Loan Agreement

(Istanbul Municipal Infrastructure Project)

between

ISTANBUL METROPOLITAN MUNICIPALITY

and

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

Dated July 25, 2008
LOAN AGREEMENT

Agreement dated July 25, 2008, between ISTANBUL METROPOLITAN MUNICIPALITY ("Borrower") and INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT ("Bank"). The Borrower and the Bank hereby agree as follows:

ARTICLE I - GENERAL CONDITIONS; DEFINITIONS

1.01. The General Conditions (as defined in the Appendix to this Agreement) constitute an integral part of this Agreement.

1.02. Unless the context requires otherwise, the capitalized terms used in the Loan Agreement have the meanings ascribed to them in the General Conditions or in the Appendix to this Agreement.

ARTICLE II - LOAN

2.01. The Bank agrees to lend to the Borrower, on the terms and conditions set forth or referred to in this Agreement, the amount of three hundred twenty two million one hundred fifty thousand Dollars ($322,150,000) ("Loan"), to assist in financing the project described in Schedule 1 to this Agreement ("Project").

2.02. The Borrower may withdraw the proceeds of the Loan in accordance with Section IV of Schedule 2 to this Agreement.

2.03. The Front-end Fee payable by the Borrower shall be equal to one quarter of one percent (0.25%) of the Loan amount.

2.04. The interest payable by the Borrower for each Interest Period shall be at a rate equal to LIBOR for the Loan Currency plus the Variable Spread. Notwithstanding the foregoing, if any amount of the withdrawn Loan Balance remains unpaid when due, and such non payment continues for a period of thirty (30) days, then the interest paid by the Borrower shall instead be calculated as provided in Section 3.02 (d) of the General Conditions.

2.05. The Payment Dates are January 15 and July 15 in each year.

2.06. The principal amount of the Loan shall be repaid in accordance with the amortization schedule set forth in Schedule 3 to this Agreement.
ARTICLE III - PROJECT

3.01. The Borrower declares its commitment to the objectives of the Project. To this end, the Borrower shall carry out the Project in accordance with the provisions of Article V of the General Conditions.

3.02. Without limitation upon the provisions of Section 3.01 of this Agreement, and except as the Borrower, the Guarantor and the Bank shall otherwise agree, the Borrower shall ensure that the Project is carried out in accordance with the provisions of Schedule 2 to this Agreement.

ARTICLE IV - EFFECTIVENESS; TERMINATION

4.01. The Additional Condition of Effectiveness consists of the following, namely, that the Guarantee Agreement between the Republic of Turkey (Guarantor) and the Bank has been duly executed and all conditions precedent to its effectiveness have been fulfilled.

4.02. The Effectiveness Deadline is the date one hundred and twenty (120) days after the date of this Agreement.

ARTICLE V - REPRESENTATIVE; ADDRESSES

5.01. The Borrower’s Representative is the Mayor of the Borrower.

5.02. The Borrower’s Address is:

İstanbul Metropolitan Municipality
Mehmet Nezihi ozmen Mahallesi
Kazim Sokak
Merter
İstanbul
Republic of Turkey

Facsimile:

(90 212) 449-44-09
5.03. The Bank’s Address is:

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

Cable address: INTBAFRAD
Telex: 248423(MCI) or 64145(MCI)
Facsimile: 1-202-477-6391

AGREED at Istanbul, Republic of Turkey, as of the day and year first above written.

ISTANBUL METROPOLITAN MUNICIPALITY

By: /s/ Mesut Pektas
Authorized Representative

INTERNATIONAL BANK FOR
RECONSTRUCTION AND DEVELOPMENT

By: /s/ Ulrich Zachau
Authorized Representative
SCHEDULE 1

Project Description

The objectives of the Project are to assist the Borrower in: (a) improving its solid waste management capacity; and (b) improving its capacity to mitigate earthquakes by retrofitting key facilities and infrastructure and upgrading the institutions and their procedures to help them respond to emergencies.

The Project consists of the following parts:

A. **Improvement in Environmental Management**

   Provision of support, through financing of works and goods, for: (i) the closure of existing unauthorized disposal sites for municipal solid waste (landfills) and rehabilitation of creeks; (ii) the strengthening of the institutional capacity of solid waste services though preparation of annual business plans on financial and technical operations; and (iii) provision of waste collection equipment.

B. **Strengthening of Municipal Services and Infrastructure**

   Support the City of Istanbul’s preparedness for a potential earthquake, including: (i) the preparation of a detailed risk assessment for all major municipal systems; (ii) the development of a municipal infrastructure risk mitigation plan; (iii) retrofitting of selected municipal infrastructure such as under-passes, pipelines and viaducts; and (iv) provision of emergency equipment to a fire department.

