

Public Disclosure Authorized

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LOAN NUMBER 4787 TU

Loan Agreement

(Railways Restructuring Project)

between

REPUBLIC OF TURKEY

and

**INTERNATIONAL BANK FOR RECONSTRUCTION
AND DEVELOPMENT**

Dated March 13, 2006

Public Disclosure Authorized



LOAN NUMBER 4787 TU

LOAN AGREEMENT

AGREEMENT, dated March 13, 2006, between the REPUBLIC OF TURKEY (the Borrower) and the INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT (the Bank).

WHEREAS (A) the Bank has received a letter dated December 30, 2004, describing a program of actions, objectives and policies designed to restructure the railways sector and to improve performance of the sector (hereinafter called the Program), and declaring the Borrower's commitment to the implementation of the Program;

(B) the Borrower has requested the Bank's support in the execution of the Program through a series of two (2) loans to be utilized by the Borrower for implementing the Program;

(C) the Borrower, having satisfied itself as to the feasibility and priority of the first phase of the Program (the Project) described in Schedule 2 to this Agreement (the Project), has requested the Bank to assist in the financing of the Project; 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 Single Currency Loans" of the Bank dated May 30, 1995 (as amended through May 1, 2004) with the modifications 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Except as otherwise provided in the Loan Agreement, the proceeds of the Loan may be withdrawn to pay for taxes levied by, or in the territory of, the Borrower or the Guarantor on the goods or services to be financed under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".

(c) Paragraph (c) of Section 9.07 of the General Conditions is modified to read as follows:

"(c) Not later than six months before the Closing Date or such later date as may be agreed for this purpose between the Borrower and the Bank, the Borrower shall prepare and furnish to the Bank a report, of such scope and in such detail as the Bank shall reasonably request, on the execution of the Project, its cost and the benefits derived and to be derived from it, the performance by the Borrower and the Bank of their respective obligations under the Loan Agreement and the accomplishment of the purposes of the Loan."

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) "EMP" means the Environmental Management Plan, acceptable to the Bank, prepared and adopted by the TCDD (hereinafter defined) on March 3, 2005, describing the environmental mitigation, monitoring and institutional measures for the Project;

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

(c) "Fiscal Year" means the twelve-month period corresponding to any of the Borrower's fiscal years, which period commences on January 1 and ends on December 31 in each calendar year;

(d) “Operational Manual” means the manual to be adopted by the TCDD pursuant to Section 6.01 of this Agreement on setting forth the procedures and rules related to Project implementation;

(e) “PIU” means the Project Implementation Unit established within the TCDD on July 16, 2004, for overall Project management and supervision;

(f) “Procurement Plan” means the procurement plan, dated May 6, 2005, 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 Section 3.06 (b) to this Agreement, to cover succeeding 18 month periods (or longer) of Project implementation;

(g) “Project Implementation Protocol” means the protocol to be entered into between the Borrower and the TCDD pursuant to Sections 3.02 (a) and 6.01 of this Agreement, as the same may be amended from time to time;

(h) “Severance Payments” means the payments to be made under Part B of the Project to an employee of the TCDD who is being separated from the TCDD in accordance with the Program and under terms and criteria set forth in the Operational Manual;

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

(j) “TCDD” means the Turkish State Railways (Türkiye Cumhuriyeti Devlet Demiryolları), a state economic enterprise established and operating pursuant to the Decree at the force of law KHK/233, dated June 18, 1984, as amended from time to time.

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 this Agreement, an amount equal to one hundred forty three million seven hundred thousand Euro (€143,700,000).

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 expenditures made (or, if the Bank shall so agree, to be made) in respect of: (i) the reasonable cost of goods, works, services and training required for the Project and to be financed out of the proceeds of the Loan; and (ii) withdrawals made on account of Severance Payments under Part B of the Project.

