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INVESTMENT PROPOSAL

FOR

REVOLVING FUND

SECURITIZED TRADE FINANCE

TURKEY

US$2,000,000 LOAN GUARANTEE

TO

RAM DIS TICARET, A.S. OF KOC HOLDING CO., A.S.

ISTANBUL, TURKEY

OFFICE OF INVESTMENT
BUREAU FOR PRIVATE ENTERPRISE

NOVEMBER, 1986

U.S. AGENCY FOR INTERNATIONAL DEVELOPMENT

This project is the first in a program of capital markets initiatives planned by PRE using the device of securitized trade finance (STF), an innovative Note Issuance Facility not previously used by private commercial risk borrowers in developing countries. Other countries being investigated as to the suitability for using securitized trade finance are Indonesia and Thailand.

ABBREVIATIONS

AID	Agency for International Development
GOT	Government of Turkey
KOC	KOC Holding, A.S.
NIF	Note Issuance Facility
PRE	Bureau for Private Enterprise, AID
Pronote	Promissory Note
RAM	Ram Dis Ticaret, A.S.
STF	Securitized Trade Finance
TFC	Trade Finance Company

INVESTMENT PROPOSAL FOR REVOLVING FUND LOAN GUARANTEE IN A SECURITIZED TRADE FINANCE FACILITY ON BEHALF OF RAM DIS TICARET, A.S. OF KOC HOLDING, A.S., ISTANBUL TURKEY

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I. EXECUTIVE SUMMARY

A. The Project

1.01 PRE proposes to provide a US$2.0MM counter guarantee in support of a US$10.0MM Note Issuance Facility for raising trade finance on behalf of a wholly-owned subsidiary of KOC Holding, A.S., Ram Dis Ticaret, A.S. (RAM). Through RAM, KOC exports substantial volumes of Turkish products and services to Middle Eastern and European markets. KOC has the capability to assemble products and services produced by small and medium-scale private Turkish businesses. It is because of this capability that AID is inclined to participate in this new capital markets product for Turkish borrowers which will permit raising of funds in offshore capital markets by issuing notes (bonds, securities, etc.). AID's participation is structured to leverage KOC's organizational and trade expertise on behalf of the smaller-scale business population.

1.02 KOC Holding is one of the largest holding companies in Turkey, is privately Turkish-owned and through its subsidiary operations contributes a substantial percentage of the annual foreign exchange earnings of the Turkish private sector. Total assets under KOC Holding were US$1,070.8MM with exports of US$213.3MM in 1986. Its wholly-owned export trading company subsidiary, RAM, enjoyed total exports of US$175.4MM.

1.03 RAM organizes trade finance requirements in support of KOC's import and export activities. These include the assembly of products for export from a number of small and medium-scale businesses which produce for sale to RAM or on contract. The funding source for RAM's past foreign exchange requirements has been traditional, i.e. commercial banks. In 1985, RAM, borrowed US$25.0MM from a syndication of commercial lenders lead-managed by American Express International Banking Corporation. RAM's borrowing strategies, which rely on facilities organized by Eurodollar money center banks, typify borrowing strategies of the Turkish private sector.

1.04 The scarcity of fixed-rate long term funding from the Eurodollar market results in dependence on variable-rate and short term credit to meet investment and trade finance requirements of exporting companies. Often corporations have little choice but to mismatch in their financing patterns. This results, typically, in reliance on short term revolving lines to finance medium and long term requirements. In an effort to help corporations move beyond the restricted credit facilities available from Eurodollar money center banks and develop matched funding sources and uses, PRE undertook to introduce a type of Note Issuance Facility termed Securitized Trade Finance (STF). STF entails the sale of securities (the notes issued) to institutional investors in the U.S. capital markets. The advantages of raising capital through STF as opposed to Eurodollar money center banks include price, tenor, flexible repayment structure and depth.

B. Capitalization

1.05 AID's contribution to the STF Note Issuance Facility proposed in this project is a US$2.0MM guarantee participation of a total security offering of US$10.0MM. The balance of the guarantee will be held by Postipankki of Helsinki, an institution whose standby letter of credit is rated AAA, for US$1.0MM; Paribas for US$1.0MM; Indosuez for US$3.0MM and Standard Chartered for US$3.0MM. Postipankki will be the lead guarantor and will issue a standby L/C for US$10.0MM with the other institutions providing US$9.0MM in counter guarantees. The total guarantee of US$10.0MM will be used to borrow, through the issuance of an AAA rated security, US$10.0MM at a fixed interest rate for a period of three years with level amortization of principal beginning at the end of year one. The guarantee and counter guarantees will amortize on the same schedule.

C. Developmental Benefits

1.06 This project is foremost a capital markets project, although with a clear focus on small and medium-scale exporting enterprises as a beneficiary group. By in large, the capital markets of AID-assisted countries are undeveloped with few having links with foreign capital markets other than traditional borrowings through international banks.

To the extent borrowers in AID-assisted ocuntries have used bond issues to raise medium and long term funding, it has been sovereign risk. Outside of Eurodollar borrowing, the capital markets have not been penetrated by LDC commercial risk borrowers for medium and long term funds.

1.07 This project is a case study in the use of credit enhancement for building access to U.S. capital markets for commercial borrowers. The credit enhancement is provided by creditworthy guarantors who have the expertise to evaluate the credit risk of the LDC commercial borrower. The source of funds is the institutional investor market in the U.S. which has sufficient depth to absorb highly variable borrower requirements and at rates currently lower than those available in Eurodollar markets.

1.08 This project's institution building features will have results not only for the commercial borrower in Turkey, RAM, but also for the credit enhancers who are introduced to a mechanism for linking LDC commercial risk with U.S. capital markets. It is anticipated that once demonstrated as a viable and competitive funding strategy, a number of commercial Turkish borrowers will try to use STF as an alternative funding source.

1.09 In this project, twice AID's level of guarantee contribution, will be used directly on behalf of small and medium-scale borrowers defined as private businesses with net fixed assets, excluding land, not in excess of US$1.0MM equivalent. This element is feasible because of RAM's product sourcing network which includes modest sized manufacturers. Accordingly, the price and tenor benefits of borrowing from U.S. capital markets will be passed on to the smaller scale business sector producing products for export.

D. Project Timetable

IOP	1985
L/A Negotiation	October 31, 1986
IP	November 6, 1986
L/A Signing Obligation	December 20, 1986
First Disbursement	January 15, 1987

E. Risk

KOC Holding, A.S. is the credit risk in this project through its guarantee of performance of Ram Dis Ticaret, A.S. KOC is a substantial, established and diversified company which the IFC terms a good, solid client based on its own experience with KOC. Additional comfort is provided by the co-financing leverage of US$9.0MM to AID's US$2.0MM being provided by

Postipankki, Standard Chartered, Paribas and Indosuez. Each of these sophisticated commercial, private institutions has agreed to take the commercial risk of KOC on a pari passu basis with AID. In this project, AID catalyzes the superior risk assessment capability of established world class commercial institutions and uses this capability to select a sound investment consistent with Agency development objectives.

F. AID Issues: Why use scarce DA in Turkey, an ADC?

1.11 Turkey has been selected as a case model for establishing the merits of STF for achieving Agency development objectives. Thus, Turkey is interesting to the extent a prototype STF instrument is developed by AID for application in LDC environments. In conjunction with development of this case model, PRE has begun investigations pursuant to possible application in a number of Asian environments, notably Indonesia, where a potential borrower has already been identified.

