularly of heroin, in the United States has led to U.S. efforts to obtain the cooperation of other countries in suppressing trafficking in narcotic substances. In 1971 Prime Minister Erim announced that opium-poppy cultivation in Turkey would be banned effective after the 1972 harvest. (According to Turkish law, farmers must be given 1 year's notice before prohibition can take place.)

In 1973, for the first time in many years, there were no opium poppies cultivated in Turkey. Concurrently, there were significant increases in the price of illicit opium and morphine base to European traffickers. Both the quantity and the quality of heroin reaching the eastern United States from Europe dropped sharply.

On July 1, 1974, the Turkish Government rescinded the ban on opium-poppy cultivation. This continues to be a matter of serious concern to the United States because of the possibility of potential diversion into illegal channels.

Several positive developments have occurred since the rescission. The Government of Turkey banned the lancing of poppy pods and authorized harvesting only through the collection of the entire pod, a process known as the straw process and one which is far less conducive to illicit trafficking. Under this procedure no opium is produced; rather, morphine is extracted directly from the pod in a large and elaborate chemical plant.

The Turkish Government has requested international assistance in the development of its control program. The U.N. Division of Narcotic Drugs has sent teams of experts to consult with the Turks on organizing their production and control activities.

Turkey has instituted extensive controls recommended by the U.N. and the U.S. It has assigned 75 teams to inspect the poppy fields. U.N. and U.S. experts have made frequent visits to the poppy area and are pleased with the control measures in force. No evidence of poppy pod incision has been found.

Principal U.S. Officials

Ambassador- Ronald I. Stiers

Deputy Chief of Mission - Robert Dillon

The U.S. Embassy is located at 110 Ataturk Blvd., Ankara. The Consulate General in Istanbul is at 147 Mesrutiyet Caddesi.

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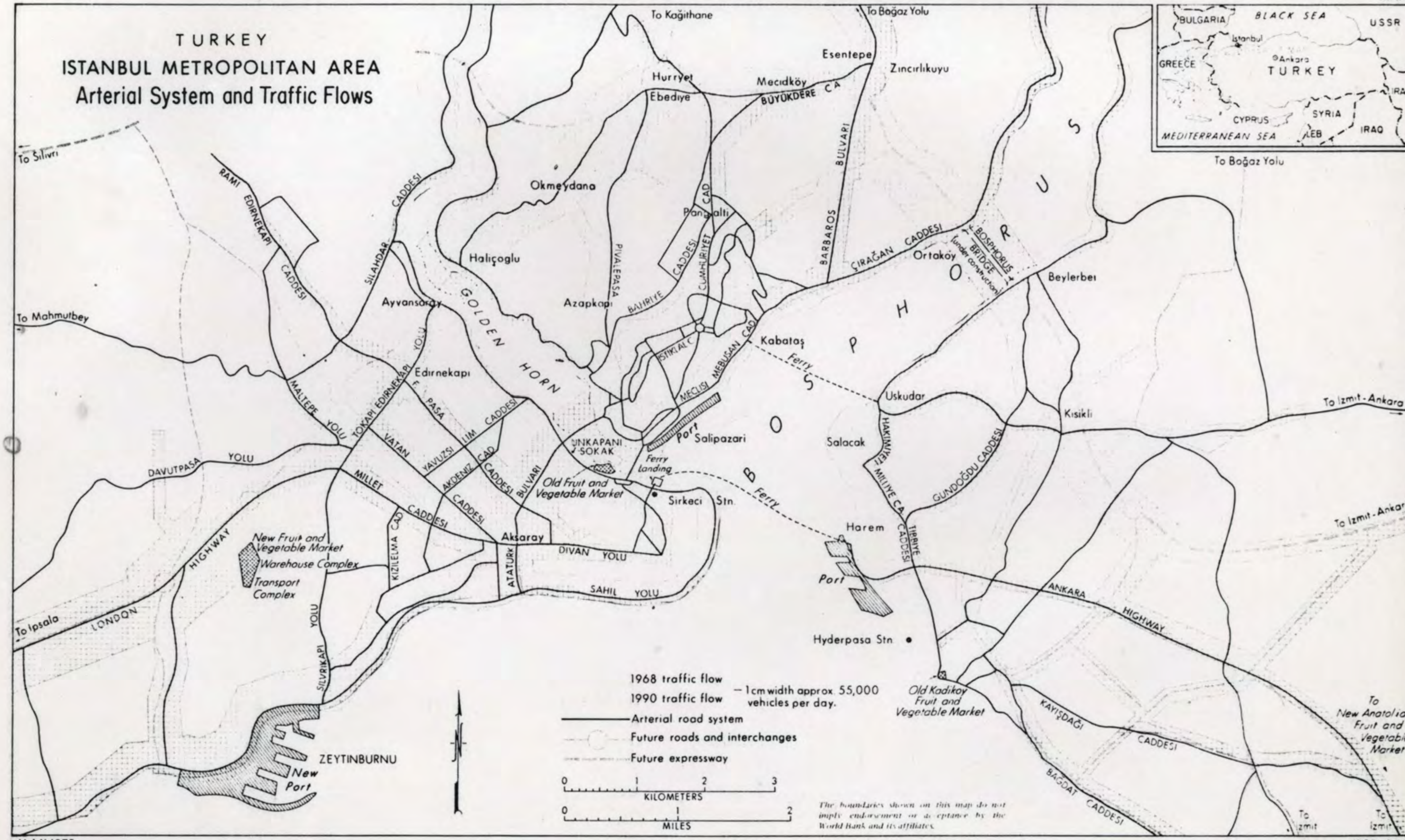
ANNEX C
IBRD 10672
SEPTEMBER 1973

MAP 5



The boundaries shown on this map do not imply endorsement or acceptance by the World Bank and its affiliates.

MAY 1972

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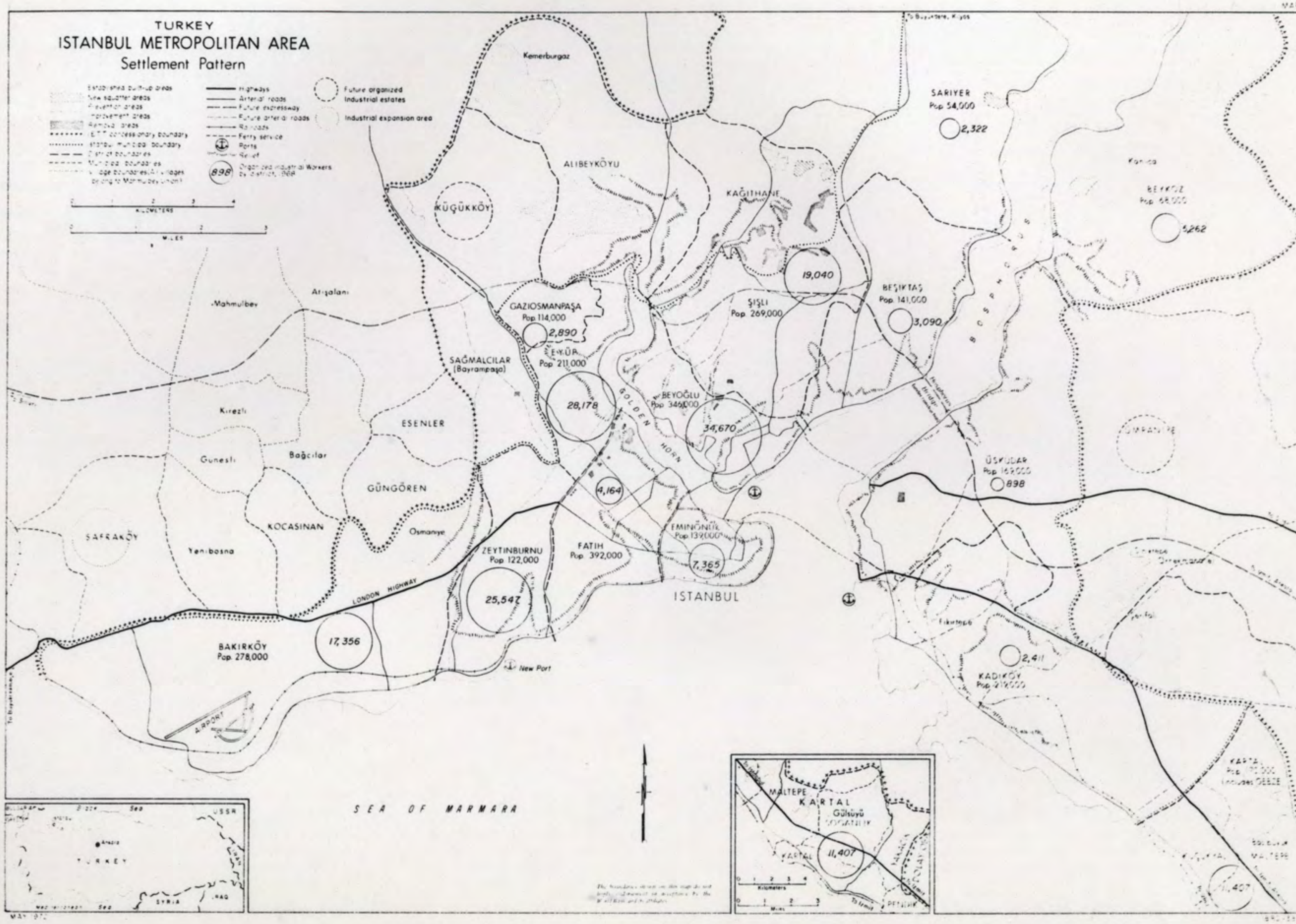

MAP 4
TURKEY
ISTANBUL METROPOLITAN AREA
Settlement Pattern
Highways
Arterial roads
Future expressway
Future arterial roads
Railroads
Ferry service
Ports
Relief
Future organized industrial estates
Industrial expansion area
Kemerburgaz
ALIBEYKÖYU
KÜÇÜKKÖY
KAĞITHANE
SARIYER
Pop 54,000
2,322
BEYKOZ
Pop 68,000
5,262
19,040
BEŞİKTAŞ
Pop 141,000
3,090
ŞİŞLİ
Pop 269,000
GAZIOSMANPAŞA
Pop 114,000
2,890
Mahmutbey
SAĞMALCILAR
(Bayrampaşa)
Pop 211,000
28,178
GOLDEN HORN
BEYOĞLU
Pop 346,000
34,670
BOSPHORUS
Kirezli
ESENLER
Gunesli
Bağcılar
GÜNGÖREN
4,164
ÜSKÜDAR
898
SAFRAKÖY
Yenibosna
KOCASINAN
Osmaniye
EMİNÖNÜ
ZEYTINBURNU
Pop 122,000
FATIH
Pop 392,000
7,365
ISTANBUL
LONDON HIGHWAY
25,547
17,356
BAKIRKÖY
Pop 278,000
New Port
AIRPORT
2,411
KADIKÖY
SEA OF MARMARA
MALTEPE
KARTAL
11,407
TURKEY
USSR
SYRIA

APRIL 1972

IBRD 3826

D

LIST OF CABINET MINISTERS,
SENIOR OFFICIALS AND
INDUSTRIALISTS TO BE MET

LIST OF CABINET MINISTERS AND SENIOR OFFICIALS

(* are Ministers likely to be met by Mr. McNamara)

CABINET MINISTERS

Bülent Ecevit *	Prime Minister	RPP
Orhan Eyupoğlu	Deputy Prime Minister	RPP
Turhan Feyzioğlu	" " "	RRP
Faruk Sukan	" " "	DP
Hikmet Çetin *	Minister of State	RPP
Enver Akova	" " "	Indep
Lütfi Doğan	" " "	RPP
Salih Yildiz	" " "	RRP
Ali Riza Septioğlu	" " "	Indep
Mustafa Kiliç	" " "	Indep
Ahmet Şener	" " "	RPP
Mehmet Can	Minister of Justice	RPP
Hasan Esat Işik	Minister of Defense	RPP
İrfan Özaydinli	Minister of Justice	RPP
Gündüz Ökçün	Minister of Foreign Affairs	RPP
Ziya Müezzinoğlu *	Minister of Finance	RPP
Necdet Uğur	Minister of Education	RPP
Serafettin Elçi *	Minister of Public Works	Indep
Teoman Köprüler	Minister of Trade	RPP
Mete Tan	Minister of Health	Indep
Tuncay Mataraci	Minister of Customs and Monopolies	Indep
Güneş Ongut *	Minister of Communications	Indep
Mehmet Yüceler *	Minister of Agriculture	RPP
Bahir Ersoy	Minister of Labor	RPP

Kenan Bulutoğlu *	Minister of SEE Operations (Isletmeler Bakanliği)	RPP
Orhan Alp *	Minister of Industry	Indep
Deniz Baykal *	Minister of Energy	RPP
Alev Çoskun	Minister of Tourism	RPP
Ahmet Karaaslan *	Minister of Reconstruction and Resettlement	Indep
Ali Topuz	Minister of Village Affairs	RPP
Vecdi Ilhan	Minister of Forests	RPP
Yüksel Çakmur	Minister of Youth and Sports	RPP
Hilmi Işguzar	Minister of Social Security	Indep
Ahmet Taner Kişlali	Minister of Culture	RPP
Mahmut Özdemir	Minister of Local Administration (Yerel Yönetmeler Bakanliği)	RPP

KEY OFFICIALS LIKELY TO BE MET

Mr. Necat Erder	Adviser to Prime Minister
Mr. Vural Gucsavas	Acting Secretary General of the Treasury; Alternate Governor of the Bank
Mrs. Aysel Oymen	Director General of the Treasury
Mr. Bilsay Kuruc	Undersecretary, State Planning Organization
Mr. Tayyar Sadiklar	Governor, Central Bank, and Governor of the Fund.
Mr. Suha Somer	Undersecretary, Energy Ministry.
Mr. Kenan Tuzun	Acting Undersecretary, Industry.
(Vacant)	Undersecretary, Agriculture Ministry
Mr. Selami Uner	Undersecretary, Reconstruction Ministry
Mr. Timucin Tumer	Director General, DSI
Mr. Sukru Akgungor	Director General, DYB
Dr. Kemal Varol	Director General, Sumerbank
Mr. Behcet Yucel	Director General, TEK
Mr. Celalettin Dursun	Director General, TKI

BREAKDOWN OF PARTY STRENGTHS IN CABINET AND PARLIAMENT

	In Cabinet	In Parliament
Republican Party (RPP)	22	213
Republican Reliance Party (RRP)	2	3
Democratic Party (DP	1	1
Independents	10	15
Justice Party (JP)	-	178
National Salvation Party (NSP)	-	24
National Movement Party (NMP)	-	16
TOTAL:	35	450

LIST OF PRIVATE SECTOR BUSINESS LEADERS
LIKELY TO BE MET IN ISTANBUL ON AFTERNOON
OF THURSDAY, APRIL 13

(Meeting to be arranged by TSKB at Istanbul Hilton)

Mr. Sakip Sabanci	-	President, Union of Chamber of Industry
Mr. Vebhi Koc	-	Chairman, Koc Holding Co.
Mr. Feyyaz Berker	-	President, Turkish Industrialists and Businessmens' Association.
Mr. Cahit Kocaomer	-	General Manager, Turkiye Is Bankasi
Mr. Ozhan Eroguz	-	General Manager, Turkiye Sanai Kalkinma Bankasi (TSKB)
Mr. Nurullah Gezgin	-	Chairman, Istanbul Chamber of Commerce
Mr. Ertugrul Soysal	-	Chairman, Economic Development Institute (Private)
Mr. Sezai Diblan	-	President, Union of Chambers of Commerce and Industry
Mr. Nejat Eczacibasi	-	President, Eczacibasi Holding
Mr. Erdogan Akdag	-	Chairman, Yibitas Cement
Mr. Ali Sirri Kuskay	-	Chairman, Erzurum Chamber of Commerce.
Mr. Samil Ekinci	-	Chairman, North Holding

BIOGRAPHICAL SKETCHES OF
KEY MINISTERS LIKELY TO BE MET

BIO - DATA

of

Mr. Bulent Ecevit, Prime Minister

Mr. Ecevit was born in Istanbul in 1925 and graduated from Robert College in 1944 with a BA in literature. He subsequently studied literature and art history at the University of Ankara and London University, and did research on Middle Eastern history at Harvard in 1957, under a Rockefeller Foundation Scholarship. Mr. Ecevit's early career encompassed writing poetry and journalism and in the mid-fifties he worked as editor of the daily Ulus, the official organ of the Republican Peoples Party (RPP). First Elected to Parliament in 1957 as a deputy from Ankara, Mr. Ecevit subsequently served as a member of the Constituent Assembly in 1961 and was reelected to Parliament in 1961 as a deputy from Zonguldak. Mr. Ecevit served as Minister of Labor in several Inonu Governments in the early 1960's, and was instrumental in improving labor relations following the passage of legislation legalizing the right to strike. Under the blessing and tutelage of Ismet Inonu, Mr. Ecevit rose to a position of leadship in the RPP, becoming its Secretary General in 1966. He subsequently played a major role in the RPP's shift to the left-of-center in an effort to modernize the party and give it a new social-democratic image. Mr. Ecevit later broke with Mr. Inonu, replacing him as party chairman in 1972.

