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**LOAN NUMBER 7312 TU**

# **Loan Agreement**

**(Municipal Services Project)**

**between**

**INTERNATIONAL BANK FOR RECONSTRUCTION  
AND DEVELOPMENT**

**and**

**İLLER BANKASI**

**Dated February 8, 2006**

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**LOAN NUMBER 7312 TU**

**LOAN AGREEMENT**

AGREEMENT, dated February 8, 2006, between the INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT (the Bank) and the ILLER BANKASI (the Borrower).

WHEREAS (A) Republic of Turkey (the Guarantor) and the Borrower, having been satisfied as to the feasibility and priority of the Project described in Schedule 2 to this Agreement, have requested the Bank to assist in the financing of the Project;

(B) by an agreement (the Guarantee Agreement) of even date herewith between the Guarantor and the Bank, the Guarantor has agreed to guarantee the obligations of the Borrower in respect of the Loan and to undertake such other obligations as set forth in the Guarantee Agreement; and

WHEREAS the Bank has agreed, on the basis, inter alia, of the foregoing, to extend the Loan to the Borrower upon the terms and conditions set forth in this Agreement;

NOW THEREFORE the parties hereto hereby agree as follows:

**ARTICLE I**

**General Conditions; Definitions**

Section 1.01. The "General Conditions Applicable to Loan and Guarantee Agreements for Fixed-Spread Loans" of the Bank, dated September 1, 1999 (as amended through May 1, 2004) with the modification set forth below (the General Conditions) constitute an integral part of this Agreement:

- (a) Section 5.08 of the General Condition is amended to read as follows:

*"Section 5.08. Treatment of Taxes*

Except as otherwise provided in the Loan Agreement, the proceeds of the Loan may be withdrawn to pay for taxes levied by, or in the territory of, the Borrower or the Guarantor on the goods or services to be financed under the Loan, or on their importation, manufacture, procurement of supply. Financing of such taxes is subject to the Bank's policy of requiring economy and efficiency in the use of the proceeds of its loans. To that end, if the Bank shall at any time determine that the amount of any taxes levied on or in respect of any item to be financed out of the proceeds of the Loan is excessive

or otherwise unreasonable, the Bank may, by notice to the Borrower, adjust the percentage for withdrawal set forth or referred to in respect of such item in the Loan Agreement as required to be consistent with such policy of the Bank.”

(b) Section 6.03 (c) of the General Conditions is amended by replacing the words “corrupt or fraudulent” with the words “corrupt, fraudulent, collusive or coercive”.

Section 1.02. Unless the context otherwise requires, the several terms defined in the General Conditions and in the Preamble to this Agreement have the respective meanings therein set forth and the following additional terms have the following meanings:

(a) “Action Plan” means the plan for the institutional strengthening of the Borrower agreed between the Borrower and the Bank;

(b) “Barcelona Convention” means the “Convention for the Protection of the Marine Environment and the Coastal Region of the Mediterranean” signed on February 16, 1976 and revised in Barcelona, Spain, on June 10, 1995;

(c) “Bucharest Convention” means the “Convention on the Protection of the Black Sea Against Pollution” signed on April 21, 1992, in Bucharest, including a basic framework of agreement and three specific Protocols on: (i) the control of land-based sources of pollution; (ii) dumping of waste; and (iii) joint action in the case of accidents (such as oil spills);

(d) “Financial Monitoring Report” or “FMR” means each report prepared in accordance with Section 4.02 of this Agreement;

(e) “Law No. 4759” means the Law on Iller Bank dated June 13, 1945;

(f) “Operational Manual” means the manual to be adopted by the Borrower pursuant to paragraph 3 of Schedule 5 to this Agreement, setting out the operational and administrative procedures in respect of the preparation, approval, processing, financing, implementation and supervision of Sub-loans, including the environmental and land acquisition frameworks;

(g) “PMU” means the project management unit of the Borrower, established on April 29, 2005, or any successor to such unit;

(h) “Procurement Plan” means the Borrower’s procurement plan to be submitted and approved by the Bank in accordance with Section 3.02 to this Agreement, covering the initial 18 month period (or longer) of Project implementation, as the same shall be updated from time to time in accordance with the provisions of said Section 3.02 to this Agreement;

(i) “Special Account” means the account referred to in Section 2.02 (b) of this Agreement;

(j) “Sub-borrower” means a municipality or a municipal utility satisfying the appropriate criteria as set forth in paragraph 4 of the Annex to Schedule 5 to this Agreement to which the Borrower proposes to make or has made a Sub-loan;

(k) “Sub-loan” means a loan made or proposed to be made by the Borrower, out of the proceeds of the Loan for purposes of financing all or a portion of the expenditures incurred by a Sub-borrower for goods, works and consultants’ services under a Sub-Project;

(l) “Sub-loan Agreement” means an agreement entered or to be entered into between the Borrower and a Sub-borrower pursuant to paragraph 8 (c) of Schedule 5 to this Agreement, as the same may be amended from time to time, and such term includes all schedules supplemental to the Sub-loan Agreement; and

(m) “Sub-Project” means a specific project, selected in accordance with paragraph 5 of the Annex to Schedule 5 to this Agreement, which is proposed to be carried out by a Sub-borrower, in whole or in part through the utilization of the proceeds of a Sub-loan.

## **ARTICLE II**

### **The Loan**

Section 2.01. The Bank agrees to lend to the Borrower, on the terms and conditions set forth or referred to in the Loan Agreement an amount equal to two hundred twelve million nine hundred thousand Euro (€212,900,000), as such amount may be converted from time to time through a Currency Conversion in accordance with the provisions of Section 2.09 of this Agreement.

