

No. 2058

**INTERNATIONAL BANK FOR
RECONSTRUCTION AND DEVELOPMENT
and
TURKEY**

**Guarantee Agreement (with annexed Loan Regulations
No. 4 and Loan Agreement). Signed at Washington,
on 19 October 1950**

Official text: English.

*Registered by the International Bank for Reconstruction and Development on
28 January 1953.*

**BANQUE INTERNATIONALE POUR LA
RECONSTRUCTION ET LE DÉVELOPPEMENT
et
TURQUIE**

**Contrat de garantie (avec, en annexe, le Règlement n° 4
sur les emprunts et un Contrat d'emprunt). Signé à
Washington, le 19 octobre 1950**

Texte officiel anglais.

*Enregistré par la Banque internationale pour la reconstruction et le développement
le 28 janvier 1953.*

No. 2058. GUARANTEE AGREEMENT¹ BETWEEN THE
REPUBLIC OF TURKEY AND THE INTERNATIONAL
BANK FOR RECONSTRUCTION AND DEVELOPMENT.
SIGNED AT WASHINGTON, ON 19 OCTOBER 1950

AGREEMENT, dated October 19, 1950, between REPUBLIC OF TURKEY (hereinafter called the Guarantor) and INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT (hereinafter called the Bank).

WHEREAS by an agreement between the Bank and The Industrial Development Bank of Turkey (hereinafter called the Borrower) (which agreement and the schedules therein referred to are hereinafter called the Loan Agreement²) executed and delivered simultaneously with the execution and delivery of this Agreement and bearing even date herewith, the Bank has agreed to make to the Borrower a loan in the aggregate principal amount of nine million dollars (\$9,000,000), or the equivalent thereof in other currencies, on the terms and conditions set forth in the Loan Agreement, but only on condition that the Guarantor agree to guarantee such loan as herein provided; and

WHEREAS in the Loan Agreement the Bank and the Borrower have agreed to accept all the provisions of Loan Regulations No. 4,³ dated August 15, 1950, a copy of which is attached hereto as Annex A, subject, however, to the modifications of said Loan Regulations set forth in Schedule 2⁴ attached to the Loan Agreement, said Loan Regulations as so modified being hereinafter called the Loan Regulations; and

WHEREAS the Guarantor, in consideration of the Bank's entering into the Loan Agreement with the Borrower, has agreed to guarantee such loan as herein provided;

NOW THEREFORE the parties hereto hereby agree as follows :

Article I

Section 1.01. The parties hereto hereby accept all the provisions of the Loan Regulations with the same force and effect as if fully set forth herein. Each of the parties hereto agrees to perform all the obligations on its part to be performed under the Loan Regulations.

¹ Came into force on 28 February 1951 upon notification by the Bank to the Government of Turkey.

² See p. 342 of this volume.

³ See p. 268 of this volume.

⁴ See p. 352 of this volume.

Article II

Section 2.01. Without limitation or restriction upon any of the other covenants on its part in this Guarantee Agreement contained, the Guarantor hereby unconditionally guarantees, as primary obligor and not as surety merely, the due and punctual payment of the principal of, and interest and other charges on, the Loan.

Article III

Section 3.01. (a) The Guarantor shall furnish to the Bank such information as it shall reasonably request with respect to financial and economic conditions in the territories of the Guarantor and the international balance of payments position of the Guarantor. The Guarantor will promptly inform the Bank of any condition of substantial importance in the territories of the Guarantor that shall interfere with, or threaten to interfere with, the performance by the Guarantor of its obligations hereunder.

(b) Except as the Bank shall otherwise agree in writing, if the Guarantor or any of its political subdivisions or any agency of the Guarantor or of any such political sub-division shall propose to incur any external debt, or substantially modify the terms of payment of any then existing external debt incurred by any of them, the Guarantor will notify the Bank or cause the Bank to be notified promptly of the particular proposal and, prior to the time of the taking of the proposed action, will afford to the Bank all opportunity which is reasonably practicable under the circumstances to exchange views with the Guarantor with regard to such proposal; provided, however, that the provisions of this paragraph (b) shall not apply to :

- (i) the incurring of additional external debt through utilization, in accordance with the terms of any credit established prior to the date of this Agreement, of any unused amounts available under such credit;
- (ii) the entering into international payments or similar agreements the term of which is not more than one year and under which the transactions on each side are expected to balance over the period of the Agreement; or
- (iii) the incurring by T C Merkez Bankasi (Central Bank of the Republic of Turkey) in the ordinary course of its business of any indebtedness maturing not more than one year after the date incurred.

