

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

**Loan Agreement—Keban Transmission Line Project
(with annexed Loan Regulations No. 3, as amended,
and Project Agreement between the Bank and the
Etibank). Signed at Washington on 31 October 1968**

Authentic text: English.

*Registered by the International Bank for Reconstruction and Development
on 13 June 1969.*

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

**Contrat d'emprunt — *Projet relatif aux lignes de trans-
port de Keban (avec, en annexe, le Règlement n° 3
sur les emprunts, tel qu'il a été modifié, et le Contrat
relatif au projet entre la Banque et l'Etibank). Signé
à Washington le 31 octobre 1968***

Texte authentique : anglais.

*Enregistré par la Banque internationale pour la reconstruction et le développe-
ment le 13 juin 1969.*

LOAN AGREEMENT¹

AGREEMENT, dated October 31, 1968, between REPUBLIC OF TURKEY (hereinafter called the Borrower) and INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT (hereinafter called the Bank).

WHEREAS the Borrower has requested assistance in financing the construction of a dam and hydroelectric power plant at Keban and related transmission lines (hereinafter called the Joint Project);

WHEREAS the European Investment Bank, the governments of the Federal Republic of Germany, France, Italy and the United States of America, and the Bank (hereinafter collectively called the Lenders) have agreed to finance the Joint Project, in various currencies up to the aggregate principal amount of the equivalent of one hundred thirty-five million dollars (\$135,000,000);

WHEREAS the Bank is now prepared to make a loan to the Borrower to assist in financing the costs of Part A of the Project, described in Schedule 3 to this Agreement, as the Bank's participation in the Joint Project, and the costs of Part B of the Project, on the terms and conditions hereinafter set forth;

WHEREAS the Project will be carried out by Etibank with the assistance of the Borrower and, as part of such assistance, the Borrower will make available to Etibank the proceeds of the Loan provided for herein;

WHEREAS the Borrower, subject to the discretion of its Parliament, intends to create as soon as possible an autonomous Turkish power authority with authority to generate, transmit, distribute and sell electrical energy throughout Turkey, which will take over the electric power functions and related assets and liabilities of Etibank and other electric power plants, facilities and related assets presently managed and operated by Etibank, substantially in accordance with the text of a Bill for the Türkiye Elektrik Kurumu (TEK), presently before its Parliament;

¹ Came into force on 6 January 1969, upon notification by the Bank to the Government of Turkey.

Now therefore the parties hereto hereby agree as follows :

Article I

LOAN REGULATIONS; SPECIAL DEFINITIONS; TRANSFER

Section 1.01. The parties to the Loan Agreement accept all the provisions of Loan Regulations No. 3 of the Bank dated February 15, 1961, as amended February 9, 1967,¹ with the same force and effect as if they were fully set forth herein, subject, however, to the following modifications thereof (said Loan Regulations No. 3, as so modified, being hereinafter called the Loan Regulations) :

(a) Section 4.01 of the Loan Regulations is deleted;

(b) The words "and the Project Agreement" are inserted after the words "the Loan Agreement" wherever they occur in Sections 5.06 and 7.02 of the Loan Regulations.

Section 1.02. Unless the context otherwise requires, the following terms wherever used in this Agreement have the following meanings :

(a) The term Etibank means the legal entity, established by Law No. 2805 dated June 14, 1935 of the Borrower, currently charged with carrying out the Project;

(b) The term Project Agreement means the agreement between the Bank and Etibank of even date herewith¹ and shall include any supplemental agreement thereto and amendment thereof;

(c) The term Subsidiary Loan Agreement means the loan agreement between the Borrower and Etibank to be executed pursuant to Section 5.02 of this Agreement.

Section 1.03. The Joint Project includes Part A of the Project.

Section 1.04. Upon the transfer of the Electric Power Functions and the Power Assets, as defined in the Project Agreement, to another entity acceptable to the Bank and on terms and conditions previously approved by the Bank :

- (i) such entity shall be substituted for Etibank in this Agreement, except in Sections 7.01 and 7.02; and
- (ii) the Borrower shall make arrangements satisfactory to the Bank for the substitution of such entity for Etibank as party to the Project Agreement and the Subsidiary Loan Agreement and for the assumption by such

¹ See p. 304 of this volume.

entity of the obligations of Etibank under the Project Agreement and the Subsidiary Loan Agreement, subject to such modifications or amplifications of the Project Agreement as the Bank may reasonably request for the achievement of the purposes of the Loan.

Article II

THE LOAN

Section 2.01. The Bank agrees to lend to the Borrower, on the terms and conditions in this Loan Agreement set forth or referred to, an amount in various currencies equivalent to twenty-five million dollars (\$25,000,000).

Section 2.02. (a) The Bank shall open a Loan Account on its books in the name of the Borrower and shall credit to such Account the amount of the Loan.

(b) 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, this Agreement and the Loan Regulations and in accordance with the allocation of the proceeds of the Loan set forth in Schedule 1 to this Agreement, as such allocation shall be modified from time to time pursuant to the provisions of such Schedule or by further agreement between the Borrower and the Bank.

Section 2.03. (a) The Borrower shall be entitled to withdraw from the Loan Account in respect of the reasonable cost of goods required for the Project and to be financed under this Agreement :

- (i) such amounts as shall have been paid (or, if the Bank shall so agree, as shall be required to meet payments to be made) in currencies other than the currency of the Borrower; and
- (ii) such amounts as shall have been paid (or, if the Bank shall so agree, as shall be required to meet payments to be made) in the currency of the Borrower, provided, however, that :
 - (1) withdrawals under this sub-paragraph (ii) on account of contracts payable exclusively in the currency of the Borrower or goods produced by Etibank shall not exceed the equivalent of eighty-five per cent (85 %) of the amounts paid under such contracts or the cost of such goods, respectively; and
 - (2) the aggregate amount of withdrawals under this sub-paragraph (ii) shall not exceed an amount equivalent to one-third of the amounts which the Borrower shall have withdrawn, or on the basis of signed contracts can reasonably be expected to withdraw, from the Loan Account under sub-paragraph (i) above.

