

CONFORMED COPY

LOAN NUMBER 3090 TU

(Third Agricultural Credit Project)

between

INTERNATIONAL BANK FOR RECONSTRUCTION
AND DEVELOPMENT

and

TURKIYE CUMHURİYETİ ZIRAAT BANKASI

Dated June 28, 1989

LOAN NUMBER 3090 TU

PROJECT AGREEMENT

AGREEMENT, dated June 28, 1989, between INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT (the Bank) and TURKIYE CUMHURİYETİ ZIRAAT BANKASI (TCZB).

WHEREAS (A) by the Loan Agreement of even date herewith between Republic of Turkey (the Borrower) and the Bank, the Bank has agreed to make available to the Borrower an amount in various currencies equivalent to two hundred fifty million dollars (\$250,000,000), on the terms and conditions set forth in the Loan Agreement, but only on condition that TCZB agree to undertake such obligations toward the Bank as are set forth in this Agreement;

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

WHEREAS TCZB, in consideration of the Bank's entering into

the Loan Agreement with the Borrower, has agreed to undertake the obligations set forth in this Agreement;

NOW THEREFORE the parties hereto hereby agree as follows:

ARTICLE I

Definitions

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

(a) "MAFRA" means the Ministry of Agriculture, Forestry and Rural Affairs of the Borrower;

(b) "TKK" means the Central Union of agricultural credit cooperatives of the Borrower, operating under the General supervision of MAFRA;

(c) "Credit Guidelines" means the Agricultural Credit Guidelines adopted by TCZB, as the same may be amended from time to time and the term "Project Credit Guidelines" means the credit guidelines and procedures to be adopted by TCZB for the Project area pursuant to Section 2.01 (d) of this Agreement;

(d) "MAFRA Protocol" means the protocol to be concluded between TCZB and MAFRA pursuant to Section 2.01 (c) of this Agreement;

(e) "TKK Agreement" means the agreement to be concluded between TCZB and TKK pursuant to Section 2.01 (c) of this Agreement;

(f) "Policy Statement" means the Policy Statement adopted by TCZB on May 4, 1989 and providing for the main principles governing its operations;

(g) "Action Plan" means the Action Plan adopted by TCZB on December 19, 1986, as the same may be amended from time to time, specifying TCZB's institutional development program;

(h) "Sub-loan" means a loan made or proposed to be made by TCZB from the proceeds of the Loan or from other resources in accordance with the procedures described in the Project Credit Guidelines and in the Schedule to this Agreement;

(i) "Lira" or "TL" means the currency of the Borrower;

(j) "Project area" means the provinces listed in the Annex to Schedule 2 to the Loan Agreement; and

(k) "Previous Loan" means the amount available to TCZB for the provision of agricultural credit in the Project area from the proceeds of the loan provided by the Bank under the Loan Agreement between Republic of Turkey and the Bank for the Erzurum Rural Development Project, dated March 5, 1982.

ARTICLE II

Execution of the Project

Section 2.01. (a) TCZB declares its commitment to the objectives of the Project as set forth in Schedule 2 to the Loan Agreement, and, to this end, shall carry out the Project in cooperation with MAFRA and TKK, with due diligence and efficiency and in conformity with appropriate engineering, financial, administrative and agricultural practices, and shall provide, promptly as needed, the funds, facilities, services and other resources required for the Project.

(b) Without limitation to the provisions of paragraph (a) of this Section and except as TCZB and the Bank may otherwise agree, TCZB shall carry out the Project in accordance with the implementation program set forth in the Schedule to this Agreement.

(c) TCZB shall conclude under terms and conditions satisfactory to the Bank: (i) a protocol with MAFRA (the MAFRA Protocol) for the coordination of MAFRA's activities toward achieving the objectives of sub-loans provided under Part B of the Project; and (ii) an agreement with TKK (the TKK Agreement) which shall set forth: (A) the conditions for the provision, through TKK, of sub-loans to its member cooperatives under Part B of the Project and the assistance to be extended by TCZB to TKK in connection therewith; and (B) the obligation of TKK to carry out Part A (2) of the Project.

(d) TCZB shall adopt the Project Credit Guidelines for application in the Project area, which shall include principles and procedures for the provision of sub-loans satisfactory to the Bank, including those set forth in Part B (1) of the Schedule to this Agreement.

(e) Except as the Bank may otherwise agree, TCZB shall not, until the completion of the Project, abrogate or repeal the Policy Statement, the Credit Guidelines, the Project Credit Guidelines, the MAFRA Protocol or the TKK Agreement, or make any amendments thereto which would, in the opinion of the Bank, materially and adversely affect the carrying out by TCZB of its obligations under this Agreement or the achievement of the objectives of the Project.

