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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 - SECOND HIGHWAY EQUIPMENT LOAN

A.I.D.
Reference Center
Room 2656 NS

AID-DLC/P-428

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

PD-442698

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AID-DLC/P-428
May 27, 1966

MEMORANDUM FOR THE DEVELOPMENT LOAN COMMITTEE

SUBJECT: Turkey - Second Highway Equipment Loan

Attached for your review are the recommendations for authorization of a loan in an amount not to exceed \$15,000,000 to the Government of Turkey to be made available to the General Directorate of Highways to finance the foreign exchange costs of the purchase of highway equipment and spare parts to replace and maintain the equipment of the General Directorate of Highways, the payment of costs of freight and insurance thereon, obtaining consulting engineering services and technical training in the United States of employees of the Directorate.

This loan proposal is scheduled for consideration by the Development Loan Staff Committee at a meeting in the near future.

Rachel C. Rogers
Assistant Secretary
Development Loan Committee

Attachments:

Summary and Recommendations
Project Analysis
Annexes I-IV

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May 27, 1966

TURKEY

SECOND HIGHWAY EQUIPMENT LOAN

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May 27, 1966

TURKEY

Summary and Recommendations

Second Highway Equipment Loan

1. Applicant: Government of Turkey, for the General Directorate of Highways
2. Amount: \$15,000,000
3. Loan Terms: Forty year term with ten year grace period. Interest of one percent on outstanding principal during grace period; thereafter interest of two and one-half percent per annum. Payments of interest and principal semi-annually.
4. Total Cost of Activity: \$15,000,000 plus Turkish Lira costs of acquisition including customs, insurance and freight and local assembly costs. The total budget of the Turkish Highway Department for 1966 is \$131,000,000 in Turkish lira, of which \$32,000,000 in Turkish lira is for equipment purchases and equipment maintenance.
5. Purpose of Activity: To finance procurement of highway equipment to maintain and replace highway equipment of the Turkish General Directorate of Highways, to finance the services of consulting engineers, and to finance the cost of training of Highway Department employees in the U. S.
6. Background of Activity: The United States has previously assisted the Turkish Highway Department with technical assistance from the U. S. Bureau of Public Roads, and with loans to finance equipment purchases.
7. Ex-Im Bank Interest: In November, 1965, the Export-Import Bank stated that it was not prepared to consider this application.
8. Mission Views: The Mission recommends approval of this loan.
9. Statutory Criteria: All satisfied
10. Issues: None
11. Recommendation: That a loan of \$15,000,000 be made to the Government of Turkey for the purposes described in the loan paper.

Loan Committee:	Loan Officer:	Paul Micou, USAID/Turkey
	Engineer:	Thomas C. Elliott, Regional Engineer/ Athens
	Counsel:	W. L. F. Felstiner, RLA, USAID/Turkey

May 27, 1966

I. History and Background

Since the close of World War II the Turkish national highways network has increased in size almost five times. In 1947 there were 7,000 miles of nationally maintained highways; by 1962 the national system included 22,000 miles. In the past two years the Highway Department assumed responsibility for the maintenance of an additional 10,600 miles of provincial roads, making a 1966 total of some 32,600 miles. By 1969 the Department expects to take on the responsibility for about 5,700 additional miles of provincial roads.

U. S. assistance has played an important part in the effective expansion of the national highway system. Under a technical cooperation project a team of U.S. Bureau of Public Roads experts spent eleven years in Turkey (1947-1958) assisting the Highway Department in establishing itself as a modern, efficient organization. Most of the Bureau of Public Roads' efforts were devoted to maintenance of roads and equipment, including setting up excellent automated equipment maintenance records. The Highway Department's IBM records are kept with such accuracy and detail that one can discover in minutes the cost of operation per hour or per kilometer of nearly every piece of equipment, from trucks and graders to compressors and generators. The Bureau also assisted the Department in buying about \$41,000,000 worth of equipment during their eleven-year program. The Turks have thus created a very efficient and capable Highway Department---the best in the Middle East, and probably as good in all respects as the average state highway department in the United States.

Between 1953 and 1965 the Highway Department bought relatively little equipment, because of the shortage of foreign exchange. Its fleet of vehicles deteriorated without adequate replacements. On January 13, 1964, the loan agreement was signed for AID Loan 277-H-044 for \$13,100,000 of equipment. Almost all orders for equipment under this loan have been placed. Shipments began arriving in Turkey in January, 1966, and should be completed by the end of 1966. The \$13,100,000 loan was only part of the application for funds which the GOT made in 1963. The Highway Department then estimated its needs at about \$44,000,000 of new equipment. Between 1963 and the end of 1965, 7, 156 kilometers of provincial roads were added to the Highway Department's jurisdiction. The transfer of provincial roads to the Highway Department brought only a small amount of maintenance equipment to Highways since the provinces did not have much useful equipment and had not bought new equipment for years, anticipating the transfers to the Highway Department.

The figures above show that in 1960 the Highway Department was responsible for maintaining and improving a total of 37,972 kilometers of road, with an equipment pool valued at \$31,594,000 or \$830 per kilometer. In 1965, the ratio was \$220 worth of equipment per kilometer. In 1966, with the \$18 million of new equipment received, the ratio would be \$491 per kilometer and in 1967, if all the \$15 million of new equipment was received, the ratio would be \$745 of equipment per kilometer. This ratio is not out of line with those of the states of Utah (\$666 per km.) or South Dakota (\$645 per km.) when one considers that Turkey is more than three and one-half times as large as either of these states in area and has more than four times as many kilometers of roads to maintain as either state. The request for \$15 million represents a conservative estimate of the Department's current needs.

II. The Borrower

The Turkish Highway Department was established in its present form by a national law passed March 1, 1950. It is a General Directorate of the Ministry of Public Works and is organized along lines comparable to a U. S. State Highway Department, with offices of Personnel, Procurement, Accounting, Planning, Survey & Design, Bridges, Materials, Construction, and Maintenance. Department headquarters are in Ankara and there are 16 operating divisions which are sub-divided into 87 districts covering the entire nation. Heavy repair work is performed at shops of each of the 16 divisions, and minor repairs are done at the 87 district shops. The most important shop is at Ankara where complete rebuilding of heavy equipment and extra heavy repairs can be made. The Ankara shop also manufactures some items such as towed rollers and small rock crushers. Members of the loan committee have visited the Ankara repair shops and training schools and some of the district shops and they have had an opportunity for close contact with officers of the Highway Department during implementation of loan O44. They are confident that the Highway Department is fully capable of arranging for procurement and training under this loan.

III. Technical Analysis

First, it should be noted that modern highway systems, whether they be in developed or in developing countries, need mechanized maintenance if they are to serve adequately their function of basic infrastructure.

The three factors of Mechanized Highway Maintenance are: 1) the selection of balanced equipment fleets, 2) the care of maintenance equipment, and 3) the management control and utilization of maintenance equipment.

Mechanization is off to a good start in Turkey. Unfortunately a lack of financial resources, together with excessive physical demands on the large equipment purchases of 1947-58 resulted in deterioration without replacement. However, these large equipment purchases necessitated a good organization of division and district shops, which organization is well prepared to service the new equipment which will be purchased. The Department, with the assistance of its special consultants, has the capability of making proper selections for purchasing balanced fleets, and it is fully capable of managing the utilization of its equipment in whatever quantities are required.

Since this project will be, in effect, a continuation or extension of an existing project, i.e. Highway Equipment and Consultants, Loan No. 277-H-044, it is appropriate to recall some of the elements of that project in order to appraise this proposed extension.

Pursuant to the 277-H-044 Loan Agreement and under a contract dated May 21, 1964 with Ammann & Whitney International of New York, the Highway Department engaged the services for two years each of three consultants; a Highway Maintenance Engineer (team leader), a Highway Equipment Specialist, and a Highway Materials Engineer. In addition to furnishing the Department with technical advisory services in their particular specialties, the first and most important order of business for these consultants was to assist the Department with administering and implementing the 277-H-044 Loan Agreement by reviewing and approving or recommending changes in the Department's lists of equipment and spare parts to be purchased; to assist with the specifications and bid invitations; and to assist in analyzing proposals and making recommendations for award of contracts.

The equipment purchased under 277-H-044 will constitute a carefully balanced fleet, planned for integration with existing operational units, and geared to the particular needs of Turkey. The selections were made on the basis of careful studies by the Department and its consultants. For example, it is well known in U. S. experience that states with road mileages and types similar to Turkey (e.g. Montana, West Virginia) require large numbers of dump trucks and motor graders as the "work horses" of their fleets. It may be noted that these two items constitute 46% of the grand total of items under Loan 044. Although such checks are not all conclusive in assessing the value of a study, they do help to detect the existence of factors which might be out of line.

