

CONFORMED COPY
LOAN NUMBER 4376 TU

Loan Agreement

(Commodities Market Development Project)

between

REPUBLIC OF TURKEY

and

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

Dated July 31, 1998

LOAN NUMBER 4376 TU

LOAN AGREEMENT

AGREEMENT, dated July 31, 1998, between the REPUBLIC OF TURKEY (the Borrower) and the INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT (the Bank).

WHEREAS the Borrower, having satisfied itself as to the feasibility and priority of the Project described in Schedule 2 to this Agreement, 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 December 2, 1997, with the modification set forth below (the General Conditions), constitute an integral part of this Agreement:

In Section 9.07, subparagraph (c) is modified to read:

"(c) Not later than six (6) months prior to the Closing Date or such later date as may be agreed for this purpose between the Bank and the Borrower, 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 and initial operation 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) "MIT" means the Ministry of Industry and Trade of the Borrower;
- (b) "Participating Exchanges" means the Polatli, Konya, Eskisehir, Izmir, Sanliurfa, Edirne and Adana Commodity Exchanges of the Borrower;
- (c) "PIU" means the Project Implementation Unit established within MIT pursuant to Section 5.01(b) of this Agreement;
- (d) "Project Administration Team" means the team to be established within TOBB pursuant to paragraph 3 (c) of Schedule 1 to this Agreement;
- (e) "Special Account" means the account referred to in Section 2.02 (b) of this Agreement;
- (f) "Steering Committee" means the Committee to be established pursuant to paragraph 4 of Schedule 5 to this Agreement;
- (g) "Sub-loan" means a loan made or proposed to be made by TOBB (as hereinafter defined), financed out of the proceeds of the Loan, to a Participating Exchange for a Sub-project;
- (h) "Sub-project" means a specific investment project for a productive activity, to be carried out by a Participating Exchange utilizing the proceeds of a Sub-loan;
- (i) "Sub-loan Agreement" means any agreement entered into between TOBB and a Participating Exchange pursuant to paragraph 1 (c) of Section I to the Annex to 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
- (j) "Subsidiary Loan Agreement" means the agreement to be entered into between the Borrower and TOBB, pursuant to Section 3.02 of this Agreement for the implementation of Part A of the Project, as the same may be amended from time to time, and such term includes all schedules to the Subsidiary Loan Agreement; and
- (k) "TOBB" means Union of Chambers of Commerce, Industry and Maritime Commerce and Commodity Exchanges of Turkey established by Law No. 5590 of the Borrower, dated March 15, 1950.

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 four million Dollars (\$4,000,000).

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: (i) amounts paid (or, if the Bank shall so agree, amounts to be paid) by TOBB on account of expenditures made by a Participating Exchange under a Sub-loan to meet the reasonable cost of goods, works and services required for the Sub-project financed under Part A of the Project in respect of which the withdrawal from the Loan Account is requested; and (ii) expenditures made (or, if the Bank shall so agree, to be made) in respect of the reasonable cost of goods and services required for Parts B and C of the Project and to be financed out of the proceeds of the Loan.

(b) The Borrower may, for the purposes of the Project, open and maintain in Dollars a special deposit account in its Central Bank on terms and conditions satisfactory 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, 2001, 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 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 2.05. The Borrower shall pay interest on the principal amount of the Loan withdrawn and outstanding from time to time in accordance with the provisions of Schedule 3 to this Agreement.

Section 2.06. Interest and other charges shall be payable in arrears on March 15 and September 15 in each year.

Section 2.07. The Borrower shall repay the principal amount of the Loan in accordance with the provisions of 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 as set forth in Schedule 2 to this Agreement, and, to this end:

(i) shall carry out Parts B and C of the Project through MIT, with due diligence and efficiency and in conformity with appropriate administrative, financial, agricultural, environmental, and technical practices, and shall provide, promptly as needed, the funds, facilities, services and other resources required for Parts B and C of the Project; and

(ii) without any limitation or restriction upon any of its other obligations under this Agreement, shall cause TOBB to carry out Part A of the Project with due diligence and efficiency and in conformity with appropriate administrative, financial, agricultural, environmental and technical practices, and shall take or cause to be taken all action, including the provision of funds, facilities, services and other resources, necessary or appropriate to enable TOBB to perform such obligations, and shall not take or permit to be taken any action which would prevent or interfere with such performance.