(b) Except as shall be otherwise agreed between the Borrower and the Bank, no withdrawals shall be made on account of : (i) expenditures made prior to September 1, 1968; or (ii) any payment for any present or future taxes levied on the import of goods into the territories of the Borrower; or (iii) expenditures made in the territories of any country which is not a member of the Bank (except Switzerland) or for goods produced in (including services supplied from) such territories.

Section 2.04. The Borrower shall pay to the Bank a commitment charge at the rate of three-fourths of one per cent ($\frac{3}{4}$ of 1 %) per annum on the principal amount of the Loan not withdrawn from time to time.

Section 2.05. The Borrower shall pay interest at the rate of six and one-half per cent ($6\frac{1}{2}$ %) per annum on the principal amount of the Loan withdrawn and outstanding from time to time.

Section 2.06. Except as the Borrower and the Bank shall otherwise agree, the charge payable for special commitments entered into by the Bank at the request of the Borrower pursuant to Section 4.02 of the Loan Regulations shall be at the rate of one-half of one per cent ($\frac{1}{2}$ of 1 %) per annum on the principal amount of any such special commitment outstanding from time to time.

Section 2.07. Interest and other charges shall be payable semi-annually on April 1 and October 1 in each year.

Section 2.08. The Borrower shall repay the principal of the Loan in accordance with the amortization schedule set forth in Schedule 2 to this Agreement.

Article III

USE OF PROCEEDS OF THE LOAN

Section 3.01. The Borrower shall apply the proceeds of the Loan in accordance with the provisions of this Agreement to expenditures on the Project described in Schedule 3 to this Agreement.

Section 3.02. Except as the Bank shall otherwise agree, the goods to be financed out of the proceeds of the Loan shall be procured in accordance with the procedures and subject to the conditions set forth in the Project Agreement.

Section 3.03. Except as the Bank shall otherwise agree, the Borrower shall cause all goods financed out of the proceeds of the Loan to be used exclusively in carrying out the Project.

Article IV

BONDS

Section 4.01. If and as the Bank shall from time to time request, the Borrower shall execute and deliver Bonds representing the principal amount of the Loan as provided in Article VI of the Loan Regulations.

Section 4.02. The Minister of Finance of the Borrower is designated as authorized representative of the Borrower for the purposes of Section 6.12 of the Loan Regulations. The Minister of Finance of the Borrower may designate additional or other authorized representatives by appointment in writing notified to the Bank.

Article V

PARTICULAR COVENANTS

Section 5.01. (a) The Borrower shall carry out or cause to be carried out the Joint Project and Part B of the Project with due diligence and efficiency and in conformity with sound engineering, financial and electrical utility practices, and shall provide, promptly as needed, the funds, facilities, services and other resources required for the purpose.

(b) The Borrower shall cause Etibank punctually to perform all the covenants and agreements on its part to be performed as set forth in the Project Agreement, shall promptly take or cause to be taken all action which shall be necessary on the part of the Borrower to enable Etibank to perform such covenants and agreements and shall not take any action that would interfere with such performance.

Section 5.02. (a) The Borrower shall relend the proceeds of the Loan to Etibank. To that effect, the Borrower shall enter into a Subsidiary Loan Agreement with Etibank upon terms and conditions satisfactory to the Bank, including provisions that : (i) the respective rates of interest and other charges to be paid by Etibank shall be the same as the rates set forth in this Agreement, and (ii) the maturities shall be substantially the same as set forth in Schedule 2 to this Agreement. The provisions of the Subsidiary Loan Agreement shall not be modified or amplified without the prior approval of the Bank.

(b) Without limitation or restriction upon the provisions of Section 5.01 and paragraph *(a)* of this Section, the Borrower specifically undertakes, whenever there is reasonable cause to believe that the funds available to Etibank will be inadequate to meet the estimated expenditures required for carrying out the Project, to make arrangements, satisfactory to the Bank, promptly to provide Etibank or cause Etibank to be provided with such funds as are needed to meet such expenditures.

Section 5.03. (a) The Borrower and the Bank shall cooperate fully to assure that the purposes of the Loan will be accomplished. To that end, each of them shall furnish to the other all such information as it shall reasonably request with regard to the general status of the Loan. On the part of the Borrower, such information shall include information with respect to financial and economic conditions in the territories of the Borrower, the international balance of payments position of the Borrower and electric power facilities of the Borrower planned or under construction.

(b) The Borrower and the Bank shall from time to time exchange views through their representatives with regard to matters relating to the purposes of the Loan and the maintenance of the service thereof. The Borrower shall promptly inform the Bank of any condition which interferes with, or threatens to interfere with, the accomplishment of the purposes of the Loan or the maintenance of the service thereof.

(c) The Borrower shall afford all reasonable opportunity for accredited representatives of the Bank to visit any part of the territories of the Borrower for purposes related to the Loan.

Section 5.04. (a) Except as the Bank may otherwise agree, the Borrower undertakes that no municipality in the territories of the Borrower (including any of the political subdivisions and agencies of such municipality, any of the agencies of such political subdivisions and any other entity owned or controlled by such municipality) shall build or extend its electrical generating plant, if its electric power system is connected with a transmission line managed or operated by Etibank or if its electric power system could be supplied more economically by Etibank.

(b) The planning, construction and operation of any nuclear power plant in the territories of the Borrower shall be carried out by or under the direction of Etibank.

