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DEPARTMENT OF STATE
AGENCY FOR INTERNATIONAL DEVELOPMENT
Washington, D.C. 20523

CAPITAL ASSISTANCE PAPER

Proposal and Recommendations
For the Review of the
Development Loan Committee

TURKEY: SINAI YATIRIM VE KREDI BANKASI A.O.

(SYKB)

277-24-920674

AID-DLC/P-1091

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June 6, 1973

MEMORANDUM FOR THE DEVELOPMENT LOAN COMMITTEE

SUBJECT: Turkey: Sinai Yatirim ve Kredi Bankasi A.O.
(SYKB)

Attached for your review are the recommendations for authorization of a loan in an amount not to exceed \$9.0 million to the Government of Turkey, such funds to be made available by a reloan to Sinai Yatirim ve Kredi Bankasi A.O. (SYKB), a Turkish corporation, for use by SYKB for medium-term and long-term subloans to private Turkish entities for industrial sector projects and to finance the services of consultants to advise SYKB and sub-borrowers on matters related to its or their operations.

This loan proposal is scheduled for consideration by the Development Loan Staff Committee at a meeting on Monday, June 11, 1973.

Development Loan Committee
Office of Development
Program Review

Attachments:

Summary and Recommendations
Project Analysis
ANNEXES I - XIV

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TURKEY: SINAI YATIRIM VE KREDI BANKASI A.O.
(SYKB)

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SUMMARY AND RECOMMENDATIONS
SINAI YATIRIM VE KREDI BANKASI A.Ö.

1. **Borrower:** The Government of the Republic of Turkey (GORT)
 2. **Amount:** \$9,000,000 (Nine Million Dollars)
 3. **Loan Terms:** The GORT will repay unconditionally in U.S. dollars over 40 years, including a 10-year grace period, the amount disbursed in U.S. dollars, with interest on the outstanding amount of the loan of 2% per annum during the grace period and 3% per annum thereafter. The GORT will reloan the loan funds in dollars to Sinai Yatirim ve Kredi Bankasi (SYKB). The terms of this reloan are discussed in Paragraph 5 below.
 4. **Description of Project:** The loan will enable SYKB to make subloans in U.S. dollars to private Turkish entities for investment projects in industrial sector. Subloans in excess of \$250,000 will be approved by A.I.D. The subloans shall be used for procurement of materials and services from the U.S. and from Code 941 countries. Loan funds may also be used to finance the services of U.S. and Code 941 country consultants related to the operations of SYKB and of sub-borrowers. The subloans shall be medium or long-term with a repayment schedule of not less than three years nor more than ten years. In no event shall any repayment of any part of any subloan be due later than fifteen (15) years from the date of the first disbursement under the loan.
 5. **Terms of Reloan:** SYKB shall repay the principal to the GORT in amounts due from, or prepaid by, the sub-borrowers on dates of maturity of installments of each individual subloan. SYKB shall pay interest to the GORT semi-annually at a rate yet to be determined in negotiations between the two; it is anticipated that the rate will be 6½%, the level applicable to Loan H.087, with consideration to be given to lowering the reloan interest rate to SYKB for subloans made in specified "underdeveloped" areas of Turkey, as defined in the Turkish Third Five-year Plan (TFYP). All reloan terms will require approval of A.I.D., as will any amendments.
- Subloan borrowers will bear the risk of exchange rate fluctuation. All repayments of principal and payments of interest will be made in Turkish lira, or such other currency as is legal tender in Turkey at the time such repayments or payments are due. The amount of these payments and repayments shall be stated in U.S. dollars and be paid in the amount of

currency of Turkey equivalent to the U. S. dollar amount computed on the basis of the official rate of exchange (at which dollars are sold for Turkish currency) prevailing on the date on which the payments or repayments fall due. Subloan borrowers shall be responsible for the full amount of Turkish currency due until such repayments or payments are actually paid to the GORT by SYKB.

6. Purpose of Project: This project is designed to: (a) further assist SYKB in becoming a full development bank, (b) motivate SYKB to place greater emphasis on developing and assisting projects in the less developed areas of Turkey, and (c) assist private industry in Turkey to achieve further expansion commensurate with the goals of the TFYP. In connection with (c), it is anticipated that aiding private industry will promote the more rational allocation of resources by increasing the use of the price system and other market mechanisms for determining those allocations, and that channelling the funds through one of Turkey's development banks will enhance the prospects for more productive investments with funds made available from the loan.

7. Background of Project: SYKB was established in 1963 by five Turkish commercial banks for the purpose of providing medium and long-term loans in Turkish lira to private sector industries. During its first five years, SYKB limited its activities to the extension of working capital loans. In 1967, the bank decided to expand its activities to include investment capital loans and to obtain foreign exchange resources to finance a wider range of capital equipment and services for its borrowers. Accordingly, a request was made to A. I. D. for a dollar loan to the bank (A. I. D. had previously loaned SYKB over \$8 million^{1/} equivalent in Turkish lira funds). The result was Loan 277-H-087 for \$5 million to SYKB, to be reloaned to Turkish private industry to purchase goods and services in the U.S. Since that time, SYKB's investment capital lending program has steadily increased. After a slow start, the disbursement of Loan H-087 proceeded quite expeditiously; it was fully committed by the end of the first quarter of 1973. During the period of implementation of Loan H-087, SYKB has increased its overall competence and expanded its perception of its role as a full service development bank in the context of Turkey's present stage of development. SYKB has recently become a Cooperating Financing Facility

^{1/} Computed at TL 14 = \$1 currently in effect.

of the U. S. Export-Import Bank and has gained thereby a \$4.4 million line of credit for use by its customers.

8. Ex-Im Bank Interest: On May 3, 1973, Ex-Im Bank advised A. I. D. that it had no interest in increasing the amount of its participation in SYKB financing, and has no objection to this proposed A. I. D. loan.

9. Mission Views: The Mission fully endorses the proposed loan.

10. Statutory Criteria: Satisfied--see Annex XIII.

11. Issues: None

12. Recommendations: That a loan not to exceed Nine Million Dollars (\$9,000,000) be made to the Government of Turkey, such funds to be made available by a reloan to Sina Yatirim ve Kredi Bankasi (SYKB), a Turkish Corporation, for use by SYKB for medium-term and long-term subloans to Turkish private industry for investment and investment-related purposes. This loan to be subject to the following terms and conditions:

1. Terms of Repayment and Interest:

(a) SYKB shall pay to the Government of Turkey in the currency of Turkey:

(i) Principal amounts, equal in the aggregate to the principal amount of this loan, within fifteen (15) years from the date of the first disbursement under the loan; and

(ii) Interest at the rate not to exceed six and one-half percent (6½%) per annum on outstanding principal amounts payable under this loan to the Government, computed on disbursed funds.

(b) The Government of Turkey shall pay to A. I. D. in United States Dollars:

(i) The disbursed amount of the loan within forty (40) years from the date of the first disbursement under the loan, including a grace period of not to exceed ten (10) years; and

(ii) Interest at the rate of two percent (2%) per annum on the disbursed balance of the loan for the ten (10) years following the date of first disbursement and three percent (3%) per annum on the outstanding balance thereafter.

2. Other Terms and Conditions:

(a) Equipment, materials and services financed under the loan shall be procured from the United States and Code 941 countries.

(b) Submission of a reloan agreement between the Government of the Republic of Turkey and SYKB, acceptable to A. I. D.

(c) Such other terms and conditions as A. I. D. may deem advisable.

Loan Committee:

AID/W

USAID/TURKEY

Loan Officers

Jon R. Baughman
Zachary M. Hahn

Economists

Charles K. Maun

Desk

Counsel

SYKB/TURKEY

- 1 -

INTRODUCTION

The Government of Turkey has requested a loan of \$9,000,000 from A. I. D. for relending by Sinaî Yatirim ve Kredi Bankasi, A. O. (SYKB) to Turkish private enterprise for industrial projects. This Capital Assistance Paper appraises SYKB in connection with this request and focuses on related developments in the Bank and the Turkish economy since the previous A. I. D. Loan 277-H-087 to SYKB was authorized in June 1968.

SYKB was established in 1963. It is one of two private industrial banks in Turkey. A. I. D. previously has made four Turkish lira loans (\$8.1 million equivalent at the current exchange rate) and a \$5.0 million foreign exchange loan (A. I. D. Loan 277-H-087) to SYKB.

A. Background of Present SYKB Application

SYKB was founded in 1963 by six Turkish commercial banks to help meet the rapidly growing demand for medium and long-term funds for industrial investment (see Section B, Description of SYKB, below). In 1964, A. I. D. made its first loan to SYKB, TL 60 million from counterpart funds to be used in making working capital loans. In late 1967, A. I. D. made two further counterpart loans to SYKB in the amounts of TL 15,000,000 and TL 2,901,901, and arranged for an eventual transfer to SYKB from Türkiye Sinaî Kalkinma Bankasi (TSKB) of over TL 35,000,000 from the "Industrial Exports Working Capital Fund" that had been originally established with TSKB out of counterpart funds. TSKB will transfer these funds to SYKB as they become available from repayments on loans TSKB has made from the Fund.

These infusions of money into SYKB were in the form of loans bearing either 4.5 or 5.0% interest. In 1969, the amount of principal outstanding on all of these loans was converted into two "quasi-equity" loans, one of TL 54,000,000 and the other of TL 47,141,353--a total of TL 101,141,353. Repayment of principal was spread over 15 and 25 years respectively and a ten-year grace period was granted; repayment of these loans was subordinated to all other debts of the Bank. This arrangement was designed to help the Bank improve its debt/equity ratio and qualify it for an A. I. D. dollar loan.

Negotiations for SYKB's first foreign exchange loan were begun with A. I. D. in 1968. This loan (A. I. D. Loan 277-H-087) was authorized by A. I. D. in June 1968 in the amount of \$5.0 million. The Loan Agreement was signed on September 17, 1969. SYKB authorized the initial subloan under the Agreement in November 1970. The delay between loan approval and the initial implementation of the loan was attributable to loan-related negotiations and, subsequently, the mechanics of implementing an arrangement satisfactory to A. I. D. for improving the debt/equity ratio of the Bank.

These initial difficulties were followed by a period of stagnation in private fixed investment in 1970 and 1971 resulting from mounting political unrest in the country which culminated in March 1971 in the introduction of martial law. SYKB's ability to respond to improved business conditions as the political situation stabilized is evidenced by its increasing rate of utilization of Loan H-087 resources: by the end of 1970, SYKB had committed only \$77,804; the end of 1971 saw \$360,528 committed; and by the end of 1972, SYKB had committed \$3,401,277. As of the end of the First Quarter 1973, the \$5.0 million was fully committed. A detailed list of subloans made by SYKB from Loan H-087 is attached as Annex VI. The experience gained under difficult circumstances in placing Loan H-087 resources and the resurgence of demand for fixed investment credits fueled by Government policies which make industrialization the top priority of the Third Plan Period (1972-1977) are the basis for SYKB's recent request to A. I. D. for a new loan of \$9.0 million.

In approving the previous \$5.0 million loan to SYKB, A. I. D.'s specific objectives were to (a) assist in the expansion of a full-range second development bank for Turkey, and (b) broaden the base for development loans in the future as the industrial development of Turkey proceeds and accelerates. SYKB was selected as a logical competitor to the then existing development bank--TSKB--because SYKB's unique "Founder Bank" arrangement (see Section D.8 for further details) assured it the continuing availability of Turkish lira. Lack of adequate TL resources has been a chronic problem for TSKB, with the result that this bank, although maintaining adequate sources of foreign exchange for re-lending, has experienced difficulty in financing projects where a high component of TL was necessary.

In retrospect, relative to a continuing supply of available TL, A. I. D.'s decision to support SYKB as a second development bank was a good one. Not only has the Founder Banks' arrangement provided the planned sources of TL, but in addition SYKB has aggressively pursued alternative sources of TL financing, particularly the rediscounting arrangement currently in effect with the Central Bank of Turkey (see Section D. 8 of this paper for a more detailed description of the rediscounting arrangement).

Implicit in the original A. I. D. goals of assisting in the creation of a full-fledged second Turkish development bank were the following criteria:

- (a) That the Bank's subloans would give priority to projects favored by the Turkish Five-Year Plans, i. e. those having a high ratio of value added, with favorable balance of payments influences.
- (b) That the Bank would assume a greater role in promoting new industrial ventures through the appropriate channels of technical assistance, equity participation and emphasis on ventures in less-developed regions of Turkey and/or ventures where potential developmental gains are accompanied by greater than average risks.
- (c) That the Bank would "broad-base" its sources of foreign exchange thus offering diversified world-wide purchasing potential to the borrower.

In assessing the performance of SYKB as measured against the above implicit criteria, the Bank has made considerable progress. Further progress in reaching the desired status will require additional donor resources on terms and conditions that will enable it to diversify its lending activities and pursue developmental objectives with inherently greater risks.

A review of the Bank's subloans made from the proceeds of A. I. D.'s previous \$5.0 million loan indicates that the developmental criteria noted in item (a) above have been followed. The majority of loan resources have

been employed in financing export-oriented industries which have qualified for various GORT inducement incentives given to firms whose projects are of a high priority (as defined by the GORT) to the Turkish economy.

Neither SYKB nor TSKB has made significant progress in developing/promoting projects in the non-urban, less-developed areas of Turkey. For example, about 85 percent of the loans SYKB has made during the past ten years are concentrated in the industrial areas of Istanbul, Izmir and Adana (see Section D. 3). The older, more experienced TSKB has a similar, although less pronounced, pattern (see Annex IX of the IBRD's TSKB appraisal Report 16a-TU dated December 7, 1972). While this concentration reflects safe investments at an acceptable rate of return, it is also a logical response to a number of risk variables that the Bank feels are beyond its control (e. g. the absence of supportive infrastructure required for industrial projects in the rural regions, the critical shortage of management skills and trained workers, and the distance from markets) that preclude at the present time the development of "bankable" projects on a broad scale. With the demand for foreign exchange funds exceeding the supply, SYKB's management prefers to keep risks at a minimum by serving the areas it knows best.

A. I. D. is persuaded that its objective of assisting SYKB to become a true development bank is not irreconcilable with the policies of the Founder Banks which stress optimal return on investment consistent with security. We view the proposed loan as a means to move the Bank toward a broader developmental outlook and we will encourage it, with appropriate conditions and covenants, to follow the lead of TSKB--the principal competitor of SYKB in this area--in developing a "new business" capability. TSKB, in recent years, has opened Branch Offices in the key regional cities of Izmir, Adana and Elazig. In addition, they have created a department to survey other regions of Turkey for potential projects and assist local businessmen to develop detailed proposals. These initiatives by TSKB, to a large extent, are the direct result of foreign donor persuasion, particularly from the IBRD. While the magnitude of A. I. D. assistance serves as less an inducement to SYKB than the IBRD loans did to TSKB, SYKB officials have reacted favorably to A. I. D. proposals to accelerate lending in less-developed areas of Turkey (see Section E. 1).

On the third aspect of reaching the status of a full-fledged development bank, viz that of acquiring additional sources of foreign exchange, SYKB has recently received GORT permission to obtain a "Cooperative Financing Facility" (CFF) line of credit from the U.S. Export-Import Bank. This CFF facility provides SYKB with an additional \$4.4 million line of credit. Although this provides additional resources for SYKB, it still limits sub-borrowers to U.S. source and origin equipment. Informal efforts by SYKB to obtain loans from the IBRD and the European Investment Bank have been unsuccessful. The Bank intends, however, to pursue contacts with these organizations and to explore other opportunities with various European lending institutions in order to increase the amount of foreign exchange for lending and to diversify its sources.

B. Description of SYKB

1. Official Name: Sinal Yatirim ve Kredi Bankasi, Anonim Ortakligi, which translates as Industrial Investment and Credit Bank, Ltd.

2. Address:

Mail: Sinal Yatirim ve Kredi Bankasi, A. O.
Istiklal Caddesi 108/3, Beyoglu
Istanbul, TURKEY

Cable: YATIRIMBANK/ISTANBUL

3. History:

SYKB was organized as a privately owned and operated development bank on March 22, 1963, by the following five commercial banks:

Turkiye Is Bankasi, A.Ş.
Omanli Bankasi, A.Ş.
Akbank, TAS
Türkiye Vakiflar Bankasi, T. A. O.
Türkiye Garanti Bankasi, A.Ş.

(At the time of foundation, there was a sixth "Founder Bank," Türkiye Kredi Bankasi, A.S., but it was liquidated shortly after SYKB's founding and its shares in SYKB were sold to the remaining five Founders.)

The Founder Banks recognized that the development of Turkish industry was seriously hampered by the lack of longer term funds to be used for industrial investment. No effective capital market had developed in the country to allow industries to finance development from the sale of stocks and bonds. This situation had left most aspiring industrialists no option but to attempt to finance development investments through a series of short-term loans. As a result, during periods of even relatively mild economic downturns (and especially during the devaluation of 1958), many industries were severely pinched. This in turn led to great fluctuations in the growth of Turkish industrial development. The obvious remedy for this situation was the development of a more effective longer term capital lending market in the country. The nature of the problem was generally recognized by financial circles in Turkey, and the first Five-Year Plan stressed the need for its effective solution.

As part of the solution to this problem, the Founder Banks, with encouragement from the Government of Turkey, decided to establish an institution which would provide medium-term loans for working capital use to private sector industrial companies. As was the case with TSKB, these loans would be made only after careful investigation of all project aspects--including financial, engineering and economic (with a particular view to their developmental effects)--by qualified specialists. After four years of experience, and after examining the economic situation in Turkey, in 1967 the Board of Directors decided to expand their operations to include investment capital loans as well as working capital loans. They also decided that in order to broaden the possible sources of capital equipment needed by firms who wished to borrow SYKB money for expansion they would attempt to gain foreign exchange resources to be used in their investment capital lending program. This was the reason for the approach to A.I.D. which eventually resulted

in the establishment and implementation of Loan H-487. One of the chief motives for this expansion of the Bank's operations was an expressed desire to give priority to industries which were export-oriented and would improve Turkey's balance of payments situation.

At the time of SYKB's founding, its capital was authorized as TL 40 million, divided into 4,000 shares valued at TL 10,000 each. Fifty percent (TL 20.0 million) of the share value has been paid in. This capital structure has remained unaltered since the Bank's foundation in 1963. Is Bankasi is by far the largest shareholder, with 64.20% of the shares; the next largest holding is 10.30% by Osmanli Bankasi. Exact details concerning the shareholding pattern can be found in Annex I. The Board of Directors reflects this pattern and its full listing is found in Annex II.

The growth of SYKB since its start of operations in 1963 has been impressive. Assets have increased from TL 78 million to TL 821 million at the end of 1972. By that time, the Bank had approved 756 Turkish lira loans totaling TL 1,549 million. 495 of these loans were from the Bank's own resources and amounted to TL 1,391 million. The remaining 261 of these loans were from A.I.D.-arranged TL resources, amounting to about TL 158 million. Cumulatively, SYKB has made about 62% by value of its TL loans for working capital loans and the remainder for investment capital. Since the start of its investment capital lending program, however, the percentages of totals are just about even between the two categories. During 1972, working capital loans accounted for about 68%. The Bank attributes this relatively low level in its investment capital lending program during 1972 to the GORT's slower pace in implementing its inducement measures to industry during the year.

In addition to its TL lending program, the Bank lent \$3,401,277 in A.I.D. foreign exchange funds through the end of 1972. This is equivalent to TL 47,617,878.

