

CONFORMED COPY

LOAN NUMBER 3296 TU

(Technology Development Project)

between

REPUBLIC OF TURKEY

and

INTERNATIONAL BANK FOR RECONSTRUCTION  
AND DEVELOPMENT

Dated April 5, 1991

LOAN NUMBER 3296 TU

LOAN AGREEMENT

AGREEMENT, dated April 5, 1991, between REPUBLIC OF TURKEY (the Borrower) and INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT (the Bank).

WHEREAS (A) 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;

(B) the Project will be carried out by the Turkish Standards Institute (TSE), the Scientific and Technical Research Organization (TUBITAK) and the Foundation for World Class Technology (the Foundation), all of the Borrower;

(C) as a part of its assistance to the above entities in the carrying out of the Project, the Borrower will make available to TUBITAK, TSE and the Foundation the proceeds of the Loan as provided in this Agreement; and

WHEREAS the Bank has agreed, on the basis, inter alia, of the foregoing, to extend the Loan to the Borrower upon the terms and conditions set forth in this Agreement and in the Project Agreement of even date herewith between the Bank and TUBITAK and TSE;

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" of the Bank, dated January 1, 1985, with the last sentence of Section 3.02 deleted (the General Conditions) constitute an integral part of this Agreement.

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) "Project Agreement" means the agreement between the Bank and TUBITAK and TSE of even date herewith, as the same may be amended from time to time, and such term includes all schedules and agreements supplemental to the Project Agreement; and

(b) "Subsidiary Loan Agreement" means the agreement to be entered into between the Borrower and TSE pursuant to Section 3.01 (b) of this Agreement, as the same may be amended from time to time, and such term includes all schedules to the Subsidiary Loan Agreement;

(c) "MSTQ" means the metrology, standards, testing and quality system of Turkey;

(d) "NQC" means the National Quality Council, established within TSE;

(e) "NMSI" means the National Measurement Standards Institute of TUBITAK;

(f) "Special Account" means the account referred to in Section 2.02 (b) of this Agreement;

(g) "PIUs" means the Project Implementation Units established within TSE and TUBITAK to coordinate their respective activities under the Project; and

(h) "CMB" means the Capital Market Board of the Borrower.

#### 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, various currencies that shall have an aggregate value equivalent to the amount of one hundred million dollars (\$100,000,000), being the sum of withdrawals of the proceeds of the Loan, with each withdrawal valued by the Bank as of the date of such withdrawal.

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 the reasonable cost of goods and services required for the Project described in Schedule 2 to this Agreement and to be financed out of the proceeds of the Loan.

(b) The Borrower shall, for the purposes of the Project, open and maintain in dollars a special deposit account in the 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 4 to this Agreement.

Section 2.03. The Closing Date shall be December 31, 1996 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. (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 the Cost of Qualified Borrowings determined in respect of the preceding Semester, plus one-half of one percent ( $1/2$  of 1%). On each of the dates specified in Section 2.06 of this Agreement, the Borrower shall pay interest accrued on the principal amount outstanding during the preceding Interest Period, calculated at the rate applicable during such Interest Period.

(b) As soon as practicable after the end of each Semester, the Bank shall notify the Borrower of the Cost of Qualified Borrowings determined in respect of such Semester.

(c) For the purposes of this Section:

(i) "Interest Period" means a six-month period ending on the date immediately preceding each date specified in Section 2.06 of this Agreement, beginning with the Interest Period in which this Agreement is signed.

(ii) "Cost of Qualified Borrowings" means the cost, as reasonably determined by the Bank and expressed as a percentage per annum, of the outstanding borrowings of the Bank drawn down after June 30, 1982, excluding such borrowings or portions thereof as the Bank has allocated to fund: (A) the Bank's investments; and (B) loans which may be made by the Bank after July 1, 1989 bearing interest rates determined otherwise than as provided in paragraph (a) of this Section.