(c) The Guarantor will afford to the Bank from time to time as the Bank shall reasonably request all reasonable opportunity for accredited representatives of the Bank to visit any part of the territories of the Guarantor for purposes related to the Loan.

Section 3.02. Except as the Bank shall otherwise agree in writing, if any lien shall be created on any assets of the Guarantor or any of its political subdivisions or any agency of the Guarantor or any such political subdivision as

security for the payment of any external debt, then by the creation thereof such lien shall equally and ratably secure the payment of the principal of, and the interest and other charges on, the Loan, and in the creation of any such lien express provision will be made to that effect; provided, however, that this Section shall not apply to :

(a) any lien created on property purchased, at the time of the purchase thereof, solely as security for the payment of the purchase price of such property;

(b) to any pledge of commercial goods to secure debt maturing not more than one year after the date incurred and to be paid out of the proceeds of sale of such commercial goods; or

(c) any pledge by T C Merkez Bankasi (Central Bank of the Republic of Turkey) of any of its assets in the ordinary course of its banking business to secure any indebtedness maturing not more than one year after the date incurred.

Section 3.03 The principal of, and interest and other charges on, the Loan shall be paid without deduction for and free from any taxes imposed by the Guarantor or any taxing authority thereof or therein and free from all restrictions of the Guarantor and its political subdivisions. The Guarantee Agreement and the Loan Agreement shall be free of any issue, stamp or other tax imposed by the Guarantor or any taxing authority thereof or therein.

Section 3.04. (a) With respect to any investment made by the Borrower under which any part is provided in currency other than currency of the Guarantor (hereinafter called "foreign currency"), when and as the Borrower shall receive any payment on account of the principal of, or return of the capital represented by, such part or interest thereon or other income therefrom in currency of the Guarantor, the Guarantor or T C Merkez Bankasi (Central Bank of the Republic of Turkey, hereinafter called "Central Bank") will make available to the Borrower at the current official rate of exchange the equivalent of the amount so received in such foreign currency. The total amount of foreign currency made available hereunder in respect of interest and other income received by the Borrower shall not exceed the total amount payable under the Loan Agreement on account of interest and other charges.

(b) All foreign currencies made available to the Borrower under paragraph (a) of this section 3.04 shall be paid by the Borrower into a special account in the Central Bank and shall be subject to withdrawal by check, draft or order on demand for use by the Borrower for the purpose of further investments and for other operations or to make payments of principal, interest or other

charges under the Loan Agreement, including prepayments of principal and premium, if any, thereon.

(c) Except with the consent of the Ministry of Finance of the Guarantor, the total amount of any foreign currency made available to the Borrower under paragraph (a) of this section 3.04 shall not at any time exceed an amount equal to three times the amount of such foreign currency theretofore withdrawn by the Borrower from the Loan Account provided for in the Loan Agreement.

(d) Upon termination of the Loan Agreement, no further currency operations as described in paragraphs (a) and (b) of this section 3.04 shall take place.

Section 3.05. The Guarantor covenants that it will not take any action which would prevent or materially interfere with the performance by the Borrower of any of the covenants, agreements and obligations of the Borrower in the Loan Agreement or the Loan Regulations contained.

Article IV

Section 4.01. The following addresses are specified for the purposes of Section 8.01 of the Loan Regulations :

For the Guarantor : Ministry of Finance, Directorate General of the Treasury, Ankara, Turkey

For the Bank : International Bank for Reconstruction and Development, 1818 H Street, N. W., Washington 25, D. C., United States of America.

Section 4.02. The Minister of Finance of the Guarantor in office at the time in question is designated for the purposes of Section 8.03 of the Loan Regulations.

IN WITNESS WHEREOF the parties hereto have caused this Agreement to be signed in their respective names by their representatives thereunto duly authorized as of the day and year first above written.

Republic of Turkey :
By Feridun C. ERKIN
Authorized Representative

International Bank for Reconstruction and Development :
By R. L. GARNER
Vice President

ANNEX A

(Annex A of the executed counterparts of this Guarantee Agreement comprises Loan Regulations No. 4¹ of International Bank for Reconstruction and Development, dated August 15, 1950, copies of which are available for inspection at the principal office of said Bank in Washington, D. C.)