The Administrator has also specifically given PRE a green light for up to one Revolving Fund investment per year in an ADC. This decision acknowledges the usefulness of building on ADC experience for design of interventions in non-ADC countries. (Copy of memo covering this decision is in annex plus notes summarizing ANE/PD and PPC/PDPR concurrence in developing an ADC case model for STF).

II. THE BORROWER

2.01 The borrower in the STF project is Ram Dis Ticaret, A.S., a wholly owned subsidiary of KOC Holding, A.S. which is providing a guarantee of the obligations of its subsidiary. Accordingly, the credit risk to Postipankki and all counter guarantors is KOC Holding, A.S..

2.02 KOC's objective in using STF is twofold: a) to seek a competitive edge by organizing financing at lower cost; and b) to demonstrate its sophistication among its peers through the introduction of a new financial instrument to Turkey.

2.03 KOC has undertaken discussions with the Treasury of the Government of Turkey and is confident that Treasury approval will be provided once the financial arrangements have been fully worked out. (Note: Treasury approval is required for borrowing with maturities in excess of two years).

2.04 KOC Holding is an established and very substantial private company owned by 87% by the KOC family with the balance publically traded on the Istanbul Stock Exchange. KOC consists of some 111 companies and is the oldest and largest conglomerate in Turkey.

2.05 RAM, the wholly owned subsidiary, manages more than 80% of the exports of KOC Holding. RAM operates as an export trading company and will use the STF funds for the purpose of providing trade financing on behalf of its suppliers. The product groupings under the export trading company are as follows:

- Household Appliances. This group includes appliances such as refrigerators and washing machines sold to North Africa. These appliances are manufactured under a licensing agreement with General Electric, USA.

- Canned Foods. In this group tomato paste is manufactured for export to Japan.

- Institutional Food Products. In this group food products are manufactured for hotels in the Middle East.

- Construction Services. This group's sells services to Saudi Arabia.

- <u>Textiles.</u> Textiles comprise only 10% of total exports of RAM and are limited to woven products sold to EEC markets, prinicipally Germany. Total exports of RAM are US$175-200 million per year.

III. ECONOMIC OVERVIEW OF TURKEY

A. Development Overview

3.01 In 1980, the Turkish Government announced a comprehensive economic stabilization and reform program featuring a more flexible foreign exchange regime, major efforts to reform Turkey's parastatal enterprises, and restrictive fiscal, monetary and wage policies. These and complementary policies have been used to change the Turkish economy from one which looked inward, producing for a highly protected domestic market, to one which increasingly is oriented toward the world market.

3.02 The program -- with support from the United States and other members of the Organization for Economic Cooperation and Development (OECD) -- has been remarkably successful. Whereas in the late 1970s, Turkey experienced deep economic malaise necessitating large-scale aid, a major debt rescheduling and International Monetary Fund (IMF) support, it is now able to finance basic imports and service external debt. Economic growth has resumed with exports leading the way.

3.03 Liberalization measures taken by the new Government in 1984 gave a new impetus to the 1980 program and accelerated the process of economic reform. The civilian government of Prime Minister Turgut Ozal moved to open the Turkish economy even further to market forces. To foster greater efficiency in domestic industry, the import regime has been substantially liberalized. A sweeping liberalization of foreign exchange controls has been carried out. Interest rates also have been restructured. Finally, prices of petroleum products continue to be adjusted to keep them in line with international levels.

3.04 Despite this dramatic progress, domestic inflation remains a problem. In 1984, the wholesale price index rose by 52 percent. While the inflation rate has declined to 36 percent per annum in recent months, the budget deficit continues to pose difficulties.

3.05 Although the Turkish Government has established an impressive record in the economic sphere, the framework upon which the economic recovery is built remains fragile. Substantial amounts of outside assistance are still needed. Debt-service payments are significant and the principal on rescheduled debt is coming due. As a result, Turkey's foreign debt repayment obligations are substantial and will remain at relatively high levels over the next several years. Nevertheless, with conservatively projected increases in export earnings, continued implementation of the stabilization program, new commitments of economic assistance from the United States and other donors and continued commercial inflows, Turkey should be able to meet its obligations while at the same time continue to grow and develop.

B. U.S. Interests and Objectives

3.06 Turkey is a close, valued ally in the North Atlantic Treaty Organization (NATO). It is located in an area of the world which is of strategic importance to the United States. The United States has an interest in encouraging and supporting the growth, development and stability of a democratic, Western-oriented Turkey, willing and able to meet its NATO commitments.

C. A.I.D.'s Assistance Strategy

3.07 A.I.D.'s strategy is to provide resources in conjunction with other donors (and private lenders) to permit Turkey to service its needs for economic growth.

For FY 1987, $150 million has been requested to continue support of Turkish economic reform and stabilization efforts. Turkey is expected to continue to pursue policies designed to encourage development of the private sector and enhance the climate for foreign investment.

The Government of Turkey is looking to the OECD countries to provide continuing economic assistance, and also hopes to generate additional support from Arab donors. Turkey may also be able to turn to private banks to finance some of its imports and developmental projects. The subject AID/PRE project ~~is evidence that this~~ is directly responsive to these objectives.

IV. FINANCIAL PLAN

4.01 The project entails the raising of US$10.0MM through the sale of securities to U.S. institutional investors, backed by a AAA rated guarantee and evidenced by trade receivables for the purpose of providing trade finance to small and medium-scale exporters in Turkey. The following sections summarize the transaction, and disply the benefits and costs of the securitized trade finance.

A. Overview

4.02 Securitized Trade Finance is the "conversion" of medium-term promissory notes, (usually of non-U.S. borrowers) evidencing the ultimate import or export of some product or service from one country to another, into a formally-rated U.S. security (corporate bond). This is achieved by means of special credit enhancement specifically provided for this purpose by a triple-A rated guarantor and the simultaneous funding of the medium-term debt represented by the promissory note by the sale of such securities in the U.S. private placement market. Both the promissory note and the corresponding guarantee are assigned to a grantor trust[1] "trustee" as collateral for the matching securities sold by a specialized trade finance company. The result of such an arrangement is to provide direct access by non-rated foreign borrowers to an enormously large, new, non-bank, medium-term, fixed-rate source of international trade finance which can usually provide funds at relatively lower fixed-rates of interest than those offered by many commercial bank lenders for a comparable (medium-term, fixed-rate) trade finance loan.

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1. A grantor trust differs from a fiduciary trust, in that the primary responsibility of the latter is to safeguard and prudently invest the proceeds of the trust, while the primary responsibility of a grantor trust is to automatically and efficiently pass through to the beneficiaries of the trust whatever funds happened to be deposited in it, according to a carefully prearranged schedule with the trustee. In order to provide for maximum safety in the handling of the investors' funds, therefore, the use of a grantor trust ar an equivalent legal mechanism is required by most rating agencies in order to achieve a triple-A rating for any private "pass-through" (conduit) financing mechanism.

4.03 The specialized trade finance company (T.F.C.) does not act merely as a broker, factor, or secondary-market forfeit discouter, but is, in fact, the actual, legal lender of record in each case. As such, it continues to be legally responsible for servicing such loans until their final maturities. Such companies are regulated by the Investment Companies Act of 1940, as interpreted and enforced by the U.S. Securities and Exchange Commission (S.E.C.). In order for a T.F.C. to remain in compliance with the relevant provisions of this act, the international borrowers of such securitized funds are required to deposit with the trustee (which holds the proceeds of the sale of securities of the T.F.C. to the institutional investors) sufficient documentary evidence that the securitized financing is reasonably related to an actual, bona fide, relatively recent, international trade finance transaction (or future series of such transactions) for the amount of funds to be disbursed by the trustee to the borrower. The underlying promissory note of the borrower will be held to maturity by the trustee, as long as timely repayments are made by the borrower as scheduled. Such notes are never rediscounted, therefore, in any secondary market. The corresponding securities sold by the T.F.C. are also, in practice, usually held to maturity by those institutional investors who purchase them.