A rejuvenated RPP gained strength in the 1973 elections, winning a plurality of votes, but unable to come to power on its own, thus forcing Mr. Ecevit to form a coalition with Mr. Erbakan's National Salvation Party. The Coalition lasted only seven months with Mr. Ecevit resigning as Prime Minister in early fall 1974, shortly after the Cyprus military operation. The RPP won 213 out of 450 seats in the June 1977 election, falling just short of a majority. At that time, Mr. Ecevit undertook to form a minority government, but failed to win a vote of confidence. Mr. Ecevit is married and speaks English.

BIO - DATA

of

Mr. Hikmet Cetin

Minister of State for Economic Coordination

(Republican Peoples Party)

Mr. Cetin was born in Diyarbakir in 1937, graduated from the Faculty of Political Science in Ankara in 1960, and subsequently joined the State Planning Organization (SPO). After earning a M.A. in economics from Stanford University, Mr. Cetin became head of the Economic Planning Department of SPO, a post which he held for six years. He was elected as an Republican Peoples Party deputy from Istanbul in 1977. Mr. Cetin is married and speaks English.

BIO - DATA

of

Mr. Ziya Muezzinoglu

Minister of Finance (Republican Peoples Party)

Born in Kayseri in 1919, Mr. Muezzinoglu graduated from the Faculty of Political Science in Ankara, subsequently holding a number of posts in the Finance Ministry. He was a member of the Constituent Assembly formed in 1961 to prepare a new constitution. After 1972, he held the post of Finance Minister in the above-party-Government headed by Mr. Erim and subsequently served as a special advisor in the Foreign Affairs Ministry, holding posts as Ambassador to Bonn and for a period of time as ambassdor to the Common Market. Mr. Muezzinoglu was elected to Parliament as an Republican Peoples Party Senator from Kayseri in 1975. He is married with two children and speaks German, French, and English.

BIO-DATA

of

Mr. Serafettin Elci

Minister of Public Works (Independent)

Mr. Elci was born in Cizre in 1938 and graduated from the Faculty of Law in Ankara in 1964. After serving in several Government posts, he was employed as a lawyer in Cizre. Mr. Elci was elected to Parliament as a Justice Party Deputy from Mardin in 1977 and resigned in December 1977 prior to joining the Ecevit Government. He is married with seven children.

BIO - DATA

of

Mr. Gunes Ongut

Minister of Communications

(Independent)

Mr. Ongut was born in Dinar in 1933, graduated from Faculty of Law in Ankara, and subsequently practised law while also becoming one of the founders of the Sugar Beet Cooperative Organization. He became head of the Democratic Party Youth Organization in 1957, later joined the Justice Party, and was elected deputy from Afyon in 1977. He resigned from the Justice Party in December 1977. Mr. Ongut is married with three children.

BIO - DATA

of

Mr. Mehmet Yuceler

Minister of Agriculture

(Republican Peoples Party)

Mr. Yuceler was born in Develi in 1923 and graduated from the Faculty of Agriculture. He was first elected to Parliament in 1956. Mr. Yuceler previously held the post of Minister of Customs and Monopolies and also served as Chairman of the Chamber of Agriculture Engineers. He is married with three children and speaks only Turkish.

BIO - DATA

of

Mr. Kenan Bulutoglu

Minister of State Economic Enterprises

(Republican Peoples Party)

Mr. Bulutoglu was born in Samsun in 1931, graduated from the Istanbul Faculty of Law and subsequently became a professor of economics at Istanbul University. He later held posts at the State Planning Organization and was employed as an economist in the Development Economics Department of the Bank from 1972 to 1974. Mr. Bulutoglu subsequently taught at the Bosphorus University, served as advisor on urban development problems to the Mayor of Istanbul, and was first elected to Parliament in 1977.

BIO - DATA

of

Mr. Orhan Alp

Minister of Industry and Technology

(Independent)

Mr. Alp was born in Isparta in 1919, graduated from the Berlin Technical University as a mechanical engineer, and subsequently taught at the Middle East Technical University. He was elected to Parliament as a Justice Party deputy from Ankara in 1965, and held that position until his resignation from the party in 1977, as a prelude to joining the Ecevit Government. Mr. Alp served as Minister of Public Works under the Urguplu Government in 1965 and following Demirel Government. Mr. Alp was one of the founders of the Chamber of Mechanical Engineers and served as Chairman of the Foreign Relation Committee in Parliament. He is married with two children and speaks English, French and German.

BIO - DATA

Mr. Deniz Baykal

Minister of Energy and Natural Resources

(Republican Peoples Party)

Mr. Baykal was born in Antalya in 1938 and graduated from the Faculty of Law in 1959. He subsequently joined the teaching staff of the Faculty of Political Science as an Assistant Professor of Constitutional Law. Mr. Baykal undertook graduate studies in the United States and subsequently received a PhD degree from the Faculty of Law. He was first elected to Parliament as a Republican Peoples Party deputy from Antalya in 1973, and reelected in 1977. Mr. Baykal served as Minister of Finance in the first Ecevit government in 1974 and subsequently played a leading role in promoting a more left leaning approach within the Republican Party in opposition to Mr. Ecevit's policies. Mr. Baykal is married with two children and speaks English.

BIO - DATA

of

Mr. Ahmet Karaaslan

Minister of Reconstruction and Settlement

(Independent)

Mr. Karaaslan was born in 1935 in Malatya and graduated from the Faculty of Political Science. After holding the post of district officer in several counties, he was elected to Parliament as a Justice Party deputy from Malatya in 1973 and 1977. He resigned from the Justice Party in December 1977. Mr. Karaaslan is married, with two children, and speaks French and Turkish.

BIO - DATA

of

Mr. Vural Gucsavas

Acting Secretary General of the Treasury

and Alternate Governor of the Bank

Mr. Gucsavas was born in Bursa in 1930. He graduated from the School of Economics and Public Finance of Ankara University in 1953 and received a diploma from the School of Law of Ankara University in 1957. He subsequently underwent training at the Tennessee Valley Authority and received an M.A. in economics from the University of Chicago in 1963. After serving as an Inspector of Finance in the Finance Ministry, Mr. Gucsavas held positions in the State Planning Office, as a member of the Turkish delegation to OECD, and as an advisor in the General Directorate of the Treasury. From 1972 to 1974 he served as Alternate Director of the Bank for Austria, Belgium, Luxembourg and Turkey. Upon his return to Turkey, Mr. Gucsavas was attached again to the General Directorate of the Treasury. He is married with two children and speaks English.

BIO - DATA

of

Mr. Bilsay Kuruc

Undersecretary, State Planning Organization

Mr. Kuruc graduated from the Faculty of Economics of Istanbul University in 1960. He subsequently pursued a career in academia and held the post of Assistant Professor at the Faculty of Political Science in Ankara before his appointment to SPO.

BIO - DATA

of

Dr. Tayyar Sadiklar

Head of Central Bank

Alternate Governor (Fund)

Mr. Sadiklar was born in 1932. He graduated from the Faculty of Political Science of Ankara University with a degree in economics, and subsequently received an M.A. in economics from the University of Wisconsin and a PhD from Ankara University. Mr. Sadiklar taught economics at Hacettepe University and holds an Associate Professorship at Ankara University. He served as Inspector of Finance in the Finance Ministry and subsequently as Director General of the Treasury. After a brief stay in Washington in Spring 1976 as Chief Financial and Economic Counselor of the Turkish Embassy, he returned to Turkey in June 1976 as head of the Central Bank. Mr. Sadiklar is married with two children. He speaks English and a little French.

TOPICS FOR DISCUSSION

~~Sunday~~

To: Mr. Robert S. McNamara
From: M. P. Benjenk

Main themes of your visit.

Considerable interest has been aroused by your
arrival, and all newspapers have carried the news
and comments more than once in the past ten days.
Intense preparations have taken place in advance of
your arrival and the Prime Minister himself ~~has chaired~~
inter-ministerial meetings in order to determine the
policy line on a number of issues. As a result,
the Prime Minister has decided to extend the length of
his conversation with you and himself chair a round-
table meeting, to be attended by his closest advisers,
i.e. the Finance Minister, the Minister for Econ. Coordination, the
Head of the State Planning Agency and Mr. Erdel, (a former Bank
Staff member) who is his Advisor for Foreign Economic Relations.
This two hour meeting, followed by a (working lunch will probably
set the tone for our future relationship with Turkey. It is
therefore important that we obtain answers to a number
of questions, reach understandings which will give effectiveness
to our future action in Turkey and dispel, on our
side ~~past~~, certain misunderstandings, which exist here concerning

(see attached note on Industrial lending)

the Bank. [I suggest, therefore, that we seek information on the following themes: (some of this information may come spontaneously from statements of the Prime Minister + others)

1) The Plan: what are the assumptions of economic + social policy for the next four or five years? When will the Plan be ready? What will be the sectoral priorities? What is the approach to a fairer income distribution? Is the Government making sure that the investment proposed will not exceed the probable available resources (internal + external)? (The Plan submitted by the previous Government last fall has been rightly discarded by the new one as being completely unrealistic + internally inconsistent) When will the huge current account deficit be reduced to more normal proportions? What are the assumptions on inflation and the State enterprise deficits?

2) Short-term debt: The IMF agreement is a first welcome step in restoring creditworthiness. The new Government should be congratulated in taking the right decisions on its own accord and not as the result of IMF pressure. Contacts have just begun with private Banks and governments for the rescheduling of the enormous short-term debt which the previous government had recklessly assumed. A group of large commercial Bank executives (U.S. Germany, Switzerland, U.K.) are arriving on the 14th to initiate discussions on ways of rolling over or rescheduling debts. ⊗ Also the Turkish OECD Consortium will meet this month to discuss ways of repaying, with the help of governments, some of the commercial arrears (non-banking). An agreement has just been concluded with the German government for a commodity loan of 50 DM in addition to project loans of 130 DM more expected when Mr. Ecevit

⊗ and reveal the extent of their willingness to supply "new" money at more reasonable terms.

2/

BÜYÜK ANKARA OTELİ
GRAND HOTEL ANKARA

goes to Germany next month. Agreements have also been concluded this week with Libya ($450 mn. usable over 5 years) and the USSR (a trade agreement for 1978 for around $160 mn each way)

My contacts with German commercial Banks in the last few days lead me to believe that the latter would ~~greatly~~ be interested in joint financing with the Bank on specific projects. This could bring some new money into Turkey, although the government's aversion for cross-default clauses would have to be overcome. Such financing would have to be additional to any agreement on rescheduling these Bank's short-term claims ~~debts~~, for which they share the responsibility with the previous government.

3. Future debt management How will the Government ensure that the present ~~[illegible]~~ situation will not arise again? Is there a debt management unit which can project a debt profile for the future and prevent injudicious borrowing?

4) Interministerial coordination + responsibility for IBRD-Turkey dialogue

Both the Ministry of Finance and, for different reasons, the Technical Ministries, have a vested interest in pretending (to themselves + to the Prime Minister) that the Bank should only be interested in individual project questions and not delve into "macro" or sectoral problems. It is time to kill this notion once & for all and you should put it very clearly to the P.M., who will understand it, that the resumption and enlargement of the IBRD lending program is not conceivable without a full and frequent exchange of views on general and sectoral policies, for which the Ministry of Finance is not at all well equipped. The present government has an able Minister of Coordination and is restoring the primacy of the State Planning organisation (although its follow-up functions are still very weak). A standing committee chaired by the Office of the Prime Minister (to whom Planning is attached) and attended by the Finance Ministry and, as appropriate, technical ministries should meet with senior Bank staff at regular intervals to review general economic, sectoral and project matters which need attention. This might be one of the joint decisions to be reached by Mr. Ecevit & yourself.

We need to speed up dramatically the disbursements of our old loans, cancel some if need be, and revise loan agreements wherever our conditions no longer seem appropriate to the needs of the day. The proposed committee should immediately get to work on this.

5. The social orientation of the government. This seems to be very much in the right direction and it would be interesting to have details on the new fiscal reform (said to be very redistributive) and on their urban poverty + rural poverty programs of which we know very little.

6. The private sector 45% of industry in Turkey is private and some pretty large and efficient firms now exist in various sectors. I should like you to meet some of them in Istanbul. The private sector is infinitely more efficient than the public one and needs government encouragement and support for an export orientation. Part of our help should be for export industry and we should seek clarification of the government's policy toward the private sector.

7. The most thorny project problem: this relates to energy: a $56 mn. loan is still not effective after two years because of the 8% rate of return covenant. We have long since agreed in principle that what matters is not a precise figure for a rate of return of a utility (T.E.K.) but what contribution the users of power will make to the sector's investment needs, which are enormous. There has not been an answer to this question and the new government has promised, but not issued, a policy statement. The bulk users of electricity are mainly municipalities, who make large profits on electricity and

therewith subsidise water + transport which are in chronic deficit. By raising bulk rates the Government would oblige municipalities to correct inefficiencies in these other sectors. The individual consumer already pays much higher rates than the present bulk rates.

The problem is ~~this~~ compounded by the fact that the new Minister of Energy is a very powerful and dynamic Minister, but also very left-wing, nationalistic and stubborn, who resents what he feels is the intrusiveness of the Bank in his matter. An additional complication is the fact that the next energy project, Karakaya runs into a riparian rights issue, which the previous government had solved after prodding from us, but which the present government does not seem to agree with. It wishes, we think, to have its hands free on the Euphrates in case the Iraqis cut off their oil through the Mosul-Iskenderun pipeline. This is likely to be a delicate meeting with a very political figure.

8) Program Loan. Should we get satisfactory responses on the above issues, I would be favorable to working towards a program loan to help Turkey with its large balance of payments gap, which now affects the capacity of industry to produce efficiently and has cut into the use of fertilizers in agriculture. Such work would take 4/5 months and give us time to watch the Government's continued good performance after a good early start. It would give time, also, to see what progress is made on the rescheduling front. Such a loan might also be a vehicle for co-financing from commercial banks.

4

Conclusion I believe the new government has used its first 3 months (just) well. It has initiated steps in both the political and economic sphere which show political courage and resolve to put Turkey on its feet again. The new approach to Greece, the ~~de~~ agreement with the U.S. to lift the arms embargo and the IMF agreement (devaluation, austerity etc.) on the part of a government with a small majority are deserving of credit. We should help them preserve the momentum, caution against obvious dangers and excessive nationalism, and help as much as we can to preserve the momentum so far achieved. It should be remembered that, in addition to its other woes, the government inherited a situation of anarchy and civil strife, which it is trying to master, so far with fair, but not conclusive results.

ANNEX F

TOPICS FOR DISCUSSION

General

1. The very timing of Mr. McNamara's visit evidences the Bank's willingness to help Turkey when Government policies hold the promise of curing the major problems which had led to the crisis of 1977 and the ensuing suspension of Bank lending. The Turkish Republic has always been suspicious of foreign interferences, and the Bank's stand on economic and sectoral policies has frequently been viewed as an unacceptable intervention in domestic affairs. With the added complications of a long stream of Governments inimical to (1) reform and of an inefficient (2) bureaucracy, the Bank's attempts to correct structural defects, improve project implementation and bring the Government to take required (3) measures to ward off the payments crisis which culminated in 1977, have often met with resistance. The Bank's rationale has rarely been understood; its motives have frequently been suspected.

2. The setting has substantially changed with the Ecevit Government. This is the first Cabinet since 1971 which has a reformist, social-democratic program, and the cohesion which previous governments lacked; it also commands a majority in the National Assembly which is not based on a coalition, although dependent on the support of some ten independent deputies, most of them wedded to the Government by the cabinet posts they now hold. Since January, the Ecevit Government has come across as a serious, and competent team. The economic measures already taken, evidence both its political courage and its willingness to resort to surgery, where preceding governments used palliatives. These measures also demonstrate that the Government does not see a solution to the crisis without the IMF (with which it has finally concluded in two weeks an agreement, whereas prior to that the previous governments had nine months of protracted discussions). the Bank, and the international financial community. It will be as much, if not more, nationalistic than its predecessors, and this must be taken into account. But it will also be ready to listen on substantive matters, initiate decisions rather than be forced to take them, and be much more earnest in adhering to the agreements it had signed than its predecessors.

Objectives

3. Against this background, Mr. McNamara's visit should focus on four objectives:

(a) It should help clarify the new Government's intentions regarding: the immediate economic measures - especially debt management - which in addition to the Standby Arrangements with the IMF, are required to restore Turkey's creditworthiness; and medium-term economic and social policies, including structural reforms.

(b) It should dispel any doubts the Government may have on what the Bank has tried to achieve in Turkey when building up its portfolio to $1.3 billion in recent years, and on the prospects for its assistance in the future.

(c) It should clearly establish the link between macroeconomic/sectoral policies and efficiency in project implementation on the one hand, and the level of Bank lending on the other. This link can only be preserved if the economic dialogue and the cooperation on projects are intensified, and carried out, on the Turkish side, under the aegis of need a much more powerful and efficient central coordinating unit than the present Treasury office in charge of Bank affairs.

what is attitude? present Fin. [illegible] [illegible]?

