

CONFORMED COPY

LOAN NUMBER 3782 TUN

Loan Agreement

(Water Supply and Sewerage Project)

between

REPUBLIC OF TUNISIA

and

INTERNATIONAL BANK FOR RECONSTRUCTION
AND DEVELOPMENT

Dated September 21, 1994

LOAN NUMBER 3782 TUN

LOAN AGREEMENT

AGREEMENT, dated September 21, 1994, between the REPUBLIC OF TUNISIA (the Borrower) and the INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT (the Bank).

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

(B) the Borrower intends to contract from other external sources of funds (the Cofinanciers) one or more loans (the Cofinanciers Loans) in an aggregate amount equivalent to ten million seven hundred thousand dollars (\$10,700,000) to assist in financing part of the cost of Part C of the Project on the terms and conditions set forth in agreements (the Cofinanciers Loan Agreements) to be entered into between the Borrower and the Cofinanciers;

(C) Part B of the Project will be carried out by the Société Nationale d'Exploitation et de Distribution des Eaux (SONEDE) with the Borrower's assistance and, as part of such assistance, the Borrower will make available to SONEDE a portion of the proceeds of the Loan as provided in this Agreement;

(D) Parts C, D.4 and D.5 (iii), (iv) and (v) of the Project will be carried out by the Office National de l'Assainissement (ONAS) with the Borrower's assistance and, as part of such assistance, the Borrower will make available to ONAS a portion of

the proceeds of the Loan as provided in this Agreement;

(E) by a loan agreement of even date herewith (the SONEDE Loan Agreement as further defined in Section 1.02 (i) of this Agreement) the Bank has agreed to make available a loan (the SONEDE Loan) to SONEDE, guaranteed by the Borrower, in an aggregate amount equivalent to twenty-nine million dollars (\$29,000,000) to assist in financing part of the cost of the Project on the terms and conditions set forth in the SONEDE Loan Agreement; and

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

NOW THEREFORE the parties hereto hereby agree as follows:

ARTICLE I

General Conditions; Definitions

Section 1.01. The "General Conditions Applicable to Loan and Guarantee Agreements" of the Bank, dated January 1, 1985, with the modifications set forth below (the General Conditions) constitute an integral part of this Agreement:

(a) The last sentence of Section 3.02 is deleted.

(b) In Section 6.02, sub-paragraph (k) is re-lettered as sub-paragraph (l) and a new sub-paragraph (k) is added to read:

"(k) An extraordinary situation shall have arisen under which any further withdrawals under the Loan would be inconsistent with the provisions of Article III, Section 3 of the Bank's Articles of Agreement."

Section 1.02. Unless the context otherwise requires, the several terms defined in the General Conditions and in the Preamble to this Agreement have the respective meanings therein set forth and the following additional terms have the following meanings:

(a) "Basic Laws" means the Borrower's Law No. 74-73 dated August 3, 1994, as amended and completed by the Borrower's Law No. 93-41 dated April 19, 1993, pursuant to which ONAS has been established and is operating as an industrial and commercial public institution (établissement public à caractère industriel et commercial);

(b) "Basic Legislation" means the Borrower's Law No. 68-22 dated July 2, 1968, as amended and completed by the Borrower's Law No. 76-21 dated January 21, 1976, pursuant to which SONEDE has been established and is operating as an industrial and commercial public institution (établissement public à caractère industriel et commercial);

(c) "Category" means a Category of items to be financed out of the proceeds of the Loan, as set forth in the table in paragraph 1 of Schedule 1 to this Agreement; and the term "Categories" means more than one Category collectively;

(d) "Central Bank" means the Central Bank of Tunisia (Banque Centrale de Tunisie), established and operating pursuant to the Borrower's Law No. 58-90 dated September 19, 1958, as the same may be amended from time to time;

