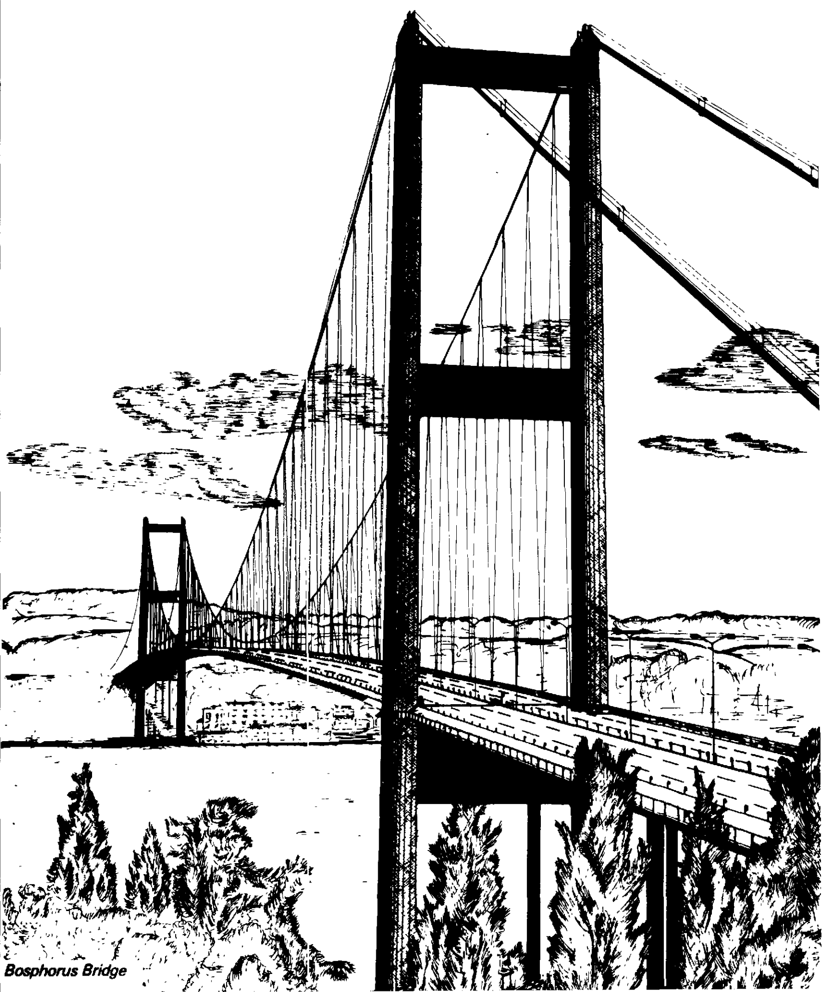
# Activities of the European Investment Bank in Turkey (1965-1974)



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# Activities of the European Investment Bank in Turkey
(1965-1974)

# FOREWORD

Under the terms of the Financial Protocols signed between the European Economic Community and Turkey, the European Investment Bank must take due account, in its choice and appraisal of projects to be financed, of the economic and social conditions obtaining in Turkey, the objectives of the Turkish Development Plans and the aims of the Association Agreement. This survey* of the Bank's activities in Turkey has been prepared with these criteria in mind.

* Completed in early 1975 and also published in Danish, German, French, Italian, Dutch and Turkish.

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# GLOSSARY

| | |
|---|---|
| DSI | Devlet Su Işleri Genel Müdürlüğü — State Hydraulic Works (Ministry for Energy and Natural Resources) |
| DYB | Devlet Yatırım Bankası — State Investment Bank |
| IBRD | International Bank for Reconstruction and Development |
| IFC | International Finance Corporation |
| KW | Kreditanstalt für Wiederaufbau |
| KGM | Karayolları Genel Müdürlüğü — Directorate-General for Highways (Ministry of Public Works) |
| SEKA | Türkiye Selüloz ve Kâğıt Fabrikaları Işletmesi — a state economic enterprise operating in the paper sector. It has several subsidiaries, including SEKA-Çaycuma and SEKA-Dalaman |
| SYKB | Sinaî Yatırım ve Kredi Bankası (Industrial Investment and Credit Bank) — an institution providing medium and long-term credit for the private sector |
| TCDD | Türkiye Cumhuriyeti Devlet Demir Yolları — Turkish State Railways |
| TEK | Türkiye Elektrik Kurumu — Turkish Electricity Authority |
| THY | Türk Hava Yolları — Turkish Airlines |
| TKI | Türkiye Kömür Işletmeleri — Turkish Coal Enterprises |
| TOPRAKSU | Topraksu Genel Müdürlüğü — Topraksu Directorate-General (Ministry of Rural Affairs) |
| TSKB | Türkiye Sinaî Kalkınma Bankası (Turkish Industrial Development Bank) — an institution providing long-term finance for the private sector |

# UNIT OF ACCOUNT (u.a.)

Until 1973, the European Investment Bank, in preparing its accounts and balance sheets, used the unit of account defined in Article 4 (1) of its Statute by reference to gold. The validity of this statutory procedure has been overtaken by developments in the international monetary system so that the Board of Governors of the Bank, as an interim measure, pending formal adoption of the revised Statute, has authorised the Bank to use a new system of conversion by reference to a "European basket"; this was used for drawing up the Bank's accounts and balance sheet and for preparing the Annual Report for 1974.

Since 1965, the first year of the Bank's operations in Turkey, the rate of conversion for the Turkish pound (TL) adopted for preparing statistics has evolved as follows in relation to the unit of account:

| | | |
|---|---|---|
| 1 u.a. = | TL 9 | up to 8 August 1970 |
| | TL 15 | from 9 August 1970 to 20 December 1971 |
| | TL 15.2 | from 21 December 1971 to 13 February 1973 |
| | TL 16.8889 | from 14 February 1973 to 31 December 1974 |

For guidance, the rates used by the European Investment Bank for statistical purposes at 1 December 1974 for conversion of the other currencies into units of account are as follows:

| | | |
|---|---|---|
| 1 u.a. = | 3.21978 | Deutsche Mark |
| | 5.64 | French francs |
| | 0.52 | Pounds sterling or Irish pounds |
| | 804 | Italian lire |
| | 48.6572 | Belgian or Luxembourg francs |
| | 3.35507 | Dutch guilders |
| | 7.57831 | Danish kroner |
| | 1.20635 | United States dollars |

# INTRODUCTION

Turkey covers an area of approximately 780 000 sq km; its shape on the map is that of an immense rectangle stretching 1 600 km from east to west and 650 km from north to south. European Turkey (historically Eastern Thrace) has an area of about 24 000 sq km; it is separated from Asiatic Turkey by the Dardanelles and the Bosporus. Turkey in Asia extends from the Black Sea coast in the north to the Aegean and the Mediterranean in the west and south; its immediate neighbours to the east are the Soviet Union and Iran. To the southeast lie Syria and Iraq. The dominant geographical feature of Asiatic Turkey is the vast Anatolian Plateau. Rising in a succession of natural terraces to a height of 800-1 000 m above sea level it is bounded to the east by the peak of Mount Ararat (5 172 m). Both the Tigris (520 km in Turkey) and the Euphrates (1 260 km in Turkey), the two greatest rivers in the Middle East, have their origin in this region. Other major rivers, the Sakarya among them, cut across the trend of the Pontic Mountains in Northern Anatolia, and flow north into the Black Sea. The Taurus Mountains skirt the coast of Southern Anatolia. In Western Anatolia, where the mountain ranges are interspersed with fertile plains, there are other rivers, including the Büyük Menderes and the Gediz. Not one of Turkey's rivers is navigable.

The summer climate of the inland areas of the Anatolian Plateau and the Eastern Plateau is very hot and dry; the winters are extremely rigorous. In Central and Eastern Anatolia cereals are widely cultivated; there is extensive stock-farming. The temperate, humid climate of the well-forested area near the Black Sea coast lends itself to the cultivation of tea, hazelnuts and fruit. Along the Mediterranean seaboard there is a narrow belt of fertile land given over to the cultivation of cotton, grapes, figs, tobacco, citrus fruits and bananas.

In addition to coal and lignite, there are deposits of iron ore, copper, chrome ore, mercury and boracite; known indigenous resources of oil and uranium are insignificant.

* * *

Turkey was declared a Republic in 1923; the present constitution dates from 1961. Legislative power is vested in the Turkish Parliament (Grand National Assembly), comprising the National Assembly and the Senate, which are elected by universal suffrage. The Grand National Assembly elects the President of the Republic for seven years. Executive power lies with the Government; the Prime Minister, appointed by the President, picks his own Council of Ministers. The Government's powers are delegated to it by Parliament, to which body the executive is answerable.

For the purposes of national administration, the country is divided into 67 provinces (Vilayet), each with a government-appointed Governor (Vali). Every commune in Turkey has an elected mayor.

*
* *

Since 1963 economic and social development has followed the lines laid down in the Turkish National Plans; the third of these Five-Year Plans came into force in 1973. The public sector has played a major role in the attainment of the Plans' objectives.

# A. ECONOMIC AND SOCIAL DEVELOPMENT OF TURKEY SINCE 1963

## I. POPULATION, EMPLOYMENT AND SOCIAL INFRASTRUCTURE

Turkey has a total population of roughly 39 million, increasing at an average rate of 2.5% per annum, which is high by world standards. The measures written into the Five-Year Plan to encourage family planning and birth control have had little effect. Life expectancy is just over 55 years.

Population growth in the past few years has been accompanied by a massive rural exodus. At present about 38% of the population lives in towns (1); cities such as Ankara, Istanbul and Izmir have many problems to cope with, especially in housing and employment; the demographic problem is most acute in the western part of the country.

The total labour force numbered about 15.3 million in 1974; this figure has risen less rapidly (1.5% per annum) than total population, because the base of the population pyramid has broadened out, school attendance has increased, and there has been a continuous outflow of workers taking up employment outside the country.

Some 65% of the total labour force is occupied in agriculture, with the secondary (2) and services sectors claiming 11% and 24%. Agriculture's share of the total labour force is falling sharply. New job opportunities in industry are concentrated in the basic sectors, such as steel, chemicals and cement. The number of Government employees, as well as those in the commercial sector, has risen considerably.

When set against the objectives of the first two Plans, the actual number of industrial jobs created has been relatively low, because industrial investment has mainly been channelled into highly capital-intensive projects. It has, therefore, proved impossible to meet all the increased demand for employment, and unemployment has remained acute at 10-15% of the total labour force. The percentage might well have been higher had it not been for the wave of emigration which built up from 1965 onwards. At the present time about 5% of Turkey's total labour force, i.e. some 800 000 workers, is employed outside the country, mainly in West Germany.

Something has been done to improve social infrastructure in Turkey over the past ten years. The illiteracy rate has been brought down from 60% to 50%, while primary school attendance has risen from 70% to over 85%. Standards of nutrition and medical services have been considerably improved.

## II. GENERAL ECONOMIC DEVELOPMENT

GNP grew rapidly over the 1963-74 period at an annual rate of 6.6% in real terms against a background of steady industrialisation. Despite the population explosion, per capita GNP held to an average rate of increase of 4.1% per annum, to reach about US $650 (3) at 1974 prices.

This period was marked by a number of major structural changes. Although agriculture is still the main occupation of two-thirds of the total labour force, the sector's contribution to GDP fell over the period from 38% to 24%. The secondary sector has become the lead activity of the Turkish economy, currently contributing 24% of GDP. The tertiary sector (4) has also expanded. Urban areas have profited most from the gather-

(1) Excluding those of less than 10,000 inhabitants.

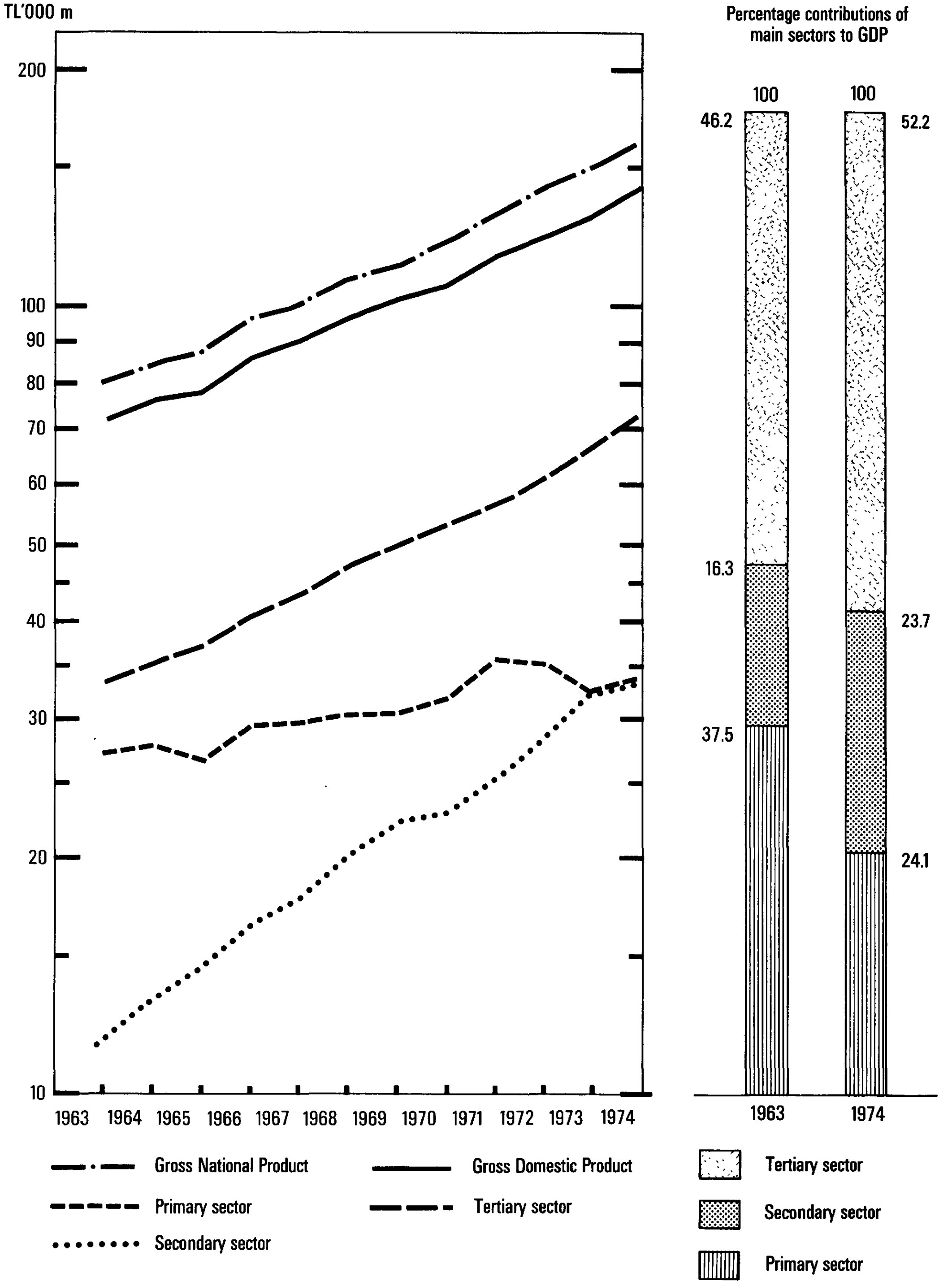
(2) As far as Turkey's national accounts are concerned, this sector includes mining and quarrying, energy and industry.

(3) Conversion rate: US $1 = TL 13.85.

(4) For Turkish national accounting purposes the tertiary sector includes the following: construction, transport, communications, wholesale and retail trade, financial institutions and other services, as well as Government departments.

Figure 1

Economic growth 1963-1974
(in TL'000 m at 1968 prices)



ing pace of industrialisation, thus widening the gap, in terms of living standards, between them and the rural areas. The western regions, particularly the zones round Ankara, Istanbul and Izmir, have been the main beneficiaries, while the eastern parts of Turkey, where infrastructure is insufficiently developed to support modern industry, have been left behind in the process; this regional imbalance has been compensated to some extent, however, by emigrant workers' remittances, as most of these workers come from the eastern areas.