Section 2.02. (a) The amount of the Loan may be withdrawn from the Loan Account in accordance with the provisions of Schedule 1 to this Agreement for:

- (i) amounts paid (or, if the Bank shall so agree, to be paid) on account of withdrawals made by a Sub-borrower under a Sub-loan to meet the reasonable cost of goods, works and consultants’ services required for a Sub-project under Parts A and B of the Project in respect of which the withdrawal from the Loan Account is requested;
- (ii) expenditures made (or, if the Bank shall so agree, to be made) in respect of the reasonable cost of goods, consultants’ services and

incremental operating costs required for Part C of the Project and to be financed out of the proceeds of the Loan; and

- (iii) the front-end fee referred to in Section 2.04 of this Agreement and any premium in respect of an Interest Rate Cap or Interest Rate Collar payable by the Borrower in accordance with Section 4.04 (c) of the General Conditions.

(b) The Borrower may, for the purposes of the Project, open and maintain in Euro a special deposit account in a bank on terms and conditions acceptable to the Bank, including appropriate protection against set-off, seizure or attachment. Deposits into, and payments out of, the Special Account shall be made in accordance with the provisions of Schedule 6 to this Agreement.

Section 2.03. The Closing Date shall be June 30, 2010, or such later date as the Bank shall establish. The Bank shall promptly notify the Borrower and the Guarantor of such later date.

Section 2.04. The Borrower shall pay to the Bank a front-end fee in an amount equal to one (1%) of the amount of the Loan, subject to any waiver of a portion of such fees as may be determined by the Bank from time to time. On or promptly after the Effective Date, the Bank shall, on behalf of the Borrower, withdraw from the Loan Account and pay to itself the amount of said fee.

Section 2.05. The Borrower shall pay to the Bank a commitment charge on the principal amount of the Loan not withdrawn from time to time, at a rate equal to: (i) eighty five one hundredths of one per cent (0.85%) per annum from the date on which such charge commences to accrue in accordance with the provisions of Section 3.02 of the General Conditions to but not including the fourth anniversary of such date; and (ii) seventy five one-hundredths of one per cent (0.75%) per annum thereafter.

Section 2.06. The Borrower shall pay interest on the principal amount of the Loan withdrawn and outstanding from time to time, in respect of each Interest Period at the Variable Rate; provided that upon a Conversion of all or any portion of the principal amount of the Loan, the Borrower shall, during the Conversion Period, pay interest on such amount in accordance with the relevant provisions of Article IV of the General Conditions.

Section 2.07. Interest and other charges shall be payable semiannually in arrears on June 15<sup>th</sup> and December 15<sup>th</sup> in each year.

Section 2.08. The Borrower shall repay the principal amount of the Loan in accordance with the provisions of Schedule 3 to this Agreement.

Section 2.09. (a) The Borrower may at any time request any of the following Conversions of the terms of the Loan in order to facilitate prudent debt management:

- (i) a change of the Loan Currency of all or any portion of the principal amount of the Loan, withdrawn or unwithdrawn, to an Approved Currency;
- (ii) a change of the interest rate basis applicable to all or any portion of the principal amount of the Loan from a Variable Rate to a Fixed Rate, or vice versa; and
- (iii) the setting of limits on the Variable Rate applicable to all or any portion of the principal amount of the Loan withdrawn and outstanding by the establishment of an Interest Rate Cap or Interest Rate Collar on said Variable Rate.

(b) Any conversion requested pursuant to paragraph (a) of this Section that is accepted by the Bank shall be considered a “Conversion”, as defined in Section 2.01 (7) of the General Conditions, and shall be effected in accordance with the provisions of Article IV of the General Conditions and of the Conversion Guidelines.

(c) Promptly following the Execution Date for an Interest Rate Cap or Interest Rate Collar in respect of which the Borrower has requested that the premium be paid out of the proceeds of the Loan, the Bank shall, on behalf of the Borrower, withdraw from the Loan Account and pay to itself the amounts required to pay any premium payable in accordance with Section 4.04 (c) of the General Conditions up to the amount allocated from time to time for such purpose in the table in paragraph 1 of Schedule 1 to this Agreement.

### **ARTICLE III**

#### **Execution of the Project;**

Section 3.01. (a) The Borrower declares its commitment to the objectives of the Project as set forth in Schedule 2 to this Agreement, and, to this end, shall carry out the Project with due diligence and efficiency and in conformity with appropriate administrative, financial, environmental and technical standards and practices, and shall provide, promptly as needed, the funds, facilities, services and other resources required for the Project.

(b) Without limitation upon the provisions of paragraph (a) of this Section and except as the Bank, the Guarantor and the Borrower shall otherwise agree, the Borrower shall implement the Project in accordance with the Implementation Program set forth in Schedule 5 to this Agreement.

Section 3.02. (a) The Borrower shall, not later than October 1, 2005, submit the Procurement Plan for the Bank's approval.

(b) Except as the Bank shall otherwise agree, procurement of the goods, works and services required for the carrying out of the Project and to be financed out of the proceeds of the Loan shall be governed by the provisions of Schedule 4 to this Agreement, as said provisions may be further elaborated in the Procurement Plan.

(c) The Borrower shall update the Procurement Plan on a semi-annual basis in accordance with guidelines acceptable to the Bank, and furnish such update to the Bank not later than 12 months after the date of the preceding Procurement Plan, for the Bank's approval.

Section 3.03. For the purposes of Section 9.07 of the General Conditions and without limitation thereto, the Borrower shall:

(a) 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 Borrower and the Bank, a plan designed to ensure the continued achievement of the objectives of the Project; and

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

#### **ARTICLE IV**

##### **Financial Covenants**

Section 4.01. (a) The Borrower shall maintain a financial management system, including records and accounts, and prepare financial statements in accordance with consistently applied accounting standards acceptable to the Bank, adequate to reflect its operations and financial condition and to register separately the operations, resources and expenditures related to the Project

(b) The Borrower shall:

(i) have its financial statements (balance sheets, statements of income and expenses and related statements) for each fiscal year (or other period agreed to by the Bank), audited, in accordance with consistently applied auditing standards acceptable to the Bank, by independent auditors acceptable to the Bank;

(ii) furnish to the Bank as soon as available, but in any case not later than six months after the end of each such year (or such other period agreed to by the Bank): (A) certified copies of the

financial statements referred to in paragraph (a) of this Section for such year (or other period agreed to by the Bank), as so audited; and (B) an opinion on such statements by said auditors, in scope and detail acceptable to the Bank; and

- (iii) furnish to the Bank such other information concerning such records and accounts, and the audit of such financial statements, and concerning said auditors, as the Bank may from time to time reasonably request.