(d) It should broadly define a joint program of action which would help get the framework to: (1) overcome problems in the Bank's relations with Turkey, including defaults on past loans; (2) determine the orientations of future economic and sector work; (3) identify the sectors of concentration for future Bank lending; and (4) firm up the pipeline of projects.

What defaults to [illegible]?

Topics

4. Discussions with the Government could be organized around the following five Topics, for which briefs are attached:

F(i) Economic Management and Policy Issues

F(ii) Improved Project Performance and Turkish Machinery for Effective Coordination of Project Preparation and Implementation;

F(iii) Sector Policy Differences Affecting Ongoing and Future Projects;

F(iv) Turkey-Bank Relationship and Possible Future Areas of Bank Involvement; and

F(v) Need for Continuing Policy Dialogue on Macro and Sector Matters.

5. By their very nature, these Topics are interrelated. Therefore, there is an inevitable overlap to stress the interlinkages between them. The detailed background material for each Topic, is provided in Annex G, "Reference Materials".

6. Mr. McNamara will wish to discuss all Topics in some depth with Finance Minister Muezzinoglu, Minister of State for Economic Coordination Cetin and State Economic Enterprises Minister Butuloglu, and only the relevant sector differences, (discussed under F(iii)),during his meetings with the Ministers of Energy, Agriculture, Industry, Reconstruction (for urban issues), Transport and Communication (for transport sector issues - meeting still to be scheduled by the Government) and Public Works (also for transport sector issues). It is nevertheless important, that Prime Minister Ecevit be made generally aware of the Bank's views on all Topics, as a basis for both a strengthened relationship with Turkey and a larger and a more diversified program of Bank activities. It may however take sometime for

7. It should be noted that, having to grapple immediately with the problems of getting the FY78 budget approved, forge a short-term economic stabilization program as a basis for a Standby Agreement with the IMF, and take critical economic measures necessary to implement it, this 2-month old government really has had little time to focus on medium-term economic policy measures. While discussions on the future may lead to generalities, this may however provide an opportunity to sow seeds about possible solutions to the key matters of concern to the Bank, so that they can be taken into account by the Government.

8. Most of the Ministers with whom Mr. McNamara will meet are rather sensitive to suggestions being made regarding policies, and apt to give an impression that the Bank's concerns should be limited to those necessary to achieve the success of the projects it finances, and not extended to sector institutions or policies, much less to macro-economic issues. However, this is to be expected in a new government which has not held power on its own in the last 15 years, and whose many ministers are new to the Bank. An initial educative process should therefore be clearly anticipated. Besides, sensitivity on the part of the Bank to this perspective of the new government, might pay better dividends in the longer-run.

9. Overall, there appears to be lesser scope for policy disagreements on sector planning, financing and management with this government, than the previous ones. Indeed, in some cases, there is likely to be a similarity of views as evidenced by the Aide-Memoire prepared by the Finance Minister in connection with his meeting with Mr. McNamara on March 23 in Washington (Annex G(x)). It may however take some time for these new policy viewpoints to percolate from ministerial to administrative levels. To the extent that during Mr. McNamara's visit, these sector and macro issues are suitably aired, preferably as questions, it would help strengthen understanding and relationships with the Bank.

WORLD BANK / INTERNATIONAL FINANCE CORPORATION

OFFICE MEMORANDUM

TO: Mr. Robert S. McNamara, President

DATE: March 30, 1978

FROM: Attila Karaosmanoglu AK.

SUBJECT: Some Notes For Your Visit to Turkey

As requested, the following is a note highlighting certain points you may find useful in discussions during your visit to Turkey.

A. Recent Developments

The present government has been in office for about three months. Nobody could blame them for lack of decisions or actions, but it is as yet somewhat early to evaluate the success of actions taken so far. They have been concentrating their efforts in three problem areas: international relations, law and order, and economy. The progress in these areas may be summarized as follows:

1. International Relations. The Government has been most energetic in the field of international relations. Most noticeably, the Ecevit-Karamanlis meeting has relaxed some of the tensions between Greece and Turkey, after a long period of non-communication. Even though results may take time to emerge, a dialog appears to have been started.

As a result of the good personal relations between Mr. Ecevit and the Social Democratic leaders in Europe, Turkey's relations with most European countries, especially with Germany and the Scandinavian countries, are very good and continue to improve.

Ecevit should take proj. prog. to FRG? Norway

There is genuine concern and increasing impatience over the U.S. Government's lack of action on the defense agreement. Failure to reach early progress in this matter will force the Turkish Government to look for other sources of defense equipment. Changes in the weapon systems used are a very costly proposition and would pose a major additional burden over the already heavily burdened balance of payments.

I do not know the reasons, but relations with Iraq seem strained. (This may have some implications for Bank projects on the Euphrates, which raise the question of riparian rights. The Turkish Government may be inclined to think of the water rights issue as an element in a broader context rather than as one capable of separate resolution).

→ To keep employ[ment] high in future inv[estment] must be high + this will demand some sacrifice in consumption from groups which haven't borne their share –

Turkey's relations with its other neighbors seem unchanged. There have been some overtures from the Iranians to improve relations which have been cool for some time.

2. Internal Law and Order. At this stage, the Government's most pressing problem appears to be the maintenance of law and order. Political terrorism (both right and left in origin) has reached new peaks in the last few weeks. The Government claims that it is now reaching the centers of subversion and arresting ring leaders, but the general feeling one gets from the press is that the security forces have still to catch up with events. The last few days have seen active discussion over whether there is a need for martial law. Mr. Ecevit, extremely concerned about the possible excesses of martial law implementation, is strongly against it and is trying to restore law and order through the normal powers vested in the administration and the judiciary. In the eyes of many, success in this regard is fundamental to the continuation of the present Government and the democratic system in Turkey.

argument re terrorism

3. Economy. With the conclusion of the arrangements for a standby agreement with the Fund, the present Government has accomplished more in two and a half months than the previous one did in two and a half years.

In addition to getting themselves briefed and making the new senior appointments, they have prepared the annual program for 1978, pushed through the budget, and implemented a package of economic measures 1/, mostly of a short-term nature but including several with a more far-reaching impact: the more

Most important act –: Expan[sion] of Exports
I change exch-rate orientation – maintain a flexibility rate* (trade still overvalued)
*or use subsidies or other way to achieve econ independence which is [illegible] wish
II Increase effic of SEE's so as not to put pressure on exports –
III Protection is extremely high – gradually reduce
There is a dynamic private sector + they need to be given the right signal:
1. a feeling of clarity + continuity in policies (e.g. more realistic int. rates) + support efforts
2. adequate power supply.

1/ These measures include: an (1) upward revision of the interest rates and the (2) annulment of the prevailing interest rebate system; (3) increase in the liquidity ratios of the banking system; (4) devaluation of the Turkish lira; and a further increase of the cost of imports by an (5) increase in the import stamp duty; a (6) 50% tax on all foreign travel expenditures; (7) elimination of foreign exchange risk coverage and imposition of an effective limit to "Convertible Turkish Lira Accounts", and the (8) revision of the export rebate system, lowering rebates to actual taxes paid and exempting agricultural products from the coverage of the system; a (9) conservative agricultural support price policy and, finally, a series of (10) increases in the prices of the goods and services supplied by the state economic enterprises (so far including iron and steel and several modes of transportation, including railroads, airlines, etc.).

Bottlenecks in power + ports may limit or reduce cap utilization

[illegible]

realistic interest rates, support prices and export rebate systems introduced should have positive effects on resource allocation and efficiency. Some of the Government's initiatives have significant structural implications. Among these are the preparations for the fourth five-year plan, expected to be complete by September-October 1978, and the tax reform bill which has been sent to Parliament.

The tax reform bill is designed to achieve a modest increase in public savings. Though I do not know its intimate details, its main thrust is to shift the tax burden away from low income groups, whose tax burdens increased as a result of inflation, to higher income groups and groups who have never been effectively taxed (large agricultural land owners).

A very welcome initiative is the draft law on municipal revenues, which, if passed without much damage, will relieve the central government from the fiscal burden of municipalities and will enable State Economic Enterprises to collect their claims on municipalities. (The debts of municipalities to the Power Authority (TEK), for instance, are a chronic problem).

B. Some Topics of Mutual Interest

At this point the problems which concern the Prime Minister most, in addition to the economic stabilization measures and their effects, are the following:

Employment Pressure. In the Government today many people are ready to admit that past development efforts have not been successful with regard to employment. However, they are also quick to suggest that this is not for lack of trying.

Unemployment has recently become very acute, as a result of OECD limitations on migration and, within Turkey, an increasing decline in capacity utilization and low level of new investments. The Government feels that a rapid transition from stabilization to growth is essential in order to avoid a socially explosive situation.

I have given to Ministers Bulutoglu and Cetin notes on the Maharashtra employment scheme, and have also discussed the employment problem with the Prime Minister and the Minister of Finance during my last trip to Ankara. They were all obviously concerned but had no specific ideas other than reaching a high economic growth rate as soon as possible.

Rural Development. One of the Prime Minister's pet ideas is to develop an effective rural development effort around poles of attraction (Köy-Kent) which may be roughly translated as "village-towns". He expects development around such centers to help relieve the population pressure on urban areas and to make the delivery of public services much more efficient.

Because of the composition of the Government (some independents in the cabinet are large land owners from the southeast and the east), land reform is not very frontally tackled, although the Republican People Party's program has a definite commitment to land reform.

Development of a "Peoples' Sector". Although plans for it are not very clearly defined, the Prime Minister wants to see a sector developed based on broad-scale participation of low- and middle-income groups. Some experimental companies of this kind are presently in operation. Mr. Ecevit wants, in the future, to split the Ministry of Enterprises into two; one dealing with the state economic enterprises, the other working as a regulatory agency for the peoples enterprise sector. He is also very much attracted to the idea of "self-management" or "workers' participation". These ideas could be the basis of a healthy development of small-scale enterprises and a series of reforms in the state economic enterprises.

what is the possibility of devel. Bk fin. for small & med.-scale enterprises

Foreign Investment - Triangular Arrangements. The Prime Minister is very open-minded regarding economic cooperation with the rest of the world. He is actively trying to promote the idea of bringing together western technology, OPEC surpluses, and Turkish labor and natural resources. He feels that Turkey's geopolitical position is an immense asset in this respect. He told me when I last saw him that he had discussed this with political leaders in Germany and the Scandinavian countries. When I reminded him that he had been talking about it since 1974, and that I had not yet seen any operational moves on it, he told me that he was now expecting Mr. Cetin, and, when appointed, Mr. Erder, (former IBRD staff member) to act on this.

what is possibility for Δ rels.

International Economic Relations. The Prime Minister feels frustrated that his activism in international diplomacy is not matched by initiatives and follow-up on the economic front. To cure this he has asked Minister Cetin to coordinate activities in this field (three ministries have primary responsibility here: foreign affairs; finance; and commerce), and has appointed Necat Erder as a personal advisor on international economic relations. I think he wants to use Mr. Erder both as a conceptualizer and an expediter. At this point there are serious jurisdictional problems, both between ministries and the people involved, but there are strong grounds to be optimistic as the Prime Minister is increasingly getting involved and building up pressure on the ministries and people concerned.

what are [illegible]'s suggestions

He may want to find out your views about the most effective ways of mobilizing external resources for both immediate- and longer-term needs.

AKaraosmanoglu:mb/am

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 (1) resource mobilization and the (2) 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.

What are their thoughts: discuss with PM + Fin

Stress this

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.

What do they propose to do re pockets of poverty?

What is their plan for res. mobil-

While this is a path full of difficulties, I believe we can overcome them. And this brings us to the third 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

what is their plan to break power bottleneck?

meaning?

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.

What do they [illegible] ?

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.

What is their plan [illegible] ?

they want $400 m p.a.: for what level [illegible] ([illegible]) + what [illegible] - full [illegible]

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.

What is [illegible] plan

ECONOMIC MANAGEMENT AND POLICY ISSUES

ANNEX F(i)

TOPIC I

ECONOMIC MANAGEMENT AND POLICY ISSUES

I. Background

Current Economic Conditions and Structural Problems

1. The structural problems of the economy and the current economic situation are discussed fully in Annex G(iii).

2. Briefly, during 1975 and 1976, while GDP grew at over 8 percent per annum, serious balance of payments problems emerged. In 1977, the growth slowed down to 5.5 percent, the balance of payments further worsened, and the current account deficit increased to about \$3.4 billion from \$2.1 billion in 1976 and \$1.9 billion in 1975. Since the Government relied heavily on short-term funds to finance these deficits, by December 1977, short-term liabilities stood at an estimated \$5.2 billion. These mainly consisted of \$2.0 billion in Convertible Lira Accounts (CLAs), \$1.7 billion in supplier's and banker's credits, and about \$1.2 billion in overdrafts and other arrears, mostly due in 1978. In part, the balance of payments deficits were financed by reserves; as a result, there was a significant decrease in the level of reserves from \$1.8 billion in December 1975 to about \$530 million at the end of February 1978, equivalent to only about one-and-a-quarter months of imports.

sluggish exports

SEE deficits

high inflation

3. The deterioration in the Turkish balance of payments over the past few years has been caused by a number of short-term factors, which exacerbated the structural problems caused by Turkish development strategy. The main ones were: sluggishness of exports and workers' remittances due to recession in Europe; the rise in the prices of Turkish imports, especially oil; and failure to adjust exchange rates sufficiently to maintain competitiveness. Further, growing public sector deficits contributed significantly to import demand, and stemmed mainly from a combination of increased operating deficits of the State Economic Enterprises (SEEs) and their high investment programs reflecting Turkey's intensified heavy industrial drive. The drive added to the demand for capital imports, and the financing of these deficits through borrowings from the Central Bank at imprudently high levels, fuelled money supply as well as inflation, which reached its highest peak (close to 40%) in recent Turkish history.

cap-intensive & dom.-mkt oriented indus prog.

4. The structural problems of the economy in a large measure led to the present crisis. The structure of Turkey's foreign trade is characterized by small increases essentially of agricultural exports and burgeoning imports of recurrent and capital imports for industry. Further, Turkish development strategy, which emphasizes growth and rapid modernization, has not been sustained from domestic resources and required massive infusions of imported capital and technology. The cornerstone of the drive for modernization has been the highly capital-intensive and domestic market-oriented industrial development effort, supplemented by large import-oriented investments in essential infrastructure and modernization of the agriculture sector. This, combined with the relatively slower growth of exports, culminated in periodic short-term crises of the type Turkey is facing now.

5. To stem the deteriorating situation, the previous coalition government responded only in the second half of 1977 with ad hoc measures such as control on imports, including refusal to approve new import applications, selective payments of imports authorized earlier, and some marginal changes in its export incentives. These proved inadequate. Much too late (only in the fall of 1977), the Government began intensive negotiations with the IMF on a short-term economic stabilization program to secure a Standby Agreement. It took a number of rather bold, but inadequate, economic measures: the Turkish lira was devalued by 10 percent in September, followed by a further adjustment of about 5 percent in early December; significant price increases were announced in September for the SEEs' goods and services, ranging from nearly 50 percent to 300 percent, and were expected to yield TL 26 billion annually, thus significantly curtailing SEE losses. By late December, IMF reported reaching broad agreement on major balance of payments issues, but not on domestic demand management aspects, when the new Ecevit Government came to power in early January and received its vote of confidence in the middle of that month.

New Government's Short-term Stabilization Package

6. The Ecevit Government decided to first prepare its own stabilization package, before resuming negotiations with the IMF. At the same time, it finalized its Annual Program for 1978 and the 1978 budget. It was only after the budget was approved on February 28, that it presented its package to the IMF. A consistent approach of the new Government that comes through in its dealings with the IMF and the Bank in the preparation of its policies, is that it wants to develop coordinated overall policies in the light of its perception of Turkey's needs and priorities and it resists outside pressure before it has shaped its own decisions. Senior officials have clearly indicated the new government's considerable sensitivity about avoiding even an appearance of changing policies in response to outside pressure.

7. The main features of the Annual Program for 1978, the 1978 budget and the short-term economic stabilization package so far announced, and which formed the basis for the IMF Standby Arrangements finalized in late March (details of the IMF arrangements are provided in Annex GIII(c)), are summarized below:

(i) A drastic cut in the current account deficit from $3.4 billion in 1977 to $1.45 billion in 1978, is to be achieved largely through (a) 30 percent devaluation, announced in late February; (b) control on imports, such as increased deposit requirements; (c) increase in import (stamp) duty from 10 percent to 25 percent; (d) incentives to exporters, (such as permission to retain part of foreign earnings for import of essentials); (e) increase in deposit rates to attract savings of Turkish workers abroad; (f) restrictions on travel and a general tightening up of foreign exchange regulations.

(ii) The Government clearly recognizes the need for a viable debt-management policy, has withdrawn the exchange guarantee on new CLAs, and tightened regulations concerning commercial arrears so as to control short-term debt, and most importantly, begun negotiations with commercial banks for conversion of short-term into medium-term obligations and for securing new financing with at least medium-term maturities.

