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CONFORMED COPY

LOAN NUMBER 4791 TU

Loan Agreement

(Second Privatization Social Support Project)

between

REPUBLIC OF TURKEY

and

**INTERNATIONAL BANK FOR RECONSTRUCTION
AND DEVELOPMENT**

Dated October 24, 2005

LOAN NUMBER 4791 TU

LOAN AGREEMENT

AGREEMENT, dated October 24, 2005, between REPUBLIC OF TURKEY (the Borrower) and INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT (the Bank).

WHEREAS (A) the Bank has received from the Borrower a letter dated April 14, 2005, describing its privatization program including actions, objectives and policies designed to privatize its state-owned enterprises (hereinafter called the Privatization Program), and declaring the Borrower's commitment to the implementation of the Privatization Program;

(b) the Borrower, having satisfied itself as to the feasibility and priority of the project described in Schedule 2 to this Agreement (the Project), has requested the Bank to assist in the financing of the Project; and

WHEREAS the Bank has agreed, on the basis, inter alia, of the foregoing, to extend the Loan to the Borrower upon the terms and conditions set forth in this Agreement;

NOW THEREFORE the parties hereto hereby agree as follows:

ARTICLE I

General Conditions; Definitions

Section 1.01. The "General Conditions Applicable to Loan and Guarantee Agreements for Single Currency Loans" of the Bank dated May 30, 1995 (as amended through May 1, 2004) with the modifications set forth below (the General Conditions) constitute an integral part of this Agreement:

(a) Section 5.08 of the General Condition is amended to read as follows:

"Section 5.08. Treatment of Taxes

Except as otherwise provided in the Loan Agreement, the proceeds of the Loan may be withdrawn to pay for taxes levied by, or in the territory of, the Borrower or the Guarantor on the goods or services to be financed under the Loan, or on their importation, manufacture, procurement of supply. Financing of such taxes is subject to the Bank's policy of requiring economy and efficiency in the use of the proceeds of its loans. To that end, if the Bank shall at any time determine that the amount of any taxes levied on or in

respect of any item to be financed out of the proceeds of the Loan is excessive or otherwise unreasonable, the Bank may, by notice to the Borrower, adjust the percentage for withdrawal set forth or referred to in respect of such item in the Loan Agreement as required to be consistent with such policy of the Bank.”

(b) Section 6.03 (c) of the General Conditions is amended by replacing the words “corrupt or fraudulent” with the words “corrupt, fraudulent, collusive or coercive”.

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) “EKA” means the General Directorate of Economic Research within the Undersecretariat of Treasury of the Borrower;

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

(c) “ISKUR” means the Turkish Employment Organization of the Borrower;

(d) “Interagency Protocol” means each protocol executed between the PA and ISKUR, KOSGEB and EKA, respectively, for the implementation of Parts B and C of the Project, and referred to in paragraph 10 of Schedule 5 to this Agreement, as may be amended from time to time; and “Interagency Protocols” means the interagency protocols collectively;

(e) “KOSGEB” means the Small and Medium Industry Development Organization of the Borrower;

(f) “Labor Adjustment Group” or “LAG” means the labor adjustment group within the PA, or any successor thereto;

(g) “Labor Law” means the Labor Law of the Borrower, Law No. 4857, dated May 22, 2003, as amended to the date of this Agreement;

(h) “Law No. 4749” means the Public Finance and Debt Management Law of the Borrower, dated March 28, 2002 as amended to the date of this Agreement;

(i) “NGO” means a non-governmental organization;

(j) “PA” means the Privatization Administration of the Borrower;

(k) “Privatization Law” means the Law Concerning Arrangements for the Implementation of Privatization and Amending Certain Laws and Decrees with Force of Law of the Borrower, Law No. 4046, dated November 24, 1994, as amended to the date of this Agreement;

(l) “Procurement Plan” means the Borrower’s procurement plan, dated April 4, 2005, covering the initial 18 month period (or longer) of Project implementation, as the same shall be updated from time to time in accordance with the provisions of Section 3.02 to this Agreement, to cover succeeding 18 month periods (or longer) of Project implementation;