B. Cost Advantages of Securitized Trade Finance

4.04 A relatively low funding base. The base rate of a securitized loan is always the yield on a corresponding U.S. Treasury Note, rather than any commercial bank's borrowing cost (such as Libor) or any commercial bank's Prime Rate (or equivalent). For this reason, the all-in cost of a medium-term securitized, fixed-rate, trade finance loan is usually lower than any comparable (that is, medium-term, fixed-rate) commercial bank loan, even though the spread (margin) over the securitized loan may be higher than the spread over the commercial bank loan. This margin for a securitized loan includes both: (a) the risk premium paid to the institutional investor; and (b) the annual servicing fee of the purchaser of the borrower's promissory note (that is, the T.F.C.).

4.05 <u>A fixed, annual, interest rate.</u> The potential benefit of having a fixed-rate of interest is that it can protect the borrower from increased interest rate costs in the future. There are two problems inherent in all floating rates of interest: (a) the borrower never really knows whether or when his short-term base rate may increase at some time during the next three to seven years; and (b) he never really knows how much it may happen to increase or decrease at any time in the future, or how long such increases or decreases may last.

4.06 <u>Continued availability of regular, commercial bank lines of credit.</u> With a triple-A rated guarantor, some borrowers could also obtain a fixed-rate, medium-term loan directly in the so-called "Euro-bond" market from one of the major international commercial banks (at least for three years) or a comparable lender, with terms which might be equal to or even more favorable than those available for a U.S. private placement. The borrower, however, would have effectively used up that portion of his actual or potential credit with the funding bank, regardless of the guarantee, because banks typically "double count" such exposure to such guaranteed borrowers. The borrower might well find it in his best interest, therefore, to maintain his actual or potential borrowing capacity with such banks intact and utilize instead a non-bank source of funds with the same guarantor, (i.e., the U.S. capital market).

4.07 <u>Flexibility of repayment schedules:</u> the following types of repayment schedules can be arranged:

(a) regular amortizations: semi-annual or annual principal and/or interest payments, as desired.

(b) irregular amortizations: corresponding to a borrower's particular cash flow pattern in the future.

(c) unusually long grace periods: there is virtually no limit on the length of the grace periods which institutional investors will readily accept for triple-A rated risk.

(d) balloon payments: interest only until final maturity, then one payment for 100% of the principal.

(e) "zero coupons": no payment of principal or interest until final maturity.

4.08 Introduction of the primary borrower to the U.S. capital markets: If such a securitized loan is correctly repaid as scheduled, these successful financings in the U.S. private placement market will gradually have the effect of familiarizing the borrower's name in that market and facilitate the eventual introduction of direct obligations of that borrower, either in his own name or with a wider range of guarantees in the future.

C. Commercial Bank Loan Versus Securitized Trade Finance

4.09 To see the relative merits of financing medium and long term requirements with short term (mismatched) or longer term (matched) loans, it is important to compare the all-in current rate of a fixed-rate loan with the historical average of the base rate of a floating-rate loan of similar maturity. Taking the annual average of six-month Libor base rates for the past 6 years (1980 through 1985), the composite annual average base rate cost of such a floating-rate loan (not counting any commercial bank spread over the base rate) would have been approximately 12.40% p.a. With a 1% p.a. spread (profit margin) for the bank, this would have been an annual average interest rate cost of 13.40%.

By comparison, a six-year $10 million securitized loan with annual payments of principal and semi-annual payments of interest, backed by a triple-A rated guarantor, would today carry an all-in (total) fixed interest rate (base rate plus spread) of approximately 9.00% p.a. Since the spread over the Libor funding base of the commercial bank loan should at least equal the cost of a triple-A rated standby letter of credit for the same borrower, the interest rate savings on the securitized loan would be at least 340 basis points, or 3.40% p.a., or $340,000 of the principal amount of a $10 million loan. At any given time, the all-in fixed rate of a securitized loan will represent a spread of about 1-5/8% to 1-1/2% over the annual yield on the U.S. Treasury Note corresponding to the average life of the securitized, medium-term loan. These yields are available (in indicative form only) in the daily Wall Street Journal, for comparison purposes.

4.10 This cost relationship may be summarized as follows:

(a) <u>Fixed Rate Securitized Private Placement (guaranteed by a triple-A guarantor)</u>

1. <u>base rate:</u> U.S. Treasury Note (corresponding to average life of loan) = true market rate for U.S. government's own cost of funds.

2. <u>spread:</u> between 1-1/2% and 1-3/4%.

3. <u>fee:</u> between 3/4% and 1% (not counting expenses).

4. <u>guarantee:</u> varies.

(b) <u>Commercial Bank Loan</u> (guaranteed by a triple-A guarantor)

1. <u>base rate:</u> Libor or Prime = bank's own cost of funds + possible hedge cost. (Varies with each bank) = no true market.

2. <u>spread:</u> between 1/2% and 3/4%.

3. <u>fee:</u> varies with each bank and borrower (not counting expenses).

4. <u>guarantee:</u> varies.

4.11 It should be noted that it is not <u>always</u> the case that a securitized (i.e., bond-type), capital-market loan is <u>necessarily</u> more cost advantageous than a floating-rate, credit-market loan. Especially for minimum amounts ($10 million) and minimum tenors (3 years), and depending on market conditions at any given time, a securitized U.S. private placement <u>may</u> not be as low cost as some direct, 3-year bank loans at fixed rates for the same tenor and amount, assuming the same, triple-A rated guarantor. One reason is that there are always certain fixed costs in a private placement (fee and expenses) which are difficult to reduce, but which become more economical for transactions of at least $20 million for at least 5 years. The real advantage, therefore, may not be the theoretical cost factor, but other, non-cost factors, such as diversification of funding resources, introduction to the U.S. capital market, etc.

4.12 The cost of the guarantee will vary with: (a) the guarantor; (b) the nature of the underlying transaction; (c) the borrower's credit rating; and (d) the borrower's country. The significant fact is that some triple-A rated, international, non-U.S. banks may charge considerably less for the same standby letter of credit guarantees than do those very few U.S. banks whose letters of credit are still rated triple-A.

There are two objective reasons why this is so. U.S. banks, now being the most highly regulated of the banks of all major countries, have been recently required by U.S. banking regulators to: (a) maintain increased reserve requirements against all new contingent liabilities (such as standby letters of credit); and (b) to limit the absolute amount of all such contingent liabilities to a more conservative multiple of their own capital (i.e., reduced leverage). The result is that those few remaining U.S. banks whose guarantees are still rated triple-A are very likely to charge relatively high annual fees for such guarantees for an LDC customer.

4.13 There is, understandably, relatively little incentive now for U.S. banks to make their own scarce standby letters of credit guarantees available to relatively small and unsophisticated, private-sector borrowers from developing countries, especially at competitive rates, when it is more convenient for them to merely continue offering such borrowers their traditional floating-rate (preferably short-term) loans. Because the U.S. government has also prohibited U.S. banks from either directly engaging in the underwriting of securities most U.S. banks tend to perceive little incentive in providing such valuable guarantees at competitive rates merely to allow foreign borrowers to participate in a new and competing U.S. financial market. This is not true of non-U.S. banks, however, 28 of which are now rated triple-A for such standby letters of credit guarantees.