(iii) "Semester" means the first six months or the second six months of a calendar year.

(d) On such date as the Bank may specify by no less than six months' notice to the Borrower, paragraphs (a), (b) and (c) (iii) of this Section shall be amended to read as follows:

"(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 Quarter equal to the Cost of Qualified Borrowings determined in respect of the preceding Quarter, plus one-half of one percent ( $1/2$  of 1%). On each of the dates specified in Section 2.06 of this Agreement, the Borrower shall pay interest accrued on the principal amount outstanding during the preceding Interest Period, calculated at the rates applicable during such Interest Period."

"(b) As soon as practicable after the end of each Quarter, the Bank shall notify the Borrower of the Cost of Qualified Borrowings determined in respect of such Quarter."

"(c) (iii) 'Quarter' means a three-month period commencing on January 1, April 1, July 1 or October 1 in a calendar year."

Section 2.06. Interest and other charges shall be payable

semiannually on April 15 and October 15 in each year.

Section 2.07. 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 as set forth in Schedule 2 to this Agreement, and, to this end, without any limitation or restriction upon any of its other obligations under the Loan Agreement, shall cause TUBITAK and TSE to perform all of their obligations under the Project Agreement in accordance with the provisions thereof, shall take or cause to be taken all action, including the provision of funds, facilities, services and other resources, necessary or appropriate to enable TUBITAK and TSE to perform such obligations, and shall not take or permit to be taken any action which would prevent or interfere with such performance.

(b) The Borrower shall relend to TSE the proceeds of the Loan allocated for TSE under Categories (1) (b), (2) (b), (3) (b) and (4) of the table set forth in Schedule 1 to this Agreement under a subsidiary loan agreement to be entered into between the Borrower and TSE, under terms and conditions satisfactory to the Bank which shall take TSE's ability to pay into account in determining its financial obligations under the Subsidiary Loan Agreement.

(c) The Borrower shall exercise its rights under the Subsidiary Loan Agreement in such manner as to protect the interests of the Borrower and the Bank and to accomplish the purposes of the Loan, and, except as the Bank shall otherwise agree, the Borrower shall not assign, amend, abrogate or waive the Subsidiary Loan Agreement or any provision thereof.

(d) The Borrower shall make available to TUBITAK, under a subsidiary agreement and in the form of a grant, the proceeds of the Loan allocated for TUBITAK under Categories (1) (a), (2) (a) and (3) (a) of the table set forth in Schedule 1 to this Agreement.

Section 3.02. The Borrower shall: (a) ensure the appointment of a suitably qualified person to the position of Secretary General of the Foundation, and the start of functioning of such Secretary General's Office, not later than October 31, 1991; (b) make available to the Foundation, in the form of a grant under a subsidiary agreement, the proceeds of the Loan allocated for Part B of the Project under Categories (1) (c) and (2) (c) of the table set forth in Schedule 1 to this Agreement; and (c) ensure the inclusion as an integral part of said subsidiary agreement of the provisions set forth in Schedule 5 to this Agreement, relating to the implementation of Part B of the Project.

Section 3.03. The Borrower shall: (a) by December 31, 1994, take all action required for the conversion of NQC into an independent national entity responsible for quality certification and accreditation; and (b) ensure, by December 31, 1994, through appropriate revision of existing regulations, the existence of a framework which shall enable competition in the provision of quality certification and accreditation services.

Section 3.04. The Borrower shall: (a) ensure that services to be provided by the Borrower's universities and research institutes to the Foundation for purposes of Part B of the Project shall be so provided on the basis of freely negotiated contracts; and (b) ensure that the tax exemption status of the Foundation as non-profit organization shall be confirmed upon the Foundation's satisfaction of the legal requirements therefore.

Section 3.05. In order to promote the growth of its venture capital industry, the Borrower shall prepare, concurrently with the

preparation of regulations required under Part C of the Project, appropriate amendments to relevant legislation which shall ensure that income generated by funds registered with CMB as venture capital funds shall not be subject to double taxation.

