

CONFORMED COPY

LOAN NUMBER 4495 TU

TUBITAK/UME Project Agreement

(Industrial Technology Project)

between

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

and

TURKIYE BILIMSEL VE TEKNİK ARASTIRMA KURUMU

Dated August 2, 1999

LOAN NUMBER 4495 TU

PROJECT AGREEMENT

AGREEMENT, dated August 2, 1999, between INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT (the Bank) and TURKIYE BILIMSEL VE TEKNİK ARASTIRMA KURUMU (TUBITAK/UME).

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

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

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

NOW THEREFORE the parties hereto hereby agree as follows:

ARTICLE I

Definitions

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

ARTICLE II

Execution of Part B of the Project

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

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

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

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

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

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

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

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

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

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

ARTICLE III

Management and Operations of TUBITAK/UME

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

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

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

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

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

Section 3.05. TUBITAK/UME shall maintain an organizational autonomy model, satisfactory to the Bank, with an optimal balance between autonomy and stability of research environment.

Section 3.06. TUBITAK/UME shall, by September 30, 1999, establish and make operational an advisory board, satisfactory to the Bank, in accordance with international best practices on industry feedback mechanisms.

ARTICLE IV

Financial Covenants

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

(b) TUBITAK/UME shall:

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

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

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

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

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

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

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

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

ARTICLE V

Effective Date; Termination; Cancellation and Suspension

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

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

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

ARTICLE VI

Miscellaneous Provisions

Section 6.01. Any notice or request required or permitted to be given or made under this Agreement and any agreement between the parties contemplated by this Agreement shall be in writing. Such notice or request shall be deemed to have been duly given or made when it shall be delivered by hand or by mail, telegram, cable, telex or radiogram to the party to which it is required or permitted to be given or made at such party's address hereinafter specified or at such other address as such party shall have designated by notice to the party giving such notice or making such request. The addresses so specified are:

For the Bank:

International Bank for
Reconstruction and Development
1818 H Street, NW
Washington, DC 20433
United States of America

Cable address:

INTBAFRAD
Washington, D.C.

Telex:

248423 (MCI) or
64145 (MCI)

For TUBITAK/UME:

TUBITAK/UME
P.O. Box 21
Gebze Kocaeli 41470 Turkey

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

Section 6.03. This Agreement may be executed in several counterparts, each of which shall be an original, and all collectively but one instrument.

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

INTERNATIONAL BANK FOR
RECONSTRUCTION AND DEVELOPMENT

By /s/ Ajay Chhibber

Acting Regional Vice President
Europe and Central Asia

TURKIYE BILIMSEL VE TEKNİK ARASTIRMA KURUMU

By /s/ Yunus Lengeranli

Authorized Representative

SCHEDULE

Implementation Program

1. TUBITAK/UME shall maintain a project implementation unit (PIU) on the basis of terms of reference and with staff and other resources satisfactory to the Bank which shall have the responsibility for managing and implementing the activities under Part B of the Project in accordance with the requirements set forth or referred to in the PIP.
2. TUBITAK/UME shall: (a) maintain an institutional renewal account on the basis of terms and conditions satisfactory to the Bank; (b) thereafter operate said institutional renewal account in accordance with policies and procedures satisfactory to the Bank; (c) deposit into said institutional renewal account at least eight million dollars (\$8,000,000) equivalent from its revenues during the 2001 through 2012 period; and (d) use the amounts on deposit in said institutional renewal account for the purpose of financing its institutional renewal requirements.
3. TUBITAK/UME shall: (a) prepare and furnish to the Bank, by October 31 of each calendar year, its operational plans for the following calendar year, including its requirements for equipment, technical assistance and training, together with the proposed budget and procurement plans for said requirements; and (b) taking into consideration the comments and recommendations of the Bank, put into effect said operational plans for the following calendar year.
4. TUBITAK/UME shall, in coordination with the Borrower:
 - (a) maintain policies and procedures adequate to enable it to monitor and evaluate on an ongoing basis, in accordance with indicators satisfactory to the Bank the carrying out of Part B of the Project and the achievement of the objectives thereof;
 - (b) prepare, under terms of reference satisfactory to the Bank, and furnish to the Bank, on or about June 30, 2001, a mid-term report integrating the results of the monitoring and evaluation activities performed pursuant to paragraph (a) of this Section, on the progress achieved in the carrying out of Part B 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 Part B of the Project and the achievement of the objectives thereof during the period following such date; and
 - (c) review with the Bank, by July 31, 2001, or such later date as the Bank

shall request, the report referred to in paragraph (b) of this Section, and, thereafter, take all measures, including, inter alia, revision of the PIP and the annual operational program for the following calendar year as agreed with the Bank, required to ensure the efficient completion of Part B 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.