C. **Pilot Urban Transformation Program**

   Provision of assistance to reduce public vulnerability to seismic risk and improve the overall quality of life in the metropolitan area, through the financing of: (i) pilot urban transformation feasibility studies; and (ii) selected priority investments for retrofitting and construction of priority buildings, fire stations and emergency housing related to urban transformation in the most seismic vulnerable areas.

D. **Project Management and Audits**

   Provision of support for the implementation of the Project, through the financing of design studies, surveys, technical training and audits for Project accounts.
SCHEDULE 2

Project Execution

Section I. Institutional and Other Arrangements

1. The Borrower shall assign the primary responsibility for project implementation to its Finance Department which shall closely cooperate with other relevant departments of the Borrower and with sufficient and suitable human, financial and technical resources.

2. The Borrower shall maintain the Operational Manual throughout the Project and shall duly perform all its obligations under the Operational Manual and shall not assign, amend abrogate or waive the Operational Manual without the agreement of the Bank.

3. The Borrower shall implement Project activities in accordance with the EMP and shall include adequate information on the carrying out of the EMP in the progress reports referred to in paragraph A.1 of Section II of this Schedule.

4. (a) The Borrower shall obtain the Bank’s no-objection for each investment under Part C (ii) of the Project.

   (b) Without limitation upon sub-paragraph (a) of this paragraph 4 of this Schedule, the Borrower shall ensure that each investment to be supported under Part C (ii) of the Project shall be selected, on the basis of an appraisal carried out in accordance with procedures acceptable to the Bank set forth in the Operational Manual, to:

   (i) be technically feasible, economically, financially viable and environmentally beneficial and supported by an operational improvement plan;

   (ii) support investments that will be managed by the Borrower or one of its utilities after the completion of the investment;

   (iii) be located in the most seismic vulnerable areas;

   (iv) be in compliance with environmental review and land acquisition procedures set forth in the Operational Manual, Environmental Policy Framework and Land Acquisition and Resettlement Policy Framework and shall not require physical resettlement of people;

   (v) ensure that for investments which require an environmental mitigation/management plan, the Borrower shall carry out such environmental mitigation/management plan in a timely manner, requiring such environmental mitigation plan to be in
compliance with: (aa) Environmental Policy Framework; and (bb) the applicable laws and regulations of the Guarantor relating to health, safety, environmental protection and cultural property, and shall include adequate information on the carrying out of such environmental mitigation/management plans in the progress reports referred to in paragraph A.1 of Section II of this Schedule; and

(vi) not affect adversely the quality and quantity of water flow and include only rehabilitation works of ongoing schemes for investments located on trans-boundary waters.

(c). The Bank and the Borrower shall agree on specific locations of creeks to be rehabilitated under Part A (i) of the Project and the Borrower shall ensure that rehabilitation of selected creeks shall be carried out in compliance with the Environmental Policy Framework, including preparation of adequate environmental mitigation/management plans prior to rehabilitation of creeks, and shall not affect adversely the quality or quantity of trans-boundary waters.

Section II. Project Monitoring, Reporting, Evaluation

A. Project Reports

1. The Borrower shall monitor and evaluate the progress of the Project and prepare Project Reports in accordance with the provisions of Section 5.08 of the General Conditions and on the basis of indicators agreed with the Bank. Each Project Report shall cover the period of one calendar semester, and shall be furnished to the Bank not later than forty five days (45) after the end of the period covered by such report.

2. For purposes of Section 5.08 (c) of the General Conditions, the report on the execution of the Project and related plan required pursuant to that Section shall be furnished to the Bank not later than six (6) months before the Closing Date.

B. Financial Management, Financial Reports and Audits

1. The Borrower shall maintain or cause to be maintained a financial management system in accordance with the provisions of Section 5.09 of the General Conditions.

2. The Borrower shall prepare and furnish to the Bank as part of the Project Report, not later than forty five (45) days after the end of each calendar quarter, interim unaudited financial reports for the Project covering the quarter, in form and substance satisfactory to the Bank.

3. The Borrower shall have its Financial Statements audited in accordance with the provisions of Section 5.09 (b) of the General Conditions. Each audit of the Financial
Statements shall cover the period of one fiscal year of the Borrower. The audited Financial Statements for each such period shall be furnished to the Bank not later than six (6) months after the end of such period.