Section 5.05. It is the mutual intention of the Borrower and the Bank that no other external debt shall enjoy any priority over the Loan by way of a lien on governmental assets. To that end, the Borrower undertakes that, except as the Bank shall otherwise agree, if any lien shall be created on any assets of the Borrower or of the Türkiye Cumhuriyeti Merkez Bankasi (Central Bank of Turkey) or any other institution performing the functions of a central bank as security for any external debt, such lien will *ipso facto* equally and ratably secure the payment of the principal of, and interest and other charges on, the Loan and the Bonds, and that in the creation of any such lien express provision will be made to that effect; provided, however, that the foregoing provisions of this Section shall not apply to: (i) any lien created on property, at the time of purchase thereof, solely as security for the payment of the purchase price of such property; or (ii) any lien arising

in the ordinary course of banking transactions and securing a debt maturing not more than one year after its date.

The term "assets of the Borrower" as used in this Section includes assets of the Borrower or of any of its political subdivisions or of any agency of the Borrower (including Etibank) or of any such political subdivision.

Section 5.06. (a) The principal of, and interest and other charges on, the Loan and the Bonds shall be paid without deduction for, and free from, any taxes, and free from all restrictions, imposed under the laws of the Borrower or laws in effect in its territories; provided, however, that the provisions of this Section shall not apply to taxation of payment under any Bond to a holder thereof other than the Bank when such Bond is beneficially owned by an individual or corporate resident of the Borrower.

(b) The Loan Agreement, the Project Agreement and the Bonds shall be free from any taxes that shall be imposed under the laws of the Borrower or laws in effect in its territories on or in connection with the execution, issue, delivery or registration thereof, and the Borrower shall pay all such taxes, if any, imposed under the laws of the country or countries in whose currency the Loan and the Bonds are payable or laws in effect in the territories of such country or countries.

Section 5.07. The Borrower undertakes to transfer to Etibank promptly after construction the operation and management of its electric power plants, substations and transmission lines, with the exception of :

- (i) electric power plants, substations and transmission lines excepted under paragraph II of the Protocol of Principles agreed between Etibank and Devlet Su Isleri (DSI) on November 13, 1967;
- (ii) electric power plants, substations and transmission lines owned by an entity in which the Borrower has a majority ownership, if incidental to the principal activities of such entity;
- (iii) electric power plants, substations and transmission lines owned by Antalya Ve Civari Elektrik Anonim Sirketi (KEPEZ).

Article VI

REMEDIES OF THE BANK

Section 6.01. If any event as specified below shall occur and shall continue for the period, if any, specified below, then at any subsequent time

during the continuance thereof, the Bank, at its option, may declare the principal of the Loan and of all the Bonds then outstanding to be due and payable immediately, and upon any such declaration such principal shall become due and payable immediately, anything in this Loan Agreement or in the Bonds to the contrary notwithstanding :

- (i) any event specified in paragraphs (a) or (b) of Section 5.02 of the Loan Regulations or paragraphs (c) or (f) of Section 6.02 of this Agreement, for a period of thirty days; or
- (ii) any event specified in paragraph (c) of Section 5.02 of the Loan Regulations or paragraphs (a) or (b) of Section 6.02 of this Agreement, for a period of sixty days after notice thereof shall have been given by the Bank to the Borrower; or
- (iii) any event specified in paragraphs (d) or (e) of Section 6.02 of this Agreement.

Section 6.02. The following additional events are specified for the purposes of Section 5.02 (i) of the Loan Regulations :

(a) A default shall have occurred in the performance by Etibank of any covenant or agreement on its part under the Project Agreement;

(b) The Electric Power Functions or any of the Power Assets, as defined in the Project Agreement, with the exception of bonds, shares, participations or other security interests and Power Assets which have been retired, shall have been transferred to another entity not acceptable to the Bank or on terms and conditions not previously approved by the Bank;

(c) The right of the Borrower to withdraw or otherwise use the proceeds of any loan or other financing obtained by the Borrower from any of the Lenders other than the Bank for the purposes of the Joint Project shall have been suspended or terminated prior to the completion of the Joint Project;

(d) The principal amount of any loan or other financing obtained by the Borrower from any of the Lenders other than the Bank for the purposes of the Joint Project shall, in accordance with the terms thereof, have become due and payable prior to the agreed maturity thereof by reason of any default on the part of the Borrower specified in the agreement providing for such loan or financing or in any security representing it;

(e) Etibank shall have been unable to pay its debts as they mature or any action or proceeding shall have been taken by Etibank or by others whereby any of the property of Etibank shall or may be distributed among its creditors;

(f) The Borrower or any other authority having jurisdiction shall have taken any action for the dissolution or disestablishment of Etibank or for the suspension of its operations.

Article VII

EFFECTIVE DATE; TERMINATION

Section 7.01. The following events are specified as additional conditions to the effectiveness of this Agreement within the meaning of Section 9.01 (b) of the Loan Regulations :

(a) The execution and delivery of the Project Agreement on behalf of Etibank have been duly authorized or ratified by all necessary corporate and governmental action; and

(b) The execution and delivery of the Subsidiary Loan Agreement on behalf of the Borrower and Etibank have been duly authorized and ratified by all necessary corporate and governmental action and the Subsidiary Loan Agreement has been accepted by the Bank.

Section 7.02. The following are specified as additional matters, within the meaning of Section 9.02 (c) of the Loan Regulations, to be included in the opinion or opinions to be furnished to the Bank :

(a) That the Project Agreement has been duly authorized or ratified by, and executed and delivered on behalf of, Etibank and that such Agreement constitutes a valid and binding obligation of Etibank in accordance with its terms; and

(b) That the Subsidiary Loan Agreement has been duly authorized or ratified by, and executed and delivered on behalf of, the Borrower and Etibank and constitutes valid and binding obligations of the Borrower and Etibank in accordance with its terms.