(c) For all expenditures with respect to which withdrawals from the Loan Account were made on the basis of statements of expenditure, the Borrower shall:

- (i) retain, until at least one year after the Bank has received the audit report for, or covering, the fiscal year in which the last withdrawal from the Loan Account was made, all records (contracts, orders, invoices, bills, receipts and other documents) evidencing such expenditures;
- (ii) enable the Bank's representatives to examine such records; and
- (iii) ensure that such statements of expenditure are included in the audit for each fiscal year (or other period agreed to by the Bank), referred to in paragraph (b) of this Section.

Section 4.02. (a) Without limitation upon the Borrower's progress reporting obligations set out in paragraph 7 of Schedule 5 to this Agreement the Borrower shall prepare and furnish to the Bank a financial monitoring report, in form and substance acceptable to the Bank, which:

- (i) sets forth sources and uses of funds for the Project, both cumulatively and for the period covered by said report, showing separately funds provided under the Loan;
- (ii) describes physical progress in Project implementation, both cumulatively and for the period covered by said report; and
- (iii) sets forth the status of procurement under the Project, as at the end of the period covered by said report.

(b) The first FMR shall be furnished to the Bank not later than 45 days after the end of the first calendar quarter after the Effective Date, and shall cover the period from the incurrence of the first expenditure under the Project through the end of such first calendar quarter; thereafter, each FMR shall be furnished to the Bank not later than 45 days after each subsequent calendar quarter, and shall cover such calendar quarter.



Section 4.03. (a) Except as the Bank shall otherwise agree, the Borrower shall not incur any debt unless a reasonable forecast of the revenues and expenditures of the Borrower shows that the estimated net revenues of the Borrower for each fiscal year during the term of the debt to be incurred shall be at least 1.2 times the estimated debt service requirements of the Borrower in such year on all debt of the Borrower including the debt to be incurred.

(b) For the purposes of this Section:

- (i) The term "debt" means any indebtedness of the Borrower maturing by its terms more than one year after the date on which it is originally incurred.
- (ii) Debt shall be deemed to be incurred: (A) under a loan contract or agreement or other instrument providing for such debt or for the modification of its terms of payment on the date of such contract, agreement or instrument; and (B) under a guarantee agreement, on the date the agreement providing for such guarantee has been entered into.
- (iii) The term "net revenues" means the difference between:
  - (A) the sum of revenues from all sources related to operations and net non-operating income; and
  - (B) the sum of all expenses related to operations including administration, adequate maintenance, taxes and payments in lieu of taxes, but excluding provision for depreciation, other non-cash operating charges and interest and other charges on debt.
- (iv) The term "net non-operating income" means the difference between:
  - (A) revenues from all sources other than those related to operations; and
  - (B) expenses, including taxes and payments in lieu of taxes, incurred in the generation of revenues in (A) above.
- (v) The term "debt service requirements" means the aggregate amount of repayments (including sinking fund payments, if any) of, and interest and other charges on, debt.

- (vi) The term "reasonable forecast" means a forecast prepared by the Borrower not earlier than twelve months prior to the incurrence of the debt in question, which both the Bank and the Borrower accept as reasonable and as to which the Bank has notified the Borrower of its acceptability, provided that no event has occurred since such notification which has, or may reasonably be expected in the future to have, a material adverse effect on the financial condition or future operating results of the Borrower.
- (vii) Whenever for the purposes of this Section it shall be necessary to value, in terms of the currency of the Guarantor, 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, or, in the absence of such rate, on the basis of a rate of exchange acceptable to the Bank.

Section 4.04. The Borrower shall, not later than November, 30, 2005, employ an independent auditor with qualifications and terms of reference acceptable to the Bank.

## **ARTICLE V**

### **Effective Date; Termination**

Section 5.01. The following event is specified as an additional condition to the effectiveness of this Agreement within the meaning of Section 12.01 (c) of the General Conditions, namely that, at least two Sub-loan Agreements have been executed on behalf of the Borrower and the selected Sub-borrowers on terms and conditions acceptable to the Bank.

Section 5.02. The following is specified as an additional matter, within the meaning of Section 12.02 (a) of the General Conditions, to be included in the opinion or opinions to be furnished to the Bank, namely that, the Sub-loan Agreements referred to in Section 5.01 have been duly authorized or ratified by and are legally binding upon the Borrower and the Sub-borrowers in accordance with their terms.

Section 5.03. The date one hundred twenty (120) days after the date of this Agreement is hereby specified for the purposes of Section 12.04 of the General Conditions.

## **ARTICLE VI**

### **Representative of the Borrower; Addresses**

Section 6.01. The Director General of the Borrower is designated as the representative of the Borrower for the purposes of Section 11.03 of the General Conditions.

Section 6.02. The following addresses are specified for the purposes of Section 11.01 of the General Conditions:

For the Bank:

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

Cable address:

Telex:

Facsimile:

INTBAFRAD  
Washington, D.C.