*Inflationary pressures* have mounted acutely since 1971; after having been held at around 6% per annum in the pre-1970 period, the rate of increase was 29% in 1973 and about 19% in 1974 (1). Prices were first pushed up by the higher cost of imports, the consequence of the 1970 devaluation; another inflationary factor was the increased scale of budgetary spending, which frequently had to be financed by short-term borrowing from the Central Bank. In recent years the rate of increase in production has lagged far behind the rate of increase in demand, which was also fed by emigrant workers' remittances, by wage increases and by rising incomes in the agricultural sector, just when special efforts were being made to improve the performance of exports. Inflation has inevitably been fanned by the upward movement of world prices in general, and of petroleum prices in particular, the situation being further exacerbated in 1974 by the greatly increased military expenditure arising from the war in Cyprus.

Between 1963 and 1974 *consumption* (public and private combined) rose at an average rate of 6% per annum in real terms. Over the period as a whole public expenditure rose more rapidly than consumer spending, but in 1974 there was an upsurge in private consumption.

Over the same period, *gross fixed capital formation* increased at an average rate of 9,5% per annum at constant prices, and its share of GNP rose from approximately 15% in 1963 to 18% in 1974.

Government departments and state economic enterprises accounted for a good half of total capital expenditure, the main effort being devoted to the development of industry, transport, energy and agriculture. Investment in the private sector was mostly directed towards the building and manufacturing industries. More than 90% of the overall total was financed from domestic savings, the rest being covered by funds from abroad.

Massive public sector investment programmes, substantial grants to state enterprises and steadily increasing current expenditure have imposed a constant strain on *public finances*. In spite of the greatly increased ratio of taxation to GNP, the revenue available to the Government departments proved insufficient to cover mounting expenditure and the Turkish Government was repeatedly obliged to resort to borrowing, especially in the form of short-term advances from the Central Bank, to cover the budgetary deficit. As a result of military spending stemming from the war in Cyprus, the budgetary deficit in 1974 was far higher than deficits incurred in preceding years.

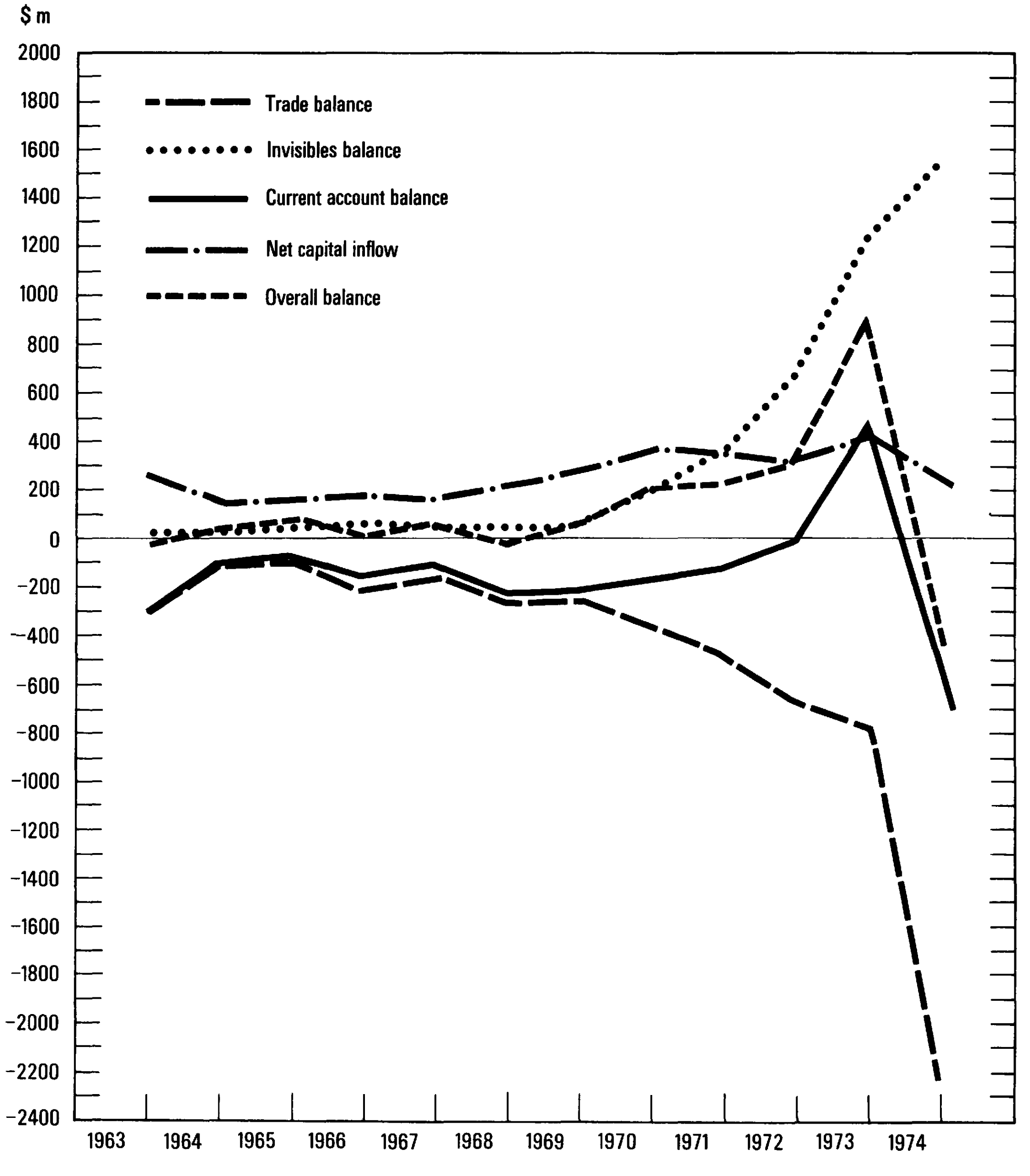
In the years before 1970, the scale on which capital goods and raw materials had to be imported under the investment programme, combined with the weakness of exports, gradually obliged the Government to tighten its control over all exchange operations; a brake was put on imports of consumer goods, so that capital goods and essential raw materials could be paid for. But the measures taken prior to 1970 did not produce the desired effect and in August of that year the Government was obliged to devalue the Turkish pound, reducing its dollar rate from TL 9 to TL 15 (2). At the same time a stabilisation programme was initiated, with the aim of maximising the benefits of devaluation by easing import

(1) Percentage increases in wholesale price indices over the calendar year.

(2) Since August 1970 the exchange rate for the Turkish pound in relation to the dollar and to other European currencies has been adjusted several times. Its rate of conversion to the dollar was TL 13.85 in December 1974 (TL 14.25 in July 1975).

Figure 2

Balance of payments 1963-1974
(in $m at current prices)



restrictions and encouraging exports. These measures radically altered the balance of payments situation. The *balance of payments deficit* on current account was cancelled out, with the help of rising net receipts under the heading of services and transfers, in spite of the continuing deterioration of the trade balance and in 1973 a surplus was achieved. In 1974, the balance of payments on current account again showed a deficit. Partly because of the increase in the world prices for oil and raw materials, expenditure on imports greatly exceeded the projected figures ($3 800 m as against $2 200 m forecast), while the rate of growth in exports was curbed. Net receipts under the heading of services and transfers, which also showed a slower growth rate, were sufficient to cover only 69% of the trade deficit in 1974, compared with 160% in 1973 : as a result, the balance of payments on current account showed a large deficit of around $700 m. Since this could not be covered by the surplus marked up on capital account, the country's gold and foreign exchange reserves fell for the first time since 1969.

*Exports* more than doubled over the 1970-73 period, to reach the level of $1 317 m. World trends in agricultural prices were extremely favourable for a time and this helped the recovery. The most notable improvement, however, was shown by manufactured products, exports of which more than quadrupled over the same period, bringing about a marked change in the structure of exports and accounting for 39% of the 1973 total, compared with 17% in 1970, whereas the contribution made by agriculture declined over the period from 75% to 56%. But as *imports* had risen substantially in the meantime, it proved impossible, in spite of this improvement, to prevent further deterioration of the balance of trade. The poor export performance of 1974, coupled with a rise of more than 80% rise in imports, has led to a deficit of over $2 200 m.

The scale of *emigrant workers' remittances* has made them a crucial stabilising element in Turkey's balance of payments; from $270 m in 1970 they have come to amount to $1 400 m in 1974, more than 90% of total exports. However they are tending to diminish.

*Capital inflows from outside Turkey* amounted to some $4 500 m over the 1963-74 period. Allowing for repayments, the estimated net inflow of external funds amounts to $3 100 m, i.e. $200 m from 1963 to 1969 and $340 m per annum, on average, from 1970 to 1974.

At the end of 1974, *external debt* totalled $3 750 m (excluding interest amounting to $1 500 m for the whole period of the debt), of which $2 900 m had already been disbursed. Public borrowing accounted for over 90% of the debt. The total amount of capital repayments and interest in 1974 was equivalent to about 7% of total export earnings under the heading of goods and services (or 15% of visibles).

*Gold and foreign exchange reserves* rose from US $224 m in 1969 to $1 300 m at the end of 1972, and by the end of 1973 had reached slightly over $2 000 m. By the beginning of 1975, however, they had fallen to $1 700 m, the equivalent of 5 months' imports.

The *objectives of the Third Five-Year Plan (1973-77)* are decidedly ambitious, especially as regards economic growth, investment and domestic saving. The development strategy adopted is mainly based on the creation of basic and capital goods industries, with a view to promoting the growth of modern technological industry within the national framework. The industries concerned are all capital-intensive, and the main intention behind their development is import substitution. This line of development requires investment on a major scale, coupled with a high level of protection generating high costs for the economy as a whole. Most of the planned investment is in the public sector.

The options adopted will necessarily lengthen the timescale for realising the social objectives of the Plan, especially as far as the creation of jobs is concerned, so that unemployment can be expected to go on rising, particularly as the forecasts under the Plan concerning emigrant workers will probably prove difficult to achieve in the present economic conditions.

In the light of the results achieved in the first two years of the 1973-77 Plan, there is little likelihood that Turkey will be able to implement the Plan in full: neither the growth in GNP targeted for 1973 nor the growth-rate set for the industrial sector in 1974 has been achieved, and gross fixed capital formation is still far short of the planned objectives. Furthermore, the balance of payments position deteriorated sharply in 1974 and the first information available for the beginning of 1975 points to a worsening of this tendency. This means that Turkey will have to rely to a greater extent than originally intended on foreign borrowings on favourable terms for financing its industrialisation programme. If Turkey's industrial development is to be pursued along effective lines, the problems posed by the political situation will have to be coped with: in the past few months this has been rather brittle and has given rise to hesitation and uncertainty which have held up the decision-taking process.

## III. TRENDS IN THE MAIN SECTORS

### 1. Agriculture

Turkey is still a predominantly agricultural country, in spite of the rapid rate of industrialisation over the past two decades, and agriculture still claims 65% of the total labour force. This sector accounts for a quarter of the gross national product and for about 55% of export earnings; it is the source of major supplies of raw materials for industry. About 13% of all investment (at current prices) under the First and Second Plans was channelled into agriculture.

The agricultural sector performed comparatively well over the 1963-74 period in that production increased at an average rate of 2.1% per annum, but serious fluctuations from one year to another, caused by the vagaries of Turkey's climate, have had their effect on overall economic growth. The country has often been obliged to import cereals on a massive scale to make good the shortfall in its own grain harvest. In 1974, imports of cereals made up about 7% of all imports.

Arable land accounts for 27 m hectares of Turkey's total area of 78 m ha, 26 m ha are used for grazing and there are 18 m ha of forest. The coastal areas provide a variety of crops, some with the aid of irrigation, while the staple product in Central Anatolia, where one third of Turkey's agricultural land is situated, is cereals (cultivated without irrigation).

Three-quarters of Turkey's 3.4 m farms are less than 5 ha in size; but farms of more than 5 ha account for over 70% of the country's farmland. Whereas the typical holding along the edge of the Black Sea and the Aegean is the small or medium-sized family farm, the most common unit in Anatolia and the Mediterranean coastal areas is the large landholding cultivated by tenant farmers. This picture may change, however, when the recently-voted agricultural reforms are implemented.

During the 'fifties agricultural output was raised mainly by bringing more land under the plough and breeding livestock on a greater scale. Only in the 'sixties did agricultural production become more highly intensified, with the increased use of fertilisers, selected seeds and plant protection products, and the steadily mounting emphasis on the introduction of mechanisation. The total area under irrigation rose from 1.3 m ha in 1962 to 1.9 m ha by the end of the period covered by the Second Plan. Although this land is still not being farmed nearly adequately enough, signs are that the adoption of modern methods is becoming more widespread and there is clear evidence of real progress.

It has thus been possible to step up both land and labour productivity as regards cotton, sugarbeet, fruit, hazelnuts and vegetables. Progress has been far slower, however, in the case of cereals and livestock.

Stock-farming still accounts for only 30% of overall agricultural output. Cereals and industrial crops provide almost 50% of the total, while the remaining 20% consists of fruit, vegetables and hazelnuts.

Cotton, tobacco and hazelnuts provide more than 70% of total exports of agricultural produce.

* * *

Turkey's vast forest areas are comparable with those of northern Europe, but they are still poorly and inefficiently exploited, so that their contribution to value added in the primary sector is only just over 2%.

## 2. Mining

As far as mineral resources are concerned, Turkey's potential is far from negligible. Although the country's coal reserves are limited and difficult to extract, lignite is available in large quantities. Known deposits of oil and uranium are modest; reserves of copper, iron ore, chrome ore, boracite and mercury (20% of world total) are substantial, but have not yet been developed on a major scale.

Mining accounts for less than 2% of GDP and the rate of expansion has lagged behind the average rate for the industrial sector. Over the past few years, in fact, the industry has tended to stagnate, so that more minerals have had to be imported.

The development of basic industries and the expressed intention of increasing raw materials exports, as written into the Plan, should boost the growth of the mining sector.

## 3. Energy

The demand for primary energy supplies in Turkey has far outstripped production capacity within the country, which can only meet less than 70% of current demand, compared with 83% in 1962; energy has therefore had to be imported on an increasing scale, in the form of crude oil.

The most striking aspect of energy consumption in Turkey is the major role played by non-commercial fuels (30%), especially in domestic heating. This means that large amounts of dried dung and wood cannot be channelled into more economical uses. Oil is nevertheless still the main source (40%) of energy, while one quarter of the total is provided by coal and lignite. Although there is considerable hydropower potential, hydroelectricity only amounts to 4% of total energy consumption.

Electricity output in Turkey between 1963 and 1974 rose at the rate of 12% per annum, on average; consumption per capita remains low, however, at 345 kWh [1]. Nearly 60% of the population is still without access to the distribution network.

As a result of a massive public investment programme, generating capacity has been rapidly stepped up and the Turkish national grid much improved: yet over the 1971-74 period the supply of electricity fell increasingly short of demand, because of delay in bringing certain power stations on stream and the occasionally inadequate hydraulic conditions at a number of hydropower plants (the source of nearly 30% of total power supplies), so that it was decided to expand generating capacity still further, with the emphasis on lignite and hydropower, and to extend the grid.

## 4. Industry

Industry accounts for more than 21% of gross domestic product and 87% of value added in the secondary sector. Some 24% of investments under the First and Second Plans were earmarked for this sector, which consequently recorded a very rapid growth rate (an average of 11% p.a.). The public sector's share of industrial value added amounts to 40%.

Since 1960 the face of industry has changed rapidly, with more modern, higher capacity plant providing a greater share of production. Whereas there has been a sharp decrease in output of consumer goods such as foodstuffs, beverages, tobacco, textiles and clothing, intermediate goods (paper, cement, chemicals, iron and steel, glass, etc.) and capital goods (agricultural machinery, transport and electrical equipment, etc.) have shown marked progress, accounting for some 50% of industrial production.

The development of the intermediate and capital goods industries is mainly attributable to the public sector state economic enterprises, which

(1) Portugal: 1 170 kWh per capita; Greece: 1 550 kWh per capita.

hold a virtual monopoly of the steel, petroleum, fertilisers, paper and petrochemical industries, and have a foothold in the sugar, textiles, chemicals and cement industries.

The main contribution made by private enterprise has been to develop the consumer industries, as well as engaging in the manufacture of new consumer goods, using basic technology, and undertaking the assembly of imported components.