(iii) A significant cut in the public sector (including SEEs) deficit from TL 53.4 billion in 1977 to TL 7.0 billion in 1978 is planned through; holding increases in the consolidated budget expenditures to about 20 percent (in money terms); and raising revenues by 32 percent through increases in various taxes/duties and further proposed increases in the price of SEE products/services. The Government has undertaken with the IMF to introduce measures on such prices in the coming months, so as to bring in an additional TL 20 billion in 1978. These belt-tightening measures are expected to significantly curtail the need for deficit financing in 1978.

(iv) As a consequence of these measures, the Government expects GDP growth to be about 6 percent, inflation to slow down to 20 percent and the overall balance of payments situation to improve tangibly. These may however prove to be somewhat optimistic and growth may be close to 3 to 4 percent and inflation between 25 to 30 percent. In view of the tight balance of payments and domestic resource position, the Government currently plans to give priority to completing on-going projects rather than new investments, and utilizing idle capacity in the economy estimated to be between 30 to 50 percent in various activities.

8. Considering that the Government has been in office for barely 2-1/2 months, the set of measures already taken and planned, represent a sound and courageous program of short-term economic management for the first time in Turkey in the last five years. These, together with the broad discussions which a Bank mission had with the new Government in early March, confirm earlier impressions that this is a serious Government, staffed with capable and dedicated people at top levels, which appreciates the acuteness of the country's problems and is determined to overcome them. Clearly, some of the Government's recent measures, such as a modest increase in deposit and lending interest rates, while in the right direction and acceptable to the IMF as part of the Standby Arrangements, do not go far enough. Similarly, the Government has also indicated its intention to maintain the late 1977 prices of oil and fertilizers and not pass on, the increased costs due to the recent devaluation to the users. However, the Government is understandably sensitive to the political backlash, since most of its stabilization measures affect much of its traditional electorate.

9. The Government considers the 1978 Annual Program as an interim one, which will constitute the first year of the Fourth Five Year Plan (1978-82) to be finalized by October/November 1978. The previous Government had prepared a draft Plan, but in view of the political difficulties and the continuing economic crisis, did not finalize it. In any case, it needed major revisions with respect to its investment and balance of payments program. The new Government seems determined to approach the formulation of the Plan targets and policies on a more sound and realistic basis, and not on that of political expediency, which characterized the previous Government. However, the Plan formulation process has just begun, and not even a broad outline is yet available. This is understandable, since the government has quite correctly focused first on putting some order to the chaotic economic house it inherited.

Standby Arrangements with IMF

10. The Standby Arrangements provide for withdrawal of SDRs 74 million (about US$88.8 million) in Export Compensatory Drawings as soon as the Standby Arrangements are approved by the Board of the IMF and signed. It is expected to be put up for Board approval in 2 to 3 weeks time. Since the Witteveen Facility is not yet in operation, Turkey would be eligible for drawings up to 150 percent of its quota under the Exceptional Circumstances Clause, amounting to SDRs 300 million (US$360 million). This is in addition to the Compensatory Drawings and would be available in two Tranches of SDRs 145 million (about US$174 million) and SDRs 155 million (about US$186 million). The first Tranche will be withdrawn 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 progress of the stabilization measures in January 1979. Following that, Turkey would be entitled to withdraw the second Tranche over a consecutive one-year period.

Medium-Term Outlook and Policy Options

11. The remainder of 1978 will essentially be a period of stabilization and consolidation of the economy. Although the IMF stabilization program should effectively stem the tide of economic deterioration, and indeed help reverse it, there are certain key economic concerns over the medium-term which the Bank would have to evaluate, especially if it were to consider a substantially increased program of lending to Turkey. As a major source of long-term assistance to Turkey, the need for such an increase in Bank lending, is both critical for the Government, and justifiable for the Bank, provided the short-term economic measures already taken are supplemented by sound economic and debt management policies, structural reforms, a new orientation of investments and the correction of long-standing problems in past Bank loans.

What scale lending does Mission have in mind?

12. Following the stabilization package agreed with the IMF the resolution of the short-term debt problem commands the highest priority, and the external financing Turkey will be able to mobilize in coming months will have significant implications for medium-term growth, investment strategy and balance of payments policies. In summary: (a) as mentioned above, Turkey would immediately have to arrange with commercial banks for a roll-over of about $2 billion of CLAs, for which little difficulty is anticipated; (b) it will also have to arrange with banks for conversion of short-term debt of about $1.2 billion falling due in 1978 into medium-term debt on acceptable terms (it might get 8 years including 1 year grace); (c) in addition, it will have to find new substantial sources of external finance to the tune of about $1.0 billion in 1978, over and above the normal bilateral and multilateral flows, and sizeable sums beyond 1978; these will need to be obtained as far as possible as medium, and preferablylong-term, debt through

Short term debt mgt prog

bilateral or aid coordination arrangements,to sustain a reasonable level of imports. These elements taken together, even on optimistic assumptions on foreign exchange earnings, are likely to add significantly to the present debt servicing burden.

13. The detailed medium-term economic policies will become apparent as the Fourth Plan is prepared. In the absence of such a policy framework articulated by the Government, growth and development policy options can only be indicated at this stage in very broad terms for discussions by Mr. McNamara. The new Government's views on such policies, reflected in this Brief, have been culled from implications drawn from measures and policies it has adopted in respect of its short-term economic stabilization package and its broad statements of intentions regarding the mediumm term. Consequently, it should not come as a matter of surprise, if during Mr. McNamara's discussions, the Government's views regarding medium-term objectives and policies are presented in fairly broad and general terms.

II. Policy Issues for Discussion

14. Against the above background, Mr. McNamara may wish to discuss the following key medium-term economic issues.

15. Investment and Resource Strategy. If the economy were to grow uninterrupted by about 8 percent and real investments to grow by 9 percent during the next five-year plan period (1978-82), roughly at the same rates as those achieved over the last few years, there are likely to be continued balance of payments difficulties, domestic resource constraints and inflationary pressures in the medium term. The government is determined, although no concrete proposals have been articulated, to place greater and indeed correct emphasis in the medium-term on the development of export oriented activities and those which create greater employment opportunities. Despite this, however, it still places a high premium on fast growth, which is an ingrained Turkish dogma which transcends the barriers of political parties. It also feels that judicious changes in investment patterns may allow such fast growth to develop in a manner consistent with internal and external stability. A more prudent approach, might be to plan on a period of modest growth and consolidation in the next 2-3 years, during which the high domestic consumption is reduced, foreign exchange earnings expanded, imports controlled within foreign exchange availabilities and further rises in short-term debt avoided, before the economy is once again returned to a high growth path. Mr. McNamara, while injecting this cautionary note, may stress that the Bank would obviously need to evaluate ~~carefully the~~ draft of the next five-year plan from this point of view, and that he would hope that a dialogue thereon would be possible before that draft is finalized for the Government's and the Parliament's consideration. The above cautious approach would still enable Turkey to reach one of the highest rates of growth amongst the developing countries over a 5-year spectrum. At the same time, it would enable the economy to recoup strength, since a more modest level of growth in the next 2-3 years could be achieved through minimum new investments, completion of priority ongoing projects and maximum efforts to use idle capacity.

How will dom. cons. be reduced?

Hope for a dialogue on the 4 Yr Plan

16. In the absence of a medium-term development plan, our preliminary analyses suggest that beyond 1978, Turkey may well need to (i) restrain aggregate demand to prevent the re-emergence of sharply rising import demand, and hence rising balance of payments deficits; (ii) consider some adjustments in its investment and growth policy; (iii) improve its resource mobilization efforts, especially in the public sector, to raise the overall savings/GDP ratio by 3 to 4 percentage points over the next four to five years, through increasing the efficiency of tax collection and increasing their coverage; further improvements in the interest rate structure; and increase in the prices of SEEs through some automatic mechanisms which countries like Brazil successfully introduced to get away from constant political traumas every time any prices were increased; and (iv) tailor annual investment programs within the availability of domestic and foreign exchange resources.

what are their plans to raise savings rate

17. In this connection, Mr. McNamara might emphasize that at present, there appears to be a need for a qualitative shift in the investment away from the current emphasis on highly capital-intensive import-substitution efforts. While a complete shift is neither possible nor being advocated, a selective emphasis on export-oriented industries would help generate significant foreign exchange earnings and contribute relatively more to growth and employment than the present pattern of investments. One should also accept that Turkey's heavy industry strategy is unlikely to be altered. Given this, Mr. McNamara might still usefully stress that in implementing Turkey's policy of emphasizing heavy industry, the new Government should accept and encourage a shift from an unrelenting quest to introduce the most sophisticated capital intensive technology into Turkey for that purpose, to one where modern techniques are blended with production methods which also make use of available surplus and cheaper Turkish labor, on lines so successfully adopted by both India and Brazil who had ambitions similar to Turkey's. It might be noted that many Turkish planners are not even aware of such possibilities, and that in an engineer-dominated society like Turkey there is an inevitable tendency to equate production of a quality product with the most sophisticated technology available. It may therefore be worthwhile if Mr. McNamara can bring this point home tactfully but clearly to Mr. Ecevit himself, where the ground may be more fertile for consideration of this point.

do they plan to shift away from cap. intensive proj. - stress need to Ecevit

18. Balance of Payments. The Government will have to continue to control its balance of payments position by limiting the growth of import demand beyond 1978 to roughly the same level as GDP growth. This control on the import demand, together with sustained efforts at increases in exports, should enable Turkey to significantly curtail its large balance of payments deficits, to avoid the need for import financing through costly short-term borrowing. Growth in exports would depend upon Government's efforts to formulate and implement policies to maintain competitiveness of its

exports, and may involve periodic adjustments of its currency if the domestic price level moves out of line with international inflation, to avoid major devaluations in the future. As a long-term export strategy, the Government will in any case have to seek diversification of its exports through establishment of export-oriented industries. Mr. McNamara should inquire about the directions of Government's immediate and medium-term policies which would help ensure a consistent growth in exports over the next five years.

19. External Debt Management Policy. Depending on the terms that Turkey can obtain to meet the needs outlined in para 12 above, the debt service ratio could rise from the 1977 level of about 14 percent of exports of goods and services (including workers' remittances) to about 24 percent in 1978. It could increase to close to 30 percent in 1979/80, but thereafter begin to decline in the early eighties. Of course, this ratio could become lower, if foreign exchange earnings in the next two to three years exceed what is currently anticipated, imports are rigidly monitored to budgeted levels, and debt management policies are effective. The first two, in turn, would largely be determined by growth and investment policies over the medium-term.

20. Mr. McNamara might emphasize the need to quickly establish a viable debt management policy, which would give assurance to the external lenders, including the Bank which is being asked to double its annual volume of lending in Turkey, that their debts would be properly serviced and the situation that prevailed in 1977 would not repeat itself. In the course of discussion on this issue, he might recommend that, apart from seeking the gradual conversion of other short-term obligations to medium-term debt, Turkey should step up its efforts to increase the inflow of M&LT funds through aid coordination arrangements beyond the OECD consortium. Considering that only three consortium members (Germany, EIB and the Bank) are still active donors, the Government may wish to initiate and manage a broader aid coordination arrangement possibly involving Middle East countries, especially Saudi Arabia, Libya, Kuwait, Abu Dhabi, and the various agencies established by these countries to channel M&LT funds.

pilot a project [illegible]

<u>IMPROVED PROJECT PERFORMANCE AND TURKISH MACHINERY FOR EFFECTIVE COORDINATION OF PROJECT PREPARATION AND IMPLEMENTATION</u>

TOPIC II

IMPROVED PROJECT PERFORMANCE AND TURKISH MACHINERY FOR EFFECTIVE COORDINATION OF PROJECT PREPARATION/ IMPLEMENTATION

(Reference Material: Annex G(v)(c)

Background

1. Ongoing Bank projects need solutions to a plethora of general problems, summarized in Annex G(v)(c). Briefly, they range from: (i) better budgeting procedures to ensure effective funding for project implementation and preparation; (ii) quicker approval of new organization units and staff positions; (iii) a solution to chronically low pay and allowances in order to contract and retain competent management and technical staff; (iv) greater willingness to hire local and foreign consultants, as needed; (v) setting of tariffs or prices at levels which not only ensure the financial viability of the project agencies or institutions concerned, but also generate sufficient funds for future investments, without resort to the Treasury or Central Bank borrowings; and (vi) adequate and timely release of both the foreign exchange and domestic resources needed to complete projects.

stress delays in proj prep. proj implementation

very weak coordination

2. In the setting since 1971, of weak and changing coalition governments, poor national economic and financial policy management, and persistent international recession and inflation, Bank projects in Turkey have faced a broad range of coordination, policy, and administrative problems summarized above. These have generally caused significant delays in all phases of the project cycle from identification to completion, and resulted in major Government-Bank policy confrontations, notably in respect of projects in the power sector, as also in railways, irrigation, industry and agricultural credit. Among these problems, the key weakness has been in the Government's overall coordination mechanism in Turkey with regard to Bank projects. This function has been exercised on a largely post-office clearing house basis since 1972, by a modest and generally ineffectual staff in the Treasury, supported by a small financial office at the Washington Embassy. In the spring of 1975, Mr. McNamara raised this issue with Prime Minister Demirel. As a result, the special unit in the Treasury was established under an Assistant Director General, and periodic Joint Bank-Government Project Reviews were initiated (since June 1975 six have been held so far). The promised Finance-Energy-Public Works Ministerial Coordinating Committee to deal with policy issues needing resolution in the context of Bank projects, never functioned. As a result of the Joint Reviews, project performance improved significantly, and was manifested in improved disbursements, initiation of training programs financed by Bank projects and recruitment of consultants. However, owing to national elections last June, several changes of government since then and the priority given by Turkey to negotiations with the IMF over the last nine months, the Government has delayed new periodic reviews in Ankara since March 1977. Meanwhile, performance in several projects has once again shown a deteriorating trend. A review was carried out again in March 1978, but essentially in the context of discussing sector policies which lie behind indifferent project implementation.

3. While the Coordination Unit in the Treasury has performed a useful function so far, it is clearly not the ideal instrument for achieving effective coordination for either project preparation or implementation. The underlying coordination constraints will continue in the future, if the Treasury retains this role, because it lacks the essential ingredients of: (i) substantive

sectoral expertise, (ii) freedom from other unrelated and competing duties, (iii) bureaucratic clout vis-a-vis other powerful ministries and agencies; (iv) guaranteed access to policy level officials for quick resolution of major issues, and (v) financial expertise (where even in its primary field the Treasury has been woefully inadequate in budgeting, in handling problems of financial structure of enterprises, and in providing co-financing leadership). Shifting coordination responsibility will face difficulties within Turkey, because Finance Minister Muezzinoglu is apparently keen to retain the present Treasury coordination arrangements, despite their obvious inadequacy. SPO, which provided effective coordination in the early 1970's, still retains formal responsibility for substantive policy coordination; but most issues have so far been slowly resolved by direct compromise between ministries or, more often, remain unresolved, and held up preparation or implementation of Bank projects. To that extent, the shift of a coordination function to the SPO, is also not an appropriate answer.

What does Mual recommend?

4. In this background, during Mr. McNamara's discussions with the Turkish delegation at the last Annual Meeting and Mr. Benjenk's with the new Ecevit government in January 1978, the importance of establishing a well-staffed coordination unit was mooted. In the highly hierarchical Turkish government, its location in the Prime Minister's Office is critical to give its staff access to Ministers and the clout to get things moving with key ministries and agencies.

5. A recent development has been that Mr. Necat Erder (Advisor in our Education Department until 1976) has been appointed as an Advisor to Mr. Ecevit. He is to forge a "working arrangement" with Finance Minister Muezzinoglu and Economic Minister Cetin, under which he can perform the "coordination function" through their respective staffs. While clearly Mr. Erder can be an effective coordinator, one wonders how effectively he can perform the task without a secretariat of his own and relying only on his closeness to Mr. Ecevit. A more formal arrangement, therefore seems most desirable.

Recommended Position

6. In this background, it is vital to persuade Prime Minister Ecevit that what is needed is a strong coordination unit, headed by a high-level undersecretary or a prestigious advisor like Mr. Erder, located in the Prime Ministry. Such a Unit should explicitly have coordination authority over all implementing ministries and agencies and possess the other ingredients enumerated above. It would be desirable to have such a Unit, not merely for Bank projects, but for those with all external aid donors. It would be advantageous if it could be under the wing of Economic Coordination Minister Cetin as a representative of the Prime Ministry and it could be backed by a small interministerial committee to which policy problems could be quickly referred for expeditious solution. Mr. McNamara might stress that if Turkey is to expect an increased volume of Bank and external assistance, it is critical that the Unit not be located in the Treasury, nor its location left ambivalent as seems to be the case now (paragraph 5 above) but it should be reorganized in the Prime Minister's office.

7. It might be worth emphasizing that nearly $700 million out of $1.2 billion committed by the Bank, remains undisbursed. (The comparative table in Annex G(v)(b) summarizes the present position). This is money available immediately to Turkey for its investment programs, unlike new monies which the Bank can commit in future and would be available only as and when projects to which they are tied, get implemented. With an effective Coordination Unit to improve project implementation, Turkey could withdraw expeditiously, a substantial portion of this available amount.

stress this to the PM!

