Chapter 8
Investment and Development
Banks and Strategies in Turkey

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ABSTRACT

The World Bank is the most important financier for international investment. The bank opens credits mostly for investment projects in developing countries. Turkey has received various investment credits since its membership to the World Bank on March 11, 1947. The credits were used for economic and social domains. Turkey has also been granted credits from the European Investment Bank (EIB). The credits received are composed of micro credits that belong to Small and Medium Enterprises (SMEs). A regional development bank, Islamic Development Bank, has also received credits through Eximbank and Industrial Development Bank of Turkey (TSKB) to finance Turkish SMEs. This chapter deals with Turkish investment strategies in the framework of basic principles of investment – development banks.

INTRODUCTION

Following the Great Depression of 1929, banking and other financial services were separated from each other. However, the number of countries separating them is not that high. Investment banks have assumed key positions in the progress and growth of American economy. The best example would be the financing of the railroad construction in the country during 1700’s and 1800’s. Most of these banks were also dealing with deposit banking. Things changed after 1933, and banks were restrained from savings banking. Institutional and operational characteristics of investment banks vary across countries. While investment banks in industrialized countries target real sector and economic growth, those in developing countries need external sources due to insufficient capital. Therefore these banks primarily deal with economic development (Mishkin, 1992: 78-88; Mishkin, 2004: 330-337; Grinblatt and Titman, 2002: 4-22; Hubbard, 2002: 52-66; Peter and Marguis;
Turkey has been receiving investment credits since its membership to the World Bank on March 11, 1947. Turkey’s share of capital in the World Bank is 832.8 million dollars. This number is equal to %0.53 of the total capital. As for the types of investment credits, they are “reorganization of Ministry of Health,” “renewable energy project,” “electricity distribution and rehabilitation project,” “energy community of South East Europe,” “Istanbul Seismic Risk Mitigation and Emergency Preparedness Project,” series of “export finance intermediary loan,” “small and medium enterprises loan,” “restoring equitable growth and employment programmatic development policy loan.”

Besides those stated above, Country Partnership Strategy for 2008-2011 enacted in February 2008 aimed “to help Turkey complete its harmonization process for EU membership, and bring steady growth, fair distribution of income, globally competitive power, and knowledge society. Thus, Turkey has received $4,969 billion credit from the World Bank to finance above mentioned projects; almost $5 billion. Moreover, Turkey has received more than $818 billion from the European Investment Bank to finance development projects. Part of this finance has been used in supporting investment plans of SMEs, eliminating economic and social inequalities between regions, supporting environmental protection and sustainable environmental policies, fight against the adverse effects of climate change, support for the initiatives of sustainable and safe energy, and support for the creation of the transportation, energy, and communication networks in the Union.

This paper primarily deals with the objectives and duties of certain investment banks worldwide and their relation with Turkey. In this vein, pre-Bretton Woods international monetary system is explained and monetary movements of the period are analyzed. Besides, The World Bank, which opens credits to worldwide investments are scrutinized. How the World Bank operates, credits (investment, adjustment, hybrid, and common loans) it has opened have been studied. Affiliates of the World Bank are also analyzed.

But this paper primarily deals with the banks opening investment credits to Turkey and their relation with the country. The paper evaluates the relationship between the World Bank and Turkey, Turkey’s capital share in the World Bank, and the received investment credits. The paper also investigates Regional Development and Investment Banks such as European Investment Bank, Bank Asya, Islamic Development Bank, African Development Bank and their expectations.

THE WORLD BANK AND ITS STRATEGIES IN TURKEY

Turkey has become a member of the World Bank on March 11, 1947. Since its membership, Turkey has benefited from various credits of the World Bank. Depending of their capital share in the Bank, members have varying voting rates. Below in Table 1, capital shares and voting rates of ten member countries are listed. As one can see in the table, the biggest capital share and the voting rate belong to USA. Developed economies such as Japan, Germany, France, and UK follow USA. Turkey’s share in World Bank’s total capital amounts to % 0.53. This makes up $832.8 million (WB, 2010).

According to the regulations of the World Bank, a country’s capital share is not parallel to the credit it can obtain. That said, it is directly linked to voting rate and thus, has effect on organization’s decision making processes. In other words, voting rate is the basic means that countries can use to manipulate organization’s decisions and actions. This fact has encouraged countries to become
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