(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 carry out Parts B and C of the Project and cause TOBB to carry out Part A of the Project in accordance with the Implementation Program set forth in Schedule 5 to this Agreement.

Section 3.02. For the purpose of carrying out Part A of the Project, the Borrower shall enter into a Subsidiary Loan Agreement with TOBB under terms and conditions satisfactory to the Bank including, without limitation, the terms and conditions set forth in Section I of the Annex to Schedule 5 to this Agreement.

Section 3.03. Except as the Bank shall otherwise agree, procurement of the goods and consultants' services required for the Project and to be financed out of the proceeds of the Loan shall be governed by the provisions of Schedule 4 to this Agreement.

Section 3.04. 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 prior to 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 Project's objectives; 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 or cause to be maintained records and accounts adequate to reflect in accordance with sound accounting practices the operations, resources and expenditures in respect of the Project of the departments or agencies of the Borrower responsible for the carrying out of the Project or any part thereof.

(b) The Borrower shall:

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

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

(iii) furnish to the Bank such other information concerning said records and accounts and the audit thereof 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) maintain or cause to be maintained, in accordance with paragraph (a) of this Section, records and accounts reflecting such expenditures;

(ii) retain, until at least one year after the Bank has received the audit report for 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;

(iii) enable the Bank's representatives to examine such records; and

(iv) ensure that such records and accounts are included in the annual audit referred to in paragraph (b) of this Section and that the report of such audit contains a separate opinion by said auditors as to whether the statements of expenditure submitted during each fiscal year, together with the procedures and internal controls involved in their preparation, can be relied upon to support the related withdrawals.

ARTICLE V

Termination; Effective Date

Section 5.01. 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 Subsidiary Loan Agreement has been executed on behalf of the Borrower and TOBB, on terms and conditions satisfactory to the Bank;
- (b) the PIU has been established to coordinate Project related activities and a manager, advisory group coordinator, procurement specialist and an accountant, with qualifications, terms of reference and experience satisfactory to the Bank, have been appointed; and
- (c) MIT has entered into an agreement with an agency for carrying out Part C of the Project in a manner satisfactory to the Bank.

Section 5.02. The following is 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 Subsidiary Loan Agreement has been duly executed by the parties thereto and is legally binding upon them in accordance with its terms.

Section 5.03. The date ninety (90) 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 Undersecretary of Treasury is designated as 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 Borrower:

Basbakanlik
Hazine Mustesarligi
Inonu bulvari
Emek-Ankara
Republic of Turkey

Cable address:

Telex:

821-42285 (MLYE-TR) or
821-42689 (ANK-TR)

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:

INTBAFRAD
Washington, D.C. 248423 (MCI) or
 64145 (MCI)

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/ S. Akman

Authorized Representative

INTERNATIONAL BANK FOR
RECONSTRUCTION AND DEVELOPMENT

By /s/ F. Temple

Acting Regional Vice President
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:

Category	Amount of the Loan Allocated (Expressed in Dollar Equivalent)	% of Expenditures to be Financed
(1) Sub-loans under Part A of the Project	2,800,000	70% of amounts disbursed
(2) Consultants' services and training under Part B of the Project	620,000	70%
(3) Consultants' services under Part C of the Project	120,000	70%
(4) Incremental operating costs under Parts B and C of the Project	140,000	70%
(5) Unallocated	320,000	
total	4,000,000	

2. For the purposes of this Schedule, the term "incremental operating costs" means the incremental expenses incurred by the PIU on account of Project implementation, management and monitoring, including salaries for staff hired for the Project, office supplies, vehicle operation, travel and supervision costs.

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

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

(b) in respect of any payments under Category (1), unless the Sub-loan has been made in accordance with the procedures and on terms and conditions set forth or referred to in Section II of the Annex to Schedule 5 to this Agreement; and

(c) in respect of any payments under Category (1), unless the Project Administration Team has been established within TOBB, and a Sub-project coordinator, an accountant and a procurement specialist with qualifications, terms and reference and experience satisfactory to the Bank, have been appointed.