(m) “Project Coordination Unit” or “PCU” means the Project Coordination Unit established within the PA, or any successor thereto;

(n) “Project Operational Manual” or “POM” means the operational manual adopted by the PA on April 27, 2005, setting forth, including the principles, procedures and criteria agreed with the Bank for the implementation of the Project, referred to in paragraphs 1 and 4 of Schedule 5 to this Agreement;

(o) “Service Provider” means a public or private enterprise or education or training institution or an NGO that has been selected to provide services under Part B of the Project;

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

(q) “State-owned enterprise” means an enterprise of which the majority share capital is owned or controlled by the Borrower, as defined in the Privatization Law;

(r) “Subsidiary Loan Agreement” means the agreement to be entered into between the Borrower and the PA pursuant to Section 3.02 of this Agreement, as the same may be amended from time to time, and such term includes all schedules to the Subsidiary Loan Agreement, and “Subsidiary Loan” means the subsidiary loan to be made out of the proceeds of the Loan provided to the PA under the Subsidiary Loan Agreement; and

(s) “Tripartite Advisory Committee” means the advisory committee referred to in paragraph 7 of Schedule 5 to this Agreement.

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 three hundred sixty million Euro (€360,000,000).

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 expenditures made (or, if the Bank shall so agree, to be made) in respect of the reasonable cost of goods, services, training and job-loss compensation payments required for the Project and to be financed out of the proceeds of the Loan and in respect of the fee referred to in Section 2.04 of this Agreement.

(b) The Borrower may, for the purposes of the Project open and maintain in Euro 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 June 30, 2009, or such later date as the Bank shall establish. The Bank shall promptly notify the Borrower of such later date.

Section 2.04. The Borrower shall pay to the Bank a front-end fee in an amount equal to one percent (1%) of the amount of the Loan, subject to any waiver of a portion of such fee as maybe determined by the Bank from time to time. On or promptly after the Effective Date, the Bank shall, on behalf of the Borrower, withdraw from the Loan Account and pay to itself the amount of said fee.

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

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

(b) For the purposes of this Section:

- (i) "Interest Period" means the initial period from and including the date of this Agreement to, but excluding, the first Interest Payment Date occurring thereafter, and after the initial period, each period from and including an Interest Payment Date to, but excluding the next following Interest Payment Date.
- (ii) "Interest Payment Date" means any date specified in Section 2.07 of this Agreement.

- (iii) “LIBOR Base Rate” means, for each Interest Period, the London interbank offered rate for six-month deposits in Euro for value the first day of such Interest Period (or, in the case of the initial Interest Period, for value the Interest Payment Date occurring on or next preceding the first day of such Interest Period), as reasonably determined by the Bank and expressed as a percentage per annum.
- (iv) “LIBOR Total Spread” means, for each Interest Period: (A) three-fourths of one percent ($3/4$ of 1%); (B) minus (or plus) the weighted average margin, for such Interest Period, below (or above) the London interbank offered rates, or other reference rates, for six-month deposits, in respect of the Bank’s outstanding borrowings or portions thereof allocated by the Bank to fund single currency loans or portions thereof made by it that include the Loan, as reasonably determined by the Bank and expressed as a percentage per annum.

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

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

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

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

ARTICLE III

Execution of the Project

Section 3.01. (a) The Borrower declares its commitment to the objectives of the Project, and, to this end, shall carry out the Project through the PA with due diligence and efficiency and in conformity with appropriate financial, administrative, environmental

and technical practices, and shall cause the PA to provide, promptly as needed, the funds, facilities, services and other resources required for the Project.

(b) Without limitation upon the provisions of paragraph (a) of this Section and except as the Borrower and the Bank shall otherwise agree, the Borrower shall, through the PA, carry out the Project in accordance with the Implementation Program set forth in Schedule 5 to this Agreement.