Section 7.03. If this Agreement shall not have come into force and effect by January 31, 1969, this Agreement and all obligations of the parties hereunder shall terminate, unless the Bank, after consideration of the reasons for the delay, establishes a later date for the purposes of this Section. The Bank shall promptly notify the Borrower of such later date.

Article VIII

MISCELLANEOUS

Section 8.01. The Closing Date shall be September 30, 1972, or such later date as may be agreed by the Bank.

Section 8.02. The following addresses are specified for the purposes of Section 8.01 of the Loan Regulations :

For the Borrower :

Maliye Bakanligi
Hazine Genel Mudurlugu
ve Milletlerarasi Iktisadi
Isbirligi Teskilati Genel Sekreterligi
Ankara, Turkey

Alternative address for cables :

Maliye
Hazine
Ankara

For the Bank :

International Bank for Reconstruction and Development
1818 H Street, N. W.
Washington, D.C. 20433
United States of America

Alternative address for cables :

Intbafrad
Washington, D.C.

Section 8.03. (a) The Minister of Finance of the Borrower is designated for the purposes of Section 8.03 of the Loan Regulations.

(b) The Borrower irrevocably designates Etibank for the purposes of taking any action required or permitted to be taken under the provisions of Section 2.03 of this Agreement and Article IV of the Loan Regulations.

IN WITNESS WHEREOF, the parties hereto, acting through their representatives thereunto duly authorized, have caused this Loan Agreement to be signed in their respective names and delivered in the District of Columbia, United States of America, as of the day and year first above written.

Republic of Turkey :

By Zeki TOKER

Authorized Representative

International Bank for Reconstruction and Development :

By J. Burke KNAPP

Vice President

SCHEDULE 1

ALLOCATION OF PROCEEDS OF THE LOAN

<i>Category</i>	<i>Amount Expressed in Dollar Equivalent</i>
<i>Foreign Currency Expenditures</i>	
1. Keban/Istanbul Transmission Line	14,900,000
2. Ankara, Istanbul, Kayseri and Keban Substations	3,200,000
3. Gokcekaya Transmission Line and Substation Material	500,000
4. Interest and Other Charges During Construction .	3,100,000
<i>Local Currency Expenditures</i>	
5. Local Currency Expenditures	2,300,000
<i>Unallocated</i>	
6. Unallocated	1,000,000
TOTAL	<u>25,000,000</u>

REALLOCATION UPON CHANGE IN COST ESTIMATES

1. If the estimate of the cost of the items included in any of the Categories 1 to 4 shall decrease, the amount of the Loan then allocated to, and not longer required for, such Category will be reallocated by the Bank to Category 6.

2. If the estimate of the cost of the items included in any of the Categories 1 to 4 shall increase, an amount equal to the portion, if any, of such increase to be financed out of the proceeds of the Loan will be allocated by the Bank, at the request of the Borrower, to such Category from Category 6, subject, however, to the requirements for contingencies, as determined by the Bank, in respect of the cost of the items in the other Categories 1 to 4.

3. When the cost of the items included in any of the Categories 1 to 4 shall be exactly known to the Bank and after the reallocations required in respect of those Categories, if any, shall have been made, the amount remaining under Category 6 will be reallocated by the Bank to Category 5.

SCHEDULE 2

AMORTIZATION SCHEDULE

<i>Date Payment Due</i>	<i>Payment of Principal (expressed in dollars)*</i>	<i>Date Payment Due</i>	<i>Payment of Principal (expressed in dollars)*</i>
October 1, 1972	\$275,000	October 1, 1983	555,000
April 1, 1973	285,000	April 1, 1984	575,000
October 1, 1973	295,000	October 1, 1984	590,000
April 1, 1974	305,000	April 1, 1985	610,000
October 1, 1974	310,000	October 1, 1985	630,000
April 1, 1975	325,000	April 1, 1986	650,000
October 1, 1975	335,000	October 1, 1986	675,000
April 1, 1976	345,000	April 1, 1987	695,000
October 1, 1976	355,000	October 1, 1987	715,000
April 1, 1977	365,000	April 1, 1988	740,000
October 1, 1977	380,000	October 1, 1988	765,000
April 1, 1978	390,000	April 1, 1989	790,000
October 1, 1978	405,000	October 1, 1989	815,000
April 1, 1979	415,000	April 1, 1990	840,000
October 1, 1979	430,000	October 1, 1990	870,000
April 1, 1980	445,000	April 1, 1991	895,000
October 1, 1980	460,000	October 1, 1991	925,000
April 1, 1981	475,000	April 1, 1992	955,000
October 1, 1981	490,000	October 1, 1992	990,000
April 1, 1982	505,000	April 1, 1993	1,020,000
October 1, 1982	520,000	October 1, 1993	1,050,000
April 1, 1983	540,000		

* To the extent that any part of the Loan is repayable in a currency other than dollars (see Loan Regulations, Section 3.03), the figures in this column represent dollar equivalents determined as for purposes of withdrawal.

PREMIUMS ON PREPAYMENT AND REDEMPTION

The following percentages are specified as the premiums payable on repayment in advance of maturity of any part of the principal amount of the Loan pursuant to Section 2.05 (b) of the Loan Regulations or on the redemption of any Bond prior to its maturity pursuant to Section 6.16 of the Loan Regulations :

<i>Time of Prepayment or Redemption</i>	<i>Premium</i>
Not more than three years before maturity	$\frac{1}{2}$ %
More than three years but not more than six years before maturity	1 $\frac{1}{4}$ %
More than six years but not more than eleven years before maturity	2 $\frac{1}{4}$ %
More than eleven years but not more than sixteen years before maturity	3 $\frac{1}{4}$ %
More than sixteen years but not more than twenty-one years before maturity	5 %
More than twenty-one years but not more than twenty-three years before maturity	6 %
More than twenty-three years before maturity	6 $\frac{1}{2}$ %

SCHEDULE 3

DESCRIPTION OF THE PROJECT

The Project consists of the following :

PART A. *Keban to Istanbul 380 kv Transmission Lines and Substations*

- (a) Construction of two parallel single circuit 380 kv transmission lines, each of about 550 km length on steel towers with twin bundled 954 mcm ACSR conductor and GMS earth wire between the Keban Hydroelectric Station 380 kv outdoor substation and Ankara.
- (b) Construction of a single circuit 380 kv Transmission Line of about 360 km length on steel towers with twin bundled 954 mcm ACSR conductor and GMS earth wire between Ankara and Istanbul.
- (c) Construction of 380 kv substations at Ankara, Istanbul and Kayseri and communication and protection equipment for the 380 kv substation at Keban.