248423 (MCI) or  
64145 (MCI)

(202) 477-6391

For the Borrower:

İller Bankası  
Yeni Ziraat Mahallesi  
14. Sokak No 14  
Döğkapı, 06110  
Ankara  
Republic of Turkey

Facsimile:

(312) 341 1996

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/ Andrew N. Vorkink

Director  
Turkey Country Unit  
Europe and Central Asia

İLLER BANKASI

By /s/ Hidayet Atasay

Authorized Representative

By /s/ Bahaettin Kaptan

Authorized Representative

## SCHEDULE 1

### Withdrawal of the Proceeds of the Loan

1. The table below sets forth the Categories of items to be financed out of the proceeds of the Loan, the allocation of the amounts of the Loan to each Category and the percentage of expenditures for items so to be financed in each Category:

	<u>Category</u>	<u>Amount of the Loan Allocated (Expressed in Euro)</u>	<u>% of Expenditures to be Financed</u>
(1)	Works (including supply and installation)	188,000,000	90 %
(2)	Goods	7,540,000	90 %
(3)	Consultants' services and training	15,500,000	100%
(4)	Incremental operating Costs	775,000	100%
(5)	Front-end Fee	1,085,000	Amount due under Section 2.04 of this Agreement
(6)	Premia for Interest Rate Caps and Interest Rate Collars	<u>0</u>	Amount due under Section 2.09 (c) of this Agreement
	<b>TOTAL</b>	<b><u>212,900,000</u></b>	

2. For the purposes of this Schedule:

(a) the term "training" means expenditures incurred to finance the cost of workshops, the cost of related training materials, study tours and related travel expenditures, accommodation and per diem allowances provided to the participants in such training; and

(b) the term “incremental operating costs” means expenditures incurred to finance the reasonable and necessary incremental expenses incurred by the Borrower on account of Project implementation, management and monitoring.

3. Notwithstanding the provisions of paragraph 1 above, no withdrawals shall be made for expenditures: (a) prior to the date of this Agreement, except that withdrawals, in an aggregate amount not exceeding □10,000,000 may be made in respect of Categories (1), (2) or (3) set forth in the table in paragraph 1 of this Schedule on account of payments made for expenditures before that date but after December 31, 2004; and (b) under Categories (1), (2) or (3) unless the Sub-loan has been made in accordance with criteria and procedures set forth in the Operational Manual and on terms and conditions referred to in the Annex to Schedule 5 to this Agreement.

4. The Bank may require withdrawals from the Loan Account to be made on the basis of statements of expenditure for expenditures for: (a) contracts for goods costing less than □400,000 equivalent each; (b) contracts for works costing less than □4,000,000 equivalent each; (c) contracts for consultant firms costing less than □200,000 equivalent each; (d) contracts for individual consultants costing less than □50,000 equivalent each; (e) incremental operating costs; and (f) training under such terms and conditions as the Bank shall specify by notice to the Borrower.

## **SCHEDULE 2**

### **Description of the Project**

The objective of the Project is to support sustainable environmental services in selected municipalities.

The Project consists of the following Parts, subject to such modifications thereof as the Bank, the Guarantor and the Borrower may agree upon from time to time to achieve such objectives:

#### Part A: Municipal Development

The establishment and operation of a credit facility for the financing, through the provision of Sub-loans to Sub-borrowers, enabling such Sub-borrowers to finance the costs related to the carrying out of Sub-projects for water, waste water and solid waste investments.

#### Part B: Municipal Technical Assistance

Development of feasibility studies, urban planning, preparation of design and bidding documents, operational improvement plans and construction supervision through provision of technical assistance.

#### Part C: Institutional Strengthening

Strengthening the institutional capacity of the Borrower to carry out the Project through financing of consultants' services and incremental operating costs.

\* \* \*

The Project is expected to be completed by December 31, 2009.

### SCHEDULE 3

#### Amortization Schedule

1. The following table sets forth the Principal Payment Dates of the Loan and the percentage of the total principal amount of the Loan payable on each Principal Payment Date (Installment Share). If the proceeds of the Loan shall have been fully withdrawn as of the first Principal Payment Date, the principal amount of the Loan repayable by the Borrower on each Principal Payment Date shall be determined by the Bank by multiplying: (a) the total principal amount of the Loan withdrawn and outstanding as of the first Principal Payment Date; by (b) the Installment Share for each Principal Payment Date, such repayment amount to be adjusted, as necessary, to deduct any amounts referred to in paragraph 4 of this Schedule, to which a Currency Conversion applies.

<u>Payment Date</u>	<u>Installment Share (Expressed as a %)</u>
On each June 15 and December 15 beginning December 15, 2010 through December 15, 2021	4.17%
On June 15, 2022	4.09%

2. If the proceeds of the Loan shall not have been fully withdrawn as of the first Principal Payment Date, the principal amount of the Loan repayable by the Borrower on each Principal Payment Date shall be determined as follows:

(a) To the extent that any proceeds of the Loan shall have been withdrawn as of the first Principal Payment Date, the Borrower shall repay the amount withdrawn and outstanding as of such date in accordance with paragraph 1 of this Schedule.

(b) Any withdrawal made after the first Principal Payment Date shall be repaid on each Principal Payment Date falling after the date of such withdrawal in amounts determined by the Bank by multiplying the amount of each such withdrawal by a fraction, the numerator of which shall be the original Installment Share specified in the table in paragraph 1 of this Schedule for said Principal Payment Date (the Original Installment Share) and the denominator of which shall be the sum of all remaining Original Installment Shares for Principal Payment Dates falling on or after such date, such repayment amounts to be adjusted, as necessary, to deduct any amounts referred to in paragraph 4 of this Schedule, to which a Currency Conversion applies.

3. (a) Withdrawals made within two calendar months prior to any Principal Payment Date shall, for the purposes solely of calculating the principal amounts payable on any Principal Payment Date, be treated as withdrawn and outstanding on the second



Principal Payment Date following the date of withdrawal and shall be repayable on each Principal Payment Date commencing with the second Principal Payment Date following the date of withdrawal.

(b) Notwithstanding the provisions of sub-paragraph (a) of this paragraph 3, if at any time the Bank shall adopt a due date billing system under which invoices are issued on or after the respective Principal Payment Date, the provisions of such sub-paragraph shall no longer apply to any withdrawals made after the adoption of such billing system.

4. Notwithstanding the provisions of paragraphs 1 and 2 of this Schedule, upon a Currency Conversion of all or any portion of the withdrawn principal amount of the Loan to an Approved Currency, the amount so converted in said Approved Currency that shall be repayable on any Principal Payment Date occurring during the Conversion Period, shall be determined by the Bank by multiplying such amount in its currency of denomination immediately prior to said Conversion by either: (i) the exchange rate that reflects the amounts of principal in said Approved Currency payable by the Bank under the Currency Hedge Transaction relating to said Conversion; or (ii) if the Bank so determines in accordance with the Conversion Guidelines, the exchange rate component of the Screen Rate.