Section III. Procurement

A. General

1. Goods (Including Supply and Installation) and Works. All goods and works required for the Project and to be financed out of the proceeds of the Loan shall be procured in accordance with the requirements set forth or referred to in Section I of the Procurement Guidelines, and with the provisions of this Schedule.

2. Consultants’ Services. All consultants’ services required for the Project and to be financed out of the proceeds of the Loan shall be procured in accordance with the requirements set forth or referred to in Sections I and IV of the Consultant Guidelines and with the provisions of this Schedule.

3. Definitions. The capitalized terms used below in this Section to describe particular procurement methods or methods of review by the Bank of particular contracts refer to the corresponding method described in the Procurement Guidelines, or Consultant Guidelines, as the case may be.

B. Particular Method of Procurement of Goods

1. International Competitive Bidding. Works and goods shall be procured under contracts awarded on the basis of International Competitive Bidding procedures.

2. Other Methods of Procurement of Goods and Works. The following table specifies the methods of procurement, other than International Competitive Bidding, which may be used for goods and works. The Procurement Plan shall specify the circumstances under which such methods may be used.

<table>
<thead>
<tr>
<th>Procurement Method</th>
</tr>
</thead>
<tbody>
<tr>
<td>(a) Limited International Bidding</td>
</tr>
<tr>
<td>(b) National Competitive Bidding, subject to the additional provisions set forth in the Annex to this Schedule 2</td>
</tr>
<tr>
<td>(c) Shopping</td>
</tr>
<tr>
<td>(d) Direct Contracting</td>
</tr>
</tbody>
</table>
C. Particular Methods of Procurement of Consultants’ Services

1. Quality- and Cost-based Selection. Except as otherwise provided in paragraph 2 below, consultants’ services shall be procured under contracts awarded on the basis of Quality and Cost-based Selection.

2. Other Methods of Procurement of Consultants’ Services. The following table specifies the methods of procurement, other than Quality and Cost-based Selection, which may be used for consultants’ services. The Procurement Plan shall specify the circumstances under which such methods may be used.

<table>
<thead>
<tr>
<th>Procurement Method</th>
</tr>
</thead>
<tbody>
<tr>
<td>(a) Least Cost Selection</td>
</tr>
<tr>
<td>(b) Selection based on Consultants’ Qualifications</td>
</tr>
<tr>
<td>(c) Single Source Selection</td>
</tr>
<tr>
<td>(d) Individual Consultants</td>
</tr>
</tbody>
</table>

D. 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.

Section IV. Withdrawal of Loan Proceeds

A. General

1. The Borrower may withdraw the proceeds of the Loan in accordance with the provisions of this Section and such additional instructions included in the Disbursement Letter, to finance Eligible Expenditures as set forth in the table in paragraph 2 below.

2. The following table specifies the categories of Eligible Expenditures that may be financed out of the proceeds of the Loan (“Category”), the allocation of the amounts of the Loan to each Category, and the percentage of expenditures to be financed for Eligible Expenditures in each Category.
<table>
<thead>
<tr>
<th>Category</th>
<th>Amount of the Loan Allocated (Expressed in Dollars)</th>
<th>Percentage of Expenditures to be Financed</th>
</tr>
</thead>
<tbody>
<tr>
<td>(1) Works</td>
<td>279,194,625</td>
<td>100%</td>
</tr>
<tr>
<td>(2) Goods</td>
<td>42,000,000</td>
<td>100%</td>
</tr>
<tr>
<td>(3) Consultants Services</td>
<td>150,000</td>
<td>100%</td>
</tr>
<tr>
<td>(4) Front-end Fee</td>
<td>805,375</td>
<td>Amount payable pursuant to Section 2.03 of this Agreement in accordance with Section 2.07 (b) of the General Conditions</td>
</tr>
<tr>
<td>TOTAL AMOUNT</td>
<td>322,150,000</td>
<td></td>
</tr>
</tbody>
</table>

**B. Withdrawal Conditions; Withdrawal Period**

1. Notwithstanding the provisions of Part A of this Section, no withdrawal shall be made for payments made prior to the date of this Agreement.

2. The Closing Date is December 31, 2011.
Annex to
SCHEDULE 2

Mandatory Provisions for Procurement under Bank-Financed Contracts
Subject to National Competitive Bidding

The Borrower shall use the Bank’s Europe and Central Asia Region National Competitive Bidding documents template for works and goods and apply the following provisions in the carrying out of National Competitive Bidding procedures under the Project:

A. **Eligibility**

   Bidding shall not be restricted to domestic bidders. No restriction shall be applied to foreign bidders who wish to submit a bid.