4. Legal Basis: Having first been agreed by all of the Founder Banks, the Articles of Association of SYKB were ratified by decision of the Council of Ministers, dated January 28, 1963 (No. 6/1355), when permission was granted for formation and operation of the Bank. The Articles were published in the Commercial Registry Gazette of Turkey on March 16, 1963, and on March 22, 1963, the Constituent Meeting of the General Assembly of Shareholders was held, following which the Bank commenced operations.

The formation of SYKB was thus completed pursuant to the provisions of the Turkish Commercial Code. The Bank is administered according to the provisions of the Banking Law for Development and Investment Banks and the provisions of the Articles of Association.

The "objects" and operations of the Bank are set forth in Article 1 of the Articles of Association, and (in translation) read as follows:

"The objects of the formation of the Bank are as follows:

To provide private industry already existing, or to be set up in Turkey in the future, with medium-term investment loans and working capital loans;

To encourage the participation of local and foreign capital in industry to be set up in Turkey by the private sector, and to assist in the creation and development of a securities market in the country.

The Bank may engage in the following activities in order to realize its purposes:

To conclude short, medium or long-term loan agreements in Turkey or abroad; to issue all kinds of bonds; to receive the funds that the Bank may be entrusted with and to administer same; to perform all sorts of operations with the Central Bank of the Republic of Turkey;

To extend medium-term loans without security or against guaranty, pledge or mortgage;

To discount or to accept as security notes received against medium-term credits granted to private industrial enterprises, already existing or to be established in the future, by the shareholder banks with the prior authorization of the Bank;

To purchase and sell all sorts of stocks and bonds of industrial enterprises, set up or to be set up by the private sector;

"To serve as intermediary in the formalities relating to the issue of stocks or bonds by private industrial enterprises already existing or to be set up in the future;

If it is deemed necessary, to own real estate; to accept mortgages as security for its loans; to acquire all kinds of real estate and property rights, and dispose of them for the purpose of collecting the proceeds of its loans;

To provide private industry with technical and managerial assistance;

To perform other banking operations and services related to its objects and scope;

By disposing of the stocks and bonds purchased, to make the resources of the Bank rapidly available for re-utilization;

In order to realize the above objects, to perform all kinds of other operations by resolution of the Board of Directors

"The Bank is not authorized to receive deposits."

C. SYKB Management

1. Organization Structure: The organization chart of SYKB is found in Annex III. The only major change in this structure since the approval of Loan H-087 is that the Financial Analysis and Economic Research Department has been divided into two departments, the Financial Analysis Department and the Economic Studies and Research Department. This organizational structure is, with one exception, typical for a bank of this kind, and it has proven adequate for the efficient handling of the Bank's business. The exception in SYKB's organization is that the Bank has no end-use (i. e. borrower auditing) department. The end-use function currently is performed by financial analysts and loan officers and the Bank does not now feel that its volume of business justifies the establishment of a separate end-use department, although it does realize that it loses something in objectivity with the present system. The Bank

says that it is prepared to establish an end-use department when it sees that the present system is no longer adequate.

2. Directors: The Directors of the Bank consist of one member of the management of each of the Founder Banks plus the General Manager of SYKB. The Board Chairman invariably is the representative from İy Bankası, the majority stockholder. The current Board Chairman, Mr. Ferid Baumacı, General Manager (and a Director) of İy Bankası, has been Chairman of SYKB's Board since 1966 and is concurrently Chairman of TSKB's Board. A list of the present Board is given in Annex II, with a short biographical note for each Director.

3. Management: The General Manager of the Bank, Mr. Vecdi Ünay, has held his post since the foundation of the Bank. He is a graduate of the School of Political Science (in Finance and Economics) of the University of Ankara. Mr. Ünay was the Assistant General Manager of the Agricultural Bank of the Republic of Turkey at the time of his retirement in 1960. At that time, he was appointed as Secretary General of the Turkish Banks' Association, which post he held until the foundation of SYKB.

The Assistant General Manager, Mr. Akil Kitapci, age 54, is also a graduate of Ankara University's School of Political Sciences and a former Manager of the Agricultural Bank. He began his career as an Inspector at the Agricultural Bank and was General Manager of that Bank in 1968 when he left the Government service to join SYKB. In the interim, he served as Assistant General Manager of the Pension Fund Office of the Turkish Republic and later held that same post in the Agricultural Bank before becoming its General Manager.

4. Staff: Some of the principal members of the professional staff are the following:

The Manager of the Loan Department is Mr. Faruk Ertekin, who is 60 years old and a graduate of the Academy of Economics and Commerce in Istanbul. Like Mr. Kitapci, Mr. Ertekin began his career as an Inspector in the Agricultural Bank. He held various important posts in several financial, commercial and industrial institutions and retired from the Agricultural Bank as Head of the Inspectors' Committee to join SYKB in 1963, the year of its foundation.

The Assistant Manager of the Loan Department, Mr. Dogan Yalin, also served with the Agricultural Bank and was General Manager of the Foundation of Agricultural Credit Cooperatives in Turkey. Age 42, Mr. Yalin is a graduate of the School of Political Science at the University of Ankara. He joined SYKB in 1970.

The Manager of the Financial Analysis Department is Mr. Emin Kuyumcu. Mr. Kuyumcu is 51 years of age and a graduate of the School of Political Science of the University of Ankara. He joined SYKB in 1963, after holding various posts in the Revenue Department, the last being Chief Revenue Agent.

The Economic Studies and Research Department's Manager is Mr. Yasar Findikcioglu, age 41, and a graduate of the School of Political Science of Ankara University. He holds an Advanced Studies Diploma from the School of Law and Economic Science at Ankara University and the Certificate of the Economic Development Institute of the University of Paris. Mr. Findikcioglu served as an economic specialist at the State Planning Organization in Ankara before joining SYKB in 1967.

The Manager of the Accounting Department, Mr. Irfan Atesok, is a graduate of the Academy of Economic and Commercial Sciences in Istanbul. He began his career as an Inspector in Is Bankasi, leaving as the Chief Accountant of the Yenikami Branch in 1963 to join SYKB. Mr. Atesok is 44 years old.

The Manager of the Control and Personnel Department is Mr. Emin Eroglu, age 62, who joined SYKB in 1964. Mr. Eroglu began his career as an Inspector at the Agricultural Bank after graduating from the Academy of Economics and Commerce in Istanbul. He served in important posts in various banks, his last post before joining SYKB being that of Manager of the Beyazit Branch Office of Vakiflar Bankasi.

The Manager of the Engineering Department is Mr. Hasan Erdener, a graduate of the School of Mechanical Engineering, University of Dresden. Mr. Erdener, age 57, served as Manager of Sumerbank's Erzincan Spinning Mill and Head of the Planning Office of that Bank's Bakirkoy Cloth Mill before joining SYKB in 1963.

The Acting Legal Counsel is Mr. Halim Maro, age 38. After graduation from the Law School of the University of Istanbul, he served as Counsel for Sanayi Bankasi before joining SYKB in 1964.

Experience during the implementation of Loan H-087 has established that the SYKB staff is professionally competent and experienced. Additionally, their experience with Loan H-087 has given them a thorough familiarity with A.I.D. procedures and requirements. It is accordingly anticipated that they will be able to implement the proposed loan in a professional and efficient manner and that, consequently, the amount of project monitoring required by USAID will be held to a minimum.

D. SYKB Operations

1. Policy Statements: In order to pursue the objectives of the Bank, as stated in Article 4 of the Articles of Association (see Section B. 4), SYKB has established a series of policy statements concerning the nature of its banking business.

First, since one of its objectives is to aid private industry, SYKB will extend loans only to entities engaged in industrial pursuits which are more than 50% beneficially owned and controlled by private interests. Although most of SYKB's loans are made to manufacturing entities, the Bank will consider loans to any entity which meets its private-ownership requirement and is engaged in an industry which the Bank considers meets its economic criteria.

As a matter of principle, the Bank will not consider loans for an amount less than TL 300,000 for working capital and TL 500,000 for investment capital, believing that lesser sums indicate entities which are more at the "artisan" level than the true "industrial" level.

As a matter of general policy, SYKB makes loans to industries which use the proceeds for the following purposes:

- a. Those which are consistent with and support the aims of the current Five-Year Plan of the GORT.
- b. Those which produce items or services which are, or are likely to be, competitively exported or competitively substituted for imports or are non-luxury goods or services required by the Turkish market.

To the extent possible, priority is given to projects which demonstrate adherence to the following production goals:

- a. Reduce unit costs and prices while maintaining quality;
- b. Improve substantially the quality of products, including standardization;
- c. Increase the rate of utilization or efficiency of the existing production capacity;
- d. Have a high ratio of "value added" to investment;
- e. Contribute importantly to the economic strength of the country in relation to the amount of capital involved.

In analyzing loan applications, in addition to matching proposals to the above criteria, the Bank attempts to insure that it will not be supporting an industry which will cause the creation of excess capacity in any sector. In analyzing proposals in regard to their export competitiveness (or their import substitution capability), the Bank considers Turkey's goal of joining the EEC as a full member in less than 25 years.

In addition to the above general criteria, the Bank has committed itself to attempt to meet other, more specialized, criteria in regard to loans made with A. I. D. TL counterpart funds. For instance, for working capital loans made with A. I. D. TL funds, the Bank has signed an agreement with the Ministry of Finance to give priority to loans made to applicants operating outside the Istanbul area, and to those which help establish or preserve domestic competitive conditions. They have also committed themselves to give priority to applicants producing agricultural implements or in the agricultural processing sector, to applicants manufacturing metal products (particularly those useful in the agricultural sector), and to applicants in the basic chemical industries. For investment capital loans made from A. I. D. TL funds, the Bank has pledged itself to give special attention to the export or import substitution possibilities of an applicant's project.

For the A. I. D. dollar resources available from Loan H-087, SYKB has made no undertaking to place the loans in any particular sector or geographical area or to attempt to serve any particular goals with its lending beyond those which are otherwise the general criteria of the Bank. They

have agreed upon between themselves and A. I. D. (attached as Annex 2), but this list is rather broad and general.

The Bank also has the following policies to be applied to equity participations in meeting its objective of assisting the "creation and development of a security market in the country:"

- a. To help form or increase the capital of inadequately capitalized private industrial enterprises;
- b. To assist the creation and development of a capital market by selling the shares in hand when possible;
- c. Not own, in any manner whatsoever, more than 25% of the subscribed capital of a company.

2. Loan Procedures: Loan applications are made on forms provided by the Bank. Technically, applications can be filed either directly with SYKB or through any branch of the Founder Banks. Practically, almost all loan applications are filed directly with SYKB.

a. Study of Loan Applications: The Financial Analysis Department is responsible for passing on the business reputation of the applicant and his proposed plan of implementation of the project, including the proposed financial plan. The Economic Studies and Research Department then reviews the economic aspects of the application, primarily with a view as to how well they meet SYKB's criteria for lending. In making this judgment, of course, they are passing on the economic viability of the project, as well as on its potential value to the Turkish economy. The Engineering Department makes the technical appraisal of the application, evaluating the location, capacity, production techniques, productivity and cost of investment.

b. Appraisal of the Loan: Although technical, economic and financial analyses of working capital loans are done by the members of the three sections independently, analysis of the investment loan applications is made by a working group consisting of an Engineer, an Economist, and a Financial Analyst.

In all loan applications for either working capital or investment in fixed assets, the location of the firms are invariably inspected by the specialists of the Bank.

c. Approval of the Loan: The reports produced following a study of the loan application and appraisal of the project are submitted to the Loan Committee. This Committee (which consists of the Assistant General Manager, the Manager of the Financial Analysis and Economic Research Department, the Manager of the Loan Department, an Economist, Technical Advisor and a Civil Engineer) studies the reports of professional staff about the loan application and submits its findings to the General Manager. The General Manager then presents his recommendations to the Board of Directors. The Board makes the final decision.

d. Loan Terms: Terms for working capital loans go up to five years, but none is made for a period of less than two years. Working capital loans normally have no grace period and are loaned at a basic rate of 12% per annum. Investment capital loans can extend up to a maximum of ten years, including various grace periods up to three years. These are made at a basic interest rate of 12% if the TL funds are from the the Bank's own sources (i.e. non-A.I.D. TL sources) or at 8% if they are from A.I.D. TL counterpart funds. Investment capital loans made with A.I.D. dollar funds from Loan H-087 are made at 9% interest.

Interest rates for SYKB loans are set in accordance with Government policy. Current Government policy is designed to encourage private fixed investment through subsidized interest rates on lira loans. An interest rebate mechanism has been implemented which lowers the effective interest rate on lira loans to 6%. To this are added the normal tax on interest payments and other bank charges.

The interest rebate incentive, however, does not apply to foreign exchange loans. Previously SYKB has been lending A.I.D. funds from Loan H-087 at 9% while the other development bank, TSKB, has lent foreign exchange from all sources (IBRD, EIB, Germany, and A.I.D.) at 12%. We have discussed with SYKB and the Finance Ministry the possibility of increasing the interest rate from 9% to 12% on A.I.D. funds lent by SYKB.

SYKB took the position that an increase in its lending rate on foreign exchange loans from 9% to 12% would affect its ability to disburse A.I.D. funds and harm its ability to compete with TSKB and the commercial banks. The latter have indirectly become a source of competition for SYKB on foreign exchange loans by virtue of the fact that their medium term lira loans can be converted to "free" foreign exchange at the Central Bank if the imported items to be

financed are on the quota lists. Borrowers obtaining their foreign exchange through this channel thus receive the interest rebate incentive (lowering the effective interest rate to 6%) and are able to obtain free foreign exchange.

In competing with TSKB, SYKB has at present the advantage on interest rates (9% at SYKB vs. 12% at TSKB). However, entrepreneurs have consistently discounted this advantage in the past in favor of the flexibility related to non-A.I.D. funds available through TSKB. For example, IBRD resources enable borrowers to tender on a world-wide basis, and these are free of shipping restrictions; EIB funds can be employed in any member country of the EEC. Even recent exchange rate adjustments have not offset the price benefit that this set of circumstances provides vis-a-vis U.S. products financed through tied A.I.D. credits.

SYKB has recently taken steps to improve its competitive position by arranging a Cooperative Financing Facility with the U.S. Export-Import Bank. This facility (see page 20) enables SYKB to lend at 8-1/2% on the portion (45% of the total) of financing provided directly by EXIM. On the portion (45% of the total) obtained from a participating financing institution under EXIM guarantee, SYKB lends at a 2-1/2% spread over the rate it pays the financial institution. This latter rate fluctuates in relation to market conditions in the country of the financial institution, but is expected to be generally between 6-7%. Thus, the EXIM facility will enable SYKB to lend at 8-1/2 - 9% with few, if any, of the procedural complications (advertising, approvals, etc.) related to A.I.D. funds. EXIM funds do have shipping restrictions similar to A.I.D.'s.

Thus, SYKB's concern about the effect an increased interest rate on A.I.D. funds would have on its ability to compete with other institutions and its ability to disburse A.I.D. funds does have some merit. SYKB's position has found support at the Finance Ministry where officials have recommended that the same terms that applied to Loan H-087, including a 9% rate to the borrower, be made applicable to the proposed new loan.

e. Notification: Loan Applications approved by the Board of Directors are handed by the Financial Analysis and Economic Research Department to the Loan Department, which informs applicants by letter of the amounts and the conditions of the loans.

After the necessary documents are completed, a Loan Agreement, prepared with the coordination of the Loan Department and the Legal Advisor, is signed.

The loan is disbursed after the collateral (a real estate mortgage or a bank Letter of Guarantee) is accepted.

All documents related to the loan are verified by the Auditing Department, starting from the date of the signing of the Agreement and running through all phases of the transactions, including disbursements and collections.

c. Collections: The loan is collected in semi-annual installments in accordance with the amortization schedule of the Loan Agreement. The sum of installments consists of the principal due plus its interest and the applicable expenditure tax.

An advice note is sent to the borrower fifteen days before the due date for the collection and generally the installments are collected in good time. The situation of the borrower who has not paid his installments on its due date is closely checked and appropriate steps taken to assure earliest possible collection.

f. Loan Supervision: Balance sheets of the borrowers are received regularly during the period of the agreement and are studied by the financial analyst who did the analysis of the loan application. Working capital loans are disbursed in their entirety immediately upon acceptance of collateral. Investment capital loans, however, are disbursed in stages, disbursement of any particular stage depending upon performance during the preceding period.

The Investigation Section follows the borrower's progress continuously and, if needed, the Bank's expert staff makes a close examination of any special problems noted, with recommendations for improvement.

3. Geographic Area: SYKB is committed philosophically to giving priority to the less-developed sections of the country. In practice, very few loans have been made to these sections. SYKB has made no investment capital loans in the eighteen easternmost provinces of Turkey, those considered to be most backward, and only two working capital loans in this area (which account for 0.2% by value of the loans made in this category). On the other hand, the Bank has made 79% of its investment capital loans, by value, in the areas directly around Istanbul, Izmir and Adana and has made 92.5% by value of its working capital loans in these areas.

This situation has emerged despite a proclaimed policy by the GORT to aid the easternmost region of the country through special incentives.

Despite the fact that incentives are available for investment in the east, the most commonly given reason for the lack of investment in this area is that it is impossible to persuade capable managers to take assignments in the area, even with considerably enhanced salaries.

SYKB proclaims itself eager to make loans in the less developed areas in order to stand by its implied and expressed commitments to help these areas. But they state that it is virtually impossible despite their best efforts to find viable projects in those areas. Records which the Bank has kept concerning its loan applications tend to bear out the Bank's statement. Of the 1,110 applications for working capital loans, representing proposed loans worth TL 2.6 billion, which SYKB has received since its inception, six were from the eighteen eastern provinces proposing loans totaling TL 7.7 million. This is 0.5% of the applications by number and 0.3% of them by value. Of the 285 applications for investment capital loans, representing proposals for loans valued at TL 1.36 billion, one was from the east, with a value of TL 1.4 million. This represents 0.4% of the applications by number and 0.1% by value. (See Sections E.1 and 6, and F.1)

4. Growth of SYKB: Growth of the Bank's resources is shown by the following table:

	In Thousands of TL				
	December 31				
	<u>1964</u>	<u>1966</u>	<u>1968</u>	<u>1970</u>	<u>1972</u>
Paid-in Capital	20,000	20,000	20,000	20,000	20,000
Reserves	--	66	2,567	4,680	6,649
Loans from Shareholder Banks	61,580	178,977	228,552	441,013	571,749
A. I. D. -funded TL Loans	60,000	60,000	99,164	103,136	103,797
A. I. D. -funded \$ Loans	--	--	--	1,227	23,403
Central Bank Re-discounts	--	--	--	--	50,686
Total	<u>141,580</u>	<u>259,043</u>	<u>350,283</u>	<u>570,056</u>	<u>776,294</u>

Growth of loan disbursements made by SYKB since its organization in 1963 is as shown below. Also shown below are the loan balances at year-end:

	In Millions of TL		
	Disbursed During Year	Cumulative Total	Outstanding At Year End
1963*	0	0	0
1964	83.1	83.1	77.0
1965	72.3	155.4	118.5
1966	106.2	261.6	183.5
1967	124.9	386.5	256.2
1968	137.8	524.3	322.2
1969	239.1	763.4	473.9
1970	147.2	910.6	508.7
1971	217.2	1,127.8	599.1
1972	294.4	1,422.2	751.6

* Year of SYKB organization

5. SYKB Long-Term Debt: At December 31, 1972, SYKB's long-term debt totalled TL 749.6 million. A resume of this debt with source, terms, interest rates and due dates is included as Annex X.

6. Financial Statements: The following financial statements are included herein:

Balance Sheets - Five Years of Actual Operations and Four Years of Projected Operations - Annex VII.

Profit and Loss Statements - Five Years of Actual Operations and Four Years of Projected Operations - Annex VIII.