(e) "Fiscal Year" or "FY" means the twelve (12) month period corresponding to any of the Borrower's fiscal years, which period commences on January 1 and ends on December 31 in each calendar year;

(f) "ONAS' Financial, Investment and Operational Targets" means the financial, investment and operational targets designed to enable ONAS to enhance its operational efficiency and strengthen its financial situation during the Fiscal Years 1994 through 2002, as the same may be updated from time to time in accordance with the provisions of Section 3.02 (c) of this Agreement;

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

(h) "SONEDE's Financial, Investment and Operational Targets" means the financial, investment and operational targets designed to enable SONEDE to enhance its operational efficiency and strengthen its financial situation during the Fiscal Years 1994 through 2002, as the same may be updated from time to time in accordance with the provisions of Section 3.02 (c) of this Agreement;

(i) "SONEDE Loan Agreement" means the loan agreement of even date herewith between the Société Nationale d'Exploitation et de Distribution des Eaux and the Bank for the Project (Loan No. 3783 TUN);

(j) "Performance Contract" means the agreement (contrat-programme), dated June 10, 1994, between the Borrower and SONEDE setting forth reciprocal undertakings designed to enable the Borrower to achieve certain financial, investment and operational targets during the Fiscal Years 1994 through 1996;

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

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

(m) "Sub-project" means a specific rural water supply sub-project: (i) which, pursuant to the provisions of Section B of Schedule 2 to the SONEDE Project Agreement, shall have been approved by the Bank to be carried out under Part B of the Project; and (ii) to construct, upgrade, rehabilitate and maintain rural water supply systems;

(n) "Subsidiary Loan" means a loan proposed to be made by the Borrower out of the proceeds of the Loan to ONAS for the purposes of carrying out Parts C, D.4 and D.5 (iii), (iv) and (v) of the Project; and

(o) "Subsidiary Loan Agreement" means a subsidiary loan agreement to be entered into between the Borrower and ONAS pursuant to Section 3.01 (c) of this Agreement, as the same may be amended from time to time, and such term includes all schedules to the Subsidiary Loan 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, various currencies that shall have an aggregate value equivalent to the amount of twenty-nine million dollars (\$29,000,000), being the sum of withdrawals of the proceeds of the Loan, with each withdrawal valued by the Bank as of the date of such withdrawal.

Section 2.02. (a) The amount of the Loan may be withdrawn from the Loan Account in accordance with the provisions of Schedule 1 to this Agreement for expenditures made (or, if the Bank shall so agree, to be made) in respect of the reasonable cost of goods, works and services required for the Project described in Schedule 2 to this Agreement and to be financed out of the proceeds of the Loan.

(b) The Borrower shall, for the purposes of the Project, open and maintain in dollars a special deposit account in the Central Bank on terms and conditions satisfactory to the Bank. Deposits into, and payments out of, the Special Account shall be made in accordance with the provisions of Schedule 5 to this Agreement.

Section 2.03. The Closing Date shall be June 30, 2002 or such later date as the Bank shall establish. The Bank shall promptly notify the Borrower of such later date.

Section 2.04. The Borrower shall pay to the Bank a commitment charge at the rate of three-fourths of one percent (3/4 of 1%) per annum on the principal amount of the Loan not withdrawn from time to time.

Section 2.05. (a) The Borrower shall pay interest on the principal amount of the Loan withdrawn and outstanding from time to time, at a rate for each Interest Period equal to the Cost of Qualified Borrowings determined in respect of the preceding Semester, plus one-half of one percent (1/2 of 1%). On each of the dates specified in Section 2.06 of this Agreement, the Borrower shall pay interest accrued on the principal amount outstanding during the preceding Interest Period, calculated at the rate applicable during such Interest Period.

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

(c) For the purposes of this Section:

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

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

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

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

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

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

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

Section 2.06. Interest and other charges shall be payable semiannually on April 1 and October 1 in each year.

