EU/IPA GRANT NUMBER TF016532-TR

Grant Agreement

(Energy Sector Program – Phase 1 Project)

between

REPUBLIC OF TURKEY

and

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

acting as administrator of the European Union Instrument for Pre-Accession Trust Fund

Dated MAY 30, 2014
EU/IPA GRANT NUMBER TF016532-TR

ENERGY SECTOR PROGRAM Phase I Project

GRANT AGREEMENT

AGREEMENT dated MAY 30, 2014, entered into between: REPUBLIC OF TURKEY ("Recipient"); and INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT/INTERNATIONAL DEVELOPMENT ASSOCIATION ("World Bank"), acting as administrator of the European Union Instrument for Pre-Accession Trust Fund ("EU/IPA TF"), established pursuant to funds provided by the European Commission ("EC").

WHEREAS:

(A) The Recipient has satisfied itself as to the priority and necessity of the Project described in Schedule I to this Agreement.

(B) The Recipient has requested the EC to assist in the financing of the Project and has submitted "Enhancement of Turkish Energy Sector In Line With the EU Energy Priorities and Strategies (TR2012/0315.10) Project Fiche" which was approved by EC.

(C) Pursuant to an agreement ("EU/IPA Financing Agreement") entered into between the EC and the Recipient, and signed by the representative of the EC on September 4, 2012, and by the representative of the Recipient on March 27, 2013, the EC has determined to support the financing of the Project through the provision of resources under the EU/IPA TF, subject to the terms and conditions of the EU/IPA Financing Agreement. The EU/IPA Financing Agreement was published in the Republic of Turkey's Official Gazette on June 23, 2013, and entered into force with issuance of the Ministerial Council Decision No. 2013/5370 on September 2, 2013.

(D) Pursuant to an Administration Agreement signed by the European Union ("EU"), as represented by the EC on October 14, 2013, and by the World Bank on November 6, 2013, Trust Fund Number TF071960 was established to receive contributions from the EU to be administered by the World Bank, as trustee and legal owner of the funds and to be used to assist in the financing of the Project on the terms and conditions specified in said Administration Agreement.

The Recipient and the World Bank hereby agree as follows:
Article I

Standard Conditions; Definitions


1.02. Unless the context requires otherwise, the capitalized terms used in this Agreement have the meanings ascribed to them in the Standard Conditions or in this Agreement.

Article II

The Project

2.01. The Recipient declares its commitment to the objectives of the project described in Schedule I to this Agreement (“Project”). To this end, the Recipient shall carry out the Project through its Ministry of Energy and Natural Resources (“MENR”) in accordance with the provisions of Article II of the Standard Conditions.

2.02. Without limitation upon the provisions of Section 2.01 of this Agreement, and except as the Recipient and the World Bank shall otherwise agree, the Recipient shall ensure that the Project is carried out in accordance with the provisions of Schedule 2 to this Agreement.

Article III

The Grant

3.01. The World Bank agrees to extend to the Recipient, on the terms and conditions set forth or referred to in this Agreement, a grant in an amount equal to ten million six hundred twenty-five thousand Euros (EUR 10,625,000) (“Grant”) to assist in financing the Project.

3.02. The Recipient may withdraw the proceeds of the Grant in accordance with Section IV of Schedule 2 to this Agreement.

3.03. The Grant is funded out of the abovementioned trust fund for which the World Bank receives periodic contributions from the donor to the trust fund. In accordance with Section 3.02 of the Standard Conditions, the World Bank’s payment obligations in connection with this Agreement are limited to the amount of funds made available to it by the donors under the abovementioned trust fund, and the Recipient’s right to withdraw the Grant proceeds is subject to the availability of such funds.
Article IV

Recipient's Representative; Addresses

4.01. The Recipient’s Representative referred to in Section 7.02 of the Standard Conditions is the Undersecretary, Ministry of Energy and Natural Resources.

4.02. The Recipient’s Address referred to in Section 7.01 of the Standard Conditions is:

Türk Ocağı Cad No. 2, Kat 4
06100 Bahcelievler, Ankara
Turkey

Cable: Facsimile:
90 312 213 11 24 90 312 213 20 49

4.03. The World Bank’s Address referred to in Section 7.01 of the Standard Conditions is:

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

Cable: Telex: Facsimile:
INTBAFRAD 248423 (MCI) or 1-202-477-6391
Washington, D.C. 64145 (MCI)
AGREED at **ANKARA, TURKEY**, as of the day and year first above written.

**REPUBLIC OF TURKEY**

By

[Signature]

Authorized Representative

Name: **Metin Kılıç**

Title: **Undersecretary**

**INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT**

acting as administrator of the
EU/IPA Trust Fund

By

[Signature]

Authorized Representative

Name: **STEPHEN KIERNAN**

Title: **SD SECTOR LEADER**

**Acting Country Director**
SCHEDULE 1

Project Description

The objective of the Project is the enhancement of the Turkish energy sector in line with the EU Energy priorities and strategies in energy efficiency, renewable energy, and the natural gas market.