4. The Bank may require withdrawals from the Loan Account to be made on the basis of statements of expenditure for expenditures: (i) for works under contracts costing less than \$1,500,000 equivalent; (ii) for goods under contracts costing less than \$1,000,000 equivalent; (iii) for incremental operating costs costing less than \$50,000 equivalent; and (iv) for services under contracts costing less than \$200,000 equivalent for the employment of consulting firms, and under contracts costing less than \$50,000 equivalent for the employment of individual consultants, under such terms and conditions as the Bank shall specify by notice to the Borrower.

SCHEDULE 2

Description of the Project

The objectives of the Project are to: (a) increase the marketing efficiency of grains and cotton through selected commodity exchanges by introducing improved systems of price discovery, dematerialized trade, and regulatory oversight; and (b) demonstrate the benefits resulting from increased private commodity marketing.

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: Modernization Support

Establishment and operation of a credit facility through TOBB to make Sub-loans to Participating Exchanges for the financing of Sub-projects.

Part B: Institutional Support

Provision of training and technical assistance to MIT to: (a) introduce uniform, internationally compatible quality standards for cotton and wheat; (b) design and initiate the implementation of a warehouse receipt system; (c) improve market surveillance and supervision of commodity exchanges; and (d) establishment of a communication network linking commodity exchanges.

Part C: Impact Evaluation

Provision of consultants' services to: (a) prepare baseline and expert survey of users of exchange services, including indicators of increased usage and improved efficiency of operation at the level of exchanges; and (b) monitor market integration among Participating Exchanges.

* * *

The Project is expected to be completed by March 31, 2001.

SCHEDULE 3

Interest and Principal Repayment Provisions

A. General Definitions

For purposes of this Schedule, the following terms have the following meanings:

(a) "Disbursed Amount" means, in respect of each Interest Period, the aggregate principal amount of the Loan withdrawn from the Loan Account in such Interest Period.

(b) "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.

(c) "Interest Payment Date" means any date specified in Section 2.06 of this Agreement.

(d) "Rate Fixing Date" means, for each Disbursed Amount, the first day of the Interest Period next following the Interest Period in which such Disbursed Amount is withdrawn.

B. Interest

1. The principal amount of the Loan shall be divided into Disbursed Amounts. Interest shall accrue on each Disbursed Amount outstanding from time to time at a rate based on a floating rate index prior to its Rate Fixing Date and at a fixed rate from its Rate Fixing Date, as described in paragraph 2 of this Part B.

2. (a) From the date of withdrawal of each amount of each Disbursed Amount withdrawn and outstanding, to but not including the Rate Fixing Date for such Disbursed Amount, interest on each such amount shall accrue, at a rate equal to the applicable:

(i) LIBOR Base Rate; plus

(ii) LIBOR Total Spread.

(b) From the Rate Fixing Date for each Disbursed Amount until final repayment thereof, interest on such Disbursed Amount shall accrue, at a rate equal to the applicable:

(i) Fixed Base Rate; plus

(ii) Fixed Total Spread.

3. For purposes of paragraph 2 of this Part B, the following terms have the following meanings:

(a) "LIBOR Base Rate" means, for the Interest Period in which a Disbursed Amount is withdrawn, the London interbank offered rate for six-month deposits in dollars for value the first day of such Interest Period (or, in the case of the initial Interest Period, for value the day occurring on the Interest Payment Date preceding the first day of such Interest Period), as reasonably determined by the Bank and expressed as a percentage per annum.

(b) "LIBOR Total Spread" means, for the Interest Period in which each Disbursed Amount is withdrawn:

(i) one half of one percent (1/2 of 1%);

(ii) 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 such Disbursed Amount for such Interest Period;

as reasonably determined by the Bank and expressed as a percentage per annum.

(c) "Fixed Base Rate" means, for each Disbursed Amount, the equivalent of the London interbank offered rate for six-month deposits in dollars for value on the Rate Fixing Date for such Disbursed Amount, expressed as a single fixed interest rate based on the fixed interest rates corresponding to the repayment installments of such Disbursed Amount, as reasonably determined by the Bank and expressed as a percentage per annum.