SECTOR POLICY DIFFERENCES AFFECTING
ONGOING AND FUTURE PROJECTS

TOPIC III

SECTOR POLICY DIFFERENCES AFFECTING ONGOING AND FUTURE PROJECTS
(Reference Material: Annex G (v))

Background and Recommended Position

1. Although the Bank has financed several projects in the power, agriculture (including irrigation), transport, industrial and urban sectors, project preparation and implementation has been plagued in recent years by continuing differences on the policy: towards (i) planning; (ii) financial management and (iii) administrative management, of these sectors. The "problem projects" (there are about 8 such projects cutting across all of the above sectors) reviewed during the several Joint Problem Project Reviews with the Government, are all essentially examples of such policy differences. Therefore, the Bank mission early this month, concentrated on discussing these differences, and explored the extent to which there was scope for reducing them, because of the perspectives of the new Ecevit Government.

2. With the previous coalition governments, the Bank succeeded in obtaining through hard bargaining on covenants in individual loans, recognition of the sector policy problems and the Bank's concerns thereon. However, there was little success in substance, since these governments failed to live up to these covenants whenever they found political or administrative constraints difficult to overcome. From Turkey's viewpoint, the problems stem from: (a) the Bank's practice to use its loans as vehicles for new policies for planning, financing and managing of the sectors concerned; (b) the Bank's view of the Turkish economy as a purely market-oriented one which calls for policies essentially tuned to the private sector, when Turkey has a "statist" socialist oriented system, whose institutions must perform social, and not merely economic, goals; and (c) the Bank's remoteness from the Turkish administrative, financial and management structures and practices which, from the Turkish viewpoint, have served the country well enough to achieve an annual growth rate of over 7 percent for the last several years.

3. In this background, a possible future approach might be for both sides to recognize that a change of perspectives and approach will be required. It is important for the Bank to explicitly recognize in our future work in Turkey, that we are essentially dealing not merely with a "mixed", but with a statist and socialist oriented system; that the Turks will therefore plan, operate, manage, have policies and be administratively organized in a fashion different to what we are used to in strictly market-oriented economies, and that it is not possible to try and seek substantial changes in that basic structure or its operating philosophy. Accepting this, the Bank's development role should be to help Turkey to bring about, above all, consistency in the system, which has nearly broken down for lack of financial consciousness, and improvements in the planning, management and productivity of various sectors. We should also stimulate the Government into applying financial policies to generate sufficient resources through non-inflationary methods for the massive investments programs of the various sectors, in order to avoid the repetition of the crisis which Turkey went through in 1977.

4. Discussions which the March Bank Mission had in Turkey, suggest that the perspectives of the new government in respect of these policy areas are such that there is likely to be considerable scope for reduced friction in the coming months, compared to the past Indeed, the new government has taken quite a few actions which should help resolve, or at least mitigate the difficulties which have been experienced in respect of some of the ongoing projects. In some cases, the new ministers expressed policy perspectives akin to those previously proposed by the Bank. Nevertheless, it may be some time before the ministerial views percolate down to the bureaucratic levels and for the bureaucracy to formulate action to translate these views into implementation measures. Although the general ambiance holds promise of fewer differences and smoother project implementation, one should expect, for a few more months at least, administrative resistance to our staff's proposals on such matters, during the course of project supervision, appraisal and preparation.

5. The new government is likely to be more sensitive than the previous governments, about what may appear to it to be changes which they have to make in policies only because of Bank projects or because the Bank so recommends. It tends to believe that the Bank's concern should be projects alone, and conditions ensuring their success are fully acceptable. It has still to recognize, much less accept, that projects are merely instruments available to the Bank to assist Turkish development, that our concern for development and institution building therefore necessarily involves a dialogue on key policies in the sectors in which projects are set, and that these policies bear directly on the Bank's concern about major macro-economic issues relevant to the sound health of the economy. While these beliefs can be changed, it will involve an educative process. The results may therefore take some time to emerge with the new people in power. Significant policy differences which existed vis-a-vis the previous governments, the new government's actions to resolve some of them, its perspectives which suggest some scope for much fewer future areas of policy differences and those where continued differences should be anticipated, are summarized below for discussion during Mr. McNamara's visit.

Power Sector

6. Successive Turkish governments have taken the view that substantial increases in power tariffs to meet the 8 percent return criterion on an asset base calculated in the way normally done in all Bank loan agreements, would significantly add to production costs and hence burden industrial growth, besides engendering popular opposition. Admittedly, in an environment of international and domestic inflation, periodic upward adjustment of the asset base of the power authority (TEK), implies continuing substantial increases in power tariffs to meet that criterion. Besides, sources of power generation in Turkey are distant from power markets and the very high capital costs involved in establishing generation and transmission facilities, have

implied further increases in the asset base; this in turn entails further tariff increases. In this background, irrespective of the rate of return clauses agreed in the loan documents, past governments adjusted tariffs inadequately and not in time, and entered into innumerable arguments to justify that such increases indeed yielded an 8 percent return on asset bases which had been improperly calculated but which the governments felt were adequate for the purpose of meeting the loan covenants. Despite repititions, past governments did not appreciate that the achievement of a rate of return was not an end in itself, and that the underlying philosophy suggested by the Bank was that the Government should generate a reasonable contribution from power users towards the large annual investment program of TEK (which is responsible for thermal generation and bulk transmission/ distribution) and DSI (which is responsible for building hydro-electric facilities). Despite the 48 percent increase in September 1977 in bulk power tariffs (which presently average 74 kurus/kwh), the return in 1978, on the asset base calculated on principles reflected in the loan documents, is less than 3 percent and will contribute about 8 percent of the cost of TEK's and DSI's investment programs for 1978. In this background, the $56 million TEK II Transmission loan has not yet been declared effective (effectiveness was extended for the sixth time upto April 30, 1978) and affects the commencement of negotiation of the Karakaya project to which the new Government attaches highest priority.

Stress + Fas

What holds them? suggest re

7. In a refreshing contrast to previous governments, the new one recognizes that from the macro-economic viewpoint, a larger user contribution is essential to avoid continual resort to the central budget and Central Bank deficit financing, to meet the costs of TEK's and DSI's investments. In particular, it may be inclined to recognize more strongly, the more tangible macro-economic yardstick of generating sufficient user contributions each year (including income tax paid by TEK to the Treasury) to cover a reasonable portion of TEK's and DSI's annual investment programs. At the same time, because of the present high power demand situation and breakdown of some critical hydro facilities, Turkey is now relying and will have to rely until probably the early 1980s, on expensive combustion turbine generation where the generation cost exceeds the bulk tariff rate by 25 percent. Given this background, the new Government has given clear signs, though not come forward outright, that it will articulate a financing policy for the sector, possibly before Mr. McNamara's visit, based upon the aforementioned principle and gradually reach by 1980, what it considers to be a reasonable level of user contribution (the Bank has proposed 30 percent at least) to TEK's and DSI's annual investment programs. Given the difficult power situation caused by the breakdown of critical facilities, such an articulation would be a significant step in reconciling this vexed sector issue. At the same time, some senior ministers not connected with energy have led us to believe that in an effort to resolve this critical sector problem, the Government is now processing a decree through Cabinet which apparently might increase tariffs from the present average of 74 kurus to around 90 kurus/kwh. If such a decree is indeed issued in the near future, it would result in an increase in user contributions from the level of 8 percent to a more respectable level of about 17 percent towards the cost of TEK's and DSI's 1978 investment programs.

All this would then help clear the way for an early effectiveness of the TEK II loan and the initiation of Karakaya negotiations.

8. Another recurrent problem in the power sector, has been the question of large dues to TEK owed by major municipalities, ~~to TEK~~. The last government substantially increased the price of retail tariffs charged by Istanbul and some other municipalities in late 1977. During the visit of the Bank mission in early March, the new Government also decreed a substantial increase in the retail power tariffs of Ankara, which besides Istanbul, has been the major cause of the large municipal overdues. With the increase in tariffs in both these municipalities, the likelihood of future non-payment by them to TEK, should be minimized. An additional feature of the increased tariffs in Ankara, is that for the first time in Turkey, they have been structured depending on the different categories of users, a feature suggested by the Bank for a long time.

9. A related sector problem, so far unresolved, is TEK's inability to attract and retain competent technical and management personnel, despite provision of contract terms which permit emoluments significantly exceeding those possible under Civil Service grades. This is a problem shared by several SEEs, and an area unlikely to be resolved in the near future, particularly given IMF's pressure on the Government to hold down the civil servants salaries bill as a means of making Turkey live within its announced budgets. It might however be worthwhile for Mr. McNamara to suggest, that a possible solution to such an omnibus problem might be to initially allow TEK, and each major SEE, the freedom to fix its own emoluments (including prerequisites) sufficient to attract and retain key technical and maragement personnel and provide financial incentives in the form of bonuses when the personnel reduces operating costs below targeted levels.

Urban Sector

10. Bank involvement in the urban sector in Turkey, has so far been limited to the Urban Studies, Power and Water Supply projects in Istanbul. All have faced implementation problems. The ones providing water and power facilities in Istanbul, partake of the problems of sector financing and management, which are being resolved adequately in the manner described in the discussion on the Power Sector. Problems faced by the Istanbul Studies Project, and the question of the expansion of the Bank's role in the urban sector, rests on the more fundamental issue of the Government's willingness to undertake basic reforms needed to promote the required degree of local and metropolitan autonomy of the major Turkish municipalities. This essentially implies establishment of administratively and financially viable municipalities with significant taxing powers of their own, and which are not controlled from Ankara. This also implies a real transfer of power away from Ankara, and creation of a local political institutional framework capable of dealing with such new responsibilities. The previous coalition governments were most reluctant to proceed with such major decentralization of authority. Indeed, the preparation of even future urban projects in Istanbul (such as Istanbul Sewerage) has been impeded, because those governments supported the insistence

of the centrally controlled Illerbankasi (Bank of the Provinces) that it should design and prepare projects which it deems fit for the concerned municipalities, rather than taking the priorities of the concern municipalities into consideration or getting them involved in the planning and designing of their projects.

11. In a refreshing contrast to previous governments, the present one's primary objective appears to be: (a) to establish financially and administratively viable municipalities in major urban areas, including Istanbul; for that purpose, it has introduced into the legislative process, a bill for the creation of the Metropolitan Union of Municipalities in Istanbul (a proposal disputed by past governments for years); (b) to collect at the central government level, only a few major taxes for redistribution to the several Turkish municipalities, whose taxing powers would be augmented to ensure their financial autonomy; towards this objective, the Municipal Financing bill of the previous government, which was designed for more centralized control, is being suitably amended for reintroduction shortly into the legislative process; (c) to create autonomous authorities as satellites of these municipalities, for the purpose of planning, constructing and operating public utilities within the municipal areas; an instance of this is re-introduction into the legislative process of the BIBSKI law for the creation of such an authority for water/sewerage in the Istanbul Metropolitan area; (d) to use the technical and financial resources of Illerbankasi to design, engineer and construct water/sewerage facilities in major municipalities like Istanbul according to the priorities of those municipalities and not those of Illerbankasi, and allow Illerbankasi to provide such services and operate the constructed facilities only in municipalities with populations of less than 100,000 who do not have the requisite capabilities; (e) to foster the establishment of land use development institutions in major cities with a view to controlling urban growth, and strengthen some existing banks so that they can perform on a viable financial basis, the function of low income housing mortgage institutions.

12. Given these perspectives, differences between Turkey and the Bank on the urban sector have considerable scope for reconciliation . Mr. McNamara, while welcoming these perspectives, might like to urge their early implementation, especially of the legislation involved for Istanbul. He might reaffirm the Bank's desire to help develop solutions to the problems of urban poverty and congestion,and indicate that with the implementation of the new Government's perspectives, there should be considerable scope for an effective program of Bank activities in the crucial urban sector,not merely in Istanbul, but perhaps its gradual extension to other major cities, e.g. in Ankara through a pollution control project for that city.

Agriculture (including Irrigation) Sector

13. With the previous governments continuing sector policy differences arose in the context of their refusal to impose adequate water/ irrigation recovery charges which, besides covering the operation and

maintenance costs of the irrigation systems, also recovered their capital costs over a period of years. Under the Bank's Seyhan and Irrigation Rehabilitation projects, recoveries were being made sufficient to cover only a portion of the operating costs. As a result, the poor farmers were subsidizing rich and affluent farmers who dominated the irrigation perimeter. The Bank has therefore taken the position, that as vast as the irrigation needs of Turkey were, we would not finance future irrigation investments until Turkey satisfactorily addressed and resolved the question of irrigation recovery/water charges. Discussions which the Bank's early March mission had, indicated acceptance by the new Government of the view that to generate sufficient resources from a macro viewpoint for infrastructural investments in the sector, there should be sufficient recovery from the users. As a first step, following up on the mission's discussions, the Energy Minister (who in Turkey is responsible for DSI and hence, irrigation matters) has agreed to increase irrigation recovery/water charges from the present low level averaging TL 11 per decare (one-tenth of 1 hectare) to TL 80 per decare. Mr. McNamara should welcome this encouraging first step which should help resolve one of the basic sector differences between Turkey and the Bank. He might however urge, that these increased charges be rationalized on the basis of the 1974 DSI study, by tieing them to crops grown, rather than to hectareages, since that would promote efficient water management. He might also indicate that with the continuance of this approach in future, the Bank would be able to assist Turkey with its priority irrigation projects.

stress to Turk PM

14. It also appears that the Government wants future investments in the sector to blend a poverty alleviation orientation with investments needed to produce commodities saving or earning valuable foreign exchange. However, there are prospects of one continuing sector policy difference, i.e. interest rates for credits extended to different categories of farmers. Despite the recent substantial increases in deposit and interest rates in Turkey as part of the economic stabilization package negotiated with IMF, interest rates for short and medium-term agricultural loans (except for agro-industries which increased from 14.4 to 20 percent) remain at 10.5 percent. This reflects the new Government's strong social orientation towards poorer farmers. However, although this rate as well as the increased rates are low and negative in view of the prospects of only a gradual reduction of the high inflation rate in the coming years, there does not appear to be an immediate solution in sight because the package of interest rate increases has been accepted by IMF as part of the stabilization package for the Standby Arrangements, despite the frequently voiced concern of the Bank on agricultural rates and the rate structure in general. Therefore, until the Financial Sector Study, which has been in progress for some time, is completed and reviewed by the new Government (discussed in Topic F (v) hereafter), it would be difficult for the Bank to consider higher interest rates for the sector as one of its priority objectives, since improvements in the macro-economic framework and the high economic and social priority of the projects proposed for Bank financing by far outweigh this unsatisfactory feature. For the time being, Mr. McNamara should urge the Government to expeditiously complete, review and implement the conclusions of the Financial Sector Study. In view of the expertise

available within the Bank on the various issues germane to the Financial Sector Study, Mr. McNamara might indicate to the new Government the Bank's readiness to have discussions with the Turkish technicians as the Study progresses, as we offered to the previous governments with little response.

Industry Sector

15. The major philosophical disagreement in this sector, stems from the Bank's viewpoint that the choice of future industrial investments should pay significant attention, whenever appropriate, to exports and the utilization of labor (in view of Turkey's growing unemployment problem), and not automatically opt for the most sophisticated capital intensive methods of production, which the private and public industry sectors have so far adopted. In an engineer-dominated society like Turkey's, where quality products are invariably associated with the most sophisticated technological method of production, this may be a difficult area for a future dialogue. Some of the planners even in the new Government, take the view that Turkey's strategy of developing heavy industry, must rest on the adoption of the most sophisticated technology available. Mr. McNamara might therefore suggest, especially to Mr. Ecevit who may be receptive, that even while implementing the Turkish strategy of developing heavy industry, it should certainly be possible to marry the modern capital-intensive techniques with production methods which also make use of some of Turkey's surplus labor, as countries like Brazil and India have done successfully, especially for plants producing automotive, foundry and steel products and heavy mechanical and electrical machinery and machine tools.

Yes - Stress

Stress to EM & PM

16. Apart from this, the other major policy disagreements which have affected the Bank's industrial projects, including Erdemir Steel I and the pulp and paper projects of SEKA, have stemmed from: (a) frequent government interference in the senior staffing of the public sector industrial SEEs and in their decision making powers: (b) the need for industrial products, and for that matter those of other sectors, e.g. forestry, to be priced adequately, to ensure both the financial viability of the enterprises and internal generation of sufficient funds for their expansion programs without recourse to the Treasury or deficit financing from the Central Bank; and (e) the need for such enterprises to be run on the basis of satisfactory capital structures, including adequate debt/equity ratios, so they can easily obtain external and domestic bank financing on their own merits without reliance on the Treasury. While Turkey's political system precludes elimination of changes in Chairmen and Presidents of SEEs whenever governments change, the new Government clearly realizes that longer-run solutions must be found, to minimize such changes and give adequate powers to the Presidents for the day to day management of their enterprises without interference by the Chairman of the Board of Directors. The problems of providing the Erdemir Steel Company and SEKA with capable senior management, is likely to be resolved shortly and it should be possible to rely on the new government's assurances for this.