(b) The Borrower may, for the purposes of the Project, open and maintain in Euro a special account in its Central Bank on terms and conditions acceptable to the Bank. 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 September 30, 2009 or such later date as the Bank shall establish. The Bank shall promptly notify the Borrower of such later date.

Section 2.04. The Borrower shall pay to the Bank a front-end fee in an amount equal to one percent (1%) of the amount of the Loan, subject to any waiver of a portion of such fee as may be determined by the Bank from time to time. Such fee shall be payable not later than 60 days after the Effective Date.

Section 2.05. The Borrower shall pay to the Bank a commitment charge at the rate of three-fourths of one percent ($3/4$ of 1%) per annum on the principal amount of the Loan not withdrawn from time to time.

Section 2.06. (a) The Borrower shall pay interest on the principal amount of the Loan withdrawn and outstanding from time to time, at a rate for each Interest Period equal to LIBOR Base Rate plus LIBOR Total Spread.

(b) For the purposes of this Section:

- (i) "Interest Period" means the initial period from and including the date of this Agreement to, but excluding, the first Interest Payment Date occurring thereafter, and after the initial period, each period from and including an Interest Payment Date to, but excluding the next following Interest Payment Date.
- (ii) "Interest Payment Date" means any date specified in Section 2.07 of this Agreement.
- (iii) "LIBOR Base Rate" means, for each Interest Period, the London interbank offered rate for six-month deposits in Euro for value the first day of such Interest Period (or, in the case of the initial Interest Period, for value the Interest Payment Date occurring on or next preceding the first day of such Interest Period), as reasonably determined by the Bank and expressed as a percentage per annum.
- (iv) "LIBOR Total Spread" means, for each Interest Period: (A) three-fourths of one percent ($3/4$ of 1%); (B) minus (or plus) the weighted average margin, for such Interest Period, below (or above) the London interbank offered rates, or other reference rates, for six-month deposits, in respect of the Bank's

outstanding borrowings or portions thereof allocated by the Bank to fund single currency loans or portions thereof made by it that include the Loan; as reasonably determined by the Bank and expressed as a percentage per annum.

(c) The Bank shall notify the Borrower of the LIBOR Base Rate and the LIBOR Total Spread for each Interest Period, promptly upon the determination thereof.

(d) Whenever, in light of changes in market practice affecting the determination of the interest rates referred to in this Section 2.06, the Bank determines that it is in the interest of its borrowers as a whole and of the Bank to apply a basis for determining the interest rates applicable to the Loan other than as provided in said Section, the Bank may modify the basis for determining the interest rates applicable to the Loan upon not less than six (6) months' notice to the Borrower of the new basis. The new basis shall become effective on the expiry of the notice period unless the Borrower notifies the Bank during said period of its objection thereto, in which case said modification shall not apply to the Loan.

Section 2.07. Interest and other charges shall be payable semiannually in arrears on May 15 and November 15 in each year.

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

ARTICLE III

Execution of the Project

Section 3.01. (a) The Borrower declares its commitment to the objectives of the Project, and, to this end, shall carry out the Project through the TCDD with due diligence and efficiency and in conformity with appropriate administrative, financial and technical practices, and shall cause the TCDD to 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 Borrower and the Bank shall otherwise agree, the Borrower shall, through the TCDD, carry out the Project in accordance with the Implementation Program set forth in Schedule 5 to this Agreement.

Section 3.02. (a) The Borrower shall, for the purposes of carrying out of the Project make the proceeds of the Loan available to the TCDD under the Project Implementation Protocol as agreed with the Bank.

(b) The Borrower shall exercise its rights under the Project Implementation Protocol in such manner as to protect the interests of the Borrower and the Bank and to

accomplish the purposes of the Loan, and maintain the Project Implementation Protocol throughout the implementation of the Project, as agreed with the Bank.

Section 3.03. The Borrower shall, not later than December 31, 2007, cause the TCDD to establish a track access charge system acceptable to the Bank and maintain the system in a manner acceptable to the Bank.

