Global Environment Facility
Trust Fund Grant Agreement

(Small and Medium Enterprises Energy Efficiency Project)

between

TÜRKİYE VAKİFLAR BANKASI T.A.O.

and

INTERNATIONAL BANK FOR RECONSTRUCTION
AND DEVELOPMENT

acting as an Implementing Agency of the Global Environment Facility

Dated May 6, 2013
AGREEMENT dated May 6, 2013, entered into between:
TÜRKİYE VAKIFLAR BANKASI T.A.O. ("Recipient" or "Vakifbank"); and
INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT
("World Bank"), acting as an implementing agency of the Global Environment Facility
("GEF").

The Recipient and the World Bank hereby agree as follows:

**Article I**

**Standard Conditions; Definitions**


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

**Article II**

**The Project**

2.01. The Recipient declares its commitment to the objectives of the project described in Schedule I to this Agreement ("Project"). To this end, the Recipient shall carry out its Respective Part of the Project in accordance with the provisions of Article II of the Standard Conditions.

2.02. Without limitation upon the provisions of Section 2.01 of this Agreement, and except as the Recipient and the World Bank shall otherwise agree, the Recipient shall ensure that its Respective Part of the Project are carried out in accordance with the provisions of Schedule 2 to this Agreement.
Article III

The Grant

3.01. The World Bank agrees to extend to the Recipient, on the terms and conditions set forth or referred to in this Agreement, a grant in an amount equal to nine hundred thousand United States Dollars ($900,000) ("Grant") to assist in financing of Parts B.2 and B.3 of the Project.

3.02. The Recipient may withdraw the proceeds of the Grant in accordance with Section IV of Schedule 2 to this Agreement.

3.03. The Grant is funded out of the abovementioned trust fund for which the World Bank receives periodic contributions from the donors to the trust fund. In accordance with Section 3.02 of the Standard Conditions, the World Bank's payment obligations in connection with this Agreement are limited to the amount of funds made available to it by the donors under the abovementioned trust fund, and the Recipient's right to withdraw the Grant proceeds is subject to the availability of such funds.

Article IV

Additional Remedies

4.01. The Additional Event of Suspension referred to in Section 4.02(k) of the Standard Conditions consists of the following: the Recipient has become insolvent.

Article V

Effectiveness; Termination

5.01. This Agreement shall not become effective until evidence satisfactory to the World Bank has been furnished to the World Bank that the following condition has been satisfied, namely, that the loan agreement dated the same date as this Agreement, between the Recipient and the World Bank providing a loan in support of the Recipient's Respective Part of the Project ("Loan Agreement"), has been executed and delivered and all conditions precedent to its effectiveness or to the right of the Recipient to make withdrawals under it (other than the effectiveness of this Agreement) have been fulfilled.

5.02. Except as the Recipient and the World Bank shall otherwise agree, this Agreement shall enter into effect on the date upon which the World Bank dispatches to the Recipient notice of its acceptance of the evidence required pursuant to Section 5.01 ("Effective Date"). If, before the Effective Date, any event has occurred which would have entitled the World Bank to suspend the right of the Recipient to make
withdrawals from the Grant Account if this Agreement had been effective, the World Bank may postpone the dispatch of the notice referred to in this Section until such event (or events) has (or have) ceased to exist.

5.03. This Agreement and all obligations of the parties under it shall terminate if it has not entered into effect by the date 90 days after the date of this Agreement, unless the World Bank, after consideration of the reasons for the delay, establishes a later date for the purpose of this Section. The World Bank shall promptly notify the Recipient of such later date.

Article VI

Recipient’s Representative; Addresses

6.01. The Recipient’s Representative referred to in Section 7.02 of the Standard Conditions is the Chief Executive Officer of the Recipient.

6.02. The Recipient’s Address referred to in Section 7.01 of the Standard Conditions is:

Türkiye Vakiflar Bankası T.A.O.
Sanayi Mahallesi
Eski Buyukdere Cad
Guler Sok. No. 51
Kagithane, Istanbul
Turkey

Facsimile:

(90-212) 316 7126

6.03. The World Bank’s Address referred to in Section 7.01 of the Standard Conditions is:

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

Cable: INTRABAD
Telex: 248423 (MCI) or 64145 (MCI)
Facsimile: 1-202-477-6391
AGREED at Ankara, Republic of Turkey, as of the day and year first above written.

TÜRKİYE VAKİFLAR BANKASI T.A.O.