Section 2.07. The Borrower shall repay the principal amount of the Loan in accordance with the amortization schedule set forth in Schedule 3 to this Agreement.

ARTICLE III

Execution of the Project

Section 3.01. (a) The Borrower declares its commitment to the objectives of the Project as set forth in Schedule 2 to this Agreement, and, to this end, without any limitation or restriction upon any of its other obligations under the Loan Agreement, shall cause SONEDE and ONAS to perform, respectively, in accordance with the provisions of the SONEDE Project Agreement and the ONAS Project Agreement all the obligations of SONEDE and ONAS therein set forth, shall take or cause to be taken all action, including the provision of funds, facilities, services and other resources, necessary or appropriate to enable SONEDE and ONAS to perform such obligations, and shall not take or permit to be taken any action which would prevent or interfere with such performance.

(b) For the purposes of carrying out Part B of the Project, the Borrower shall promptly make the proceeds of the Loan allocated from time to time to Categories (1)(a) and (2)(a) available to SONEDE on a grant basis through budgetary allocations.

(c) For the purposes of carrying out Parts C, D.4 and D.5 (iii), (iv) and (v) of the Project, the Borrower shall relend the proceeds of the Loan allocated from time to time to Categories (1)(b), (2)(b), (2)(c) and (3) to ONAS under a subsidiary loan

agreement to be entered into between the Borrower and ONAS, under terms and conditions which shall include those set forth in Schedule 4 to this Agreement.

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

Section 3.02. The Borrower shall:

(a) Implement the Performance Contract with due diligence and efficiency and at all times take all necessary action to achieve the objectives thereof;

(b) Monitor and evaluate, in accordance with performance indicators, the carrying out of the Project and the achievement of SONEDE's Financial, Investment and Operational Targets and ONAS' Financial, Investment and Operational Targets;

(c) Prepare and furnish to the Bank: (i) not later than the 30th day after the end of each semester in each Fiscal Year; and (ii) not later than June 30 in each Fiscal Year, a report, of such scope and in such detail as the Borrower and the Bank shall establish, on the progress achieved by the Borrower in carrying out the Project and the conclusions and recommendations resulting from the monitoring and evaluation activities performed pursuant to paragraph (b) above, together with any revisions proposed to be introduced into SONEDE's Financial, Investment and Operational Targets and ONAS' Financial, Investment and Operational Targets; and

(d) Exchange views with the Bank on said reports, and, thereafter, undertake the remedial measures which the Borrower and Bank shall have agreed are necessary to ensure the proper execution of the Project and the efficient management of SONEDE and ONAS.

Section 3.03. The Borrower shall:

(a) Not later than December 31, 1997, transmit for the Bank's review and comments a proposed draft performance contract between the Borrower and SONEDE designed to further the achievement of progress in the financial, investment and operational performance of SONEDE during Fiscal Years 1997 through 2001; and

(b) Thereafter, take all action required to sign said performance contract during Fiscal Year 1998.

Section 3.04. (a) The Borrower shall prepare and furnish to the Bank, not later than December 31, 1998: (i) a report, of such scope and in such detail as the Borrower and the Bank shall establish, on, inter alia: (A) the review of SONEDE's investment and maintenance policy for rural water supply; (B) the Borrower's measures undertaken to assist SONEDE in carrying out measures on tariff policies as set forth in Section 5.05 of the SONEDE Loan Agreement and in utilizing and further implementing the cost-accounting system referred to in Section 5.06 of the SONEDE Loan Agreement; and (C) the Borrower's measures undertaken to assist ONAS in carrying out measures on tariff policies as set forth in Section 4.05 of the ONAS Project Agreement; and (ii) a letter setting forth the Borrower's proposed comprehensive policy for water supply and sewerage.

(b) The Borrower shall afford the Bank a reasonable opportunity to exchange views on said report, and, thereafter, shall take all action which the Borrower and the Bank shall have agreed is required on the Borrower's part for the successful implementation of the Project.