Source and Application of Funds Statements - Four Years of Actual Operations and Four Years of Projected Operations - Annex IX.

USAM has reviewed the financial statements and projections included in Annexes VII, VIII and IX. In our opinion the projections are realistically prepared and should be attainable by the Bank.

7. Loan Repayments and Loss Reserves: SYKB has an excellent record on loan repayments in its ten years existence. It has had no loan losses and currently has only one loan receivable in default, in the amount of TL 333,332 plus interest.

SYKB reserves against losses amount to the following

	<u>Legal Reserve</u>	<u>Contingency Reserve</u>	<u>Extra- Ordinary Reserve</u>	<u>Total Reserve</u>
Balance at 1-1-72	TL 2,533,582	TL 1,502,294	TL 1,642,927	TL 5,678,803
Allocations 1972	<u>435,417</u>	<u>271,005</u>	<u>246,219</u>	<u>970,641</u>
Balance at 12-31-72	<u>TL 2,986,999</u>	<u>TL 1,773,299</u>	<u>TL 1,889,146</u>	<u>TL 6,649,444</u>

8. Present Operations: From incorporation in 1963 until 1967, SYKB functioned entirely as a lender of medium-term lira for working capital use. During the year 1967, the Board of Directors of the Bank made decisions in favor of (1) extending their loan business into medium and longer term fixed asset (investment) loans in lira, and (2) making similar loans in foreign exchange. One expressed intention in expanding into fixed asset loans in lira and foreign exchange is to give priority to enterprises which improve Turkey's balance of payments and earn foreign exchange for Turkey.

The Founder Banks agreed at the outset to loan SYKB an amount in TL equal to 1% of the total of their own general deposits as shown on their balance sheets of December 31, 1962. They further agreed to loan to SYKB amounts equal to 5% of the increases which would occur in their deposits after December 31, 1962. The term of such loans is twenty years. The effect of these transfers is to provide SYKB with a reasonably certain continuing source of loanable TL.

The following table, prepared by SYKB's Economic Department after consultation with the Founder Banks, indicates the projected growth of general deposits in the Founder Banks and the resultant projected TL funds available to SYKB:

<u>In Millions of TL</u>			
	<u>Projected General Deposits in Founder Banks</u>	<u>Annual Increase</u>	<u>5% of Annual Increase Available to SYKB</u>
1972	25,400	6,103	305
1973	28,182	2,782	139
1974	31,907	3,725	186
1975	36,774	4,867	243
1976	43,100	6,326	316

As a further source of TL lending, the Bank in 1972 entered into a re-discount arrangement with the Central Bank of Turkey whereby various SYKB notes receivable are pledged to the Central Bank as collateral for medium-term TL advances. As of December 31, 1972, TL 50,696,256 had been advanced by the Central Bank under the facility. The effective interest rate on the advances is 10.92%, including the GORT 25% transaction tax on interest.

On November 30, 1972, SYKB made a formal application to become a Cooperating Financing Facility (CFF) of the Export-Import Bank of the United States. Under the terms of the application, SYKB will receive an EXIMBANK line of credit which will allow financing of \$4.4 million of U.S. commodities, on the basis of a 10% down payment by the buyer, 45% from an Export-Import Bank loan, and a 45% loan from a participating U.S. commercial bank. SYKB will charge 8-1/2% for the portion of the credit provided from EXIM funds, and it will be allowed a 2-1/2% spread on the funds it borrows from a participating financial institution. SYKB will be the first Export-Import Cooperating Financing Facility in Turkey.

USAID believes the pending arrangement with the Export Import Bank is beneficial to SYKB in providing the Bank with an additional source of foreign exchange for subloans. Following meetings between SYKB and visiting EXIMBANK officials in early May, we were advised that SYKB will use the CFF facility for transactions financing and for financing machinery and equipment which may be ineligible for A.I.D. funding (e.g. textile machinery and equipment). On the basis of a

side letter exchange between A. I. D. and SYKB, the Bank will commit itself in principle to employ A. I. D. funds to the extent practicable for project financing in the less developed areas of Turkey.

E. SYKB Project Details

1. Loan Objectives: A. I. D.'s objectives in making a further \$9 million loan to SYKB are (a) to further assist SYKB in becoming a full development bank, (b) to motivate SYKB to place greater emphasis on potential projects in the lesser developed areas of Turkey, and (c) to assist private industry in Turkey to achieve further expansion commensurate with the goals of the Turkish Third Five-Year Plan.

The Bank has agreed in principle to accelerate efforts to develop projects in lesser developed areas in Turkey. Discussions are continuing with SYKB relative to steps the Bank can take in implementing this policy. These steps include (a) establishment of specific staff responsibility and recruitment of additional qualified staff to develop projects in areas outside of the Istanbul-Izmir-Adana industrial sectors. This staff will work through the Managers of Founder Banks' branches in identifying projects/entrepreneurs in less-developed regions; (b) initiating a working relationship with qualified Turkish and foreign engineering/management consultant firms as a source of technical assistance for developing new projects and/or expanding industries; and (c) assisting in the preparation of feasibility reports/project studies on agro-business projects that may result from the proposed A. I. D. irrigation sector loan and the rural development sector loan currently being discussed with the GORT.

2. Amount of Loan: The amount sought by SYKB for a new A. I. D. loan is \$9 million. In preparing the projections for this loan paper, SYKB has assumed an A. I. D. authorization by June 30, 1973. After a six month period for negotiation of the Loan Agreement and receipt and evaluation of loan applications, loan disbursements should begin in early 1974. SYKB has indicated that a substantial backlog of projects is available as a result of applications received under the previous A. I. D. \$5 million loan.

In arriving at \$9 million as the amount of the loan, USAID and SYKB have projected a conservative annual disbursement figure of \$3 million; thus our loan will provide three years of project funding at \$3 million per year. The Bank, however, will not be precluded from disbursing loan proceeds at a faster rate if it is able to do so.

3. Use of Loan: SYKB proposes to use the \$9 million loan to make subloans to private industrial enterprises for purchase of equipment and services in the U.S. and Code 941 countries. These subloans will be on terms up to a maximum of ten years. SYKB has already indicated that it will give as much priority as it can to subloans in the less-developed regions of Turkey.

SYKB proposes to impose the following criteria in connection with their subloans under this dollar loan:

Priority shall be given to projects which:

- (a) Are located in rural or less-developed regions in Turkey, and/or
- (b) have a high employment factor, and/or
- (c) have a wide distribution of equity ownership, and/or
- (d) are of importance from the standpoint of realization of production and export targets contained in the Turkish Third Five-Year Development Plan, and/or
- (e) contribute importantly to the economic strength of Turkey in relationship to the amount of capital involved.

Competitiveness of projects proposed for financing by SYKB shall be carefully studied in relation to (a) existing manufacturing and/or selling prices within Turkey, and (b) to the CIF prices of similar products imported into Turkey. Due consideration will be taken to support projects which show probable competitiveness in the European Common Market, of which Turkey is in the process of becoming a member.

4. Suggested Loan Terms: A two step re-lending plan, in the same form as that of the present \$5 million loan (277-II-087), will be used for this loan. An agreement will be negotiated between the Government of Turkey and A. I. D. on these payment terms.

The Government will undertake unconditionally to repay A. I. D. the amount disbursed in U. S. dollars in 40 years, including 10 years grace, and to pay interest of 2% per annum during the grace period and 3% per annum thereafter, in U. S. dollars.

5. Suggested Terms of Reloan Agreement: An agreement for re-lending will be negotiated between the Ministry of Finance and SYKB. This agreement will be subject to the approval of A.I.D. and cannot be amended without A.I.D. approval. Principal payments from the Bank to the GORT will be due at the same time that repayments are due the Bank from sub-borrowers. Maintenance of value is the risk of the sub-borrower, who will be required to repay his loan in TL at the current rate of exchange for his outstanding balance of dollars due. His risk is continued until the moment SYKB deposits his repayment in the Central Bank.

SYKB will repay the Government of Turkey the disbursed amount of the loan in Turkish lira in not more than fifteen years from the date of the first disbursement, and pay interest of $6\frac{1}{2}\%$ on the outstanding balance of the loan. The ultimate borrower would pay 9% on funds borrowed from SYKB. This rate-spread of $2\frac{1}{2}\%$ (9% minus $6\frac{1}{2}\%$) is considered the minimum necessary to provide the Bank with sufficient earnings to enable it to support an effective professional staff for project review and to provide technical advice and assistance in the planning and implementation of projects.

USAID is currently negotiating with the GORT to allow a greater spread to SYKB on projects they finance in less developed areas. The additional interest to be retained by the Bank would be deducted from the $6\frac{1}{2}\%$ Reloan Agreement rate payable to the GORT, thus maintaining the ultimate rate to the borrower at 9%.

6. Other Negotiated Terms: USAID has discussed with SYKB staff members and representatives of the Board of Directors the desirability of calling the remaining TL 20 million in Capital Stock. We are supported in our request by the GORT. Therefore, we propose that, as a Condition Precedent to Disbursements, the Founder Banks be required to pay in the balance of their Capital Stock subscriptions.

As previously noted, implementation of Loan H-087 was delayed due to the mechanics of implementing an arrangement satisfactory to A.I.D. to improve the debt/equity ratio of the Bank. Pursuant to Section 4.03(f) of Loan Agreement 277-H-087, SYKB agreed not to incur long-term debt in excess of four times equity plus Founder Bank loans. For purposes of this calculation, equity includes TL funds made available by A.I.D. under various Project Agreements, i.e. the "quasi-equity" loans. The following

proforma schedule indicates the debt/equity ratio of SYKB at December 31, 1972, calculated in accordance with the formula specified in Loan H-087, and giving effect to the proposed \$9 million A. I. D. loan and the paying in of the balance of SYKB's Capital Stock.

Long-Term Debt at December 31, 1972:

Loans from Founder Banks	TL 571,749,000
Central Bank Rediscounts	50,696,000
A. I. D. Loan 277-H-087	70,000,000
Ex/Im Loan	56,000,000
Proposed A. I. D. Loan	126,000,000
Total Long-Term Debt	<u>TL 874,445,000</u>

Equity:

A. I. D. Project Agreement Loans	TL 103,792,000
Capital Stock Outstanding	20,000,000
Reserves	6,649,000
Capital Stock Authorized	20,000,000
Total Equity	<u>TL 150,441,000</u>

Debt/equity ratio is 5.8 to 1

Additional Long-Term Debt Borrowing Capacity, in Accordance with Section 4.03(f) of A. I. D. Loan 277-H-087:

Equity (TL 150,441,000 x 4)	TL 601,764,000
Loans from Founder Banks	571,749,000
Total	TL <u>1,173,513,000</u>

Central Bank Rediscounts: TL	50,696,000	
A. I. D. Loan 277-H-087	70,000,000	
Ex/Im Bank Loan	56,000,000	
Proposed A. I. D. Loan	<u>126,000,000</u>	<u>302,696,000</u>

Additional Borrowing Capacity **TL 870,817,000**

We believe this formula is adequate and should be included as a Negative Covenant in the new Loan Agreement.

As previously discussed in Section E. 1, it is A. I. D. 's intention to use this \$9 million loan as leverage to move SYKB further towards the role of a full development bank. We have discussed our intentions with the Bank's staff and have been assured that the Bank agrees in principle with the desirability of moving in this direction. They accordingly have agreed tentatively to actions in the three areas discussed in Section E. 1, viz. (a) placing more concentration on developing loans in the less developed areas of Turkey, including the establishment of specific staff responsibility for these areas and the recruitment of more staff to work in this area, if necessary; (b) using outside consultants for technical assistance when necessary and (c) giving more attention to agro-business projects which will tie in with other efforts of the GORT and A. I. D. in this sector.

However, we recognize that factors outside of SYKB's control may inhibit or limit their ability to find projects in less-developed regions. Lack of adequate infrastructure, skilled labor, qualified management and/or access to developed markets may minimize the opportunity for meaningful projects despite the good intentions of SYKB. As an indicator of the strength of these inhibiting factors, it can be noted that although some prominent GORT personnel have long advocated a separate State-owned development bank specifically for the lesser developed regions these constraints have precluded its actual formation to date. Discussions among various officials indicate that its formation is highly unlikely in the foreseeable future because of these constraints.

Therefore, we propose to encourage SYKB to pursue the principals of actively seeking projects in less-developed areas by a side letter exchange rather than through specific Loan Agreement provisions, i. e. Conditions Precedent or Negative Covenants. We also intend to formally notify SYKB that future A. I. D. funding (beyond this proposed loan) will be dependent on the Bank's acquiring additional sources of foreign exchange for relending.

Finally, under Loan H-087, A. I. D. retained the right of approval for sub-loans in excess of \$150,000. On the basis of the Bank's experience and performance in analyzing projects for Loan H-087, we intend to increase this amount to \$250,000.

7. Impact on U.S. Economy: The impact of this loan on the economy will be favorable. Although in accordance with M.C. 1411.5, Code 941 countries will be eligible sources of goods and services in addition to the U.S., it is believed that in practice virtually all of the goods and services procured will be of U.S. source and origin. A minimum of fifty percent of the freight shipments must be transported on U.S. flag vessels.

The projects to be financed by this loan involve equipment that in almost every case would be equally available from non-U.S. sources. In the absence of this loan, it is reasonable to assume that most procurement would be from non-U.S. sources. Previous A.I.D. lines of credit to the two Turkish development banks (SYKB and TSKB) are almost fully committed. Except those cases where U.S. Export-Import Bank financing can be arranged, the investors in industrial projects would look to non-U.S. financing already available through TSKB or to free foreign exchange from the GORT's own resources. In these latter cases, Western European suppliers, in particular, continue to enjoy a competitive advantage over U.S. suppliers in most areas. It is thought, therefore, that the bulk of the procurement of goods and services under this loan will be additional to the present level of U.S. exports of industrial goods and services to Turkey.

F. Relationship to the Turkish Economy

1. Turkish Industry Under the Five-Year Plans: As of the end of 1972, Turkey has completed two five-year development plans and set a target of even more rapid GNP growth and industrialization in the period of its Third Plan (1973 through 1977).

Table 1 compares plan targets with realizations. GNP growth fell below expectations in the First Plan, but was slightly above the target of 7% annual growth in the Second Plan. Although industrial investment as a proportion of total investment was above target in both plans, the realized rate of growth of industrial production was below expectations. Overall investment targets were not met by either the public or private sectors in the First Plan, but public sector investment was above target in the Second Plan and substantially above its First Plan performance.

In comparison with past performance, Third Plan targets increase the emphasis put on industrial investment (45.4% of all investment). This

increase is intended to permit the achievement of an annual 11.7% growth in industrial production so that industry will reach 27% of GDI by 1977.

Out of TL 87.7 billion investments to be made in the manufacturing sector, the private sector is targeted to make 51%, or TL 44.7 billion.

While the percentage target for the private sector is below that realized in the Second Plan, the absolute amount of private investment targeted is 50% above that realized in the Second Plan.

TABLE I
SOME SELECTED INDICATORS
(%)

	<u>First</u> <u>Plan Period</u>		<u>Second</u> <u>Plan Period</u>		<u>Third</u> <u>Plan</u> <u>Targets</u>
	<u>Target</u>	<u>Realized</u>	<u>Target</u>	<u>Realized</u>	
1. Rate of Growth of GNP ^{1/} (Annual Average)	7.0	6.7	7.0	7.3	7.9
2. Investment as % of GNP (at end of plan period)	18.6	18.4	23.5	21.0	25.0
3. Rate of Growth of Investment (Annual Average)	10.7	9.4	11.2	10.8	12.8
4. Rate of Growth of Private Investment (Annual Average)	11.0	10.5	12.5	11.0	11.8
5. Rate of Growth of Public Investment (Annual Average)	10.6	8.5	10.0	10.7	13.6
6. Investment in Industry as Proportion of Total Investment (of which manufacturing)	30.9 (16.9)	31.3 ^{2/} (19.6)	34.1 (22.4)	37.7 ^{2/} (25.7)	45.4 ^{3/} (31.2)
7. Growth Rate of Industrial Production (Annual Average)	12.3	9.7	12.0	9.7	11.9
8. Industry as Proportion of GDP ^{3/}	n/a	19.5	24.6	25.0	26.8

^{1/} In constant prices

^{2/} 31.3% as of 1967; 37.7% as of 1972; 45.4% average for entire 1973-1977 period.

^{3/} In constant prices, at end of period.

Source: Plan Documents

Additionally, as is shown by Table 2 below, the TFYP anticipates a dramatic increase in the imports of investment goods to support its

TABLE 2
IMPORTS OF INVESTMENT GOODS

<u>Year</u>	<u>(\$ Million)</u> <u>Value</u>	<u>% of Total</u> <u>Imports</u>
1963	256.0	37.2
1964	197.3	36.7
1965	197.0	34.5
1966	257.1	35.8
1967	206.0	30.1
1968	255.0	33.4
1969	251.0	31.3
1970	284.0	30.0
1971	340.0	29.0
1972	450.0	34.2
1973	490.0	34.3
1974	530.0	34.6
1975	575.0	35.1
1976	625.0	35.7
1977	680.0	36.8

Source: SPO, TFYP, Tables 46 and 120

Turkey is highly protected through both quotas and tariffs. Customs duties on industrial goods are generally between 40% and 60%, while customs on such commodities as artificial fibers and fabrics, glass, leather products, machinery and vehicles run as high as 75% or more.

However, as a result of an Interim Agreement signed with the EEC in 1971, customs duties on imports from EEC members have been decreased by 5-10%. The reduction represents a first step in liberalization of customs duties; over the next twenty years all customs charges on imports from EEC countries will be eliminated, and considerable reductions will also be applied to imports from other countries.

Following a slow-down in new investments in 1971 (due, in large measure, to political instability and the suspension of investment incentives following a change in Government in March 1971), industrial investment began to accelerate in 1972. This rapid expansion is a result of investor confidence in political stability and the revival and expansion of investment incentive measures.

Investment incentives available to industrialists include the following:

- a. Investment Tax Rebates
- b. Customs Exemptions
- c. Deferred Payments on Customs Duties
- d. Exemption from Construction Tax
- e. Medium-term Credit Interest Subsidy
- f. 1% interest subsidy for investments in lesser developed regions of Turkey.

These incentives are now being given automatically, based on sectoral priorities, without the need to have the Government evaluate individual projects. Further, according to a decree published May 4, 1973, all incentives noted above are given to any industrial investment in Eastern Turkey and other less developed areas, regardless of the category of investment.

the number of firms receiving incentive licenses has shown a sharp increase during 1973. Available statistics on new projects indicate the following incentive permits granted in January and February 1973:

<u>Month</u>	<u>Number of Projects</u>	<u>Total Investment Volume</u>	<u>Foreign Exchange Requirements</u>
January 1973	32	TL 1,552 Million	\$ 34 Million
February 1973	44	TL 4,679 Million	\$125 Million

Source: EBA Economic Press Agency "Trade and Investment Newsletter", dated May 3, 1973, and May 11, 1973.

2. Financing the Industrial Sector - Requirements: In the three-year period 1969-1971, private fixed investment in manufacturing totalled about \$1.05 billion equivalent.^{1/} About 65% of the investment was financed by internally generated funds of the companies and new share capital. This is an unusually high percentage, but the apparent trend is toward an increasing share of borrowed funds. The remaining 35% came from tax credits (10%), bond issues (5%) and borrowing from financial institutions, i.e. SYKB, TSKB and commercial banks. SYKB's disbursements for investment loans during the period amounted to \$27.7 million, corresponding to about 3% of total private fixed investment, and about 13% of all borrowed funds--an increasing share vis-a-vis earlier years. However, SYKB's share could have been considerably more if it had had access to more resources, particularly foreign exchange for relending.