B. **Procedures**

   Invitations to bid shall be advertised in the Official Gazette and in at least one widely circulated national daily newspaper or in an electronic portal of free access allowing a minimum of thirty (30) days for the preparation and submission of bids.

C. **Assessment of Bidders’ Qualifications**

   In the procurement of goods and works, where pre-qualification is not used, the qualifications of the bidder who is recommended for award of contract shall be assessed by post-qualification, applying minimum experience, technical and financial requirements which shall be explicitly stated in the bidding documents and which shall be determined by a ‘pass/fail’ method, not through use of a merit point system.

D. **Participation by Government-owned Enterprises**

   Government-owned enterprises in the Republic of Turkey shall be eligible to participate in bidding only if they can establish that they are legally and financially autonomous, operate under commercial law and are not a dependent agency of the Government. Furthermore, they will be subject to the same bid and performance security requirements as other bidders.

E. **Participation by Joint Ventures**

   Participation shall be allowed from joint ventures on the condition that such joint venture partners will be jointly and severally liable under the Contract.
F. Bidding Documents

Procuring entities shall use the Bank’s sample National Competitive Bidding documents for Europe and Central Asia Region for works and goods and shall draft contract and conditions of contract acceptable to the Bank.

G. Bid Evaluation

(a) Evaluation of bids shall be made in strict adherence to the monetarily quantifiable criteria declared in the bidding documents and a merit point system shall not be used.

(b) Extension of bid validity shall be allowed once only for not more than thirty (30) days. No further extensions should be requested without the prior approval of the Bank.

(c) Contracts shall be awarded to qualified bidders having submitted the lowest evaluated substantially responsive bid.

(d) No preference shall apply under National Competitive Bidding.

H. Price Adjustment

Civil works contracts of long duration (i.e. more than eighteen (18) months) shall contain an appropriate price adjustment clause.

I. Rejection of All Bids

All bids shall not be rejected and new bids solicited without the Bank’s prior written concurrence.

J. Contracts

All contracts shall be in writing, signed and stamped by authorized signatories of the Purchaser and the Supplier and shall contain identical terms and conditions of contract to those included in the tender documents.

K. Securities

Bid Securities should not exceed three percent (3%) of the estimated cost of the contract; Performance Securities not more than ten percent (10%). No advance payments shall be made to the Suppliers without a suitable Advance Payment security. The wording of all such securities shall be included in the bidding documents and shall be acceptable to the Bank.
SCHEDULE 3

Amortization Schedule

<table>
<thead>
<tr>
<th>Principal Payment Date</th>
<th>Principal Amount of the Loan Payable (Expressed in Dollars(^*))</th>
</tr>
</thead>
<tbody>
<tr>
<td>On each January 15 and July 15</td>
<td></td>
</tr>
<tr>
<td>beginning January 15, 2013</td>
<td>16,110,000</td>
</tr>
<tr>
<td>through January 15, 2022</td>
<td></td>
</tr>
<tr>
<td>On July 15, 2022</td>
<td>16,060,000</td>
</tr>
</tbody>
</table>

\(^*\) The figures in this column represent the amount in Dollars to be repaid, except as provided in Section 3.10 of the General Conditions.
APPENDIX

Section I. Definitions

1. “Category” means a category set forth in the table in Section IV of Schedule 2 to this Agreement.


3. “Disbursement Letter” means the letter dated as of the same date of this Agreement, including the additional instructions as referred to in Section IV.A.1 of Schedule 2 to this Agreement, as may be revised from time to time.


5. “Environmental Policy Framework” means the framework, approved by the Bank, describing the environmental issues, mitigation, monitoring and institutional measures for carrying out of Parts B, C and D of the Project activities.

6. “General Conditions” means the “International Bank for Reconstruction and Development General Conditions for Loans”, dated July 1, 2005, with modifications set forth in Section II of this Appendix.

7. “Land Acquisition and Resettlement Policy Framework” means the framework, approved by the Bank, which sets forth policies and procedures to be followed by the Borrower in case of land acquisition for carrying out of Project activities.

8. “Operational Manual” means the manual dated June 1, 2007, setting out the operational and administrative procedures in respect of the preparation, approval, processing, financing, implementation and supervision of investments and activities supported under the Project, including the environmental and land acquisition frameworks.


10. “Procurement Plan” means the Borrower’s procurement plan for the Project, dated April 17, 2007, and referred to in paragraph 1.16 of the Procurement Guidelines and paragraph 1.24 of the Consultant Guidelines, as the same shall be updated from time to time in accordance with the provisions of said paragraphs.