LOAN AGREEMENT

AGREEMENT, dated October 19, 1950, between INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT (hereinafter called the Bank) and THE INDUSTRIAL DEVELOPMENT BANK OF TURKEY (hereinafter called to Borrower).

Article I

THE LOAN

Section 1.01. The Bank agrees to lend to the Borrower, on the terms and conditions hereinafter in this Agreement set forth or referred to, the sum of nine million dollars (\$9,000,000), or the equivalent thereof in currencies other than dollars.

Section 1.02. The parties to this Agreement accept all the provisions of Loan Regulations No. 4¹ of the Bank, dated August 15, 1950, a copy of which has been furnished to the Borrower, with the same force and effect as if they were fully set forth herein, subject, however, to the modifications of said Loan Regulations set forth in Schedule 2² attached hereto. Said Loan Regulations as so modified are hereinafter called the Loan Regulations. Each of the parties to this Agreement agrees to perform all the obligations on its part to be performed under the Loan Regulations.

Section 1.03. The Bank shall open a Loan Account on its books in the name of the Borrower. The amount of the Loan shall be credited to the Loan Account in instalments as follows :

(a) On the Effective Date there shall be so credited the amount of Fifty Thousand Dollars (\$50,000);

(b) Thereafter there shall be so credited such amounts as shall from time to time be agreed upon by the Bank and the Borrower as required to meet the reasonable administrative expenses of the Borrower payable in foreign currency. (For the purposes of this Agreement, the term "foreign currency" means any currency other than currency of the Guarantor);

(c) When any investment project shall be approved by the Bank as in Section 2.02 of Article II of this Agreement provided, there shall be so credited an amount equal to the estimated foreign currency cost thereof as approved by the Bank;

¹ See p. 268 of this volume.

² See p. 352 of this volume.

(d) Additional amounts may be so credited by agreement between the Bank and the Borrower.

The amounts so credited, which shall not exceed in the aggregate the amount of the Loan, may be withdrawn from the Loan Account as provided in, and subject to the rights of cancellation and suspension set forth in, the Loan Regulations.

Section 1.04. The Borrower shall pay to the Bank a commitment charge at the rate of $\frac{3}{4}$ of 1% per annum on the amount of the Loan standing to the credit of the Borrower from time to time in the Loan Account. Such commitment charge shall accrue from the several dates on which amounts shall be credited to the Loan Account to the respective dates on which amounts shall be withdrawn by the Borrower from the Loan Account as provided in Article IV of the Loan Regulations or shall be cancelled pursuant to Article V thereof.

Section 1.05. The Borrower shall pay interest at the rate of three and three-quarters per cent ($3\frac{3}{4}\%$) per annum on the principal amount of the Loan withdrawn from the Loan Account and outstanding from time to time.

Section 1.06. Interest and commitment charge shall be payable semi-annually on March 15 and September 15 in each year.

Section 1.07. The Borrower shall repay the principal of the Loan in accordance with the amortization schedule set forth in Schedule 1¹ of this Agreement.

Article II

DESCRIPTION OF THE PROJECT; USE OF PROCEEDS OF THE LOAN

Section 2.01. The Project for which the Loan is granted is a program to contribute to the industrial development of Turkey by providing credits for productive purposes to enterprises in Turkey in which private capital is or may be invested, and by making other productive investments in such enterprises, for specific development projects, all in accordance with the Statutes of the Borrower approved by the Minister of Economy and Commerce of the Guarantor on May 23, 1950 (published in the Commercial Register Gazette in the city of Istanbul, June 2, 1950, No. 7046) and in furtherance of the corporate purposes of the Borrower as therein set forth. (Such enterprises are herein called "investment enterprises" and such specific development projects are herein called "investment projects").

Section 2.02. The proceeds of the Loan shall be applied exclusively to the cost of goods which will be required for the carrying out of the Project, including the carrying out of such investment projects as shall from time to time be approved in writing by the Bank. Except as the Bank and the Borrower shall otherwise agree, no investment projects shall be so approved by the Bank after three years from the Effective Date.

¹ See p. 352 of this volume.