3. Financing the Industrial Sector - Sources:

a. The Capital Market

Turkey has a poorly developed capital market. Relatively few private corporations issue capital shares to "outsiders," i.e. outside of the family group. In 1969-71, the net increase in equity capital by private corporations amounted to only TL 350 million.^{2/} Since most corporations are

1/ Source: IBRD Appraisal Report of TSKB, dated December 7, 1972, Page 3, Paragraph 2.07.

2/ Source: IBRD Appraisal Report of TSKB, dated December 7, 1972, Page 4.

closely held family concerns only a small part of this sum would represent issues available in the market. The stock exchange in Istanbul is playing an insignificant role. The number of shares quoted is limited and the amount of trading is small (less than \$600,000 in 1971).^{1/} Obstacles to widening the share market include the lack of an adequate securities law and inadequate disclosure of company operating data.

b. The Commercial Banks

Traditionally, Turkish commercial banks have done very little medium-term and long-term financing. The banks have preferred short-term, high interest loans with collateral in the form of accounts receivable and/or inventories. The Central Bank Law enacted in 1970 allowed commercial banks for the first time to give medium-term credit (up to five years) at a maximum interest rate of 12%. This rate was set higher than the general credit rate to make medium-term lending more attractive to commercial banks. Special re-discount facilities were also made available. At the same time, interest rates on long-term deposits were raised to 9% (from 6%) to attract funds.

In March 1972, twenty large banks were required by Central Bank decree to allocate at least ten percent of their loanable funds to this category of credit. Furthermore, subsidies were given to banks if they lent medium-term to certain priority sectors. As of the end of November 1972, TL 1.6 billion was outstanding in medium-term credit, of which TL 1.4 billion was to industry (there is no private-public sector breakdown between the recipients of this credit). Among the sources of these credits were TL 496 million in Central Bank rediscounts as of the end of 1972.

The subsidies given to commercial banks for medium-term credits is in the form of interest rebates from a fund administered by the Central Bank. The fund is provided from GORT budgetary allocations, and has been in effect since the beginning of the current Turkish fiscal year, March 1, 1973. Under the terms of the interest rebate fund, eligible borrowers are refunded 6% interest; this rebate, equal to 50% of the maximum interest rate chargeable, is rebated to the commercial bank making the loan, which in turn rebates it to the borrower. SYKB's medium-term loans are eligible for this rebate. SYKB collected approximately TL 400,000 in rebates from the Central Bank in April 1973, representing rebates applicable to sub-borrower interest payments received in March 1973.

^{1/} IBERD Appraisal Report of TSKB, dated December 7, 1972, Page 4, Paragraph 2.11.

The emergence of commercial banks as a major source of medium-term TL credit is relatively new; SYKB is concerned with this development vis-a-vis their own competitiveness in the medium-term market. The Bank plans to prepare a detailed study of the market in order to determine their future thrust in medium-term lending.

4. The Role of Development Banks in the Industrial Sector: It is apparent that the GORT places high priority on industrial development. Further, through the incentive plans noted above, they are actively implementing their stated policy. As the figures for incentive permits granted during the first two months of 1973 demonstrate, industry is responding to the new incentives and its perceptions of continued political stability with record numbers of new projects and investments.

It is also apparent, however, that the GORT's TFYP is a highly ambitious document. All indications are that Turkey will not find it easy to mobilize the total resources necessary to meet the goals which have been set. Because of the heavy demands of Government and public sector enterprises on total credit availabilities, Turkey's private sector chronically has been faced with insufficient funds for investment and operations. Despite the new industrial and financial incentives and the medium-term credit allowances, there seems little prospect of a significant amelioration of this situation during the TFYP. One of the prime objectives of the proposed loan, then, is to help Turkey increase industrial investment and production in accordance with the objectives of the TFYP by making more resources available to private industry.

But the objectives go beyond merely increasing the resources available to the Turkish economy. Another prime objective is to aid Turkey in more rational use of the resources available to it. The development banks, SYKB and TSKB, have demonstrated that the specialized nature of their operations allows them to make a more careful examination of projects and, as a result, to lend to more productive areas. And because SYKB makes loans only to the private sector, it is anticipated that this loan will assist Turkey in attaining greater economic viability by strengthening her private industrial sector and by promoting greater reliance on the price system and market mechanisms in the allocation and utilization of economic resources.

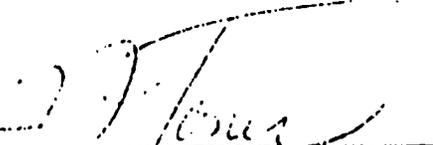
As previously noted, SYKB provided approximately 13% of funds needed for private sector investment during the years 1969-1971. This was a significant contribution to Turkey's development during this period, not only in quantitative terms, but also in qualitative terms. The proposed loan will enable the Bank to continue in the growth and development of Turkey's industrial sector.

SINAI YATIRIM VE KREDİ BANKASI
Loan No. 277-H-

CERTIFICATION PURSUANT TO SECTION 611(e) OF THE
FOREIGN ASSISTANCE ACT OF 1961, AS AMENDED

I, Joseph S. Toner, Director, the principal officer of the Agency for International Development in Turkey, having taken into account, among other things, the maintenance and utilization of projects in Turkey previously financed or assisted by the United States, do hereby certify that in my judgment Turkey has both the financial capability and the human resources capability to effectively maintain and utilize the capital assistance project, a development bank loan to Sinai Yatirim ve Kredi Bankasi (Industrial Investment and Credit Bank).

This judgment is based upon general considerations discussed in the capital assistance paper to which this certification is attached.



Joseph S. Toner
Director
May 22, 1973

SINAI YATIRIM VE KREDİ BANKASI

LIST OF SHAREHOLDERS

<u>Shareholder</u>	<u>Authorized Amount</u>	<u>Number Of Shares</u>	<u>Percentage</u>
Türkiye İş Bankası A.Ş.	TL 25,680,000	2568	64.2
Osmanlı Bankası A.Ş.	4,120,000	412	10.3
Akbank T. A. Ş.	4,000,000	400	10.0
Türkiye Vakıflar Bankası T. A. O.	4,000,000	400	10.0
Türkiye Garanti Bankası A.Ş.	<u>2,200,000</u>	<u>220</u>	<u>5.5</u>
	TL 40,000,000	4000	100.0

Note: The Authorized Capital consists of 4000 shares valued at TL 10,000 each. However, only half of the Capital, or TL 5000 per share, has been called in to date. Therefore, the Paid in Capital of SYKB is TL 20,000,000.

SINAI YATIRIM VE KREDİ BANKASI

BOARD OF DIRECTORS

ANNEX II
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June 6, 1973
Page 1 of 2

Chairman

Ferid Basmaci **Age 61. Graduate of the Academy of Economic and
and Commercial Sciences in Istanbul. Currently
General Manager and a Director of Türkiye İş Bankası and Chairman of the
Board of Türkiye Sınai Kalkınma Bankası (TSKB).**

Chairman (and Member) of SYKB's Board since April 29, 1966.

Deputy Chairman

Cavit Oral **Age 50. Graduate of the School of Political Science
of the University of Ankara. Has served as Assistant
General Manager of the Turkish Agriculture Bank and General Manager of
Eskişehir Bankası. Currently General Manager and a Director of Türkiye
Vakıflar Bankası T.A.O.**

**Member of SYKB's Board since September 1, 1972; elected Deputy Chairman
on March 9, 1973.**

Other Members

Reşad Aksan **Age 61. Graduate of the Academy of Economic and
Commercial Sciences, Istanbul. Has served as
Manager of the Clearing House and Assistant General Manager of the Turkish
Central Bank. Currently General Manager of Osmanlı Bankası.**

Member of SYKB's Board since January 11, 1963.

Other Members (Cont'd)

Cabir S. Selek **Age 66.** Graduate of Feysiye (now Işik) Lisesi in Istanbul. Has served in various capacities at Osmanli Bankasi and the Turkish Central Bank and as Assistant General Manager of Sümerbank. Was a member of Parliament (1943-1946) and an Executive Director of IBRD (1950-1954). Currently Chairman and General Manager of Türkiye Garanti Bankasi.

Member of SYKB's Board since January 11, 1963.

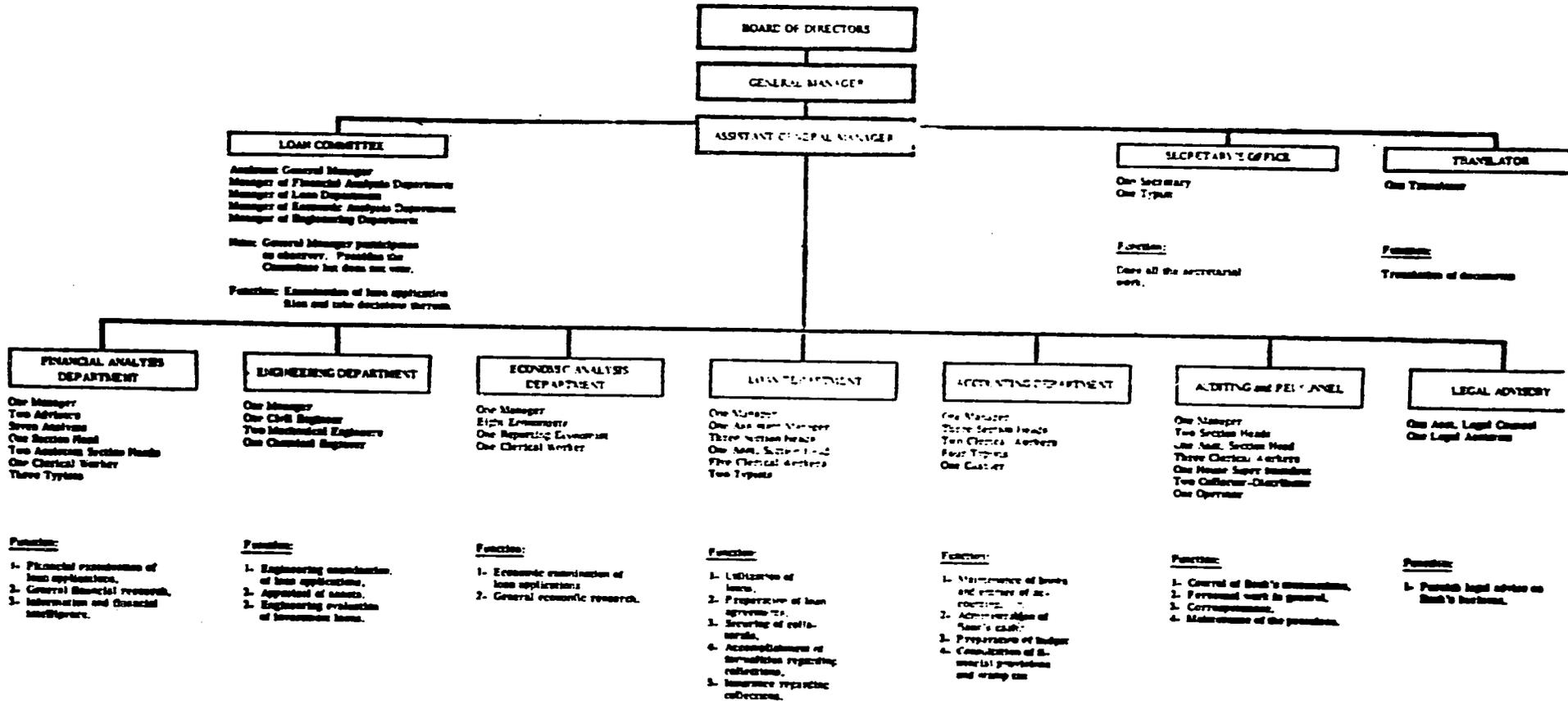
Erol Sabanci **Age 36.** Graduate of the Academy of Economic and Commercial Sciences, Istanbul. Has served as Finance Director of BOSSA and Board Director of TEKSA, two Adana based textile concerns. Currently Deputy Chairman of Akbank and Board Member of SYKB's Board since June 11, 1971.

Vecdi Unay **Age 60.** Graduate of the School of Political Science of the University of Ankara. Has served as Assistant General Manager of the Turkish Agriculture Bank and Secretary General of the Association of Banks of Turkey.

General Manager and Ex-Officio Director of SYKB since its establishment in 1963.

ANNEX III

SINAI YATIRIM VE KREDI BANKASI
ORGANIZATION CHART



Issued, August 1972

BEST AVAILABLE COPY

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ANNEX IV

SINAI YATIRIM VE KREDI BANKASI

LIST OF CATEGORIES OF INDUSTRIAL ACTIVITIES

I. Metal Mining

Dressing and beneficiating iron, copper, chromium or other ores and crude minerals such as breaking, milling, washing, cleaning, grading and concentration.

II. Food Manufacturing Industries, Except Beverage

1. Slaughtering, Preparation and Preserving of Meat:

Abattoirs and meat packing plants; killing, dressing, packing and canning poultry; manufacture of sausage casings is included.

2. Manufacture of Dairy Products:

Manufacture of creamery and processed butter, natural and processed cheese, condensed and other types of concentrated milk, and other edible milk products. Bottling of milk, whether pasteurized or not, is included.

3. Canning and Preserving of Fruits and Vegetables:

Canning (packing in airtight containers) of fruits and vegetables including fruit and vegetable juices; manufacture of preserves, jams and jellies, pickles and sauces, and canned soups; dehydrating and quick-freezing of fruits and vegetables.

4. Canning and Preserving of Fish and Other Sea Foods:

Preserving and processing fish and other marine foods. These processes include such operations as salting, drying, dehydrating, smoking, curing, pickling, packing in airtight containers and quick freezing.

II. Food Manufacturing Industries (Cont'd)

5. Manufacture of Grain Mill Products:

Grain mills (flour, meal, stock dry feeds); husking, cleaning and polishing of rice; preparation of breakfast foods such as rolled oats, rice, wheat and corn, flakes, parched; blended and prepared flour and other cereal and pulse preparations.

6. Manufacture of Miscellaneous Food Preparations:

Food industries not elsewhere classified, such as the manufacture of margarine, compound cooking fats and table or salad oils, starch and its products, macaroni and similar products; prepared feeds for animals and fowls; salt processing.

III. Manufacture of Textiles

1. Jute mills.

2. Cordage, Rope and Twine Industries:

Manufacture of rope, cable, cordage, twine, net and other related goods from hemp, jute, cotton, paper, straw, coir, flax and other fibers.

3. Manufacture of Textiles not Elsewhere Classified:

Manufacture of linoleum and other hard-surfaced, floor coverings (excluding rubber); artificial leather; oilcloth and other impregnated and coated fabrics; straw, coir and similar matting and mats; felt; batting, padding, wadding and upholstery filling from all fabrics. The recovering of fibers from waste and rags is included.

IV. Manufacture of Footwear, Other Wearing Apparel and Made-up Textile Goods

1. Manufacture of Footwear, Except Rubber Footwear:

Manufacture of all kinds of footwear, leggings and gaiters from leather, fabrics, plastics, wood and other materials. The manufacture of boot and shoe cut stock and findings is included.

2. Manufacture of Wearing Apparel, Except Footwear:

Manufacture of wearing apparel by cutting and sewing fabrics, leather, fur and other materials; fur-dressing and dyeing; and the manufacture of umbrellas. Important products of this group include: underwear and outerwear; millinery; hats; fur goods; gloves and mittens; suspenders, garters and related products; robes and dressing gowns; raincoats and other waterproof outer garments; leather clothing; sheepskin-lined clothing; hankerchiefs.

V. Manufacture of Wood and Cork, Except Manufacture of Furniture

Sawmills and planing mill; manufacture of lath, shingles, cooperage stock, veneers and plywood; manufacturers engaged in wood preserving and manufacturing finished articles made entirely or mainly of wood, bamboo, cane and cork.

VI. Manufacture of Furniture and Fixtures

Manufacture of household, office, public building, professional and restaurant furniture; office and store fixtures, window and door screens and shades, regardless of materials used.

VII. Manufacture of Paper and Paper Products

1. Pulp, Paper and Paperboard Mills:

Manufacture of pulp from wood, rags and other fibers and the

VII. Manufacture of Paper and Paper Products (Cont'd)

1. Pulp, Paper and Paperboard Mills: (cont'd)

conversion of such pulp into any kind of paper, paperboard and fiber building board.

2. Manufacture of Articles of Pulp, Paper and Paperboard:

The conversion of paper and paperboard into products such as paper bags, boxes and other containers, cards, envelopes and wallpaper.

VIII. Manufacture of Leather and Leather Products, Except Footwear

1. Tanneries and Leather Finishing Plants:

Tanning, currying and finishing of all kinds of hides and skins, embossing and japanning of leather. Fellmongery is also included.

IX. Printing and Publishing Industries

Miscellaneous printing and publishing such as maps, atlases, directories and encyclopedias; type setting, engraving and plate printing.

X. Manufacture of Rubber Products

Manufacture from natural or synthetic rubber, gutta percha or gutta siak, of all kinds of rubber products such as tyres, mechanical rubber goods and rubber sundries; reclaiming of rubber from used tyres, scrap and miscellaneous waste rubber; manufacture of rebuilt and retreaded rubber tyres.

XI. Manufacture of Chemicals and Chemical Products

1. Basic Industrial Chemicals, Including Fertilizers:

Manufacture of basic industrial chemicals, such as acids, alkalis, salts; intermediates, dyes, color lakes and toners; explosives and fireworks; synthetic resins and other plastic materials (including synthetic fibers and synthetic rubber); fertilizers.

2. Vegetable and Animal Oils and Fats:

The production of crude oil, cake and meal, by crushing or extraction from oilseeds or nuts, refining and hydrogenation (or hardening) of such oil and of olive oil and marine animal oils; rendering and refining of animal oils and fats.

3. Manufacture of Miscellaneous Chemical Products:

Manufacture of chemical products not elsewhere classified, such as medicinal and pharmaceutical preparations; soaps and other washing and cleaning compounds; paints, varnishes and lacquers; polishes; inks; matches; candles, attar of rose (for export purposes).

XII. Manufacture of Products of Petroleum and Coal

1. Manufacture of Miscellaneous Products of Petroleum and Coal:

Manufacture of asphalt paving and roofing materials; fuel briquettes and packaged fuel; lubricating oils and greases not made in petroleum refineries.

XIII. Manufacture of Non-Metallic Mineral Products, Except Products of Petroleum and Coal

1. Manufacture of Structural Clay Products:

Manufacture of structural clay products such as bricks, tiles,

XIII. Manufacture of Non-Metallic Mineral Products (Cont'd)

1. Manufacture of Structural Clay Products (cont'd)

pipes, crucibles, architectural terra cotta; stove lining, chimney pipes and tops; refractories.

2. Manufacture of Glass and Glass Products

3. Manufacture of Pottery, China and Earthenware

4. Manufacture of Cement

5. Manufacture of Non-Metallic Mineral Products Not Elsewhere Classified:

Manufacture of concrete, gypsum and plaster products; mineral wool; cutstone and stone products; abrasives; asbestos products; graphite products; and all other non-metallic mineral products not elsewhere classified.

XIV. Basic Metal Industries

1. Iron and Steel Basic Industries:

Manufacture of iron and steel including all processes from smelting in blast furnaces to the semi-finished stage, that is, production of billets, blooms, slabs or bars; rerolling into basic forms such as sheets, plates, strips, tubes, rails, rods; tinplate; rough castings; forgings.

2. Non-ferrous Metal Basic Industries:

Smelting and refining of non-ferrous metals and their manufacture into basic forms such as ingots, bars, billets, sheets, strips, circles, sections, rods, pipes, tubes, castings and extrusions.