PART B. *Ankara to Gokcekaya and Istanbul Transmission Line and Substations*

The supply of line insulators and hardware for construction of a second 380 kv transmission line from Ankara to Istanbul by way of the Gokcekaya hydroelectric project and the supply of circuit breakers, communication equipment and protection equipment for the Gokcekaya 380 kv substation.

The Project is expected to be completed by June 30, 1972.

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT
LOAN REGULATIONS No. 3, DATED 15 FEBRUARY 1961,
AS AMENDED 9 FEBRUARY 1967

REGULATIONS APPLICABLE TO LOANS MADE BY THE BANK
TO MEMBER GOVERNMENTS

[Not published herein. See *United Nations, Treaty Series, vol. 615, p. 98.*]

PROJECT AGREEMENT

AGREEMENT, dated October 31, 1968, between INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT (hereinafter called the Bank) and ETIBANK.

WHEREAS by an agreement of even date herewith (hereinafter called the Loan Agreement¹) between the Republic of Turkey (hereinafter called the Borrower) and

¹ See p. 280 of this volume.

the Bank, the Bank, for the purposes and reasons set forth in the preamble of the Loan Agreement, has agreed to make available to the Borrower a loan in various currencies equivalent to twenty-five million dollars (\$ 25,000,000), on the terms and conditions set forth in the Loan Agreement, the proceeds of which or the equivalent whereof are to be relent to Etibank, but only on condition, *inter alia*, that Etibank agree to undertake certain obligations to the Bank as hereinafter in this Project Agreement set forth;

WHEREAS the Borrower, subject to the discretion of its Parliament, intends to create as soon as possible an autonomous Turkish power authority with authority to generate, transmit, distribute and sell electrical energy throughout Turkey, which will take over the electric power functions and related assets and liabilities of Etibank and other electric power plants, facilities and related assets presently managed and operated by Etibank, substantially in accordance with the text of a Bill for the Türkiye Elektrik Kurumu (TEK), presently before its Parliament;

WHEREAS Etibank, in consideration of the Bank's entering into the Loan Agreement with the Borrower, has agreed to undertake the obligations hereinafter set forth;

Now therefore the parties hereto hereby agree as follows :

Article I

DEFINITIONS

Section 1.01. Wherever used in this Project Agreement, unless the context shall otherwise require, the several terms defined in the Loan Agreement and in the Loan Regulations¹ (as defined in the Loan Agreement) shall have the respective meanings therein set forth.

Section 1.02. Unless the context shall otherwise require, the following terms shall have the following meanings :

(a) The term Department means any one of the departments or groups of departments, or dependent organizations of Etibank;

(b) The term Power Assets means all electric power plants, substations, transmission lines and related facilities and assets owned by Etibank, or the Borrower, or any entity in which Etibank or the Borrower has a majority ownership, with the exception of :

- (i) electric power plants, substations, transmission lines and related facilities and assets of the Borrower under construction;

¹ See p. 304 of this volume.

- (ii) electric power plants, substations, transmission lines and related facilities and assets excepted under paragraph II of the Protocol of Principles agreed between Etibank and Devlet Su Isleri (DSI) on November 13, 1967;
- (iii) electric power plants, substations, transmission lines and related facilities and assets owned by an entity in which Etibank or the Borrower has a majority ownership, if incidental to the principal activities of such entity;
- (iv) electric power plants, substations, transmission lines and related facilities and assets owned by Antalya Ve Civari Elektrik Anonim Sirketi (KEPEZ);
- (v) assets used for the manufacture of electrical equipment;

(c) The term Electric Power Functions means the management and operation by Etibank of the Power Assets and the other activities of Etibank as specified in the Protocol agreed between Etibank and Elektrik Isleri Etut Idaresi (EIEI) on November 24, 1967, and in the Protocol of Principles agreed between Etibank and Devlet Su Isleri (DSI) on November 13, 1967;

(d) The term Power Group means the Department of Etibank performing the Electric Power Functions.

Article II

PARTICULAR COVENANTS OF ETIBANK

Section 2.01. (a) Etibank shall carry out the Project described in Schedule 3 to the Loan Agreement with due diligence and efficiency and in conformity with sound engineering, economic, financial and electrical utility standards and practices, under the supervision of qualified and experienced management.

(b) In carrying out the Project, Etibank shall employ engineering consultants and contractors acceptable to, and to the extent and upon terms and conditions satisfactory to Etibank and the Bank.

(c) Etibank shall furnish to the Bank, promptly upon their preparation, the plans, specifications and work and procurement schedules for the Project and any modifications subsequently made therein, in such detail as the Bank shall reasonably request.

Section 2.02. Etibank shall maintain records adequate to identify the goods financed out of the proceeds of the Loan, to disclose the use thereof in the Project, to record the progress of the Project (including the cost thereof) and to reflect in accordance with consistently maintained sound accounting practices, the operations and financial condition of the Power Group with respect to the Power Assets; shall enable the Bank's representatives to inspect the Project, the goods, sites, works and any records and documents relevant thereto; and shall furnish to the Bank all such information as the Bank shall reasonably request concerning the expenditure

of the proceeds of the Loan, the Project, the goods, the Power Assets and the operations, administration and financial condition of the Power Group and of Etibank.