5. If the principal amount of the Loan withdrawn and outstanding from time to time shall be denominated in more than one Loan Currency, the provisions of this Schedule shall apply separately to the amount denominated in each Loan Currency, so as to produce a separate amortization schedule for each such amount.

## **SCHEDULE 4**

### **Procurement**

#### Section I. General

A. All goods, works and services (other than consultants' services) shall be procured in accordance with the provisions of Section I of the "Guidelines for Procurement under IBRD Loans and IDA Credits", dated May 2004 (the Procurement Guidelines), and with the provisions of this Schedule.

B. All consultants' services shall be procured in accordance with Sections I and IV of the "Guidelines: Selection and Employment of Consultants by World Bank Borrowers" dated May 2004 (the Consultant Guidelines), and with the provisions of this Schedule.

C. The capitalized terms used below in this Schedule to describe particular procurement methods or methods of review by the Bank of particular contracts, have the meanings ascribed to them in the Procurement Guidelines.

#### Section II. Particular Methods of Procurement of Goods, Works and Services (other than Consultants' Services)

A. International Competitive Bidding. Except as otherwise provided in Part B of this Section, contracts shall be awarded on the basis of International Competitive Bidding. The provisions of paragraphs 2.55 and 2.56 of the Procurement Guidelines, providing for domestic preference in the evaluation of bids, shall apply to goods manufactured in the territory of the Guarantor and works to be carried out by domestic contractors.

#### B. Other Procurement Procedures

1. National Competitive Bidding. Works estimated to cost less than □4,000,000 equivalent per contract and goods estimated to cost less than □400,000 equivalent per contract, may be procured under contracts awarded on the basis of National Competitive Bidding and the additional provisions set forth in the Annex to this Schedule.

2. Shopping. Goods and works estimated to cost less than €80,000 equivalent per contract may be procured under contracts awarded on the basis of Shopping.

3. Direct Contracting. Goods which the Bank agrees meet the requirements for Direct Contracting may be procured in accordance with the provisions of said procurement method.

Section III. Particular Methods of Procurement of Consultants' Services

A. Quality- and Cost-based Selection. Consultants' services, other than individual consultants, shall be procured under contracts awarded on the basis of Quality- and Cost-Based Selection. For purposes of paragraph 2.7 of the Consultant Guidelines, the short list of consultants for services estimated to cost less than □200,000 equivalent per contract may comprise entirely national consultants.

B. Other Procedures

1. Least-cost Selection. Services for assignments which the Bank agrees meet the requirements of paragraph 3.6 of the Consultant Guidelines may be procured under contracts awarded on the basis of Least-cost Selection in accordance with the provisions of paragraphs 3.1 and 3.6 of the Consultant Guidelines.

2. Selection Based on Consultants' Qualifications. Services estimated to cost less than □160,000 equivalent per contract may be procured under contracts awarded in accordance with the provisions of paragraphs 3.1, 3.7 and 3.8 of the Consultant Guidelines.

3. Single Source Selection. Services for tasks in circumstances which meet the requirements of paragraph 3.10 of the Consultant Guidelines for Single Source Selection, may, with the Bank's prior agreement, be procured in accordance with the provisions of paragraphs 3.9 through 3.13 of the Consultant Guidelines.

4. Individual Consultants. Services for assignments that meet the requirements set forth in the first sentence of paragraph 5.1 of the Consultant Guidelines may be procured under contracts awarded to individual consultants in accordance with the provisions of paragraphs 5.2 through 5.3 of the Consultant Guidelines. Under the circumstances described in paragraph 5.4 of the Consultant Guidelines, such contracts may be awarded to individual consultants on a sole-source basis.

Section IV. Review by the Bank of Procurement Decisions

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

**ANNEX  
to  
SCHEDULE 4**

**Mandatory Provisions for Procurement under Bank-Financed Contracts  
Subject to National Competitive Bidding**

The Borrower shall apply the following provisions in the carrying out of National Competitive Bidding procedures under the Project when falling under the legal framework governed by the Borrower's Public Procurement Law No. 4734, dated January 4, 2002 and Amendment Law No. 4761, dated June 12, 2002 and Amendment Law No. 4964, dated July 30, 2003:

A. Eligibility

Bidding shall not be restricted to domestic bidders. No restriction shall be applied to foreign bidders who wish to submit a bid.

B. Procedures

The Open Procedure, as defined in the Public Procurement Law, shall be followed in all cases. Invitations to bid shall be advertised in the Official Gazette and in at least one widely circulated national daily newspaper allowing a minimum of 30 days for the preparation and submission of bids.

C. Assessment of Bidders' Qualifications

In the procurement of works, where pre-qualification is not used, the qualifications of the bidder who is recommended for award of contract shall be assessed by post-qualification, applying minimum experience, technical and financial requirements which shall be explicitly stated in the bidding documents and which shall be determined by a 'pass/fail' method, not through use of a merit point system.

D. Participation by Government-owned Enterprises

Government-owned enterprises in the Republic of Turkey shall be eligible to participate in bidding only if they can establish that they are legally and financially autonomous, operate under commercial law and are not a dependent agency of the Government. Furthermore, they will be subject to the same bid and performance security requirements as other bidders.

E. Participation by Joint Ventures

Participation shall be allowed from joint ventures on the condition that such joint venture partners will be jointly and severally liable under the Contract.

F. Bidding Documents

Procuring entities shall use the appropriate standard bidding documents for the procurement of goods or services, and shall contain draft contract and conditions of contract acceptable to the Bank.

G. Bid Evaluation

(a) Evaluation of bids shall be made in strict adherence to the monetarily quantifiable criteria declared in the bidding documents and a merit point system shall not be used.