Section 3.06. Except as the Bank shall otherwise agree: (a) procurement of the goods, works and consultants' services required for Part A of the Project and to be financed out of the proceeds of the Loan shall be governed by the provisions of Schedule 1 to the Project Agreement; and (b) procurement of the goods and consultants' services required for Part B of the Project and to be financed out of the proceeds of the Loan shall be governed by the provisions of Schedule 5 to this Agreement.

Section 3.07. The Bank and the Borrower hereby agree that the obligations set forth in Sections 9.04, 9.05, 9.06, 9.07 and 9.08 of the General Conditions (relating to insurance, use of goods and services, plans and schedules, records and reports and maintenance respectively) in respect of Part A of the Project shall be carried out by TUBITAK and TSE (each with respect to its activities under the Project) pursuant to Section 2.03 of the Project Agreement.

Section 3.08. The Borrower shall exchange views regularly with the Bank, regarding progress of the venture capital industry of the Borrower.

#### ARTICLE IV

##### Financial and Other Covenants

Section 4.01. (a) 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 sound accounting practices, records and accounts reflecting such expenditures;
  - (ii) ensure that all records (contracts, orders, invoices, bills, receipts and other documents) evidencing such expenditures are retained 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; and
  - (iii) enable the Bank's representatives to examine such records.
- (b) The Borrower shall:
- (i) have the records and accounts referred to in paragraph (a) (i) of this Section and those 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 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, including a separate opinion by said auditors as to whether the statements of expenditure submitted during such fiscal year, together with the procedures and internal controls involved in their preparation, can be relied upon to support the related withdrawals; and
  - (iii) furnish to the Bank such other information concerning said records and accounts and the audit

thereof as the Bank shall from time to time reasonably request.

Section 4.02. Starting with the fiscal year 1991, the Borrower shall cause and enable TUBITAK to develop a framework which shall identify consolidated allocations and expenditures for technology development.

#### ARTICLE V

##### Remedies of the Bank

Section 5.01. Pursuant to Section 6.02 (k) of the General Conditions, the following additional events are specified:

(a) TUBITAK or TSE shall have failed to perform any of its obligations under the Project Agreement.

(b) As a result of events which have occurred after the date of the Loan Agreement, an extraordinary situation shall have arisen which shall make it improbable that TUBITAK or TSE will be able to perform its obligations under the Project Agreement.

Section 5.02. Pursuant to Section 7.01 (h) of the General Conditions, the following additional event is specified, namely, that the event specified in paragraph (a) of Section 5.01 of this Agreement shall occur and shall continue for a period of sixty days after notice thereof shall have been given by the Bank to the Borrower.

#### ARTICLE VI

##### Effective Date; Termination

Section 6.01. The following event is specified as an additional condition to the effectiveness of the Loan Agreement within the meaning of Section 12.01 (c) of the General Conditions, namely, that the Subsidiary Loan Agreement has been executed on behalf of the Borrower and TSE.

Section 6.02. The following are specified as additional matters, 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:

(a) that the Project Agreement has been duly authorized or ratified by TUBITAK and TSE, and is legally binding upon TUBITAK and TSE in accordance with its terms; and

(b) that the Subsidiary Loan Agreement has been duly authorized or ratified by the Borrower and TSE and is legally binding upon the Borrower and TSE in accordance with its terms.

Section 6.03. 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 VII

##### Representative of the Borrower; Addresses

Section 7.01. The Undersecretary of the Treasury and Foreign Trade 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 Ve Dis Ticaret  
Mustesarligi  
Bakanliklar, Ankara

Cable address:

Telex:

HAZINE  
Ankara

821-42285 (MIYE-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.

197688 (TRT),  
248423 (RCA),  
64145 (WUI) or  
82987 (FTCC)

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.