4.14 The relevant questions, therefore, are not whether there is already abundant foreign capital available for some kind of medium-term trade finance at some cost, but rather: (a) how the total cost of a traditional, commercial bank, floating-rate, medium-term trade finance loan would now <u>compare</u> with a fixed-rate, securitized, capital market, medium-term, trade finance loan of comparable maturity; and (b) what the future <u>hedge value</u> of a fixed-rate, low-cost, medium-term, securitized trade finance loan would likely be in a period of relatively low interest rates (such as now) for a borrower with a comparatively large portfolio of floating-rate loans currently outstanding.

D. <u>Transactional Steps</u>

4.15 Primary documents:

(1) <u>Standby letter of credit.</u> The most important of all, of course, is the credit risk guarantee in the form of a triple-A rated (in order to obtain the finest rates), unconditional, irrevocable, transferable promise by a U.S. branch of the guarantor bank to immediately pay on demand to the beneficiary of the letter of the credit (the T.F.C. or the trustee) any and all amounts currently due under the original terms and conditions of the borrower's promissory note, including 100% of the principal and interest due on any repayment date.

(2) <u>Commitment letter.</u> This is the actual offer of a loan to the borrower by the T.F.C It specifies the exact amount to be loaned; the maturity and amortization of the loan; the method of calculation of interest; the interest rate margin, plus an indicative, "all-in" rate based on the current Treasury Note yield (base rate, at that time; the flat fee, including all the expenses covered by that fee; and the other documentary requirements (together with samples of key documents). It also specifies the time period for which the offer is valid. (See annex for copy of the offer letter to KOC from Contitrade, the T.F.C.).

(3) <u>Promissory note.</u> From the standpoint of the trade finance company, there is no lengthy loan agreement, as in the case of a syndicated, commercial-bank, Eurocurrency term loan. Instead, a simple pronote is used as the primary evidence of the indebtedness of the borrower to the trade finance company. This note is sold without recourse to the T.F.C., together with the triple-A rated, transferable, standby letter of credit guaranteeing the timely repayment of 100% of the principal and interest due under the pronote exactly as scheduled without any delay or

exception of any kind (unconditional and irrevocable).

(4) Trustee agreement. This contract between the T.F.C., the borrower, the guarantor, and the trustee bank stipulates the procedure and documentary evidence required by: (a) the S.E.C. to demonstrate the basic trade-finance nature of the underlying transaction; and (b) the rating agency to provide the maximum degree of protection to the investors in the handling of their funds. It also specifies how any funds left by the borrower in the escrow account for any period of time before disbursement are to be automatically invested by the trustee on the borrower's instructions. Finally, it provides a mechanism for the repayment of the institutional investors by the guarantor, if the borrower should ever fail (for any reason whatever) to make timely repayments to the trustee as originally scheduled in the promissory note. The pronote can later be transferred (assigned) by the trustee to the guarantor, if the latter should ever be called on by the trustee to disburse funds for this purpose, since the guarantor at that point becomes a creditor of the borrower for the original debt.

4.16 Secondary documents:

(1) Private Placement Memorandum. This document is prepared for selected institutional investors by the T.F.C. (or investment bank, if the T.F.C. does not function as such for this purpose). It describes the nature of the underlying transaction and the guarantee, including the financial statements and other representations and warranties of both the borrower and guarantor. Investors make their decisions concerning the interest rates at which they would be willing to purchase new securities issued by the T.F.C. (and collateralized by the pronote and letter of credit guarantee held by the trustee) based on this information. The trustee agreement and all other relevant documentation is described, also.

(2) Promissory Note Purchase Agreement. this document is based primarily on the terms and conditions of the pronote itself. By means of

the Note Purchase Agreement, the T.F.C. (as creditor) purchases the pronote of the borrower (or of a local financial intermediary, if appropriate) either at full face value or on a discounted basis (zero coupon), without having any recourse later to the borrower. Instead, the T.F.C. has 100% recourse to the triple-A rated guarantor, via the trustee, in case of any late payment or non-payment by the borrower. No prepayment is allowed, due to the requirements of the institutional investors who purchase the securities of the T.F.C.

(3) Legal opinions, corporate resolutions, signature authentications, representations and warranties, etc. These documents are routinely required to ensure the legality of the transaction in both the borrower's country and in the U.S.A. New York (or Illinois, etc) law and jurisdiction are applied, but the T.F.C. must also be legally able to assist the trustee or the guarantor in later collection efforts in the borrower's own country, if necessary.

E. Transactional Steps (see diagram below)

4.18 The transactional steps are as follows:

1) Borrower obtains triple-A rated standby letter of credit (unconditional, irrevocable, and transferable) or comparable insurance policy, guaranteeing timely repayment of 100% of principal and interest due under the borrower's promissory note, with a U.S. Trade Finance Company/Investment Bank (T.F.C. or its trustee) as beneficiary.

2) Borrower sells its own medium-term, U.S. dollar-denominated promissory note, with no pre-payment provision, without recourse, to T.F.C.

3) T.F.C. assigns to U.S. trustee bank in a grantor trust the pronote and transferable guarantee as collateral for its own matching obligations (triple-A rated U.S. corporate securities).

4) T.F.C. sells its triple-A rated securities to large U.S. institutional investors.

5. Institutional investors deposit funds in escrow account with trustee.

6) Borrower requests disbursement of funds from trustee and submits documentary evidence of some form of present, recent past, or near future, international trade (its own import invoices, promissory notes from foreign importers, evidence of pre-export finance, etc.).

7) Trustee remits funds to borrower or other party designated by borrower.

8) Borrower repays T.F.C. via trustee, as scheduled in pronote.

9) Trustee repays institutional investors, as scheduled in matching securities of T.F.C.

10) If borrower misses any payment, trustee advises guarantor via T.F.C.

11) Guarantor remits funds immediately to trustee, as requested, for timely repayment to institutional investors.

12) Guarantor seeks recourse from borrower, per prior letter of credit agreement.

V. FINANCIAL STATUS

A. The Guarantor, KOC Holding, A.S.

5.01 KOC Holding, A.S., is a strong, dominant, highly diversigied conglomerate consisting of 111 companies and considered to be the most creditworthy of the Turkish holding companies. It is entirely owned by private Turkish shareholders with ownership highly concentrated in the hands of the KOC family (87%). The balance of shares is publically traded on the Istanbul stock exchange.

5.02 The financial highlights of KOC are summarized below. In 1985 it injoyed sales of US$2.7 bln and net profits of US$156MM. These figures represent substantial growth, 43% and 53% respectively, over 1984 performance. The total asset base increased 56% over the period from US$687MM to US$1.07 bln. The company has a debt to equity leverage of 1.7 as of 1985. The current position of the company has been good with a ratio of 1.2 in 1985 and 1984. Return on equity has been steady and strong at 53% over the last two years.

5.03 The company's foreign exchange debt position is favorably covered by foreign exchange earnings. Long term and current foreign exchange debt totalled US$131MM in 1985 compared to gross foreign exchange earnings of US$213MM. The net foreign exchange earnings position as reported by executives of the company is approximately one-half of gross resulting in annual net foreign exchange generation in 1985 and 1984 for debt service of US$106 and 125MM against short term FX obligations US$100MM in 1985 and US$17MM in 1984. Long term FX obligations were US$30MM in 1985 and US$17MM in 1984.