Section 3.02. (a) The Borrower shall, for the purposes of the implementation of the Project, enter into a subsidiary loan agreement with the PA (the Subsidiary Loan Agreement) under terms and conditions as agreed with the Bank.

(b) 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 maintain the Subsidiary Loan Agreement as agreed with the Bank.

Section 3.03. (a) 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, as said provisions may be further elaborated in the Procurement Plan.

(b) The Borrower shall, through the PA, update the Procurement Plan in accordance with guidelines acceptable to the Bank, and furnish such update to the Bank not later than 12 months after the date of the preceding Procurement Plan, for the Bank's approval.

Section 3.04. For the purposes of Section 9.07 of the General Conditions and without limitation thereto, the Borrower, through the PA, shall:

(a) 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 Borrower and the Bank, a plan designed to ensure the continued achievement of the objectives of the Project; and

(b) afford the Bank a reasonable opportunity to exchange views with the Borrower on said plan.

ARTICLE IV

Financial Covenants

Section 4.01. (a) The Borrower, through the PA, shall maintain a financial management system, including records and accounts, and prepare financial statements in

accordance with consistently applied accounting standards acceptable to the Bank, adequate to reflect the operations, resources and expenditures related to the Project.

(b) The Borrower, through the PA, shall:

- (i) have the financial statements referred to in paragraph (a) of this Section for each fiscal year (or other period agreed to by the Bank) audited, in accordance with consistently applied auditing standards acceptable to the Bank, by independent auditors acceptable to the Bank;
- (ii) furnish to the Bank as soon as available, but in any case not later than six months after the end of each such year (or such other period agreed to by the Bank): (A) certified copies of the financial statements referred to in paragraph (a) of this Section for such year (or such other period agreed to by the Bank), as so audited; and (B) an opinion on such statements by said auditors, in scope and detail acceptable to the Bank; and
- (iii) furnish to the Bank such other information concerning such records, and the audit of such financial statements, and concerning said auditors, as the Bank may from time to time reasonably request.

(c) For all expenditures with respect to which withdrawals from the Loan Account were made on the basis of statements of expenditure, the Borrower, through the PA, shall:

- (i) retain, until at least one year after the Bank has received the audit report for, or covering, the fiscal year in which the last withdrawal from the Loan Account was made all records (contracts, orders, invoices, bills, receipts and other documents) evidencing such expenditures;
- (ii) enable the Bank's representatives to examine such records; and
- (iii) ensure that such statements of expenditure are included in the audit for each fiscal year (or other period agreed to by the Bank) referred to in paragraph (b) of this Section.

Section 4.02. (a) Without limitation upon the Borrower's progress reporting obligations specified in paragraph 13 (b) of Section D of Schedule 5 to this Agreement, the Borrower, through the PA, shall prepare and furnish to the Bank a financial monitoring report (FMR), in form and substance acceptable to the Bank, which:

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

(b) The first FMR shall be furnished to the Bank not later than forty-five (45) days after the end of the first calendar quarter after the Effective Date, and shall cover the period from the incurrence of the first expenditure under the Project through the end of such first calendar quarter; thereafter, each FMR shall be furnished to the Bank not later than forty-five (45) days after each subsequent calendar quarter, and shall cover such calendar quarter.

ARTICLE V

Remedies of the Bank

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

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 the PA.

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

Section 6.03. The date one hundred twenty (120) days after the date of this Agreement is hereby specified for the purposes of Section 12.04 of the General Conditions.

ARTICLE VII

Representative of the Borrower; Addresses

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

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

For the Borrower:

Basbakanlik
Hazine Mustesarligi
Inonu Bulvari
Emek - Ankara
Republic of Turkey

Facsimile:

(312) 212-8550

For the Bank:

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

Cable address:

Telex:

Facsimile:

INTBAFRAD
Washington, D.C.