REPUBLIC OF TURKEY

By /s/ F. Selekler

Authorized Representative

INTERNATIONAL BANK FOR  
RECONSTRUCTION AND DEVELOPMENT

By /s/ W. Wapenhans

Regional Vice President  
Europe, Middle East and North Africa

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) Goods:		
(a) TUBITAK	9,800,000	100% of foreign expenditures
(b) TSE	24,100,000	100% of local expenditures
(b) the Foundation	32,600,000	(ex-factory cost) and 50% of local ex-

Category	Amount of the Loan Allocated (Expressed in Dollar Equivalent)	penditures for other items procured locally	% of Expenditures to be Financed
(2) Consultants' services:		100%	
(a) TUBITAK	2,300,000		
(b) TSE	4,000,000		
(c) the Foundation	10,700,000		
(3) Training:		100% of foreign expenditures	
(a) TUBITAK	2,200,000		
(b) TSE	4,300,000		
(4) Civil Works for facilities of TSE	10,000,000	80%	
TOTAL			
	100,000,000		
	=====		

2. For the purposes of this Schedule:

(a) the term "foreign expenditures" means expenditures in the currency of any country other than that of the Borrower for goods or services supplied from the territory of any country other than that of the Borrower; and

(b) the term "local expenditures" means expenditures in the currency of the Borrower or for goods or services supplied from the territory of the Borrower.

3. Notwithstanding the provisions of paragraph 1 above, no withdrawals shall be made in respect of payments made for expenditures prior to the date of this Agreement, except that withdrawals in an amount not exceeding the equivalent of \$2,000,000 may be made for payments made prior to that date but after February 1, 1991.

SCHEDULE 2

Description of the Project

The objectives of the Project are to assist the Borrower in its efforts to: (a) develop the MSTQ system to international standards; (b) stimulate private investments in industrial technology development; (c) promote the growth of venture capital industry; and (d) strengthen the capacity of TUBITAK to undertake new initiatives in science and technology.

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: The MSTQ System

1. Implementation of (a) a medium-term plan for the development of NMSI of TUBITAK so as to enable it to meet industrial needs for primary standards in the measurement fields of dimensional metrology, electrical, mechanical, thermal and pressure,



volume and mass and optics, through: (i) expansion of technical staff; (ii) provision of specialized training; (iii) provision of equipment; and (iv) construction of physical facilities; and (b) a program over the years from 1991 through 1993 to improve the overall efficiency of TUBITAK's operations.

2. Implementation of medium-term plan by TSE for the introduction of management and coordination procedures in the MSTQ system, including: (i) the establishment near Istanbul of a center for quality assurance training and certification, including the provision of training facilities, calibration equipment and testing and applied research laboratories in the electrical, chemical environmental, information, electronic, mechanical, packaging and construction materials fields; and (ii) implementation of training in the fields of quality assessment, computer applications, supplier quality assurance and producers' liability; (iii) establishment of a modern financial and management information system; and (iv) initiation, through NQC, of a media campaign to increase awareness of the importance of product quality assurance.
3. The conversion of NQC into the national accreditation council (NAC), including the provision of training, equipment and technical assistance required for the start of its operation.
4. The establishment of a professional institute for quality assurance to be responsible for training of managers, technicians and assessors on quality assurance, creation of professional qualifications in the field and tracking on behalf of its members of international development in the MSTQ systems.

Part B: Technological Research and Development

1. Implementation by the Foundation of studies of aspects related to the competitiveness of Turkish industry in a changing international marketplace. The studies shall deal with such subjects as the export prospects for the auto components industry, competition in the OECD textile industry, the technological spin-offs from the defense industry, energy conservation technology, opportunities in the European consumer electronics industry and key issues in research and development.
2. Provision by the Foundation, through diverse financial instruments, of seed capital for projects which have the potential of developing Turkey's technology infrastructure.