The Project consists of the following parts:

Part A. Ministry of Energy and Natural Resources

Carry out the following in relationship to the Ministry of Energy and Natural Resources ("MENR"):

(a) Institutional review and capacity building of MENR, including preparation of a report on identification of the existing methodologies used for energy forecasting and planning and a plan for MENR to establish a technical and administrative structure for the management of energy information system.

(b) Review of the alignment of Turkey's legal and institutional framework for electricity, natural gas, energy efficiency and renewable energy with the EU's energy acquis, including identification of the main differences (gaps) between Turkey's legislation and its implementation and the EU acquis (including EU’s third package of energy reforms) and carrying out gap analyses and regulatory impact assessments and cost/benefit analyses for each of the four regulatory areas to provide a basis for effective alignment.

Part B. Natural Gas Market Development

Carry out the following with respect to the development of the natural gas sector:

(a) Provision of support for the unbundling of the national gas supply and transmission company BOTAS, including preparation of a study of main obstacles and bottlenecks for further liberalisation of the market, preparation of a study on ways and methods of establishing a transparent and non-discriminatory framework, formulation of measures to promote the market, and introduction of measures to protect customers.

(b) Provision of support for the design of, and regulations for, a gas trading platform and a plan for effective gas market opening, including review of wholesale market opening and gas trading arrangements and volumes, and market participants’ interest and capacity to operate on a gas trading platform, preparation of a detailed survey and a report of best practices, and preparation of a further need assessment report and technical and functional design of a gas trading platform software.
Part C. Renewable Energy Development

Carry out the following with respect to the development of the renewable energy sector:

(a) Review of current situation and barriers, including preparation of a study of main obstacles and bottlenecks in the renewable energy sector, provision of support for the establishment of a monitoring and control mechanism for solar power plants, and review of issues and options in financing and support mechanisms for the promotion and implementation of small-scale renewable energy projects.

(b) Integration of the renewable energy grid to distribution and transmission systems, including preparation of a report for the identification of technical and administrative obstacles preventing the integration of small scale generation of electricity from renewable sources and a study covering a needs assessment and feasibility of the steps to be taken to improve the grid connection of renewable electricity generation facilities to the electricity grid.

(c) Provision of business development services to small and medium-sized industries (that is, an enterprise that has less than 40,000,000 Turkish Lira in sales and employs fewer than 250 employees), including preparation of feasibility studies and business plans.

Part D. Energy Efficiency Promotion

Carry out the following with respect to the promotion of energy efficiency (“EE”):

(a) Market development in the industrial and building sectors, including preparation of an action plan under Turkey’s 2012 Energy Efficiency Strategy, preparation of a study on the current situation of the EE market with respect to the EU acquis, provision of program management, policy and market support for energy service company (“ESCO”) development and financing mechanisms and provision of business development services (including preparation of feasibility studies and business plans) to small and medium-sized enterprises (that is, an enterprise that has less than 40,000,000 Turkish Lira in sales and employs fewer than 250 employees).

(b) Building capacity in the commercial energy efficiency lending market, including preparation of guidelines for ESCOs and individual firms regarding lending mechanisms and procedures and defining and assessing the feasibility of new banking products and financing modalities.

Part E. Visibility and Public Awareness

Establishment of a website to showcase Project activities, enhancement of MENR’s website and organization of conferences, workshops, and public awareness campaigns related to the above described Project activities.
SCHEDULE 2

Project Execution

Section I. Institutional and Other Arrangements

A. Institutional

1. The Recipient, through MENR, shall: (i) maintain a fully qualified and fully staffed Project Implementation Unit (PIU) within the Department for EU Affairs and IFIs of the General Directorate for EU Affairs and Foreign Relations (GDEU); and (ii) ensure that the PIU functions at all times in a manner and with staffing and budgetary resources necessary and appropriate for implementation of the Project, and satisfactory to the Bank.

2. The Recipient, through MENR, shall ensure full and timely cooperation: (i) by other concerned departments, including DG for Energy Affairs (energy policy, electricity and gas) and DG for Renewable Energy (renewable energy and energy efficiency) within the Ministry of Energy and Natural Resources; and (ii) by other energy agencies, including energy regulatory authority EMRA, gas company BOTAŞ and transmission system operator TEİAŞ.

C. Anti-Corruption

The Recipient shall ensure that the Project is carried out in accordance with the provisions of the “Guidelines on Preventing and Combating Fraud and Corruption in Projects Financed by IBRD Loans and IDA Credits and Grants”, dated October 15, 2006 and revised in January 2011 (“Anti-Corruption Guidelines”).