XV. Manufacture of Metal Products, Except Machinery and Transport Equipment

Manufacture of basic metal forms into finished articles such as tin cans and other tinware; hand tools; cutlery; hardware; hollow ware; metal stampings; lighting fixtures; fabricated wire products; metal shipping containers; safes and vaults; steel springs; bolts, nuts, washers and rivets; collapsible tubes; and all other metal products not elsewhere classified. This group includes such industries as those engaged in enamelling, japanning and lacquering, galvanizing, plating and polishing metal products; blacksmithing and welding.

XVI. Manufacture of Machinery, Except Electrical Machinery

1. Engines and Turbines:

Steam engines, turbines and water wheels; diesel and semi-diesel engines and other internal combustion engines not elsewhere classified.

2. Agricultural Machinery and Tractors:

Tractors, other agricultural machinery and equipment for use in the preparation of maintenance of soil, planting and harvesting of crops, preparing crops for market or performing other agricultural operations and processes.

3. Construction Machinery and Equipment:

4. Metal Working Machinery:

Machine tools, other metal working machinery; accessories.

5. General Industrial Machinery and Equipment

6. Service Industry and Household Machines:

Laundry equipment, dry cleaning and pressing machines,

XVI. Manufacture of Machinery (Cont'd)

6. Service Industry and Household Machines (cont'd)

sewing machines, vacuum cleaners, refrigerators and complete air condition units.

7. Miscellaneous Machinery Parts:

Valves and fittings, ball and roller bearings, fabricated pipes and fittings.

XVII. Manufacture of Electrical Machinery, Apparatus, Appliances and Supplies

1. Electrical Generating, Transmission, Distribution and Industrial Apparatus

2. Electrical Equipment for Motor Vehicles, Cars and Railway Locomotives

3. Communication Equipment and Related Products:

Radios, television equipment, telephone and telegraph equipment, radio tubes.

4. Miscellaneous Electrical Products:

Storage batteries, dry and wet primary batteries.

5. Electrical Products Not Elsewhere Classified

XVIII. Manufacture of Transportation Equipment

1. Manufacture of Motor Vehicles:

Manufacture and assembly of complete motor vehicles such as passenger automobiles, commercial cars and buses, trucks and truck trailers, universal carriers, motorcycles and special purpose motor vehicles; manufacture of motor vehicle parts

XVIII. Manufacture of Transportation Equipment (Cont'd)

1. Manufacture of Motor Vehicles (cont'd)

and accessories such as engines, brakes, clutches, axles, gears, transmissions, wheels and frames.

2. Ship and Boat Building and Repairing:

Shipyards and boat yards engaged in building and repair work; specialized marine engine manufacturers; ship breaking yards.

3. Repair of Motor Vehicles and Cycles:

Repair of automobiles, motor trucks, cycles and any specialized repair work such as repair of auto tops (hoods) and electrical repairs.

4. Manufacture of Motorcycles, Bicycles and Parts:

Manufacture of motorcycles, bicycles, tricycles, pedicabs and parts such as saddles, seat posts, frames, gears and handle bars.

XIX. Miscellaneous Manufacturing Industries

1. Manufacture of Professional, Scientific, Measuring and Controlling Instruments:

Manufacture of measuring and controlling instruments such as gas, liquid meters, etc.

2. Manufacturing Industries Not Elsewhere Classified:

Manufacture not classified in any other group such as manufacture of pens, pencils and other office materials; manufactured ice; plastic products not elsewhere classified.

Sinai Yatirim ve Kredi Bankasi
Categories of Industrial Activities

ANNEX IV
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XX. Storage and Warehousing

Cold storage.

This list is based on the classification of industries as shown in "International Standard Industrial Classification of All Economic Activities", published by the Economic and Social Council (Official Records Supplement No. 5 B), United Nations, New York 1956.

SINAI YATIRIM VE KREDI BANKASI
LOANS MADE BY INDUSTRIAL CATEGORIES (TURKISH LIRA LOANS)
(THOUSANDS OF TL)

ANNEX V

	1963-1970			1971			1972			Total		
	No.	Total	%	No.	Total	%	No.	Total	%	No.	Total	%
Food Products	69	76,745	8.44	5	14,265	6.67	8	7,950	2.88	82	98,960	7.07
Beverages	12	21,500	2.37	--	--	0.00	--	--	0.00	12	21,500	1.54
Textiles (including spinning, dyeing and finishing)	136	316,430	34.80	14	60,666	28.37	13	118,900	43.10	163	495,996	35.45
Clothing	16	10,850	1.19	3	8,000	3.74	2	6,500	2.36	21	25,350	1.81
Lumber & Wood Products	10	10,500	1.16	--	500	0.23	4	21,000	7.61	14	32,000	2.29
Wood-Pulp & Paper	16	38,500	4.23	1	15,350	7.18	--	--	0.00	17	53,850	3.85
Rubber Products & Tires	22	20,661	2.27	1	2,534	1.19	5	6,216	2.25	28	29,411	2.10
Chemicals	49	55,718	6.13	9	28,750	13.45	11	26,933	9.76	69	111,401	7.96
Plastics Products	23	26,212	2.88	2	2,300	1.08	1	600	0.22	26	29,112	2.09
Structural Clay Products	8	3,900	0.43	1	2,000	0.93	1	4,000	1.45	10	9,900	0.71
Pottery, Tile & Earthenware	2	3,200	0.35	--	--	0.00	--	--	0.00	2	3,200	0.23
Glass & Glass products	7	3,400	0.37	3	7,150	3.34	6	4,720	1.71	16	15,270	1.09
Cement Products	12	32,520	3.58	1	3,000	1.40	2	1,500	0.54	15	37,020	2.65
Iron, Steel & Other Metals	73	96,367	10.60	7	11,300	5.29	8	25,750	9.33	88	133,417	9.54
Metal Products	62	56,853	6.25	3	3,100	1.45	7	9,500	3.45	72	69,453	4.96
Machinery & Equipment	36	53,893	5.93	15	40,765	19.07	10	15,735	5.70	61	110,393	7.89
Electrical Machinery, Appliances & Supplies	26	38,583	4.24	2	5,000	2.34	3	10,000	3.63	31	53,583	3.83
Agricultural Machinery & Implements	2	2,300	0.25	--	--	0.00	--	--	0.00	2	2,300	0.16
Manufacture & Repair of Vehicles	5	18,472	2.03	1	5,000	2.34	1	10,000	3.63	7	33,472	2.39
Miscellaneous Industries	24	22,750	2.50	3	4,125	1.93	8	6,575	2.38	35	33,450	2.39
TOTALS	610	909,354	100.0	71	213,805	100.0	90	275,879	100.0	771	1,399,038	100.00

ANNEX VI

SINAI YATIRIM VE KREDI BANKASI
SCHEDULE OF LOANS AUTHORIZED
UNDER \$5 MILLION AID LOAN 277-H-087

<u>Number of Sub-Loans</u>	<u>Name of Firm</u>	<u>Type of Industry</u>	<u>Amount of Sub-Loans Authorized</u>
3	Akcimento Ticaret**	Cement Production	\$ 324,717.66
2	Eti Toprak Endustrisi	Manufacture of Bricks	42,285.60
2	Türkiye Sise ve Cam**	Glass Production	274,257.97
1	Ibrahim Erdömez ve Kardeşler	Cement Products	26,093.48
2	Mutlu Aktü	Industrial Batteries	326,246.81
2	Karadeniz Bakir İşletmeleri **	Copper Mining	815,109.52
1	Mehmet Ali Tuzcuoglu**	Refrigerated Transp.	1,640,000.00
<u>2</u>	<u>Habaş Sinai ve Tibbi Gaz**</u>	<u>Industrial Gases</u>	<u>1,633,502.27</u>
<u>15</u>			<u>\$5,082,213.31(1)</u>

(1) Amounts in excess of the \$5 million AID loan will be met by unused sub-loan balances and/or Government of Turkey foreign exchange allocations.

** Firm is an exporter of Turkish industrial/agricultural commodities.

SINAI YATIRIM VE KREDI BANKASI
COMPARATIVE BALANCE SHEETS
 (IN THOUSANDS OF TL)

ANNEX VII

ASSETS	ACTUAL					PROJECTED			
	<u>1968</u>	<u>1969</u>	<u>1970</u>	<u>1971</u>	<u>1972</u>	<u>1973</u>	<u>1974</u>	<u>1975</u>	<u>1976</u>
Current Assets:									
Cash on Hand and in Banks	25,909	16,719	44,432	28,555	1,617	21,888	21,834	16,427	16,292
Accrued Interest and Commissions	6,851	10,586	14,989	16,130	21,935	8,200	8,000	4,983	5,000
Prepaid Expenses	87	93	554	170	451	550	600	650	700
TOTAL CURRENT ASSETS	<u>32,847</u>	<u>27,398</u>	<u>59,975</u>	<u>44,855</u>	<u>24,003</u>	<u>30,638</u>	<u>30,434</u>	<u>22,060</u>	<u>21,992</u>
Loans Receivable:									
Working Capital Loans Receivable (TL)	280,385	291,023	223,990	226,148	333,544	385,816	451,316	520,516	580,846
Investment Capital Loans Receivable (TL)	41,766	182,857	283,498	367,772	394,302	462,716	517,316	575,416	655,586
Investment Capital Loans Receivable (\$)	--	--	1,227	5,193	23,402	91,280	159,334	196,079	188,829
TOTAL LOANS RECEIVABLE	<u>322,151</u>	<u>473,880</u>	<u>508,715</u>	<u>599,113</u>	<u>751,648</u>	<u>939,812</u>	<u>1,127,966</u>	<u>1,292,011</u>	<u>1,425,261</u>
Investments:									
Equity Investments	32	2,023	4,058	5,321	5,321	12,300	17,300	22,300	27,300
Investments in Securities	253	3,565	2,446	2,165	2,005	1,705	1,400	1,100	800
TOTAL INVESTMENTS	<u>285</u>	<u>5,588</u>	<u>6,504</u>	<u>7,486</u>	<u>7,326</u>	<u>14,005</u>	<u>18,700</u>	<u>23,400</u>	<u>28,100</u>
Property & Equipment (Net of Depreciation)	487	499	630	636	560	600	600	600	600
TOTAL ASSETS	<u>355,770</u>	<u>507,365</u>	<u>575,824</u>	<u>652,090</u>	<u>783,537</u>	<u>985,055</u>	<u>1,177,700</u>	<u>1,338,071</u>	<u>1,473,953</u>

Liabilities & Shareholders' EquityCurrent Liabilities:

Accounts Payable	1,199	1,641	2,068	2,335	2,798
Accrued Taxes and Bonuses	1,571	2,109	1,368	1,659	1,901
Proposed Dividends	2,717	2,898	2,332	2,568	2,549
TOTAL CURRENT LIABILITIES	5,487	6,648	5,768	6,562	7,248

Long-Term Debt:

Advances from Founder Banks	228,552	375,097	441,013	510,864	571,749
A. I. D. Counterpart Loans	93,164	101,630	103,136	103,792	103,792
A. I. D. Dollar Loans	--	--	1,227	5,193	23,403
Export-Import Bank Loan	--	--	--	--	--
Advance from the Central Bank of Turkey	--	--	--	--	50,696
TOTAL LONG-TERM DEBT	327,716	476,727	545,376	619,849	749,640

Shareholders' Equity:

Capital Stock	20,000	20,000	20,000	20,000	20,000
Retained Earnings:					
Appropriated:					
Legal Reserve	1,171	1,716	2,089	2,534	2,987
Contingency Reserve	700	1,022	1,241	1,502	1,773
Extraordinary Reserve	696	1,252	1,350	1,643	1,889
Unappropriated:	--	--	--	--	--
TOTAL SHAREHOLDERS' EQUITY	22,567	23,990	24,680	25,679	26,649

TOTAL LIABILITIES & SHAREHOLDERS' EQUITY

	<u>ACTUAL</u>				
	<u>1968</u>	<u>1969</u>	<u>1970</u>	<u>1971</u>	<u>1972</u>
TOTAL LIABILITIES & SHAREHOLDERS' EQUITY	355,770	507,365	575,824	652,090	783,537

	<u>PROJECTED</u>			
	<u>1973</u>	<u>1974</u>	<u>1975</u>	<u>1976</u>
TOTAL LIABILITIES & SHAREHOLDERS' EQUITY	985,055	1,177,790	1,338,071	1,475,953

SINAI YATIRIM VE KREDI BANKASI
COMPARATIVE STATEMENTS OF PROFIT AND LOSS
 (IN THOUSANDS OF TL)

ANNEX VIII

<u>INCOME</u>	<u>ACTUAL</u>					<u>PROJECTED</u>			
	<u>1968</u>	<u>1969</u>	<u>1970</u>	<u>1971</u>	<u>1972</u>	<u>1973</u>	<u>1974</u>	<u>1975</u>	<u>1976</u>
Interest Received From:									
Working Capital Loans (TL)	28,456	31,948	29,124	27,118	33,763	44,222	48,159	58,310	66,082
Investment Capital Loans (TL)	1,692	11,907	24,929	38,864	45,506	51,151	56,741	62,946	71,608
Investment Capital Loans (\$)	--	--	--	335	1,230	4,260	11,700	15,698	18,199
Bank Deposits & Other Transactions	1,352	526	575	260	1,055	170	150	150	150
Income From Security & Equity									
Investments	369	146	264	269	285	100	500	600	700
Commissions & Fees	786	1,459	2,494	2,621	3,455	3,400	4,000	4,500	5,000
Other Income	74	49	53	7	24	--	--	--	--
TOTAL INCOME	32,729	46,035	57,439	69,474	85,318	103,303	121,250	142,204	161,739
<u>EXPENSE</u>									
Interest on Long-Term Debt	22,036	33,289	46,937	56,886	73,057	87,328	104,000	121,354	137,639
Taxes, Fees & Commissions	1,978	2,363	1,535	1,645	859	1,875	2,000	2,250	2,250
Personnel Expenses	2,757	3,355	3,791	4,793	4,906	5,828	6,400	7,000	8,000
Other Operating Expense	609	526	697	835	909	1,172	1,250	1,500	1,750
Depreciation	64	72	89	89	87	100	100	100	100
TOTAL EXPENSE	27,444	39,605	53,049	64,248	79,898	96,303	113,750	132,204	149,739

	ACTUAL					PROJECTED			
	1968	1969	1970	1971	1972	1973	1974	1975	1976
<u>Income Before Bonuses & Income Taxes</u>	5,285	6,430	4,390	5,226	5,420	7,000	7,800	10,000	12,000
<u>Provision for Bonuses & Income Tax</u>	1,571	2,109	1,368	1,659	1,901	2,450	2,625	3,500	4,200
NET INCOME	3,714	4,321	3,022	3,567	3,519	4,550	4,875	6,500	7,800
<u>Distribution of Net Income:</u>									
Dividends	2,717	2,898	2,332	2,568	2,549	3,255	3,488	4,650	5,500
Allocations to Legal Reserve	463	545	373	445	453	595	637	850	1,020
Allocations to Contingency Reserve	264	322	219	261	271	350	375	500	600
Allocations to Extraordinary Reserve	270	556	98	293	246	350	375	500	600
NET INCOME	3,714	4,321	3,022	3,567	3,519	4,550	4,875	6,500	7,800

SINAI YATIRIM VE KREDI BANKASI
COMPARATIVE STATEMENTS OF SOURCE AND APPLICATION OF FUNDS
(In Thousands of TL)

ANNEX IX

	ACTUAL				PROJECTED			
	1969	1970	1971	1972	1973	1974	1975	1976
SOURCE:								
Income Before Bonuses and Income Taxes	6,430	4,390	5,226	5,420	7,000	7,500	10,000	12,000
Provision for Depreciation	72	89	89	87	100	100	100	100
Funds Generated from Operations	6,502	4,479	5,315	5,507	7,100	7,600	10,100	12,100
Loan Principal Collections	87,362	112,337	127,372	141,850	168,304	200,246	230,075	359,450
New Borrowings from Loan Sources	149,011	68,649	74,473	130,086	192,782	208,214	184,628	161,811
Proceeds from Sales of Investment and Bonds	-	1,313	422	308	300	305	300	300
Sale of Capital Stock	-	-	-	-	20,000	-	-	-
Total Sources	242,875	186,778	207,582	277,751	388,486	416,365	485,103	533,661
APPLICATIONS:								
Repayment of Long-Term Debt	-	-	-	296	14,900	17,612	25,472	34,982
Loans Disbursed	239,091	147,172	217,771	294,384	356,468	388,400	454,120	492,700
Purchases of Investments and Bonds	5,301	2,229	1,403	148	6,979	5,000	5,000	5,000
Purchases of Property and Equipment (Net)	84	219	95	12	140	100	100	100
Payment of Prior Years' Income Taxes and Bonuses	1,571	2,109	1,368	1,659	1,901	2,450	2,625	3,900
Payment of Prior Years' Dividends	2,717	2,898	2,332	2,568	2,549	3,235	3,488	4,650
Increase (Decrease) in Other Net Assets	3,301	4,438	490	5,622	(14,722)	(398)	(294)	(7,135)
Total Applications	252,065	159,065	223,459	304,689	368,215	416,419	490,510	533,796
Increase (Decrease) in Net Cash	(9,190)	27,713	(15,877)	(26,938)	20,271	(54)	(5,407)	(135)

SINAI YATIRIM VE KREDI BANKASI
SUMMARY OF LONG-TERM DEBT
(In Thousands of TL)

ANNEX X

Year Ending December 31	AID Quasi-Equity Loan	AID Counterpart Loan	Total AID TL Loans	Founder Bank Loans	Central Bank Rediscunts	AID Loan 277-H-087 \$5 million	Export/Import Bank Credit \$ 4 million	Proposed AID Loan \$9 million	Total
1972	-	-	-	-	-	-	-	-	-
1973	-	-	-	-	-	296	-	-	296
1974	-	-	-	-	13,402	1,498	-	-	14,900
1975	-	-	-	-	12,700	3,792	1,120	-	17,612
1976	-	-	-	-	11,590	9,608	3,920	353	25,471
1977	-	-	-	-	10,615	12,480	9,240	2,646	34,981
1978	-	-	-	-	2,389	12,291	12,040	6,691	33,411
1979	1,898	-	1,898	-	-	11,573	12,040	16,947	40,560
1980	3,794	-	3,794	-	-	9,344	8,680	22,025	41,947
1981	3,794	-	3,794	-	-	7,259	6,720	21,684	39,457
1982	3,794	-	3,794	-	-	1,859	2,240	20,425	26,318
1983	3,794	-	3,794	-	-	-	-	16,493	20,287
1984	4,899	66	4,965	1,224	-	-	-	12,814	17,832
1985	6,005	133	6,138	5,242	-	-	-	5,922	16,129
1986	6,005	133	6,138	10,067	-	-	-	-	16,205
1987	6,005	132	6,137	59,140	-	-	-	-	65,278
1988	6,005	133	6,138	67,852	-	-	-	-	73,999
1989	6,005	132	6,137	72,871	-	-	-	-	79,009
1990	6,005	133	6,138	114,197	-	-	-	-	120,334
1991	6,005	132	6,137	128,659	-	-	-	-	134,797
1992	6,005	133	6,138	112,497	-	-	-	-	118,634
1993	6,005	132	6,137	-	-	-	-	-	6,138
1994	4,109	133	4,242	-	-	-	-	-	6,137
1995	2,212	132	2,344	-	-	-	-	-	4,242
1996	2,212	133	2,345	-	-	-	-	-	2,344
1997	2,212	132	2,344	-	-	-	-	-	2,345
1998	2,212	133	2,345	-	-	-	-	-	2,344
1999	2,212	132	2,344	-	-	-	-	-	2,345
2000	2,212	133	2,345	-	-	-	-	-	2,344
2001	2,212	132	2,344	-	-	-	-	-	2,345
2002	2,212	133	2,345	-	-	-	-	-	2,344
2003	2,212	132	2,344	-	-	-	-	-	2,345
2004	1,106	66	1,172	-	-	-	-	-	2,345
Total:	101,141	2,651	103,792	571,749	50,696	70,000	56,000	126,000	978,237
Effective Rate of Interest		4.5%-5.0%	12.67%	10.92%	6.5%	To be Determined	To be Determined		