Section 2.03. Any credit granted by the Borrower to, or other investment made by the Borrower in, an investment enterprise for an investment project to be financed in whole or in part out of the proceeds of the Loan, shall be granted or made on terms whereby the Borrower shall obtain, by the written agreement of such investment enterprise or other appropriate legal means, rights adequate to protect the interests of the Borrower and the Bank, including the right to require that the goods to be purchased with proceeds of the Loan shall be used exclusively in the carrying out of such investment project, the right to require such investment enterprise to carry out the investment project with due diligence and efficiency and in accordance with sound engineering standards, and the right to obtain all such information as the Borrower shall reasonably request relating to the foregoing and to the financial condition of such investment enterprise. Such rights shall include appropriate provision whereby further access by such enterprise to use of the proceeds of the Loan may be suspended or terminated by the Borrower upon failure by such investment enterprise to carry out the terms of such credit or other investment.

Article III

PARTICULAR COVENANTS OF THE BORROWER

The Borrower hereby covenants as follows :

Section 3.01. The Borrower will carry out the Project and conduct its operations in accordance with sound banking standards and under the supervision of qualified and experienced management.

Section 3.02. The Borrower will maintain records showing the use made of the goods, and the progress of the Project, and of each investment project (including the cost thereof) and reflecting in accordance with consistently maintained sound accounting practices the operations and financial condition of the Borrower; will permit the Bank's representatives to examine such records; and will furnish to the Bank all such information as the Bank shall reasonably request concerning the goods, the Project, the investment projects and the operations and financial condition of the Borrower.

Section 3.03. The Borrower will exercise its rights in relation to each investment project financed in whole or in part out of the proceeds of the Loan in such manner as to protect the interests of the Borrower and the Bank and to make available to the Bank information concerning the progress of such investment project and the use therein of goods purchased with the proceeds of the Loan.

Section 3.04. Except as the Bank shall otherwise agree, the Borrower will not create or suffer to be created any lien on any assets of the Borrower as security for the payment of any debt unless such lien shall equally and ratably secure the payment of the principal of, and the interest and other charges on the Loan, and in the creation of any such lien express provision will be made to that effect; provided, however, that this Section shall not apply to any lien created on property, at the time of purchase thereof, solely as security for the payment of the purchase price of such property.

Section 3.05. The Borrower hereby agrees to incur debt only if at the time and as a result thereof its unimpaired capital and surplus shall be at least equal to thirty-three and one-third percent ($33\frac{1}{3}\%$) of the total amount of its outstanding debt, unless the written approval of the Bank shall have been first obtained. For this purpose, however, the term "debt" does not include either (i) debt in favor of the Guarantor, repayable in the currency of the Guarantor only from that portion of the net profits (determined after due allowance for legal reserve funds) of the Borrower, during any fiscal year of the Borrower, in excess of the amount of net profits for such fiscal year required by applicable law to enable the Borrower to pay a dividend in cash equal to six per cent (6%) of its paid-in-capital, all in accordance with Law No. 5660 passed by the Grand National Assembly of the Guarantor in March 25, 1950, or (ii) debt incurred by the Borrower in the ordinary course of commercial banking operations and maturing not more than one year from the date incurred.

Section 3.06. The Borrower will promptly inform the Bank of any condition of substantial importance which shall arise that shall prevent, obstruct or interfere with, or threaten to prevent, obstruct or interfere with, the accomplishment of the purpose of the Loan or the maintenance of the service of the Loan.

Section 3.07. The Borrower will pay or cause to be paid any and all taxes that shall be imposed upon this Agreement or the Guarantee Agreement,¹ or the execution, delivery or registration thereof or the payment of principal, interest and other charges thereunder. Such principal, interest and other charges will be paid without deduction for and free from any taxes imposed by the Guarantor or by any taxing authority thereof or therein and free from all restrictions of the Guarantor or its political subdivisions or agencies.

Section 3.08. The Borrower will make adequate arrangements for insurance of the goods financed with the proceeds of the Loan against risks incident to their purchase and importation into Turkey.

Article IV

REMEDIES OF THE BANK

Section 4.01. If any event specified in paragraphs (1) or (2) of Section 5.02 of the Loan Regulations shall occur and shall have continued for a period of thirty days or if an event specified in paragraph (3) of Section 5.02 of the Loan Regulations shall occur and shall have continued for a period of sixty days after notice thereof shall have been given by the Bank to the Borrower, then at any subsequent time during the continuance thereof, the Bank, at its option, may declare the principal of the Loan then outstanding to be due and payable immediately, and upon such declaration such principal shall become due and payable immediately, anything in this Agreement to the contrary notwithstanding.