The capacity of new factories is generally only geared to meeting demand on the domestic market where they are to a certain extent shielded from foreign competition and thus able to overcome teething-troubles and any problems of size that may prevent some businesses from benefiting from economies of scale.

Turkey can now meet domestic requirements of foodstuffs and textiles and a considerable proportion of demand for other consumer products, although it imports most of its commodity and capital goods requirements.

Industry is still located mainly in western Turkey, as the eastern provinces are handicapped by inadequate infrastructure and their remoteness from the decision-making and consumer centres, problems difficult to overcome. It is hoped that the objectives of the Third Plan will, in due course, lead to more balanced regional development.

Until the end of the 1960's, industry was scarcely export-orientated. Protective measures, combined with overvaluation of the currency, favoured the setting-up of import substitution industries excluded from competing on international markets in view of their high production costs. But since 1970, with improved competitiveness, following devaluation of the Turkish pound, and the introduction of investment incentives, there has been a notable rise in exports of industrial goods. In 1973 their share in total exports rose to 39%, one quarter of which was foodstuffs. This trend is in line with the objectives of the Association Agreement which aims to improve the competitiveness of Turkish industry. In 1974, industry exported just under 10% of total production. Turkey's foreign trade therefore remained far below that of the Member Countries of the European Community.

### 5. Transport

Improving transport infrastructure is both difficult and costly in view of the size of the country and its generally mountainous terrain. Despite projects already implemented, the rail and road networks will have to be extended still further to ensure balanced economic development.

Under the first two Five-Year Plans, priority was given to improving the road network and the total length of surfaced roads consequently increased from around 10 000 km in 1963 to 22 000 km in 1973; the number of vehicles practically trebled. Road traffic has soared over the last decade, and now accounts for 72% of freight and 94% of passenger transport. Nevertheless, more than half of all road traffic is concentrated in the Istanbul, Bursa, Izmir, Konya, Ankara and Adana regions.

Rail network coverage is very low: there are some 8 000 km of line, located mainly in the western area of the country, and mostly single track. Capital investments provided for under a modernisation programme launched a few years ago have been earmarked mainly for electrification of certain sections of the suburban networks and conversion of lines to diesel or electric traction.

There are 18 airports in Turkey, but standards of facilities vary. The air fleet has been increased, particularly under the Second Plan, to meet rapidly growing domestic demand.

Sea traffic is conveyed by rather outdated merchant vessels. Approximately one third of exports and imports are transported under the Turkish flag and it is planned to increase this to 50% in the coming years.

Seven sea ports and two international airports (Istanbul and Ankara) provide Turkey's links with abroad.

### 6. Tourism

Turkey's climate, natural beauty spots and historic remains provide the country with considerable tourist potential which is still underexploited, particularly compared with several other Mediterranean countries. Tourism has really only developed in recent years and even then, rather slowly, with net revenue under this heading showing no appreciable increase until after the 1970 devaluation. In 1973 tourism brought in $80 m, or 3% of the total inflow of foreign exchange, compared with 2% in 1970. More than 1 million tourists visited Turkey in 1973, as against 200 000 in 1963.

## IV. INVESTMENT FINANCING

Capital investments in Turkey totalled TL 340 000 m (1) between 1963 and 1974 and the share of fixed investments in GNP rose accordingly from about 15% in 1963 to 18% in 1974. More than 50% of this total related to programmes implemented by public authorities and state economic enterprises, the latter being responsible for nearly half of all public investment during the Second Plan, mainly in the industrial, housing, transport, agricultural and energy sectors. About 70% of private sector investment was channelled towards industry and housing (Annex 1).

More than 90% of investments were financed by domestic savings, the balance being covered by imports of foreign capital. Quoted bonds and shares are of very limited significance in investment financing, despite government efforts to promote an active capital market.

In the Banking sector, a leading part is played by the national banks which, in addition to the Central Bank, include institutions often specialising in one or more fields, such as the Agricultural Bank, Iller Bankası (Provincial Bank) and other banks acting mainly as sponsors (Sümerbank for textiles, Etibank for the mining sector, Denizcilik Bankası for shipping). The State Investment Bank grants long-term loans to state economic enterprises.

Numerous private banks exist in Turkey: in addition to the large banks such as Türkiye Iş Bankasi, Yapı ve Kredi Bankası, Ticaret Bankası and Akbank, there are several other banks operating on a more modest scale. The law imposes no clear distinction between commercial or deposit banks and investment banks, with the result that many Turkish banks acquire holdings in industry in addition to engaging in their normal commercial activities. Two investment and development banks (TSKB and SYKB) (2) grant medium and long-term loans to private industry.

Despite improved public authority saving, there was a continuing dearth of funds available for *financing public investment* over the period 1963-1974, and the Government was often obliged to contract short-term advances with the Central Bank. Since 1972, the government has attempted to reduce its calls on the Central Bank by issuing long-term government bonds.

*State economic enterprises,* which play a major part in the country's development, have had to cope with particularly harsh financing conditions since their establishment. It has sometimes been difficult for them to reconcile the criteria of profitability with certain essential requirements which their position in the public sector compels them to respect, particularly as regards prices, employment and vocational training. This situation has led to growing indebtedness and increasing calls on the Central Bank for short-term advances and budget subsidies. The Government has therefore had to make vast inroads into its budgetary funds to finance its investment programme.

Under the Second Plan, 61% of *private investment* was financed by firms' own resources, 38% by bank loans, part of which were short-term and renewable on a revolving basis, and 1% by bond loans.

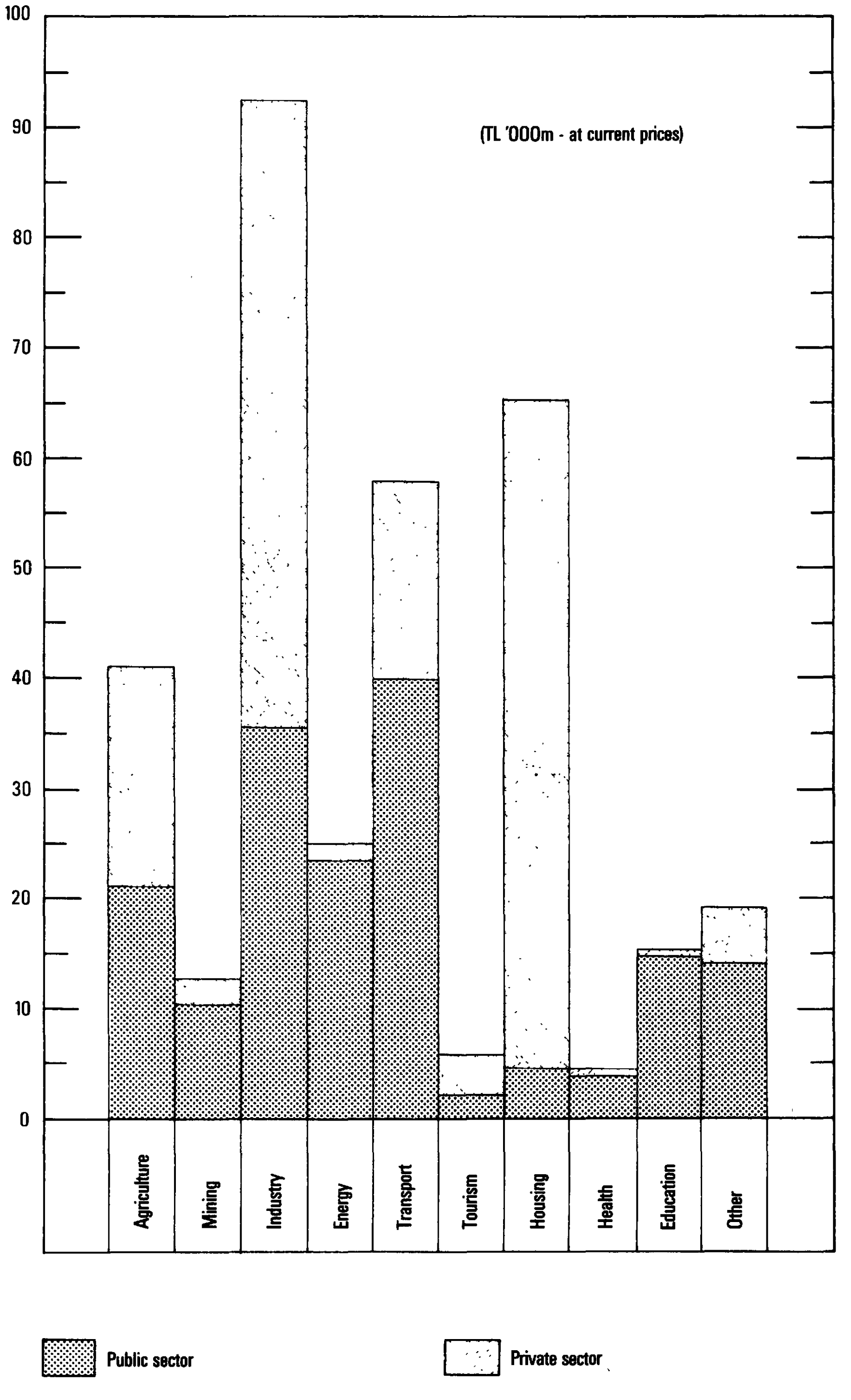
*Foreign capital* investment amounted to approx-

(1) At current prices.

(2) For all abbreviations, see Glossary, page V.

Figure 3

Turkey's total gross fixed capital formation 1963-1974 — sectoral breakdown



imately \$4 500 m over the period 1963-1974, of which \$3 300 m took the form of government funds provided on a bilateral or multilateral basis and \$465 m consisted of direct private investment. Suppliers' credits were only of relatively modest proportions during this period, although a certain increase was apparent in 1973 and 1974.

# B. EIB ACTIVITIES IN TURKEY

## I. PROCEDURE AND TYPES OF FINANCING

### 1. Background

From 1958, when the EIB was set up under the Treaty of Rome to contribute to the balanced and steady development of the Common Market in the interest of the Community, to 1962, the Bank concentrated its activities solely on granting loans within the Member Countries of the Community. Its main function is still to assist these countries, where four-fifths of its operations are carried out. The Bank is an independent public institution within the Community and operates on a non-profit-making basis.

However, when the Bank was set up, Article 18 of its Statute provided that "by way of derogation authorised by the Board of Governors, acting unanimously on a proposal from the Board of Directors, the Bank may grant loans for investment projects to be carried out, in whole or in part, outside the European territories of Member States". This clause has in practice been applied principally in the context of the Association Agreements providing for financial aid from the Community.

The EIB's sphere of activities has gradually been extended to include Greece, the seventeen Associated African States, Madagascar and Mauritius (AASMM), certain Overseas Countries, Territories and Departments (OCTD) and Turkey.

The aim of the *Association Agreement* (1) with Turkey, which came into effect at the end of 1964, is to promote the continuous and balanced development of trade and economic relations between the Community and Turkey. The Association comprises three stages:

(1) a *preparatory stage,* from 1964 to 1969, during which Turkey's economy was to be strengthened with the help of Community aid;

(2) a *transitional stage,* lasting 12 to 22 years, for the phased introduction of the customs union between the Community and Turkey and alignment of their respective economic policies;

(3) a *final stage* based on the customs union and involving greater coordination of the Community's and Turkey's economic policies.

As soon as application of the Agreement has shown that Turkey is ready to accept all the obligations imposed by the Treaty of Rome, the Community and Turkey will examine the possibility of the country becoming a full member of the Community.

To pave the way for attainment of the objectives set for the preparatory and transitional stages, the Association Agreement provides for *financial aid to Turkey in the form of loans from the European Investment Bank.*

Where the Community is committed to extending loans on favourable terms to countries with a limited borrowing capacity that are in need of substantial external finance, it is, nevertheless, rather inappropriate to make such aid available only from the resources of an institution, such as the EIB, which raises its funds on the international capital markets. Therefore, in 1963, the Bank's Board of Governors decided to set up a Special Section credited with Member States' budgetary funds and endowed with its own separate accounts. This section manages loans granted on favourable terms.

Acting as agent for the Member States and using budgetary funds provided by them, between 1965 and 1969 the EIB granted loans to Turkey on favourable terms for a total equivalent to 175 m u.a., under the provisions of the *first Financial Protocol* (1) annexed to the Association Agreement.

A *second Financial Protocol* (2) was signed on 23 November 1970 and came into effect on 1 January 1973. This provides the European Invest-

(1) Official Journal of the European Communities No. 217 of 29 December 1964.
(2) Official Journal of the European Communities No. L 293 of 29 December 1972.

ment Bank with the possibility of extending finance to Turkey, up to May 1976, in the form of:

(1) loans on favourable terms, with the Bank acting as agent for the Member States and using funds provided by them up to a total of 242 m u.a. [1];

(2) ordinary loans from its own resources up to a maximum of 25 m u.a., the terms and conditions of these loans being those applied to the Bank's ordinary operations in Member Countries.

Under these financial Protocols, projects are eligible for financing in the form of loans on favourable terms where they:

"(a) help to increase the productivity of the Turkish economy and, in particular, aim to provide Turkey with a better economic infrastructure, higher agricultural output, and modern, efficiently-run public or private undertakings in the industrial and service sectors;

(b) further the aims of the Association Agreement;

(c) are part of the Turkish Development Plan in force at the relevant date.

Special consideration shall be given to projects which could serve to improve the Turkish balance of payments."

Ordinary loans are granted for industrial projects in the private sector.

From 1975 onwards, the Community and Turkey will examine possible arrangements for continuing financial aid.

## 2. Conditions governing the granting of loans

These were determined with due regard to the aims of the Protocols and the characteristics of Turkey's economy, particularly its balance of payments situation.

*Loans on favourable terms* may be granted to finance either projects showing an indirect or long-term return (infrastructure) or projects showing a normal return (industry, tourism) to be implemented by the Turkish Government, local authorities or private or state economic enterprises.

These loans may be used for both financing imports of goods and services and covering local expenditure necessary for implementing projects. They may be combined with other financing facilities provided from national or international sources.

Loans on favourable terms granted to the Turkish Government run for a period of up to 30 years, with a maximum grace period of 8 years (7 years under the first Protocol), and a rate of interest of not less than 2.5% (3% under the first Protocol) for projects showing an indirect or long-term return and 4.5% for projects showing a normal return.

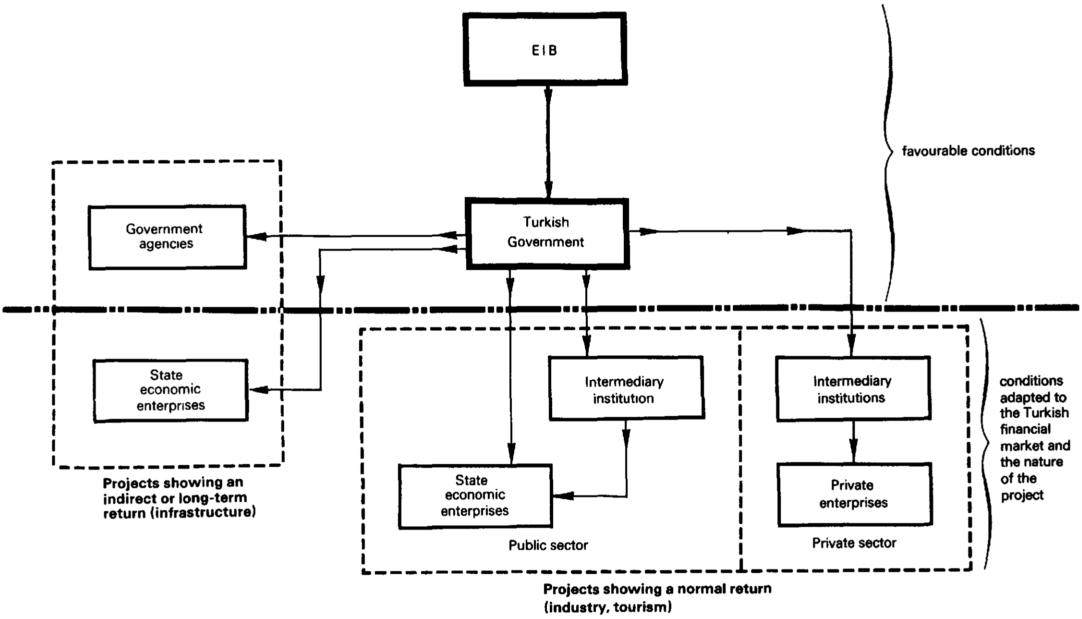
Loans for financing *infrastructure projects* are either channelled by the Turkish Government to its various agencies or are on-lent to state economic enterprises.