Section 2.03. (a) Etibank shall maintain and operate the Power Group exclusively for the performance of the Electric Power Functions of Etibank as one integrated unit and separately from its other Departments.

(b) Etibank shall maintain separate administrative, accounting and engineering records for the Power Group.

(c) Except as the Bank may otherwise agree, Etibank, by January 1, 1970, shall adopt and put into operation a revised system of accounts for the Power Group and a system of appropriate supplementary accounts for those Power Assets which are not owned by Etibank, consistent with modern electrical utility practice and satisfactory to the Bank.

(d) Etibank shall prepare financial statements of the Power Group (balance sheet, statement of earnings and expenses and other related statements) in accordance with generally accepted accounting principles consistently applied on the basis of the assets owned by Etibank and managed or operated by the Power Group. Etibank shall also prepare, for purposes of Section 2.11 of, and in accordance with Schedule 2 to, this Project Agreement, consolidated statements of (i) fixed assets in service, and (ii) operating revenues, operating expenses, and operating income, on a *pro forma* basis which includes all Power Assets and which makes appropriate adjustments to provide for their realistic valuation and for the operating expenses, including adequate depreciation, of assets not owned by Etibank. Etibank shall have the before-mentioned financial and *pro forma* statements, reviewed annually by its Inspection and Control Unit, and shall promptly after their preparation and not later than five months after the close of the fiscal year to which they apply transmit to the Bank copies of such statements and a signed copy of the Inspection and Control Unit's report together with conformed copies thereof in the English language.

(e) Etibank shall cause the accounts of the Power Group and the *pro forma* statements as specified in paragraph (d) of this Section to be audited annually by independent auditors satisfactory to the Bank, and shall promptly after audited financial statements of the Power Group (balance sheet, statement of earnings and expenses and other related statements) and such *pro forma* statements are available, and not later than seven months after the end of each fiscal year, transmit to the Bank certified copies of such statements and a signed copy of the auditors' report and conformed copies in the English language.

Section 2.04. (a) Except as the Bank shall otherwise agree, (i) the goods to be financed out of the proceeds of the Loan shall be procured on the basis of international competitive bidding in accordance with the Guidelines for Procurement under World Bank Loans and IDA Credits, published by the Bank in February, 1968, in accordance with such other procedures supplementary thereto as are set

forth in Schedule I to this Project Agreement, and (ii) under contracts acceptable to the Bank.

(b) Except as the Bank shall otherwise agree, Etibank shall cause all goods financed out of the proceeds of the Loan to be used exclusively in carrying out the Project.

Section 2.05. (a) Except as the Bank shall otherwise agree, Etibank shall at all times take all steps necessary to carry on the operations of the Power Group and shall take all steps necessary to maintain and renew all rights, powers, privileges and franchises which are necessary or useful in the conduct of the business of the Power Group.

(b) Etibank shall operate and maintain the Power Assets and from time to time make all necessary repairs thereof, all in accordance with sound engineering standards; and shall at all times conduct the business and maintain the financial position of the Power Group in accordance with sound electrical utility and business practices.

Section 2.06. (a) Etibank shall take out and maintain with responsible insurers, or make other provision satisfactory to the Bank for, insurance for the Power Group against such risks and in such amount as shall be consistent with sound electrical utility practices.

(b) Without limiting the generality of the foregoing, Etibank undertakes to insure the imported goods financed out of the proceeds of the Loan against marine, transit and other hazards incident to acquisition, transportation and delivery thereof to the place of use or installation and incident to construction and installation thereof and for such insurance any indemnity shall be payable in a currency freely usable by Etibank to replace or repair such goods.

Section 2.07. Except as the Bank shall otherwise agree, Etibank shall not after 1972 incur for the Power Group any debt, other than for money borrowed for financing the Project, unless the net revenues of the Power Group for the fiscal year next preceding such incurrence or for a later twelve-month period ended prior to such incurrence, whichever is the greater, shall be not less than 1.5 times the maximum debt service requirement for any succeeding fiscal year on all debt incurred for the Power Group, including the debt to be incurred. For the purposes of this Section :

1. The term "debt" shall mean all indebtedness maturing by its terms more than one year after the date on which it is originally incurred.

2. Debt shall be deemed to be incurred on the date of execution and delivery of a contract, loan agreement or other instrument providing for such debt.

3. The term "net revenues" shall mean gross revenues from all sources, adjusted to take account of the Power Group's electricity tariffs in effect at the time of the incurrence of debt even though they were not in effect during the fiscal year or twelve-month period to which such revenues relate, less all operating and adminis-

trative expenses and provision for taxes, if any, but before provision covering depreciation, and interest and other charges on debt.

4. The term "debt service requirement" shall mean the aggregate amount of repayments of principal (including sinking fund payments, if any), interest and other charges on debt.

5. Whenever for the purposes of this Section it shall be necessary to value, in terms of the currency of the Borrower, debt payable in another currency, such valuation shall be made on the basis of the prevailing lawful rate of exchange at which such other currency is, at the time of such valuation, obtainable for the purposes of servicing such debt.

Section 2.08. (a) Except as the Bank shall otherwise agree, Etibank shall not sell, lease, transfer, mortgage, or otherwise dispose of or encumber its property and assets which shall be required for the efficient management and operation of the Power Group.

(b) Except as shall be otherwise agreed by Etibank and the Bank, Etibank shall cause title to all goods purchased in whole or in part with the proceeds of the Loan to be obtained free and clear from all encumbrances.

Section 2.09. (a) Etibank and the Bank shall cooperate fully with each other to assure that the purposes of the Loan will be accomplished. To that end, each of them shall furnish to the other all such information as either shall reasonably request with regard to the general status of the Loan.