ANNEX X
AID-DIC/P-1091
June 6, 1973
Page 1 of 1

SINAI YATIRIM VE KREDİ BANKASI
AMORTIZATION SCHEDULE OF OUTSTANDING LOANS FROM FOUNDER BANKS
AT DECEMBER 31, 1972

ANNEX XI

<u>Maturity</u>	<u>T. İş Bankası A.Ş.</u>	<u>Osmanlı Bankası A.Ş.</u>	<u>Akbank T. A. Ş.</u>	<u>T. Vakıflar Bankası</u>	<u>T. Garanti Bankası</u>	<u>Total</u>
15. 6. 1983	--	TL 239,885.93	--	--	--	TL 239,885.93
29. 8. 1983	--	709,178.94	--	--	--	709,178.94
16. 9. 1983	--	--	--	--	--	--
30. 11. 1983	--	275,376.02	--	--	--	275,376.02
29. 2. 1984	--	1,529,967.22	--	883,157.87	--	2,413,125.09
30. 5. 1984	--	1,752,231.10	--	--	--	1,752,231.10
31. 8. 1984	--	--	--	471,462.32	--	471,462.32
30. 11. 1984	--	283,387.40	--	401,597.12	--	684,984.52
27. 2. 1985	--	904,379.36	--	2,829,600.42	--	3,733,979.78
31. 5. 1985	--	437,490.54	--	--	--	437,490.54
31. 8. 1985	--	1,762,249.83	--	355,033.91	--	2,117,283.74
30. 11. 1985	TL 1,202,724.13	845,495.74	--	1,730,254.18	--	3,778,476.05
28. 2. 1986	24,807,445.60	2,191,994.13	TL 7,026,794.15	2,087,575.48	TL 223,808.78	36,337,618.14
31. 5. 1986	--	1,117,136.62	--	685,049.44	466,518.61	2,268,704.67
31. 8. 1986	4,542,083.57	339,676.51	1,520,196.75	522,482.30	710,334.47	7,634,773.60
30. 11. 1986	6,473,669.48	1,789,042.26	2,906,917.98	1,047,921.33	680,804.16	12,898,355.21
28. 2. 1987	31,607,352.03	2,796,224.04	13,267,424.31	3,429,127.25	3,046,585.25	54,146,912.88
31. 5. 1987	--	563,091.11	--	265,095.52	--	828,186.63
31. 8. 1987	--	--	--	2,141,675.65	1,223,412.79	3,365,088.44
30. 11. 1987	4,024,918.85	1,298,322.65	2,954,645.82	1,234,190.56	--	9,512,077.88
29. 2. 1988	24,874,604.16	1,883,044.65	13,100,264.08	2,210,473.86	2,849,843.57	44,918,230.32
31. 5. 1988	--	2,665,837.32	--	2,250,899.23	815,790.83	5,732,527.38
29. 8. 1988	7,036,223.26	--	2,378,683.38	854,452.90	1,509,148.81	11,778,508.55
30. 11. 1988	5,323,581.76	348,630.18	3,603,420.64	--	1,166,333.43	10,461,966.01
26. 2. 1989	55,830,298.35	3,672,821.04	18,215,103.35	4,910,720.15	4,665,646.25	87,294,589.14

<u>Maturity</u>	<u>T. Is Bankasi A.S.</u>	<u>Osmanli Bankasi A.S.</u>	<u>Akbank T. A. S.</u>	<u>T. Vakiflar Bankasi</u>	<u>T. Garanti Bankasi</u>	<u>Total</u>
31. 5. 1989	--	--	--	TL 758,933.72	TL 1,075,710.97	TL 1,834,644.69
29. 8. 1989	--	TL 894,126.93	TL 2,808,173.45	1,838,530.62	4,615,125.45	10,155,956.45
28. 11. 1989	TL 6,610,653.39	1,380,478.98	5,160,840.77	144,838.44	1,614,995.95	14,911,807.53
28. 2. 1990	66,381,049.45	1,995,711.75	18,434,490.51	3,714,956.52	11,843,315.34	102,369,523.57
30. 5. 1990	--	--	--	--	--	--
31. 8. 1990	--	--	--	--	--	--
30. 11. 1990	9,571,657.90	2,588,943.77	7,737,621.30	3,660,938.64	2,730,232.00	26,289,393.61
28. 2. 1991	--	6,162,539.94	--	--	--	6,162,539.94
1. 3. 1991	--	--	--	5,324,068.65	14,927,623.79	20,251,692.44
12. 3. 1991	26,713,536.07	--	--	--	--	26,713,536.07
30. 12. 1991	<u>39,036,219.19</u>	--	<u>20,332,053.60</u>	--	--	<u>59,368,272.79</u>
Total	<u>TL 314,036,219.19</u>	<u>TL 40,347,263.96</u>	<u>TL 119,445,630.29</u>	<u>TL 43,753,036.08</u>	<u>TL 54,165,230.45</u>	<u>TL 571,748,379.97</u>

SIRAI YATIRAN VE FIKSI BAKASI
GENERAL INVESTIGATION SCHEDULE
Fixed Assets Loans

TEKNO	DATE	BALANCE AT BEGINNING OF EACH TERM	AMORTIZATION OF PRINCIPAL	INTEREST	Total INSTALLMENT
1	31.12.1969	-	-	-	-
2	30.6.1970	TL 101,141,352.55	-	TL 2,390,866.63	TL 2,390,866.63
3	31.12.1970	101,141,352.55	-	2,430,494.26	2,430,494.26
4	30.6.1971	101,141,352.55	-	2,390,866.63	2,390,866.63
5	31.12.1971	101,141,352.55	-	2,430,494.26	2,430,494.26
6	30.6.1972	101,141,352.55	-	2,390,866.63	2,390,866.63
7	31.12.1972	101,141,352.55	-	2,430,494.26	2,430,494.26
8	30.6.1973	101,141,352.55	-	2,390,866.63	2,390,866.63
9	31.12.1973	101,141,352.55	-	2,430,494.26	2,430,494.26
10	30.6.1974	101,141,352.55	-	2,390,866.63	2,390,866.63
11	31.12.1974	101,141,352.55	-	2,430,494.26	2,430,494.26
12	30.6.1975	101,141,352.55	-	2,390,866.63	2,390,866.63
13	31.12.1975	101,141,352.55	-	2,430,494.26	2,430,494.26
14	30.6.1976	101,141,352.55	-	2,390,866.63	2,390,866.63
15	31.12.1976	101,141,352.55	-	2,430,494.26	2,430,494.26
16	30.6.1977	101,141,352.55	-	2,390,866.63	2,390,866.63
17	31.12.1977	101,141,352.55	-	2,430,494.26	2,430,494.26
18	30.6.1978	101,141,352.55	-	2,390,866.63	2,390,866.63
19	31.12.1978	101,141,352.55	-	2,430,494.26	2,430,494.26
20	30.6.1979	101,141,352.55	-	2,390,866.63	2,390,866.63
21	31.12.1979	101,141,352.55	TL 1,897,601.02	2,430,494.26	4,328,075.28
22	30.6.1980	99,243,751.53	1,896,700.00	2,390,866.63	4,227,269.21
23	31.12.1980	97,327,051.53	1,896,700.00	2,390,866.63	4,227,269.21
24	30.6.1981	95,450,351.53	1,896,700.00	2,390,866.63	4,227,269.21
25	31.12.1981	93,553,651.53	1,896,700.00	2,390,866.63	4,227,269.21
26	30.6.1982	91,656,951.53	1,896,700.00	2,390,866.63	4,227,269.21
27	31.12.1982	89,760,251.53	1,896,700.00	2,390,866.63	4,227,269.21
28	30.6.1983	87,863,551.53	1,896,700.00	2,390,866.63	4,227,269.21
29	31.12.1983	85,966,851.53	1,896,700.00	2,390,866.63	4,227,269.21
30	30.6.1984	84,070,151.53	1,896,700.00	2,390,866.63	4,227,269.21
31	31.12.1984	82,173,451.53	1,896,700.00	2,390,866.63	4,227,269.21
32	30.6.1985	80,276,751.53	1,896,700.00	2,390,866.63	4,227,269.21
33	31.12.1985	78,380,051.53	1,896,700.00	2,390,866.63	4,227,269.21
34	30.6.1986	76,483,351.53	1,896,700.00	2,390,866.63	4,227,269.21
35	31.12.1986	74,586,651.53	1,896,700.00	2,390,866.63	4,227,269.21
36	30.6.1987	72,689,951.53	1,896,700.00	2,390,866.63	4,227,269.21
37	31.12.1987	70,793,251.53	1,896,700.00	2,390,866.63	4,227,269.21
38	30.6.1988	68,896,551.53	1,896,700.00	2,390,866.63	4,227,269.21
39	31.12.1988	67,000,000.00	1,896,700.00	2,390,866.63	4,227,269.21
40	30.6.1989	65,103,500.00	1,896,700.00	2,390,866.63	4,227,269.21
41	31.12.1989	63,207,000.00	1,896,700.00	2,390,866.63	4,227,269.21
42	30.6.1990	61,310,500.00	1,896,700.00	2,390,866.63	4,227,269.21
43	31.12.1990	59,414,000.00	1,896,700.00	2,390,866.63	4,227,269.21
44	30.6.1991	57,517,500.00	1,896,700.00	2,390,866.63	4,227,269.21
45	31.12.1991	55,621,000.00	1,896,700.00	2,390,866.63	4,227,269.21
46	30.6.1992	53,724,500.00	1,896,700.00	2,390,866.63	4,227,269.21
47	31.12.1992	51,828,000.00	1,896,700.00	2,390,866.63	4,227,269.21
48	30.6.1993	50,000,000.00	1,896,700.00	2,390,866.63	4,227,269.21
49	31.12.1993	48,172,000.00	1,896,700.00	2,390,866.63	4,227,269.21
50	30.6.1994	46,344,000.00	1,896,700.00	2,390,866.63	4,227,269.21
51	31.12.1994	44,516,000.00	1,896,700.00	2,390,866.63	4,227,269.21
52	30.6.1995	42,688,000.00	1,896,700.00	2,390,866.63	4,227,269.21
53	31.12.1995	40,860,000.00	1,896,700.00	2,390,866.63	4,227,269.21
54	30.6.1996	39,032,000.00	1,896,700.00	2,390,866.63	4,227,269.21
55	31.12.1996	37,204,000.00	1,896,700.00	2,390,866.63	4,227,269.21
56	30.6.1997	35,376,000.00	1,896,700.00	2,390,866.63	4,227,269.21
57	31.12.1997	33,548,000.00	1,896,700.00	2,390,866.63	4,227,269.21
58	30.6.1998	31,720,000.00	1,896,700.00	2,390,866.63	4,227,269.21
59	31.12.1998	29,892,000.00	1,896,700.00	2,390,866.63	4,227,269.21
60	30.6.1999	28,064,000.00	1,896,700.00	2,390,866.63	4,227,269.21
61	31.12.1999	26,236,000.00	1,896,700.00	2,390,866.63	4,227,269.21
62	30.6.2000	24,408,000.00	1,896,700.00	2,390,866.63	4,227,269.21
63	31.12.2000	22,580,000.00	1,896,700.00	2,390,866.63	4,227,269.21
64	30.6.2001	20,752,000.00	1,896,700.00	2,390,866.63	4,227,269.21
65	31.12.2001	18,924,000.00	1,896,700.00	2,390,866.63	4,227,269.21
66	30.6.2002	17,096,000.00	1,896,700.00	2,390,866.63	4,227,269.21
67	31.12.2002	15,268,000.00	1,896,700.00	2,390,866.63	4,227,269.21
68	30.6.2003	13,440,000.00	1,896,700.00	2,390,866.63	4,227,269.21
69	31.12.2003	11,612,000.00	1,896,700.00	2,390,866.63	4,227,269.21
70	30.6.2004	9,784,000.00	1,896,700.00	2,390,866.63	4,227,269.21

ANNEX XIII

CHECKLIST OF STATUTORY CRITERIA

TURKEY

SINAI YATIRIM VE KREDI BANKASI A.O.

The following abbreviations are used:

FAA -- Foreign Assistance Act of 1961, as amended, incorporating amendments effected by the Foreign Assistance Act of 1971

APP -- Foreign Assistance and Related Agencies Appropriations Act, 1972

1. FAA Sec.102 Assistance wherever practicable consists of U.S. commodities and services furnished consistent with efforts to improve the U.S. balance of payments. Code 941 countries are eligible pursuant to M.O. 14411.5
2. FAA Sec.201(b). Manner in which loan will promote country's economic development, emphasizing long-range plans for developing economic resources and production capacities. See Sections E and F of Capital Assistance Paper
3. FAA Sec.201(b)(1). Information and conclusion on availability of financing from other free world sources, including private sources within the United States. Exim Bank has extended \$4.4 million line of credit. No other free-world source financing available at this time.
4. FAA Sec.201(b)(2). Information and conclusion on activity's economic and technical soundness, including the capacity of the recipient country to repay the loan at a reasonable rate of interest. See Section D of CAP. Turkey can repay the loan at a reasonable rate of interest.

5. FAA Sec.201(B)(3). Information and conclusion on existence of reasonable promise activity will contribute to development of economic resources or increase of productive capacities.

See Sections E.1, E.3, E.4 and E.4 of CAP.

6. FAA Sec.201(b)(4). Information and conclusion on activity's relationship to other development activities, and its contribution to realizable long-range objectives.

See Sections A, D.1 and F of CAP.

7. FAA Sec.201(b)(5). Country's self-help measures.

The country is taking adequate self-help measures. In respect to the balance of payments, perhaps the most notable single measure was the 67% devaluation of the Turkish Lira in 1970. The devaluation triggered a surge in workers' remittances and in export performance which is still continuing. From the point of view of domestic financing the Government has recently completed the sale of TL 4 billion worth of bonds to assist in financing the 1972 budget. These bonds were sold largely to the private sector, and this method of financing was in place of the customary resort to borrowing from the Central Bank. This relatively non-inflationary financing plus more effective control of expenditures is evidence that the Government is improving its ability both to control and to finance its budget. Other self-help measures include a series of investment encouragement laws which are designed to channel investment into high-priority sectors. The Parliament recently has approved the Third Five Year Plan which calls for the percentage of GNP devoted to savings to rise from 19.6% at the beginning of the TFP to 25.4% by 1977. This means that of every 100 TL of additional national product, 38 must be saved and invested. This goal is indicative of Turkey's commitment to self-help to

ANNEX XIII

CHECKLIST OF STATISTICAL CRITERIA

TURKEY

SINAI YATIRIM VE KREDI BANKASI A.O.

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|--|---|
| 1. <u>FAA Sec.102</u> Assistance wherever practicable consists of U.S. commodities and services furnished consistent with efforts to improve the U.S. balance of payments. | Code 941 countries are eligible pursuant to N.O. 14411.5 |
| 2. <u>FAA Sec.201(b)</u> . Manner in which loan will promote country's economic development, emphasizing long-range plans for developing economic resources and production capacities. | See Sections E and F of Capital Assistance Paper |
| 3. <u>FAA Sec.201(b)(1)</u> . Information and conclusion on availability of financing from other free world sources, including private sources within the United States. | Exim Bank has extended \$4.4 million line of credit. No other free-world source financing available at this time. |
| 4. <u>FAA Sec.201(b)(2)</u> . Information and conclusion on activity's economic and technical soundness, including the capacity of the recipient country to repay the loan at a reasonable rate of interest. | See Section D of CAP. Turkey can repay the loan at a reasonable rate of interest. |

5. FAA Sec.201(B)(3). Information and conclusion on existence of reasonable promise activity will contribute to development of economic resources or increase of productive capacities.

See Sections E.1, E.3, F.1 and F.4 of CAP.

6. FAA Sec.201(b)(4). Information and conclusion on activity's relationship to other development activities, and its contribution to realizable long-range objectives.

See Sections A, D.1 and F of CAP.

7. FAA Sec.201(b)(5). Country's self-help measures.

The country is taking adequate self-help measures. In respect to the balance of payments, perhaps the most notable single measure was the 67% devaluation of the Turkish Lira in 1970. The devaluation triggered a surge in workers' remittances and in export performance which is still continuing. From the point of view of domestic financing the Government has recently completed the sale of TL 4 billion worth of bonds to assist in financing the 1972 budget. These bonds were sold largely to the private sector, and this method of financing was in place of the customary resort to borrowing from the Central Bank. This relatively non-inflationary financing plus more effective control of expenditures is evidence that the Government is improving its ability both to control and to finance its budget. Other self-help measures include a series of investment encouragement laws which are designed to channel investment into high-priority sectors. The Parliament recently has approved the Third Five Year Plan which calls for the percentage of GNP devoted to savings to rise from 19.6% at the beginning of the IFYP to 25.4% by 1977. This means that of every 100 TL of additional national product, 38 must be saved and invested. This goal is indicative of Turkey's commitment to self-help to

- finance its industrialization program.
8. FAA Sec.201(b)(6). Information and conclusion on possible effects on U.S. economy, with special reference to areas of substantial labor surplus.
- It is anticipated that most, if not all, of amount of loan will finance goods of U.S. source and origin. No information can be developed as to whether any specific labor surplus area will be benefited.
9. FAA Sec.201(b)(7). Information and conclusion on the degree to which the country is making progress toward respect for the rule of law, freedom of expression, and of the press, and recognition of the importance of individual freedom, initiative, and private enterprise.
- Despite criticism within and without Turkey that Turkish authorities have been overly repressive against dissent, we believe that Turkey has made satisfactory progress towards all of these goals. Particularly important is the Government's promise that elections will be held, as constitutionally required, in October, 1973.
10. FAA Sec.201(b)(8). Information and conclusion on the degree to which the country is taking steps to improve its climate for private investment.
- Although there remains a strong tradition of public sector investment dating back to the early days of the Republic, there is a growing emphasis on the private sector's role in investment and production. The latest official statements and decrees have increased and encouraged the use of private sector investment import quotas. Furthermore, the several-faceted encouragement scheme (custom tax exemptions and deferrals, low cost medium term credit, tax rebates, etc.) have been applied to private firms throughout Turkey. The Undersecretary of the Ministry of Industry has called for majority private ownership in joint public-private activities so that the profit motive might lead to more efficiency.

11. FAA Sec.201(b)(9). Information and conclusion on whether or not the activity to be financed will contribute to the achievement of self-sustaining growth.

The Project will have that effect. See Sections A D.1., E.1, E.3 and F of the CAP.
12. FAA Sec.201(b). Compliance with requirement that funds not be used to make loans to more than twenty countries in any fiscal year.

This limitation will not be violated.
13. FAA Sec.201(b). Information and conclusion on reasonable prospects of repayment.

There are good prospects for the repayment of the loan.
14. FAA Sec.201(d). Information and conclusion on legality (under laws of the country and the U.S.) and reasonableness of lending and relending terms.