Part C: Venture Capital

The adoption by the Borrower, acting through CMB, within three months of the enactment of the necessary revision to CMB's law, of a legal framework to regulate the establishment and operation of venture capital enterprises, covering, inter alia, the legal structure and management arrangements for such enterprises, their financial guidelines and registration, audit and reporting requirements, and the supervisory authority of CMB over their activities.

\* \* \*

The Project is expected to be completed by June 30, 1996.

SCHEDULE 3

Amortization Schedule

Date Payment Due	Payment of Principal (Expressed in dollars)*
On each April 15 and October 15 beginning October 15, 1996	

through October 15, 2007	4,165,000
On April 15, 2008	4,205,000

\* The figures in this column represent dollar equivalents determined as of the respective dates of withdrawal. See General Conditions, Sections 3.04 and 4.03.

Premiums on Prepayment

Pursuant to Section 3.04 (b) of the General Conditions, the premium payable on the principal amount of any maturity of the Loan to be prepaid shall be the percentage specified for the applicable time of prepayment below:

Time of Prepayment	Premium
	The interest rate (expressed as a percentage per annum) applicable to the Loan on the day of prepayment multiplied by:
Not more than three years before maturity	0.18
More than three years but not more than six years before maturity	0.35
More than six years but not more than 11 years before maturity	0.65
More than 11 years but not more than 15 years before maturity	0.88
More than 15 years before maturity	1.00

SCHEDULE 4

Special Account

1. For the purposes of this Schedule:

(a) the term "eligible Categories" means the Categories 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 an amount equivalent to \$5,000,000 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 a deposit or deposits 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 in 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; or

(b) once the total unwithdrawn amount of the Loan allocated to the eligible Categories less the amount of any outstanding special commitment 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 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.

#### SCHEDULE 5

##### Implementation of Part B of the Project

The following are the requirements relating to the implementation of Part B of the Project and which shall be set forth in the subsidiary agreement to be concluded between the Borrower and the Foundation pursuant to Section 3.02 (b) of this Agreement;

##### A. General Requirements

1. The Foundation shall be responsible for the carrying out of Part B of the Project.
2. The Foundation shall: (a) prepare in accordance with criteria and time schedule satisfactory to the Borrower and the Bank, and furnish to the Bank an initial list of the studies to be carried out in the fields specified in Part B (1) of the Project, including an outline of the arrangements and time-schedules for the carrying out of such studies; (b) make any deletion from or addition to such list in agreement with the Bank; and (c) undertake each such study in accordance with terms of reference satisfactory to the Bank.
3. Applicants for financial support from the Foundation under Part B (2) of the Project will have to demonstrate their technical, managerial and financial capacity to carry out the proposed investment and that such investments have identifiable markets.
4. The Foundation shall: (a) prepare, in accordance with a time schedule satisfactory to the Bank, and furnish to the Borrower and the Bank guidelines for the operational procedures to be followed by the Foundation in financing investments under Part B (2) of the Project, including procedures for utilizing the findings of studies undertaken under Part B (1) of the Project in formulating the overall direction and programs of the Foundation; and (b) prepare, in accordance with a time schedule satisfactory to the Bank, and furnish to the Borrower and the Bank the initial list of projects to be financed under Part B (2) of the Project.
5. The Foundation shall carry out a personnel development plan, satisfactory to the Bank, for upgrading the skills of its staff, which shall include the appointment of a Secretary General for the Foundation to assume executive responsibilities with respect to the implementation of Part B of the Project.
6. The Foundation shall require the recipient of financial assistance under Part B (2) of the Project, to procure goods included in such assistance: (a) in accordance with inter-

national competitive bidding procedures compatible with the procedures referred to in Part A of Section I of Schedule 1 to this Agreement, when such goods are to be procured under contracts estimated each to cost the equivalent of \$250,000 or more; (b) in accordance with limited international bidding procedures compatible with the procedures referred to in Part C (1) of Section I of Schedule 1 to this Agreement, when such goods are of specialized nature and are to be procured under contracts estimated to cost the equivalent of more than \$250,000 but less than \$1,000,000; or (c) on the basis of comparison of price quotations obtained from a list of at least three qualified suppliers, where such goods are to be procured under contracts estimated each to cost the equivalent of not more than \$250,000.