248423 (MCI) or
64145 (MCI)

(202) 477-6391

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

REPUBLIC OF TURKEY

By /s/ Memduh Aslan Akçay

Authorized Representative

INTERNATIONAL BANK FOR
RECONSTRUCTION AND DEVELOPMENT

By /s/ Andrew N. Vorkink

Director
Turkey Country Unit
Europe and Central Asia

SCHEDULE 1

Withdrawal of the Proceeds of the Loan

1. The table below sets forth the Categories of items to be financed out of the proceeds of the Loan, the allocation of the amounts of the Loan to each Category and the percentage of expenditures for items so to be financed in each Category:

<u>Category</u>	<u>Amount of the Loan Allocated (Expressed in Euro)</u>	<u>% of Expenditures to be Financed</u>
(1) Job-loss compensation payments under Part A.1 of the Project	338,000,000	81%
(2) Labor redeployment services under Part B.1 of the Project	14,000,000	100%
(3) Goods	400,000	100%
(4) Consultants' services and training	3,700,000	100%
(5) Fee	1,800,000	Amount due under Section 2.04 of this Agreement
(6) Unallocated	<u>2,100,000</u>	
TOTAL	<u>360,000,000</u>	

2. For the purposes of this Schedule:

(a) the term "job-loss compensation payments" means severance payments, special job-loss compensation payments, social assistance payments and other related payments made in accordance with the provisions of Labor Law and Privatization Law, to the workers of the Borrower's state-owned enterprises, selected pursuant to criteria set forth in the POM and being privatized or liquidated under the Privatization Program; and

(b) the term "training" means training activities (other than consultants' services) to be carried out under the Project, including the cost of workshops, related materials and the travel cost and per diem of the trainees.

3. Notwithstanding the provisions of paragraph 1 above, no withdrawals shall be made in respect of: (a) payments made for expenditures prior to the date of this Agreement, except that withdrawals, in an aggregate amount not exceeding □210,000,000, may be made in respect of Category (1) set forth in the table in paragraph 1 of this Schedule on account of payments made for expenditures before that date, but after January 1, 2003; and (b) payments made for expenditures under Categories (1) and (2) unless the job-loss compensation payment or the labor redeployment service has been made in accordance with criteria and procedures set forth in the POM and Schedule 5 to this Agreement.

4. The Bank may require withdrawals from the Loan Account to be made on the basis of statements of expenditure for expenditures for: (a) goods under contracts costing less than □77,000 equivalent each; (b) services of consulting firms under contracts costing less than □154,000 equivalent each; (c) services of individual consultants under contracts costing less than □39,000 equivalent each; (d) job-loss compensation payments; and (e) labor redeployment services under Part B.1 of the Project under contracts costing less than □100,000 equivalent each; and (f) training, 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 support the Borrower's Privatization Program through mitigating the negative social and economic impact of the privatization of state-owned enterprises.

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: Job Loss Compensation

1. Provision of job-loss compensation payments to workers of state-owned enterprises displaced by labor restructuring as a result of the privatization or liquidation of such state-owned enterprises.
2. Provision of technical assistance to develop and maintain administrative framework to enable the delivery of job-loss compensation payments.

Part B: Labor Redeployment Services

1. Provision of labor redeployment services, including job counseling, temporary community employment, retraining programs, small business assistance and incubator services and other related services, through Service Providers, to workers displaced as a result of the privatization or liquidation of state-owned enterprises, including secondary lay-offs.
2. Provision of technical assistance and goods to develop and maintain administrative framework to enable the delivery of redeployment services to workers displaced as a result of the privatization or liquidation of state-owned enterprises.

Part C: Management, Monitoring and Evaluation

Provision of technical assistance and goods for: (a) the evaluation of the impact of the Privatization Program and measures to mitigate the social costs thereof; (b) the PCU in Project coordination and implementation.

* * *

The Project is expected to be completed by December 31, 2008.