The terms are lawful under U.S. laws and appropriate assurances of their legality under Turkish law shall be obtained as a condition precedent to disbursement. The loan terms are reasonable. Relending terms will be approved by A.I.D.
15. FAA Sec.201(e). Information and conclusion on availability of an application together with sufficient information and assurances to indicate reasonably that funds will be used in an economically and technically sound manner.

An application has been received. Expected soundness of economic and technical usage of funds is covered in Sections A.D.1, D.2, E.3 and F of the CAP.
16. FAA Sec.201(f). If a project, information and conclusion whether it will promote the economic development of the requesting country, taking into account the country's human and material resource requirements and the relationship between the ultimate objectives of the project and the country's overall economic development.

The economic development of Turkey, will be promoted. Account has been taken of the impact of the loan on Turkey's overall economic development. See Sections A, B.3 and F. of the CAP.
17. FAA Sec.201(F). If a project, information and conclusion whether it specifically provides for appropriate participation by private enterprise.

The private sector of the Turkish economy will be the prime beneficiary since funds made available under the loan can be used only for relending to private sector enterprises. SYKB is itself a private sector enterprise.

18. FAA Sec.202(a). Total amount of money under loan which is going directly to private enterprise, is going to intermediate credit institutions or other borrowers for use by private enterprise, is being used to finance imports from private sources, or is otherwise being used to finance procurements from private sources.
- All of the loan will be used to finance imports by the private sector, through SYKB, an intermediate credit institution. Dollars provided under the loan will be used to procure goods and services from the U.S. private sector and Code 941 countries.
19. FAA Sec.207(a). Information that U.S. assistance places appropriate emphasis on encouraging strong economic, political, and social institutions needed for a progressive democratic society.
- U.S. assistance places appropriate emphasis on encouraging strong economic, political and social institutions needed for a progressive democratic society. A key purpose of U.S. assistance to Turkey is institution building. In this loan a key development banking institution will be strengthened with mechanisms built in to encourage loans to relatively less-developed areas of the country. By assisting in the mobilization of private resources for development, this loan will expand popular participation in the development process.
20. FAA Sec.208(b). Information and conclusion on the extent to which the country is creating a favorable climate for foreign and domestic private enterprise and investment.
- Turkey is making satisfactory progress in the area of encouraging foreign private investment. From 1951 to 1970, authorized private foreign investment in non-petroleum activities amounted to TL 2.5 billion (\$178.6 million at current exchange rate) of which 36.9% was actually carried out. Petroleum exploration and refinery investment by foreign companies came to \$307.3 million for the period 1954 through 1971.

Between 1971 and 1972 private foreign investment was hesitant to enter Turkey because of unstable political conditions and the difficulty of meeting four conditions set forth by the "above parties government" for foreign investment (the maximum 49% foreign ownership was probably the most difficult condition). However, since late 1972, this latter requirement has been de facto abolished and statements encouraging private foreign investment have been forthcoming from high government officials. (See also FAA Sec. 201(b)(8), No. 10 above):

21. FAA Sec.208(c). Information and conclusion on the extent to which the country is increasing the role of the people in the developmental process.

Turkey is increasing the role of the people in the developmental process through its democratic institutions and through such mechanisms as village and farmer cooperatives. The TFYP was debated and passed by the popularly elected Parliament. The land reform legislation proposed by the GORT requires that in order to receive land, farmers must belong to cooperatives. Popular involvement in the country's development also takes place through the financing of numerous investment projects by private pension funds.

22. FAA Sec.208(e). Information and conclusion on the extent to which the country is willing to make contributions of its own on the projects and programs for which assistance is provided.

The amount of contribution of funds from SYKB itself and its Founder Banks is considered adequate.

23. FAA Sec.208(g). Information and conclusion (other than above) on the extent to which the country is responding to the economic, political, and social concerns of its people and showing a clear determination to take effective self-help measures.

The GORT is responding adequately to such concerns and is taking sufficient self-help measures. The TFYP is intended to be a first step toward Turkey's integration with the European Common Market. A number of reform measures are pending, including land and tax reform.

While the final form of these measures is not yet known, it is quite clear that any modifications in the GOKU's proposals will be made by the popularly elected Parliament. Self-help measures are discussed above under Section 201(b)(5) (No.7).

24. FAA Sec.281. Extent to which the loan will contribute to the objective of assuring maximum participation in the task of economic development on the part of the people of the developing countries, through the encouragement of democratic private and local governmental institutions.
25. FAA Sec.601(a). Information and conclusions whether loan will encourage efforts of the country to: (a) increase the flow of international trade; (b) foster private initiative and competition; (c) encourage development and use of cooperatives, credit unions, and savings and loan associations; (d) discourage monopolistic practices; (e) improve technical efficiency of industry, agriculture, and commerce; (f) strengthen free labor unions.
26. FAA Sec.601(b) Information and conclusion on how the loan will encourage U.S. private trade and investment abroad, and how it will encourage private U.S. participation in foreign assistance programs (including use of private trade channels and the services of U.S. private enterprise.)
- This loan will contribute to that objective by making loans to firms in the private sector which contribute to the economic development of Turkey. It is anticipated that these firms will in turn become more attractive opportunities for investment by private citizens. The demand for such opportunities is currently very high in Turkey.
- (a) The loan will encourage the flow of international trade by providing for the export of goods to Turkey from the U.S. (primarily) and Code 941 countries; (b) private enterprise, initiative and competition will be encouraged; (c) the loan will have no direct effect on the development and use of cooperatives, credit unions and saving and loan associations; (d) it is one of the goals of SYKB to reduce monopolistic practices to the extent that it does not lead to uneconomic practices; (e) another prime SYKB goal is to foster technical efficiency of industry; (f) the loan will have no measurable effect in strengthening free labor unions.
- The loan will finance and encourage the export of U.S. goods and services to Turkey. Moreover, this loan is oriented toward the strengthening of the private sector of the economy. A stronger and more vigorous private sector should increase the possibilities for participation by U.S. capital and provide a better market for U.S. products.

27. FAA Sec. 601(d). Conclusion and supporting information on compliance with the Congressional policy that engineering and professional services of U.S. firms and their affiliates are to be used in connection with capital projects to the maximum extent consistent with the national interest.
- It is anticipated that engineering and professional services for technical assistance to certain subloan projects will be obtained from private sources in the U.S. See section E.1 of CAP.
28. FAA Sec. 602. Information and conclusions whether loan will permit American small business to participate equitably in the furnishing of goods and services financed by it.
- Normal Small Business Publication will be required.
29. FAA Sec. 604(a). Compliance with restriction of commodity procurement to U.S. except as otherwise determined by the President and subject to statutory reporting requirements.
- Code 941 countries are eligible pursuant to M.O. 1411.5
30. FAA Sec. 604(b). Compliance with restriction that no funds be used to procure bulk commodities at prices higher than the market price prevailing in the U.S. at time of purchase.
- No commodities will be procured in bulk.
31. FAA Sec. 604(d). Compliance with requirement that marine insurance on commodities be purchased on competitive basis or, if the participating country discriminates against any marine insurance company authorized to do business in any State of the United States, that insurance be placed in the U.S.
- This will be complied with.
32. FAA Sec. 608(a). Information as to the utilization of excess personal property in lieu of procurement of new items.
- Excess property utilization is considered inconsistent with the nature and structure of this loan.

33. FAA Sec. 611(a)(1). Information and conclusion on availability of engineering, financial, and other plans necessary to carry out the assistance and of a reasonably firm estimate of the cost of the assistance to the United States. All necessary planning has been accomplished. The cost to the United States is limited to the maximum funds available under the loan.
34. FAA Sec. 611(a)(2). Necessary legislative action required within recipient country and basis for reasonable anticipation such action will be completed in time to permit orderly accomplishment of purposes of loan. All Government of Turkey legislative action required will be accomplished.
35. FAA Sec. 611(c). Compliance with requirement that contracts for construction be let on competitive basis to maximum extent practicable. This Section will be complied with.
36. FAA Sec. 611(e). Compliance with the requirement that for all projects estimated to cost in excess of \$1,000,000, the principal officer of AID in the country in which the project is located certify as to the capability of the country (both financial and human resources) effectively maintain and utilize the project taking into account among other things the maintenance and utilization of projects in the country previously financed or assisted by the U.S. (Such certifications are to be approved by the Administrator or appropriate assistant administrator per Delegation of Authority #75 before assistance is authorized.) Such a certification has been executed.
37. FAA Sec. 612(b) and 636(h). Appropriate steps that have been taken to assure that, to the maximum extent possible, the country is contributing local currencies to meet the cost of contractual and other services and foreign currencies owned by the U.S. are utilized to meet the cost of contractual and other services. No such steps are required or possible for this loan.

38. FAA Sec. 620(a). Compliance with prohibitions against assistance to Cuba and any country (a) which furnishes assistance to Cuba or failed to take appropriate steps by February 14, 1964, to prevent ships or aircraft under its registry from carrying equipment, materials, or supplies from or to Cuba; or (b) which sells, furnishes, or permits any ships under its registry from carrying items of primary strategic significance, or items of economic assistance.
- Turkey is not in violation of these sections.
39. FAA Sec. 620(b). If assistance to the Government of a country, existence of determination it is not controlled by the international communist movement.
- Turkey is not controlled by the International Communist movement.
40. FAA Sec. 620(c). If assistance to the government of a country, existence of indebtedness to a U.S. citizen for goods or services furnished or ordered where such citizen has exhausted available legal remedies or where the debt is not denied or contested by such government or the indebtedness arises under an unconditional guaranty of payment given by such government.
- Turkey is not in violation of this section.
41. FAA Sec. 620(d). If assistance for any productive enterprise which will compete with U.S. recipient country to prevent export to the U.S. of more than 20% of the enterprise's annual production during the life of the loan.
- Such exports are not contemplated.
42. FAA Sec. 620(e) (1). If assistance to the government of a country, extent to which it (including government agencies or subdivisions) has, after January 1, 1962, taken steps to repudiate or nullify contracts or taken any action which has the effect of nationalizing, expropriating, or otherwise seizing ownership or control of property of U.S. citizens or entities beneficially owned by them without taking appropriate steps to discharge its obligations.
- Turkey is not ineligible under this Section.

43. FAA Sec. 620(f). Compliance with prohibitions against assistance to any communist country. Turkey is not a communist country.
44. FAA Sec. 620(g). Compliance with prohibition against use of assistance to compensate owners for expropriated or nationalized property. Loan funds will not be used for such purposes.
45. FAA Sec. 620(h). Compliance with regulations and procedures adopted to ensure against use of assistance in a manner which, contrary to the best interests of the U.S., promotes or assists the foreign aid projects or activities of the Communist-bloc countries. Such compliance is assured.
46. FAA Sec. 620(i). Existence of determination that the country is engaging in or preparing for aggressive military efforts. No such action is contemplated by Turkey.
47. FAA Sec. 620(j). Information on representation of the country at any international conference when that representation includes the planning of activities involving insurrection or subversion against the U.S. or countries receiving U.S. assistance. No such information has been received.
48. FAA Sec. 620(k). Existence of a determination that the country has permitted or failed to prevent destruction of U.S. property by mob action or has failed to take steps to prevent a recurrence and to pay compensation. Police, gendarmerie and security forces in Turkey have the capability and have demonstrated their readiness to prevent such mob action.
49. FAA Sec. 620(l). If construction of productive enterprises where aggregate value of assistance to be furnished by U.S. will exceed \$100 million, identification of statutory authority. This prohibition will not be violated.
50. FAA Sec. 620(m). Consideration which has been given to denying assistance to the government of a country which after December 31, 1966, has failed to institute the investment guaranty program for the specific risks of inconvertibility and expropriation or confiscation. Turkey has an investment guaranty program in force.

51. FAA Sec. 620(n). Compliance with prohibitions against assistance to countries which traffic or permit trafficking with North Viet-Nam. Turkey is not ineligible under section.
52. FAA Sec. 620(o). If country has seized, or imposed any penalty or sanction against, any U.S. fishing vessel on account of its fishing activities in international waters, information on the consideration which has been given to excluding the country from assistance. No such action has been taken by Turkey.
53. FAA Sec. 620(p). U.A.R. restriction. Not applicable.
54. FAA Sec. 620(q). Existence of default in payment under any Foreign Assistance Act loan to the country. Negotiations are continuing between the GORT and USAID over the payment of three bills of collection totalling about \$30,000. In view of the fact that negotiations are still proceeding and of the small amount involved, it is considered that Turkey is not ineligible under this section.
55. FAA Sec. 620(s). Consideration of whether the country is devoting an unnecessary percentage of its budget for military purposes, or using foreign exchange for military equipment, and the amount spent for the purchase of sophisticated weapons systems. Turkey is not devoting an unnecessary percentage of its budget, or unnecessarily using foreign exchange, for military purpose and equipment. Consideration has been given to the amount spent on sophisticated weapons systems.
56. FAA Sec. 620(t). Compliance with prohibition on aid if country has severed diplomatic relations with U.S. unless agreements have been negotiated after resumption of relations. Not applicable.
57. FAA Sec. 620(u). Status of the country with respect to its dues, assessments, and other obligations to the United Nations. Turkey is not delinquent in its U.N. obligations.
58. FAA Sec. 636(i). Compliance with prohibition on financing non-U.S.-manufactured motor vehicles (except where special circumstances exist and a waiver is authorized.) This requirement will be met.

59. App. Sec. 102 Compliance with requirement that payments in excess of \$25,000 for architectural and engineering services on any one project be reported to Congress. While the use of engineering services financed with loan funds is expected, no payments in excess of \$25,000 are anticipated. However, any such payment will be reported.
60. App. Sec. 104 Compliance with bar against funds to pay pensions, etc., for military personnel. Funds will not be used for such purposes.
61. App. Sec. 106. Compliance with requirement for approval of contractors and contract terms for capital projects. Such compliance will be made.
62. App. Sec. 108 Compliance with bar against use of funds to pay assessments, etc., of U.N. Loan funds will not be used for such purposes.
63. FAA Sec. 209. Desirability of furnishing assistance through multilateral or regional programs. No funds from other donors are available for this project at this time. It is hoped that they will become available in the future. This project does not lend itself to a regional program.
64. FAA Sec. 481. If country has failed to take adequate steps to prevent narcotic drugs from entering the U.S. unlawfully. Turkey is cooperating fully in eliminating illicit trade in narcotic drugs.
65. FAA Sec. 605(e). Compliance with restriction against procuring with A.I.D. funds agricultural commodities outside the U.S. when the domestic price of such commodity is less than parity. No agricultural commodities will be procured with funds provided under this loan.
66. FAA Sec. 611(b); App. Sec. 101 Compliance with requirement that plans for any water or related land resource construction projects or program shall include computation of benefits and costs. Given SYKB's charter, no water or related land resource construction project or program will be financed.
67. FAA Sec. 619. Compliance with restriction on assistance to newly independent countries. Turkey is not a newly independent country.

68. FAA Sec.620(y). Compliance with restriction on assistance to Greece. Not applicable.
69. FAA Sec.620(w). Compliance with restriction on assistance to Pakistan. Not applicable.
70. FAA Sec.655. Compliance with restriction on assistance to Cambodia. Not applicable.
71. FAA Sec.653. Compliance with restriction on obligation or expenditure of funds while certain funds appropriated for domestic uses are impounded. This action has been complied with.
72. App Sec.109 Compliance with requirement with regard to financing construction work performed by third country nationals. This requirement will be complied with to the extent it is applicable.
73. App Sec.110 Compliance with requirement with regard to financing iron and steel products for use in Vietnam. Not applicable.
74. App Sec.112 Compliance with restriction on assistance to India or Pakistan. Not applicable.

DEPARTMENT OF STATE
AGENCY FOR INTERNATIONAL DEVELOPMENT
WASHINGTON, D.C. 20523

A.I.D. Loan No. _____
CAP No. _____
Project No. _____

CAPITAL ASSISTANCE LOAN AUTHORIZATION
Provided from: Development Loan Funds
Turkey: Sinai Yatirim ve Kredi Bankasi A.O.

Pursuant to the authority vested in the Administrator of the Agency for International Development ("A.I.D.") by the Foreign Assistance Act of 1961, as amended, and delegations of authority issued thereunder, I hereby authorize the establishment of a loan pursuant to Part I, Chapter 2, Title I, the Development Loan Fund, to the Government of Turkey ("the Government") of not to exceed Nine Million dollars, (\$9,000,000), such funds to be made available by a reloan to Sinai Yatirim ve Kredi Bankasi A.O. ("SYKB"), a Turkish corporation, for use by SYKB for medium-term and long-term subloans to private Turkish entities for industrial sector projects and to finance the services of consultants to advise SYKB and sub-borrowers on matters related to its or their operations, this loan to be subject to the following terms and conditions:

1. Terms of Repayment and Interest:

- (a) SYKB shall pay to the Government in the currency of Turkey:
 - (i) principal amounts, equal in the aggregate to the principal amount of this loan, within fifteen (15) years from the date of the first disbursement under the loan; and
 - (ii) interest on outstanding principal amounts payable under this loan to the Government, at a rate per annum agreeable to AID.

- (b) The Government shall pay to AID in United States Dollars:
 - (i) the disbursed amount of the loan within forty (40) years from the date of the first disbursement under the loan, including a grace period of not to exceed (10) years; and
 - (ii) interest at the rate of two percent (2%) per annum on the disbursed balance of the loan for the (10) years following the date of first disbursement and three percent (3%) per annum on the outstanding balance thereafter.

2. Other Terms and Conditions:

- (a) Equipment, materials, and services financed under the loan shall be procured from the United States and Code 941 countries.
- (b) Submission of a reloan agreement between the Government of Turkey and SYKB, acceptable to A.I.D.
- (c) Such other terms and conditions as A.I.D. may deem advisable.

Assistant Administrator
Bureau for Asia

Date

Memorandum

M. Handley

2770604

TO : See Distribution

DATE: April 16, 1973

FROM : ASIA/CD, T. A. Sterner *TAS*

SUBJECT: Review of Development Bank IRR for Turkey

An Asia Bureau review of the attached IRR proposing a \$9.0 million Development Loan to the GORT for re-lending to Sinai Yatirim ve Kredi Bankasi (SYKB) is scheduled for 10:00 a.m. Thursday, April 19, 1973 in the ASIA/CD Conference Room, 4717 NS. (Since only ten hecto copies of this IRR came in from USAID, distribution of copies is limited as indicated below until we are able to get it legibly reproduced.)

Attachment:

- 1. IRR for Turkey

- Distribution:
- AA/ASIA, AWhite (1)
 - PPC/DPR, AHandley (4)
 - PPC/KC, EGriffel (1)
 - ASIA/NE, BLangmaid (1)
 - ASIA/GC, SStein (1)
 - ASIA/CD, TLustig
 - ASIA/CD, STaubenblatt
 - ASIA/CD, JStephenson
 - ASIA/DP, AShakov

Was the problem we are working on - about like every 9 million

Need to start of X... + B.P.P.

As the the government going to adopt policy 4 pages to spend and loan credit to private investors?

Will there be a continuous line of credit available for 54 KB in foreign exchange for the period of the loan a 2nd loan are limit down 5% or 9 million at 6 1/2%



INITIATIVE REVIEW REQUEST
PROPOSED \$9 MILLION LOAN TO SYKB

I. Summary and Recommendations

By letter dated March 24, 1973, the Ministry of Finance has formally requested an A.I.D. loan of \$9 million. The proceeds of the loan will be re-lent by the government of Turkey to Sinai Yatirim ve Kredi Bankasi (SYKB), an Istanbul-based Development Bank. The loan will be used to finance private sector industrial investment projects.

SYKB was formed in 1963 by five Turkish Commercial Banks (Founder Banks); these five banks have provided a continuing source of local currency to SYKB as a result of an agreement whereby 5% of the growth of Founder Bank deposits are available for use by SYKB. A.I.D. has previously loaned \$5 million to SYKB (Loan 277-H-087); this loan has been fully committed.