Section 3.04. The Borrower, through the TCDD, shall:

- (a) initiate a study on the rationalization of passenger services, in accordance with terms of reference acceptable to the Bank; and
- (b) not later than December 31, 2007, based on the results of this study, enter into multi-annual public service contracts with railways operators for passenger loss-making services retained for social purposes and maintain such contracts in a manner acceptable to the Bank.

Section 3.05. The Borrower, through the TCDD, shall initiate a study to review the investment/maintenance program for railways infrastructure and freight operations, and take into account the results of the study in the preparation of its investment/maintenance program of the railways sector.

Section 3.06. (a) Except as the Bank shall otherwise agree, procurement of the goods, works and 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 this Agreement, as said provisions may be further elaborated in the Procurement Plan.

(b) The Borrower, through the TCDD, shall update the Procurement Plan 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 3.07. For the purposes of Section 9.07 of the General Conditions and without limitation thereto, the Borrower, through the TCDD, shall:

- (a) prepare, on the basis of guidelines acceptable to the Bank, and furnish to the Bank not later than six (6) months before the Closing Date or such later date as may be agreed for this purpose between the Borrower and the Bank, a plan for the future operation 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, through the TCDD, 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, through the TCDD, shall:
 - (i) have the financial statements referred to in paragraph (a) of this Section 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 such 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 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, through the TCDD, 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 specified in paragraph 5 of Section C of Schedule 5 to this Agreement, the Borrower, through the TCDD, shall prepare and furnish to the Bank a financial monitoring report (FMR), 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, and explains variances between the actual and planned uses of such funds;

- (ii) describes physical progress in Project implementation, both cumulatively and for the period covered by said report, and explains variances between the actual and planned Project implementation; and
- (iii) sets forth the status of procurement under the Project, as of the end of the period covered by said report.

(b) The first FMR shall be furnished to the Bank not later than forty-five (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 forty-five (45) days after each subsequent calendar quarter, and shall cover such calendar quarter.

Section 4.03. The Borrower shall cause the TCDD to have an enterprise resource planning program installed and functional by December 31, 2007.

Section 4.04. The Borrower shall cause the TCDD to appoint a consultant firm to carry out a detailed assessment of internal controls of the TCDD covering its business systems, including the regional offices, by October 31, 2005.

ARTICLE V

Remedies of the Bank

Section 5.01. Pursuant to Section 6.02 (p) of the General Conditions, the following additional event is specified, namely that a situation shall have arisen which shall make it improbable that the Program or a significant part thereof, will be carried out.

ARTICLE VI

Effective Date; Termination

Section 6.01. The following events are specified as additional conditions to the effectiveness of the Loan Agreement within the meaning of Section 12.01 (c) of the General Conditions:

- (a) the Operational Manual acceptable to the Bank, has been adopted by the TCDD; and

(b) the Project Implementation Protocol, as agreed with the Bank, has been executed on behalf the Borrower and the TCDD.

Section 6.02. The following is specified as an additional matter, within the meaning of Section 12.02 (c) of the General Conditions, to be included in the opinion or opinions to be furnished to the Bank, namely that the Project Implementation Protocol has been duly authorized or notified by the Borrower and the TCDD and is legally binding upon the Borrower and the TCDD in accordance with its terms.

Section 6.03. 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 VII

Representative of the Borrower; Addresses

Section 7.01. The Undersecretary of Treasury of the Borrower is designated as representative of the Borrower for the purposes of Section 11.03 of the General Conditions.

Section 7.02. The following addresses are specified for the purposes of Section 11.01 of the General Conditions:

For the Borrower:

Basbakanlik
Hazine Mustesarligi
Inonu Bulvari
Emek-Ankara
Republic of Turkey

Facsimile:

(312) 212-8550

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)	(1-202) 477-6391

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, Republic of Turkey, as of the day and year first above written.