In order to avoid discrimination as regards promoters when considering the terms and conditions for granting loans in Turkey, the Bank decided to adopt a two-tier procedure, applying mainly to *projects showing a normal return (industry and tourism)*. In the first place, the Bank grants the loans to the Turkish Government on favourable terms; the Government then on-lends the funds to the promoters (state economic or private enterprises), either directly, or, in most cases, through the intermediary of a Turkish financing institution. The terms and conditions applicable to the promoters are fixed in agreement with the Bank: the rate of interest is fixed with regard to Turkish regulations governing long-term bank loans; the term of the loan is decided according to the nature of the project. In the public sector, only one financing operation has so far been carried out via an intermediary financing institution, in this case the State Investment Bank. All loans to private industry, on the other hand, are handled by TSKB or, more recently, by SYKB.

(1) The original amount was 195 m u.a. This was raised to 242 m u.a. under the Supplementary Protocol signed on 30 June 1973 following the enlargement of the Community; this Protocol is now in the course of being ratified.

Figure 4

Procedure for granting loans on favourable terms




EIB loans on-lent by the Government or intermediary institutions to the final beneficiaries may carry a term lower than that granted by the Bank to the Turkish Government. In such cases, sums reimbursed in local currency by the final beneficiaries or intermediary institutions and not required immediately for servicing EIB loans are accumulated in a special account opened by the Government with the Central Bank. These sums may be reutilised, with the EIB's agreement, to provide finance in Turkish pounds for other projects under the revolving fund procedure.

Tenders are invited to ensure that projects are implemented as advantageously as possible. Bidding is open to all natural or legal persons who are nationals of Turkey or the Member States of the Community.

*Ordinary loans from the Bank's own resources* are granted solely to finance projects showing a normal return that are implemented by private undertakings. They are granted to the Government which passes the funds on to the final beneficiaries via TSKB or SYKB. The term of the loan, normally 8 to 12 years, with a 2 to 3-year grace period, is determined according to the nature of the project and must be approved by the EIB. The rate of interest payable by the Government is that applied by the EIB in its ordinary operations, whereas the rate charged to the final beneficiaries is that in force in Turkey for long-term loans.

Loans from the Bank's own resources are not tied to purchases from Member States or in Turkey itself and such purchases must be opened to international bidding.

The EIB adopts a more flexible procedure for extending finance to small and medium-scale ventures in the industrial sector, by granting global loans to specialist institutions in Turkey which allocate the funds thus made available for implementing small or medium-scale projects. Sub-loan allocations are submitted for approval to the Bank, whose decision is based on a simplified appraisal.

### 3. Project selection and appraisal

The Bank singles out the projects submitted by the Turkish Government, state economic enterprises, private enterprises, or financing institutions, which seem to qualify for a loan in terms of the criteria and objectives set out in the Financial Protocol.

It then conducts a detailed study of the projects selected, examining their technical, economic and financial aspects and assessing their economic benefits for the community.

The Bank often provides other than financial assistance for such projects. It has, for example, sought to mobilise additional sources of foreign exchange and, in cases where consortia or groups have been set up to finance certain large-scale projects, has acted as coordinator not only within these groups, but also between the Turkish authorities and the projects' promoters, on the one hand, and foreign lenders on the other.

The EIB is also concerned to see improved efficiency in the implementation and subsequent running of projects submitted to it, which sometimes means that the Bank gets together with the promoter to work out improvements on the technical or organisational side.

It requests the promotor to seek relevant technical assistance where this appears necessary.

The Bank also grants loans for financing preinvestment expenditure on project planning and preparation work.

### 4. Granting and management of loans

Loan applications not submitted by the Turkish Government can only be accepted following the latter's agreement. Under the Bank's Statute, the Board of Directors decides the granting of loans following a proposal from the Management Committee, after consultation with the Commission of the European Communities. Where the request is for a loan on favourable conditions from funds provided by Member States, the Member States are also consulted and give their opinion on the admissibility of the projects so that it may be submitted to the Board of Directors.

The EIB monitors each loan after it has been granted, ensuring compliance both with the terms of the contract and with international bidding procedures approved by the Bank. It also checks utilisation of funds, loan repayments, implementation and operation of the project and, on a more general level, the promoter's overall position.

## II. LOANS GRANTED BETWEEN 1965 AND 1974

### 1. Summary

Between 1965 and 1974, the EIB granted 52 loans for a total of 347.9 million units of account [1]. Loans on special conditions from the budgetary resources of Member States accounted for 322.9 m u.a. and ordinary loans from the Bank's own resources, 25 m u.a.

Of this total, 210.4 m u.a. [2] related to infrastructure projects, 135.5 m u.a. to industrial projects and 2 m u.a. to preinvestment studies (Annex 1).

In addition to numerous industrial projects in the north and west of the country, a small number of large-scale infrastructure projects have been implemented in eastern Turkey. Nearly 90% of the number and more than 50% of the amount of loans went to central and western Turkey; the breakdown according to investment costs, however, shows that the bulk of the loans went to projects in eastern areas (Annex 3).

The 175 m u.a. provided for under the first Financial Protocol was entirely committed over the period 1965-1969. Bank operations in Turkey were then virtually suspended for three years due

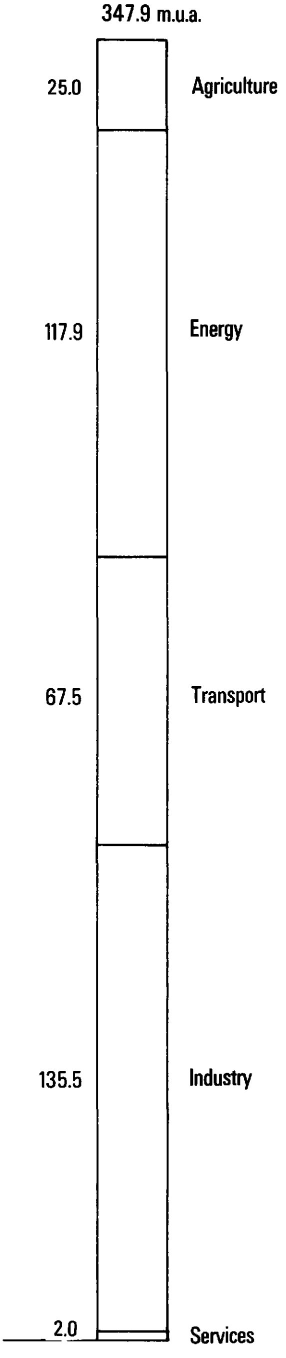
(1) Excluding revolving fund operations which are set out in Annex 6.

(2) The breakdown of loans by sector is based on the EIB classification which differs from that adopted in Turkey and used for the breakdown of gross fixed capital formation in Figure 3.

Figure 5

Sectoral breakdown of finance provided by the EIB

1965-1974




to the procedure for drawing up and ratifying the second Financial Protocol; they were then resumed in 1973, although preparatory work carried out beforehand made it possible to commit 172.9 m u.a. over the two years 1973/74 under the second Financial Protocol.

Between 1965 and 1974, EIB operations in Turkey accounted for around 8% of the Bank's total financing activities and 55% of loans to countries and territories associated with the European Community.

EIB loans accounted for around 11% of total government aid to Turkey granted on a bilateral or multilateral basis between 1965 and 1974, and represent approximately 20% of financing provided for specific projects.

Loans granted to date by the EIB have part-financed fixed investments totalling 2 460 m u.a. and led directly to the creation of 17 700 new jobs (1). Projects financed will also bring more regular employment to 23 000 agricultural and forestry workers, at present underemployed. The Bank has, in fact, financed 13% of the investments in question (infrastructure: 10.5%; industry: 24.2%; see Annex 2).

EIB-backed projects represent around 6% of total capital investment in Turkey between 1965 and 1974 (2).

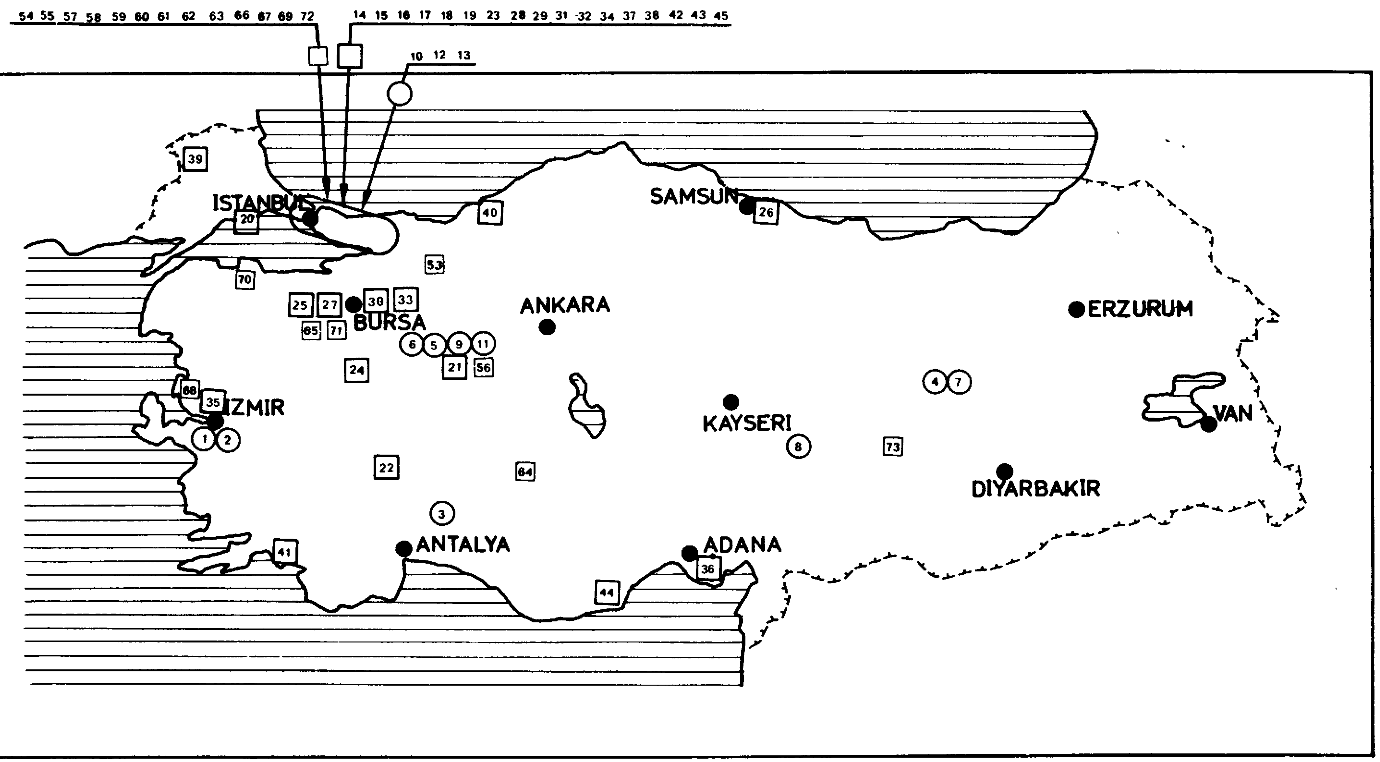
## 2. Infrastructure

Rapid improvements in infrastructure, particularly in the energy, transport and agricultural sectors, have a positive effect on the country's general economic development and industrialisation. Loans from the Bank in favour of these sectors amount to 210.4 m u.a. and represent the major part (approximately 60.5%) of finance

(1) All data (e.g. investment cost and jobs created) on projects which the EIB has helped to finance, are based on estimates available when the operations were approved by the Bank's Board of Directors.

(2) This figure does not include the Elbistan project, implementation of which will be phased over the period 1975-1980.

GEOGRAPHICAL BREAKDOWN OF LOANS AND ALLOCATIONS FROM GLOBAL LOANS(1)
1965-1974
(Numbers refer to list of loans appended)



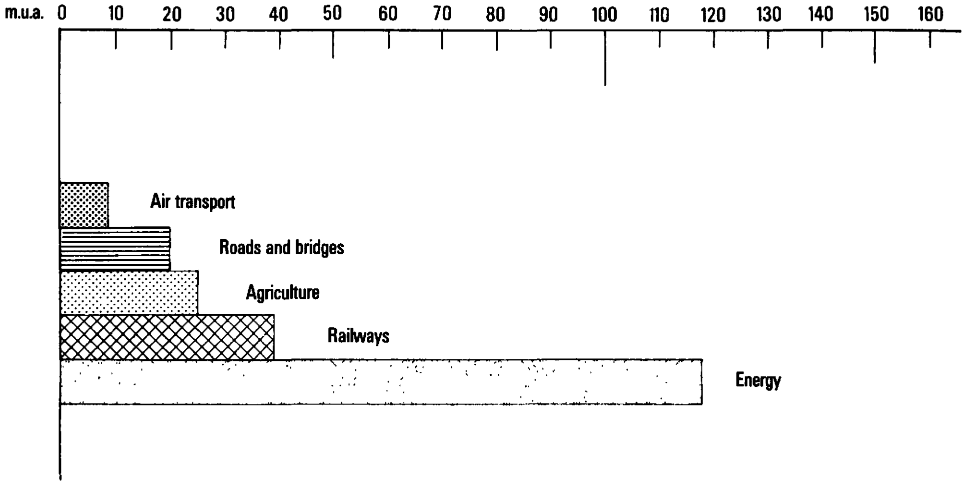

allocations

loans for industrial projects

loans for infrastructure projects

(1) See Annex 3 for geographical breakdown.

Figure 6
Sectoral breakdown of finance provided by the EIB for infrastructure projects 1965-1974




granted by the Bank in Turkey. All the projects concerned were implemented by the public sector.

The total investment cost to which these loans relate amounts to more than 2 000 m u.a. The low rate of Bank participation in individual projects (10.5%) is attributable to the very high cost of each project and the fact that there is a set ceiling for individual loan amounts.

Most infrastructure projects were financed in conjunction with other bilateral or multilateral lenders, especially the IBRD and KW. In the case of certain large-scale projects, e.g. the Keban and Elbistan power stations and the Bridge over the Bosporus, financing consortia were set up and the Bank was actively involved in their establishment and operation. A common feature of financing plans for infrastructure projects is that they include a large contribution from the Turkish Treasury, sometimes topping up the promoters' own resources; in the majority of cases this contribution covers 52-69% of the cost, whereas long-term loans cover 31% to 48%.

Infrastructure projects have led directly to the creation of 2 900 new jobs. However, the economic benefits of infrastructure projects are generally both long-term and indirect. Services provided by this type of investment are in fact inputs of general value to the community which contribute to Turkey's development and the attainment of the objectives of the Association Agreement.

(a) *Energy*

Between 1965 and 1974, the EIB contributed 117.9 m u.a. in part-finance for a large-scale investment programme in electricity production and transmission. The loans in question accounted for 34% of total Bank finance to Turkey, and 56% of EIB lending for infrastructure projects. Two major projects absorbed the larger part of this total, 98 m u.a. in all. 40 m u.a. went towards the construction of the Keban dam and (600 MW) power station on the Euphrates, which was commissioned in 1974, and 58 m u.a. went to the Elbistan Project [1], provisionally

[1] A second loan for this project, amounting to 19 m u.a., was granted on 29 January 1975.

costed at 950 m u.a., covering both the construction of a lignite-fired, 1 200 MW power station, and the opening-up of a lignite deposit to provide an output of 20 million tonnes per annum. Both projects include transmission lines to connect the power stations with the main grid.

In addition to these two projects, finance was also provided for the Gökçekaya-Izmir high-tension power line, and the two already operational generating stations at Kovada and Gökçekaya.

By the early 1980's, installed power in Turkey should reach the 6 500 MW mark, with EIB-financed power stations covering 33% of installed capacity.

Development of electricity production and the transmission system is of course a central factor in the economic and social development of Turkey as a whole. Not only is it a prerequisite for industrialisation, but it also has a part to play in improving the regional distribution of activities. The programme now being implemented should bring many more urban communities into the national grid. At the same time, the commissioning of power stations using local resources will help to reduce the country's dependence on outside primary energy supplies and thus ease its balance of payments problems.