Indicating the Company's creditworthiness, KOC successfully raised US$25MM in 1985 on behalf of its export trading company subsidiary, RAM, in a syndication lead - managed by American Express International Banking Corporation.

KOC Holding, A.S.
Financial Highlights (US$Millions)

	1985	1984	% Change
Sales	2,685	1,883	43
Net Income Before Taxes	156	102	53
Exports	213	250	(15)
Net Working Capital	137	102	34
Short-term Debt	106	80	33
Long-term Debt	68	47	44
Fixed Assets	492	315	56
Total Assets	1,071	687	56
Equity and Minority Interests	290	191	52
Total Capitalization	395	264	49
Number of Employees	31,075	29,643	5
Return on Sales	5.8%	5.5%	
Return on Equity	53.9%	53.6%	

B. The Borrower, Ram Dis Ticaret, A.S.

5.04 Ram Dis Ticaret, Anonim Sirketi (RAM) is a wholly owned subsidiary of KOC Holding, A.S. RAM was organized as an export trading company of KOC Holding and exports its products, associated and affiliated companies' products and provides intermediary export and import services to various local manufacturers and trading companies.

5.05 RAM enjoyed export sales in 1985 of US$175MM which represented 82% of total exports of KOC. In 1985, RAM obtained US$25MM of two-year debt from a syndication of banks led by American Express International Banking Corporation. The loan had a dollar component of US$7.0MM at 9.5% p.a. interest. The debt is guaranteed by KOC Holding, A.S. and is to be repaid 30% in 1986 and 70% in 1987.

C. The Trade Finance Company, Contitrade Services Corporation

5.06 Contitrade is a wholly-owned subsidiary of Continental Grain Company, a US$15 bln company. It is active worldwide in countertrade, barter, leasing, and other trading and financial techniques. It has subsidiaries in Hong Kong, London, Paris and San Paulo, as well as affiliates and agents in more than 50 countries. Contitrade is part of the Merban Group.

5.07 Since 1982, Contitrade has developed a market niche in surety backed investor notes. It is because of this expertise that Contitrade has been selected to act as the Trade Finance Company for this project. This will be the first application of Securitized Trade Finance on a commerical risk basis for a developing country borrower.

D. Risk

5.08 AID is taking the credit risk of KOC Holding, A.S. in a pari passu co-financing syndication, lead - managed by Postipankki of Helsinki, Finland. AID's exposure is US$2.0MM out of a total syndication of US$10.0MM.

5.09 The first mitigant to this credit risk is KOC's strong financial standing and its ability to generate adequate foreign exchange earnings to meet its debt obligations. KOC generates gross foreign exchange earnings in excess of US$200MM annually, of which more than 80% is generated through its wholly-owned export trading company, RAM. KOC is a large conglomerate considered to be the most creditworthy of Turkish holding companies. Assets of KOC exceed US$1 billion and net worth is approximately US$400MM.

5.10 The second mitigant is the presence of a pari passu co-financing with sophisticated international lenders whose capability ot assess the creditworthiness of KOC exceeds that of AID. Accordingly, AID draws significant comfort in this transaction from the equal risks being taken by Postipankki, Indosuez, Standard Chartered, and Paribas.

5.11 Concerning foreign exchange risk, there are two principal mitigants. The first is the strong foreign exchange generation capability of KOC as noted above. The second is the preferred position given trade finance related obligations by the Turkish Treasury. In the event of rescheduling of foreign exchange debt, it is anticipated that the Securitized Trade Finance obligation of KOC would enjoy a priority position and not be rescheduled.

5.12 AID has met personally with RAM executives three times and believes that the developmental covenants imposed by AID, i.e., the small and medium scale focus, is reasonably within the abilities of RAM to satisfy. In the event of RAM's inability to satisfy the developmental covenants, AID and RAM have agreed to best efforts to seek mutually acceptable resolution.

5.13 The Treasury of the government of Turkey will approve this debt facility before it is implemented.

VI. TRANSACTION SUMMARY

BORROWER:	Ram Dis Ticaret, A.S., (RAM), Istanbul, Turkey, a wholly owned subsidiary of KOC Holding, A.S.
GUARANTOR:	KOC Holding, A.S., Istanbul, Turkey, a wholly Turkish owned company will guarantee RAM
AMOUNT:	US$2.0 Million Loan Guarantee
TERM OF LOAN:	Three (3) years from activation of loan guarantee
PURPOSE:	To participate in a AAA-rated guarantee syndication totalling US$10.0MM to enable RAM to raise US$10.0MM in U.S. capital markets through sale of securities backed by promissory note and AAA guarantee
GUARANTEE FEE:	Some fee received by other guarantors, 1.375% p.a.
PRINCIPAL REPAYMENT SCHEDULE:	Three equal annual payments commencing twelve (12) months after sale of the securities
USE OF FUNDS:	RAM will use funds to provide trade finance to private Turkish exporting enterprises
DEVELOPMENT COVENANTS:	a) RAM will use US$4.0MM of the facility on behalf of small and medium scale exporting enterprises (qualifying subborrowers) defined as having net fixed assets, excluding land, not in excess of US$1.0MM equivalent b) The trade finance provided to qualifying subborrowers will represent new credit extensions, not the renewal or refinancing of old credits
DOCUMENTATION:	a) Guarantee agreement with Postipankki, Helsinki, providing

US$2.0MM in counter guarantee to its AAA-rated standby letter of credit for US$10.0MM issued on behalf of RAM which will enable RAM to raise US$10.0MM in the U.S. capital markets through a securities issued by a specialized trade finance company, Contitrade (a subsidiary of Continental Grain Corporation)

b) Project Agreement with RAM and KOC reflecting the terms and conditions of AID participation, notably, the requirement for using US$4.0MM on behalf of small and medium scale exporting Turkish enterprises and provisions for remedy in the event the borrower is unable to fully satisfy AID conditionality

CO-FINANCING: AID will enjoy direct foreign exchange leverage of 5:1 as a result of this project. The co-financing parties include other guarantors in the syndication, Postipankki (the standby L/C bank), Standard Chartered, Paribas and Indosuez.

CONDITIONS PRECEDENT: Confirmation of US$10.0MM in guarantees, signed agreement with the specialized trade finance company (TFC) and approval of the Treasury of the Government of Turkey

GENERAL COVENANTS: There will be general covenants as to:

1. Program Evaluation
2. Consultation
3. Execution of the Program
4. Reports, records, inspections and audit
5. Financial reports of Borrower and Guarantor
6. Completeness of information

NEGATIVE PLEDGES: Standard restricted uses and commodities

GOVERNING LAW: a) The project agreement - District of Columbia

b) The Guarantee agreement - State of New York

VII. CONTRIBUTION TO DEVELOPMENT

A. Impact of PRE Participation on USAID Policy Areas

7.01 The proposed PRE participation would provide a positive impact in a number of key USAID policy areas, especially private sector development and institution building.

7.02 The project will promote private sector development by introducing a new offshore capital markets funding source (Securitized Trade Finance) on behalf of a number of small and medium scale exporting enterprises.

The project has as a central element institution building in the Turkish commercial sector by introducing a Note Issuance Facility based on commercial risk.

7.03 Specifically, the ANE Congressional Presentation for Turkey highlights the following:

* Increasing reliance on the private sector as the determinant of sustained growth and development

  The proposed project relies precisely on a private sector delivery mechanism and the disciplines of profit and loss decision making;

* Emphasis on enhanced leverage through co-financing

  The project provides AID a leverage of 5:1 in a co-financing with sophisticated offshore lenders.