17. As regards the pricing of industrial products, the prices of paper and newsprint were raised in February, and those for iron and steel by nearly 40 percent, during the course of the said mission's visit. The latter is expected to generate an additional TL 1.5 billion in 1978 for Erdemir, an action which the new government indicated to the mission, was specifically designed to resolve the cash generation problem for 1978 and future years for both the ongoing Erdemir I and the proposed Erdemir II projects. The new government also clearly recognizes that, from the point of view of reducing reliance on the budget, it would be prudent to ensure that industrial SEEs have a satisfactory capital structure, so they can secure relevant financing on their own to the extent possible. Legislation to enable the equity of Erdemir to be increased sufficiently and without frequent recourse to the Parliament, which has been one of the problems plaguing the ongoing Erdemir I and the proposed Erdemir II projects, is now being pushed through the legislative processes. There is reason to believe that the Government will make the maximum effort to get this legislation passed as soon as possible, after the Parliament reconvenes next month. Its bona fides is also evidenced from its willingness in principle to think of an omnibus legislation for the same purpose, for other industrial SEEs.

18. In future, however, another area of policy difference may continue to be the formulation of schemes to attract and retain competent technical and managerial personnel in the industrial SEEs, and to find a system of monetary incentives without upsetting the public sector's general salary structure. For this, Mr. McNamara may like to propose an approach similar to that mentioned in respect of the same topic under the Power Sector.

Transportation Sector

19. The major project implementation issue here, has arisen in connection with the ongoing Railway project, essentially because of the familiar policy differences on resource generation. Past governments believed that since the Railways fulfilled a social need, especially for the less affluent Turkish population, passenger tariffs should not be increased. In addition, despite some adjustments, freight tariffs are unduly low. As a result, Turkish Railways faced annual operating deficits averaging TL 1.5 billion, met from the central budget. Railways investments also had to be financed through the Treasury. In this background, the Bank had declined to finance future Railway investments. In a refreshing contrast to this past attitude, the March Bank mission learned that one of the first actions of the new Transport Minister was to ask the Transport Coordination Authority to do a comprehensive study to adjust railway tariffs on a rational basis. Action thereon is anticipated in the coming weeks, although it might be too much to expect that tariffs would be increased to completely eliminate the substantial operating deficits for the Turkish Railways. However, this attitude marks a significant change of perspective which, when coupled with the government's recognition of the need to improve management in the agencies involved with the transport sector, augurs well for the future. A demonstration of the latter awareness, is the government's action in putting up for the Parliament's consideration shortly, a draft law establishing a National Ports Authority, to replace the different agencies who today have responsibility for different ports in Turkey.

20. An equally important divisive sector issue, had been that new railway and highway investments were being implemented without adequate intermodal or feasibility studies establishing their priority. This strained Turkey's resource situation further. The government appears to be clearly aware that investments in railways, highways and ports, should be tailored not merely to the availability of budgetary resources, but undertaken only after adequate feasibility studies are completed. Mr. McNamara might indicate that, if the government's apparent plans,towards generating sufficient financing from the sector or undertaking only new investments on the basis of priorities established by intermodal studies,are confirmed by future actions, the way would be open for further Bank assistance in the sector, beyond the Ports Rehabilitation project which is likely to be appraised in the next few weeks.

WORLD BANK / INTERNATIONAL FINANCE CORPORATION

OFFICE MEMORANDUM

TO: Memorandum for the Record DATE: March 29, 1978

FROM: Adi J. Davar, Division Chief, EMENA CPIIA

SUBJECT: TURKEY: Recent Sector Policy Discussions and Developments

1. The highlights of the sector policy discussions and developments which took place during the visit of Messrs. Davar, Pollan, Chopra, Faruqi and Baig to Turkey from March 7 to 17, have been summarized in our memorandum of March 27 to Messrs. Bart and El Darwish. These discussions are amplified for the sake of record in this memorandum. Some of the more detailed discussions which took place especially on the urban, industrial and transport sectors will be summarized in separate memorandums by Mr. Baig.

Urban Sector:

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2. The new government's primary objective, in contrast with past governments, will be to: (a) establish financially and administratively viable municipalities in major urban areas (including Istanbul); (b) collect at the central government level, only a few major taxes for redistribution to the municipalities, whose taxing powers would be augmented to ensure their financial autonomy; (c) create autonomous authorities, who would plan, construct and operate public utility facilities for these municipalities; (in this connection, the BIBSKI legislature establishing such an authority for water/sewerage facilities in the Metropolitan Istanbul Region, is being introduced into the legislative process); (d) use the technical and financial resources of Illerbankasi (Bank of the Provinces) to design, engineer and construct water/sewerage facilities in major municipalities according to the priorities of those municipalities rather than those of Illerbankasi itself, and provide such services and operate them only for municipalities with less than 100,000 inhabitants who do not have the requisite capabilities to do so; (e) formulate a national physical plan that would encourage development of industrial activities in rural areas, to mitigate migration from rural to urban areas; (f) foster the establishment of land use development institutions in major cities, as a means of controlling urban growth; and (g) strengthen some existing banks so they can perform on a viable financial basis, as low income housing mortgage institutions.

3. These perspectives are essentially in line with views that the Bank has repeatedly articulated in the past few years. If they are implemented, it would facilitate the development of an effective program of activities in the crucial urban sector, which had so far been stalemated by previous governments. In this connection, the Minister requested an early receipt of the draft report of the Bank's 1977 urban sector mission, since that might be a valuable input in the further shaping of the urban sector policies of the new government.

Industry:

4. While Turkey's political system precludes elimination of changes in the Chairmen and Presidents of SEEs whenever a new government comes into power, such changes are made; but there is clear realization on the part of the new government, unlike the previous ones, that solutions should be found to minimize

such changes. The new government's general perspective of manning key agencies and SEEs with capable staff, can be expected to be reflected in appointments in Erdemir Steel and SEKA, of capable senior management. This will help alleviate management problems in our steel and pulp/paper projects, and the Ministers concerned gave specific assurances on this critical issue.

5. The new government is likely to adjust soon, the prices of several industrial SEEs with a view to generating some cash to internally finance future investments without the undisciplined recourse to the Treasury that prevailed in the past. In this context, prices of newsprint and paper, were raised in early February and those of iron and steel by nearly 40 percent around March 9. The latter is expected to generate an additional TL 1 to 1.5 billion in 1978 for Erdemir Steel, which the Government told our mission was specifically designed to help resolve its cash generation problems for 1978 and future years, for the ongoing Erdemir Steel project.

6. Further, to enable industrial SEEs to secure commercial bank financing on their own, the Industry Minister agrees that they should have a satisfactory capital structure and debt/equity ratios. Legislation that would enable the equity of Erdemir Steel to be increased sufficiently and without frequent recourse to the Parliament, has been introduced into the legislative process and will be pushed through as expeditiously as possible in the April-August legislative session.

7. The mission pressed the Industry, Economic Coordination and Finance Ministers that in view of Government's priority to complete ongoing projects, it was important that foreign exchange required at least in 1978 in respect of orders placed or to be placed for the ongoing Erdemir and Akdeniz projects, be released expeditiously, with necessary releases required for 1979 to be made in 1979. In this connection, it urged release of at least $ 20 million for Akdeniz and $4 million for Erdemir I. The Ministers confessed that there was just no money available now except for oil and military imports. However, as soon as the IMF Standby Agreement was approved, monies thereunder became available and the large short-term commercial bank borrowing was converted to medium-term, the Government undertook to release monies for these projects.

8. The more difficult policy areas for the future, may continue to be (a) formulation of schemes to keep operating costs down, possibly by giving monetary incentives to managers, which might also help resolve the problem of retaining competent technical and managerial personnel in SEEs; and (b) adoption of technologies which do not continue to be capital-intensive, but employ production methods that also make some use of surplus labor, as India and Brazil have successfully done. Both will need further future dialogue.

Agriculture:

9. Future investments in the sector are likely to blend a poverty-alleviation orientation, with investments needed to produce commodities which save or earn foreign exchange. There is also acceptance, that to generate sufficient recourses from a macro-viewpoint for future infrastructural investments in the sector, there should be sufficient recovery from users. As a first step, the Energy Minister (who is in charge of DSI and hence, irrigation), has decided

during the mission's visit, to increase irrigation recovery/water charges from an average of TL 11 per decare (1/10 ha.) to TL. 80 per decare). This should go some way in introducing these charges on a rational basis, to also improve water management, besides opening the door for future Bank assistance in the irrigation sub-sector.

10. However, despite the recent significant increases in interest rates which formed part of the economic stabilization package finalized with IMF, short and medium-term agricultural interest rates (except for agro-industries which increased from 14.4 to 20 percent) remain at 10.5 percent, reflecting the government's strong socio-orientation for poorer farmers. This is a subject which we will need to address further in course of our macro-economic work as well as future lending activities in the sector.

Transport:

11. For the first time in years, the government articulated that investments in railway, highway and port sub-sectors should be tailored to the availability of budgetary resources, and should be undertaken only after intermodal and feasibility studies establish their priorities. Again from a macro-viewpoint, there is a desire to increase tariffs or charges, so as to minimize the recourse to the central budget either to cover operating deficits or investment requirements of various transport agencies, including Turkish Railways. Indeed one of the first actions (and a very necessary step) of the new Transport Minister was to ask TCA (the Transport Coordination Authority) to do a detailed, and what appears to the mission to be an impressive, study to adjust railway tariffs on a rational and comprehensive basis. Actions thereon can be expected in the coming weeks, although it is unclear whether tariff increases will aim at fully, or only partially, eliminating the Turkish Railway's substantial operating deficits which annually average TL 1.5 billion.

Stress

12. Recognition also exists for improved management in various agencies dealing with transport. A demonstration of this new awareness. is the law establishing a National Ports Authority to replace the authorities of different agencies over different ports in Turkey. The draft is now being considered in the Cabinet, prior to its being put up for the Parliament's consideration.

Power:

13. Since energy is considered in Turkey to be a key ingredient for industrial growth and the yardstick by which the Turkish population reacts to general price increases,there is likely to be hesitation in increasing power tariffs by large amounts. However, certain senior ministers not directly connected with energy advised the mission that a decree increasing bulk power tariff from the present average of 74 kurus to close to 90 kurus/kwh, is currently being discussed within the Cabinet. If such a decree is indeed issued, it will imply a user contribution (including income tax paid by TEK) of about 17 percent of the cost of power investments in 1978 of TEK and DSI, against the level of only about 8 percent possible on the basis of current tariffs.

14. Following the mission's discussions, the Government seems inclined to move away from the rate of return formulation and fix tariffs annually to generate user contribution (incl. TEK's income tax) sufficient to cover a reasonable portion of TEK's and DSI's annual investment programs. Following the mission's extensive discussions at professional and political levels, it also appears that the Energy Minister has been persuaded by his Cabinet colleagues to articulate before Mr. McNamara's visit, the foregoing principle in more concrete terms and suggest that from this year onwards, contributions would be gradually and annually increased to reach what the government considers to be a reasonable user contribution (we suggested at least 30 percent) by 1980 or 1981. There was however very clear resistance to articulating such a basic policy, only because of TEK II's effectiveness and Karakaya negotiations might be dependent on this. We made it quite clear that policy understandings would need to find their way into specific loan documents and that the new government should not view this as unilaterally imposed conditions. The mission left it, that the acceptance of the principle of user contribution and the action of a fixing reasonable user contribution etc., should be done not because the Bank suggests it, but as part of the new government's concern to raise resources from non-inflationary methods to cover its investment programs.

how to approach this —

15. It also suggested that to the extent possible for bulk power sales, tariffs could be structured depending on different categories of users as the government did last week while approving a substantial increase in the retail power tariffs for Ankara Municipality. With the increases in retail tariffs in Ankara and Istanbul municipalities, the likelihood of future non-payment of dues by them to TEK should also be minimized. The mission further addressed the problem of municipalities ability to pay for public services such as power in its discussions on urban sector policies (para 2 above).

Cleared with and cc: Messrs. Pollan, Chopra, Faruqi.

cc: Messrs. Paijmans, Benjenk (o/r), Dubey, Bart, Knox (o/r), El Darwish, Haynes, Fuchs, Cash, Elliott, Howard, ffrench-Mullen, Jaycox, Singh, Fish, Div. 2A staff.

AJDavar/HPollan:hr

TURKEY-BANK RELATIONSHIP AND POSSIBLE FUTURE AREAS OF BANK INVOLVEMENT

TOPIC IV

TURKEY - BANK RELATIONSHIP AND POSSIBLE FUTURE AREAS OF BANK INVOLVEMENT
(Reference Material: Annex G (i), (ii), (v-a), (vi) and (vii)

I. Background

1. Against the background of Turkey's long-term development needs and more recent economic developments, the focus of Bank lending should continue to have the following three primary objectives: (i) to diversify and strengthen Turkey's capacity to save or earn foreign exchange; (ii) to help increase public sector savings, particularly through the encouragement of financial and administrative reforms in the State Economic Enterprises, and (iii) to widen participation of the rural and urban poor in the benefits of a growing national economy, through emphasis on rural and urban development designed to create more jobs, increase their incomes, improve their quality of life and avoid or mitigate costly urban congestion. In implementing these objectives, a program of priority projects has been financed, and is being fostered, in the fields of agriculture, energy, rural and urban development, transport and industry. While the relationship between Turkey and the Bank is cordial, it suffers from substantive differences on major sector policy issues, discussed under Topic F (iii), and from resulting difficulties experienced in implementation of ongoing, and preparation of new, projects.

2. FY78 Projects: The priority projects proposed for Bank financing in FY78, have foreign exchange needs far exceeding what the Bank can reasonably provide. For instance, the estimated direct foreign exchange costs of the appraised FY78 projects (Karakaya, Erdemir Steel Expansion, Forestry Development and Livestock IV) is over $900 million; inclusive of the indirect foreign exchange component, it is nearly $1.1 billion. Bank lending to Turkey in the last 4 years has averaged nearly $200million a year. Even if the Bank were to provide $250 million in FY78, and taking into account export credit financing arranged already by Turkey for Karakaya, the shortfall in direct foreign exchange is still over $400 million. Turkey has so far made very little effort to arrange co-financing for these and other projects, despite considerable prodding, pending a settlement with the IMF.

proposed FRG co-fin

Stress ECM & PM

3. Added to this, is a substantial shortfall to cover the increased foreign exchange costs arising from delayed implementation of ongoing Bank projects. These range from a small $9 million for Istanbul Water Supply, to over $100 million for the Elbistan Project. As a matter of policy, the new Government has decided that in calendar 1978, except for a few critical new investments in energy, steel and fertilizer, priority in investment expenditures should be given to completing ongoing projects which are in an advanced stage of completion. To that extent, the ongoing Bank projects should receive the necessary Government financing. However, the funding of foreign exchange for the ongoing, besides the massive FY78 Bank projects (even if only some of these go forward in FY78), will pose an immense problem for Turkey in its present balance of payments situation.

Especially so, when in FY78, Turkey's imports bill is to be sharply restricted and the Government has to find foreign exchange for increased recurrent imports to utilize idle (reportedly 40 percent) productive capacity. In this background, the Government can be expected to press hard for an import program loan.

4. FY79/80 Projects: For the future, to meet Turkey's priority needs, the projects being processed for FY79/80, include Ports Rehabilitation, IGSAS Fertilizer II, Public Sector Textile Modernization, Erzurum Rural Development, with Istanbul Urban, Trans-Turkey Highway etc. being processed for future fiscal years. There will clearly be the need to readjust the future lending program to reflect the Government's social orientation, and to tailor investments under Bank projects to Turkey's social orientation, and to Turkey's domestic and external resources. These adjustments will be necessary even if the Bank agrees to gradually increase its annual lending to $400 or $500 million.

5. The above FY79/80 projects, essentially reflects what appears to be the new Government's present investment priorities: energy, steel, fertilizer, ports and highway development, export-oriented industrial investments and projects to improve the economic and social lot of the rural and urban poor. One might add pollution control in major urban areas, especially Ankara. In the gradually increasing amount of Bank lending, it might be worth considering accommodating in early FY79, an import program loan of about $100 million,designed to help fuller utilization of idle capacity (discussed under G (vii)). The Standby Agreement with the IMF, and the monitoring of the economic stabilization program by IMF, besides discussions with the Bank on key medium-term macro and sectoral matters, should satisfy the policy requirements within the Bank for such a program loan. While some assistance to cover the foreign exchange cost overruns of ongoing Bank projects would be in consonance with the Governments's correct priority to complete them expeditiously, present Bank policy on supplementary financing seems to preclude the possibility of such a loan.

what specific conditions

6. Key Constraints: Future preparation and implementation of a larger program, will clearly require more effective Turkish collaboration and coordination. It would be true to say that the lending program has been possible, so far, because of Bank staff efforts in assisting with identification/preparation which greatly exceeds the norm. Added to this, has been the substantial general supervision effort, in addition to the Joint Problem Project Reviews, to get the growing portfolio satisfactorily implemented. In all fairness, the task has also been a difficult one for the Turks, especially since many Bank projects have been innovative and involved the creation of new organization structures or the coordination of several disparate agencies. From our limited vantage point, the key elements which emerge for strengthening and expanding our relationship with, and program in, Turkey, include: (a) a closer Turkish interaction as between its sector policy formulation and its macro economic objectives; (b) annual budget preparation which takes account of the availability of financial resources, and not just a ministry's or agency's physical capacity to implement desired projects; (c) adequate authority and staffing in the Turkish Coordinating Unit, to mobilize and whenever necessary, bring about a positive response to solving problems on the part of the borrowing entities involved;

(d) adequate delegation of authority to borrowing entities to take decisions such as staffing entailed for implementing projects efficiently, within the agreed framework; (e) clear understanding of the Bank's procurement procedures, including ICB, instead of frequent attempts to circumvent them. Possibly, the establishment of a Coordination Unit in the Prime Ministry, discussed under Topic F (ii), will successfully engender such an approach.