(b) *Transport*

The development of a good transport infrastructure is essential to general economic development and to the reduction of regional disparities. The sheer size of Turkey and its mountainous topology lend even greater priority to this field of activity, as well as multiplying the costs involved.

Loans granted by the Bank in the transport sector total 67.5 m u.a., representing 32.1% of its finance for infrastructure.

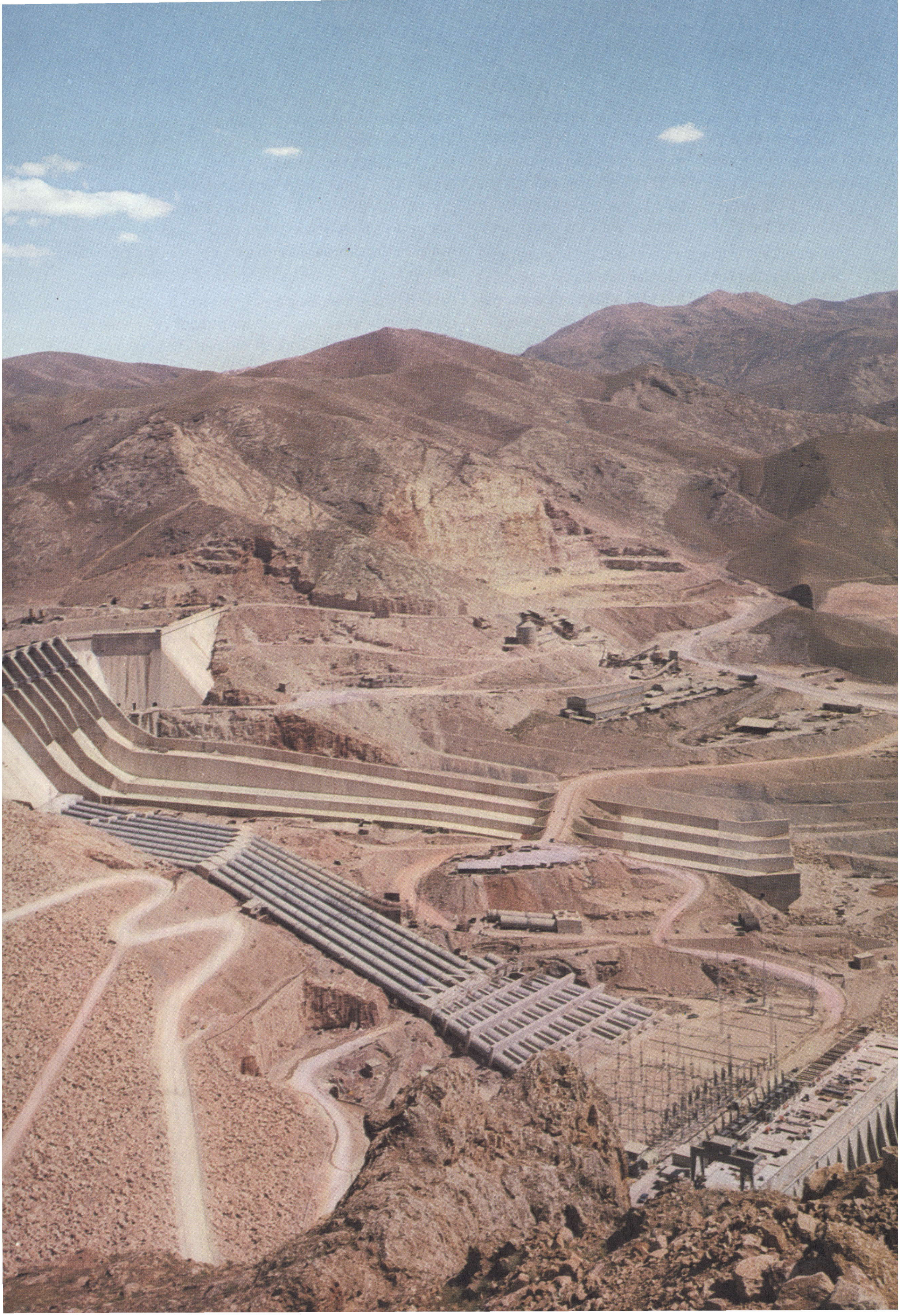
The Bank's largest contribution, through three loans totalling 38.9 m u.a., was towards financing a long-term *railway modernisation and rationalisation programme.* One of these loans, for 4.4 m u.a., was used to part-finance the electrification of the Istanbul-Adapazari line and for the purchase of 15 electric locomotives. The other two loans, totalling 34.5 m u.a., were put towards the dieselisation programme, under which 200 diesel locomotives part-constructed in Turkey should be brought into service between 1970 and 1976. These represent a major portion of the TCDD (Turkish Railways) programme, which has a target of 270 diesel locomotives to be brought into service over the next few years.

An 8.6 m u.a. loan was also granted towards improvements in *air transport* by providing finance for the purchase by Turkish Airlines (THY) of five Fokker Fellowship F 28 turbojets for use on domestic routes. This purchase facilitated extension of the THY network, and enabled the company both to improve the quality of its services and to meet growing pressure of demand. The expansion of domestic air services is of course conducive to the economic development of the regions served, and to the promotion of tourism.

The Bank's contribution to the Turkish *road system* took the form of a 20 m u.a. loan for the Bridge over the Bosporus Project. This was opened to traffic in 1973, and has improved road links between Europe and Asia by virtually eliminating the problems of the Bosporus crossing, previously only possible by ferry. The bridge is the centrepiece of a whole project for improving the road system around Istanbul, another feature of which is a ring motorway to relieve congestion in the city centre.

(c) *Agriculture*

The Turkish Plan gives priority to increasing agricultural yields and intensive farming through irrigation. The Bank has contributed two loans towards this effort, advancing a total of 25 m u.a. for agricultural improvements in the Gediz Valley, north of Izmir. Development centres on a major *irrigation* system, coupled with operations to reduce soil salinity and prevent erosion. A further feature is land levelling and consolidation in the areas to be served, and the introduction of an agricultural extension service. The scheme should achieve major increases in agricultural productivity and farm incomes, as well as improving working conditions in the irrigated area.



A hydro-electric project:

KEBAN

**The promoter:**

DSI — State Hydraulic Works, an arm of the Ministry for Energy and Natural Resources.

**The project:**

This hydro-electric scheme on the Euphrates is the most ambitious venture ever undertaken to harness Turkey's water resources.

The scheme has three main features:

(1) a part rockfill, part concrete dam, 1 100 m wide at the top, maximum height 155 m. It has a maximum capacity of 30 000 million $m^3$, covering 68 000 ha.

(2) a power station designed to house 8 turbo-generator sets, having a maximum loading of 1 200 MW. This will put four sets immediately into service, feeding 4 500 million kWh into the network annually, i.e. over one third of the country's present electricity consumption.

(3) two 380 kV transmission lines linking the power station with Ankara (600 km) and Istanbul (950 km), and the national grid.

Construction work began in 1966, and both the dam and the power station were commissioned in September 1974.

**Cost and financing:**

The cost of the project has been estimated at some 463 m u.a.

It is being financed by the Turkish Government with the help of foreign credits (EIB, IBRD, Germany, France, Italy and the United States), channelled through a financing syndicate organised by the IBRD. The EIB is most closely concerned with coordination of finance for the dam and the power station, in particular for civil engineering works which are in the hands of a Franco-Italian consortium. Foreign capital accounts in all for some 150 m u.a. of the cost, and 40 m u.a. of this is being provided by the EIB.

The Bank has also given support to the *modernisation of forestry,* by providing finance for an integrated industrial project involving the construction of a sawmill and paper mill near Silifke on the Mediterranean coast, and investments in the forestry sector as such, involving the creation of many job opportunities.

### 3. Industry

One of the provisions governing Bank operations in Turkey stipulates that at least 30% of the aid granted should be used to finance projects showing a normal return, i.e. industrial projects. Bank lending in this field now amounts to 135.5 m u.a., or 38.9% of all financing operations. 110.5 m u.a. of this has already been channelled into industrial firms, while 25 m u.a. is still in the pipeline for disbursement from global loan finance extended to TSKB, and more recently to SYKB.

Six loans for a total of 65.6 m u.a., or 48.4% of all finance to industry, have been granted to *state economic enterprises* for large-scale, capital-intensive projects in the basic industries. Bank lending amounted to slightly more than 22% of

A road transport infrastructure project:

THE BRIDGE OVER THE BOSPORUS

**The promoter:**

KGM — Turkish Ministry of Public Works, Directorate-General for Highways

**The project:**

The Bridge over the Bosporus now links the European and Asian parts of Greater Istanbul, and hence Thrace and Anatolia. The project also includes the Istanbul ring motorway and a Bridge over the Golden Horn.

The Bosporus suspension bridge is the most spectacular part of the project, based as it is on one of the latest structural techniques, with decking of prefabricated modular construction, attached to the main cables by angled suspenders. It has the fourth longest central span in the world, and the longest in Europe. The main dimensions are as follows:

| | |
|---|---|
| Overall length | 1 560 m |
| Length of centre span | 1 074 m |
| Width of roadway (six lanes) | 35 m |
| Height of towers above sea level | 165 m |
| Height of deck above sea level | 64 m |

The bridge was designed by a British firm of consultant engineers, and built by an Anglo-German consortium, while the metal towers are of Italian construction, and the cables manufactured in Germany and Luxembourg.

The ring motorway, which runs for about 20 km, has two three-lane carriageways skirting Istanbul and linking the Edirne-Istanbul road with the Istanbul-Ankara road. It can accommodate a traffic density of up to 80 000 vehicles a day, travelling at 100 kph. Construction is in the hands of Turkish firms, with European contractors involved in the main civil engineering works.

The Bridge over the Golden Horn, about 1 000 m long, consists of a metal, orthotropic structure supported by piers sunk into the river bed connecting with concrete viaducts. This was designed by a Japanese firm of consultant engineers and built by a Japanese-German consortium.

**Cost and financing:**

The total cost of the project has been estimated at 185 m u.a., about 40 m u.a. of this being foreign currency outgoings.

Financing is in the hands of the Turkish Government and foreign lenders operating as a syndicate. This syndicate includes the European Investment Bank, France, Germany, Italy, Japan and the United Kingdom. Within the syndicate, the Bank plays the leading role as coordinator, ensuring the implementation of the financing plan as agreed, supervising loans and keeping a watching brief on the main tendering operations.

Foreign credit totals 50 m u.a., 20 m u.a. of this from the EIB alone. Some of these funds are destined to cover local expenditure.

the fixed investment costs in question, which were estimated at 291 m u.a., and accounted for some 56% of the foreign exchange outlays. Moreover, the financing plans for these projects [1] include sums out of promoters' equity and similar resources, amounting to something

[1] Including provision for working capital.

An agricultural project:

GEDIZ

**The promoters:**

DSI, TOPRAKSU, Technical Assistance Department (Directorate-General for Agriculture, Ministry of Agriculture) and Directorate-General for Erosion Control (Ministry of Forestry).

**The project:**

This involves the irrigation of 107 000 ha of land in the lower Gediz Valley, north of Izmir, flood control works on the river and its tributaries, and a hydro-electric scheme.

The main features of the project are:

1. Construction of two impounding dams to create two artificial lakes, one on the Gediz of 1 300 million $m^3$ capacity, and the other on the Alaşehir to hold 93 million $m^3$.
2. Construction of three catchment dams and one diversion dam.
3. Works to convert Lake Marmara into a 360 million $m^3$ balancing reservoir.
4. Construction of a 14 000 kW hydro-electric power station.
5. Installation of a runoff irrigation system, total length 5 600 km. The most recently installed parts of this system use prefabricated conduit (canaletti).
6. Construction of a 3 000 km open-ditch drainage system and of a 2 600 km pipe drainage system.
7. Levelling and where possible consolidation of the areas to be redeveloped, coupled with measures to counteract excessive salt or alkali levels in the soil.
8. Protection of 44 000 ha against river flooding and of 8 000 ha against erosion.

Over 90 000 ha have already been made irrigable.

**Cost and financing:**

The total cost of the public investments involved has been estimated at 172.9 m u.a. Financing is in the hands of the Turkish Government, and the EIB has provided funds for the project on two occasions, advancing 15 m u.a. in 1965, and 10 m u.a. in 1973.

between 32% and 44% according to the project, with 42% to 58% of the funds taking the form of long-term loans, and medium and short-term borrowings making up the balance, as much as 24%. Foreign assistance other than that provided by the EIB was included in three of these financing plans.

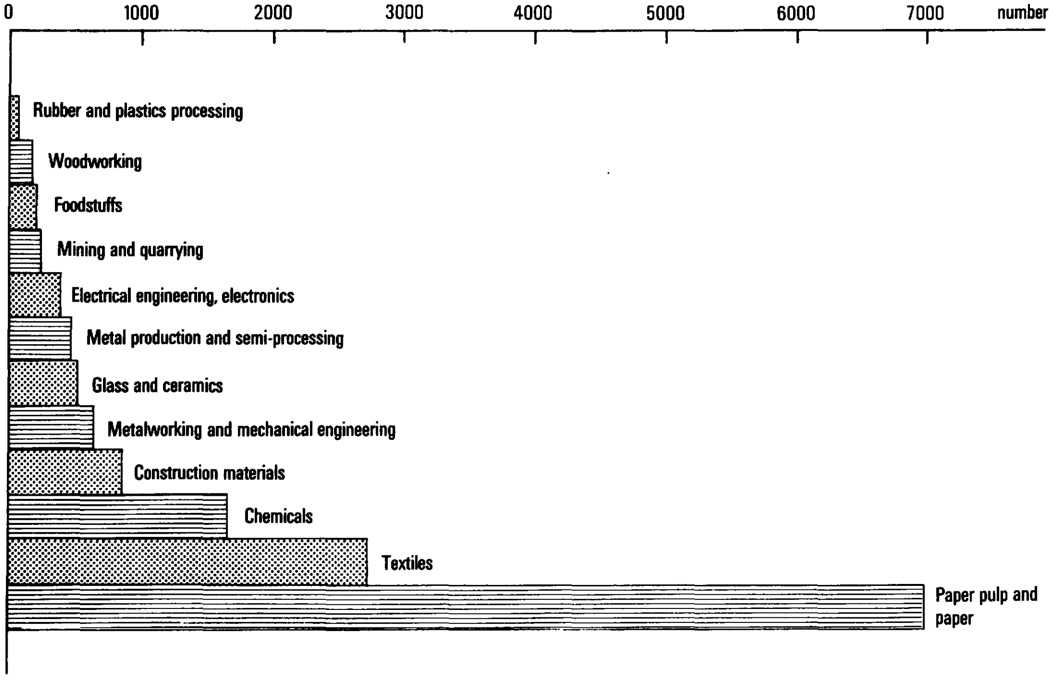
Through the TSKB, the Bank has also provided finance for 47 industrial ventures in the *private sector,* amounting to 44.9 m u.a. in all [1]. This finance was offered both in the form of single loans and as allocations from global loans to small and medium-sized businesses. Investment costs relating to projects financed by the Bank in the private sector totalled 165.4 m u.a., such that the Bank's contribution amounted to 27%. Projects included a number of major, capital-intensive ventures, but the majority were more modest in scale or were for modernising or expanding existing businesses and creating a large number of new jobs. About half of the finance going to private industry was channelled into modernisation or expansion projects.

EIB loans to private industrial firms were on average much smaller than those granted to state

(1) This does not include 25 m u.a. for allocations from global loans, not yet disbursed.

Figure 7

Sectoral breakdown of jobs directly created by EIB-financed industrial projects




economic entreprises: something below 1 m u.a. for projects having fixed investments averaging 3.5 m u.a.

Equity capital was an important source of funds in the financing plans (1) for private projects, accounting for between 42% and 57% of the cost in most cases, with 31% to 48% made up by long-term borrowings, leaving up to 17% to be met from medium and short-term loans. The share capital of the firms in question is subscribed almost exclusively by private Turkish interests, accounting for over 75% of the equity in three-quarters of the cases, although some equity participation is carried out by Turkish banks. Foreign shareholdings and participation by public Turkish interests are, however, somewhat rare.