(d) "Fixed Total Spread" means, for each Disbursed Amount:

(i) one-half of one percent (1/2 of 1%);

(ii) minus (or plus) the cost margin, applicable on the Rate Fixing Date for such Disbursed Amount, 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 to fund single currency loans or portions thereof made by it that include such Disbursed Amount; plus

(iii) the Bank's risk spread applicable on the Rate Fixing Date for such Disbursed Amount;

as reasonably determined by the Bank and expressed as a percentage per annum.

4. The Bank shall notify the Borrower of LIBOR Base Rate, LIBOR Total Spread, Fixed Base Rate and Fixed Total Spread applicable to each Disbursed Amount, promptly upon the determination thereof.

5. Whenever, in light of changes in market practice affecting the determination of the interest rates referred to in this Schedule, 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 this Schedule, the Bank may modify the basis for determining the interest rates applicable to amounts of the Loan not yet withdrawn 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.

C. Repayment

1. Subject to the provisions of paragraph 2 of this Part C, the Borrower shall repay each Disbursed Amount of the Loan in semiannual installments payable on each March 15 and September 15, the first such installment to be payable on the seventh (7th) Interest Payment Date following the Rate Fixing Date for such Disbursed Amount and the last such installment to be payable on the twenty-fourth (24th) Interest Payment Date following the Rate Fixing Date for such Disbursed Amount. Each installment shall be one-eighteenth (1/18) of such Disbursed Amount.

2. Notwithstanding the provisions of paragraph 1 of this Part C, if any installment of principal of each Disbursed Amount would, pursuant to the provisions of said paragraph 1, be payable after March 15, 2014, the Borrower shall also pay on said date the aggregate amount of all such installments.

3. After each Disbursed Amount shall have been withdrawn, the Bank shall promptly notify the Borrower of the amortization schedule for such Disbursed Amount.

SCHEDULE 4

Procurement and Consultants' Services

Section I. Procurement of Goods and Works

Part A: General

Goods shall be procured in accordance with the provisions of Section I of the "Guidelines for Procurement under IBRD Loans and IDA Credits" published by the Bank in January 1995 and revised in January and August 1996 and September 1997 (the Guidelines) and the following provisions of this Section.

Part B: International Competitive Bidding

1. Except as otherwise provided in Part C of this Section, goods and works shall be procured under contracts awarded in accordance with the provisions of Section II of the Guidelines and paragraph 5 of Appendix 1 thereto.

2. The following provision shall apply to goods to be procured under contracts awarded in accordance with the provisions of paragraph 1 of this Part B.

Preference for domestically manufactured goods

The provisions of paragraphs 2.54 and 2.55 of the Guidelines and Appendix 2 thereto shall apply to goods manufactured in the territory of the Borrower.

Part C: Other Procurement Procedures

1. National Competitive Bidding

Works procured under Part A of the Project estimated to cost less than \$1,500,000 equivalent per contract, may be procured under contracts awarded in accordance with the provisions of paragraphs 3.3 and 3.4 of the Guidelines.

2. International Shopping

Goods procured under Part A of the Project estimated to cost less than \$1,000,000 equivalent per contract, may be procured under contracts awarded on the basis of international shopping procedures in accordance with the provisions of paragraphs 3.5 and 3.6 of the Guidelines.

3. Commercial Practices

Goods procured under Part A of the Project estimated to cost less than \$500,000 equivalent per contract shall be procured at a reasonable price, account being taken also of other relevant factors such as time of delivery, efficiency and reliability of the goods and availability of maintenance facilities and spare parts therefor.

4. Procurement of Small Works

Works estimated to cost less than \$250,000 equivalent per contract may be procured under lump-sum, fixed-price contracts awarded on the basis of quotations obtained from at least three (3) qualified domestic contractors in response to a written invitation. The invitation shall include a detailed description of the works, including basic specifications, the required completion date, a basic form of agreement acceptable to the Bank, and relevant drawings, where applicable. The award shall be made to the contractor who offers the lowest price quotation for the required work, and who has the experience and resources to complete the contract successfully.