SCHEDULE 3

Amortization Schedule

<u>Date Payment Due</u>	Payment of Principal (Expressed in <u>Euro</u>)*
November 15, 2009	11,725,000
May 15, 2010	11,880,000
November 15, 2010	12,035,000
May 15, 2011	12,190,000
November 15, 2011	12,350,000
May 15, 2012	12,510,000
November 15, 2012	12,670,000
May 15, 2013	12,835,000
November 15, 2013	13,005,000
May 15, 2014	13,170,000
November 15, 2014	13,345,000
May 15, 2015	13,515,000
November 15, 2015	13,695,000
May 15, 2016	13,870,000
November 15, 2016	14,050,000
May 15, 2017	14,235,000
November 15, 2017	14,420,000
May 15, 2018	14,605,000
November 15, 2018	14,795,000
May 15, 2019	14,990,000
November 15, 2019	15,185,000
May 15, 2020	15,380,000
November 15, 2020	15,580,000
May 15, 2021	15,785,000
November 15, 2021	15,990,000
May 15, 2022	16,190,000

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

SCHEDULE 4

Procurement

Section I. General

A. All goods and services (other than consultants' services) shall be procured in accordance with the provisions of Section I of the "Guidelines: Procurement under IBRD Loans and IDA Credits" dated May 2004 (the Procurement Guidelines), and with the provisions of this Schedule.

B. All consultants' services shall be procured in accordance with Sections I and IV of the "Guidelines: Selection and Employment of Consultants by World Bank Borrowers" dated May 2004 (the Consultant Guidelines), and with the provisions of this Schedule.

C. The capitalized terms used below in this Schedule to describe particular procurement methods or methods of review by the Bank of particular contracts, have the meanings ascribed to them in the Procurement Guidelines, or Consultant Guidelines, as the case may be.

Section II. Particular Methods of Procurement of Goods

A. International Competitive Bidding. Except as otherwise provided in Part B of this Section, contracts shall be awarded on the basis of International Competitive Bidding. The provisions of paragraphs 2.55 and 2.56 of the Procurement Guidelines, providing for domestic preference in the evaluation of bids, shall apply to goods manufactured in the territory of the Borrower.

B. Other Procurement Procedures

1. Shopping. Goods estimated to cost less than \$100,000 equivalent per contract may be procured under contracts awarded on the basis of Shopping.

2. Direct Contracting. Goods which the Bank agrees meet the requirements for Direct Contracting may be procured in accordance with the provisions of said procurement method.

3. Part B.1 of the Project. Labor redeployment services under Part B.1 of the Project may be procured under contracts awarded in accordance with the provisions of paragraph 3.17 of the Guidelines following criteria and procedures acceptable to the Bank and set forth in the POM.

Section III. Particular Methods of Procurement of Consultants' Services

A. Quality- and Cost-based Selection. Consultants' services, other than individual consultants, shall be procured under contracts awarded on the basis of Quality- and Cost-Based Selection. For purposes of paragraph 2.7 of the Consultant Guidelines, the short list of consultants for services estimated to cost less than \$200,000 equivalent per contract may comprise entirely national consultants.

B. Other Procedures

1. Least-cost Selection. Services for assignments which the Bank agrees meet the requirements of paragraph 3.6 of the Consultant Guidelines may be procured under contracts awarded on the basis of Least-cost Selection in accordance with the provisions of paragraphs 3.1 and 3.6 of the Consultant Guidelines.

2. Selection Based on Consultants' Qualifications. Services estimated to cost less than \$200,000 equivalent per contract may be procured under contracts awarded in accordance with the provisions of paragraphs 3.1, 3.7 and 3.8 of the Consultant Guidelines.

3. Single Source Selection. Services for tasks in circumstances which meet the requirements of paragraph 3.10 of the Consultant Guidelines for Single Source Selection, may, with the Bank's prior agreement, be procured in accordance with the provisions of paragraphs 3.9 through 3.13 of the Consultant Guidelines.

4. Individual Consultants. Services for assignments that meet the requirements set forth in the first sentence of paragraph 5.1 of the Consultant Guidelines may be procured under contracts awarded to individual consultants in accordance with the provisions of paragraphs 5.2 through 5.3 of the Consultant Guidelines. Under the circumstances described in paragraph 5.4 of the Consultant Guidelines, such contracts may be awarded to individual consultants on a sole-source basis.