(b) Etibank and the Bank shall from time to time exchange views through their representatives with regard to matters relating to the purposes of the Loan and the other matters covered by this Project Agreement. Etibank shall promptly inform the Bank of any condition which interferes with, or threatens to interfere with, the accomplishment of the purposes of the Loan or the performance by Etibank of its obligations under this Project Agreement.

Section 2.10. Without the prior approval of the Bank, no provision of the Protocol of Principles agreed between Etibank and Devlet Su Isleri (DSI) on November 13, 1967 or of the Protocol agreed between Etibank and Elektrik Isleri Etut Idaresi (EIEI) on November 24, 1967 shall be amended, suspended or abrogated.

Section 2.11. Etibank shall take promptly as needed all such action, including but not limited to adjustments in its electricity tariffs, as shall be required to provide in any fiscal year an annual return on the average of the realistic net value of the fixed Power Assets in service at the beginning and at the end of such fiscal year at a rate of not less than eight per cent (8 %) commencing with the fiscal year starting on January 1, 1970, provided that for the fiscal year in which the assets included in the Joint Project shall have been first placed into service and for the two subsequent fiscal years such rate shall be not less than seven per cent (7 %), to be calculated in accordance with the method outlined in Schedule 2 to this Project Agreement.

*Article III*EFFECTIVE DATE; TRANSFER OF OBLIGATIONS;
TERMINATION

Section 3.01. This Project Agreement shall enter into force and effect on the Effective Date.

Section 3.02. When any entity shall be substituted for Etibank as party to this Project Agreement or shall assume the obligations of Etibank under this Project Agreement, its obligations under this Project Agreement shall be subject to such modifications or amplifications as the Bank may reasonably request for the achievement of the purposes of the Loan.

Section 3.03. If the Loan Agreement shall terminate in accordance with its terms, this Project Agreement and all obligations of the parties hereunder shall forthwith terminate.

Article IV

MISCELLANEOUS PROVISIONS

Section 4.01. No delay in exercising, or omission to exercise, any right, power, or remedy accruing to either party under this Project Agreement upon any default shall impair any such right, power or remedy or be construed to be a waiver thereof or an acquiescence in such default; nor shall the action of such party in respect of any default or any acquiescence in any default, affect or impair, any right, power or remedy of such party in respect of any other or subsequent default.

Section 4.02. Any notice or request required or permitted to be given or made under this Project Agreement and any agreement between the parties contemplated by this Project Agreement shall be in writing. Such notice or request shall be deemed to have been duly given or made when it shall be delivered by hand or by mail, telegram, cablegram or radiogram to the party to which it is required or permitted to be given or made at its address hereinafter specified, or at such other address as such party shall have designated by notice to the party giving such notice or making such request. The addresses so specified are :

For the Bank :

International Bank for Reconstruction and Development
1818 H Street, N.W.
Washington, D.C., 20433
United States of America

Alternative address for cables and radiograms :

Intbafrad
Washington, D.C.

For Etibank :

Etibank Genel Mudurlugu
Sihhiye
Ankara, Turkey

Alternative address for cables and radiograms :

Etibank
Ankara

Section 4.03. Any action required or permitted to be taken, and any documents required or permitted to be executed under this Project Agreement or the Loan Agreement on behalf of Etibank may be taken or executed by the General Manager of Etibank or such other person or persons as Etibank shall designate in writing.

Section 4.04. This Project Agreement may be executed in several counterparts, each of which shall be an original and all collectively but one instrument.

IN WITNESS WHEREOF, the parties hereto, acting through their representatives thereunto duly authorized, have caused this Project Agreement to be signed in their respective names and delivered in the District of Columbia, United States of America, as of the day and year first above written.

International Bank for Reconstruction and Development :

By J. Burke KNAPP
Vice President

Etibank :

By Zeki TOKER
Bedrettin SARP

Authorized Representatives

SCHEDULE I

SUPPLEMENTARY PROCEDURE FOR PROCUREMENT

I. With respect to contracts for civil works involving expenditures of more than U.S. \$ 100,000 equivalent and to all contracts for the supply of equipment, machinery or materials valued at more than U.S. \$ 50,000 equivalent :

- (a) One copy of the draft invitation to bid and the draft bid advertisements to be published, the draft forms of contract, the draft specifications, and all other bid documents together with a list of the publications in which the advertisement will appear and the time to be allowed for bid preparation will be submitted to the Bank for its review and approval before bids are invited. If pre-qualification is used, the proposed pre-qualification procedure will be submitted to the Bank for approval before invitations for pre-qualification are issued.

- (b) After bids have been received and analyzed, one copy of the analysis of bids and recommendation for award of the contract, together with the reasons for such recommendation and supporting documentation, will be furnished to the Bank for its review and approval of the proposed award prior to the award of the contract or the issuance of a letter of intent.
- (c) If the proposed final contract differs materially from the terms and conditions contained in the respective documents approved by the Bank under sub-paragraph (a), or there is any material change in the factors taken into consideration when making the recommendation under (b) above, then the proposed changes will be submitted by the Borrower to the Bank for its review and approval prior to the execution of the contract.
- (d) The Borrower will furnish the Bank with a signed copy of the final contract promptly after execution.

2. With respect to all contracts involving expenditures equivalent to U.S. \$ 100,000 or less in the case of civil works, or U.S. \$ 50,000 or less in the case of purchases of machinery, equipment or materials, copies of all bidding documents including evaluation of bids and copies of the executed contracts will be sent to the Bank as soon as such contracts are signed.

3. For purposes of comparing bids comprising both foreign and local currency costs the following procedure will be adopted :

Comparisons of bids shall be based on the total bid price adjusted in the following manner :

(i) Any taxes levied on the import of goods into the territories of the Borrower included in the bid price shall be deducted.