(b) Extension of bid validity shall be allowed once only for not more than 30 days. No further extensions should be requested without the prior approval of the Bank

(c) Contracts shall be awarded to qualified bidders having submitted the lowest evaluated substantially responsive bid.

(d) No preference shall apply under National Competitive Bidding.

H. Price Adjustment

Civil works contracts of long duration (i.e. more than 18 months) will contain an appropriate price adjustment clause.

I. Rejection of All Bids

All bids shall not be rejected and new bids solicited without the Bank's prior written concurrence.

J. Contracts

All contracts shall be in writing, signed and stamped by authorized signatories of the Purchaser and the Supplier and shall contain identical terms and conditions of contract to those included in the tender documents.

K. Securities

Bid Securities should not exceed 3% (three percent) of the estimated cost of the contract; Performance Securities not more than 10% (ten percent). No advance payments shall be made to the Suppliers without a suitable Advance Payment security. The wording of all such securities shall be included in the bidding documents and shall be acceptable to the Bank.

## **SCHEDULE 5**

### **Implementation Program**

1. The Borrower shall maintain, until the completion of the Project, the PMU, and ensure that the PMU functions at all times in a manner and with staffing, budgetary resources and authority necessary and appropriate for Project implementation, and acceptable to the Bank.
2. The Borrower shall implement the Action Plan in a manner acceptable to the Bank, and maintain the Action Plan throughout the implementation of the Project.
3. The Borrower shall, not later than September 30, 2005, adopt the Operational Manual in form and content acceptable to the Bank, shall duly perform all its obligations under the Operational Manual and shall not assign, amend, abrogate or waive the Operational Manual without the agreement of the Bank.
4. The Borrower shall carry out the institutional strengthening under Part C of the Project with terms and conditions acceptable to the Bank as set forth in the Operational Manual, and provide adequate resources from its own sources for the implementation of such activities.
5. The Borrower, in coordination with the Guarantor, shall submit to the Bank the strategy for the institutional reform of the Borrower and the proposed amendments to Law No. 4759, and afford the Bank a reasonable opportunity to exchange views on such strategy.
6. The Borrower shall, except as the Bank and the Borrower may otherwise agree:
  - (a) open and thereafter maintain on its books, in accordance with its normal financial practices and on conditions acceptable to the Bank, a separate escrow account to which it shall credit each payment of interest or other charges on, or repayment of principal payments under, any Sub-loan; and
  - (b) utilize all amounts so credited to said separate escrow account to meet the Borrower's payment or repayment obligations to the Bank under this Agreement.
7. The Borrower shall:
  - (a) maintain policies and procedures adequate to enable it to monitor and evaluate on an ongoing basis, in accordance with the indicators agreed upon between the Borrower and the Bank, the carrying out of the Project and the achievement of the objectives thereof.
  - (b) prepare, under terms of reference acceptable to the Bank, and furnish to the Bank on a semi-annual basis, a 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 the Project 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 and the Guarantor by September 30, 2007, or such later date as the Bank shall request, the report referred to in subparagraph (b) of this paragraph, and, thereafter, take all measures required to ensure the efficient completion 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 matters.

8. For the purposes of carrying out of the Project, the Borrower shall:

(a) make Sub-loans to Sub-borrowers on the terms and conditions set forth in the Operational Manual, including without limitation, the terms and conditions set forth in the Annex to this Schedule;

(b) select the Sub-borrowers pursuant to criteria set forth in paragraph 4 of the Annex to this Schedule;

(c) enter into a Sub-loan Agreement with each Sub-borrower and exercise its rights in relation to each such Sub-loan Agreement in such manner as to protect its interests and the interests of the Borrower, the Guarantor and the Bank, comply with its obligations under its respective Sub-loan Agreement and achieve the purposes of the Project;

(d) not assign, amend, abrogate or waive any of its Sub-loan Agreements, or any provision thereof, without the agreement of the Bank;

(e) appraise Sub-projects and supervise, monitor and report on the carrying out by the Sub-borrower of Sub-projects, in accordance with the Operational Manual;

(f) obtain the Bank's approval of the Sub-loan and the Sub-project prior to execution of a Sub-loan Agreement with a Sub-borrower;

(g) exchange views with the Bank prior to provision of any subsidy to any of the Sub-borrowers;

(h) ensure that each Sub-borrower shall take all necessary measures, including, but not limited, to adjustments of the structure or levels of its tariffs to cover its: (i) operating expenses; (ii) debt service obligations; and (iii) internal financing contribution required for the Sub-project and other investments;

(i) ensure that each Sub-project shall comply with environmental review and land acquisition procedures set forth in the Operational Manual and require each Sub-borrower applying for a Sub-loan to furnish evidence acceptable to the Bank



showing that the Sub-project in respect of which the application has been prepared in accordance with such procedures, such evidence to include *inter alia* an environmental impact assessment for such Sub-project;

(j) ensure that for Sub-projects which require an environmental mitigation plan the Sub-borrower shall carry out such environmental mitigation plan in a timely manner, requiring such environmental mitigation plan to be in compliance with: (aa) environmental standards acceptable to the Bank; and (bb) the applicable laws and regulations of the Guarantor relating to health, safety and environmental protection, and shall include adequate information on the carrying out of such environmental management plans in the progress reports referred to in subparagraph (b) of paragraph 7 of this Schedule; and

(k) ensure that: (aa) goods, works and consultants' services to be financed out of the proceeds of the Loan shall be procured in accordance with the provisions of Schedule 4 to this Agreement and the Procurement Plan; and (bb) such goods, works and services shall be used exclusively in the carrying out of the Project.

**ANNEX  
to  
SCHEDULE 5**

**Terms and Conditions of Sub-loans**

The provisions of this Annex shall be for the purposes of paragraph 7 (a) of this Schedule 5.

1. The principal amount to be lent out of the proceeds of the Loan to a Sub-borrower under its respective Sub-loan Agreement shall: (a) be denominated in Euro; and be the equivalent, in Euro (determined as of the date of respective dates of withdrawal from the Loan Account or payment out of the respective Special Account) of the value of currency or so withdrawn or paid out on account of the goods, works and services financed out of the proceeds of the Sub-loan for the Sub-project.