Section II. Modifications to the General Conditions

The modifications to the General Conditions are as follows:
1. Section 3.01 shall read as follows:

“Section 3.01. Front-end Fee. The Borrower shall pay the Bank a front-end fee on the Loan amount at the rate specified in the Loan Agreement (the “Front-end Fee”).”

2. A new paragraph (d) is included in Section 3.02 Interest which shall read as follows:

“(d) Notwithstanding the provisions of paragraph (a) of this Section, if any amount of the Withdrawn Loan Balance remains unpaid when due and such non-payment continues for a period of thirty days, then the Borrower shall pay the Default Interest Rate on such overdue amount in lieu of the interest rate specified in the Loan Agreement (or such other interest rate as may be applicable pursuant to Article IV as a result of a Conversion) until such overdue amount is fully paid. Interest at the Default Interest Rate shall accrue from the first day of each Default Interest Period and shall be payable semi-annually in arrears on each Payment Date.”

3. Appendix “Definitions” is amended as follows:

(a) Paragraph 19 “Commitment Charge” is deleted, and subsequent paragraphs are re-numbered accordingly.

(b) New paragraphs 27, 28, 29 and 30 are added to the Appendix:

“27. “Default Interest Period” means for any overdue amount of the Withdrawn Loan Balance, each Interest Period during which such overdue amount remains unpaid; provided, however, that the first such Default Interest Period shall commence on the 31st day following the date on which such amount becomes overdue, and the final such Default Interest Period shall end on the date at which such amount is fully paid.”

28. “Default Interest Rate” means for any Default Interest Period:

(a) in the case of a Variable Spread Loan: Default LIBOR plus the Variable Spread plus one half of one percent (0.5%);

(b) in the case of a Fixed Spread Loan for which interest on the amount of the Withdrawn Loan Balance to which the Default Interest Rate applies was payable at a Variable Rate immediately prior to the application of the Default Interest Rate: the Default Variable Rate plus one half of one percent (0.5%); and

(c) in the case of a Fixed Spread Loan for which interest on the amount of the WithdrawnLoan Balance to which the Default Interest Rate
applies was payable at a Fixed Rate immediately prior to the application of the Default Interest Rate: Default LIBOR plus the Fixed Spread plus one half of one percent (0.5%).”

29. “Default LIBOR” means LIBOR for the relevant Interest Period; it being understood that for the initial Default Interest Period, Default LIBOR shall be equal to LIBOR for the Interest Period in which the amount referred to in paragraph (d) of Section 3.02 first becomes overdue.

30. “Default Variable Rate” means the Variable Rate for the relevant Interest Period; it being understood that for the initial Default Interest Period, Default Variable Rate shall be equal to the Variable Rate for the Interest Period in which the amount referred to in paragraph (d) of Section 3.02 first becomes overdue.”

(c) Paragraph 43 “Fixed Spread” (as re-numbered) is amended to read as follows:

“43. “Fixed Spread” means the Bank’s fixed spread for the initial Loan Currency in effect at 12:01 a.m. Washington, D.C. time, one calendar day prior to the date of the Loan Agreement; provided, that upon a Currency Conversion of all or any amount of the Unwithdrawn Loan Balance, such fixed spread shall be adjusted on the Execution Date in the manner specified in the Conversion Guidelines; and provided further that notwithstanding the foregoing, for purposes of determining the Default Interest Rate applicable to an amount of the Withdrawn Loan Balance on which interest is payable at a Fixed Rate, the “Fixed Spread” means the Bank’s fixed spread in effect at 12:01 a.m. Washington, D.C. time, one calendar day prior to the date of the Loan Agreement, for the Currency of denomination of such amount.”

(d) Paragraph 66 “Loan Payment” (as re-numbered) is amended to read as follows:

“66. “Loan Payment” means any amount payable by the Loan Parties to the Bank pursuant to the Legal Agreements or these General Conditions, including (but not limited to) any amount of the Withdrawn Loan Balance, interest, the Front-end Fee, interest at the Default Interest Rate (if any), any prepayment premium, any transaction fee for a Conversion or early termination of a Conversion, any premium payable upon the establishment of an Interest Rate Cap or Interest Rate Collar, and any Unwinding Amount payable by the Borrower.”
Paragraph 71 “Payment Date” (as re-numbered) is amended to read as follows:

“71. “Payment Date” means each date specified in the Loan Agreement occurring on or after the date of the Loan Agreement on which interest is payable.”