7. Even if the above matters are set right, one can anticipate the following two major problems in future; (a) adequate economic measures to generate sufficient domestic resources, essentially by non-inflationary methods, to provide essential counterpart funds for various projects and a satisfactory debt management policy which would help ensure a reasonable inflow of external funds needed by Turkey without further aggravating its debt service ratio; and (b) the new Government's apparent belief that the Bank should be legitimitely concerned only with matters which ensure a project's success, and not with institutions or policies germane to the sector involved, since policies are the Government's concern and agreements thereon should not implicitly or explicitly reflected in loan documents.

II. Possible Position

8. Mr. McNamara might take the line that Turkey's development potential and needs, support the case for an expanded Bank program. However, to justify a gradual increase in Bank lending from the present level, to say, $400 million or $500 million a year, which would greatly increase the Bank's profile in Turkey's external debt further, the Bank would understandably have to be satisfied that macro-economic policies would be continued, which give promise of restoring the economy quickly to health and keeping it healthy and creditworthy thereafter. If the short-term economic stabilization package with the IMF, together with assurances he has heard during his visit on key medium-term economic issues, reassure him that a larger Bank program would be justified, he might indicate his willingness to proceed on that basis. He should however stress that to continue Bank involvement at that level, it would be essential for the Bank, and mutually advantageous, to exchange views more frequently and openly than has been done so far, and as a matter of routine, on major macro and sector matters.

9. Mr. McNamara might add that if an effective and well staffed Coordination Unit in the Prime Ministry becomes operative soon, he is confident that this type of macro-economic, sector and operational dialogue would become easier, and the Unit would foster better understandings and strengthen relationships further, while efficiently implementing ongoing projects and a largely expanded future pipeline.

10. Mr. McNamara might then indicate that as a special case, and in view of the stabilization package agreed by Turkey with the IMF and prospects of continuing economic dialogue with the Bank, we would be prepared to agree to the early consideration of an imports program loan, without however committing the Bank to it until we have reviewed the economic and sectoral framework. Towards that objective, he should propose that a Bank updating economic mission, backed by the sector specialists needed to review the possible scope of an

But only after steps taken to accelerate implementation of [illegible] with selected policies [illegible] ~750 m [illegible]

Visit with what conditions
I Improved implementation
Existing Proj
II Future Proj Pipeline
III Macro Loan Elements 14 Yr. Devel. Prog.
IV Mobilization OPEC + EEC Funds

imports program loan, visits Turkey in late April. In view of the Bank's difficulties in providing a loan to meet cost overruns on existing projects, he might also suggest that an import program loan would be contingent on the Government's commitment, that the monies in Turkey's import bill which such a loan would replace, would be channelled by the Government to meet the foreign exchange shortfalls in the Bank's ongoing projects in this and the next fiscal year. He might add that the provision of an import program loan in early FY79 and the slippage of one of the FY78 projects into FY79 (as the Government itself might propose) would have to be accommodated in the total Bank lending in FY79.

11. Mr. McNamara should, however, stress the need to anticipate the foreign exchange shortfalls in future investment projects, and urge the Government to explore well in advance of appraisal, the possiblity of obtaining co- or parallel financing for them from commercial and official sources. He might add that the Bank would be ready to assist Turkey in this effort, especially from Arab sources which Turkey has barely tapped so far, but the initiative and imaginative efforts in putting a viable financing package together, should essentially be a Turkish effort.

TOPIC V

NEED FOR CONTINUING POLICY DIALOGUE ON MACRO AND SECTOR MATTERS (Reference Material: Annex G(iii)

I. Background

1. Considering that Turkey is a major Bank borrower in the EMENA Region, the dialogue which the Government has had with the Bank in recent years, on macro and sector matters, has been relatively limited despite repeated attempts to enlarge it. Until recently, policy discussions on economic issues have largely been conducted within the framework of economic missions only. A basic economic mission visited Turkey in May 1973 at the beginning of the Third Five-Year Plan (1973-77). The mission report was published in 1975. Since then, two updating missions have visited Turkey, the last one in April 1976. Despite these missions, the exchange of views with the Turkish authorities on major macro and sector matters has fallen short of needs.

2. In this background, when Mr. Erbakan, Deputy Prime Minister responsible for economic matters in the previous Government, requested a high level policy dialogue mission, despite the reluctance of the Justice Party Finance Minister and his colleagues, the Bank responded by sending a mission led by Mr. Bart in March 1977. The mission discussed economic and sector policy issues, including investment priorities, public sector financing, SEEs' pricing and management, interest rates, and operational issues. These discussions helped to bring to the attention of the highest levels in the Government, the Bank's macro economic concerns with regard to Turkey and the problems and issues which had stymied the Bank's efforts at sector improvement and project implementation. Similar dialogues have been conducted by Messrs. Davar and Pollan, parallel with the periodic Joint Problem Project Reviews. These higher level discussions have been useful, and need to be continued at appropriate intervals in the future.

3. Economic Work. Due to continued political crises in 1977, and the negotiations with the IMF on its Standby Arrangements, the Government has not found it possible to accommodate any economic or sector missions, after the aforementioned Bart mission. Consequently, no Bank updating mission could visit Turkey last year. It might however be noted, that at his meeting with Mr. McNamara during the last Annual Meetings, former Finance Minister Bilgehan issued an invitation to the Bank to undertake a review of the draft Fourth Five-Year Plan (1978-82), so that the Bank's advice could be considered and to the extent possible reflected, before the draft Plan is finalized for the Government's approval. However, the preparation of this draft Plan has been so far held up. Now that the 1978 Annual Program and Budget as well as the short-term economic stabilization package has been agreed with the IMF, the Ecevit government's

attention will now be directed to producing a draft 1978-82 Plan, in which the 1978 Annual Program will be dovetailed as a starting base. It aims at finalizing this draft, in time for it to be approved by the Government and the Parliament by October/November 1978. Whenever the draft is ready, the Bank should offer to undertake its review, in the context of the medium and long term problems and prospects of the economy, along the lines of our basic economic mission in 1973. Indeed, some preliminary preparation work has already been done by the Bank for such an exercise, and a mission geared for such work in late FY78, has been shifted to FY79.

4. Sector Work. The Government has traditionally resisted sector missions. In line with Mr. McNamara's decision during the Management Review of the Turkey CPP in 1976, the Region made the Government fully aware that a review and analysis of sectors of major Bank involvement in Turkey, was essential to provide the policy underpinnings for continued, and perhaps expanded, Bank involvement in those sectors. As a result, after considerable persuasion, the previous Governments grudgingly accepted some sector mission in 1976/77. An Industrial Sector mission visited Turkey in mid 1976, with the limited focus of evaluating problems and prospects for export-oriented industries, together with the identification of export-oriented prospects in the fields of textiles and leather. Similarly, after substantial efforts, agricultural and urban sector missions visited Turkey in late 1976 and early 1977. The cooperation extended to all of them has been checkered. Government's comments on some of the draft reports, have been obtained only after persistent efforts by the Bank. The Bank has long since indicated to the previous Governments, as well as to the new one, its readiness to mount a suitable Energy Sector mission in spring this year. The response has been positive, although no fixed dates have yet been proposed by the Government.

5. Similarly, in April 1975, after considerable persuasion, the Government accepted the Bank's offer of limited technical advice on a financial sector study designed to analyze difficult macro economic problems relevant to the fiscalization of savings and to propose policy alternatives to the Government to ensure sound resource mobilization and allocation. Two Bank missions visited Turkey for these discussions, and helped the Government formulate appropriate Terms of Reference. Various Turkish sub-studies are understood to have since been largely completed by the Government, based on these TORs. However, the Government has avoided discussing with the Bank, the work so far done, despite our repeated efforts. It is however quite possible that the approach of the new Ecevit Government to sector work, sector policy analysis and discussions, might be more forthright and positive. The macro economic aspects, as well as certain sector issues, germane to the Bank operations, are such, that it is essential to establish an understanding with the Government for continuing policy dialogue, and Turkish cooperation on such work, to provide the underpinnings for a largely expanded Bank lending program following economic recovery measures that the new Government may undertake.

II. Possible Position

6. In view of the above background, Mr. McNamara might emphasize the need for continued cooperation and high level policy dialogue on major macro economic and sector issues in Turkey. He may reiterate that while the short-term balance of payment problems, the current liquidity crisis and the articulation of the short-run stabilization policies are matters to be resolved primarily between Turkey and the IMF, the Bank is nevertheless keenly interested in the outcome of these discussions, and more importantly, the implications of these policies over the medium term. He might add that the Government's proposal that the Bank should double its present level of annual lending to Turkey from about $200 million to between $400 to $500 million a year, would rapidly expand the Bank's current position as Turkey's major aid source. It is therefore only appropriate, that with such a larger profile and stake in Turkey, the Bank should be in a position to discuss from time to time with the Government the directions and thrust of Turkey's development and economic policies. He might add that other major developing countries, including major borrowers like India, Indonesia and Brazil, have found an exchange of views with the Bank from time to time on major macro and sector policies matters, to be an immense benefit and value to them. The existence of such a dialogue with the Bank has also created an atmosphere of confidence in the international financing community towards such borrowing countries. This is particularly relevant at a time when Turkey also needs immediate and continuing support from these sources.

7. In this background, Mr. McNamara might wish to suggest that:

(a) once a short term stabilization program has been worked out by Turkey with the IMF, the Bank would wish to update its economic information and analysis, to support the case for the resumption of Bank lending to its Executive Directors;

(b) an expanded Bank program would require a policy dialogue on the medium term growth policy and investment strategy in the context of a review of a draft of the Fourth Five-Year Plan, prior to its being finalized for Government consideration;

(c) the Bank could usefully assist Turkey in its financial sector study and in undertaking work in the future, on major macro issues such as economic policies for stimulating exports, SEE pricing and similar issues; and

(d) it would be essential, in order to pave the way for a larger Bank support to Turkey in the long-term, to maintain a close dialogue between the Bank and the Turkish officials as a matter of routine, say twice a year, on major macro economic and sector issues.

8. It is important, that while making these points, care is taken to assuage the Government's possible reaction that such a dialogue may lead to some dictation by the Bank on matters of economic policy. The accent in making these points might be that such a continuing dialogue is needed between partners in development. This might elicit a more favorable and positive reaction.

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WORLD BANK / INTERNATIONAL FINANCE CORPORATION

OFFICE MEMORANDUM

TO: Mr. Robert McNamara

DATE: March 31, 1978

FROM: Moeen A. Qureshi MAQ

SUBJECT: Your Visit to Turkey - Matters Concerning IFC

1. For your forthcoming visit to Turkey, I thought I would enumerate a few points concerning IFC's role in Turkey which may come up in your discussions with the Government.

2. I understand that negotiations regarding acceptance and implementation of the IMF's proposed stabilization program have just been satisfactorily concluded. Given the economic circumstances prevailing and the fact that recovery in Turkey will be a slow, gradual process, IFC is unlikely to go ahead with recommending any new investments for approval in FY78. As you know, three investments in a very advanced stage of processing have been held up for sometime but we hope to proceed with these early in the next fiscal year. So as to avoid giving the wrong signals, we have held back our promotional efforts in Turkey during FY78 but I am prepared to resume these activities in the very near future once the Government has announced the policies it intends to pursue and the measures it plans to take toward resuscitating investment.

3 In contrast to the very satisfactory relations that we have with project sponsors in the Turkish private sector, some complications have arisen in our dialogue with the Government on matters relating to Law 6224, which could affect adversely IFC's role as an equity investor in Turkey.

4. The problem, in a nutshell, is that we are faced with a somewhat paradoxical situation in the case of two of IFC's clients where IFC has been asked by the Government to dispose of its share at an unrealistically low price and at a time when both these clients are in the market attempting to raise funds for major expansions. Further complications have also recently arisen with respect to rates of exchange applicable for IFC's equity disbursements which could put IFC in a potentially disadvantageous position in making such investments. As a result, two IFC equity commitments (Borusan and Asil Celik) remain undisbursed pending Government legislation.

5. In the event that these matters come up during your discussions with Turkish authorities, I believe it would be most helpful if you could re-affirm that IFC's main concern is to be as helpful as it can in assisting the orderly recovery of the private sector. In this connection, IFC could make a potentially valuable contribution as a shareholder in many instances and that many of the problems which have arisen as a result of implementation of Law 6224 in connection with IFC's equity investment could be resolved if, as in Mexico and some other countries, IFC were regarded as a "local" investor under Turkish law.

6. In this connection, you may also wish to indicate that IFC remains ready to assist the authorities in any areas which they consider to be of high priority. My own view is that IFC could do quite a lot in three key areas: (a) encouraging private interests in the agricultural sector to improve the productivity of some of their processing operations and to invest in ancillary services such as storage and transportation; (b) assisting with the development and expansion of labor industries in the manufacturing sector aimed at exporting to EEC markets which would utilize Turkey's considerable locational low cost labor advantages; and (c) continuing in our efforts to assist some of more creditworthy enterprises to establish their own footing in international capital markets. In addition IFC might have some role in assisting in the development of appropriate policies and investments for developing Turkey's considerable attraction as a tourist area.

7. I had the opportunity to meet Turkey's new Minister of Finance during his recent visit to Washington and I have indicated to him my willingness to visit Turkey, or to send one of my senior colleagues to have a comprehensive exchange of views with the Government regarding IFC's future role and program of work in Turkey.

8. For your convenient reference, I have attached to this memorandum: (a) a summary of IFC's investments as of January 1978; (b) a list of active projects under consideration; and (c) some recent correspondence with the Turkish authorities on the problems I mentioned in paragraphs 3 and 4 above.

ANNEX 1

TURKEY - SUMMARY OF IFC INVESTMENTS
AS OF JANUARY 31, 1978 1/

Investment Number	Fiscal Year	Obligor	Type of Business	Equity	Loan	Total	Held by IFC	Undisbursed Including Participations
				US$ Millions				
64TU, 122TU 149TU, 220TU 245TU, 64-1TU 310TU, 328TU	1964, 1967 1969, 1972 1973, 1975 1976, 1977	Turkiye Sinai Kalkinma Bankasi A.S.	Development Finance	3.32	60.00	63.32	16.25	-
112TU, 155TU 180TU, 211TU	1966, 1969 1971, 1972	Sentetik Iplik Fabrikalari A.S.	Textiles	1.42	3.15	4.57	0.98	-
159TU, 189TU	1970, 1971	Viking Kagit ve Seluloz A.S.	Pulp, Paper and Paper Products	0.67	2.50	3.17	2.39	-
178TU	1970	Anadolu Cam Sanayii A.S.	Glass and Glass Products	1.58	10.00	11.58	7.17	-
184TU, 320TU	1971, 1975	Nasas Aluminyum Sanayii	Aluminum Sheets	1.37	8.58	9.95	5.54	-
248TU	1973	Akdeniz Turistik Tesisler A.S.	Tourism	0.27	0.33	0.60	0.43	-
269TU	1974	Borusan Gemlik Boru Tesisleri A.S.	Steel Pipe	0.64	3.60	4.24	2.93	0.20
281TU	1974	Aksa Akrilik Kimya Sanayii A.S.	Textiles	-	10.00	10.00	7.00	-
	1975	Kartaltepe Mensucat Fabrikasi T.A.S.	Textiles	-	1.30	1.30	1.02	-
299TU	1975	Sasa Sun'i ve Sentetik Elyaf Sanayii A.S.	Chemicals	-	15.00	15.00	5.57	-
302TU	1975	Aslan ve Eskihisar Muttehit Cimento ve su Kireci Fabrikalari A.S.	Cement	-	10.60	10.60	5.55	-
309TU	1975	Doktas Dokumculuk Ticaret ve Sanayii A.S.	Iron Foundry	1.37	7.50	8.87	8.81	-
342TU	1976	Asil Celik Sanayi ve Ticaret A.S.	Iron and Steel	2.83	12.00	14.83	14.83	7.83
			TOTAL	13.47	144.56	158.03	78.47	8.12

1/ Prior to this date the Board of Directors of IFC approved on May 24, 1977 a fourth loan to TSKB of up to US$50 million, of which US$10 million would be for IFC's own account and the balance to be placed with participants.

IFC-E&ME/Finance & Management
March 14, 1978.

Turkiye Sinai Kalkinma Bankasi A.S.

Unaudited accounts for 1977 show a net profit of TL133.2 million compared to TL122.9 million in 1976. At December 31, 1977, TSKB's loan portfolio stood at TL7.5 billion compared with TL5.8 billion in 1976, and the equity portfolio increased to TL472.7 million from TL348.1 million during the same period. Since 1976, TSKB has increased its operations in less developed regions to over 50% of new investments (IFC/R75-39).