Similarly the proposed list submitted for this project, the Second Highway Equipment Loan, complements the first and reflects the Department's estimates of their most critical needs. Again it should be noted that the "work horse" trucks and graders dominate the list.

It should also be noted that much of the equipment might be characterized as construction rather than as maintenance equipment. The reason for this is twofold: first, many items (e.g. graders, trucks, compressors) are in fact both construction and maintenance items, and secondly, the Turkish Highway Department, for a number of reasons, performs considerable construction work in the name of maintenance. The main lines of work which the Department performs may be described as maintenance, improvement, (or "betterments"), and construction.

Pure construction work, that is new construction, is let to contract when contractors are available. As it is, contractors are reluctant to undertake work in the eastern part of the country because of its remoteness and ruggedness, and there are instances too where the Department has had to take over a private contract job because of poor performance. Nevertheless, it is a policy of the Department to let all possible construction work out on private contracts as private contract capabilities become increasingly available.

A fair statement of the problem of contracting for highway construction in Turkey is found in the recently completed (November, 1965) Ammann & Whitney International feasibility study "Highways in Southwest Turkey," at pages 75, 76:

"When Turkey first embarked on her intensified road building campaign, she did not have the necessary trained personnel for this program nor an adequate stock of construction equipment. It was necessary, therefore, that the actual task of road construction be assumed by the Government since the Government could train the required personnel more easily than could the private sector. In addition, this procedure would not expose inexperienced contractors to undue financial risk. The purchase of the necessary construction equipment, which called for large foreign exchange expenditures, could be handled more readily and, through intelligent planning, without unnecessary duplication, by the Government. This same procedure has been found necessary in virtually every developing country during the initial stages of highway development.

"Since construction operations performed by Government forces, or force account work, are not subjected to the pressures inherent in a competitive economy, due to profit being disregarded, it has been discovered in most countries that force account operations have been less efficient and, in the long run, more costly than operations which utilize private contracting firms.

"This fact is recognized by the Highway Department and private contractors are used to some extent at this time. The 1965 highway budget for our study area contains only one allocation for road building by private contractor although there are several bridge construction and bridge repair allocations for private contractors.

"Our investigations disclosed that several attempts have been made in the past to develop a pool of private road building contractors in our area. These attempts have not met with much success and it is felt that most cases of failure can be traced to either lack of experience on the part of the contractor or the lack of continuing available work on a continuing program. The development of private road building contracting firms is a process which requires very close cooperation from the Government. The equipment which must be purchased by these private concerns is costly and must not be allowed to stand idle. It is necessary, therefore, that well phased continuing constructing projects be available for the utilization of this equipment. It is also true that much time is needed for the training of competent equipment operators and continuing employment must be furnished by the contractor for these operators. The truth of these statements is well demonstrated by the fact that most of the few private road building contractors who were successful in our study area have moved their operations to other parts of Turkey where relatively continuous work may be anticipated.

"It was readily admitted by personnel contacted by the members of this study team that, due to Governmental bureaucracy common to all countries, a private contractor can work, and does work, more efficiently than the Government employed forces of the Highway Department. It has been demonstrated in Turkey that private contractors will quote unit prices about 10% below comparative Highway Department unit prices despite the fact that profit must be included for the private contractor. On the other hand, when

private contractors are convinced by forceful supervision that they will be required to perform completely in accordance with plans and specifications, it is unlikely that such low bids will be given by contractors or accepted by Highways.

"The training of a force of Governmental inspectors, who will ensure that all work done on the highways of Turkey conforms in every way with the design standards and the construction specifications, would be a very difficult task. It would also be necessary that many cases be taken to court and that considerable education be done in order to convince the local contractors that it is the intent of the Highway Department to enforce to the letter the specifications upon which the bids were based.

"It is our opinion that these trying experiences must be undergone at some time during the continuing development of Turkey and that the sooner that these problems are met and defeated the better it will be for all concerned. However, it is felt that until private construction firms in Turkey are developed more highly than at present, it will be necessary to institute rigid prequalification requirements prior to allowing them to bid on the projects recommended in this report. Otherwise the anticipated economic benefits will probably not be realized on account of delays in construction."

The Highway Department simply cannot find responsible contractors for all its necessary construction. Many of the roads needing most improvement lie in the area to the east of Ankara, where the terrain is rough and access is difficult. The climate in much of this area permits construction for only four or five months in the year. To foster expansion of contract construction by private firms, the Highway Department hopes to lease some of its equipment to responsible contractors who lack equipment but are otherwise qualified. The Department now leases construction equipment at fixed rates based upon their own operating costs plus amortization.

The following tabulation shows the status of the 1965 construction and "betterment" work. "Betterment" means widening extremely narrow roads, re-aligning difficult curves and reducing excessive grades. "Betterment" is work more extensive than main-

tenance but less than new construction. "Continuing" projects in the table are those started some years ago but continued from year to year until completion. "New" projects are those commenced in 1965.

Construction and Betterment Projects
(As of May, 1965)

	<u>Costs in 1000 TL</u>		
	<u>Spent</u> Before 1965	1965 <u>Estimate</u>	Estimated <u>Total</u>
<u>Construction:</u>			
24 Continuing Contract Projects	129,143	66,750	239,741
9 New Contract Projects	-	6,300	109,050
28 Continuing Force Account Projects	261,927	54,000	363,455
8 New Force Account Projects	-	4,950	40,050
<u>Betterments:</u>			
57 Continuing Betterments by Force Account	66,412	35,070	168,940
59 New Betterments by Force Account	-	5,000	10,895

The table shows that the estimated total of contract projects is 348,791,000 TL, compared to 403,505,000 TL of force account projects.

In addition to equipment, the application proposes that the consulting services under the 044 Ammann and Whitney contract be continued and extended for one year, except that the materials engineer (whose work is completed) should be replaced by an Asphalt Plant and Pavement Specialist. The costs of continuing these services have been estimated as follows:

Base Salary	\$ 13,000
Overseas Differential	6,000
Transportation:	
Family	2,000
Personal Effects	2,700
Overhead	13,000
Fee and Contingency	<u>3,000</u>
One Man/Year	\$ 40,600
Less TL by GOT	<u>7,300</u>
Cost/Man/Year	\$ 33,300
Three Man/Years	\$100,000

The application also includes an amount to cover the costs of a technical training program which will send 50 individuals to the United States for training over a period of several years.

The Highway Department points out that because other GOT departments have gone into mechanized construction work (DSI, for example) and because the Highway Department contained the only qualified group of mechanically trained personnel, it has lost many of its best people to other departments. There have been no new overseas trainees since 1959.

The Department places a very high value on U. S. training for its employees and credits many operational economies to such training in the past. Moreover, since its fleet of equipment

is now and will be in the future, almost entirely comprised of U. S. equipment, an additional program of U. S. training appears essential.

An outline of the proposed program for the 50 trainees is as follows:

Period of training - 10 per year, 8 months each, 5 groups,
1966 through 1970

<u>Field of Training</u>	<u>Number per Group</u>
Study of equipment maintenance, repair, and operations	4
Study of cost accounting using data processing techniques	1
Study of estimating needs of spares and supplies, using data processing techniques	2
Study of manufacturing standards and quality control	2
Study of stock control and procurement methods	1

The plan calls for each trainee's spending two months observing manufacturing practices at equipment manufacturing plants in the U. S. and six months training at a selected State Highway Department.

Naturally, at this stage, the plan is not a detailed one and will require further refinements in regard to contacts with U. S. suppliers and State Highway Departments. These things will be done after the loan application is approved.

The estimated costs of the training program are:

1. Per trainee	- 8 months = 240 days @ \$15.00	- \$ 3,600.
	Travel while in the U. S.	- <u>200.</u>
	Total \$ per trainee	- \$ 3,800.
2. Per Group	- \$3800 X 10	- \$ 38,000.
3. Grand Total (5 Groups)		- \$190,000.
	Rounded to	- \$200,000.

The estimate appears to be low in the amount for travel in the U. S. however rounding to \$200,000 adds another \$200 per trainee. In any case the above amount is ample for estimating purposes.

The Department will pay local currency expenses such as international travel and salaries.

The engineers and technicians who receive this training will in all likelihood become the officials responsible for equipment operation, maintenance, repair, services and supply, and additionally will serve as lecturers, teachers, and trainers in the Department's own training organization.

