

CONFORMED COPY

LOAN NUMBER 4495 TU

TTGV Project Agreement

(Industrial Technology Project)

between

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

and

TURKIYE TEKNOLOJI GELISTIRME VAKFI

Dated August 2, 1999

LOAN NUMBER 4495 TU

PROJECT AGREEMENT

AGREEMENT, dated August 2, 1999, between INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT (the Bank) and TURKIYE TEKNOLOJI GELISTIRME VAKFI (TTGV).

WHEREAS (A) by the Loan Agreement of even date herewith between the Republic of Turkey (the Borrower) and the Bank, the Bank has agreed to make available to the Borrower an amount equal to one hundred fifty-five million dollars (\$155,000,000), on the terms and conditions set forth in the Loan Agreement, but only on condition that TTGV agree to undertake such obligations toward the Bank as are set forth in this Agreement;

(B) by a Subsidiary Finance Agreement to be entered into between the Borrower and TTGV, part of the proceeds of the loan provided for under the Loan Agreement will be made available to TTGV on the terms and conditions set forth in said Subsidiary Finance Agreement; and

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

NOW THEREFORE the parties hereto hereby agree as follows:

ARTICLE I

Definitions

Section 1.01. Unless the context otherwise requires, the several terms defined in the Loan Agreement, the Preamble to this Agreement and the General Conditions (as so defined) have the respective meanings therein set forth.

ARTICLE II

Execution of Part D of the Project

Section 2.01. (a) TTGV declares its commitment to the objectives of the Project as set forth in Schedule 2 to the Loan Agreement, and, to this end, shall carry out Part D of the Project with due diligence and efficiency and in conformity with appropriate administrative, financial, technical and environmental practices, and shall provide, or cause to be provided, promptly as needed, the funds, facilities, services and other resources required for said Part D of the Project.

(b) Without limitation upon the provisions of paragraph (a) of this Section and except as the Bank and TTGV shall otherwise agree, TTGV shall carry out Part D of the Project in accordance with the Implementation Program set forth in the Schedule to this Agreement.

Section 2.02. Except as the Bank shall otherwise agree, procurement of the goods, works and consultants' services required for the Project and to be financed out of the proceeds of the Loan shall be governed by the provisions of Schedule 4 to the Loan Agreement.

Section 2.03. (a) TTGV shall carry out the obligations set forth in Sections 9.04, 9.05, 9.06, 9.07, 9.08 and 9.09 of the General Conditions (relating to insurance, use of goods and services, plans and schedules, records and reports, maintenance and land acquisition, respectively) in respect of this Agreement and Part D of the Project.

(b) For the purposes of Section 9.08 of the General Conditions and without limitation thereto, TTGV shall:

(i) prepare, on the basis of guidelines acceptable to the Bank, and furnish to the Bank not later than six (6) months after the Closing Date or such later date as may be agreed for this purpose between the Bank and TTGV, a plan for the future operation of Part D of the Project; and

(ii) afford the Bank a reasonable opportunity to exchange views with TTGV on said plan.

Section 2.04. TTGV shall duly perform all its obligations under the Subsidiary Finance Agreement. Except as the Bank shall otherwise agree, TTGV shall not take or concur in any action which would have the effect of amending, abrogating, assigning or waiving the Subsidiary Finance Agreement or any provision thereof.

Section 2.05. (a) TTGV shall, at the request of the Bank, exchange views with the Bank with regard to progress of Part D of the Project, the performance of its obligations under this Agreement and under the Subsidiary Finance Agreement, and other matters relating to the purposes of the Loan.

(b) TTGV shall promptly inform the Bank of any condition which interferes or threatens to interfere with the progress of Part D of the Project, the accomplishment of the purposes of Loan, or the performance by TTGV of its obligations under this Agreement and under the Subsidiary Finance Agreement.

ARTICLE III

Management and Operations of TTGV

Section 3.01. TTGV shall carry on its operations and conduct its affairs in accordance with sound administrative, financial, technical and environmental practices

under the supervision of qualified and experienced management assisted by competent staff in adequate numbers.

Section 3.02. TTGV shall at all times operate and maintain its plant, machinery, equipment and other property, and from time to time, promptly as needed, make all necessary repairs and renewals thereof, all in accordance with sound engineering, financial and technical practices.

Section 3.03. TTGV shall take out and maintain with responsible insurers, or make other provision satisfactory to the Bank for, insurance against such risks and in such amounts as shall be consistent with appropriate practice.

Section 3.04. TTGV shall maintain, in a manner satisfactory to the Bank, policy and strategy statements, a business plan, organization, management, personnel resources, by-laws, and operating procedures.

Section 3.05 TTGV shall, maintain an advisory board, satisfactory to the Bank, in accordance with international best practices on industry feedback mechanisms.