By

Authorized Representative

Name: Tahir Aydoğan
Title: CEO

By

Authorized Representative

Name: Nurcan Beşer
Title: Deputy General Manager

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT
acting as an Implementing Agency of the Global Environment Facility

By

Authorized Representative

Name: Martin Raiser
Title: Director
SCHEDULE I

Project Description

The objective of the Project is to improve the efficiency of energy use in small and medium enterprises in the Republic of Turkey, by scaling-up commercial bank lending for energy efficiency investments.

The Project consists of the following parts:

Part A: Credit Line to Halkbank

1. The establishment and operation of a credit facility within Halkbank for the financing of Sub-projects through the provision of Sub-loans by Halkbank to Sub-project Sponsors to finance the cost of carrying out Sub-projects.

2. The establishment of a loan loss reserve fund within Halkbank to assist in defraying risks associated with new energy efficiency loan products and in addressing SME collateral requirements.

3. Enhancement of the capacity of Halkbank to implement this Part A of the Project.

Part B: Credit Line to Vakifbank

1. The establishment and operation of a credit facility within Vakifbank for the financing of Sub-projects through the provision of Sub-loans by Vakifbank to Sub-project Sponsors to finance the cost of carrying out Sub-projects.

2. The establishment of a loan loss reserve fund within Vakifbank to assist in defraying risks associated with new energy efficiency loan products and in addressing SME collateral requirements.

3. Enhancement of the capacity of Vakifbank to implement this Part B of the Project.

Part C: Credit Line to Ziraatbank

1. The establishment and operation of a credit facility within Ziraatbank for the financing of Sub-projects through the provision of Sub-loans by Ziraatbank to Sub-project Sponsors to finance the cost of carrying out Sub-projects.

2. The establishment of a loan loss reserve fund within Ziraatbank to assist in defraying risks associated with new energy efficiency loan products and in addressing SME collateral requirements.
3. Enhancement of the capacity of Ziraatbank to implement this Part C of the Project.

Part D: Energy Efficiency Policy and Project Management Support to MENR

1. Enhancement of the enabling environment for, and the fostering of, broader energy efficiency market development in the Republic of Turkey through, inter alia, the following activities to be carried out by MENR:

   (a) Market development and information dissemination, including: (i) raising awareness of, and providing training and disseminating information on, opportunities for energy efficiency and the success of schemes used in the credit lines established under the Project; (ii) carrying out market studies and assessments and developing options for future investment programs beyond the SME market; and (iii) establishing a dialogue with stakeholders.

   (b) Strengthening of the energy efficiency and regulatory regimes, including carrying out: (i) reviews of energy efficiency policies and developing recommendations for improvement especially in the SME sector; reviews of energy efficiency incentive and informational programs (including impact assessments) and developing recommendations to improve utilization and impact of those programs; and reviews of institutional arrangements to strengthen the energy efficiency policy and implementation function in all sectors; and (ii) staff training.

2. Support MENR's management of activities under this Part D of the Project.
SCHEDULE 2

Project Execution

Section I. Institutional and Other Arrangements

A. Institutional and Other Arrangements

1. Except as the World Bank shall otherwise agree, the Recipient shall maintain, until the completion of its Respective Part of the Project, the PIU, and ensure that the PIU functions at all times in a manner and with staffing and budgetary resources necessary and appropriate for implementation of its Respective Part of the Project, and satisfactory to the World Bank.

2. The Recipient shall maintain the Operational Manual in form and content satisfactory to the World Bank, shall duly perform all its obligations under the Operational Manual and shall not assign, amend, abrogate or waive the Operational Manual without obtaining the prior approval of the World Bank.

3. The Recipient shall, throughout the implementation of its Respective Part of the Project, comply with the applicable prudential regulations of the Guarantor.

4. The Recipient shall ensure that its Respective Part of the Project is carried out in accordance with the provisions of the Anti-Corruption Guidelines.

B. Implementation of Part B.2 of the Project

Establishment of Loan Loss Reserve Fund Account

1. The Recipient shall establish a Loan Loss Reserve Fund Account ("LLRF Account") for the Loan Loss Reserve Fund, on its books and for the purposes of implementing Part B.2 of the Project, in a manner satisfactory to the Bank and in accordance with the procedures set forth in the Operational Manual, to serve as a first loan loss reserve.

2. The Recipient shall request the Bank to disburse the proceeds of the Grant, allocated from time to time to Category (1) set forth in the table in paragraph 2 of Section IV.A of this Schedule to the LLRF Account to serve as a loan loss reserve only upon satisfaction of the requirements in paragraphs 1 and 6 of this Section I.B.