The proposed list of equipment and services to be financed is as follows:

<u>ITEM</u>	<u>CATEGORY</u>	<u>AMOUNT</u>	<u>ESTIMATED COST (\$)</u>
1	Pick-up, 4x4, Crew cab	27	\$ 68,000
2	Panel, 4x2	10	18,000
3	Truck, Dump, Diesel, 6x4, 8-10 cuyd.	86	1,032,000
4	Truck, Dump, 4x2, 4-6 cuyd.	194	1,569,000
5	Truck, Chassis-cab, 4x2 (Min GVW 23,000 Lbs.)	150	375,000
6	Motor Grader Tandem (Min 23,000 Lbs.)	115	1,950,000
7	Motor Grader 4x4, (Min 24,000 Lbs.)	26	520,000
8	Snow Plow, Rotary (Min 1000 TPH)	15	255,000
9	Tractor, Crawler (Min 60 HP)	20	240,000
10	Tractor, Crawler, (Dozer, Ripper)(Min 230 HP)	75	3,380,000
11	Wheel dozer (Min working weight 74,000 Lbs.)	5	320,000
12	Motor Scraper (Min struck capacity 21 cuyd.)	20	1,100,000
13	Loader, Crawler (2 1/2 cuyd)	30	570,000
14	Loader, Crawler (1 1/2 cuyd)	26	340,000
15	Compressor, With Drills (250 cfm)	20	180,000
16	Roller, Tandem, Diesel (cap. 8-12 T.)	16	160,000
17	Roller, Self propelled, Pneumatic tired (Min 30 Ton)	5	105,000
18	Arc Welder, Portable	48	110,000
19	Generator set, 5 kw., 10 kw.	100	100,000
20	Hammer and Extractor	4	30,000
21	Vibrator (Min 50 mm)	32	16,000
22	Cement Chipping Hammer	38	8,600
23	Highway Striping Equipment	2	7,000
24	Parts and Engines for Equipment of Local Manufacture	-	147,000
		Total Equipment Estimate	\$ 12,600,000
		Spare Parts (11.11%)	1,400,000
		Ocean Freight & Insurance	700,000
		Consultants	100,000
		Training Assistance	200,000
		TOTAL LOAN ESTIMATE	\$ 15,000,000

The above list should not be considered immutable. It is subject to changes in numbers of items, or items themselves, as implementation of the project proceeds, and depending upon the judgment of the Highway Department and their consultants as to changes in current needs.

The Department has made a very close cost estimate for the equipment based on recent quotes received in connection with the 044 loan and in addition allowances have been made for possible cost escalations.

The 11% item for spare parts may be low, but it may be assumed, as in the case of the 044 loan, that the large quantities of equipment to be retired may be cannibalized for an additional 2 or 3% of spares.

The dollar cost of \$700,000 for ocean freight and insurance is about half of the total amount needed, with the remainder to be paid out of local currency.

The above estimates are reasonable and if the experiences of loan 044 are repeated it will be possible to procure all of these items at somewhat less than the estimate. If this should be the case the Department will use the remaining funds, up to the total amount of the loan for purchasing additional equipment items and/or shop tools, depending on which is needed more at the time.

In respect to local currency costs of the project there are several items to be considered. These are the costs for consultants, ocean freight and insurance, inland freight, and the (annual) costs of ownership and operating expenses.

As indicated from the preceding tabulation \$7,300 of the \$40,600 per man year cost for consultants will be paid in L.C. This is made up of the \$6,000 overseas differential and a portion of the transportation costs.

$$\text{Total} = 3 \times \$7,300 = \$21,900 = \underline{\text{TL } 197,100}$$

A conservative estimate for costs of ocean freight and insurance is 12% of the equipment costs which yields $12.6\text{m} \times .12 = \$1,500,000$. Since about half of these costs will be dollars (already set up at \$700,000) this leaves lira costs of $\$800,000 = \underline{\text{TL } 7,200,000}$

The costs for inland freight for transporting the equipment from its port of entry to its ultimate destination may be estimated as follows:

Value of equipment (approximately)	=	\$12,600,000
Estimated lbs. per \$	=	1
Total Weight - 12,600,000 lbs	=	5,700 metric tons

Assuming average destination is 1000 km and cost is \$0.013/ton-km;
total inland freight cost is: $5700 \times 1000 \times .013 = \$74,100 = \underline{\text{TL } 667,000}$

Costs of ownership are defined as overhaul, major repairs, painting, storage, and insurance. American experience has shown these costs to a construction contractor to be about 25% of the equipment's acquisition cost. Although strictly comparable Turkish costs would probably be higher, the fact that the Department's equipment will normally not be utilized to the same extent that a contractor's equipment would be in any given year will balance higher local costs and render the 25% figure valid.

Total = $\$12.6M \times 0.25 = \$3.15 M = \underline{\text{TL } 28,350,000}$

Costs of operation include fuel, lubrication, field repairs, loading and shipping, operators' wages, and general expense. These may be assumed to be \$3.00/hour for a representative item, say the \$17,000 Grader of Item 6. Then if average utilization per year is 1000 hours:

$\frac{\$12,600,000}{\$17,000} \times 1000 \times \$3.00 = \$2,200,000 = \underline{\text{TL } 19,800,000}$

Recap of Local Currency Costs

Direct

1. Consultants	- TL	197,100	
2. Ocean Freight - Insurance	-	7,200,000	
3. Inland Freight	-	<u>667,000</u>	
	TOTAL		TL 8,064,100

Indirect (Annual)

1. Ownership	- TL	28,350,000	
2. Operation	-	<u>19,800,000</u>	
	TOTAL		TL 48,150,000

The above estimated LC costs are by no means precise, especially in regard to the indirect costs. Nor are all of the LC costs listed which will be generated because of this project; for example, no consideration is given to taxes, depreciation or debt service.

The estimated LC costs which are shown are primarily for the purpose of illustrating the annual recurring costs which are necessary to support and operate a large mechanized fleet of equipment. These expenses must be reflected as annual increases in the Highway Department's future budgets.

One additional expense which should be mentioned is that of customs duties. Presumably the Department will have to pay duties for landing the equipment. However, there was an understanding with AID on the 044 project that the GOT would provide the Department with such additional funds for this purpose as would be needed, over and above their normal budget, and similar arrangements must be made for this project.

A tentative schedule for this project is the following:

1. Loan is authorized	
2. Loan agreement signed	30 days
3. Bid documents completed	60 "
4. AID approves and advertise- ments are published	30 "
5. Bids received	60 "
6. Bids evaluated	30 "
7. Award contracts	30 "
8. Manufacture	90 "
9. Ship	60 "
10. Assemble	<u>30 "</u>
Total	420 days = 14 months

This schedule assumes no unusual delays because of bidder protests or government procedures. If such delays should occur, the times involved will of course be increased.

Finally, it is evident that this project is feasible. There is no doubt that all of the administrative and technical skills, as well as the physical ancillaries necessary for its successful implementation are, or will be made, available.

IV. Economic Analysis

A. Turkish Transportation Planning

Investment in construction and maintenance of a highway system is an important part of building infrastructure in any developing country. Turkey has done a good job in improving its highways. The November, 1965 IBRD report "Development Performance and Prospects of Turkey" states, at page 64,

"In the last decade, the improvement of highways has been spectacular. But there are still gaps, both in the State highway network, and even more so in the neglected provincial systems where roads are still below standard. Judging by the 1965 draft budget, the need for putting more emphasis on the improvement of provincial and village roads is now recognized by the government."

The IBRD report also states that a review of Government transport policy is needed. Consideration should be given to increasing road user taxes such as fuel taxes and license fees. The Government of Turkey is now studying transport problems in connection with preparation of the Second Five Year Plan. The transport study commenced in December, 1965, and its results will be included in the Second Five Year Plan. The State Planning Organization is the coordinating agency for the study and it is represented on several commissions composed of members of operating ministries in the different transportation sectors, e.g., highways, railways, ports, air transport. An OECD consultant, Tillo E. Kuhn, who is an acknowledged transport expert from the University of California, is advising the SPO during the transport study.

Investments in highways must be carefully planned, not only because construction itself is expensive, but because of the effect of the highways on agriculture, industry, population location and tourism. The coordination of transport planning should logically be in the Ministry of Transport and Communications, and a reorganization of this ministry is now being undertaken, which should strengthen its planning staff.

In preparing the Second Five Year Plan the tax and investment aspects of the transportation sector are being reviewed by a specialist from the Ministry of Finance, on loan to the State Planning Organization.