Sentetik Iplik Fabrikalari A.S.

IFC has made four investments in this Company, which was formed in 1962 to produce nylon and polyester yarn. The first three investments enabled the Company to expand its yarn capacity from 1,000 mty in 1965 to 8,560 mty in 1972 in successive phases, and to add and later to expand its polymerization plant. The fourth investment, made through a pre-emptive rights issue, was used to finance a further expansion to enable the Company to produce nylon-66 and polyester yarns. The Company operates well. Sales in 1976 reached TL530 million compared to TL403 million in 1975 and profits increased from TL17 million to TL25 million. The 1977 results should be better than those for 1976. IFC is currently arranging for the sale of its shares in SIFAS (IFC/R75-47).

Viking Kagit ve Seluloz A.S.

IFC's investment helped finance the construction of a mill to produce 13,500 mty of tissue and commercial wrapping paper and 5,000 mty of mechanical pulp. The mill was completed in 1971 at cost 50% higher than the original estimate due largely to a 67% devaluation of the Turkish currency during construction and the domestic inflation that followed. The Company has been unprofitable since startup, mainly because of increasing costs of raw materials and controlled domestic sales prices. Additionally, the cost overruns were financed for the most part with debt, which has placed an excessive burden of financial charges on the Company. As a result, Viking defaulted on obligations to its principal creditors. In 1977 the Company's operations and prospects improved resulting in an unaudited net profit of TL59 million. Viking is now current in its interest payments to IFC. Ways to refinance and restructure the Company are being studied. (IFC/R75-21).

Anadolu Cam Sanayii A.S.

The project is to establish a plant to produce 53,000 mty of flat glass and 80,000 mty of clear and amber glass containers at an estimated cost of TL300.7 million. The Company started commercial operations in June 1973, about 10 months behind schedule due mainly to delays in completion of civil work and in the development of the sand quarry. As a result of these delays, together with the devaluation of the Turkish Lira by 67% (August 1970) and additional working capital needs, the Company reported an overrun of TL221.0 million, which has been financed through additional loans and equity. As a result of low levels of production and higher than anticipated operating costs not offset by increased sales prices, the Company's accumulated losses amounted to about TL200 million through 1975. In 1975 arrangements were made for Turkiye Is Bankasi (TIB) to acquire a 30% interest in ACS through a share capital increase. At the same time an agreement was made to market ACS' products jointly with those of the glass companies owned by TIB. A plan to reschedule the maturities on loans from ACS' major creditors, including IFC, has been implemented. With its first year of profitable operations in 1976, ACS has benefitted from the financial and organizational restructuring, and an unaudited net profit of TL94.8 million was achieved in 1977.

Nasas Aluminum Sanayii ve Ticaret A.S.

IFC has made two investments in the Company which was established in 1969 to make aluminum sheet and foil products. The Company has now a capacity to process 21,000 mty of aluminum ingots into 15,000 tons of sheet and 6,000 tons of foil products. During 1976, the Company's total sales increased from TL374 million to TL604 million and net profits increased from TL29 million to TL62 million. Results for 1977 are expected to show an improvement over 1976. IFC is currently arranging for the sale of its shares. (See Annex II for Nasas Expansion II). (IFC/R76-56).

Akdeniz Turistik Tesisler, A.S.

Construction of the 700-bed vacation village on Turkey's Mediterranean coast was completed in 1974 at a cost of US$5.5 million, compared with an original estimate of US$4.1 million. The Company has incurred small losses during its initial years of operation but achieved a small profit together with higher occupancy in 1977. Prospects are improved in light of the recent association of Club Mediterranee with the venture (IFC/R75-77).

Borusan Gemlik Boru Tesisleri A.S.

The project is to construct a new plant to produce 120,000 mty of welded steel gas and water pipe. The plant has been completed at a cost of TL300 million, twice the original estimate. IFC is exercising pre-emptive rights in connection with a share capital increase intended to cover 25% of the project cost overrun, although IFC's subscription is pending Government approval. The balance of the overrun is being covered by additional medium and longterm loans. After an initial loss of TL29 million in 1975, Borusan's profitability improved slowly in 1976 and 1977, but production reached only 38% of capacity in 1977. (IFC/R76-62).

Aksa Akrilik Kimya Sanayii A.S.

The project is to expand the Company's facilities for the production of acrylic fiber from 9,000 mty to 25,000 mty. The project has been completed at a cost of TL665 million as compared with the original estimate of TL725 million. The reduction was mainly due to revaluation of the Turkish Lira with respect to the Italian Lira. During 1976, Aksa's sales increased from TL376 million to TL546 million and net profits increased from TL 19 m8llion to TL47 million. The performance during 1977 is expected to exceed that of 1976. (IFC/R76-56).

Kartaltepe Mensucat Fabrikasi T.A.S.

The project consists of the construction and operation of a new integrated textile plant with capacity for about 2,400 mty of yarn and about 10.6 million meters per year of woven material. The mill also has capacity for finishing, dyeing and printing of between 15 to 20 million meters of fabric per year. Total project cost was estimated at TL266 million. The project was completed at a cost close to the original estimate early in 1976. The Company is currently experiencing a price-cost squeeze, exacerbated by labor unrest. It has remained current on its debt servicing.

Sasa Sun'i ve Sentetik Elyaf Sanayii A.S.

The project is to construct and operate a new plant to produce 60,000 mty of dimethyl terephalate (DMT) as a raw material for its existing operations. Project cost is estimated at TL687.5 million of which IFC and a participant are providing US$15.0 million in loans. The project was completed in the third quarter of 1977 with an anticipated 46% overrun. SASA's operations regained profitability in 1976 after a loss in 1975 due to a downturn in the textile market. Profitable operations were achieved in 1977, and are expected to continue in 1978. SASA has made additional borrowings to cover its cashflow shortfall and cost overruns (IFC/R75-41).

Aslan ve Eskihisa Muttehit Cimento ve Su Kireci Fabrikalari, A.S.

The project is to expand and modernize an existing cement plant. The project was completed by August 1977, eight months behind schedule at a cost which exceeded the originally estimated TL413 million by about 33%. Owing to the cost overrun and unexpected losses caused by increased operating costs and controlled cement prices, the Company experienced financial difficulties. It has increased its share capital and has benefitted from a recent increase in cement prices of about 78%. It is current in its payments to IFC.

Doktas Dokumculuk Ticaret ve Sanayii A.S.

The project is to construct and operate a foundry for the manufacture of gray iron castings for the Turkish tractor and automotive industries. The project was completed in early 1977 at a total cost of TL593 million, about 24% above the original estimate. The loan portion of the investment was approved in 1976 by the Turkish Government and approval of the equity portion was granted in mid 1977. Doktas experienced marketing difficulties in its first year of operations due to a downturn in the domestic automotive sector arising from foreign exchange restrictions on imported components, resulting in an unaudited loss of TL58 million. (IFC/75-12).

Asil Celik Sanayi ve Ticaret A.S.

The project is to construct and operate a plant for the production of 80,000 mty of special steels for the Turkish automotive, tractor and commercial vehicle industries. The project cost is estimated at TL1,527.4 million as a loan and about US$4.1 million in equity, Japanese suppliers credits (US$38.1 million) and local loan and equity sources. The project is expected to be completed in mid 1979. Approval of the loan portion of the IFC investment was granted but approval of the equity portion is still pending issuance of a Government decree. (IFC/R76-32).

TURKEY

ACTIVE PROJECTS

PROJECTS UNDER CONSIDERATION

Istanbul Segman Sanayi A.S. (Isas): The project envisages a new plant for the production of 12 million piston rings and 1.2 million cylinder liners for gasoline and diesel engines used in passenger cars, trucks, tractors and buses. The plant will be located near Adapazari about 140 km east of Istanbul, and is scheduled for completion in September 1979. During March 1977 an IFC appraisal mission identified the issues related to the project, primarily licensing and technical assistance arrangements and selection of equipment. The total project cost was estimated at about $38 million, of which $23 million is required in foreign exchange. IFC has been requested to consider an equity participation of about 10% and to provide a longterm loan of about $8 million.

NASAS (Expansion II): We are considering Nasas' proposal to further expand capacity for mill rolled sheet to approximately 45,000 tons. Of the additional 22,500 tons capacity, 15,000 tons is to be sold as coiled strip and sheet fabricated products, while the remainder is to be fabricated into containers (4,200 tons) and finished strip (3,300 tons). The project cost is estimated at $23 million including a foreign exchange component of about $19 million for which an IFC loan has been requested. We are considering loan contingent on the sale of participations with about $7.5 million held by IFC. The project implementation has been made subject to the sale of IFC's shares to Turkish investors through the mechanism of the Certificate of Encouragement which would make the project exempt from import duties. IFC was contemplating such sale in any event, but the price at which the Turkish Government will permit repatriation of the proceeds is too low and new negotiations will be necessary. Consequently, work on the project has been halted temporarily.

Tekfen/Toros Fertilizer Project: We have taken a preliminary look at a proposal to establish a 330,000 mty NPK compound fertilizer plant near Ceyhan in southern Turkey. The project cost estimated by the sponsors is about $23 million including a foreign exchange component of about $9 million. We might consider making an investment of about $5 million in loan and equity, pending satisfactory economic evaluation of state-controlled product pricing and input contracting that influence the profitability of the industry.

Polifan OPP Film Project: We are considering this project developed by TSKB as an opportunity to invest in a less developed region of Turkey (Trabzon). The project is to set up a plant to produce 3,200 mty of OPP film, a clear plastic wrapping material, used as a superior substitute for cellophane wrapping. The project cost is estimated at about $15 million including a foreign exchange component of about $8 million. We envisage a loan of about $4 million from IFC and the balance from TSKB (on IBRD sub-loan). An IFC participation of 10% in the equity has also been requested.

Ege Mosan Loan

On May 20, 1977 we telexed the Ministry of Finance seeking their no objection to the proposed loan to Ege Mosan to establish a new plant for the manufacture of moped engines near Izmir. By telexes of June 3, 1977 and August 25, 1977 we learned that their affirmative response was delayed due to a delay by the Ministry of Industry and Technology in approving the licensing agreement between the company and Peugeot of France.

We should seek a status report on the likely timing of this approval in order to schedule our Board presentation.

Other Projects: We have identified a number of projects for some of which feasibility studies have been provided including float glass, steel reinforcing bars, textiles, shipyard, pharmaceutical capsules, a forge and heavy earthmoving equipment, gear manufacture, diesel engines and tractors.

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International Finance Corporation

1818 H Street, N.W.
Washington, D.C. 20433
U.S.A.

(202) 393-6360
Cable Address: CORINTFIN

March 21, 1978

Mr. Vural Gucsavas
Secretary-General
General Directorate of the Treasury
and the International Economic Co-operation
Organization
Ministry of Finance
Ankara
Turkey

Dear Mr. Gucsavas:

I was pleased to learn of your appointment as Secretary-General in the Treasury and we in IFC look forward to working with you on issues of mutual interest.

I am writing to you now to bring to your attention an issue which IFC currently faces in its operations in Turkey. This issue is related to the sale of shares held by IFC in two Turkish companies and is explained in detail in the attachment. I am concerned that IFC's role and posture in this matter might be misunderstood and that unless this issue is resolved, it could limit our effectiveness at a time when we are most anxious to be of help.

The problem is very briefly as follows. IFC had reached an agreement with Turkish investors to sell its shareholdings in two Turkish companies, (Nasas Aluminyum Sanayii ve Ticareti A.S. and Sentetik Iplik Fabrikalari A.S.) in which IFC is both an equity partner and a lender.

The price which had been agreed would have given IFC a responsible return on its investment in dollar terms, and which was equally attractive to the potential buyers given the local market price and the future prospects of the companies. I am informed that when these sales proposals were reviewed by the Ministry of Finance, it determined sales prices for remittance purposes that resulted in proceeds to IFC that were below our offers and considerably below the market price in Turkey. For reasons that are explained in the attachment, I could not propose a sale under these conditions to our Board of Directors because I could not justify the prices that were set by the Ministry.

The situation is now complicated by the fact that both companies are contemplating expansion projects. In the Certificates of Encouragement that were issued to them by the Government, it was indicated that they could proceed to expand their capacity only if IFC first divested itself of its equity in these companies.

We were puzzled by this requirement because IFC has a firm policy of investing only with Government approval and of selling its investments to Turkish investors when they have reached a mature stage.

I am concerned about this matter because it is my continuing endeavour to have full understanding and agreement between the Government of Turkey and IFC on the policies that we pursue in Turkey. These policies are common to all our member countries and are designed only to assist in their economic development. I would therefore very much appreciate it if the issue indicated in the attachment could be examined and that we try to find a solution.

Thank you for your assistance and I look forward to your reply.

With best personal regards,

Yours sincerely,

Moeen A. Qureshi
Executive Vice President

Encls.

cc: Mr. Jacques de Groote, Executive Director
Mr. Tunc Bilget, Alternate Executive Director
Mr. Asaf Guven, Economic Counsellor, Embassy of Turkey

IFC SHARE SALES

In early 1977, IFC reached a tentative agreement with Turkiye Sinai Kredi Bankasi (TSKB) and Mr. Kamil Yazici, who was acting on behalf of a group of shareholders, to sell to each one half respectively of the 19,050 shares of NASAS held by IFC. Almost simultaneously, an agreement was reached with Taylan Holding and Halifleks, on behalf of other shareholders of SIFAS, to sell its 7,550 shares of SIFAS. IFC extended formal offers to these Turkish investors on July 29, 1977 (NASAS) and August 1, 1977 (SIFAS), respectively. Copies of the agreed terms were sent by telex to the Ministry of Finance in September 1977 (Attachment II). The terms and conditions were provided in the investment summaries of NASAS and SIFAS, respectively, which are attached as Attachments III and IV.

Once agreement was reached on the price, details of the transaction were reviewed by the Ministry of Finance to determine whether the agreed price was appropriate in terms of determining remittance to IFC of the proceeds of the sale. In the interim, the time limit on IFC's offer expired and there was a 10% devaluation. IFC was recently advised of the price for both NASAS and SIFAS shares that the Ministry has determined as reasonable for remittance purposes.

Since the time of IFC's offers in July, considerable time has elapsed and we no longer consider our earlier offers as representing an appropriate or fair price. The values set by the Ministry, in our view, do not reflect the values of NASAS and SIFAS as going concerns. Moreover, there has now been a further alignment of the Turkish Lira as a result of which the dollar proceeds are significantly less than that agreed with the buyers. Finally, the sales would, at the established price, be considerably below market value in Turkey and would provide IFC with a return which is simply too low given the present and projected outlook for both companies.

Our understanding that the Ministry's determination of a reasonable price for repatriation purposes is essentially based on a calculation of the net worth of the Company divided by the shares outstanding. In determining whether an offer to buy is fair, IFC of course, in addition to book value, looks at other important parameters such as the going market price for the shares, prospective earnings of a company, as well as its returns to date. To conclude, IFC has told NASAS and SIFAS that it cannot accept the price determined by the Ministry of Finance.

The situation is complicated by the fact that NASAS and SIFAS wish to expand their production and that the Certificates of Encouragement which they receive for their expansion plants, contain an explicit condition that IFC sell its shares in NASAS and SIFAS, respectively to Turkish investors within a period of nine months. IFC does not understand the reason for the inclusion of such condition in the Encouragement Certificate - since it is in any event IFC's firm policy to sell our shares at an appropriate time to Turkish investors at prices mutually agreed by buyer and seller - and is now in the unfortunate position of having become an obstacle to expansion plans of NASAS and SIFAS since IFC is unable to sell the shares at the price determined by the Ministry of Finance.

IFC, in encouraging private enterprise in the developing countries, considers investment proposals from two points of view: that of an investment banker and that of a development institution. Every project in which IFC invests meets three basic conditions:

(1) it is expected to earn a profit;

(2) it should benefit the economy of the host country; and

(3) local investors should participate in the project.

IFC can, and does, control to a large extent the conditions under (2) and (3). IFC's past performance in Turkey with regard to the sale of its shares to local investors after a project has become operative and has established a stable record of sales and earnings, demonstrates that we are ready to dispose of the shareholding to local investors as soon as this can reasonably be done. IFC does not contemplate any change of this policy and will continue to promote eventual full local ownership of the companies in which we have made equity investments.

The return to IFC on its equity investments is derived solely from the dividend payment and receipts from capital gains when the investment is sold: IFC has no side benefits. IFC, like other local investors experiences both profits and losses on its equity investments and endeavours to have, as a general rule, a sufficient number of profitable ventures to cover losses in the less successful ones. On the whole, this is the case with our Turkish portfolio as well.

IFC has at several occasions discussed with officials of the Ministry of Finance the possibility of providing recognition of the special status of IFC from the various provisions of Law 6224 or the promulgation of special new legislation for IFC, which would equal IFC's position to that of local investors and would immensely facilitate IFC's investments in Turkey. Needless to say, IFC would still seek prior approval of the Government of Turkey for each investment and would continue to seek guidance for its general operations framework.