(ii) To the extent that foreign or local bidders fabricate material in Turkey the bid price shall remain unaltered, even as regards imported raw material, and to the extent that they import into Turkey fabricated material the bid price shall be increased by fifteen percent of the landed cost of the fabricated material imported.

SCHEDULE 2

METHOD FOR CALCULATING ANNUAL RETURN

(i) The annual return specified in Section 2.11 of the Project Agreement shall be calculated, in respect of each fiscal year, by using as the denominator the average of the realistic net values of the fixed Power Assets in service at the beginning and at the end of each such year and as numerator the operating income of the Power Group for the same year. The earnings and rate of return of the Power Group shall be reviewed at least annually, the calculation in respect of the completed fiscal year being based on actual values and income, and in respect of the current and subsequent fiscal years being based on realistic estimates.

(ii) Any overrun in the required annual returns for a fiscal year may be carried forward and applied to offset any shortfall in any one or more of the next three fiscal years. Any shortfall in the required annual return for a fiscal year shall be carried forward and added to the required annual return for the next fiscal year.

(iii) "Operating income" shall be the difference between all revenues from the generation, transmission, distribution or sale of electricity and other services incidental thereto performed by the Power Group and all administrative and operating expenses (including adequate provision for maintenance and repairs, for depreciation of all fixed Power Assets in service and for taxes) arising from or in connection with the performance of the Electric Power Functions by the Power Group but excluding rental payments for those Power Assets which are not owned by Etibank. Other revenues or income (e.g. from security interests or from work as a contractor) and the expenses and taxes relating thereto shall be disregarded in determining the operating income.

(iv) Until the first fiscal year in respect of which principles of valuation referred to in paragraph (v) of this Schedule shall be effective, subject, however, to the provisions of paragraph (vi) of this Schedule, the realistic net values of the fixed Power Assets in service shall be at any given date the gross values of such Power Assets less accumulated depreciation as recorded at such date, subject to the following adjustments :

- (a) The recorded gross values of fixed Power Assets in service as of December 31, 1968 shall be increased by TL. 1,120 million and the accumulated provision for depreciation thereof as of December 31, 1968 shall be increased by TL. 470 million; and
- (b) As at the end of each fiscal year following 1968 and until the increase of gross values specified under subparagraph (a) of this paragraph shall have been offset, the accumulated provision for depreciation shall be further increased by TL. 40 million, such amount to be included each year in the operating expenses of the Power Group for the purposes of this Schedule.

(v) By notice to the Bank Etibank may elect to employ experienced and qualified consultants acceptable to the Bank on terms and conditions satisfactory to the Bank and to make a valuation study to determine the gross replacement values and the accumulated provisions for depreciation of the Power Assets in service at the time of such study. Such study shall be made in accordance with detailed terms of reference, acceptable to the Bank, which, among other things, shall provide :

That the depreciation rates applied in accordance with paragraph (vii) of this Schedule shall be used as the basis for determining, on a straight-line basis, how much of the replacement value of the various categories of plant, as of the time of the study, has been depreciated;

That the consultants shall recommend an appropriate basis for allocating the costs of multi-purpose hydroelectric projects between power and other purposes;

That the element of cost attributable to taxes or duties levied on the import of goods into the territories of the Borrower shall be computed on the basis of the rates applicable at the time of the study; and

That Etibank and the Bank shall have an opportunity to comment on the preliminary report of the consultants before the final consultants' report is submitted.

Except as the Bank and Etibank may otherwise agree, commencing in respect of the fiscal year starting after the final report of said consultants shall have been received by Etibank and subject to the provisions of paragraph (vi) of this Schedule, the realistic net values of the fixed Power Assets in service shall be at any given date the gross values of the fixed Power Assets in service less accumulated provisions for depreciation as of such date, determined as follows :

- (a) The gross values of the fixed Power Assets in service shall be the gross replacement values of such assets as are specified in the final consultants' report plus the recorded book values of such assets as are not included in the final consultants' report;
- (b) The accumulated provisions for depreciation of the fixed Power Assets in service shall be such accumulated provisions as are specified in the final consultants' report plus subsequent additional provisions for depreciation based on the application of the depreciation rates pursuant to paragraph (vii) of this Schedule to the gross values of the fixed Power Assets in service as determined pursuant to sub-paragraph (a) of this paragraph; and
- (c) Appropriate provisions for retirements of fixed Power Assets shall be made in determining the values under sub-paragraphs (a) and (b) of this paragraph.

(vi) Whenever a significant change in the cost of assets similar to the fixed Power Assets imported into the territories of the Borrower (including taxes levied on such import) or in the cost of assets similar to the fixed Power Assets procured in the territories of the Borrower shall occur, corresponding adjustments to reflect such change shall be made in the gross values of the fixed Power Assets then in service and in the accumulated provisions for depreciation thereof and the subsequent annual provisions for depreciation, in accordance with methods satisfactory to the Bank.

(vii) Except as the Bank and Etibank may otherwise agree, depreciation shall be accumulated on a straight-line basis at annual rates not lower than the following :

Transmission Lines	3 %
Substations	4 %
Thermal Generating Stations	4 %
Hydro Generating Stations	
Land and Land Rights	1 %
Buildings, Structures and Improvements	2 %

Reservoirs, Dams and Water Intake Installations	1 ½ %
Water Wheels, Turbines and Generators	3 %
Auxiliary Electric Equipment	4 %
Miscellaneous Hydroelectric Production Equipment	2 ½ %
Roads, Bridges and Railroads	2 %
General Property	6 %

(viii) If the fixed Power Assets are revalued under any law or regulation of the Borrower, the provisions set forth in Section 2.11 of the Project Agreement and in this Schedule shall be subject to such modifications or amplifications as the Bank and Etibank may agree.