B. Major Problem of Overloading

Overloading of trucks and the resulting deterioration of highways is an extremely serious problem in Turkey. The Ammann and Whitney International report, supra, says, at page 10:

"It is obvious to any qualified observer that severe overloading of highway vehicles is openly practised throughout the Republic of Turkey. Adequate laws and regulations are presently in effect concerning legal load limits but there is virtually no actual enforcement of these restrictions.

"Maximum legal axle load is presently limited to 8 metric tons in accordance with European conventions. All design procedures and design criteria used by the Highway Department are more than adequate for this load concentration and the great majority of existing bridges, even single lane structures, are capable of supporting loads of this magnitude.

"It is impossible for any Highway Department to design and construct highways without first assuming a maximum load which will be exerted on the highway. If continued severe overloading is anticipated, it is necessary to increase design standards considerably and the resulting cost of construction is unnecessarily high. If, on the other hand, it is assumed that there will be only occasional loads which exceed the legally established limit and design is based on this assumption, and then if continual overloading is allowed, the highway will fail in a very short period and maintenance costs will become extremely high.

"Over the past several years it has been necessary to expend more than 35% of the highway budget on highway maintenance operations. It is obvious that a major portion of this expenditure during these past years has been for heavy repairs required by the destruction of the country's highways by overloaded trucks, both privately owned and Government owned. Since the Highway Department is powerless to do more than recommend restrictive legislation and must try to cope with this problem of overloading without any authority for controlling same, the Highway Department has been subjected to completely unwarranted criticism concerning the actual service life of some of the highways which they have constructed."

The World Bank team made similar findings. The IBRD report, supra, says, at page 64:

"It is alarming, however, that a large part of the main system has deteriorated seriously as a result of heavy overloading of vehicles and insufficient road maintenance, and in some instances of either unsatisfactory design or construction below specifications. Heavy investment losses have already occurred, and strong measures, particularly enforcing axle-load control, are urgently needed, otherwise further road investments would be wasted."

The difficulties in solving the problem of overloading are more practical than theoretical, but these difficulties are substantial. Regulations prohibiting overloading are in force and they are supported by the Highway Directorate, naturally by the Railways, and even by the truckers' association, but the enforcement of the regulations is often hampered by local political or judicial considerations. Just as in the United States, it is frequently difficult to get convictions in the courts because of problems of evidence. The police do not always consider overloading violations their most urgent concern. There are some sixteen weighing stations in Turkey but they are not effectively used.

In order to assist the Highway Directorate in enforcing the overloading regulations the loan agreement for this loan will contain a condition precedent requiring submission of a plan satisfactory to AID for effectively stopping overloading, and also a covenant committing the Government of Turkey to carrying out the plan. AID will review the results of the enforcement plan at least every four months.

C. Tourism and Highways

Development of highways is important to the growth of tourism in Turkey, which is hoped to be an important future source of foreign exchange. The Government of Turkey, through its Ministry of Tourism, is making great efforts to attract tourists to Turkey, and the Directorate General of Highways is naturally involved with these efforts.

Included in the 1966 budget for road construction and maintenance is TL 9,500,000 (\$1,555,000) for construction and improvement of minor roads connecting touristic sites with main roads. This "Touristic Sector" program includes 279 kilometers of roads in different parts of Turkey. Examples of the twenty-six different touristic projects are:

<u>District</u>	<u>Road</u>	<u>Touristic Interest</u>
Izmir	Turkeli-Foca-Yenifoca	Ruins, beaches
Hatay	To Bakraskalesi	Armenian Castle
Antalya	Alanya-Kale	Castle on sea coast
Antalya	Side	Roman ruins and museum
Antalya	Alarahan	Ottoman site
Manisa	Ahretli-Sart	Sardis, Roman and Byzantine Ruins
Bolu	Lake Abant	Mountain lake and resort
Icel	Tarsus - Beach	Beaches
Kayseri	To Kultepe	Archaeological site
Nevsehir	Near Goreme	Early Christian cave dwellings
Corum	Yazlikaya - Bogazkale	Archaeological site
Istanbul	Cinarcik - Yalova	Beaches, thermal springs

Because of acute interest in developing Turkey's tourism potential, AID financed an Ammann and Whitney, International, study of "Highways in Southwest Turkey", (AID Loan 277-H-042). The area has an excellent climate, superb mountain and coast scenery and many historical sites, but an inadequate highway system. Ammann and Whitney, International recommends a substantial road improvement and construction program estimated to cost TL 381 million of which \$14,233,000 would be in foreign exchange. This program would supplement the Highway Directorate's normal maintenance and improvement work in the area.

However, the Ammann and Whitney report indicates that a highway program of such substantial dimensions is required in southwest Turkey for far more than tourism: the principal benefit of such an effort would be to increase effective agricultural production in the area. Tourism, at this time, in southwest Turkey requires improved hotel and restaurant facilities even more urgently than major highway improvement and both need to move forward. The equipment and training to be provided by this loan will aid the Highway Directorate significantly in maintaining and bettering existing roads in southwest Turkey. However this loan is not intended to provide the equipment required for the major new construction recommended by Ammann & Whitney, which recommendations are still under review by the GOT.

Since this loan is primarily for replacing and modernizing the highway equipment of the Highway Department, its economic significance is not so difficult to appraise as a new investment. If the Highway Department cannot obtain foreign exchange to maintain its equipment pool the large investment made in highways will be jeopardized and the economic benefits enjoyed from a good highway system will cease.

D. Effect of the Loan on Private Enterprise in Turkey

Of the total amount of money being loaned:

1. None is being loaned directly to private enterprise.
2. None is being loaned to intermediate credit institutions for relending to private enterprise.
3. None of the funds will be used to finance imports by private enterprise; or for use of private enterprise in Turkey; however, some of the equipment may be leased to private contractors.
4. None is being loaned to the Turkish government to finance project work (including procurement) done under contract by Turkish private enterprise.
5. None is being loaned to a mixed enterprise. This loan is being made to the Government of Turkey.
6. None is being loaned to the Turkish Government for the direct purchase by the Government for its own use of goods from Turkish private enterprise.

The loan will affect private enterprise in Turkey indirectly. Some of the vehicles to be purchased will be assembled in Turkey by privately owned assembly plants. A far more important effect is that good road maintenance has a very beneficial result in agriculture and industry, and in improvement of bus and trucking services.

E. Impact on Turkey's Balance of Payments and the U. S. Balance of Payments

This loan will have no immediate effect on the balance of payments of either Turkey or the United States. For Turkey, the loan is on development loan terms with a ten-year grace period, which will not greatly burden her balance of payments. The loan should help Turkey's balance of payments within several years and over the long term because the loan will permit better road maintenance which will help agriculture and tourism and it will have a generally favorable effect on Turkish economic development.

The loan will have no adverse effect on the U. S. balance of payments as all of the loan funds will be spent for procurement of goods or services in the United States.

V. Financial Analysis

Turkish lira costs of the purchase of the equipment and employment of consultants will be included in the budget of the General Directorate of Highways. The budget for highways for Turkish fiscal year 1966 was approved February 21, 1966 and included substantial sums for purchase of equipment.

Total 1966 budget for Directorate General of Highways is TL 1,180,000,000
Including:

Current expenditures	TL 277,000,000
Investment	785,000,000
Capital formation and transfers	118,000,000

The investment budget of TL 785,000,000 is made up of:

Project studies, surveys	TL 29,000,000
Road construction and maintenance	463,000,000
Equipment purchases and maintenance	292,000,000

The General Directorate of Highways submits a separate budget to the General Assembly, even though it is a subdivision of the Ministry of Public Works. These budgets have increased gradually in recent years, reflecting the increasing road mileage for which the Directorate is responsible.

Recent Directorate of Highways Budgets

	Budgetary Expenditures of General Directorate of Highways			% of Consolidated	% of
	(TL Mil.)	% Increase	(\$ Mil.)	Budget	GNP
1958	508.2		181.5	9.8	1.4
1959	726.9	43.0	259.6	10.4	1.6
1960	804.6	10.7	89.4	10.5	1.6
1961	829.2	3.1	92.1	9.2	1.7
1962	814.0	- 1.8	90.4	8.5	1.5
1963	915.3	12.4	101.7	7.8	1.5
1964	892.9	- 2.4	99.2	6.9	1.3
1965	1,021.2	14.4	113.5	6.7	1.3
1966	1,180.0	15.6	131.1	6.7	

1958-1963 Closed account figures
1964-1966 Budget appropriations

VI. Repayment Prospects

Repayment prospects are satisfactory. The Government of Turkey has previously been determined to be a suitable borrower of Development Loan Funds. Nothing has taken place in recent months to change that determination. The U. S. has joined in Consortium meetings in February, 1966 based upon the premise that Turkey is a satisfactory borrower on concessional development loan terms.