(c) Specifically, if the Borrower and the Bank reasonably consider that the conclusions of the exchange of views referred to in paragraph (b) above indicate that SONEDE's role, responsibilities and participation in rural water services should be revisited, the Borrower shall conclude an agreement with the Bank outlining a new implementation program and schedule for the carrying out of Part B of the Project.

Section 3.05. Except as the Bank shall otherwise agree, procurement of the goods, works and consultants' services required: (i) for Part B of the Project and to be financed out of the proceeds of the Loan shall be governed by the provisions of Schedule 1 to the SONEDE Project Agreement; and (ii) for Parts C, D.4 and D.5 (iii), (iv) and (v) of the Project and to be financed out of the proceeds of the Loan shall be governed by the provisions of Schedule 1 to the ONAS Project Agreement.

Section 3.06. The Bank and the Borrower hereby agree that the obligations set forth in Sections 9.04, 9.05, 9.06, 9.07, 9.08 and 9.09 of the General Conditions (relating to insurance, use of goods and services, plans and schedules, records and reports, maintenance and land acquisition, respectively) in respect of: (i) Part B of the Project, shall be carried out by SONEDE pursuant to Section 2.03 of the SONEDE Project Agreement; and (ii) Parts C, D.4 and D.5 (iii), (iv) and (v) of the Project, shall be carried out by ONAS pursuant to Section 2.03 of the ONAS Project Agreement.

ARTICLE IV

Financial Covenants

Section 4.01. (a) For all expenditures with respect to which withdrawals from the Loan Account were made on the basis of statements of expenditure, the Borrower shall:

- (i) maintain or cause to be maintained in accordance with sound accounting practices, records and accounts reflecting such expenditures;
 - (ii) ensure that all records (contracts, orders, invoices, bills, receipts and other documents) evidencing such expenditures are retained until at least one year after the Bank has received the audit report for the Fiscal Year in which the last withdrawal from the Loan Account was made; and
 - (iii) enable the Bank's representatives to examine such records.
- (b) The Borrower shall:
- (i) have the records and accounts referred to in paragraph (a) (i) of this Section including those for the Special Account for each Fiscal Year audited, in accordance with appropriate auditing principles consistently applied, by independent auditors acceptable to the Bank;
 - (ii) furnish to the Bank as soon as available, but in any case not later than nine (9) months after the end of each such year the report of such audit by said auditors, of such scope and in such detail as the Bank shall have reasonably requested, including a separate opinion by said auditors as to whether the statements of expenditure submitted during such Fiscal Year, together with the procedures and internal controls involved in their preparation, can be relied upon to support the related withdrawals; and
 - (iii) furnish to the Bank such other information concerning said records and accounts and the audit thereof as the Bank shall from time to time reasonably request.

Section 4.02. (a) The Borrower shall pay to SONEDE, in each of its Fiscal Years 1995, 1996, 1997, 1998 and 1999, equal annual payments, in an amount to be determined on the basis of SONEDE's audited financial statements dated December 31, 1993, of arrears owed to it by the Borrower.

(b) For the purposes of this Section, the term "arrears" means any amount overdue by the Borrower's agencies to SONEDE by more than one hundred twenty (120) days.

ARTICLE V

Remedies of the Bank

Section 5.01. Pursuant to Section 6.02 (1) of the General Conditions, the following additional events are specified:

(a) SONEDE or ONAS, as the case may be, shall have failed to perform any of its obligations under the SONEDE Project Agreement or the ONAS Project Agreement, respectively.

(b) SONEDE shall have failed to perform any of its obligations under the SONEDE Loan Agreement.

(c) As a result of events which have occurred after the date of the Loan Agreement, an extraordinary situation shall have arisen which shall make it improbable that: (i) SONEDE will be able to perform its obligations under the SONEDE Loan Agreement or the SONEDE Project Agreement, as the case may be; or (ii) ONAS will be able to perform its obligations under the ONAS Project Agreement.