2. Each Sub-loan shall: (a) be charged semi-annually, on the principal amount thereof withdrawn and outstanding from time to time, interest at a rate equal to the rate payable under Section 2.06 of this Agreement plus one percent (1%) margin for the administrative costs of the Borrower; (b) be charged a front-end fee of fifty one-hundredths of one percent (0.50%) and a guarantee fee of twenty five one-hundredths of one percent (0.25%); (c) be charged a commitment charge at a rate equal to the rate payable under Section 2.05 of this Agreement, on the principal amount of the Subsidiary Loan not withdrawn from time to time; and (d) be repaid in accordance with an amortization schedule calculated to have a maturity of not more than seventeen (17) years, including a grace period of not more than five (5) years.

3. (a) When presenting a Sub-loan to the Bank for approval, the Borrower shall furnish to the Bank an application, in form acceptable to the Bank, together with:

- (i) a description of the Sub-borrower 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-loan, including the schedule of amortization of the Sub-loan;
- (iii) an operational improvement plan incorporating a development plan which shall be evaluated by the Borrower in accordance with established guidelines for project and credit evaluation set forth in the Operational Manual;

(iv) evidence of compliance with the Operational Manual and specifically with the environmental review and land acquisition procedures set forth in the Operational Manual; and

(v) such other information as the Bank or the Borrower shall reasonably request.

(b) Each Sub-loan shall be approved on the basis of evaluation guidelines adopted by the Borrower acceptable to the Bank.

4. (a) Sub-loans shall be made to the Sub-borrowers which each shall have established and maintain during the duration of its respective Sub-loan to the satisfaction of the Borrower that:

(i) it has no overdue payments to the Undersecretariat of Treasury;

(ii) except as the Bank and the Borrower shall otherwise agree, it will not incur any debt unless a reasonable forecast of its revenues and expenditures shows that its estimated net revenues for each fiscal year during the term of the debt to be incurred shall be at least 1.2 times its estimated debt service requirements in such year on all its debt, including the debt to be incurred; and

(iii) it has a satisfactory financial structure and the organization, management, staff and financial and other resources required for the efficient carrying out of its operations, including the carrying out of the Sub-project.

(b) For the purposes of this Section:

(i) The term "debt" means any indebtedness of the Sub-borrower maturing by its terms more than one year after the date on which it is originally incurred.

(ii) Debt shall be deemed to be incurred: (A) under a loan contract or agreement or other instrument providing for such debt or for the modification of its terms of payment on the date of such contract, agreement or instrument; and (B) under a guarantee agreement, on the date the agreement providing for such guarantee has been entered into.

(iii) The term "net revenues" means the difference between:

- (A) the sum of revenues from all sources related to operations and net non-operating income; and
  - (B) the sum of all expenses related to operations including administration, adequate maintenance, taxes and payments in lieu of taxes, but excluding provision for depreciation, other non-cash operating charges and interest and other charges on debt.
- (iv) The term "net non-operating income" means the difference between:
- (A) revenues from all sources other than those related to operations; and
  - (B) expenses, including taxes and payments in lieu of taxes, incurred in the generation of revenues in (A) above.
- (v) The term "debt service requirements" means the aggregate amount of repayments (including sinking fund payments, if any) of, and interest and other charges on, debt.
- (vi) The term "reasonable forecast" means a forecast prepared by the Sub-borrower not earlier than twelve months prior to the incurrence of the debt in question, which both the Borrower and the Sub-borrower accept as reasonable and as to which the Borrower has notified the Sub-borrower of its acceptability.
- (vii) Whenever for the purposes of this Section it shall be necessary to value, in terms of the currency of the Guarantor, 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, or, in the absence of such rate, on the basis of a rate of exchange acceptable to the Bank.

5. The Sub-loans shall be made for Sub-projects which are each determined, on the basis of an appraisal carried out in accordance with procedures acceptable to the Bank set forth in the Operational Manual, to:

- (a) be technically feasible, economically, financially viable and environmentally beneficial and supported by an operational improvement plan;
- (b) support water, waste water and solid waste investments;

(c) have projected household bills at socially affordable levels for the services provided under the Sub-project;

(d) be in compliance with the requirements pertaining to environmental protection applicable under the laws and regulations of the Guarantor and the environmental review and land acquisition procedures set forth in the Operational Manual and shall not require physical resettlement of people; and

(e) (i) not affect adversely the quality and quantity of water flow and be in compliance with the Guarantor's commitments under the Bucharest and Barcelona Conventions; and (ii) include only rehabilitation works of ongoing schemes for Sub-projects located on trans-boundary waters.

6. Sub-loans shall be made on terms whereby the Borrower shall obtain, through Sub-loan Agreements with the Sub-borrowers, rights adequate to protect its interests and those of the Bank and the Guarantor, including the right to:

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

(b) without limitation to the generality of the provisions of the preceding paragraph (a), require the Sub-borrower to carry out and operate the Sub-project with due regard to applicable social impact, ecological, environmental and pollution control standards and in accordance with the provisions of the Operational Manual;

(c) for Sub-projects which need an environmental management plan, require the Sub-borrower to carry out such environmental management plan in a timely manner;

(d) require: (i) that the goods, works and consultants' services to be financed out of the proceeds of the Sub-loans shall be procured in accordance with the provisions of Schedule 5 to this Agreement; and (ii) that such goods, works and consultants' services shall be used exclusively in the carrying out of the Sub-project;

(e) inspect, by itself or jointly with representatives of the Bank, if the Bank shall so request, such goods and the sites, works, plants and construction included in the Sub-project, the operation thereof, and any relevant records and documents;

(f) require that: (i) the Sub-borrower shall take out and maintain with responsible insurers such insurance, against such risks and in such amounts, as shall be consistent with sound business practice; and (ii) without any limitation upon the foregoing, such insurance shall cover hazards incident to the acquisition, transportation and delivery of goods financed out of the proceeds of the Sub-loan to the place of use or installation, any indemnity thereunder to be made payable in a currency freely usable by the Sub-borrower to replace or repair such goods;

(g) obtain all such information as the Bank or the Borrower shall reasonably request relating to the foregoing and to the administration, operations and financial condition of the Sub-borrower and to the benefits to be derived from the Sub-project; and

(h) suspend or terminate the right of the Sub-borrower to the use of the proceeds of the Sub-loan upon failure by such Sub-borrower to perform its obligations under the Sub-loan Agreement.