Part D: Review by the Bank of Procurement Decisions

1. Procurement Planning

Prior to the issuance of any invitations to prequalify for bidding or to bid for contracts, the proposed procurement plan for the Project shall be furnished to the Bank for its review and approval, in accordance with the provisions of paragraph 1 of Appendix 1 to the Guidelines. Procurement of all goods and works shall be undertaken in accordance with such procurement plan as shall have been approved by the Bank, and with the provisions of said paragraph 1.

2. Prior Review

(a) With respect to: (i) each contract procured under Part B of this Schedule; and (ii) the first contract procured under Part C.1 of this Schedule, the procedures set forth in paragraphs 2 and 3 of Appendix 1 to the Guidelines shall apply.

(b) With respect to the first contracts procured under Parts C.2 and 3 of this Schedule, the following procedures shall apply:

(i) prior to the selection of any supplier under shopping procedures the Borrower shall provide to the Bank a report on the comparison and evaluation of quotations received; and

(ii) the procedures set forth in paragraphs 2 (f) and 2 (g) and 3 of Appendix 1 to the Guidelines shall apply.

3. Post Review

With respect to each contract not governed by paragraph 2 of this Part, the procedures set forth in paragraph 4 of Appendix 1 to the Guidelines shall apply.

Section II. Employment of Consultants

Part A: General

Consultants' services shall be procured in accordance with the provisions of the Introduction and Section IV of the "Guidelines: Selection and Employment of Consultants by World Bank Borrowers" published by the Bank in January 1997 and revised in September 1997 (the Consultant Guidelines) and the following provisions of Section II of this Schedule.

Part B: Quality- and Cost-based Selection

1. Except as otherwise provided in Part C of this Section, consultants' services shall be procured under contracts awarded in accordance with the provisions of Section II of the Consultant Guidelines, paragraph 3 of Appendix 1 thereto, Appendix 2 thereto, and the provisions of paragraphs 3.13 through 3.18 thereof applicable to quality- and cost-based selection of consultants.

2. The following provisions shall apply to consultants services to be procured under contracts awarded in accordance with the provisions of the preceding paragraph. The short list of consultants for services under Parts B and C of the Project, estimated to cost less than \$200,000 equivalent per contract, may comprise entirely national consultants in accordance with the provisions of paragraph 2.7 of the Consultant Guidelines.

Part C: Other Procedure for the Selection of Consultants

Commercial Practices

Services to assist Sub-borrowers in carrying out Subprojects under Part A of the Project and estimated to cost less than \$50,000 equivalent per contract may be procured in accordance with commercial practices acceptable to the Bank.

Part D: Review by the Bank of the Selection of Consultants

1. Selection Planning

Prior to the issuance to consultants of any requests for proposals, the proposed plan for the selection of consultants under the Project shall be furnished to the Bank for its review and approval, in accordance with the provisions of paragraph 1 of Appendix 1 to the Consultant Guidelines. Selection of all consultants' services shall be undertaken in accordance with such selection plan as shall have been approved by the Bank, and with the provisions of said paragraph 1.

2. Prior Review

(a) With respect to each contract for the employment of consulting firms estimated to cost the equivalent of \$200,000 or more, the procedures set forth in paragraphs 1, 2 (other than the third subparagraph of paragraph 2(a)) and 5 of Appendix 1 to the Consultant Guidelines shall apply.

(b) With respect to each contract for the employment of consulting firms estimated to cost the equivalent of \$100,000 or more, but less than the equivalent of \$200,000, the procedures set forth in paragraphs 1, 2 (other than the second subparagraph of paragraph 2(a)) and 5 of Appendix 1 to the Consultant Guidelines shall apply.

(c) With respect to each contract for the employment of individual consultants estimated to cost the equivalent of \$50,000 or more, the qualifications, experience, terms of reference and terms of employment of the consultants shall be furnished to the Bank for its prior review and approval. The contract shall be awarded only after said approval shall have been given.

3. Post Review

With respect to each contract not governed by paragraph 2 of this Part, the procedures set forth in paragraph 4 of Appendix 1 to the Consultant Guidelines shall apply.