(d) The Basic Legislation shall have been amended, suspended, abrogated, repealed or waived so as to affect materially and adversely the ability of SONEDE to perform any of its obligations under the SONEDE Loan Agreement or the SONEDE Project Agreement, as the case may be.

(e) The Basic Laws shall have been amended, suspended, abrogated, repealed or waived so as to affect materially and adversely the ability of ONAS to perform any of its obligations under the ONAS Project Agreement.

(f) The Borrower or any other authority having jurisdiction shall have taken any action for the dissolution or disestablishment of SONEDE or ONAS, as the case may be, or for the suspension of its operations.

(g) The Cofinanciers Loan Agreements shall have failed to become effective by December 31, 1996, or such later date as the Bank may agree; provided, however, that the provisions of this paragraph shall not apply if the Borrower establishes to the satisfaction of the Bank that adequate funds for the Project are available to the Borrower from other sources on terms and conditions consistent with the obligations of the Borrower under this Agreement.

(h) (i) Subject to subparagraph (ii) of this paragraph:

(A) the right of the Borrower to withdraw the proceeds of the Cofinanciers Loans made to the Borrower for the financing of the Project shall have been suspended, cancelled or terminated in whole or in part, pursuant to the terms of the agreement providing thereof, or

(B) the Cofinanciers Loans shall have become due and payable prior to the agreed maturity thereof.

(ii) Subparagraph (i) of this paragraph shall not apply if the Borrower establishes to the satisfaction of the Bank that: (A) such suspension, cancellation, termination or prematuring is not caused by the failure of the Borrower to perform any of its obligations under such agreement; and (B) adequate funds for the Project are available to the Borrower from other sources on terms and conditions consistent with the obligations of the Borrower under this Agreement.

Section 5.02. Pursuant to Section 7.01 (h) of the General Conditions, the following additional events are specified:

(a) Any event specified in paragraphs (c), (d), (e) or (f) of Section 5.01 of this Agreement shall occur.

(b) Any event specified in paragraphs (a) or (b) of Section 5.01 of this Agreement shall occur and shall continue for a period of sixty (60) days after notice thereof shall have been given by the Bank to the Borrower.

(c) The event specified in paragraph (h) (i) (B) of Section 5.01 of this Agreement shall occur, subject to the proviso of paragraph (h) (ii) of that Section.

ARTICLE VI

Effective Date; Termination

Section 6.01. The following events are specified as additional conditions to the effectiveness of the Loan Agreement within the meaning of Section 12.01 (c) of the General Conditions:

(a) The Subsidiary Loan Agreement shall have been executed on behalf of the Borrower and ONAS; and

(b) All conditions precedent to the effectiveness of the SONEDE Loan Agreement have been fulfilled, other than those related to the effectiveness of this

Agreement.

Section 6.02. The following are specified as additional matters, within the meaning of Section 12.02 (c) of the General Conditions, to be included in the opinion or opinions to be furnished to the Bank:

(a) That the Subsidiary Loan Agreement has been duly authorized by the Borrower and ONAS and is legally binding upon the Borrower and ONAS in accordance with its terms;

(b) That the SONEDE Project Agreement has been duly authorized by SONEDE, and is legally binding upon SONEDE in accordance with its terms; and

(c) That the ONAS Project Agreement has been duly authorized by ONAS, and is legally binding upon ONAS 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

Representatives of the Borrower; Addresses

Section 7.01. The Minister of International Cooperation and Foreign Investment 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:

Ministry of International Cooperation
and Foreign Investment
149, Avenue de la Liberté
1002 Tunis-Belvédère
Republic of Tunisia

Cable address:	Telex:
MCIIE	18060

For the Bank:

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

Cable address:	Telex:
INTBAFRAD	248423 (RCA)
Washington, D.C.	82987 (FTCC)
	64145 (WUI) or
	197688 (TRT)