7. The Foundation shall gradually raise the levels of fees for its services so that the amount collected on account of such fees shall be sufficient to cover not less than 20% and 33% of the Foundation's administrative costs for the years 1993 and 1995, respectively.

B. Audit

1. The Foundation shall maintain records and accounts adequate to reflect in accordance with sound accounting practices its operations, resources and expenditures under the Project.

2. The Foundation shall:

- (i) have the records and accounts referred to in paragraph (1) of this Section for each fiscal year audited, in accordance with appropriate auditing principles consistently applied, by independent auditors acceptable to the Bank;
- (ii) furnish to the Borrower and the Bank as soon as available, but in any case not later than six 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 Borrower and the Bank such other information concerning said records and accounts as well as the audit thereof, as the Borrower or the Bank, as the case may be, the Bank shall from time to time reasonably request.

C. Procurement under Part B of the Project

1. Procurement of Goods

- (a) International Competitive Bidding

Except as provided in Part C hereof, goods shall be procured under contracts awarded in accordance with procedures consistent with those set forth in Sections I and II of the "Guidelines for Procurement under IBRD Loans and IDA Credits" published by the Bank in May 1985 (the Guidelines).

- (b) Preference for Domestic Manufacturers

In the procurement of goods in accordance with the procedures described in Part A hereof, goods manufactured in Turkey may be granted a margin of preference in accordance with, and subject to, the provisions of paragraphs 2.55 and 2.56 of the Guidelines and paragraphs 1 through 4 of Appendix 2 thereto.

- (c) Other Procurement Procedures

- (i) Goods of specialized nature or estimated to cost

the equivalent of less than \$1,000,000 may be procured under contracts awarded through limited international bidding procedures on the basis of evaluation and comparison of bids invited from a list of at least three qualified suppliers eligible under the Guidelines and in accordance with procedures set forth in Sections I and II of the Guidelines (excluding paragraphs 2.8, 2.9, 2.55 and 2.56 thereof).

- (ii) Goods estimated to cost less than the equivalent of \$250,000 per contract, up to an aggregate amount not to exceed the equivalent of \$9,000,000, may be procured under contracts awarded on the basis of comparison of price quotations solicited from a list of at least three suppliers eligible under the Guidelines, in accordance with procedures acceptable to the Bank.

(d) Review by the Bank of Procurement Decisions

Review of invitations to bid and of proposed awards and final contracts:

- (i) With respect to each contract estimated to cost the equivalent of \$500,000 or more, the procedures set forth in paragraphs 2 and 4 of Appendix 1 to the Guidelines shall apply. Where payments for such contract are to be made out of the Special Account, such procedures shall be modified to ensure that the two conformed copies of the contract required to be furnished to the Bank pursuant to said paragraph 2 (d) shall be furnished to the Bank prior to the making of the first payment out of the Special Account in respect of such contract.
- (ii) With respect to each contract not governed by the preceding paragraph, the procedures set forth in paragraphs 3 and 4 of Appendix 1 to the Guidelines shall apply. Where payments for such contract are to be made out of the Special Account, such procedures shall be modified to ensure that the two conformed copies of the contract together with the other information required to be furnished to the Bank pursuant to said paragraph 3 shall be furnished to the Bank as part of the evidence to be furnished pursuant to paragraph 4 of Schedule 4 to the Loan Agreement.
- (iii) The provisions of preceding subparagraph (b) shall not apply to contracts on account of which the Bank has authorized withdrawals on the basis of statements of expenditures.

2. Employment of Consultants

In order to assist the Foundation in the carrying out of its activities under Part B of the Project, the Foundation 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.