3. The Recipient shall manage and use the proceeds of the LLRF Account in a manner consistent with the purposes and objectives of the Project and in accordance with provisions of this Agreement and use the proceeds as a loan loss reserve for Sub-loans to LLRF Sub-project Sponsors.
4. The Recipient shall act prudently and reasonably in exercising its management obligations in respect of the LLRF Account and shall deposit any amounts recovered in connection with a LLRF Withdrawal directly into said LLRF Account and as provided in paragraph 8 of this Section I.B.

5. (a) If the Bank shall have determined at any time that any amount in the LLRF Account will not be required to cover potential Sub-loan losses of any LLRF Sub-project Sponsor, the Recipient shall, promptly upon notice from the Bank, refund to the Bank such outstanding amount.

(b) The Recipient may, upon notice to the Bank, refund to the Bank all or any portion of the funds on deposit in the LLRF Account.

(c) Refunds to the Bank made pursuant to sub-paragraphs (a) and (b) of this paragraph shall be credited to the Grant Account for subsequent withdrawal or for cancellation in accordance with the relevant provisions of this Agreement.

**Deposits into the Loan Loss Reserve Fund Account**

6. After the Bank has received evidence satisfactory to it that the LLRF Account has been duly opened, the withdrawals from the Grant Account for deposit into the LLRF Account shall be made as follows ("LLRF Deposit") to serve as a loan loss reserve for each Sub-loan to a LLRF Sub-project Sponsor defined below:

(a) The Recipient shall have executed a Sub-loan Contract in form and substance acceptable to the Bank, with:

   (i) a Sub-project Sponsor that is an ESCO; or

   (ii) a Sub-project Sponsor that has entered into an Energy Performance Contract with an ESCO; or

   (iii) a Sub-project Sponsor that is a Leasing Company, which Leasing Company has entered into a contract with a lessee pursuant to which lease payments are structured to be paid from estimated energy cost savings,

   (individually referred to as "LLRF Sub-project Sponsor") for the provision of a Sub-loan for the implementation of a Sub-project.

(b) The Recipient shall have furnished to the Bank evidence satisfactory to the Bank that said Sub-loan Contract has been duly authorized and executed in compliance with the provisions of the Operational Manual and the Loan Agreement.
The amount withdrawn from the Grant Account and deposited into the LLRF Account shall not exceed 20% of each Sub-loan concerned.

Withdrawals from the Loan Loss Reserve Fund Account

7. (a) Subject to the provisions in sub-paragraph (b) of this paragraph, the Recipient may make a withdrawal from the Loan Loss Reserve Fund Account ("LLRF Withdrawal") to pay to itself only when it is established, to the satisfaction of the Bank and in accordance with the Operational Manual, that a Sub-loan to a LLRF Sub-project Sponsor has been determined to be a non-performing loan in accordance with the Guarantor’s banking regulations ("LLRF Withdrawal Event").

(b) The amount of the LLRF Withdrawal shall not exceed the aggregate of the principal and interest that is overdue under the LLRF Withdrawal Event or the amount of the LLRF Deposit for the Sub-loan concerned, whichever is lower.

8. The Recipient shall:

(a) within thirty (30) days of a LLRF Withdrawal, provide to the Bank, a written report indicating the reasons for the LLRF Withdrawal Event, its recovery plan, and its assessment of the probability of recovery of the amounts in default; and thereafter implement the recovery plan as so approved by the Bank; and

(b) remit into the LLRF Account the amount of a LLRF Withdrawal if it is deemed by the Bank to be unwarranted.

Reflows

9. The Recipient shall deposit into the LLRF Account the following, which monies may be withdrawn in accordance with the provisions of paragraph 7 of this Section 1.B or shall be utilized as a loan loss reserve for new Sub-loans that satisfy the requirements in sub-paragraphs 6(a), 6(b) and 6(c) of this Section 1.B:

(a) twenty (20%) percent of all monies recovered after a LLRF Withdrawal Event from the LLRF Sub-project Sponsor concerned but not exceeding the amount of the LLRF Withdrawal; and

(b) any interest or investment income earned on the funds in the LLRF Account.

10. Upon the full repayment by a LLRF Sub-project Sponsor of its Sub-loan, the Recipient shall utilize the amount of LLRF Deposit made in respect of the Sub-
loan as a loan loss reserve for new Sub-loans that satisfy the requirements in sub-
paragraphs 6(a), 6(b) and 6(c) of this Section I.B.