SCHEDULE 5

Implementation Program

The provisions of this Schedule shall apply for the purposes of Section 3.01 (b) of this Agreement.

1. For the purposes of overall coordination and supervision of the Project execution, the Borrower shall maintain at all times during the execution of the Project the PIU with functions and responsibilities satisfactory to the Bank and with staff whose qualifications, experience and terms of reference are satisfactory to the Bank. The PIU shall take all measures necessary to coordinate with the Steering Committee during the implementation of the Project.

2. 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 satisfactory to the Bank, and furnish to the Bank, on or about October 31, 1999, 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 during the period preceding the date of said report and setting out the measures recommended to ensure the efficient carrying out of the Project and the achievement of the objectives thereof during the period following such date; and

(c) review with the Bank, by December 31, 1999, 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 matter.

3. MIT shall not later than October 31, 1999, establish and thereafter maintain: (a) an exchange oversight department; (b) a quality grades inspection department; and (c) a warehouse licensing and inspection department with qualified staff and adequate resources.

4. The Borrower shall not later than March 31, 1999, establish and thereafter maintain the Steering Committee consisting of, inter alia, the representatives of the State Planning Organization, Undersecretariat of Treasury, MIT, the Ministry of Agriculture and Rural Affairs, Undersecretariat of Foreign Trade, Turkish Grain Board, and TOBB, to provide policy guidance and monitor Project implementation.

ANNEX TO SCHEDULE 5

Section I. Principal Terms and Conditions of the Subsidiary Loan Agreement

1. For the purposes of carrying out Part A of the Project, the Borrower shall enter into a Subsidiary Loan Agreement with TOBB whereby TOBB shall undertake to:

(a) carry out its activities under Part A of the Project and conduct its operations and affairs in accordance with appropriate financial standards and practices, with qualified management and staff in adequate numbers and to provide, promptly as needed, the funds, facilities, services and other resources required for the purpose;

(b) maintain at all times during the execution of Part A of the Project the

Project Administration Team with functions and responsibilities satisfactory to the Bank and the Borrower, and staff with qualifications, experience and terms of reference satisfactory to the Bank and the Borrower;

(c) relend to Participating Exchanges, out of the proceeds of the Loan allocated from time to time to Category (1) of the table set forth in paragraph 1 of Schedule 1 to this Agreement, the amount of financing required for its respective Sub-project under a Sub-loan Agreement (the Sub-loan Agreement) to be entered into between TOBB and the Participating Exchange, under terms and conditions satisfactory to the Bank, which shall include, without limitation, the terms and conditions set forth in Section II of this Annex to Schedule 5;

(d) exercise its rights in relation to each Sub-loan in such manner as to protect its interests and the interests of the Borrower and the Bank and to accomplish the purposes of the Loan;

(e) not assign, amend or waive any of its agreements providing for Sub-loans, or any provision thereof, without prior approval of the Borrower and the Bank;

(f) appraise Sub-projects and supervise, monitor and report on the carrying out by the Participating Exchanges of Sub-projects in accordance with procedures satisfactory to the Bank and the Borrower;

(g) in respect of repayments made by the Participating Exchanges under the respective Sub-loans upon receipt of each such repayment, credit the same to the account of the Borrower maintained for the purposes of the Project;

(h) in the event that a Participating Exchange fails to make payment of principal or interest or any other amount due, within ninety (90) days of the due date of such payment, pay such amount to the account of the Borrower maintained for the purposes of the Project;

(i) (i) exchange views with, and furnish all such information to, the Bank, MIT and the PIU, as may be reasonably requested by the Bank, MIT and the PIU with regard to the progress of its activities under the Project and the performance of its obligations under the Subsidiary Loan Agreement; and (ii) promptly inform MIT or the PIU of any condition which interferes or threatens to interfere with the progress of its activities under the Subsidiary Loan Agreement; and

(j) (i) maintain records and accounts adequate to reflect, in accordance with sound accounting practices, its operations and financial condition; (ii) have its financial statements (balance sheets, statements of income and expenses and related statements) for each fiscal year audited, in accordance with appropriate auditing principles consistently applied, by independent auditors acceptable to the Bank; (iii) furnish to the Borrower as soon as available, but in any case not later than six (6) months after the end of each such year, certified copies of said financial statements and accounts for such year as so audited, and the report of said audit by said auditors in such scope and detail as the Bank shall have reasonably requested; and (iv) furnish to the Bank and the Borrower such other information concerning said records, accounts and financial statements, as well as the audit thereof, as the Bank or the Borrower shall from time to time reasonably request.