ARTICLE IV

Financial Covenants

Section 4.01. (a) TTGV shall establish and maintain a financial management system, including records and accounts, and prepare financial statements, in a format acceptable to the Bank, adequate to reflect the operations, resources and expenditures and in connection with the carrying out of Part D of the Project.

(b) TTGV shall:

(i) have the records and accounts referred to in paragraph (a) of this Section and the records and accounts for the Special Account for each fiscal year audited, in accordance with appropriate auditing principles consistently applied, by independent auditors acceptable to the Bank;

(ii) furnish to the Bank, as soon as available, but in any case not later than six (6) months after the end of each such year, the report of such audit by said auditors, of such scope and in such detail as the Bank shall have reasonably requested; and

(iii) furnish to the Bank such other information concerning said records and accounts and financial statements as well as the audit thereof, as the Bank shall from time to time reasonably request.

Section 4.02 (a) Without limitation upon the provisions of Section 4.01 of this Agreement, TTGV shall carry out a time-bound action plan acceptable to the Bank for the strengthening of the financial management system referred to in paragraph (a) of said Section 4.01 in order to enable TTGV, not later than September 30, 1999, or such later date as the Bank shall agree, to prepare quarterly Project Management Reports, acceptable to the Bank, each of which:

(i) (A) sets forth actual sources and applications of funds for Part D of the Project, both cumulatively and for the period covered by said report, and projected sources and applications of funds for Part D of the Project for the six-month period following the period covered by said report, and (B) shows separately expenditures financed out of the proceeds of the Loan during the period covered by said report and expenditures proposed to be financed out of the proceeds of the Loan during the six-month period following the period covered by said report;

(ii) (A) describes physical progress in Part D of the Project implementation, both cumulatively and for the period covered by said report, and (B) explains variances between the actual and previously forecast implementation targets; and

(iii) sets forth the status of procurement under Part D of the Project and expenditures under contracts financed out of the proceeds of the Loan, as at the end of the period covered by said report.

(b) Upon the completion of the action plan referred to in paragraph (a) of this Section, TTGV shall prepare, in accordance with guidelines acceptable to the Bank, and furnish to the Bank not later than forty-five (45) days after the end of each calendar quarter a Project Management Report for such period.

ARTICLE V

Effective Date; Termination; Cancellation and Suspension

Section 5.01. This Agreement shall come into force and effect on the date upon which the Loan Agreement becomes effective.

Section 5.02. This Agreement and all obligations of the Bank and of TTGV thereunder shall terminate on the date on which the Loan Agreement shall terminate in accordance with its terms, and the Bank shall promptly notify TTGV thereof.

Section 5.03. All provisions of this Agreement shall continue in full force and effect notwithstanding any cancellation or suspension under the General Conditions.

ARTICLE VI

Miscellaneous Provisions

Section 6.01. Any notice or request required or permitted to be given or made under this Agreement and any agreement between the parties contemplated by this 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, cable, telex or radiogram to the party to which it is required or permitted to be given or made at such party's 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

Cable address:

INTBAFRAD
Washington, D.C.

Telex:

248423 (MCI) or
64145 (MCI)

For TTGV:

Turkiye Teknoloji Gelistirme Vakfi
Ataturk Bulvan No. 221
Kavaklidere 06100 Ankara, Turkey

Section 6.02. Any action required or permitted to be taken, and any document required or permitted to be executed, under this Agreement on behalf of TTGV may be taken or executed by its Secretary-General or such other person or persons as the Secretary-General shall designate in writing, and TTGV shall furnish to the Bank sufficient evidence of the authority and the authenticated specimen signature of each such person.

Section 6.03. This 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 duly authorized

representatives, have caused this Agreement to be signed in their respective names in Ankara, Turkey, as of the day and year first above written.