D. Donor Visibility and Visit

1. The Recipient shall take or cause to be taken all such measures as the World Bank may reasonably request to identify publicly the Donor’s support for the Project.

2. For the purposes of Section 2.09 of the Standard Conditions, the Recipient shall, upon the World Bank’s request, take all measures required on its part to enable the representatives of the Donor to visit any part of the Recipient’s territory for purposes related to the Project.
Section II.  Project Monitoring, Reporting and Evaluation

A.  Project Reports; Completion Report

1. The Recipient shall monitor and evaluate the progress of the Project and prepare Project Reports in accordance with the provisions of Section 2.06 of the Standard Conditions and on the basis of indicators acceptable to the World Bank. Each Project Report shall cover the period of one calendar quarter, and shall be furnished to the World Bank not later than forty-five (45) days after the end of the period covered by such report.

2. The Recipient shall prepare the Completion Report in accordance with the provisions of Section 2.06 of the Standard Conditions. The Completion Report shall be furnished to the World Bank not later than six months after the Closing Date.

B.  Financial Management; Financial Reports; Audits

1. The Recipient shall cause the MENR to ensure that a financial management system is maintained in accordance with the provisions of Section 2.07 of the Standard Conditions.

2. The Recipient shall cause the MENR to ensure that interim unaudited financial reports for the Project are prepared and furnished to the World Bank not later than forty-five days after the end of each calendar quarter, covering the quarter, in form and substance satisfactory to the World Bank.

3. The Recipient shall cause the MENR to have the Financial Statements for the Project audited in accordance with the provisions of Section 2.07 (b) of the Standard Conditions. Each such audit of the Financial Statements shall cover the period of one fiscal year of the Recipient. The audited Financial Statements for each fiscal year shall be furnished to the World Bank not later than six months after the end of the fiscal year of the Recipient.

Section III.  Procurement

A.  General

1. Consultant Guidelines. All Consultants’ services required for the Project and to be financed out of the proceeds of the Grant shall be procured in accordance with the requirements set forth or referred to in:

(a) Sections I and IV of the “Guidelines: Selection and Employment of Consultants under IBRD Loans and IDA Credits and Grants by World Bank Borrowers” dated January 2011 (“Consultant Guidelines”); and
(b) the provisions of this Section III, as the same shall be elaborated in the procurement plan prepared and updated from time to time by the Recipient for the Project in accordance with paragraph 1.25 of the Consultant Guidelines ("Procurement Plan").

2. Definitions. The capitalized terms used below in this Section to describe particular procurement methods or methods of review by the World Bank of particular contracts, refer to the corresponding method described in Sections II, III, IV and V of the Consultant Guidelines, as the case may be.

B. Particular Methods of Procurement of Consultants' Services


2. Other Methods of Procurement of Consultants' Services. The following method, other than Quality- and Cost-based Selection, may be used for procurement of consultants' services for those assignments which are specified in the Procurement Plan: (a) Single-source Selection of consulting firms.

D. Review by the World Bank of Procurement Decisions

The Procurement Plan shall set forth those contracts which shall be subject to the World Bank's Prior Review. All other contracts shall be subject to Post Review by the World Bank.

Section IV. Withdrawal of Grant Proceeds

A. General

1. The Recipient may withdraw the proceeds of the Grant in accordance with the provisions of: (a) Article III of the Standard Conditions; (b) this Section; and (c) such additional instructions as the World Bank may specify by notice to the Recipient (including the "World Bank Disbursement Guidelines for Projects" dated May 2006, as revised from time to time by the World Bank and as made applicable to this Agreement pursuant to such instructions), to finance Eligible Expenditures as set forth in the table in paragraph 2 below.

2. The following table specifies the categories of Eligible Expenditures that may be financed out of the proceeds of the Grant ("Category"), the allocations of the amounts of the Grant to each Category, and the percentage of expenditures to be financed for Eligible Expenditures in each Category:
<table>
<thead>
<tr>
<th>Category</th>
<th>Amount of the Grant Allocated (expressed in Euro)</th>
<th>Percentage of Expenditures to be Financed (exclusive of Taxes)</th>
</tr>
</thead>
<tbody>
<tr>
<td>(1) Consultants’ services under the Project</td>
<td>10,625,000</td>
<td>100%</td>
</tr>
<tr>
<td>TOTAL AMOUNT</td>
<td>10,625,000</td>
<td></td>
</tr>
</tbody>
</table>

B. **Withdrawal Conditions; Withdrawal Period**

1. Notwithstanding the provisions of Part A of this Section no withdrawal shall be made:

   (a) for payments made prior to the date of this Agreement; and

   (b) for any payment for Taxes levied by or in the territory of the Member Country.

2. The Closing Date referred to in Section 3.06 (c) of the Standard Conditions is March 31, 2017.