REPUBLIC OF TURKEY

By /s/ Memduh Aslan Akcay

Authorized Representative

INTERNATIONAL BANK FOR
RECONSTRUCTION AND DEVELOPMENT

By /s/ Andrew N. Vorkink

Director
Turkey Country Unit
Europe and Central Asia

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)	88,000,000	85%
(2) Goods	100,000	85%
(3) Severance payments under Part B of the Project	51,000,000	80%
(4) Consultants' services and training	4,000,000	100%
(5) Incremental operating costs	<u>600,000</u>	100%
TOTAL	<u>143,700,000</u>	

2. For the purposes of this Schedule:

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

(b) the term “incremental operating costs” means expenditures incurred to finance the reasonable and necessary incremental expenses incurred by the TCDD, including staff salaries (excluding salaries of government employees) on account of Project implementation, management and monitoring.

3. Notwithstanding the provisions of paragraph 1 above, no withdrawals shall be made in respect of :

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

(b) any expenditures under any Category in the table in paragraph 1 above, unless the Bank has received payment in full of the front-end fee referred to in Section 2.04 of 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: (i) works, under contracts costing less than \$5,000,000 equivalent each; (ii) goods, under contracts costing less than \$100,000 equivalent each; (iii) services of consulting firms under contracts costing less than \$200,000 equivalent each; (iv) services of individual consultants under contracts costing less than \$50,000 equivalent each; (v) training; (vi) incremental operating costs; and (vii) Severance Payments, all 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 the Borrower's implementation of the Program over the four (4) year period 2005-2009, to improve productivity and effectiveness of railway operations and to assist the TCDD in reaching a financially sustainable situation and reduce the fiscal burden the TCDD represents for the Borrower.

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

Part A: Freight Lines Capacity Increase

Implementation of a signaling telecommunication and improvement of infrastructure program along Mersin – Toprakkale, Yenice – Bogazkopru line sections, including complementary works for the extension of 750 m. of the loops within crossing stations, mechanical ventilation of two long tunnels, installation of optic fiber along the lines for improved communication, establishment of a computerized traffic center, improvement of railway interface at both the container terminal and the free zone within the port of Mersin, and the rehabilitation of the oil charging facility.

Part B: Staff Adjustment and Social Plan

Support the implementation of restructuring process of the TCDD through provision of: (a) Severance Payments to eligible workers of the TCDD under terms and criteria set forth in the Operational Manual; and (b) technical assistance including training and re-training for delivery of redeployment services to eligible TCDD workers.

Part C: Advisory Services to the TCDD

Support the completion of the institutional framework and the restructuring of TCDD, including: (a) implementation of the TCDD's restructuring process; (b) detailed engineering and work monitoring; (c) strategic marketing for freight businesses; (d) rail border crossing trade facilitation on strategic corridors; and (e) development of targeted freight services for petroleum products and containerized cargo and promotion of combined transport, through provision of technical assistance.

Part D: TCDD Staff Training and Re-training

Carrying out of a program for the implementation of the TCDD's training program for: (a) railway procedures review and design; (b) operational performance monitoring; (c) improved communication and negotiation skills; and (d) labor regulation on safety and health, through provision of technical assistance and training.

Part E: TCDD Public Communication and Periodic Surveys

Support the development of an efficient communication strategy for the TCDD to improve railways public image, including conducting periodic customer surveys through provision of technical assistance.

* * *

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

SCHEDULE 3

Amortization Schedule

<u>Date Payment Due</u>	<u>Payment of Principal (Expressed in Euro)*</u>
November 15, 2009	4,680,000
May 15, 2010	4,740,000
November 15, 2010	4,805,000
May 15, 2011	4,865,000
November 15, 2011	4,930,000
May 15, 2012	4,995,000
November 15, 2012	5,060,000
May 15, 2013	5,125,000
November 15, 2013	5,190,000
May 15, 2014	5,260,000
November 15, 2014	5,325,000
May 15, 2015	5,395,000
November 15, 2015	5,465,000
May 15, 2016	5,535,000
November 15, 2016	5,610,000
May 15, 2017	5,680,000
November 15, 2017	5,755,000
May 15, 2018	5,830,000
November 15, 2018	5,905,000
May 15, 2019	5,985,000
November 15, 2019	6,060,000
May 15, 2020	6,140,000
November 15, 2020	6,220,000
May 15, 2021	6,300,000
November 15, 2021	6,380,000
May 15, 2022	6,465,000

* The figures in this column represent the amount in Euro to be repaid, except as provided in Section 4.04 (d) of the General Conditions.