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

REPUBLIC OF TUNISIA

By /s/ Oussama Romdhani

Authorized Representative

INTERNATIONAL BANK FOR
RECONSTRUCTION AND DEVELOPMENT

By /s/ Caio Koch-Weser

Regional Vice President
Middle East and North Africa

SCHEDULE 1

Withdrawal of the Proceeds of the Loan

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

Category	Amount of the Loan Allocated (Expressed in Dollar Equivalent)	% of Expenditures to be Financed
(1) Civil Works and Pipeline Construction:		100% of foreign expenditures and 50% of local expenditures
(a) For Part B of the Project	7,000,000	
(b) For Part C of the Project	1,500,000	
(2) Materials and Equipment:		100% of foreign expenditures and 70% of local expenditures
(a) For Part B of the Project	11,000,000	
(b) For Part C of the Project	1,500,000	
(c) For Part D.4 of the Project	500,000	
(3) Technical Assistance, Studies and Training for Parts D.5 (iii), (iv) and (v) of the Project	4,500,000	100%
(4) Unallocated	3,000,000	
TOTAL	29,000,000	

2. For the purposes of this Schedule:

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

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

3. Notwithstanding the provisions of paragraph 1 above, no withdrawals shall be

made in respect of payments made for expenditures prior to the date of this Agreement, except that withdrawals, in an aggregate amount not to exceed \$2,900,000, may be made in respect of Categories (1)(a) and (2)(a) on account of payments made for expenditures before that date but after December 31, 1993.

4. The Bank may require withdrawals from the Loan Account to be made on the basis of statements of expenditure for expenditures for: (i) goods, works and services of consulting firms under contracts not exceeding \$100,000 equivalent; and (ii) services of individual consultants under contracts not exceeding \$50,000 equivalent, all 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 assist the Borrower in: (i) implementing a suitable demand management program and institutional building measures so as to increase the operational efficiency of SONEDE and ONAS and strengthen their technical and financial capabilities; (ii) providing safe, adequate and easily accessible water supply and sanitation services in urban and rural areas, through the expansion and rehabilitation of existing facilities, in particular those in low-income households; (iii) promoting the reuse of treated sewage for irrigation and industrial use; and (iv) encouraging SONEDE and ONAS to contract some of their operations to the private sector.

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: Urban Water Supply

1. Expansion of the Gdir-el-Goula treatment plant of Tunis through the construction of a new treatment unit and the execution of site stabilization works.
2. Rehabilitation of selected portions of SONEDE's transport and distribution pipelines, including the replacement of the 8.5 km 1200 mm diameter Ras Tabia-Bir Kasaa pipeline and the installation of about 29 km of smaller diameter pipeline to adjacent communities.
3. Construction of reservoirs totalling a storage capacity of 25,000m³ in the Grand Tunis area.
4. Installation of miscellaneous pipework necessitated to connect the reservoirs of Part A.3 hereof and improve water distribution.

Part B: Rural Water Supply

Carrying out of Sub-projects to service about 200,000 people amongst about 320 localities.

Part C: Sewerage

Construction of sanitary sewage treatment facilities in each of Tataouine, Tozeur and Jammel-Zermeddine, and extension and rehabilitation of related collection and sewerage systems as required to make such facilities operational.

Part D: Institutional Strengthening

Carrying out of a program to improve SONEDE's and ONAS' efficiency in managing their operations, consisting of:

1. Delivery of a campaign to raise the awareness of SONEDE's customers on proper use and conservation of water, including, inter alia, provision of television advertising, brochures, site visits, and production of a users' guide.
2. Provision of training to SONEDE's staff.
3. Provision to SONEDE of equipment necessary for water supply leak detection, and measuring, monitoring and control equipment.
4. Provision to ONAS of: (i) laboratory equipment required to control and monitor the treatment of domestic and industrial waste water; and (ii) specialized equipment

required for the activities referred to in Part D.5 (iii), (iv) and (v) hereof.