Section IV. Review by the Bank of Procurement Decisions

The Procurement Plan shall set forth those contracts which shall be subject to the Bank's Prior Review. All other contracts shall be subject to Post Review by the Bank.

SCHEDULE 5

Implementation Program

A. Project Management

1. The Borrower shall carry out the Project through the PA in accordance with the requirements set forth or referred to in the POM, including the criteria and procedures of financing from the proceeds of the Loan of job-loss compensation payments and labor redeployment services under Parts A.1 and B.1 of the Project.
2. The Borrower shall cause the PA to duly perform all its obligations under the Subsidiary Loan Agreement. Except as the Bank shall otherwise agree, the Borrower shall cause the PA not to 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
3. The Borrower shall cause the PA to, until the completion of the Project, maintain the PCU and LAG and shall ensure that the PCU and LAG are staffed by personnel with qualifications and under terms of reference, and functions at all times in accordance with procedures necessary and appropriate for the carrying out of the Project, and acceptable to the Bank.
4. The Borrower shall cause the PA to maintain the POM, and, shall duly perform all its obligations under the POM and shall not assign, amend, abrogate or waive the POM without obtaining the prior approval of the Bank.
5. The Borrower shall, through the PA, assign to the PCU the responsibility for the overall Project implementation, including: (i) preparation of annual work programs and associated budgets for the Project, to be reviewed and agreed upon with the Bank; (ii) preparation of bidding and contract documents and the undertaking of procurement procedures under the Project; (iii) maintenance of Project records; and (iv) preparation and furnishing to the Bank of FMRs.
6. The Borrower shall, through the PA, cause the LAG to be responsible for the technical monitoring and administration of the Project.
7. Throughout the implementation of the Project, the Borrower, through the PA, shall maintain the Tripartite Advisory Committee, consisting of representatives from the Undersecretariat of Treasury, PA, State Planning Organization, State Institute of Statistics, KOSGEB, ISKUR, Confederation of Turkish Employer Association and labor unions. The Tripartite Advisory Committee shall be responsible for reviewing the progress of Project implementation and advising on any policy issues related to the implementation of the Project.

B. Criteria and Procedures under Parts A.1 and B.1 of the Project

8. Throughout the implementation of the Project, the Borrower shall ensure the implementation of its Privatization Program, including fair and transparent market-based tendering procedures and implementation of contracts for sale between the Borrower and private sector purchasers.

9. The Borrower shall cause the PA to select each state-owned enterprise, which applies for job-loss compensation payments under Part A.1 of the Project, in accordance with criteria as agreed with the Bank and set forth in the POM. Prior to making any withdrawals for job-loss compensation payments for a selected state-owned enterprise, the PA shall notify the Bank of the name of the selected state-owned enterprise and the number of qualifying workers and provide the Bank with evidence verifying that:

(a) the state-owned enterprise meets the criteria as agreed with the Bank and set forth in the POM;

(b) the procedures as agreed with the Bank and set forth in the POM have been followed in the calculation and provision of job-loss compensation payments; and

(c) the selected state-owned enterprise is undergoing a transparent, arms-length privatization process, a contract for the sale of the selected state-owned enterprise has been entered into with private sector purchasers and the contract is being implemented as agreed.

10. The Borrower shall, for the purposes of carrying out Parts B and C of the Project, cause the PA to: (a) maintain the Interagency Protocols, as agreed with the Bank and in accordance with the POM; and (b) exercise its rights under each Interagency Protocol in such manner as to protect the interests of the Borrower and the Bank and to accomplish the purposes of Parts B and C of the Project.