INTERNATIONAL BANK FOR
RECONSTRUCTION AND DEVELOPMENT

By /s/ Ajay Chhiber

Acting Regional Vice President
Europe and Central Asia

TURKIYE TEKNOLOJİ GELİSTİRME VAKFI

By /s/ Akin Cakmakci

Authorized Representative

SCHEDULE

Implementation Program

1. TTGV shall maintain a project implementation unit (PIU) and a central project implementation unit (CPIU) on the basis of terms of reference and with staff and other resources satisfactory to the Bank which shall be responsible for the overall coordination of the Project, including the management and implementation of Part D of the Project in accordance with the requirements set forth or referred to in the PIP.
2. TTGV shall relend to or make available to eligible Beneficiaries on the basis of Sub-finance Agreements, the proceeds of the Loan allocated from time to time to Category (4) (c) of the table set forth in Schedule 1 to the Loan Agreement to finance Sub-projects, on terms and conditions set forth or referred to in the Annex to this Schedule except as otherwise agreed with the Bank.
3. TTGV shall: (a) by August 31, 1999, prepare and furnish, to the Bank a proposed technology support services program, setting forth the technical assistance, training and information dissemination activities for small and medium size enterprises, for review and comment by the Bank; and (b) by September 30, 1999, put into effect said outreach program, taking into consideration the comments and recommendations of the Bank.
4. TTGV shall take all measures, satisfactory to the Bank, required on its part to assist the Borrower in the establishment of an independent national accreditation council in accordance with the provisions of paragraph 2 of Schedule 5 to the Loan Agreement.
5. TTGV shall, take all measures required on its part to assist the State Planning Organization of the Borrower to prepare and furnish to the Bank by August 31, 1999, an implementation plan for carrying out the Y2K pilot program.
6. TTGV shall: (a) prepare and furnish to the Bank, by October 31 of each calendar year, its operational plans for the following calendar year, including its requirements for financing Sub-projects and for equipment, technical assistance and training, together with the proposed budget and procurement plans for said requirements; and (b) taking into consideration the comments and recommendations of the Bank, put into effect said operational plan for the following calendar year.
7. TTGV shall, in coordination with the Borrower:
 - (a) maintain policies and procedures adequate to enable it to monitor and evaluate on an ongoing basis, in accordance with indicators satisfactory to the Bank the carrying out of Part D of the Project and the achievement of the objectives thereof;
 - (b) prepare, under terms of reference satisfactory to the Bank, and furnish

to the Bank, on or about June 30, 2001, a mid-term report integrating the results of the monitoring and evaluation activities performed pursuant to paragraph (a) of this Section, on the progress achieved in the carrying out of Part D of the Project during the period preceding the date of said report and setting out the measures recommended to ensure the efficient carrying out of the Project and the achievement of the objectives thereof during the period following such date; and

(c) review with the Bank, by July 31, 2001, or such later date as the Bank shall request, the report referred to in paragraph (b) of this Section, and, thereafter, take all measures including, inter alia, revision of the PIP and the annual operational program for the following calendar year as agreed with the Bank, required to ensure the efficient completion of Part D of the Project and the achievement of the objectives thereof, based on the conclusions and recommendations of the said report and the Bank's views on the matter.

ANNEX TO THE SCHEDULE

Terms and Conditions of the Sub-finance

1. Sub-finance shall be made by TTGV to: (a) private enterprises for technology development financing; (b) technology service centers; (c) technopark enterprises; and (d) venture capital funds. Each Beneficiary shall have established, to the satisfaction of TTGV, on the basis of operational guidelines to be adopted by TTGV as agreed with the Bank, that it has a sound structure and the organization, management, business plan, staff and other resources required for the efficient carrying out of the Sub-project.

2. For the purpose of paragraph 1(a) of this Annex to the Schedule, the Sub-finance: (i) shall be provided to private enterprises; (ii) the amount financed by TTGV shall not exceed fifty percent (50%) of the total Sub-project cost; and (iii) at least thirty percent (30%) of the Sub-project cost shall be financed by the Beneficiary from its own resources.

3. For the purpose of paragraphs 1(b) and 1(c), respectively, of this Annex, the Sub-finance: (i) shall not exceed twenty percent (20%) of the total Sub-project cost; and (ii) shall be co-financed by other sector agencies, including agencies in the private sector.

4. For the purposes of paragraph 1(d) of this Annex, the Sub-finance: (i) shall not exceed thirty percent (30%) of the total Sub-project cost; and (ii) shall be co-financed by other sector agencies, including agencies in the private sector.

5. Sub-finance shall be made by TTGV for Sub-projects which are: (a) determined on the basis of guidelines acceptable to the Bank to be technically feasible and commercially viable; and (b) designed with appropriate environmental standards consistent with the legislation of the Borrower.

6. Sub-finance made by TTGV may comprise a range of financing, including loans, and equity and any other type of financing as agreed with the Bank and as specified in the PIP.

7. Unless otherwise agreed with the Bank: (a) the principal amount of each Sub-finance referred to in paragraph 1(a) of this Annex shall be limited to an amount of \$2,000,000 equivalent, of which seventy-five percent (75%) shall be financed from the proceeds of the Loan and the sum of Sub-finance outstanding at any time to one single Beneficiary shall not exceed \$2,000,000 equivalent; (b) the principal amount of each Sub-finance referred to in paragraph 1(b) of this Annex shall be limited to an amount of \$1,000,000 equivalent; (c) the principal amount of each Sub-finance referred to in paragraph 1(c) of this Annex shall be limited to an amount of \$2,500,000 equivalent; and (d) the principal amount of each Sub-finance referred to in paragraph 1(d) of this Annex shall be limited to an amount of \$4,000,000;

8. Except as the Bank shall otherwise agree, no new commitments for Sub-finance shall be made above the aggregate amount of \$20,000,000, unless TTGV shall have furnished to the Bank evidence showing that a collection rate of not less than seventy-five percent (75%) has been maintained by TTGV, on all loans made by TTGV including Sub-finance financed out of the proceeds of the Loan.