## **SCHEDULE 6**

### **Special Account**

1. For the purposes of this Schedule:

(a) the term “eligible Categories” means Categories (1) through (4) set forth in the table in paragraph 1 of Schedule 1 to the Loan Agreement;

(b) the term “eligible expenditures” means expenditures in respect of the reasonable cost of goods, works and consultants’ services required for the Project and to be financed out of the proceeds of the Loan allocated from time to time to the eligible Categories in accordance with the provisions of Schedule 1 to this Agreement; and

(c) the term “Authorized Allocation” means the amount of ₪20,000,000 to be withdrawn from the Loan Account and deposited into the Special Account, pursuant to paragraph 3 (a) of this Schedule, provided, however, that unless the Bank shall otherwise agree, the Authorized Allocation shall be limited to the amount of ₪10,000,000 until the aggregate amount of withdrawals from the Loan Account plus the total amount of all outstanding special commitments entered into by the Bank pursuant to Section 5.02 of the General Conditions shall equal or exceed the equivalent of ₪35,000,000.

2. Payments out of the Special Account shall be made exclusively for eligible expenditures in accordance with the provisions of this Schedule.

3. After the Bank has received evidence acceptable to it that the Special Account has been duly opened, withdrawals of the Authorized Allocation and subsequent withdrawals to replenish the Special Account shall be made as follows:

(a) For withdrawals of the Authorized Allocation, the Borrower shall furnish to the Bank a request or requests for deposit into the respective Special Account of an amount or amounts which do not exceed the aggregate amount of the Authorized Allocation. On the basis of such request or requests, the Bank shall, on behalf of the Borrower, withdraw from the Loan Account and deposit into the respective Special Account such amount or amounts as the Borrower shall have requested.

(b) (i) For replenishment of the Special Account, the Borrower shall furnish to the Bank requests for deposits into the respective Special Account at such intervals as the Bank shall specify.

(ii) Prior to or at the time of each such request, the Borrower shall furnish to the Bank the documents and other evidence required pursuant to paragraph 4 of this Schedule for the payment or payments in respect of which replenishment is requested. On the basis of each such request, the Bank shall, on

behalf of the Borrower, withdraw from the Loan Account and deposit into the respective Special Account such amount as the Borrower shall have requested and as shall have been shown by said documents and other evidence to have been paid out of the respective Special Account for eligible expenditures. All such deposits shall be withdrawn by the Bank from the Loan Account under the eligible Category, and in the equivalent amounts, as shall have been justified by said documents and other evidence.

4. For each payment made by the Borrower out of the Special Account, the Borrower shall, at such time as the Bank shall reasonably request, furnish to the Bank such documents and other evidence showing that such payment was made exclusively for eligible expenditures.

5. Notwithstanding the provisions of paragraph 3 of this Schedule, the Bank shall not be required to make further deposits into the Special Account:

(a) if, at any time, the Bank shall have determined that all further withdrawals should be made by the Borrower directly from the Loan Account in accordance with the provisions of Article V of the General Conditions and paragraph (a) of Section 2.02 of this Agreement;

(b) if the Borrower shall have failed to furnish to the Bank, within the period of time specified in Section 4.01 (b) (ii) of this Agreement, any of the audit reports required to be furnished to the Bank pursuant to said Section in respect of the audit of the records and accounts for the Special Account;

(c) if, at any time, the Bank shall have notified the Borrower of its intention to suspend in whole or in part the right of the Borrower to make withdrawals from the Loan Account pursuant to the provisions of Section 6.02 of the General Conditions; or

(d) once the total unwithdrawn amount of the Loan allocated to the eligible Category, minus the total amount of all outstanding special commitments entered into by the Bank pursuant to Section 5.02 of the General Conditions, shall equal the equivalent of twice the amount of the Authorized Allocation.

Thereafter, withdrawal from the Loan Account of the remaining unwithdrawn amount of the Loan allocated to the eligible Category shall follow such procedures as the Bank shall specify by notice to the Borrower. Such further withdrawals shall be made only after and to the extent that the Bank shall have been satisfied that all such amounts remaining on deposit in the Special Account as of the date of such notice will be utilized in making payments for eligible expenditures.

6. (a) If the Bank shall have determined at any time that any payment out of the Special Account: (i) was made for an expenditure or in an amount not eligible pursuant to



paragraph 2 of this Schedule; or (ii) was not justified by the evidence furnished to the Bank, the Borrower shall, promptly upon notice from the Bank: (A) provide such additional evidence as the Bank may request; or (B) deposit into the Special Account (or, if the Bank shall so request, refund to the Bank) an amount equal to the amount of such payment or the portion thereof not so eligible or justified. Unless the Bank shall otherwise agree, no further deposit by the Bank into the Special Account shall be made until the Borrower has provided such evidence or made such deposit or refund, as the case may be.

(b) If the Bank shall have determined at any time that any amount outstanding in the Special Account will not be required to cover further payments for eligible expenditures, the Borrower shall, promptly upon notice from the Bank, refund to the Bank such outstanding amount.

(c) The Borrower may, upon notice to the Bank, refund to the Bank all or any portion of the funds on deposit in the Special Account.

(d) Refunds to the Bank made pursuant to paragraphs 6 (a), (b) and (c) of this Schedule shall be credited to the Loan Account for subsequent withdrawal or for cancellation in accordance with the relevant provisions of this Agreement, including the General Conditions.