Section 2.02. TCZB shall (a) carry out the Action Plan and the training program referred to in Part A (1) and A (4) of the Project, respectively, under arrangements and in accordance with time schedules satisfactory to the Bank; (b) carry out the studies referred to in said Part A (1) of the Project under terms of reference satisfactory to the Bank, and ensure the completion of such studies and the furnishing to the Bank of their findings and recommendations by the dates indicated in the Action Plan; and (c) exchange views thereafter with the Bank on the action to be taken for the implementation of such recommendations.

Section 2.03. (a) Except as the Bank shall otherwise agree, procurement of the goods, works and services to be financed from the proceeds of sub-loans shall be governed by the provision specified in the Schedule to this Agreement.

(b) In order to assist TCZB in the carrying out of Part A of the Project, TCZB shall employ consultants whose qualifications, experience and terms and conditions of employment shall be satisfactory to the Bank. Such consultants shall be selected in accordance with principles and procedures satisfactory to the Bank on the basis of the "Guidelines for the Use of Consultants by World Bank Borrowers and by The World Bank as Executing Agency" published by the Bank in August 1981.

Section 2.04. TCZB shall carry out the obligations set forth in Sections 9.04, 9.05, 9.06 and 9.07, of the General Conditions (relating to insurance, use of goods and services, plans and schedules and records and reports respectively) in respect of the Project.

Section 2.05. TCZB shall duly perform all its obligations under the Subsidiary Loan Agreement. Except as the Bank shall otherwise agree, TCZB shall not take or concur in any action which would have the effect of amending, abrogating, assigning or waiving the Subsidiary Loan Agreement or any provision thereof.

Section 2.06. (a) TCZB shall, at the request of the Bank, exchange views with the Bank with regard to progress of the Project, the performance of its obligations under this Agreement

and under the Subsidiary Loan Agreement and other matters relating to the purposes of the Loan.

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

ARTICLE III

Financial Covenants

Section 3.01. (a) TCZB shall maintain records and accounts, including separate records and accounts for disbursements under the sub-loans, adequate to reflect in accordance with sound accounting practices its operations and financial condition.

(b) TCZB shall:

- (i) have its records, accounts and 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;
- (ii) furnish to the Bank as soon as available, but in any case not later than nine months after the end of each such year: (A) certified copies of its financial statements for such year as so audited; and (B) 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, accounts and financial statements as well as the audit thereof, as the Bank shall from time to time reasonably request.

Section 3.02. TCZB shall introduce measures to strengthen its internal auditing procedures, including the undertaking of internal auditing of the records and accounts of TCZB's main and medium-size branches at least once a year and at least once every two years with respect to other branches of TCZB.

ARTICLE IV

Effective Date; Termination; Cancellation and Suspension

Section 4.01. This Agreement shall come into force and effect on the date upon which the Loan Agreement becomes effective.

Section 4.02. This Agreement and all obligations of the Bank and of TCZB thereunder shall terminate on the date on which the Loan Agreement shall terminate in accordance with its terms, and the Bank shall promptly notify TCZB thereof.

ARTICLE V

Miscellaneous Provisions

Section 5.01. Any notice or request required or permitted to be given or made under this Agreement and any agreement between the parties contemplated by this Agreement shall be in writing. Such notice or request shall be deemed to have been duly given or made when it shall be delivered by hand or by mail, telegram, cable, telex or radiogram to the party to which it is required or permitted to be given or made at such party's address hereinafter specified or at such other address as such party shall have designated by notice to the party giving such notice or making

such request. The addresses so specified are:

For the Bank:

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

Cable address:

INTBAFRAD
Washington, D.C.

Telex:

440098 (ITT),
248423 (RCA) or
64145 (WUI)

For TCZB:

T.C. Ziraat Bankasi
Genel Mudurlugu
Bankalar Caddesi
Ankara, Turkey

Cable address:

ZERBANK
Ankara

Telex:

821 44004

Section 5.02. Any action required or permitted to be taken, and any document required or permitted to be executed, under this Agreement on behalf of TCZB, or by TCZB on behalf of the Borrower under the Loan Agreement, may be taken or executed by the Chairman and General Director or such other person or persons as he shall designate in writing, and TCZB shall furnish to the Bank sufficient evidence of the authority and the authenticated specimen signature of each such person.

Section 5.03. This Agreement may be executed in several counterparts, each of which shall be an original, and all collectively but one instrument.

IN WITNESS WHEREOF, the parties hereto, acting through their duly authorized representatives, have caused this Agreement to be signed in their respective names in the District of Columbia, United States of America, as of the day and year first above written.

INTERNATIONAL BANK FOR
RECONSTRUCTION AND DEVELOPMENT

By /s/ W. Thalwitz

Regional Vice President
Europe, Middle East and North Africa

TURKIYE CUMHURİYETİ ZIRAAT BANKASI

By /s/ N. K. Kilic

Authorized Representative

SCHEDULE

Implementation Program

A. Part A of the Project

TCZB shall implement the Action Plan referred to in Part A (1) of the Project in accordance with arrangements and a time schedule satisfactory to the Bank.