A number of indications serve to give a rough picture of the *economic benefits* accruing from the industrial projects financed by the Bank. Taken together, the projects financed in this sector should directly lead to the creation of 14 800 (2) new jobs, 4 200 of these in the forestry phase of the Antalya project alone. They should, moreover, contribute 2 700 m Turkish pounds in annual *value added*, or about 4.5% of all industrial value added in 1973. Several of the projects come under the heading of capital-intensive modern industry, as the average investment per job created shows : 31 000 u.a., which is markedly higher than the average level of industrial investment in Turkey. Again, they show an expected average capital output ratio of about 2.3, which is marginally higher than the same ratio for the whole of industry.

Projects tend to fall into two distinct categories: a few major capital ventures in the public sector

(1) Including provision for working capital.

(2) Of which 4 300 relate to the forestry phase of the SEKA-Mediterranean project.

and a large number of more modest operations in the private sector. Hence 53% of the new jobs created stemmed from private sector projects where the average investment per new job was around 21 000 u.a., and the average capital output ratio 1.3.

A *geographical breakdown* of individual projects shows a marked concentration in the west and the centre of the country, where most of Turkish industry is already located: the loans in question are thus concentrated both in number and in value, and as regards investment costs and jobs created. In spite of government inducements, private enterpreneurs are still reluctant to invest in other areas, for lack of economic and social infrastructure, and because of the remoteness of these areas from decision-making centres and the mass of consumers. The paucity of projects in these regions means that the EIB has not yet been able to make a contribution to the more balanced distribution of industrial ventures within the various regions. The TSKB, which is the main intermediary for EIB loans to the private sector is, however, well aware of this serious problem, and has reorganised its own departmental structure, mainly in order to provide more help for promoters wanting to invest in the less developed regions.

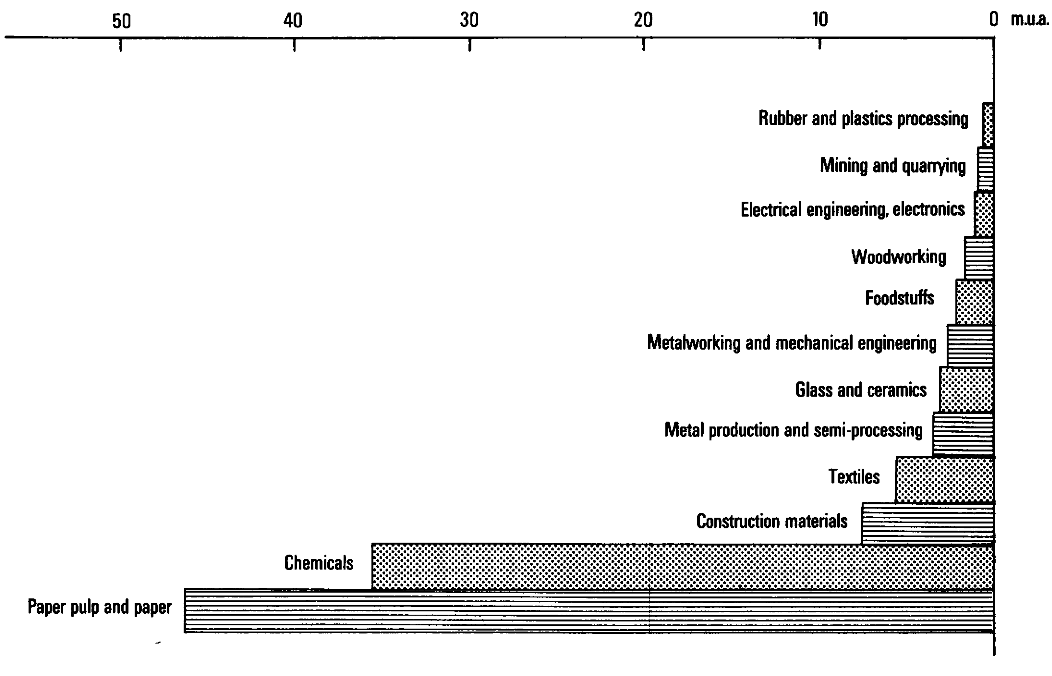
Again, because small and medium-sized ventures are more often of a local character, financing these by means of global loan allocations means that lending activities in favour of industry are tending to become decentralised; the scale of this trend is still very limited, but it is making itself felt.

* * *

A *sectoral breakdown* by amount of loans granted for industrial projects shows the predominance of basic industry and capital equipment manufacture, and of state economic enterprises which

Figure 8

Sectoral breakdown of EIB finance for industrial projects 1965-1974



A petrochemicals project:

PETKIM

**The promoter:**

Petkim Kauçuk A.Ş., a company formed to implement this project and subsidiary of Petkim-Petrokimya A.Ş., a public company formed in 1965 to set up and develop a Turkish petrochemicals industry.

**The project:**

This centres on the construction at Yarimca near Izmit of a plant forming part of a petrochemicals complex already being laid out, to produce synthetic rubber from butadiene, some of which is extracted on site, and the remainder imported, along with other raw materials. Annual butadiene capacity is 33 000 tonnes and the plant also produces 32 000 tpa of SBR (styrene-butadiene rubber) and 13 500 tpa of CBR (cis-polybutadiene rubber). The main market for these products is the local tyre industry, which up to now has had to import its raw materials. A French company is in charge of the engineering side, for which licensing contracts have been signed with both a Dutch company and the Dutch subsidiary of a Canadian concern.

The plant was commissioned at the end of 1974.

**Cost and financing:**

Cost of the fixed investments is estimated at 29 m u.a., 15.7 m u.a. of which would be foreign exchange outgoings.

Two main financing sources have been tapped: the promoter's capital, reserves and self-generated funds, and long-term borrowings from the DYB (State Investment Bank) and the EIB, which has put up a total of 15.7 m u.a., sufficient to cover foreign exchange outlays

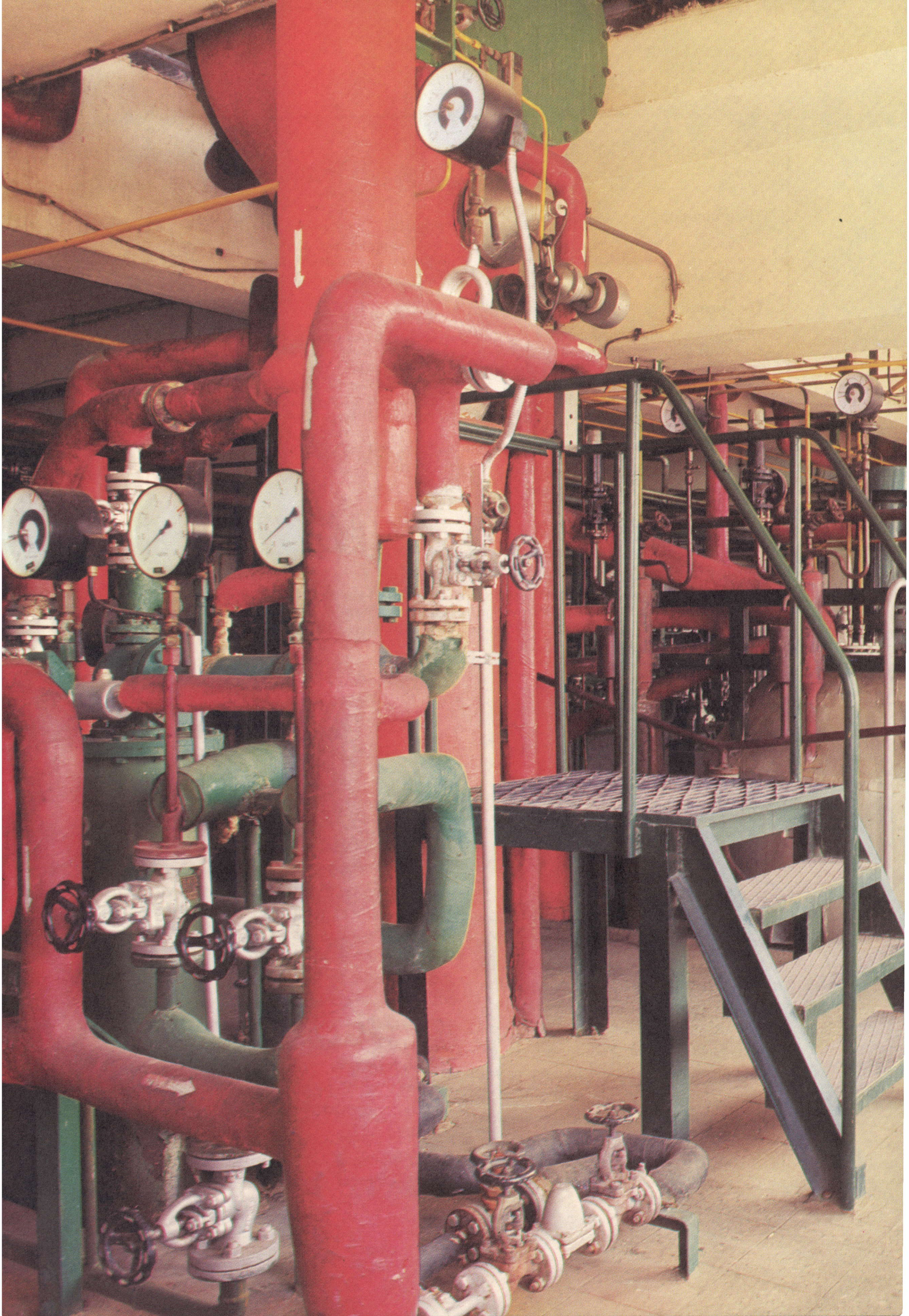
still have a commanding position in these sectors (Annex 4).

(a) *Paper industry*

Five projects in the paper industry claimed 34% of all finance advanced to industry, with 44.3 m u.a. of the 46.4 m u.a. total going to the public sector. All these projects were based on cellulose and kraft paper production, using local raw materials. They will help Turkey to meet its own fast-increasing needs for packaging, especially for use in exporting agricultural produce. In recent years, the paper industry has been extensively developed and modernised. Paper and card production has outstripped consumption, bringing import dependence for the satisfaction of demand down from about 40% in 1961 to 15% in the past two years.

The economic effects of these projects will overlap into the forestry and woodworking sector, especially in the case of the SEKA-Mediterranean complex, financed jointly with the IBRD, which involves not only the construction of a paper mill and a sawmill to produce semi-finished timber, but also the modernisation of forestry in the area supplying the plant, located near Silifke. Operations in the forestry sector are of key interest as Turkish forests are some of the largest in Europe and one third of the population inhabits the areas directly concerned by these activities.

The projects which have received EIB finance should enable a better use to be made of the country's timber resources, which are still used



Development of a modern synthetic fibres plant:

SIFAŞ

**The promoter:**

Sifaş — Sentetik Iplik Fabrikalari A.Ş — is a Turkish limited company incorporated in 1962 with 2 m u.a. capital. It exists to produce and market synthetic fibres and yarn. Its capital now stands at 6.2 m u.a. and is in the hands of some 700 shareholders, with 9% held by foreign interests, including IFC.

**The projects:**

Between 1965 and 1973, the EIB part-financed the four main expansion operations mounted by the Sifaş company.

The plant, located at Bursa, came into production in 1964 using technical assistance provided by BASF, at which stage it was producing 1 000 tonnes per annum of nylon 6 fibre using imported polycaprolactam. As a result of phased expansion the plant has diversified and in 1973 showed the following breakdown of capacity:

7 700 tpa caprolactam polymerisation
6 500 tpa nylon 6 filament
3 500 tpa nylon 6 staple
600 tpa nylon 66 filament
500 tpa polyester filament

Expansion plans now being implemented, for completion around late 1975 to early 1976, coupled with further integration of the production process, will raise the plant's capacity to the following levels:

1 800 tpa nylon 66 chips
5 400 tpa polyester chips
7 700 tpa caprolactam polymerisation
9 400 tpa filament (nylon 6, nylon 66 and polyester)
2 100 tpa nylon 6 staple
1 400 tpa polyester staple

The plant will have a 14 900 tpa spinning throughput, plus polyester texturisation and coloration facilities.

When these operations are completed, the company's gross fixed assets will amount to 26 m u.a., compared with 2.5 m u.a. in 1964. Over the same period it will have created 1 000 new job opportunities.

Successive plant extensions and the deployment of advanced technology have made it possible to diversify the range of products, and Turkey's balance of trade has benefited from the plant's capacity both to produce its own raw materials, previously imported, and to open up new markets abroad bringing in some 1 m u.a. per annum in export earnings.

**Financing:**

Expansion has been financed mainly through increases in capital and the use of self-generated funds, although foreign exchange outlays have been met entirely out of borrowings from the EIB, the IBRD and the IFC. The four EIB loans, amounting in all to 7.25 m u.a., account for 30% of the cost of new fixed investments, and 66% of the corresponding foreign exchange outlays.

Both the EIB and the IBRD group loans were disbursed via the TSKB.

primarily as fuel for domestic heating. In addition, numerous jobs will be created directly: some 2 600 in industry as compared with the total current paper industry workforce of 10 000, plus 4 300 jobs in forestry, where the total currently employed is 35 000.

(b) *Chemical industry*

Turkey has made every effort to develop its chemical industries. These account for a quarter of the industrial investments specified in the Second and Third Plans. Earlier investments in this sector were channelled into consumer products such as soap, detergents, paint and pharmaceuticals, but the bulk is now going into primary products.

In this sector the Bank has financed thirteen operations totalling 35.6 m u.a., or 26% of all its lending to industry. Following guidelines set in the Plan, three loans for a total of 21.3 m u.a. were granted to the public sector for production of synthetic rubber and fertilisers, while in the private sector five loans worth 12.2 m u.a. were granted to synthetic fibre manufacturers.

Petrochemical production is handled in the main by plants under public ownership. The Petkim complex, which is the chief producer of a wide range of products, obtained two loans from the Bank. Defined in terms of home market requirements, however, Turkey's petrochemical plants are still operating on too small a scale to be considered competitive on world markets.

The Petkim plant, financed by the Bank, came on stream at the end of 1974, and should satisfy Turkish home demand for *synthetic rubber,* which up to now has had to be met by imports.

Local production of *synthetic fibres* is already adequate to meet home demand for polyamide and polyester fibres, and the planned increase in capacity will make increased export sales necessary.

This is not the case, however, with *fertilisers,* as it has not proved possible to achieve fully the targets set under the Second Plan. Nevertheless, Turkey meets the greater part of her needs.

(c) *Construction materials*

Five loans totalling 7.5 m u.a. (5.5% of all loans to industry) were made by the Bank to privately-owned cement works.

The cement industry has been widely developed in Turkey, where there are now 28 plants covering the whole of the country, some of which are very modern and currently competitive at the international level. Turkey has been a net exporter of cement since 1970. In the firms financed by the Bank accounted for 30% of all Turkish cement exports.

(d) *Textile industry*

Seven private sector projects in the textile industry received EIB finance amounting to 5.6 m u.a. the emphasis being on increases in spinning and weaving capacity and modernisation of cotton mills. They have led directly to the creation of 2 700 new jobs, resulting from a total investment of 37.3 m u.a. The average cost per job created was around 14 000 u.a., half that of an average project in any other industrial sector. The firms receiving this finance accounted for 11% of Turkey's textiles exports in 1973.

This sector accounts for some 16% of the value added in industry and employs a quarter of the industrial workforce. Production all but covers home demand and in recent years has been sufficient to provide the base for considerable growth in exports of cotton yarn and fabric, accounting in 1973 for a third of Turkey's exports of industrial products other than foodstuffs. Turkey supplies high-quality cotton and has a competitive edge on the industrialised countries, having comparable know-how as well as lower wage levels and a higher rate of plant utilisation. In exports the key factor is quality; direct competition with countries exporting cheap goods is avoided. Turkey is however suffering a shortfall in weaving capacity and is thus unable to meet foreign demand for cloth. Plans are in hand to carry out further investments in this sector.