SCHEDULE 4

Procurement and Consultants' Services

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, or Consultant Guidelines, as the case may be.

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

A. International Competitive Bidding. Except as 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 Borrower and works to be carried out by domestic contractors.

B. Other Procurement Procedures

1. National Competitive Bidding. Works estimated to cost less than \$5,000,000 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 \$100,000 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 \$200,000 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.

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

H. Price Adjustment

Civil works contracts of long duration (i.e. more than eighteen (18) months) shall 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

Section A: Institutional Arrangements

1. The PIU shall have the overall responsibility for Project management and supervision. The PIU shall be headed by a project manager with qualifications and under terms of reference acceptable to the Bank. The Borrower shall cause the TCDD to maintain the PIU throughout Project implementation with sufficient and suitable human, financial and technical resources.

Section B: Project Implementation Arrangements

2. The Borrower, through the TCDD, shall ensure that the Project shall be implemented in accordance with the Operational Manual. The Borrower shall, through the TCDD, maintain the Operational Manual in form and content acceptable to the Bank and shall duly perform all its obligations under the Operational Manual.

3. The Borrower, through the TCDD, shall: (a) ensure that all measures for the carrying out of the EMP shall be taken in a timely manner; and (b) furnish to the Bank in accordance with a schedule acceptable to the Bank adequate information on the carrying out of such measures.

4. For the purposes of the training consisting of workshops, seminars and study tours to be provided under the Project, the Borrower, through the PIU, shall:

(a) furnish to the Bank for its review, the content of each such training, including an explanation on how such training is consistent and conducive to the objectives of the Project and whether it offers the best price/quality ratio, as well as the schedule for its implementation;

(b) select the trainees in accordance with a transparent process and criteria acceptable to the Bank;

(c) not later than December 31 of each year, exchange views with the Bank on the training to be carried out during the following calendar year; and

(d) furnish to the Bank a report of such scope and detail as the Bank shall reasonably request, on the results of each training and the benefits to be derived therefrom.

Section C: Project Reporting Arrangements

5. The Borrower, through the TCDD, shall:

(a) maintain policies and procedures adequate to enable it to monitor and evaluate on an ongoing basis, in accordance with the Performance Indicators, the carrying out of the Project and the Program and the achievement of the objectives thereof;

(b) prepare, under terms of reference satisfactory to the Bank, and furnish to the Bank semiannually, commencing on March 31, 2006, 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 and the Program 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 Program and the achievement of the objectives thereof during the period following such date; and

(c) review with the Bank, by May 31, 2007 or such later date as the Bank shall request, the relevant report referred to in paragraph (b) of this Section, and, thereafter, take all measures required to ensure the efficient completion of the Project and the Program 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.

SCHEDULE 6

Special Account

1. For the purposes of this Schedule:

(a) the term “eligible Categories” means Categories (1) through (5) set forth in the table in paragraph 1 of Schedule 1 to this Agreement;

(b) the term “eligible expenditures” means expenditures in respect of the reasonable cost of goods and 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 \$14,000,000 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 \$7,000,000 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 be equal to or exceed the equivalent of \$25,000,000.

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 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 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 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 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 Special Account for eligible expenditures. All such deposits shall be withdrawn by the Bank from the Loan Account under the respective eligible Categories, and in the respective 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 Categories for the Project, 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 Categories 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 paragraph 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.