11. For the purposes of implementation of Part B of the Project and pursuant to the provision of the Interagency Protocol, the ISKUR and KOSGEB shall:

(a) select Service Providers pursuant to the provisions of Part B.3 of Section II of Schedule 4 to this Agreement and in accordance with criteria and procedures acceptable to the Bank and set forth in the POM; and

(b) enter into a contract on terms and conditions acceptable to the Bank, including provisions whereby the Service Provider shall be required to: (i) carry out labor redeployment services with due diligence and efficiency and in conformity with appropriate financial, administrative, environmental and technical practices, and provide promptly as needed, the funds, facilities and other resources required for this purpose; (ii) report periodically to relevant agencies on progress in the implementation of activities financed out of the proceeds of the Loan and to enable representatives of such agencies to

inspect such activities; and (iii) maintain financial records adequate to reflect expenditures incurred in connection with the carrying out of such activities.

C. Part C of the Project

12. Part C of the Project shall be carried out by the EKA. The EKA shall, for the purposes of implementation of Part C of the Project and in accordance with the provisions of the Interagency Protocol, cooperate with the PCU on the procurement of consultant services and be responsible for the supervision of such services. Part C (b) of the Project shall be carried out by the PCU.

D. Monitoring and Evaluation

13. The Borrower shall cause the PA to:

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

(b) prepare under terms of reference acceptable to the Bank and furnish to the Bank, each quarter, commencing on December 31, 2005, 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;

(c) prepare, under terms of reference acceptable to the Bank, and furnish to the Bank, on or about June 30, 2007, 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

(d) review with the Bank, by September 30, 2007, or such later date as the Bank shall request, the report referred to in subparagraph (c) 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.

SCHEDULE 6

Special Account

1. For the purposes of this Schedule:

(a) the term “eligible Categories” means Categories (1) through (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 and services required for the Project and to be financed out of the proceeds of the Loan allocated from time to time to the eligible Categories in accordance with the provisions of Schedule 1 to this Agreement; and

(c) the term “Authorized Allocation” means the amount of 40,000,000 to be withdrawn from the Loan Account and deposited into the Special Account pursuant to paragraph 3 (a) of this Schedule, provided, however, that unless the Bank shall otherwise agree, the Authorized Allocation shall be limited to the amount of 20,000,000 until the aggregate amount of withdrawals from the Loan Account plus the total amount of all outstanding special commitments entered into by the Bank pursuant to Section 5.02 of the General Conditions shall be equal to or exceed the equivalent of 70,000,000.

2. Payments out of the Special Account shall be made exclusively for eligible expenditures in accordance with the provisions of this Schedule.

3. After the Bank has received evidence 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 for the Project, minus the total amount of all outstanding special commitments entered into by the Bank pursuant to Section 5.02 of the General Conditions, shall equal the equivalent of twice the amount of the Authorized Allocation.

Thereafter, withdrawal from the Loan Account of the remaining unwithdrawn amount of the Loan allocated to the eligible Categories shall follow such procedures as the Bank shall specify by notice to the Borrower. Such further withdrawals shall be made only after and to the extent that the Bank shall have been satisfied that all such amounts remaining on deposit in the Special Account as of the date of such notice will be utilized in making payments for eligible expenditures.

6. (a) If the Bank shall have determined at any time that any payment out of the Special Account: (i) was made for an expenditure or in an amount not eligible pursuant to

paragraph 2 of this Schedule; or (ii) was not justified by the evidence furnished to the Bank, the Borrower shall, promptly upon notice from the Bank: (A) provide such additional evidence as the Bank may request; or (B) deposit into the Special Account (or, if the Bank shall so request, refund to the Bank) an amount equal to the amount of such payment or the portion thereof not so eligible or justified. Unless the Bank shall otherwise agree, no further deposit by the Bank into the Special Account shall be made until the Borrower has provided such evidence or made such deposit or refund, as the case may be.

(b) If the Bank shall have determined at any time that any amount outstanding in the Special Account will not be required to cover further payments for eligible expenditures, the Borrower shall, promptly upon notice from the Bank, refund to the Bank such outstanding amount.

(c) The Borrower may, upon notice to the Bank, refund to the Bank all or any portion of the funds on deposit in the Special Account.

(d) Refunds to the Bank made pursuant to 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.