Section II. Project Monitoring, Reporting and Evaluation

A. Project Reports; Completion Report

1. (a) The Recipient shall monitor and evaluate the progress of the its
Respective Part of the Project and prepare Project Reports in accordance with the
provisions of Section 2.06 of the Standard Conditions and on the basis of
indicators acceptable to the World Bank. Each Project Report shall cover the
period of one calendar semester, and shall be furnished to the World Bank not
later than forty-five (45) days after the end of the period covered by such report.

(b) Without limitation on the provisions on sub-paragraph (a) above, the
Recipient shall list, in the Project Report, basic information relating to each
LLRF Deposit and the LLRF Sub-project Sponsor concerned under its
Respective Part of the Project, including the location and nature of the Sub-
project, the energy savings/monitored of the investment, and the date on which
Sub-project activities began and were completed. Additionally, the Recipient
agrees that the World Bank may disclose the foregoing information to the public.

2. The Recipient shall prepare the Completion Report in accordance with the
provisions of Section 2.06 of the Standard Conditions. The Completion Report
shall be furnished to the World Bank not later than six (6) months after the
Closing Date.

B. Financial Management; Financial Reports; Audits

1. The Recipient shall ensure that a financial management system is maintained in
accordance with the provisions of Section 2.07 of the Standard Conditions.

2. The Recipient shall ensure that interim unaudited financial reports for its
Respective Part of the Project are prepared and furnished to the World Bank as
part of the Project Report not later than forty-five (45) days after the end of each
calendar semester, covering the semester, in form and substance satisfactory to
the World Bank.

3. The Recipient shall have its Financial Statements for its Respective Part of the
Project (including but not limited to the LLRF Account) audited in accordance
with the provisions of Section 2.07(b) of the Standard Conditions. Each such
audit of the Financial Statements shall cover the period of one fiscal year of the
Recipient. The audited Financial Statements for each such period shall be
furnished to the World Bank not later than six (6) months after the end of such
period.
Section III. Procurement

A. General

1. Procurement and Consultant Guidelines. All goods, non-consulting-services and consultants' services required for the Respective Part of the Project and to be financed out of the proceeds of the Grant shall be procured in accordance with the requirements set forth or referred to in:

(a) Section I of the “Guidelines: Procurement of Goods, Works and Non-consulting Services under IBRD Loans and IDA Credits and Grants by World Bank Borrowers” dated January 2011 (“Procurement Guidelines”) in the case of goods and non-consulting services, and Sections I and IV of the “Guidelines: Selection and Employment of Consultants under IBRD Loans and IDA Credits and Grants by World Bank Borrowers” dated January 2011 (“Consultant Guidelines”) in the case of consultants’ services; and

(b) the provisions of this Section III, as the same shall be elaborated in the procurement plan prepared and updated from time to time by the Recipient for the Project in accordance with paragraph 1.18 of the Procurement Guidelines and paragraph 1.25 of the Consultant Guidelines (“Procurement Plan”).

2. Definitions. The capitalized terms used below in this Section to describe particular procurement methods or methods of review by the World Bank of particular contracts, refer to the corresponding method described in Sections II and III of the Procurement Guidelines, or Sections II, III, IV and V of the Consultant Guidelines, as the case may be.

B. Particular Methods of Procurement of Goods and Non-consulting Services

1. International Competitive Bidding. Except as otherwise provided in paragraph 2 below, goods and non-consulting services shall be procured under contracts awarded on the basis of International Competitive Bidding.

2. Other Methods of Procurement of Goods and Non-consulting Services. The following methods, other than International Competitive Bidding, may be used for procurement of goods and non-consulting services (including Training and related logistical and organization services for Training) for those contracts specified in the Procurement Plan: Shopping.
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 methods, other than Quality- and Cost-based Selection, may be used for procurement of consultants' services for those assignments which are specified in the Procurement Plan: (a) Selection based on Consultants' Qualifications; (b) Single-source selection of consulting firms; (c) Selection of Individual Consultants; and (d) Single-source procedures for the Selection of Individual Consultants.

D. Review by the World Bank of Procurement Decisions

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

Section IV. Withdrawal of Grant Proceeds

A. General

1. The Recipient may withdraw the proceeds of the Grant in accordance with the provisions of: (a) Article III of the Standard Conditions; (b) this Section; and (c) such additional instructions as the World Bank may specify by notice to the Recipient (including the "World Bank Disbursement Guidelines for Projects" dated May 2006, as revised from time to time by the World Bank and as made applicable to this Agreement pursuant to such instructions), 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 Grant ("Category"), the allocations of the amounts of the Grant to each Category, and the percentage of expenditures to be financed for Eligible Expenditures in each Category:
### Category