9. The maturity of each Sub-finance in the form of a loan shall not be more than six (6) years, inclusive of a grace period of not more than three years.

10. Each Sub-finance in the form of a loan shall be charged interest or a service fee, on the principal amount thereof withdrawn and outstanding from time to time, at the rate of interest of TTGV applicable for research and development loans based on TTGV's interest rate and service fee policies satisfactory to the Bank.

11. The first five (5) Sub-finance and non-free-limit Sub-finance shall be subject to prior review by the Bank. For the purposes of the Loan Agreement and this Agreement, a free-limit Sub-finance shall be a Sub-finance for a Sub-project defined in paragraph 1(a) of this Annex to Schedule 1, and shall be in an amount to be financed out of proceeds of the Loan and not exceeding the amount, which shall be determined by the Bank based on the experience of first five (5) Sub-finance, when added to any other outstanding amounts financed or proposed to be financed out of the proceeds of the Loan or of any other loan, provided for in any outstanding loan agreement between the Bank and the Borrower entered into before the date of this Agreement, the proceeds of which have been or are being used for financial goods and services directly and materially related to such Sub-project.

12. TTGV shall maintain pre-screening, evaluation and supervision procedures for Sub-finance, satisfactory to the Bank, including review of each Sub-project.

13. No expenditures for goods or services required for a Sub-project shall be eligible for financing out of the proceeds of the Loan unless: (a) the Sub-finance for such Sub-project shall have been approved by the Bank and such expenditures shall have been made not earlier than 120 days prior to the date on which the Bank shall have received the application and information required under paragraph 13 (a) of this Annex to Schedule 1 in respect of such Sub-finance; or (b) the Sub-finance for such Sub-project shall have been a free-limit Sub-finance for which the Bank has authorized withdrawals from the Loan Account and such expenditures shall have been made not earlier than 120 days prior to the date on which the Bank shall have received the request and information required under paragraph 13 (a) of this Annex to Schedule 1 in respect of such free-limit Sub-finance.

14. (a) When presenting a Sub-finance (other than a free-limit Sub-finance) to the Bank for approval, TTGV shall furnish to the Bank an application, in form satisfactory to the Bank, together with: (i) a description of the Beneficiary and an appraisal of the Sub-project, including a description of the expenditures proposed to be financed out of the proceeds of the Loan; (ii) the proposed terms and conditions of the Sub-finance, including the schedule of amortization of the Sub-finance; and (iii) such other information as the Bank shall reasonably request.

(b) Each request by TTGV for authorization to make withdrawals from the loan Account in respect of a free-limit Sub-finance shall contain: (i) a summary description and evaluation of the Beneficiary and the Sub-project, including a description of the expenditures to be financed out of the proceeds of the Loan; and (ii) the terms and conditions of the Sub-finance, including the schedule of amortization thereof.

(c) Applications and requests made pursuant to the provisions of sub-paragraphs (a) and (b) of this paragraph shall be presented to the Bank on or before June 30, 2003.

15. Sub-finance shall be made on terms whereby TTGV shall obtain, by written contract with the Beneficiary or by other appropriate legal means, rights adequate to protect the interests of the Bank, the Borrower and TTGV, including the right to:

(a) require the Beneficiary to carry out and operate the Sub-project with due diligence and efficiency and in accordance with sound technical, financial and managerial standards and to maintain adequate records;

(b) require that goods, works and services shall be procured in accordance with commercial practices or the procedures provided in Part C.5 of Schedule 4 to the Loan Agreement, and that such goods shall be used exclusively in the carrying out of the Sub-project;

(c) inspect, by itself or jointly with representative of the Bank and the PIU on behalf of TTGV, the goods and the sites, works, plans and construction included in the Sub-project, the operation thereof, and any relevant records and documents;

(d) require that the Beneficiary shall take out and maintain such insurance, against such risks and in such amounts, as shall be consistent with sound business practice, including such insurance to cover hazards incident to the acquisition, transportation and delivery of good financed out of the proceeds of the Loan to the place of use or installation, any indemnity thereunder to be made payable in a currency freely usable by the Beneficiary to replace or repair such goods;

(e) carry out and operate the Sub-project in accordance with appropriate health, safety and environmental standards in accordance with Turkish legislation;

(f) obtain all such information as the Bank or the PIU on behalf of TTGV shall reasonably request relating to the foregoing and to the administration, operations and financial condition of the Beneficiary and to the benefits to be derived from the Sub-project; and

(g) suspend or terminate the right of the Beneficiary to the use of the proceeds of the Loan upon failure by such Beneficiary to perform its obligations under its contract with TTGV.