¹ See p. 334 of this volume.

Article V

MISCELLANEOUS

Section 5.01. The Closing Date shall be five years after the Effective Date.

Section 5.02. The following addresses are specified for the purposes of Section 8.01 of the Loan Regulations :

For the Bank : International Bank for Reconstruction and Development, 1818 H Street, N. W., Washington 25, D. C., United States of America.

For the Borrower : The Industrial Development Bank of Turkey (Turkiye Sinai Kalkinma Bankasi), Anadolu Sigorta Hani, Galata, Istanbul, Turkey.

Section 5.03. This Agreement shall not become effective until the following events, in addition to the conditions specified in Section 9.01 of the Loan Regulations, shall have occurred :

(a) The Borrower shall be a legal entity, in the form of a Turkish Société anonyme (a corporation) duly organized and existing under the laws of Turkey with an authorized and subscribed capital of 12,500,000 Turkish lira, and an opinion satisfactory to the Bank of counsel acceptable to the Bank to the foregoing effect, shall have been furnished to the Bank ;

(b) The Borrower shall have paid-in capital of not less than 6,250,000 Turkish lira which shall be unimpaired except for taxes and organization and general expenses ;

(c) The Borrower shall have obtained or shall have made arrangements satisfactory to the Bank for obtaining by borrowing from T C Merkez Bankasi (Central Bank of the Republic of Turkey) not less than 12,500,000 Turkish lira upon terms and conditions satisfactory to the Bank.

Section 5.04. A date ninety days after the date of this Agreement is hereby specified for the purposes of Section 9.04 of the Loan Regulations.

IN WITNESS WHEREOF the parties hereto have caused this Agreement to be signed in their respective names by their representatives thereunto duly authorized as of the day and year first above written.

International Bank for Reconstruction and Development :

By R. L. GARNER

Vice President

The Industrial Development Bank of Turkey :

By Nahit ALPAR

Authorized Representative

SCHEDULE 1

AMORTIZATION SCHEDULE

The following table shows the dates on which instalments of principal of the Loan shall be repaid and the respective amounts of such instalments :

<i>Date Payment Due</i>	<i>Payment of Principal</i>	<i>Principal Amount Outstanding After Each Payment</i>	<i>Date Payment Due</i>	<i>Payment of Principal</i>	<i>Principal Amount Outstanding After Each Payment</i>
September 15, 1956 ..	—	\$9,000,000	September 15, 1961 ..	503,000	4,371,000
March 15, 1957	\$425,000	8,575,000	March 15, 1962	512,000	3,859,000
September 15, 1957 ..	433,000	8,142,000	September 15, 1962 ..	522,000	3,337,000
March 15, 1958	441,000	7,701,000	March 15, 1963	531,000	2,806,000
September 15, 1958 ..	450,000	7,251,000	September 15, 1963 ..	541,000	2,265,000
March 15, 1959	458,000	6,793,000	March 15, 1964	552,000	1,713,000
September 15, 1959 ..	467,000	6,326,000	September 15, 1964 ..	562,000	1,151,000
March 15, 1960	475,000	5,851,000	March 15, 1965	572,000	579,000
September 15, 1960 ..	484,000	5,367,000	September 15, 1965 ..	579,000	—
March 15, 1961	493,000	4,874,000			

Premiums payable under paragraph (b) of Section 2.05 of the Loan Regulations :

If payment is made not more than 5 years prior to the date when payment is due, $\frac{1}{2}$ of 1%; if payment is made more than 5 years and not more than 10 years prior to the date when payment is due, 1%; and if payment is made more than 10 years and not more than 15 years prior to the date when payment is due, $1\frac{1}{2}$ %.

SCHEDULE 2

MODIFICATIONS OF THE LOAN REGULATIONS

For the purposes of the Loan Agreement and the Guarantee Agreement, the provisions of Loan Regulations No. 4 of the Bank dated August 15, 1950 shall be deemed to be modified as follows :

- (1) The second sentence of Section 2.02 of Article II of said Loan Regulations shall be inapplicable.
- (2) Article VI of said Loan Regulations and all other references to Bonds in said Loan Regulations shall be inapplicable.
- (3) The first sentence of paragraph 13 of Section 10.01 of said Loan Regulations shall be deemed modified to read as follows :

The term "goods" means equipment, supplies and services which are required for the Project or for investment projects approved in writing by the Bank.