B. Relation to PRE Objectives and Policies

7.04 PRE's objective is to meet the Basic Human Needs mandate of the Foreign Assistance Act of 1961 (revised) using self-sustaining private sector vehicles. In addition, PRE utilizes a variety of operating policies for its Revolving Fund investments to ensure high development and secure financial returns. The project satisfies both. The proposed investment is responsive to the Basic Human Needs mandate by targeting its resources to the small and medium scale business sector. This sector is typically disadvantaged, especially in the area of credit. This project will leverage US$4.0MM equivalent on a self-sustaining basis to this sector.

The project also meets PRE guidelines for management of Revolving Fund investments. These are as follows:

- Has a Demonstration Effect by: a) introducing a new type of financial institution; and b) mobilizing alternatives to public sector, subsidized credit.

- Exhibits Financial Viability based on qualified effective demand, proven management, and focused marketing.

- Targets Development Impacts Appropriate to Turkey by responding to identified constraints on capital expansion in the private sector.

- Makes Resources Available to the Small-Scale Enterprise Sector by leveraging the PRE/AID facility to create a pool of credit for use by small-scale businesses.

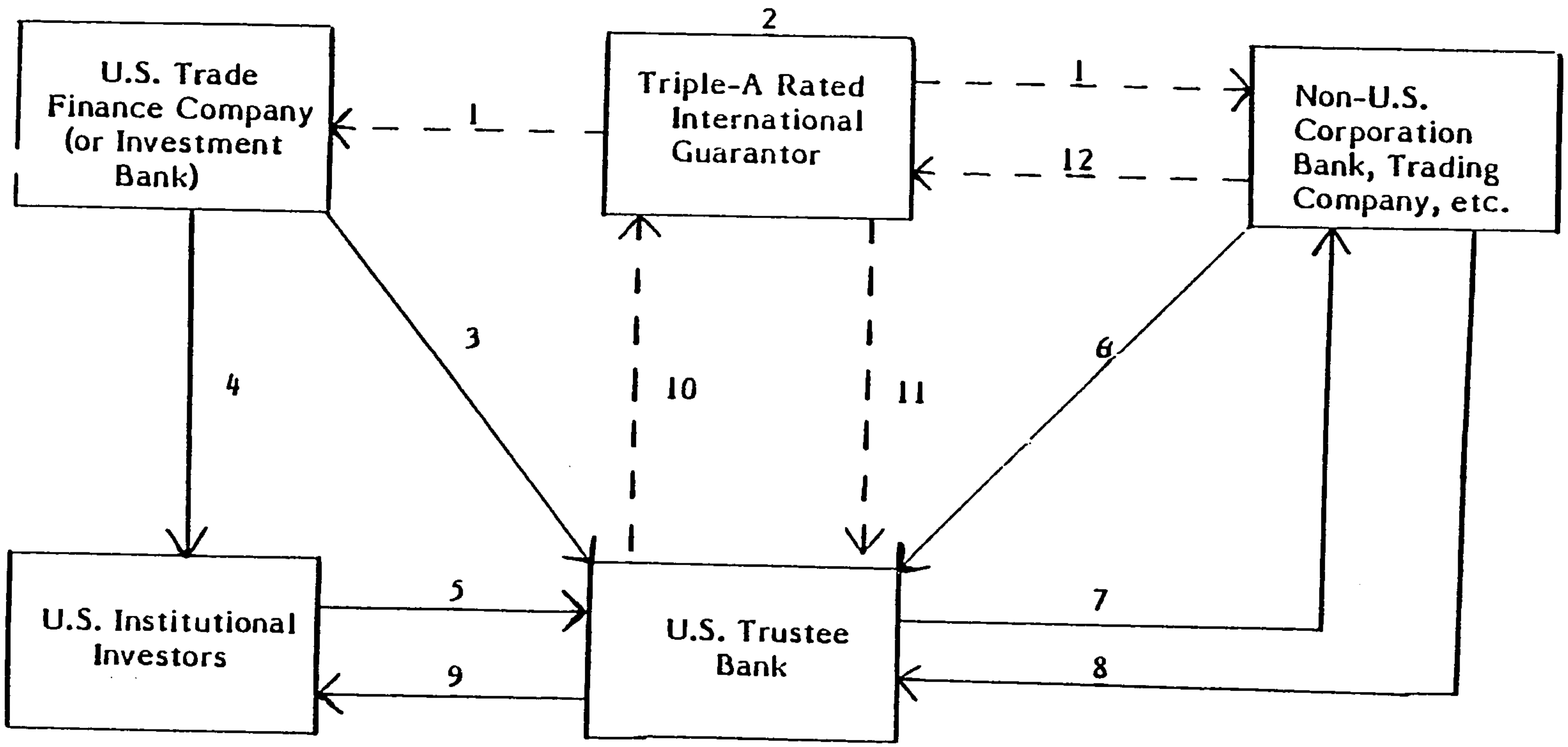
In addition, the facility meets project-specific financial constraints, namely: a) the facility cannot exceed US$3,000,000 (the proposed amount is US$3,000,000); b) the facility cannot be more than 50 percent of project capitalization (the proposed facility would amount to no more than 30 percent; and, c) the facility must be near market interest rates (the yield to AID will be above cost to USG). The facility will be financed under Section 106 as legislatively permitted.

D. Economic Impacts on the Small-Scale Enterprise Sector

6.07 The proposed PRE/AID facility specifically targets the small and medium scale enterprise sector defined in the Turkish context as private firms with net fixed assets (excluding land) not in excess of US$1.0MM.

TRANSACTIONAL STEPS IN U.S. CAPITAL MARKET, SECURITIZED FUNDING OF MEDIUM-TERM INTERNATIONAL TRADE FINANCE DEBT

(With triple-A rated, unconditional guarantee for minimum U.S. $10 MM of principal plus interest for minimum 3 years)



(See following page for explanations of each numbered step)

VIII. MONITORING AND EVALUATION

8.01 Project monitoring will consist of review of: a) loan and financial performance; and b) adherence to developmental covenants. Both (a) and (b) will be done on a semi-annual basis based on fee payment schedules and reporting requirements imposed on the borrower. it is not anticipated that project monitoring will require site visits.

8.02 Reporting on the project will consist of semi-annual reporting by borrower of data describing subprojects population by size, product, sales, exports and estimated increased employment as a result of financing.

8.03 An evaluation of the project is planned one year after disbursement. Its objectives will be to determine:

- o The extent to which small and medium scale businesses have been beneficiaries throughout the project.

- o The replicability of this model elsewhere.

IX. PROPOSED TIMETABLE

L/A Negotiation	10/31/86
IP	11/6/86
Authorization	12/10/86
Obligation	12/20/86
Disbursement (latest)	1/15/86

X. DISBURSEMENT SCHEDULE

10.01 Borrower will, upon satisfaction of conditions precedent, drawdown the entire loan amount in one lump sum and simultaneously go to market with the securities issue to raise US$10.0MM.

ANNEXES

MAR 12 1986

INFORMATION MEMORANDUM FOR THE ADMINISTRATOR

FROM: AA/PRE, Neal Peden Original signed by Neal Peden

SUBJECT: PRE Activities in Advanced Developing Countries (ADCs)

REF: My memo of February 7 and your note asking for recommendations

In our meeting on March 3, 1986, you provided guidance concerning our proposed internal PRE guidelines.

Revised draft guidelines are as follows:

- Only one, when unusual circumstances or opportunities dictate (such as in the case of Northern Ireland) Revolving Fund investment in ADCs per fiscal year. (If more lending is desired, additional DA loan funds could be made available to PRE to structure as private sector loans, although not as revolving fund activities).