VII. Impact on the U. S. Economy

The impact on the U. S. economy will consist of substantial purchases of highway maintenance equipment in the U. S., and the employment of a U. S. engineering firm as consultant to the Highway Directorate.

VIII. Conditions and Covenants

Conditions will be included in the loan agreement concerning AID review of bid documents and awards and review of consultants' contracts and requiring submission of a plan for enforcing overloading regulations.

A specific covenant will be contained in the loan agreement requiring compliance with the overloading enforcement of plan.

Since the Government of Turkey is now studying the transportation sector in preparation of its Second Five Year Plan, with OECD assistance, the loan committee believes that it would be unwise and unnecessary to impose any special conditions or covenants in the loan agreement concerning general transportation policy. Relative investments in different forms of transportation and revisions in user taxes are important, but the Turkish Government is now studying these problems.

IX. Implementation Plan

The Highway Department is entirely capable of selecting the equipment to be purchased, preparing the invitations to bid, analysing the bids and making the awards. With the experience gained

from the recent purchases under Loan 277-H-044 the Highway Department will revise the bidding documents it has previously used and will submit them to AID for approval. Thereafter Highways will call for bids, analyse them, and inform AID of the awards made. AID will review any awards over which a controversy arises, but will not approve every award for every item purchased.

Highways will continue to use its consulting engineers services in preparing invitations, analysing bids and advising on technical matters, including asphalt and paving specifications.

Highways will work out an acceptable plan with AID for training of personnel in the United States, before any disbursements are made for this purpose. The present request for training fifty men in five groups of ten over the next five years would stretch the period of implementation of the project through 1970. This problem will be resolved during study of the training plan.

X. Conclusions and Recommendations

The loan committee concludes that this project would be an appropriate use of Development Loan Funds; that the project is technically feasible and economically justified; and that the General Directorate of Highways is capable of effectively implementing the project.

The committee recommends that the loan be authorized upon the basis of the attached Loan Authorization (Annex II) and that a loan agreement be negotiated upon terms substantially as set forth in the Draft Loan Agreement (Annex III).

May 27, 1966

TURKEY - SECOND HIGHWAY EQUIPMENT LOAN

STATUTORY CHECKLIST

1. FA Sec. 102. Precautions that have been or are being taken to assure loan proceeds are not diverted to short-term emergency purposes (such as budgetary, balance of payments, or military purposes) or any other purpose not essential to the country's long-range economic development. -- Loan proceeds will be used directly on the project discussed in the Capital Assistance Paper.
2. FA Sec. 102. Assure that excess property shall be used where practicable in lieu of procurement of new items. The U. S. excess property program has been in operation in Turkey for over six years, and full advantage of the program is being taken by the GOT.
3. FA Sec. 102. Assure that the country has taken adequate measures to prevent damage to U.S. property by mob action. Police, gendarmerie and security forces in Turkey have the capability of preventing such mob action.
4. FA Sec. 201(t). Manner in which loan will promote country's economic development, emphasizing help for long-range plans and programs designed to develop economic resources and increase productive capacities. -- Covered in Section IV. "Economic Analysis".
5. FA Sec. 201(b)(1). Information and conclusion on availability of financing from other free-world sources, including private sources within the United States. -- The Export-Import Bank is not prepared to consider the loan application. No private sources in the U.S. would be willing to provide funds required on these terms and conditions.
6. FA 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. -- Covered in Sections III and IV. Turkey's financial situation is discussed in the CAP.
7. FA 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. -- Covered in Section IV. "Economic Analysis".

The following abbreviations are used:

FA Foreign Assistance Act of 1961, as amended by the Foreign Assistance Act of 1964.

App. Foreign Assistance and Related Agencies Appropriation Act, 1965.

8. FA Sec. 201(b)(4). Information and conclusion on activity's relationship to other development activities, and its contribution to realizable long-range objectives. -- Covered in Section IV. "Economic Analysis".
9. FA Sec. 201(b)(5). Country's self-help measures, including institution of Foreign Assistance Act investment guaranty program. -- Discussed in Program Loan Paper. Turkey has an agreement with the U.S. on Investment Guaranties.
10. FA Sec. 201(b)(6). Information and conclusion on possible effects on U.S. economy, with special reference to areas of substantial labor surplus. -- The project will have no direct or measurable indirect effect on the U.S. economy. All procurement will be from U.S. sources. No information is available as to whether any specific labor surplus area will be benefited.
11. FA Sec. 201(b). Information and conclusion on reasonable prospects of repayment. -- Covered in Section VI, "Repayment Prospects".
12. FA Sec. 201(d). Information and conclusion on legality (under laws of the country and the U.S.) and reasonableness of lending and relending terms. -- This loan would be made in compliance with U.S. and Turkish laws. The LAS justifies the development loan terms.
13. FA Sec. 201(c). Information and conclusion on availability of an application together with sufficient information and assurance to indicate reasonably that funds will be used in an economically and technically sound manner. -- An adequate application and other sufficient information have been received, as described in Sections I, II, and III.
14. FA 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. -- Covered in Section IV. "Economic Analysis".
15. FA Sec. 201(f). If a project, information and conclusion whether it specifically provides for appropriate participation by private enterprise. -- The Borrower is the Government of Turkey. U.S. private sources will supply equipment, material and services.
16. FA Sec. 202(a). Total amount of money under loan which is going directly to private enterprise, etc. -- See Section IV.D.
17. FA Sec. 601. 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

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and use of cooperatives, credit unions, and savings and loan associations; (d) discourage monopolistic practices; (c) improve technical efficiency of industry, agriculture, and commerce; and (f) strengthen free labor unions. -- (a) the loan would encourage the flow of international trade by providing for the export of the machinery, equipment and know-how to Turkey from the U.S., (b) private enterprise will be affected as described in Section IV.B., (c) the loan would have no direct effect on the development and use of cooperatives, credit unions, and savings and loan associations, (d) the loan would have no measurable effect on monopolistic practices, (e) technical efficiency of the Turkish Highway Department will be improved by obtaining modern equipment, technical advice and training, and (f) the loan would have no effect on the strengthening of free labor unions.

18. FA 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. -- Engineering and professional services for technical assistance to the Highway Department will be obtained from private sources in the U. S.
19. FA Secs. 601, 602. Information and conclusions whether loan will (a) encourage U.S. private trade and investment abroad; (b) encourage private U.S. participation in foreign assistance programs (including use of private trade channels) and the services of U.S. private enterprise; and (c) permit American small business to participate equitably in the furnishing of goods and services financed by it. -- (a) and (b) This loan will have only an indirect effect on U.S. private trade and investment abroad or private U.S. participation in foreign assistance programs, (c) normal Small Business publication requirements will be provided for. U. S. private sources will provide equipment and services under this loan.
20. FA Sec. 604(a). Compliance with restriction on commodity procurement to U.S. except as otherwise determined by the President and subject to statutory reporting requirements. -- Procurement will be limited to the U.S.
21. FA Sec. 604(b). Compliance with bulk commodity procurement restriction to prices no higher than the market price prevailing in the U.S. at time of purchase. -- The Loan Agreement will contain a provision covering this point.
22. FA Sec. 604(d). Compliance with requirement that marine insurance be purchased on commodities if the participating country discriminates, and that such insurance be placed in the U.S. -- This will be required by the Loan Agreement.

23. FA 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. -- Covered in Section III, Technical Analysis, and in Loan Agreement.
24. FA Sec. 611(a)(2). Necessary legislative action required with recipient country and basis for reasonable anticipation such action will be completed in time to permit orderly accomplishment of purposes of loan. -- Not applicable.
25. FA Sec. 611(b); App. Sec. 101. If water or water related land resources construction project or program, information and conclusion on benefit-cost computation. -- Not applicable.
26. FA Sec. 611(c). Compliance with requirement that contracts for construction be made on competitive basis to maximum extent practicable. -- Not applicable.
27. FA Sec. 619. Compliance with requirement that assistance to newly independent countries be furnished through multilateral organizations or plans to maximum extent appropriate. -- Although Turkey is not a "newly independent country", assistance to Turkey is based on consortium meetings, in which participants include international lending agencies.
28. FA Sec. 620(a); App. Sec. 107. Compliance with prohibitions against assistance to Cuba and any country (a) which furnishes assistance to Cuba or fails 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 on the Battle Act List, or other items of primary strategic significance, or items of economic assistance. -- Turkey is not in violation of this Section.
29. FA 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.
30. FA 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 ineligible under this section.

