

# Elbistan B: Turkey's delight

---

01/01/2000

Three hundred people gathered inside a cinema in the capital Ankara at the end of December 1999 surrounded by the red and white colours of the Turkish flag and listening to the national anthem. The occasion was the finance signing ceremony for the \$1.62 billion Afsin Elbistan B power plant to be developed in the eastern part of the country. Financing closed on December 15, 1999, representing the largest deal to be done in Turkey for the past decade.

According to the arrangers, Afsin Elbistan B is symptomatic of the determination of the Turkish government to dispel fears that last year's earthquake has put projects on close. Signing of Elbistan B was under the direct scrutiny of the Turkish prime minister, Bulent Ecevit, who, having set December 15 as the signing date, forced financiers into a 48-hour frenzy to complete all the syndication documents in a surprisingly large deal. The Turkish deputy prime minister and minister of energy and natural resources, Cumhur Erasur, and the director general of the Turkish Undersecretariat of Treasury (UT) were also present at the signing ceremony.

The financing involved 14 different tranches arranged by Citibank, Credit Lyonnais, the Czech Export Credit Bank, Bayerische Hypovereinsbank and WestLB. It received backing from export credit agencies from Japan, France, Germany and the Czech Republic. Japan produced financing worth a total ¥58.5 billion (\$563 million) of which 50% has been direct lending from the Japan Bank for International Cooperation and a 50% portion arranged by Citibank with a guarantee from Japan's Miti. Coface provided guarantees for three separate tranches: \$85 million (\$82.5 million), \$987,000 and ¥5.3 billion, all arranged by Credit Lyonnais.

Steve Fisher, head of structured finance trade at Citibank in London says: "The Afsin Elbistan transaction has been one of the most significant deals done in Turkey. It has been the largest to be financed in 1999 and one of the biggest power financings ever done in Turkey. The deal represents an important step towards the development of more projects in the country."

And Catherine Fontaine, export finance manager at Credit Lyonnais in Paris notes: "Conditions set by the UT in charge of negotiating with the banks on behalf of the borrower were extremely tight both in term of pricing and tenors." It is understood that bankers showed willingness to strike a particularly favourable deal for Turkey in consideration of the earthquake and also of the need to close the transaction before the end of 1999.

According to Alex Pease, partner at Allen & Overy in London (legal adviser to the lenders): "The deal was an interesting challenge. Coordinating the approach of the different international bank syndicates took time and required diplomacy. Each international syndicate of banks wanted to use their usual precedent documentation for loans to Turkish government entities governed by the laws of their own countries.

"However, each of these has developed differently over the years. One concern was that the very able Turkish UT negotiators would identify the differences between the banks and use these in the negotiations with the result that all the banks would be worse off. However, through discussion, a common approach was achieved which suited everyone including the UT because it reduced the number of points to be discussed and enabled the transaction to be closed much faster than would otherwise have been the case." Referring to the arranging banks Pease remarks that: "The particularly high degree of co-operation between the arranging banks was a highlight of the transaction for me. However the main

accolade must go to Citibank for coordinating this massive and complex deal."

The transaction is a reminder of the importance of the Turkish market in terms of the opportunities it offers to both international sponsors and financiers in an expanding power sector. It is a full recourse to the borrower Turkish Elektrik Uretim-Iletim and under the full guarantee of UT. The plant will be operational at the end of 2003. It is a turnkey plant with a capacity of 1,400MW adding 1.5% to the country's generating capacity that is 21,000MW. It will be fired with lignite. Work on the Elbistan power plant, to be developed 200km northeast of Adana, started in July 1997 and the contracts were awarded in the second half of 1998. Contractors have no obligation to operate the plant and they can pass it to the client when it will be built.

Although a full recourse deal, Elbistan B represents an important opportunity for those interested in the future of limited or non-recourse financing in Turkey. But a number of issues are still at stake, according to Eren Garan, officer in trade and structured finance at Citibank in Istanbul: "There are a few key points in need of clarification before project finance can be approached in Turkey," says Garan. "Those include a constitutional revision to allow international arbitration in Turkey. Some initiatives have been launched in that direction since August 1999. A resolution of the outstanding issues would surely be welcomed."

*Thank you for printing this article from IJGlobal.*

*As the leading online publication serving the infrastructure investment market, IJGlobal is read daily by decision-makers within investment banks, international law firms, advisory firms, institutional investors and governments.*

*If you have been given this article by a subscriber, you can contact us through [www.ijglobal.com/sign-in](http://www.ijglobal.com/sign-in), or call our London office on +44 (0)20 7779 8870 to discuss our subscription options.*