- There will be no limit on privatization activities in ADCs.

- Not more than $25 million in HG resources for ADCs in one year. (In the case of HG, potential diversification of the HG portfolio to include countries with relatively less debt or without debt repayment problems will be helpful in maintaining the solvency of the reserve fund).

- Continue to restrict the activities of PRE's core grantees to LDCs. (Since we already face constant pressures from these organizations to expand their PRE-funded operations to ADCs, opening the door even a crack will likely result in an uncontrollable flood).

- Any ADC projects will be fully coordinated with the Regional Bureaus and PPC.

- Efforts will be made to secure program resources from Regional Bureaus to fund support staff needed to implement programs in ADCs.

Unless you have problems with these guidelines, we will consider them to be in effect.

Clearances:
PRE/I, Sean Walsh (draft) Date 3/11/86
PRE/PPR, Russ Anderson (draft) Date 3/6/86
PRE/H, Mario Pita (draft) Date 3/5/86

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S Walsh

Compton file: Turkey Portugal

December 13, 1985

TO: GC/PRE, Michael Kitay
PRE/I, Sean Walsh

FROM: GC/PRE, Barbara Davis

Re: Proposed PRE Revolving Fund Project in Turkey and Portugal

I discussed the above-referrenced project with GC/LP, Bob Lester and GC/ANE Rodney Johnson.

Bob Lester saw no reason why the two countries could not have AID projects in them since both countries receive at least ESF.

Rodney Johnson noted that Turkey received ESF, part in grant and part in loan, and also may already have ongoing AID activities under a regional private enterprise project. However, there is no AID staff currently in Turkey and AID has been working through the economic officer in the embassy.

Portugal also receives ESF in an amount of about $80, about half in cash transfers and the other half programmed through a joint Portugese-US committee (LUSO-American Organization). Portugal also receives technical assistance. There is an AID Representative and some staff working in the country.

Rodney recommended that PRE work with ANE to see what the backstop and staffing problems might be in supporting a PRE project. He saw support as the major concern.

Drafted:BDavis:jt:12/11/85:#1341-A

UNCLASSIFIED

Department of State

OUTGOING TELEGRAM

ORIGIN AID-00

ORIGIN OFFICE PRE-06
INFO FPA-02 AMPD-05 ANME-03 RELO-01 ANSA-02 /019 A4 3806

INFO LOG-00 EUR-00 /000 R

[redacted]

APPROVED BY: AID/PRE/I:CCHASELANSDALE
AID/GC/PRE:MGKITAY AID/ANE/MENA:MCLEOD
AID/ANE/PD:RMWILLIAMS (INFO)

------------------332510 070011Z /38

R 070008Z OCT 86
FM SECSTATE WASHDC
TO MR TAPIO OTAMAA
UNION IN KATU 13
00037 HELSINKI 7 FINLAND
INFO AMCONSUL ISTANBUL
AMEMBASSY ANKARA
MR ALTINOK
KOC HOLDINGS
ISTANBUL TURKEY

UNCLAS STATE 314743

AIDAC INFO AMCONSUL ISTANBUL

E.O. 12356: N/A
TAGS:
SUBJECT: AID PARTICIPATION IN SECURITIZATION FOR RAMKOC, ISTANBUL

ATTN: MR. TAPIO OTAMAA
ASSISTANT GENERAL MANAGER
INTERNATIONAL DIVISION
POSTIPANKKI
UNION IN KATU 13
00007 HELSINKI 7
FINLAND

1. PURSUANT TO OUR TELCON OF OCTOBER 2, WE ARE PLEASED TO CONFIRM THE INTEREST OF U.S. AGENCY FOR INTERNATIONAL DEVELOPMENT (AID) IN PARTICIPATING IN THE STANDBY LETTER OF CREDIT TO BE ISSUED AT THE REQUEST OF KOC HOLDING TO ENABLE ITS SUBSIDIARY, RAM, TO BORROW AT LEAST U.S. DOLLARS 10 MILLION FROM CONTITRADE VIA A SECURITIES ISSUE IN THE U.S.

2. AS DISCUSSED, WE ARE PREPARED TO COUNTER GUARANTEE UP O U.S. DOLLARS 3 MILLION (THREE MILLION) OF POSTIPANKKI'S STANDBY LETTER OF CREDIT. WE WILL PROVIDE

CASH COLLATERAL AND WOULD EXPECT TO SHARE IN THE COMMERCIAL RETURNS AND RISKS ON A PARA PASSU BASIS WITH POSTIPANKKI.

3. IN RETURN FOR AID'S PARTICIPATION, KOC HAS AGREED THAT AT LEAST U.S. DOLLARS 6 MILLION OF THE PROCEEDS OF THE BORROWING FROM CONTITRADE WOULD BE USED TO PROVIDE TRADE FINANCE TO RAM'S SMALL AND MEDIUM SCALE BUSINESS SUPPLIERS, DEFINED AS PRIVATE FIRMS WITH NET FIXED ASSETS, EXCLUDING REAL ESTATE, NOT IN EXCESS OF U.S. DOLLARS 1 MILLION EQUIVALENT. THIS FEATURE REPRESENTS OUR PRIMARY CONDITIONALITY. SECONDARY CONDITIONALITY PERTAINS TO CERTAIN TRADE AND USE ISSUES WHICH, AS CONFIRMED WITH KOC REPRESENTATIVE MR. ALTINOK, ARE NOT BURDENSOME.

4. WE WOULD FORMALIZE OUR COUNTER GUARANTEE THROUGH A DIRECT AGREEMENT BETWEEN AID AND POSTIPANKKI. THIS

AGREEMENT WOULD DEFINE THE TERMS AND CONDITIONS OF AN AID DEPOSIT WITH POSTIPANKKI OF U.S. DOLLARS 3 MILLION CASH COLLATERAL. WE WOULD ALSO LIKE TO KNOW OF YOUR WILLINGNESS TO HAVE INCLUDED IN THIS AGREEMENT THE AID CONDITIONALITY REFERRED TO ABOVE.

5. WE ARE PREPARED TO BE FULLY FLEXIBLE IN ARRANGING OUR COUNTER GUARANTEE WITH POSTIPANKKI AND LOOK FORWARD TO FURTHER DISCUSSIONS WITH YOU. SINCERELY, COMPTON CHASE-LANSDALE, INVESTMENT OFFICER, BUREAU FOR PRIVATE ENTERPRISE, AGENCY FOR INTERNATIONAL DEVELOPMENT, WASHINGTON, DC 20523 USA. TEL 202/647-3298, TELEX 248373 AID UR. SHULTZ