(e) *Metalworking and mechanical engineering*

The Bank has financed five small projects with loans worth 2.6 m u.a. in the fields of plumbing materials, sanitary installations, hand tools and aluminium packaging. Its two loans to the TCDD for railway dieselisation [1], however, will have considerable indirect benefits in terms of the development of the engineering sector in Turkey, providing part-finance for local construction of 190 diesel-electric locomotives, which will use an increasing proportion of locally-produced components, up to 70% by 1976. This project, using technical assistance furnished by European railway equipment manufacturers, should leave the Turkish railway workshops and their local suppliers with higher technical ability and productivity levels.

In the engineering sector, only one third of domestic needs are met out of home production, such that over 30% of the country's import bill is taken up by purchases of machinery and transport equipment: expansion of the engineering industry is bound to be a key feature of Turkish industrialisation in years to come.

*
* *

The thirty-five financing operations executed in the five sectors already described amounted to 97.7 m u.a. in all, and represented 72% of loans granted for industrial projects. These activities apart, the EIB carried out eighteen other financing operations for smaller investment projects in various other industrial sectors (Annex 4).

A large proportion of the industrial investment projects part-financed by the Bank were concerned with the substitution of home-produced goods for imports. Until it devalued in 1970, Turkey was unable to commit its economy to open competition on export markets. Finance for investment projects in *exporting industries* has only been developing in earnest, however, since 1973, which explains why operations under this heading still only account for perhaps 10% of all lending since 1965. At the same time, private firms which have received loans from the Bank accounted in 1973 for 7% of all exports of manufactures from Turkey.

Industries that spring up under the umbrella of a well-protected economy may well prove to be uncompetitive on the international market. The Association Agreement between Turkey and the Community does indeed acknowledge the teething troubles that can plague new industries, and the fact that some temporary protection of the same may be warranted. At the same time however it stipulates a long-term policy designed to ensure steady progress towards adequate competitive capacity on world markets. In order to support economic development in Turkey and at the same time pursue the objectives of the Association Agreement, the Bank has tended to opt for projects with good prospects of becoming competitive internationally in the foreseeable future.

## III. FUTURE OPERATIONS

Under the second Financial Protocol the Bank may, until May 1976, grant loans from its own resources for up to 25 m u.a. and loans on special conditions from Member States' budgetary resources for up to 242 m u.a.

At 31 December 1974, funds available under the first heading had been fully committed in the form of global loans, while 94 m u.a. were still available under the second heading, including 47 m u.a. in the form of contributions from the new Member States as provided under the Supplementary Protocol, which has yet to come into effect.

Beyond 1976, the Bank's activities will depend on the outcome of negotiations that are scheduled to start in mid-1975, on the conclusion of a third Financial Protocol between the Community and Turkey. The amount of aid granted and the terms and conditions attaching thereto will depend on the provisions of that Protocol.

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[1] See page 21.

The EIB is ready to support the strengthening of ties between Turkey and the Community through further operations in Turkey in pursuit of the realisation of that country's aims in the field of economic and social development.

*ANNEXES*

**STATISTICS OF FINANCE PROVIDED BY THE EIB IN TURKEY and LIST OF PROJECTS FINANCED FROM 1965 TO 1974**

Annex 1: **Individual loans and allocations from global loans**
**Sectoral breakdown**

| Sector | Number | | Amount in m u.a. | | % of total |
|---|---|---|---|---|---|
| | Loans | Allocations from global loans | Total lent | of which: allocations from global loans | |
| **Infrastructure** | **13** | — | **210.4** | — | **60.5** |
| Agricultural development | 2 | — | 25.0 | — | 7.2 |
| Energy | 6 | — | 117.9 | — | 33.9 |
| Transport | 5 | — | 67.5 | — | 19.4 |
| — railways | 3 | | 38.9 | | 11.2 |
| — roads and bridges | 1 | | 20.0 | | 5.7 |
| — airlines | 1 | | 8.6 | | 2.5 |
| **Industry and services** | **39** | **24** | **137.5** | **11.0** | **39.5** |
| Industry | 38 | 21 | 135.5 | 10.3 | 38.9 |
| — mining and quarrying | — | 1 | 0.8 | 0.8 | 0.2 |
| — metal production and semi-processing | 4 | 2 | 3.4 | 0.5 | 1.0 |
| — construction materials | 4 | 1 | 7.5 | 0.1 | 2.2 |
| — woodworking | 1 | 1 | 1.6 | 0.4 | 0.5 |
| — glass and ceramics | 2 | — | 3.2 | — | 0.9 |
| — chemicals | 9 | 4 | 35.6 | 1.5 | 10.2 |
| — metalworking and mechanical engineering | — | 5 | 2.6 | 2.6 | 0.7 |
| — electrical engineering, electronics | 1 | 1 | 1.1 | 0.3 | 0.3 |
| — textiles | 5 | 2 | 5.6 | 1.9 | 1.6 |
| — foodstuffs | — | 4 | 2.2 | 2.2 | 0.6 |
| — paper pulp, paper | 5 | — | 46.4 | — | 13.3 |
| — rubber and plastics processing | 1 | — | 0.5 | — | 0.2 |
| — global loans | 6 | — | 25.0 (1) | — | 7.2 |
| Services (Global loan: technical assistance and pre-investment studies) | 1 | 3 | 2.0 | 0.7 | 0.6 |
| GRAND TOTAL | 52 | 24 | 347.9 | 11.0 | 100.0 |

(1) This figure represents the amount of global loan finance made available to industry but not yet allocated.

*Note:* Annexes 1 to 6 are drawn up according to EIB sectoral classification which differs from that adopted in Turkey and used for the breakdown of gross fixed capital formation in Figure 3.

## Annex 2: **EIB share in project financing**

| Sectors | Total amount of individual loans and allocations from global loans m u.a. | Project cost (fixed assets) (1) m u.a. | Foreign exchange cost (1) m u.a. | EIB share in financing fixed assets % | EIB share in financing foreign exchange outlays % |
|---|---|---|---|---|---|
| **Infrastructure** | **210.4** | **2 001.7** | **998.1** | **10.5** | **21.1** |
| Agricultural development | 25.0 | 172.9 | 7.1 | 14.4 | (2) |
| Energy | 117.9 | 1 504.1 | 884.3 | 7.8 | 13.3 |
| Transport | 67.5 | 324.7 | 106.7 | 20.8 | 63.3 |
| — railways | 38.9 | 118.2 | 45.2 | 32.9 | 86.0 |
| — roads and bridges | 20.0 | 185.0 | 40.0 | 10.8 | 50.0 |
| — airlines | 8.6 | 21.5 | 21.5 | 40.0 | 40.0 |
| **Industry and services** | **111.2** | **456.8** | **188.5** | **24.3** | **59.0** |
| Industry | 110.5 | 456.8 | 187.8 | 24.2 | 58.8 |
| — mining and quarrying | 0.8 | 2.2 | 1.0 | 36.4 | 80.0 |
| — metal production and semi-processing | 3.4 | 9.0 | 3.6 | 37.8 | 94.4 |
| — construction materials | 7.5 | 30.6 | 9.2 | 24.5 | 81.5 |
| — woodworking | 1.6 | 3.8 | 1.7 | 42.1 | 94.1 |
| — glass and ceramics | 3.2 | 11.2 | 4.5 | 28.6 | 71.1 |
| — chemicals | 35.6 | 86.6 | 38.7 | 41.1 | 92.0 |
| — metalworking and mechanical engineering | 2.6 | 8.9 | 3.7 | 29.2 | 70.3 |
| — electrical engineering, electronics | 1.1 | 4.2 | 1.1 | 26.2 | 100.0 |
| — textiles | 5.6 | 37.3 | 21.5 | 15.0 | 26.0 |
| — foodstuffs | 2.2 | 5.9 | 2.9 | 37.3 | 75.9 |
| — paper pulp, paper | 46.4 | 253.3 | 98.3 | 18.3 | 47.2 |
| — rubber and plastics processing | 0.5 | 3.8 | 1.6 | 13.2 | 31.2 |
| Services | 0.7 | | 0.7 | | 100.0 |
| — technical assistance and pre-investment studies | 0.7 | | 0.7 | | 100.0 |
| GRAND TOTAL | 321.6 | 2 458.5 | 1 186.6 | 13.1 | 27.1 |

(1) The figures under this heading were calculated from data used in establishing the promoters' financing plans at the date when the Bank's Board of Directors approved the relevant loan or sub-loan.
(2) 100 % plus some finance for local currency expenditure.

Annex 3: **Geographical breakdown of individual loans and allocations from global loans**

| | Western region (1) | Central region (2) | Eastern region | Not specifically regional (3) | Total |
|---|---|---|---|---|---|
| 1. **Total of individual loans and allocations from global loans (4)** | | | | | |
| Number | 54 | 5 | 4 | 3 | 66 |
| Amount | | | | | |
| — m u.a. | 147.7 | 31.9 | 98.2 | 43.1 | 320.9 |
| — % breakdown | 46 | 10 | 31 | 13 | 100 |
| Project cost (fixed assets) | | | | | |
| — m u.a. | 743.0 | 176.5 | 1 416.5 | 122.5 | 2 458.5 |
| — % breakdown | 30 | 7 | 58 | 5 | 100 |
| 2. **Loans for infrastructure projects** | | | | | |
| Number | 6 | 1 | 3 | 3 | 13 |
| Amount | | | | | |
| — m u.a. | 64.3 | 5.0 | 117.0 | 43.1 | 229.4 |
| — % breakdown | 31 | 2 | 47 | 20 | 100 |
| Project cost (fixed assets) | | | | | |
| — m u.a. | 453.0 | 10.6 | 1 415.6 | 122.5 | 2 001.7 |
| — % breakdown | 23 | 1 | 70 | 6 | 100 |
| 3. **Individual loans and allocations from global loans for industrial projects** | | | | | |
| Number | 48 | 4 | 1 | — | 53 |
| Amount | | | | | |
| — m u.a. | 83.4 | 26.9 | 0.2 | — | 110.5 |
| — % breakdown | 76 | 24 | — | — | 100 |
| Project cost (fixed assets) | | | | | |
| — m u.a. | 290.0 | 165.9 | 0.9 | — | 456.8 |
| — % breakdown | 64 | 36 | — | — | 100.0 |
| Jobs created (5) | | | | | |
| — number | 7 893 | 6 871 | 40 | — | 14 804 |
| — % breakdown | 53 | 47 | — | — | 100 |

(1) The easternmost provinces of the Western Region being Zonguldak, Bolu, Eskisehir, Afyon, Isparta, Burdur and Mugla.
(2) The easternmost provinces of the Central Region being Ordu, Tokat, Yozgat, Kayseri and Adana.
(3) These projects are seen as affecting the country as a whole (e.g. airline projects).
(4) Excluding three allocations under technical assistance contracts.
(5) Data on jobs created are based on estimates available when the operations were approved by the Bank's Board of Directors.

Annex 4: **Sectoral breakdown of individual loans and sub-loans allocated to industry**

| Sector | Number | | | Amount in m u.a. | | | Percentage breakdown | | |
|---|---|---|---|---|---|---|---|---|---|
| | Private sector | Public sector | Total | Private sector | Public sector | Total | Private sector | Public sector | Total |
| Mining and quarrying | 1 | | 1 | 0.8 | | 0.8 | 1.8 | | 0.7 |
| Metal production and semi-processing | 6 | | 6 | 3.4 | | 3.4 | 7.6 | | 3.1 |
| Construction materials | 5 | | 5 | 7.5 | | 7.5 | 16.7 | | 6.8 |
| Woodworking | 2 | | 2 | 1.6 | | 1.6 | 3.6 | | 1.4 |
| Glass and ceramics | 2 | | 2 | 3.2 | | 3.2 | 7.1 | | 2.9 |
| Chemicals | 10 | 3 | 13 | 14.3 | 21.3 | 35.6 | 31.8 | 32.5 | 32.2 |
| Metalworking and mechanical engineering | 5 | | 5 | 2.6 | | 2.6 | 5.8 | | 2.3 |
| Electrical engineering, electronics | 2 | | 2 | 1.1 | | 1.1 | 2.4 | | 1.0 |
| Textiles | 7 | | 7 | 5.6 | | 5.6 | 12.5 | | 5.1 |
| Foodstuffs | 4 | | 4 | 2.2 | | 2.2 | 4.9 | | 2.0 |
| Paper pulp, paper | 2 | 3 | 5 | 2.1 | 44.3 | 46.4 | 4.7 | 67.5 | 42.0 |
| Rubber and plastics processing | 1 | | 1 | 0.5 | | 0.5 | 1.1 | | 0.5 |
| TOTAL | 47 | 6 | 53 | 44.9 | 65.6 | 110.5 | 100.0 | 100.0 | 100.0 |

Annex 5: **Jobs directly created by industrial projects part-financed by the EIB**

| | Jobs created | Total project cost (fixed assets) m u.a. | Cost per job created '000 u.a. |
|---|---|---|---|
| **Sectoral total** | **14 804** | **456.8** | **30.9** |
| Mining and quarrying | 230 | 2.2 | 9.6 |
| Metal production and semi-processing | 480 | 9.0 | 18.8 |
| Construction materials | 850 | 30.6 | 36.0 |
| Woodworking | 180 | 3.8 | 21.1 |
| Glass and ceramics | 505 | 11.2 | 22.2 |
| Chemicals | 1 641 | 86.6 | 52.8 |
| Metalworking and mechanical engineering | 630 | 8.9 | 14.1 |
| Electrical engineering, electronics | 380 | 4.2 | 11.1 |
| Textiles | 2 713 | 37.3 | 13.7 |
| Foodstuffs | 196 | 5.9 | 30.1 |
| Paper pulp, paper | 6 939 (1) | 253.3 | 36.5 |
| Rubber and plastics processing | 60 | 3.8 | 63.3 |

(1) Including 4 300 jobs in forestry work.

## Annex 6: **Revolving fund operations** (1)

During the period 1971-1974 the Bank authorised the granting of the following three local currency loans, totalling TL 245 m (14.76 m u.a.), which were allocated by the Turkish Government under the revolving fund facility:

(i) a loan of TL 150 m (8.8 m u.a.) for the Silifke public sector forestry/paper project, supplementing the EIB's loan for 20 m u.a. referred to on pages 23 and 31;

(ii) a global loan for TL 50 m (2.96 m u.a.) granted to Ziraat Bankasi (Turkish Agricultural Bank) to finance small and medium-scale ventures on the industrial side of the agricultural sector;

(iii) a global loan for TL 45 m (3 m u.a.) granted to TSKB to finance small and medium-scale industrial ventures in the private sector. Details of nine sub-loans allocated to date totalling the equivalent of 2.5 m u.a. are tabulated below :

**Sectoral breakdown of sub-loans allocated under the revolving fund facility**

| | No. of sub-loans | Equivalent in m u.a. | % break-down |
|---|---|---|---|
| Chemicals | 1 | 0.133 | 5.3 |
| Metalworking and mechanical engineering | 2 | 0.385 | 15.4 |
| Textiles | 2 | 0.728 | 29.0 |
| Foodstuffs | 4 | 1.261 | 50.3 |
| TOTAL | 9 | 2.507 | 100.0 |

(1) See page 16.

# LIST OF PROJECTS FINANCED

## A. List of individual loans

| Date loan signed | Project Name of promoter | Amount lent m u.a. | Project cost (fixed assets) [1] m u.a. |
|---|---|---|---|
| **Agricultural development** | | **25.0** | **172.9** |
| 1. 28.7.1966 | — Irrigation and development of lower valley of the Gediz river in Western Anatolia DSI, TOPRAKSU and Technical Assistance Department (Ministry of Agriculture, Directorate-General for Agriculture) | 15.00+ | 128.0 |
| 2. 20.2.1974 | — Second stage of Gediz valley irrigation and development programme DSI, TOPRAKSU, Technical Assistance Department (Ministry of Agriculture, Directorate-General for Agriculture) and Directorate-General for Erosion Control (Ministry of Forestry) | 10.00+ | 44.9 |
| **Energy** | | **117.9** | **1 504.1** |
| 3. 25.5.1965 | — Construction of power station near Lake Kovada in Northern Antalya DSI | 5.00+ | 10.6 |
| 4. 28.7.1966 | — Construction of dam and hydroelectric power station at Keban on the Euphrates (Eastern Anatolia) together with transmission lines for supplying electricity to Ankara and Istanbul DSI and TEK | 30.00+ | 462.6 |
| 5. 14.6.1967 | — Construction of dam and hydroelectric power station on the Sakarya at Gökçekaya (North-West Anatolia) DSI | 7.30+ | 64.8 |
| 6. 29.1.1969 | — Construction of 380 kV high-tension Gökçekaya-Seyitömer-Izmir transmission line TEK | 7.60+ | 13.1 |
| 7. 11.5.1971 | — Supplementary work on Keban hydroelectric scheme DSI and TEK | 10.00+ | see loan no. 4 |
| 8. 30.12.1974 | — Construction of power station and mining of lignite deposit at Elbistan (Central Anatolia) TKI and TEK | 58.00+ | 953.0 |
| **Railways** | | **38.9** | **118.2** |
| 9. 15.10.1968 | — First stage of Turkish Railways' dieselisation programme: procurement of 10 fully assembled diesel-electric locomotives and assembly of 50 others in Turkey (see loan no. 11) TCDD | 11.00+ | 25.1 |
| 10. 12.2.1973 | — Electrification of Istanbul-Adapazarı line and procurement of 15 electric locomotives TCDD | 4.35+ | 17.2 |

*Note:* As a result of rounding out, not all totals are the sum of their constituent amounts.