31. FA Sec. 620(d). If assistance for any productive enterprise which will compete with U.S. enterprise, existence of agreement by the 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. -- No competition with U.S. enterprise is contemplated.
32. FA Sec. 620(e). 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.
33. FA Sec. 720(f). Compliance with prohibitions against assistance to any Communist country. -- Turkey is not a Communist country.
34. FA Sec. 620(g). Compliance with prohibitions against use of assistance to compensate owners for expropriated or nationalized property. -- Not applicable.
35. FA Sec. 620(h). Compliance with regulations and procedures adopted to insure 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. -- The Loan Agreement will contain a provision on this point.
36. FA Sec. 620(i). Existence of a determination that the country is engaging in or preparing for aggressive military efforts. -- No such determination under this statute has been made.
37. FA Sec. 620(k). If construction of productive enterprise where aggregate value of assistance to be furnished by U.S. will exceed \$100 million, identification of statutory authority. -- Not applicable.
38. FA Sec. 620(l). Compliance with prohibition against assistance after 31 December 1965 for the government of a country which fails to institute investment guaranty program. -- Turkey has agreed to an Investment Guaranty Program.
39. FA Sec. 636(f). Appropriate steps that have been taken to assure that, to maximum extent possible, 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. -- The GOT will furnish necessary local currency, and U.S. owned Turkish lira is used for all administrative and program costs in lieu of dollars, to the maximum extent possible.

40. FA Sec. 620(u). Take into account whether the country has taken appropriate steps to prevent ships or aircraft under its registry from transporting prohibited property to North Vietnam. -- Turkey does not engage in trade with North Vietnam, and ships or aircraft under its registry do not call at sea or air ports of North Vietnam.
41. FA Sec. 620(o). Take into account whether the country has seized or penalized U.S. fishing vessels on account of fishing activities in international waters. -- No such action has been taken by Turkey.
42. App. (Sec. Unnumbered). Use of funds to carry out FA Sec. 205, which pertains to IDA. -- Not applicable.
43. App. (Sec. 102.). Compliance with requirements that payments in excess of \$25,000 for architectural and engineering services on any one project be reported to Congress. -- Any such payments will be reported.
44. App. Sec. 104. Compliance with bar against funds to pay pensions, etc. for military personnel. -- Funds will not be used for such purposes.
45. App. Sec. 111. Compliance with requirement for security clearance of personnel under contracts for services. -- All such personnel will be cleared in compliance with law.
46. App. Sec. 112. Compliance with requirements for approval of contractors and contract terms for capital projects. -- The engineering firm and contract terms will be approved by AID.
47. App. Sec. 114. Compliance with bar against use of funds to pay assessments, etc., of U.N. member. -- Funds will not be used for such purposes.
48. App. Sec. 117. Compliance with regulations on employment of U.S. and local personnel for funds obligated after 30 April 1964. -- Appropriate provisions for compliance with said regulations will be included in the implementing documentation.
49. App. Sec. 401. Compliance with bar against use of funds for publicity or propaganda purposes within U.S. not heretofore authorized by Congress. -- Funds will not be used for such purposes.

CAPITAL ASSISTANCE LOAN AUTHORIZATION
Provided from: Development Loan Funds
(Turkey - Second Highway Equipment Loan)

Pursuant to the authority vested in the Assistant Administrator, Bureau for Near East and South Asia, of the Agency for International Development (hereinafter called "A.I.D.") by the Foreign Assistance Act of 1961, as amended, and the Delegations of Authority issued thereunder, I hereby authorized the establishment of a loan pursuant to Part I, Chapter 2, Title 1, the Development Loan Fund, to the Government of Turkey, of not to exceed Fifteen Million Dollars, (\$15,000,000), such funds to be made available to the General Directorate of Highways to finance the foreign exchange costs of the purchase of highway equipment and spare parts to replace and maintain the equipment of the General Directorate of Highways, the payment of costs of freight and insurance thereon, obtaining consulting engineering services and technical training in the United States of employees of the Directorate. This loan is to be subject to the following conditions:

1. Interest rate and terms of repayment

Government of Turkey This loan shall be repaid by the Government of Turkey within forty (40) years after the date of the first disbursement thereunder, including a grace period of not to exceed ten (10) years. The interest on the disbursed balance of the loan shall be at the rate of one percent (1%) per annum during the ten (10) year grace period and at the rate of two and one half percent (2½%) per annum thereafter.

2. Currency of Repayment

Provision shall be made for repayment of the loan and payment of interest in United States dollars.

3. Other Terms and Conditions

3.1. Commodities and services financed under the loan shall be of the United States source and origin.

3.2. This loan shall be subject to such other terms and conditions as A.I.D. may deem advisable.

DAVID E. BELL, Administrator

Date

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AID Loan No. 277-H-

L O A N A G R E E M E N T

Country: TURKEY
Project: Second Highway Equipment Loan

Between The

R E P U B L I C O F T U R K E Y

and the

U N I T E D S T A T E S O F A M E R I C A

Dated:

AGREEMENT made and entered into as of
between the Republic of Turkey ("Borrower"), and the
UNITED STATES OF AMERICA, acting through the Agency for International
Development ("AID").

ARTICLE I. The Loan

SECTION 1.1. The Loan. Subject to the terms and conditions of
this Agreement, AID agrees to lend to Borrower pursuant to the Foreign
Assistance Act of 1961, as amended, and Borrower agrees to borrow from
AID up to fifteen million United States Dollars (\$15,000,000) (the "Loan")
through disbursements to the General Directorate of Highways ("Directorate"),
an agency of Borrower, for the foreign exchange costs of goods and
services required for the Project as defined in Section 1.2. The
funds disbursed hereunder are herein referred to as "Principal". Goods
and services financed hereunder are herein referred to as "Eligible
Items". References herein to the "Borrower Country" are to Turkey.

SECTION 1.2. The Project. As used in this Agreement, the term
"Project" shall mean the purchase of highway equipment and spare parts
to replace and maintain the equipment of the Directorate, the payment
of costs of freight and insurance thereon, obtaining the services of
three consulting engineers for one year each and the technical training
of approximately fifty employees of Directorate in the United States
for approximately eight months each. After payment for or establishment
of an exact sum and contingency sums necessary for the engineering

services and technical training for the project, the balance of the loan may be expended by Borrower for equipment, spare parts, insurance and freight.

ARTICLE II. Terms and Repayment and Interest.

SECTION 2.1. Interest. Borrower shall pay interest semi-annually to AID in United States Dollars on the unrepaid Principal and on any interest due and unpaid, computed on the basis of a 365 day year and at the rates hereinafter stated. The first such payment shall be due and payable six (6) months after the first disbursement hereunder or on such earlier date as AID may specify. Interest shall accrue from the dates of the respective disbursements at the rate, for the ten (10) years following the date of such first disbursement, of one percent (1%) per annum and thereafter at the rate of two and one-half percent (2 1/2%) per annum. Disbursements shall be deemed to occur on the dates on which payments by AID are made to Borrower or to its designee or to a banking institution pursuant to a letter of commitment.

SECTION 2.2. Principal. Borrower shall repay the Principal to AID in United States Dollars in semi-annual installments in accordance with the terms of this Agreement and an amortization schedule to be provided Borrower by AID after all disbursements have been made. Such amortization schedule shall provide for repayment of the Principal within forty (40) years of the first disbursement hereunder in

sixty-one (61) approximately equal semi-annual payments of Principal and Interest, the first installment to be payable nine and one-half (9 1/2) years after the date on which the first interest payment is due.

SECTION 2.3. Application and Place of Payment. All payments shall be applied first to accrued interest and then to Principal. Except as AID may otherwise specify in writing, payments shall be made to the Controller, USAID Mission, Ankara, Turkey, and shall be deemed to have been made when received by said Controller at such address.

SECTION 2.4. Prepayment. Borrower shall have the right to prepay all or any part of the Principal, without penalty, on any date on which interest is due. Except as AID may otherwise agree in writing, all prepayments shall be applied first to accrued interest and then to the remaining installments of Principal in the inverse order of their maturity.

ARTICLE III. Conditions Precedent.

SECTION 3.1 Conditions Precedent to Initial Financing. Prior to the issuance of the first letter of commitment and to any disbursement hereunder, Borrower shall, except as AID may otherwise agree in writing, furnish AID in form and substance satisfactory to AID:

- (a) An opinion of the Chief Legal Advisor of the Ministry of Finance of Borrower, or other counsel satisfactory to

AID, that this Agreement has been duly authorized or ratified by and executed on behalf of Borrower and constitutes a valid and legally binding obligation of Borrower in accordance with its terms and that the person signing the Agreement on behalf of Borrower has the authority to act as the representative of the Borrower in all matters pertaining to the Loan and this Agreement, including the authority to designate other representatives of the Borrower pursuant to Section 6.3.