ACTION COPY

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Department of State

INCOMING TELEGRAM

PAGE 01 ANKARA 03114 201613Z 6948 023675 AID8966

ACTION AID-00

ACTION OFFICE PRE-06

INFO ANPD-05 PPPB-02 PPDC-01 ANMS-01 ANTR-06 PPR-01 ANME-03
RELO-01 /026 A2 320

INFO LOG-00 EUR-00 /000 W

------------------352227 201616Z /38

P 201613Z MAR 86
FM AMEMBASSY ANKARA
TO SECSTATE WASHDC PRIORITY 0770
INFO AMCONSUL ISTANBUL

UNCLAS ANKARA 03114

AIDAC

E.O. 12356: N/A
TAGS: N/A
SUBJECT: AID/PRE TRADE FINANCE FACILITY/VISIT BY MR.
JAMES MCLEROY

REFS: (A) STATE 085359, (B) STATE 085555

WE CONCUR IN PROPOSED TRIP TO ISTANBUL AND ANKARA (REFTELS). DUE TO VISIT BY SECRETARY SHULTZ ON SAME DATES, CONSULATE-GENERAL IN ISTANBUL WILL NOT BE ABLE TO PROVIDE TRAVELER ANY ASSISTANCE OVER THE WEEKEND, MARCH 22-23. STRAUSZ-HUPE

completion

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UNCLASSIFIED

CONTITRADE SERVICES CORPORATION

277 PARK AVENUE
NEW YORK, N.Y. 10172

TELEPHONE: (212) 907-3800
TELEX: ITT 428548, WUI 667351, WU 126644

BY HAND

October 27, 1986

Mr. Evren Artam
Managing Director
Ram Dis Ticaret A.S.
Meclisi Mebusan Caddesi 53, Findikli - Istanbul
Istanbul, Turkey

Dear Sir:

It was a pleasure to meet with you and your colleague Mr. Altinok yesterday and we are pleased to confirm to you our firm commitment to finance Turkish exports, subject to the following terms and conditions:

Amount:	\$10,000,000 to \$15,000,000 (ten million to fifteen million U.S. dollars) per financing.
Term:	A final maturity of three years from drawdown, with equal annual installments of principal and interest, beginning six months from drawdown.
Interest Rate:	1 5/8% over the weighted average yield for U.S. Treasury securities with comparable maturities. As of the close of business on October 27, 1986, the base rate would have been 6.25%. Interest will be paid semi-annually in arrears, beginning six months from drawdown. Interest will be computed on actual days elapsed and a year of 360 days. The rate of interest based upon the above outlined Treasury formula will be fixed two business days prior to closing.

Management Fee:	1% of the amount of the loan payable at closing.
Security:	A transferrable Letter of Credit issued in our favor or to a trustee bank nominated by us. The Letter of Credit must be issued by the Postipankki Bank and made payable at sight in New York. At the time of closing of the loan in New York the Postipankki Bank must have a AAA Letter of Credit rating from either Standard & Poor's or Moody's Investors Services for the committed interest rate outlined above to be effective. Your acceptance of this letter shall be accompanied by such bank's direct confirmation to us that they are prepared to guarantee 100% of principal and interest due on the loan.
Promissory Note:	We have attached a draft of the form of promissory note that we would require in this transaction.
Other Documentation:	Including, but not limited to the following: 1. Note Purchase Agreement; 2. Incumbency Certificates; 3. Corporate Resolutions of the borrower; 4. Appropriate legal opinions of counsel to Ram Dis Ticaret A.S. and Postipankki Bank 5. Copies of invoices evidencing the export of the products that have been financed.
Governing Law:	New York law will govern all aspects of this transaction.
Legal Fees:	Legal fees of our counsel, White & Case, will be for your account, subject to a maximum of $25,000.00.

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Debt Rating:

As it is our intention to place this debt through a special purpose corporation or trust into the United States domestic institutional private placement market, it will be necessary to obtain a medium term debt rating from either Standard & Poor's or Moody's. The cost of this rating and all other expenses related to the placement of the debt will be for your account.

Validity:

Until December 15, 1986, subject to your acceptance of this commitment by October 31, 1986, as evidenced by your execution and return of a copy of this commitment letter. Our commitment is also subject to the approval of this transaction by the Undersecretary of Treasury and Foreign Trade of Turkey and the satisfactory completion of all other documentation in all respects.

Please note that this offer represents a firm commitment subject to the terms and conditions outlined above to finance this transaction with ContiTrade's own resources. Only subsequent to the funding of that financing will the AAA rated instruments be placed into the institutional debt market by ourselves. Utilizing this technique of acting as a principal in initially funding loans, we have successfully placed over $1 billion in the U.S. private placement market within the past three years and anticipate no difficulty is placing this transaction as structured.

We look forward to closing on this transaction with you in the near future.

Very truly yours,
CONTITRADE SERVICES CORPORATION

James E. Moore
Vice President

Raymond Shanley
Vice President

Accepted & Agreed
Ram dis Ticaret A.S.

By____________________

Our acceptation is subject to the approval of this transaction by the Undersecretariat of Treasury and Foreign Trade of the Republic of Turkey.

New York, October 29, 1986

Evren Artam

Tevfik Altinok

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MESSAGE # 10
RCV LN 3

RCA OCT 31 1225
248379 AID UR
TT : MR COMPTON CHASE-LANSDALE. A.I.D.
REF : RAY - A.I.D. LOAN
TLX : 1226
DTE : 10/31/86

PRE

PLEASE FIND BELOW THE MESSAGE WE RECEIVED TODAY FOR
MR. ALTINOK:

QUOTE

ATT: MR TEVFIK ALTINOK

URGENT MESSAGE BY MR. TAPIO OTAMAN

QUOTE

STANDARD CHARTERED BAHREIN 3M. PARIBAS GENEVA 1M.
INDOSLEZ 3M AND A.I.D. 3 M ARE ACCEPTABLE.
PLEASE CONFIRM TOTAL AMOUNT OF L/C.

BEST REGARDS
TAPIO OTAMAN

END QUOTE

BEST REGARDS
OMER DINLER
RAY INCA
4970553 RII NY

248379 AID UR
.....*
DURATION .43 SECS LISTED 12:30 est 10/31/86

4224910

ITT GA 85674737+
4970553 RII NY

Also sent to Mr. Tapio Otomaa, Asst. General Manager, Postipankki Tlx 121698 PGIRO SF request advice ASAP.

10 27 1408
74737 INDO N
GA
TO : BANQUE INDOSUEZ NORGE
FROM : KOC HOLDING

ATT : MR. PATRICK DUCHEMIN

AS PER OUR TELEPHONE CONVERSATION I WOULD LIKE TO INFORM YOU THAT THE FOLLOWING BANKS ARE ISSUING COUNTER GUARANTEE OF POSTIPANKKI'S STANDBY LETTER OF CREDIT. PLEASE CONTACT THE RELATED PERSON WHO IS MENTIONED BELOW AND GET THEIR OFFICIAL CONFIRMATION.

BANK	RELATED PERSON	TELEX NO.	AMOUNT
BANQUE INDOSUEZ . OSLO	MR.PATRICK DUCHEMIN	74737 INDO N	DLR 3.0 MIL-
STANDARD . CHARTERED BANK ISTANBUL	MR.ROGER BANERCEE	26862 SCHB TR	DLR 3.0 MIL-
PARIS BAS . GENEVA	MR.PIERRE GLAUSER	422165 PB CH	DLR 1.0 MIL-
POSTIPANKKI .	MR.TAPIO OTOMAA	121698 PGIROSF	DLR 1.0 MIL-
		TOTAL US DOLLARS	DLR 8.0 MIL-

ALSO . A.I.D IS PREPARED TO COUNTER GUARANTEE UP TO US DOLLARS 3 MILLION OF THE AFORMENTIONED DLR 10 MILLION L/C. I WILL TA-LK TO THE AUTHORITIES OF A.I.D ON FRIDAY.

PLEASE LET ME KNOW THE RESULT AS SOON AS POSSIBLE TO NEW YORK TILL FRIDAY OR TO ISTANBUL AFTER THAT.

THANK YOU FOR YOUR COOPERATION.

BEST REGARDS
TEVFIK ALTINOK
S.V.P. KOC HOLDING A.S.
4970553 RII NY

74737 INDO N.....
1413EST 005.20

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