Section II. Principal Terms and Conditions of Sub-loans

1. The principal amount of each Sub-loan made out of the proceeds of the Loan allocated from time to time to Category (1) of the table set forth in paragraph 1 of Schedule 1 to this Agreement shall:

(a) be denominated and repayable in Dollars (determined as of the date or respective dates of withdrawal from the Loan Account or payment out of the Special Account) of the value of the currency or currencies so withdrawn or paid out on account of the costs of goods, works and services financed out of such proceeds for Sub-loans under Part A of the Project; and

(b) not exceed the equivalent of \$1,000,000.

2. Each Sub-loan shall be:

(a) charged a commitment charge on the principal amount of the Sub-loan not withdrawn from time to time at a rate equivalent to one-half of one percent (1/2 of 1%) per annum;

(b) charged quarterly, on the principal amount thereof withdrawn and outstanding from time to time, an interest rate equal to the rate payable by the Borrower pursuant to Section 2.05 of this Agreement plus one-half of one percent (1/2 of 1%);

(c) made for a maximum period of eight (8) years including a maximum grace period not exceeding two (2) years; and

(d) charged a prepayment premium at a rate equivalent to one percent (1%) of any amount prepaid by the Participating Exchange.

3. No expenditures for a Sub-project shall be eligible for financing out of the proceeds of a Sub-loan unless:

(a) the first and the third Sub-loans made to Participating Exchanges shall have been approved by the Bank; and

(b) the Participating Exchange has been required and agreed to finance at least thirty percent (30%) of the proposed cost of the Sub-project.

4. When presenting a Sub-loan for approval, the Participating Exchanges shall furnish to TOBB an application, in form and substance satisfactory to the Bank, together with:

(a) a business plan, including recent and projected financial statements of the Participating Exchange;

(b) an investment plan and a procurement plan which describes, quantifies and costs in detail the investments and their procurement under the Sub-project; and

(c) any such other information as TOBB shall reasonably request.

5. Sub-loans shall be made for Sub-projects which are each determined to be:

(a) technically feasible and economically and financially viable; and

(b) in compliance with all environmental laws and standards of the Borrower.

6. Sub-loans shall be made on terms whereby TOBB shall obtain, by written contract or other appropriate means, rights adequate to protect its interest and those of the Borrower and the Bank, including the right to:

(a) require the Participating Exchange to carry out the Sub-project with due diligence and efficiency and in conformity with appropriate technical, economic, financial and commercial practices, to maintain adequate records, and to provide, promptly as needed, the funds, facilities and other resources required for the purpose;

(b) require that the goods, works and consultants services to be financed out of the proceeds of the Loan be procured in accordance with provisions of Schedule 4 to this Agreement, and use of such goods, works and services be exclusively in the carrying out of the Sub-project;

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

(d) require that the Beneficiary shall take out and maintain such insurance, against such risks and in such amounts, as shall be consistent with sound business practices;

(e) 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 Participating Exchange and to the benefits to be derived from the Sub-project; and

(f) suspend or terminate the right of the Participating Exchange to the use of the proceeds of the Sub-loan upon failure by such Participating Exchange to perform its obligations under its Sub-loan Agreement with TOBB.

SCHEDULE 6

Special Account

1. For the purposes of this Schedule:

(a) the term "eligible Categories" means Categories (1), (2), (3) and (4) 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, works 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 an amount equivalent to \$400,000 to be withdrawn from the Loan Account and deposited into the Special Account pursuant to paragraph 3 (a) of this Schedule.

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 satisfactory 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, minus the total amount of all outstanding special commitments entered into by the Bank pursuant to Section 5.02 of the General Conditions with respect to the Project, 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 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.