SYKB is now seeking to continue their growth as a full range development bank by securing additional foreign exchange for relending, and has received approval for a \$4.4 million line of credit from the U.S. Export-Import Bank.

The following three sections of this paper address in greater detail the description of SYKB, the proposed A.I.D. loan and an identification of probable problems/issues that may arise in connection with consideration of this loan.

We have fully discussed these issues in Part IV of this paper, and believe that they can be resolved either during the writing of the Capital Assistance Paper or be negotiated with the proposed Borrower and/or the Government of Turkey prior to execution of a Loan Agreement.

WE RECOMMEND THAT AID/W AUTHORIZE USAID/TURKEY TO PREPARE A CAPITAL ASSISTANCE PAPER FOR A \$9 MILLION LOAN TO THE GOVERNMENT OF TURKEY FOR RELENDING TO SYKB.

II. Description of SYKB

A. Operations and Management

SYKB was organized as a privately owned and privately operated development bank on March 22, 1963. Its founders were the following commercial banks:

Türkiye İş Bankası A.Ş.
Osmanlı Bankası A.Ş.
Akbank T.A.Ş.
Türkiye Vakıflar Bankası T.A.O.
Türkiye Garanti Bankası A.Ş.
Türkiye Kredi Bankası A.Ş. (subsequently liquidated
and its shares sold to the remaining five founders)

The Authorized Capital of SYKB is TL 40 million divided into 4,000 shares valued at TL 10,000 each. Fifty percent of the share value has been paid in, thus the Paid-in Capital is TL 20 million. İş Bankası is the largest shareholder with 64.20% of the shares. The Board of Directors reflects the share ownership pattern.

As set forth in SYKB's Articles of Association (Article 4), the objectives of the Bank are:

a. To provide private industry already existing or to be set up in Turkey in the future with medium-term investment loans and working capital credit;

b. To encourage the participation of local and foreign capital in industry to be set up in Turkey by the private sector and to assist the creation and development of a securities market in the country.

As a matter of policy SYKB will extend loans only to persons or entities engaged in manufacturing which are more than 50% beneficially owned and controlled by private interests.

The five Founder Banks pledged that 5% of their increase in bank deposits would be deposited with SYKB. In the nine year period from 1964 through 1972, the Founder Banks transferred TL 571.7 million to SYKB. Through December 31, 1972 SYKB had disbursed TL 554.1 million; the balance of TL 17.6 million was available for new loans.

SYKB has received two AID local currency loans (Project Agreement Nos. 277-92-068 and 277-46-920-078) in the total amount of TL 112,901,901, and one AID development loan (277-H-087) for \$5,000,000.

Prior to AID approval of Loan 087 the terms of the Project Agreements between SYKB and the Government of Turkey were renegotiated, with the result that TL 101,141,353 was converted to "quasi-equity" loans, i.e. repayment terms were extended for up to 35 years, including principal payment moratoria (grace periods) of up to 15 years.

In 1972 SYKB entered into a rediscount arrangement with the Central Bank of Turkey whereby the Central Bank advanced TL to SYKB and accepted SYKB borrowers' notes as collateral. SYKB currently has a line of credit with the Central Bank for TL 64.8 million, with TL 50.7 million actually received as of December 31, 1972.

Growth in the Bank's resources is shown by the following table:

	In Thousands of TL				
	December 31				
	1964	1966	1968	1970	1972
Paid-in Capital	20,000	20,000	20,000	20,000	20,000
Reserves	--	66	2,566	4,680	6,649
Loans from Shareholder Banks	61,580	178,977	228,552	441,013	571,748
Loans from AID Funds	60,000	60,000	99,164	104,363	127,195
Rediscounts from the Central Bank of Turkey	-	-	-	-	50,696

Between the commencement of SYKB operations in 1963 and the end of calendar year 1972, the Bank had approved and closed loans totaling TL 1.422 billion. There were 783 loans included in this sum, 588 (TL 889 million) working capital loans and 195 (TL 533 million) investment capital loans.

A breakdown of these totals shows that A.I.D. supplied funds (both local currency and dollar loans) were used for 273 of these loans, totaling TL 281 million. Lending from the Bank's own resources involved 510 loans, totaling TL 1.141 billion.

Growth of loan disbursements made by SYKB since its organization in 1963 is as shown below. Also shown are the loan balances outstanding at year-end.

	In Millions of TL		
	Disbursed During Year	Cumulative Total	Outstanding At Year-End
1963	0	0	0
1964	83.1	83.1	77.0
1965	72.3	155.4	118.5
1966	106.2	261.6	183.5
1967	124.9	386.5	256.2
1968	137.8	524.3	322.2
1969	239.1	763.4	473.9
1970	147.2	910.6	508.7
1971	217.2	1,127.8	599.1
1972	294.4	1,422.2	751.6

subsid is a "development bank" full fledged

B. Relationship of SYKB to the Turkish Economy

As a result of AID's previous \$5 million loan, SYKB has expanded into a full-fledged Development Bank, with the resultant assistance to Turkey in increasing investment and production in her industrial sector in accordance with the objectives of the Second Five Year Development Plan. The Bank has also contributed in assisting Turkey to attain greater economic viability by **strengthening** her private sector and promoting greater reliance on the price system and the market mechanism in the allocation and utilization of economic resources.

Because of the heavy demands of Government and public-sector enterprises on total credit availabilities, Turkey's private sector is chronically faced with insufficient funds for investment and operation. Although recent Central Bank directives have increased the amount of commercial bank resources available for medium-term investment and working capital loans, the bulk of available commercial funds continues to be channeled into high interest short-term credits.

What is demand & supply?

The continued availability of foreign exchange resources from SYKB will permit, albeit on a small scale in relation to total needs, increased assistance for the establishment and growth of private industries.

C. Prior AID Involvement

The \$5 million AID loan was signed on September 17, 1969, and Conditions Precedent to Disbursement of Loan Funds were satisfied on March 9, 1970. After a slow start, caused primarily by the Bank's inexperience in AID procedures and in processing foreign exchange transactions, the first sub-loan was approved in October, 1970. Although 1970 and 1971 were characterized by political instability and a reluctance of the private sector to make new investments, nevertheless the loan was fully committed 2½ years later, in March, 1973; commitments therefore averaged \$2 million per year, once the bank was "geared up" for loan applications.

how much was committed in 1970-71 with that rule

The following list indicates the amount and distribution of the fourteen sub-loans from AID's initial \$5 million loan:

<u>Number of Sub-loans</u>	<u>Name of Firm</u>	<u>Type of Industry</u>	<u>Amount of Sub-Loans Authorized</u>
2	Akcimento Ticaret **	Cement Production	\$324,717.66
2	Eti Toprak Endustrisi	Manufacture of Bricks	42,285.60
2	Türkiye Şişe ve Cam **	Glass Production	274,257.97
1	Ibrahim Erdönmez ve Kardeşler	Cement Products	26,093.48

<u>Number of Sub-loans</u>	<u>Name of Firm</u>	<u>Type of Industry</u>	<u>Amount of Sub-loans Authorized</u>
2	Mitlu Akl	Industrial Batteries	\$326,246.81
2	Karadeniz Bakir İşletmeleri **	Copper Mining	815,109.52
1	Mehmet Ali Tuzcuoglu**	Refrigerated Transp.	1,640,000.00
<u>2</u>	Habag Sinai ve Tibbi Gaz**	Industrial Gases	<u>1,633,502.27</u>
<u>14</u>			<u>\$ 5,082,213.31 (1)</u>

(1) Amounts in excess of the \$5 million AID loan will be met by unused sub-loan balances and/or Government of Turkey foreign exchange allocations.

** Firm is an exporter of Turkish industrial/agricultural commodities.

D. SYKB's EXIM Bank Application

On November 30, 1972 SYKB issued a formal application to become a Cooperating Financing Facility of the Export-Import Bank of the United States. Under the terms of the application, SYKB will receive an EXIM Bank line of credit that will allow financing of \$4.4 million of U.S. commodities, on the basis of a 10% down payment by the buyer, 45% from an EXIM Bank loan and a 45% loan from a participating U.S. commercial bank. SYKB will be the first EXIM Cooperating Financing Facility in Turkey.

One of the objectives of AID's initial development loan to SYKB was to assist the Bank in reaching the status of a full development bank. We had hoped that, with AID providing the seed capital, SYKB would ultimately secure additional sources of foreign exchange for relending. Although initial discussions with the IERD and European Investment Bank have not proven fruitful, USAID believes that the pending arrangement with the EXIM Bank is beneficial to SYKB in providing the Bank with an additional source of foreign exchange.

III. The Proposed Loan

A. Description

In discussions with SYKB, Bank officers have stated that SYKB is capable of lending \$8 million to \$10 million in foreign exchange annually during the next three years. This prediction is based, to some extent, on actual discussions with potential borrowers. Primarily, however, the Bank believes that lending levels will increase as a result of the combination of the growth of the Turkish private sector and the increasingly competitive price of U.S. goods occasioned by the recent dollar devaluation.

In ascertaining the proper level for the proposed loan to SYKB, AID believes a more conservative annual lending level of \$3 million should be considered. We have therefore proposed a loan of \$9 million, the equivalent of three years of lending at \$3 million annually.

We will propose loan terms and conditions similar to those contained in Loan 277-H-087, i.e., a direct loan to the Government of Turkey, with the GORT to reloan the proceeds to SYKB. The AID/GORT loan will be repayable in forty (40) years, with a ten (10) year grace period. Interest charged by AID will be 2% for the first ten years, and 3% thereafter.

The Reloan Agreement we will propose between the GORT and SYKB will be at $6\frac{1}{2}\%$; principal to be repaid to the GORT will be tied to SYKB sub-borrowers repayments, i.e. SYKB to pay the GORT within fifteen days after receipt of payment by a sub-borrower. Thus the GORT will benefit from a $3\frac{1}{2}\%$ - $4\frac{1}{2}\%$ interest differential as well as an extended terms of principal repayment.

SYKB is expected to add an additional $2\frac{1}{2}\%$ to the $6\frac{1}{2}\%$ rate payable to the Government of Turkey; the basic interest rate charged to sub-borrowers will, therefore, be 9%. This rate is highly competitive with commercial bank rates in Turkey, and should not prove detrimental in placing loan funds.

B. Justification for the Proposed Loan

As previously noted, after a relatively slow start, SYKB has been able to successfully implement AID's original \$5 million loan.

We believe that the sub-loans made by SYKB from loan 087 have been successful in meeting one of the objectives of that loan, i.e. the promotion of industrial expansion. We are particularly pleased that over 90% of our previous \$5 million loan has gone to sub-borrowers that are actively engaged in the export of industrial/agricultural products. We intend to ensure that the proposed \$9 million loan to SYKB, if approved, will continue this trend of sub-loans for export-oriented industries.

However, a second objective of Loan 087, continued growth towards a full service development bank, has been only partially achieved. We believe that the proposed \$9 million AID loan, together with the EXIM \$4.4 million line of credit, will enable SYKB to fulfill its function as a full development bank for the next three to five years and provide SYKB with the opportunity to further diversify its sources of funds by building a larger base of experience.

C. Impact of the Proposed Loan

1. On SYKB's Operations

As noted above, SYKB has successfully implemented its initial \$5 million foreign exchange loan. The Bank has developed an experienced staff capable of analyzing and appraising industrial projects.

We believe that both the proposed AID and EXIM loans can be implemented effectively by SYKB without substantial increases in bank personnel.

In addition, the Bank has sources for Turkish Lira sufficient to generate the necessary TL for project support.

2. On the Turkish Economy

The Government of Turkey in the Third Five Year Plan has set a target to increase Gross National Product (GNP) rate of approximately 7.9% annually. A major objective of the Third Five Year Plan (1973-1977) is to expand the role of Turkish industry to a level more commensurate with the needs of a modern balanced economy. Accordingly, the Plan calls for an increase in the contribution to GNP of the industry sector from 28% of GNP in 1972 to 33% in 1977. This is estimated to require a total investment in manufacturing alone over the five year period of TL 88 billion.

The Third Five Year Plan foresees industrial production expanding at a rate of 11.9% annually as compared with agriculture, which is expected to grow at 4.6% annually, albeit from a far larger base.

Total imports of machinery and equipment into Turkey came to about \$444 million in 1971 and about \$697 million in 1972. Although detailed statistics are not readily available a large share -- perhaps over half -- of these imports are for the public sector. Although the \$9 million loan proposed for SYKB is small relative to total imports, its focus on high potential, export oriented industries gives it special importance. More important than its relationship to imports is its significance within the medium-term credit market. Medium-term credit for the private sector is in extremely short supply. The shortage of this type of credit has been a major cause of concern to both the private sector and the government. (Recent government activity has attempted to encourage the flow of credit to this market). Since the TL 126 million equivalent of this loan represents 17% of total SYKB credit outstanding (as of September 1972), the loan will significantly expand medium-term

credit available to the private sector. Further, U.S. equipment purchased from the proceeds of the proposed loan will represent imports in response to carefully administered loan investigations, and, if past lending trends are followed, will be channelled into successful, export-oriented industries.

IV. Identification of Issues/Problems

A. Accelerating Loan Disbursements

In judging the optimal size of the proposed loan to SYKB, USAID has attempted to project a conservative bank lending level in order to assure ourselves that loan funds will move on a timely basis. For this reason, we have assumed disbursements of \$3 million annually, rather than the \$8-10 million level forecast by the Bank. We believe that, barring an economic slow-down or similar unpredictable impediment, the Bank will be able to utilize loan funds within a reasonable time period.

B. Availability to SYKB of TL Resources

As previously noted, SYKB's unique relationship with its Founder Banks provides a continuing source of local currency to SYKB. In addition, the Bank has taken advantage of a rediscount arrangement with the Central Bank of Turkey, and TL 50.7 million was generated from this source during 1972; an additional TL 14.1 million was available at December 31, 1972 from SYKB's TL 64.8 million line of credit. Bank officials have assured us that additional TL can be generated from this source.

Although we intend thoroughly to document the availability of TL to SYKB, based on our association to date with the bank we do not foresee the non-availability of TL as an inhibiting factor in growth of the Bank or in utilization of the proposed AID loan.

Our review of the availability of TL will include a projection of the increase in Founder Bank deposits; the result of this projection should indicate the approximate amounts of TL available to SYKB (from this source) during the implementation of AID's \$9 million loan.

C. Greater Geographical Distribution of Bank Projects

One of the problems of the previous AID loan to SYKB has been the propensity of the Bank to make loans to well-established Istanbul-based industries; the Bank has not actively pursued potential loan opportunities or the development of new industries/entrepreneurs in other areas of Turkey. This same situation has also occurred with the other AID-supported Development Bank, Turkiye Sinai Kalkinma Bankasi (TSKB); however, pressures exerted by AID and the IBRD have resulted in TSKB opening several branch offices throughout Turkey, and in creating a new division within the Bank specifically charged with preparing economic studies of various regions in Turkey and preparing development projects for these regions.

In discussions of this problem with SYKB, Bank officials point out that the five Founder Banks of SYKB have branches throughout Turkey; these branches are eligible to receive applications for SYKB-funded project loans. Although this statement is true, we are not aware of any SYKB sub-loans that have been generated through use of Founder Bank Branches. It is likely that SYKB has not vigorously pursued the use of Founder Bank branches as a source for subloan applications; activation of a major promotional effort would be dependent on the availability of adequate funds and coordination with the Branches.

In addressing this issue during our loan negotiations with SYKB, we will be emphasizing our concern that in order to function appropriately as a development bank, SYKB must arrive at a plan suitable to AID for screening projects throughout Turkey, and must not concentrate on the Istanbul area for reasons of "convenience". Possible approaches to greater distribution of projects include, among others, (1) the establishment of regional SYKB offices, (2) creation of a "New business" division and (3) promotion campaigns featuring SYKB functions to Founder Bank branches, with personal follow-ups by visiting teams from SYKB.

D. Technical Assistance by SYKB

Although technical assistance was eligible for financing under Loan 087, and, in fact, one technical assistance sub-loan was made by SYKB, it is apparent that the Bank prefers equipment loans, because of greater familiarity with this type of loan and because the equipment financed represents greater "collateral" to the Bank.

USAID feels that the Bank is capable of rendering real services to both new and established borrowers through a greater promotion of technical assistance. This assistance can take the form of loan-funded expatriate assistance, bank-financed assistance using Turkish consulting firms, or direct assistance from Bank technical personnel.

One of the reasons typically given by both of the Istanbul-based development banks for concentration of their loans in the Istanbul area is that entrepreneurs in the non-urban areas are unable to prepare adequate project descriptions or feasibility studies. This is probably true; however, USAID believes that this problem can be overcome by a greater use of qualified technical consulting firms.

We believe this issue is best resolved in context with Item C above, i.e. promotion of a wider distribution of Bank projects. Therefore, in our negotiations with SYKB, we will be stressing the need for SYKB to be familiar with qualified professional firms, both U.S. and Turkish, and to look to these firms for assistance to potential new borrowers as well as to established industrial firms.

E. Implementation Capability of SYKB Staff

SYKB currently maintains the following staff for loan appraisals:

1) Economic Analysis Department

- One Manager
- Eight Economists
- One Reporting Economist

2) Engineering Department

- One Manager
- One Civil Engineer
- Two Mechanical Engineers
- One Chemical Engineer

3) Financial Analysis Department

- One Manager
- Two Advisors
- Seven Analysts
- One Section Head
- Two Assistant Section Heads

After review by the various departments, a Loan Committee comprised of the three department managers noted above plus the Assistant General Manager and the Manager of the Loan Department review and approve all loan applications.

Our experience under Loan 087 indicates that Loan Appraisal Reports are generally thorough and accurate, although oriented to technical and financial soundness, with less attention paid to economic rationale.

Although we do not know if the current SYKB staff is sufficient for both a new AID loan and the EXIM Bank loan, we believe that inasmuch as the various appraisal departments are staffed and functioning, any increase in loan application volume could be handled through additions to the current Bank staff.

V. Mission Ability to Prepare Formal Loan Papers and Monitor Loan

Following AID/W review and approval of this IRR, USAID/Turkey is prepared to draft the Capital Assistance Paper. The Mission has the professional staff, sufficiently familiar with both SYKB operations and the Turkish economy, to prepare and negotiate the various loan documents. Assuming AID/W approval of this IRR by early May, 1973, we believe that the CAP could be drafted by June 1, 1973.

Projected Capital Development staffing patterns indicate that sufficient Mission staff will continue to be present in Ankara for monitoring and implementing this loan. Past experience has indicated that Development Bank loans are relatively easy to implement. If necessary, monitoring could be transferred to AID/Washington, with AID/W approval requested for major SYKB subloans.

AUTHORIZATION OF INTENSIVE REVIEW OF CAPITAL ASSISTANCE APPLICATION
AND APPOINTMENT OF CAPITAL COMMITTEE

- (1) Country : TURKEY
- (2) Amount : \$9,000,000
- (3) Borrower : Government Republic of Turkey
- (4) Purpose : Relending to Sinai Yatirim ve
Kredi Bankasi (SYKB), a Develop-
ment Bank
- (5) Capital Assistance Officer : M. M. Pehl
- (6) Counsel : M. G. Kitay
- (7) Engineer : NA
- (8) Desk Officer : B. Langmaid

Regional Assistant Administrator or Designee

Date

Clearances: (as designated by regional bureau)

ASIA/CD, TLustig _____

ASIA/CC, SStein _____

ASIA/NE, BLangmaid _____

PPC/DPR, AHandley _____