B. Part B of the Project

Except as the Bank and TCZB may otherwise agree, the following arrangements will be followed in the carrying out of Part B of the Project.

1. Provision of sub-loans through TCZB:

(a) TCZB shall coordinate the approval of Sub-Loans so as to ensure that funds available for the provision of agricultural credit in the Project area under the Previous Loan will be utilized prior to disbursements from the proceeds of the Loan on account of Sub-Loans.

(b) TCZB shall provide Sub-Loans to farmers in the Project area in accordance with terms and principles and procedures described in the Credit Guidelines and amplified in the Project Credit Guidelines. The procedures to be followed in the approval and administration of Sub-Loans shall include, inter alia, the following:

- (i) Appraisal: Sub-Loan applications will be appraised to determine their technical and financial viability. The short-term (ST) production Sub-Loans will be appraised on the basis of a typical crop budget, to be updated semi-annually, which will reflect recommended technology in the region concerned. Medium- and long-term Sub-Loans (MLT) for investments costing not more than TL 50 million (expressed in 1988 Lira) will be appraised on the basis of a typical investment model, and on the basis of individual farm plans for investments the cost of which exceeds that level. A 10% sample of ST Sub-Loan application will be reviewed by agricultural technicians and every application for MLT Sub-Loan will be reviewed by professional staff. A farmer will be considered as creditworthy if his proposed production or investment is viable, and if he has adequate repayment capacity and a satisfactory repayment record and provides appropriate security.
- (ii) Repayment terms: Interest shall be charged on the Sub-Loans at the rates specified in the Credit Guidelines, the term of ST Sub-Loans will not normally exceed one year and the term of MLT Sub-Loans will be related to the useful life of the inputs financed, the cash flow resulting from the investment and the cash flow of the farm. The grace period, if any, will be related to the estimated cash flow during the start-up period.
- (iii) Supervision: supervision will be made in close cooperation with the extension service of MAFRA to identify borrowers encountering problems in the implementation of their production or investment activities and refer them to sources of advice. Supervision will also aim at monitoring the appropriate and safe use of pesticides. Any farmer identified as using pesticides in a manner which is unsafe or harmful to the environment will be required, in order to be eligible to receive further Sub-Loans, to take corrective measures.
- (iv) Evaluation: evaluation will be made to determine the impact of production and investment activities on farm output and income. The results of

evaluation will be utilized in revising the typical crop budget or investment models or individual farm plans used in future appraisals. The evaluation works will be directed by the central monitoring and evaluation unit in the Project Analysis Department of TCZB and the monitoring and evaluation service at the Regional Directorates of MAFRA.

- (v) Procurement: goods, works and services to be financed from the proceeds of Sub-Loans shall be procured through commercial channels.

(c) TCZB shall regularly review its staffing requirements in the Project area with a view to ensuring that each province in such area is assigned the number of agricultural technicians and university-level staff necessary for the operation of the TCZB's credit facilities.

2. Provision of Credit through TKK:

(a) TKK shall assign for the operation of its credit services under the Project staff comparable, in terms of their qualifications and staffing ratios, to those maintained by TCZB's branches operating in the Project area.

(b) Sub-Loans shall be provided by TKK under terms similar to those specified in the Credit Guidelines and the Project Credit Guidelines.

(c) TKK shall identify each year the cooperatives eligible for Sub-Loans under the Project. To be eligible, each such cooperative would have to satisfy the following criteria, namely, that: (i) it collected in the previous year not less than 75% of its dues (net of rescheduling); (ii) it realized profits in the previous two years; (iii) its equity, consisting of paid-in capital, free reserves and funds and undistributed profits, was, at the end of the previous year, not less than 20% of the outstanding amount of loans provided to its members; (iv) its borrowing from TCZB did not exceed, at the end of the previous year, the amount of current outstanding amount of loans provided to members; (v) it was audited by MAFRA or the Central Union of TKK at least once in the previous two years, with no serious financial and/or management irregularities reported; and (vi) its general assembly and management committee had met in the previous year and has formally approved its annual accounts.

3. Further onlending:

Payments made to TCZB in debt service under the Sub-Loans shall be used by TCZB, to the extent that they are not required to meet its debt service obligations under the Subsidiary Loan Agreement, in the provision of Sub-Loans for the same purposes referred to in Part B of the Project.

C. Reporting

TCZB shall prepare, in cooperation with TKK, and furnish to the Bank: (1) semi-annual reports on the progress of project implementation, and (2) on the basis of the monitoring and evaluation activities under the Project, a mid-term evaluation report, to be prepared by March 31, 1990.