- (b) The name of the person or persons who will act as the additional representative or representatives of Borrower pursuant to Section 6.3, together with evidence of his or their authority and a specimen signature of each such person certified as to its authenticity.
- (c) Evidence or assurances of the availability of funds, other than the Loan, necessary for the Project;
- (d) Evidence that a contract for consulting engineering services for the Project satisfactory to AID has been entered into with a firm acceptable to AID;
- (e) Time schedules for the procurement of goods and plans for the training program as required for the due and timely completion of the Project;

- (f) Assurances of arrangements for the procurement of goods, including invitations to tender, as required for the Project. Such arrangements shall assure that to the maximum extent practicable, the Loan will not be used to finance the procurement of goods or services otherwise eligible for financing hereunder, if comparable goods or services are produced and available in the Borrower Country in sufficient quantity, or satisfactory quality and at a reasonable price;
- (g) A copy of current highway overloading statutes and regulations and a comprehensive plan for implementing them.
- (h) Such additional plans, documents or other submissions as AID may reasonably request.

SECTION 3.2. Terminal Dates for Fulfillment of Conditions

Precedent. Except as AID may otherwise agree in writing, if the conditions established by Section 3.1 have not been satisfied within three months from the date of execution of this Agreement or such later date if any as AID may specify in writing, AID at any time after whichever of such dates shall be applicable, may at its option terminate this Agreement by written notice to Borrower. Forthwith upon receipt of such notice, Borrower shall repay any unrepaid Principal and any accrued interest, whereupon all obligations of Borrower and AID under this Agreement shall cease.

ARTICLE IV. Disbursements

SECTION 4.1. Requests for Letters of Commitment. To obtain disbursements, Borrower may from time to time request AID to issue letters of commitment to one or more banking institutions in the United States designated by Borrower and satisfactory to AID, committing AID to reimburse such bank or banks for payments made, through letters of credit or otherwise, to Borrower or any designee of Borrower, pursuant to such documentation requirements as AID may prescribe. Banking charges incurred in connection with letters of commitment and disbursements shall be borne by the Borrower and may be financed hereunder.

SECTION 4.2. Other Forms of Disbursement. Disbursements may also be made by such other means as Borrower and AID may agree to in writing.

SECTION 4.3. Terminal Dates for Requests for Letters of Commitment and for Disbursements. Except as AID may otherwise agree in writing, no letters of commitment shall be issued in response to requests received by AID after June 30, 1967 and no disbursement shall be made against documentation received by AID or the bank's referred to in Section 4.1 after December 31, 1967.

ARTICLE V. Covenant

SECTION 5. Covenant. Borrower agrees to effect the highway overloading implementation plan furnished to A.I.D. pursuant to Section 3(g)

and to provide comprehensive reports on the effectiveness of the plan to A.I.D. at regular intervals of no more than four months until December 31, 1969.

ARTICLE VI. Miscellaneous.

SECTION 6.1. Eligibility Date. As used in this Agreement, "Eligibility Date" shall mean the date of this Agreement, except as AID may otherwise agree in writing.

SECTION 6.2. Ocean Shipment. At least fifty per cent, (50%) of the gross tonnage of all goods (computed separately for dry bulk carriers, dry cargo liners and tankers) financed hereunder which shall be transported on ocean vessels shall be transported on privately owned United States flag commercial vessels to the extent such vessels are available at fair and reasonable rates for United States flag commercial vessels. No goods may be financed hereunder which are transported on any ocean vessel (a) which AID, by written notice to Borrower, has designated as ineligible to carry AID financed goods or (b) which has been chartered for the carriage of AID financed goods unless such charter has been approved by AID.

SECTION 6.3. Use of Representatives. For all purposes relative to this Agreement the Borrower and AID will be represented, respectively,

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by the individuals signing this Agreement or any persons holding or acting in the offices now held by such individuals. In addition, the Borrower shall and AID may respectively designate in writing an additional representative or representatives who shall have authority to perform all actions on behalf of their respective principals required or permitted for the implementation of this Project.

Until receipt by the Borrower or AID of written notice of revocation by the other of the authority of any of its said representatives, Borrower or AID, respectively, may accept the signature of any such representative or representatives as conclusive evidence that any action effected by such instrument is duly authorized by the other.

SECTION 6.4. Communications. Any notice, request or other communication given, made or sent by Borrower or AID pursuant to this Agreement shall be in writing and shall be deemed to have been duly delivered to the party to which it is addressed when received by such party at the following address:

To Borrower:	Mail address:	Maliye Bakanligi Hazine Genel Müdürlüğü ve MIIT Genel Sekreterligi Ankara, Turkey
	Cable address:	Maliye, Hazine Ankara, Turkey
To AID: (Three copies)	Mail address:	Office of Assistant to the Director/Capital Projects United States Agency for International Development 16 Dr. Vali Reşit Caddesi Ankara, Turkey

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All communications and documents submitted to AID hereunder shall be in the English language and all technical and engineering specifications therein shall be in terms of United States standards, except as AID may otherwise agree in writing.

SECTION 6.5. Standard Provisions Annex. A Standards Provisions Annex is attached to this Agreement and is hereby made a part hereof. Terms used both therein and in this Agreement shall have the same meaning in both documents. Reference in the Standard Provisions Annex to the "Agreement" are to this Agreement.

THE REPUBLIC OF TURKEY

BY: _____

Title: Minister of Finance

UNITED STATES OF AMERICA

BY: _____

Title: Ambassador to Turkey

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

(Date)

General Directorate of Highways
Republic of Turkey
Ankara, Turkey

Subject: AID Loan No. 277-H-
Second Highway Equipment Loan
Implementation Letter No. 1

Gentlemen:

This letter sets forth the procedures for implementing the various requirements set forth in the Loan Agreement dated _____ between the Republic of Turkey and the United States of America, acting through the Agency for International Development, and provides information to assist you in implementing your project in conformity with the Loan Agreement. Nothing in this letter and its attachments alters the scope of the Loan Agreement or the terms of the specific sections that are herein referred to or explained in this communication. Instructions in this letter and the attachments may be supplemented or modified by subsequent Implementation Letters to meet special situations that may arise. In this letter, "Agreement" shall stand for the aforesaid Loan Agreement, and "Directorate" shall refer to the General Directorate of Highways.

The Project shall refer to the Project agreed to in Section 1.2 of the Agreement. More specifically, the Project consists of the items indicated in the following table along with a preliminary estimate of costs:

Project Description and Estimates of Foreign Exchange Costs

1. Purchase and importation of substantially the following equipment

<u>Item</u>	<u>Category</u>	<u>Number</u>	<u>Estimated Cost (\$)</u>
1	Pick-up, 4 x 4, crew cab	27	68,000
2	Panel, 4x2	10	18,000
3	Truck, Dump, Diesel, 6x4, 8-10 cuyd.	86	1,032,000

<u>Item</u>	<u>Category</u>	<u>Number</u>	<u>Estimated Cost (\$)</u>
4	Truck, Dump, 4x2, 4-6 cuyd.	194	1,569,000
5	Truck, Chassis-cab, 4x2 (Min GW 23,000 Lbs.)	150	375,000
6	Motor Grader Tandem (Min 23,000 Lbs.)	115	1,950,000
7	Motor Grader 4x4, (Min 24,000 Lbs.)	26	520,000
8	Snow Plow, Rotary (Min 1000 TPH)	15	255,000
9	Tractor, Crawler (Min 60 HP)	20	240,000
10	Tractor, Crawler, (Dozer, Ripper)(Min 230 HP)	75	3,380,000
11	Wheel dozer (Min working weight 74,000 Lbs.)	5	320,000
12	Motor Scraper (Min struck capacity 21 cuyd.)	20	1,100,000
13	Loader, Crawler (2 1/2 cuyd)	30	570,000
14	Loader, Crawler (1 1/2 cuyd)	26	340,000
15	Compressor, With Drills (250 cfm)	20	180,000
16	Roller, Tandem, Diesel (cap. 8-12 T.)	16	160,000
17	Roller, Self propelled, Pneumatic tired (Min 30 Ton)	5	105,000
18	Arc Welder, Portable	48	110,000
19	Generator set, 5 kw., 10 kw.	100	100,000
20	Hammer and Extractor	4	30,000
21	Vibrator (Min 50 mm)	32	16,000
22	Cement Chipping Hammer	38	8,600
23	Highway Striping Equipment	2	7,000
24	Parts and Engines for Equip- ment of Local Manufacture	-	<u>147,000</u>
			\$ 12,600,000
	Spare Parts, approximately		1,400,000
	Ocean Freight and Insurance		700,000
	Consultants, three men for one year		100,000
	Training Assistance, 50 men		<u>200,000</u>
			\$ 15,000,000

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Readjustment and substitutions of the items of highway equipment and numbers thereof to be purchased may be made by Directorate, provided that arrangements for the consulting services and training assistance have been made, satisfactory to A.I.D.