<table>
<thead>
<tr>
<th>Category</th>
<th>Amount of the Grant Allocated (expressed in USD)</th>
<th>Percentage of Expenditures to be Financed (inclusive of Taxes)</th>
</tr>
</thead>
<tbody>
<tr>
<td>(1) LLRF Deposit under Part B.2 of the Project</td>
<td>450,000</td>
<td>100% of LLRF Deposit</td>
</tr>
<tr>
<td>(2) Goods, non-consultant services, consultants' services and Training under Part B.3 of the Project</td>
<td>450,000</td>
<td>100%</td>
</tr>
<tr>
<td>TOTAL AMOUNT</td>
<td>900,000</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:
   
   (a) for payments made prior to the date of this Agreement; or
   
   (b) in respect of payments under Category (1) in paragraph 1 of this Schedule until the Bank has been furnished with evidence satisfactory to the Bank that a LLRF Account has been opened in a manner satisfactory to the Bank and in compliance with the provisions of this Agreement and the Operational Manual.

2. The Recipient may, after the Closing Date of this Project, keep in perpetuity the Grant proceeds disbursed under Category (1) but only for the purposes of:
   
   (a) continuing the Loan Loss Reserve Fund as set forth in this Agreement and if the objectives under Part B.2 of the Project have been achieved; or
   
   (b) if the objectives have not been achieved, using such funds in accordance with a plan acceptable to the Bank, the Guarantor and the Borrower and to promote energy efficiency investments.

3. The Closing Date referred to in Section 3.06(c) of the Standard Conditions is September 28, 2018.
APPENDIX

Definitions

1. "Anti-Corruption Guidelines" means the "Guidelines on Preventing and Combating Fraud and Corruption in Projects Financed by IBRD Loans and IDA Credits and Grants", dated October 15, 2006 and revised in January 2011, which are applicable to all IBRD loans and IDA credits and grants.

2. "ESCO" means an energy service company that is engaged through performance-based contracts to reduce energy consumption and improve efficiency of operations of its clients.

3. "Energy Performance Contract" means a contract entered into between an ESCO and a client which guarantees the realization of energy savings and/or efficiency gain as a result of identified investments or measures and as more particularly defined in the Operational Manual.

4. "Guarantor" means the Republic of Turkey.

5. "Halkbank" and "Türkiye Halk Bankası A.Ş." mean a joint-stock company operating pursuant to Law No. 4603 dated November 15, 2000, and which is responsible for implementation of its Respective Part of the Project.

6. "Leasing Company" means a private leasing company registered according to the applicable laws and regulations of the Guarantor.

7. "Loan Agreement" means the Loan Agreement dated the same date as this Agreement, between the World Bank and the Recipient providing a loan in support of the Recipient's Respective Part of Project and referred to in Section 3.01 of this Agreement.

8. "Loan Loss Reserve Fund" and "LLRF" mean the fund to be established by the Recipient under Part B.2 of the Project to serve as a first loan loss reserve.

9. "LLRF Account" means the Loan Loss Reserve Fund Account established by the Recipient pursuant to paragraph 1 of Section 1.B of Schedule 2 to this Agreement for the purposes of operating the Loan Loss Reserve Fund under Part B.2 of the Project.

10. "LLRF Deposit" means an amount to be withdrawn from the Grant Account and deposited into the LLRF Account, in accordance with the provisions of paragraph 6 of Section 1.B of Schedule 2 to this Agreement.
22. "Sub-project" means a specific investment project under the Recipient’s Respective Part of Project and to be carried out by a Sub-project Sponsor utilizing the proceeds of a Sub-loan.

23. "Sub-project Sponsor" means any of the following and to which the Recipient proposes to make or has made a Sub-loan: a SME, a Mid-cap Company, a Leasing Company and an ESCO.

24. "Training" means the reasonable expenditures incurred for international and national symposia, seminars and workshops, including related travel expenditures, accommodation and per diem allowances provided to the participants and trainers in such activities (including fees for trainers but excluding staff salaries).

25. "Vakifbank" and "Türkiye Vakıflar Bankası T.A.O." mean a joint stock company established pursuant to the statutes published in the Trade Registry Gazette No. 8608 dated January 15, 1954 (Trade Registry No. 6219), and which is responsible for implementation of its Respective Part of the Project.

26. "Ziraatbank" and "Türkiye Cumhuriyeti Ziraat Bankası A.Ş" mean a joint stock company first founded in 1863 with its bank status confirmed in March 23, 1916 under a special law and its legal status revised to be a joint stock company pursuant to Law No. 4603 dated November 15, 2000, and which is responsible for implementation of its Respective Part of the Project.