[1] The figures under this heading were calculated from data used in establishing the promoters' financing plans at the date when the Bank's Board of Directors approved the relevant loan.

+ Public sector loans.

| Date loan signed | Project Name of promoter | Amount lent m u.a. | Project cost (fixed assets) m u.a. |
|---|---|---|---|
| 11. 29.3.1973 | — Second stage of Turkish Railways' dieselisation programme: construction of 140 diesel locomotives (see loan no. 9) TCDD | 23.50+ | 75.9 |
| **Roads and bridges** | | **20.0** | **185.0** |
| 12. 25.7.1969 | — Highway scheme in Istanbul entailing construction of a suspension bridge over the Bosporus, a bridge over the Golden Horn and a 19 km urban motorway giving on to these two bridges KGM | 20.00+ | 185.0 |
| **Air transport** | | **8.6** | **21.5** |
| 13. 13.9.1973 | — Modernisation of Turkish domestic airlines by purchase of five twin-jet Fokker F 28 Fellowship aircraft THY | 8.6+ | 21.5 |
| **Metal production and semi-processing** | | **2.9** | **7.5** |
| 14. 16.2.1966 | — Construction of a wire-drawing mill and cable shop at Izmit Çelik Halat ve Tel Sanayii A.Ş. | 1.50 | 4.0 |
| 15. 1.4.1966 | — Expansion of a steel tube works at Izmit Mannesmann-Sümerbank Boru Endüstrisi T.A.Ş. | 0.40 | 0.8 |
| 16. 1.4.1966 | — Construction of an enamelling line in a factory for domestic electrical appliances near Istanbul Arçelik A.Ş. | 0.25 | 1.0 |
| 17. 19.5.1967 | — Expansion and modernisation of a factory producing black sheet at Istanbul Çelik Endüstrisi T.A.Ş. | 0.70 | 1.7 |
| **Construction materials** | | **7.4** | **30.6** |
| 18. 23.6.1967 | — Expansion of cement works at Kartal near Istanbul Anadolu Çimentolari T.A.Ş. | 2.25 | 5.6 |
| 19. 21.12.1967 | — Construction of a cement works at Hereke on the Gulf of Izmit Nuh Çimento Sanayii A.Ş. | 2.50 | 10.0 |
| 20. 28.6.1968 | — Construction of a cement works at Büyük Çekmece to the west of Istanbul Akçimento Ticaret A.Ş. | 0.70 | 10.0 |
| 21. 12.7.1973 | — Expansion of a cement works at Eskişehir (Western Anatolia) Eskişehir Çimento Fabrikasi T.A.Ş. | 2.00 | 5.0 |

| Date loan signed | Project Name of promoter | Amount lent m u.a. | Project cost (fixed assets) m u.a. |
|---|---|---|---|
| **Woodworking** | | **1.2** | **2.9** |
| **22.** 13.11.1969 | — Construction of a factory for producing chipboard panelling and veneer sheeting at Isparta (Southern Anatolia)<br>Orman Mahsulleri Integre Sanayi ve Ticaret A.Ş. (Orma) | 1.20 | 2.9 |
| **Glass and ceramics** | | **3.2** | **11.2** |
| **23.** 28.7.1966 | — Expansion of a window-glass factory at Çayirova near Istanbul<br>Türkiye Şişe ve Cam Fabrikaları A.Ş. | 2.12 | 7.9 |
| **24.** 27.6.1974 | — Construction of a factory to produce porcelain tableware at Kütahya, Western Anatolia<br>Kütahya Porselen ve Gıda Sanayii A.Ş. | 1.13 | 3.3 |
| **Chemicals** | | **34.1** | **82.0** |
| **25.** 28.7.1966 | — Expansion of a nylon factory in Bursa (North-West Anatolia) by setting up a caprolactam polymerisation unit and new spinning plant<br>Sentetik Iplik Fabrikaları A.Ş. (Sifaş) | 1.30 | 4.9 |
| **26.** 22.12.1967 | — Construction of an artificial fertiliser works near Samsun on the Black Sea<br>Azot Sanayii T.A.Ş. | 5.60+ | 15.1 |
| **27.** 28.12.1967 | — Setting up a shop to produce nylon-6 staple fibre in a factory at Bursa (North-West Anatolia)<br>Sentetik Iplik Fabrikaları A.Ş. (Sifaş) | 2.00 | 4.8 |
| **28.** 22.5.1968 | — Construction of a pencil factory near Istanbul<br>Adel Kalemcilik Ticaret ve Sanayii A.Ş. | 0.55 | 1.5 |
| **29.** 6.8.1968 | — Construction of an acrylic fibre plant near Izmit<br>Akrilik Kimya Sanayii A.Ş. (Aksa) | 5.00 | 11.9 |
| **30.** 13.11.1969 | — Expansion of synthetic fibre factory at Bursa<br>Sentetik Iplik Fabrikaları A.Ş. (Sifaş) | 0.45 | 4.9 |
| **31.** 19.12.1969 | — Construction of synthetic rubber factory at Yarımca near Izmit<br>Petkim Kauçuk A.Ş. | 9.29+ | 28.9 |
| **32.** 12.2.1973 | — Additional finance for preceding project | 6.40+ | see loan no. 31 |
| **33.** 20.9.1973 | — Expansion of synthetic fibre plant at Bursa<br>Sentetik Iplik Fabrikaları A.Ş. (Sifaş) | 3.50 | 10.0 |
| **Electrical engineering and electronics** | | **0.8** | **2.7** |
| **34.** 21.2.1969 | — Construction of a factory at Izmit to produce electric light bulbs and semi-finished lighting components<br>Birleşik Aydınlatma Sanayii A.Ş. | 0.84 | 2.7 |

| Date loan signed | Project Name of promoter | Amount lent m u.a. | Project cost (fixed assets) m u.a. |
|---|---|---|---|
| **Textiles** | | **3.7** | **27.4** |
| **35.** 16.2.1966 | — Modernisation of textile mill at Izmir producing carded cotton fabrics Taç Sanayi ve Ticaret A.Ş. | 0.19 | 0.5 |
| **36.** 2.2.1967 | — Rationalisation and modernisation of cotton textile finishing shop in mill at Adana (Southern Anatolia) and incorporation of new spinning and weaving plant Güney Sanayi ve Ticaret Işletmeleri A.Ş. | 0.40 | 9.0 |
| **37.** 15.3.1967 | — Construction of cotton waste spinning shop within an integrated textile mill in Istanbul Mensucat Santral T.A.Ş. | 0.72 | 2.0 |
| **38.** 20.12.1967 | — Expansion of synthetic and man-made fibre works at Bakırköy, near Istanbul Aksu Iplik ve Dokuma Fabrikaları A.Ş. | 0.45 | 1.1 |
| **39.** 3.5.1974 | — Construction of an integrated cotton spinning and weaving mill at Edirne (Thrace) Kartaltepe Mensucat Fabrikasi A.Ş. | 1.98 | 14.8 |
| **Paper pulp, paper** | | **46.4** | **253.3** |
| **40.** 28.7.1966 | — Construction of a paper pulp and kraft paper factory at Çaycuma (near Zonguldak on the Black Sea) SEKA — Çaycuma Müessesesi | 10.30+ | 36.1 |
| **41.** 12.9.1967 | — Construction of a paper pulp, paper and card factory at Dalaman (South-West Anatolia) SEKA — Dalaman Müessesesi | 14.00+ | 71.8 |
| **42.** 20.12.1967 | — Construction of a factory to produce corrugated paper and cardboard boxes at Gebze, near Istanbul Mukavva Sanayii ve Ticaret A.Ş. | 0.74 | 2.2 |
| **43.** 17.12.1968 | — Construction of a cardboard factory at Izmit Karton Sanayii ve Ticaret A.Ş. (Kartonsan) | 1.35 | 3.7 |
| **44.** 29.12.1973 | — Construction of a paper pulp, kraft paper and linerboard factory together with a sawmill to produce semi-finished timber near Silifke on the Mediterranean. Project also entails forestry development in the region Directorate-General for Forests (Ministry of Forestry) SEKA-Akdeniz Müessesesi | 20.00+ | 139.5 |
| **Rubber and plastics processing** | | **0.5** | **3.8** |
| **45.** 28.7.1966 | — Expansion of a tyre factory near Izmit Türk Pirelli Lâstiklere A.Ş. | 0.5 | 3.8 |

| Date loan signed | Project<br>Name of promoter | Amount lent<br>m u.a. | |
|---|---|---|---|
| **Global loans** | | **37.2** | |
| (a) For financing small and medium-scale private sector industrial ventures through Turkish banks: | | | |
| **46.** 21.2.1969 | First loan to TSKB | 3.00 | |
| **47.** 13.11.1969 | Addition to first TSKB loan | 0.77 | |
| **48.** 12.2.1973 | Second loan to TSKB | 6.00 | |
| **49.** 21.6.1974 | Addition to second TSKB loan | 0.40 | |
| **50.** 19.7.1974 | Third loan to TSKB | 20.00 ([1]) | |
| **51.** 19.7.1974 | Loan to SYKB | 5.00 ([1]) | |
| (b) For financing pre-investment studies and technical assistance | | | |
| **52.** 12.2.1973 | Public sector loan made through Turkish Government | 2.00 | |

([1]) Ordinary loans from EIB own resources.

## B. List of allocations from global loans

| Allocation date | Project<br>Name of promoter | Amount allocated<br>m u.a. | Project cost (fixed assets)<br>m u.a. |
|---|---|---|---|
| **Mining and quarrying** | | **0.8** | **2.2** |
| **53.** 6.11.1973 | — Construction of a sinter and lime works at Göynük (Bolu)<br>Göynük Gıda Sanayii ve Ticaret A.Ş. (Göğsan) | 0.77 | 2.2 |
| **Metal production and semi-processing** | | **0.5** | **1.5** |
| **54.** 24.4.1969 | — Modernisation and expansion of workshop for producing aluminium sections at Kartal, near Istanbul<br>Aksan Metal Sanayi ve Ticaret A.Ş. | 0.42 | 1.5 |
| **55.** 11.11.1969 | — Addition to previous loan<br>Aksan Metal Sanayi ve Ticaret A.Ş. | 0.07 | see allocation no. 54 |
| **Construction materials** | | **0.1** | — |
| **56.** 12.7.1973 | — Supplementary contribution towards expansion of cement works at Eskişehir (see loan no. 21)<br>Eskişehir Çimento Fabrikasi T.A.Ş. | 0 06 | see loan no. 21 |
| **Woodworking** | | **0.4** | **0.9** |
| **57.** 8.1.1970 | — Modernisation of plywood factory at Istanbul<br>Yeni Kontrplâk A.Ş. | 0.36 | 0.9 |

| Allocation date | Project<br>Name of promoter | Amount allocated m u.a. | Project cost (fixed assets) m u.a. |
|---|---|---|---|
| **Chemicals** | | **1.5** | **4.6** |
| **58.** 5.3.1969 | — Expansion of a match factory at Istinye on the Bosporus<br>Türkay Endüstri ve Ticaret A.Ş. | 0.35 | 0.9 |
| **59.** 28.4.1969 | — Construction of a factory for producing antibiotics, near Istanbul<br>Antibiyotik ve Ilâc Ham Maddeleri Sanayii A.Ş. (Ansa) | 0.47 | 1.8 |
| **60.** 4.6.1969 | — Construction of a works in Istanbul for manufacturing phtalic anhydride<br>Plastifay Kimya Endüstrisi A.Ş. | 0.53 | 1.5 |
| **61.** 20.3.1970 | — Installation at Izmit of a factory to produce and store liquid nitrogen used in the manufacture of acrylic fibres<br>Akrilik Kimya Sanayii A.Ş. (Aksa) | 0.17 | 0.4 |
| **Metalworking and mechanical engineering** | | **2.6** | **8.9** |
| **62.** 13.11.1969 | — Construction of hand tools plant at Gebze near Istanbul<br>El Aletleri Dövme Çelik Sanayi A.Ş. (Altaş) | 0.42 | 1.7 |
| **63.** 29.4.1970 | — Modernisation and expansion of plant for ductile cast-iron connecting pieces for piping at a factory at Kartal, near Istanbul<br>Haymak Döküm ve Fitting Sanayi ve Ticaret A.Ş. | 0.25 | 0.7 |
| **64.** 4.4.1973 | — Construction of a factory to produce rigid and flexible aluminium tubes for packaging, at Konya (Central Anatolia)<br>Konya Aluminyum Sanayi ve Ticaret A.Ş. (Konaltaş) | 0.86 | 2.3 |
| **65.** 6.11.1973 | — Construction of a factory to produce cast iron baths and radiators at Osmaneli (Bilecik, Western Anatolia)<br>Osmaneli Döküm Sanayi ve Ticaret A.Ş. (Odöksan) | 0.63 | 2.9 |
| **66.** 18.1.1974 | — Expansion of a factory for producing water and gas pipes at Istanbul<br>Altılar Sanayii A.Ş. | 0.45 | 1.3 |
| **Electrical engineering, electronics** | | **0.3** | **1.5** |
| **67.** 19.12.1969 | — Construction of a factory near Istanbul to produce electrical equipment (fuses, plugs, points, etc.)<br>Kaleporselen Elektroteknik Sanayii A.Ş. | 0.30 | 1.5 |
| **Textiles** | | **1.9** | **9.9** |
| **68.** 21.12.1973 | — Construction of an integrated textile mill to produce woollen and carpeting yarn at Izmir<br>Sezik Tekstil Sanayii A.Ş. | 0.89 | 2.2 |
| **69.** 18.3.1974 | — Expansion and modernisation of a mill producing cotton yarn and fabrics in Istanbul<br>Akfil Sanayi ve Ticaret A.Ş. | 1.00 | 7.7 |

| Allocation date | Project Name of promoter | Amount allocated m u.a. | Project cost (fixed assets) m u.a. |
|---|---|---|---|
| **Foodstuffs** | | **2.2** | **5.9** |
| **70.** 4.12.1969 | — Construction of a factory for producing concentrated tomato puree at Biga (Dardanelles) Demirci Konservecilik A.Ş. | 0.44 | 1.4 |
| **71.** 16.10.1973 | — Construction of a factory for extracting and refining olive and sunflower oil, near Bursa Komili Yağ, Sabun, Gliserin Sanayi ve Ticaret A.Ş. | 0.88 | 2.0 |
| **72.** 3.7.1974 | — Expansion of a factory near Istanbul for processing sunflower seeds for use in the manufacture of oil and oil-cake Ayeks Yağ Sanayi ve Ticaret A.Ş. | 0.72 | 1.6 |
| **73.** 25.7.1974 | — Construction of a dairy near Malatya (Eastern Anatolia) Nurettin Soykan | 0.16 | 0.9 |
| **Pre-investment studies and technical assistance** | | **0.7** | — |
| **74.** 12.2.1973 | — Technical assistance contract concluded between TEK and a European technical consultant for planning and mounting projects in the electrical sector | 0.06 | — |
| **75.** 18.1.1974 | — Engaging foreign consultants for training Turkish technicians for the SEKA paper mills | 0.27 | — |
| **76.** 3.7.1974 | — Engineering study for the Izmit-Adapazarı section of the Ankara-Istanbul road | 0.4 | — |

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