I. Conditions Precedent to Use of Loan Funds - Article III

In accordance with the requirements of Section 3.1 of the Agreement, the following conditions must be met prior to the issuance of the first letter of commitment:

(a) Legal Opinion

An outline of information to assist counsel in preparing the necessary legal opinion is transmitted herewith as Attachment A.

(b) Specimen Signatures

The Borrower and Directorate will identify the responsible individuals charged with carrying out the project. Authenticated specimen signatures in three (3) copies are required from each individual designated as a representative.

(c) Other Funds

Borrower will furnish evidence of satisfactory arrangements assuring the availability of funds other than those provided under the loan to finance the Project. This evidence should include (i) a certificate of a duly authorized official of Borrower with respect to the amount required for the Project.

(d) Arrangements for Consulting Engineering Services

In order to assure Directorate that any draft contract is in a form satisfactory to AID, Directorate should submit three copies of contract or at minimum a draft scope of work for AID's review and comments prior to seeking proposals. Directorate should submit for AID review and approval six (6) copies of the final engineering consulting services contract. In making this submittal Directorate should clearly point out all changes made in the draft contract or scope of work from that previously approved by AID. Directorate should instruct the selected consultant to submit to AID copies of the qualifications resumes of the persons to be employed on the project when the resumes are submitted to Directorate for its approval. Directorate may, in its discretion, negotiate a contract satisfactory to AID, with the firm of Amman and Whitney International Ltd. to continue the services

now being performed by said firm, with whatever changes in the contract that may be necessary.

(e) Schedules

Time schedules for the procurement of goods and plans and time schedules for the training program.

(f) Review of Invitations

Specimens of the invitations to tender to be used, consisting of the rules and regulations for tenders to be followed by all bidders, but not including the technical specifications of each item of equipment.

(g) Highway Overloading.

Submit copies translated into English of all current highway overloading statutes and regulations together with an analysis of their limitations and Government of Turkey plans to make them effective including an indication of additional personnel and equipment required, new sanctions to be imposed, and a time schedule for various stages of such implementation plan.

(h) Additional Plans

No additional information is requested by AID at this time.

Section 3.2. Terminal Dates for Fulfillment of Conditions Precedent

Except as AID may otherwise agree in writing, the terminal date for meeting the conditions precedent set forth in Section 3.2 is three months after the date of execution of the loan agreement.

II. Financing Procedures and Documentation - Article IV

The procedure for requesting the issuance of letters of commitment actions to be taken by Directorate after the letters of commitment are issued, and the documentation required by AID as a basis for disbursement of loan funds are described in Attachment B. Please note that unless AID may otherwise agree in writing, the terminal date for requesting issuance of Letters of Commitment is June 30, 1967 and the terminal date for requesting disbursements is December 31, 1967.

III. Rules Governing Procurement

A. Eligibility Date

In accordance with Section 6.1 of the Agreement, the Eligibility Date for this project is the date of execution of the Agreement.

B. Method of Procurement

In accordance with Section 100.2, no more than reasonable prices shall be paid for any eligible items, and all items shall be procured on a fair competitive basis.

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C. Small Business Notification

Information regarding proposed procurement of goods having a value greater than \$5,000 must be disseminated to interested United States suppliers in order that American Business shall have the opportunity to participate in furnishing Eligible Items. AID's Office of Small Business will arrange for publication of a summary of the specifications and requests for quotations. A period of at least 45 days must elapse between the date of publication and the closing date for receipt of quotations. Attachment C gives more information on AID notice requirements to U. S. business.

D. Limitations on Shipping Facilities

In accordance with Section 100.1 items otherwise eligible for financing under the AID loan will not be so financed if shipped on transportation media owned or controlled by any of the following countries: The Union of Soviet Socialist Republics, Albania, Bulgaria, Czechoslovakia, East Germany, Danzig, Hungary, Poland, Rumania, Estonia, Latvia, Lithuania, North Vietnam, North Korea, Tibet, China (Mainland) and other Communist-controlled areas, Outer Mongolia and Cuba.

E. Special Shipping Limitation - Section 6.2

Items otherwise eligible for financing under the AID loan will not be so financed if shipped on vessels named in Attachment D which will be periodically updated as required.

F. Application of the 50/50 Shipping Requirement

In accordance with Section 6.2, 50% of the gross tonnage of AID financed goods shipped on ocean vessels shall, computed separately for dry bulk carriers, day cargo liners and tankers, be transported to Turkey on privately-owned United States flag commercial vessels. A Quarterly Shipping Report discussed under Part V.C. of this letter must be submitted to AID by Borrower.

G. Eligible Source of Procurement

In accordance with Section 100.1 of the Agreement, loan proceeds can be used only to finance Eligible Items, including transportation, commodities, services, and marine insurance, having their source and origin in the U. S.

Goods and services financed with other than loan funds must have been procured, pursuant to Section 100.1 of the Agreement, from sources included in Code 899 of the AID Geographic Code Book. The

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countries not included under Code 899 are listed in paragraph III.D., "Limitations on Shipping Facilities." Thus, no items to be used on the Project, regardless of sources of financing, may be purchased from countries not included under Code 899.

IV. Marking

In accordance with the provisions of Section 101.3, the Borrower shall cooperate with AID in making information concerning the loan public and shall have the Eligible Items and their Shipping containers suitably marked. Attachment E. discusses the marking requirements in greater detail.

V. Reporting - Section 101.6

A. Quarterly Progress Reports

AID will require a report on the progress of the Project to be submitted quarterly. The report shall be prepared with the assistance of the consultant and submitted by Directorate to AID within 30 days of the close of the reporting period. The first report shall cover the period ending December 31, 1965. In the preparation of the report, Directorate shall, to the extent practicable, follow the format for the progress reports described in Attachment F.

B. Final Report

A final report following the format for final reports set out in Attachment F. will be due on completion of the Project and may be substituted for the last Quarterly Progress Report.

C. Quarterly Shipping Report

With respect to Borrower's and Directorate's responsibilities under Section 6.2 of the Agreement concerning ocean shipment of loan-financed goods, Directorate is requested to provide AID with information indicating actual progress in meeting this requirement. These reports will show for each calendar quarter, the extent to which the requirements under Section 6.2. are being met. This report should follow the form presented in Attachment G.

This quarterly report is to be submitted by the last day of the month following the period covered in the report. The first report, covering shipments from inception through December 31, 1966 will be due not later than January 31, 1967. Each report is to be supplemented by a covering summary statement giving the cumulative actual figures, beginning with the initial report through the month

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of the latest report, for U. S. and non-U. S. flag vessels by category of vessel, as applicable. If the summary report indicates a lag in complying with Section 6.2, a statement shall be included, indicating how the deficit in shipping on U. S. flag vessels is to be made up. If no shipment of goods is made during the report period, a report should be submitted attesting to the lack of shipments. Two copies of each shipping report are to be mailed to: Agency for International Development, Material Resources, Transportation Division, Washington, D. C. 20523.

VI. Records - Section 101.5

The records which are required under the terms of Section 101.5 insofar as they relate to eligible items and services, shall be maintained for a period of at least three (3) years after the final disbursement by AID under the loan.

VII. Commissions, Fees and Other Payments - Section 102.2

You are reminded that Section 102.2 requires that any fees or commissions in connection with the Project or the loan be reported to AID.

VIII. Correspondence

All correspondence regarding the loan and the reports required under Section 101.6 should be addressed to the USAID Mission to Turkey as specified in Section 6.4 of the Loan Agreement.

AID will be glad to discuss with your representative any problems or questions you may have concerning the implementation of this loan, or relating to this letter and its attachments.

Sincerely yours,

James P. Grant
Director
USAID Mission to Turkey

cc: OIEC, Ministry of Finance

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ATTACHMENTS:

- A. Guide for the Assistance of Counsel in Preparing Legal Opinions.
- B. Disbursement of Loan Funds Letter of Commitment Procedure.
- C. Borrower's Notice to U. S. Business Regarding Proposed Procurement of Goods.
- C. Shipping Restrictions.
- E. Marking Requirements.
- F. Progress Reporting Requirements.
- G. Borrowers' Shipping Statement.