5. Provision of technical assistance necessary for the implementation of: (i) an adequate update of the water supply master plans for Greater Tunis and southern Tunisia; (ii) a study to examine options for private sector participation in water supply services; (iii) final design studies for a proposed Fourth Sewerage Project; (iv) a study to identify appropriate disposal and treatment technologies in rural areas; and (v) a cartographic database for sewerage collection networks designed to improve the management of ONAS' systems.

* * *

The Project is expected to be completed by December 31, 2001.

SCHEDULE 3

Amortization Schedule

Date Payment Due	Payment of Principal (expressed in dollars)*
On each April 1 and October 1 beginning on April 1, 2000 through April 1, 2011	1,210,000
And on October 1, 2011	1,170,000

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

Premiums on Prepayment

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

Time of Prepayment

Premium

The interest rate (expressed as a percentage per annum) applicable to the Loan on the day of prepayment multiplied by:

Not more than three years before maturity	0.18
More than three years but not more than six years before maturity	0.35
More than six years but not more than 11 years before maturity	0.65
More than 11 years but not more than 15 years before maturity	0.88
More than 15 years before maturity	1.00

SCHEDULE 4

Terms and Conditions of the Subsidiary Loan Agreement

1. Except as the Bank and the Borrower shall otherwise agree, the provisions set forth or referred to in this Schedule shall apply for the purposes of Section 3.01 (c) of this Agreement.
2. ONAS shall repay to the Borrower the principal amount of the Subsidiary Loan in accordance with an amortization schedule not exceeding the maturity of the Loan, inclusive of a grace period not exceeding 5 years.
3. The principal amount of the Subsidiary Loan repayable to the Borrower under the Subsidiary Loan Agreement shall: (i) be denominated in Tunisian dinars; and (ii) be the equivalent in Tunisian dinars (determined as of the date or respective dates of repayment of the principal amount of the Loan specified in Schedule 3 to this Agreement) of the value of the currency or currencies withdrawn from the Loan Account or paid out of the Special Account on account of the cost of goods, works and services for Parts C, D.4 and D.5 (iii), (iv) and (v) of the Project to be financed under the Subsidiary Loan out of the proceeds of the Loan allocated from time to time to Categories (1)(b), (2)(b), (2)(c) and (3).
4. ONAS shall pay to the Borrower: (i) interest on the principal amount of the Subsidiary Loan withdrawn and outstanding from time to time at the rate applicable from time to time to the Loan pursuant to the provisions of Section 2.05 of this Agreement; and (ii) a commitment fee equal to the rate applicable from time to time to the Loan pursuant to the provisions of Section 2.04 of this Agreement calculated on the principal amount of the Subsidiary Loan not withdrawn from time to time.

SCHEDULE 5

Special Account

1. For the purposes of this Schedule:
 - (a) the term "eligible Categories" means Categories (1), (2) and (3) set forth in the table in paragraph 1 of Schedule 1 to this Agreement;
 - (b) the term "eligible expenditures" means expenditures in respect of the reasonable cost of goods and services required for the Project and to be financed out of the proceeds of the Loan allocated from time to time to the eligible Categories in accordance with the provisions of Schedule 1 to this Agreement; and
 - (c) the term "Authorized Allocation" means an amount equivalent to \$750,000 to be withdrawn from the Loan Account and deposited in the Special Account pursuant to paragraph 3 (a) of this Schedule.
2. Payments out of the Special Account shall be made exclusively for eligible expenditures in accordance with the provisions of this Schedule.
3. After the Bank has received evidence satisfactory to it that the Special Account has been duly opened, withdrawals of the Authorized Allocation and subsequent

withdrawals to replenish the Special Account shall be made as follows:

(a) For withdrawals of the Authorized Allocation, the Borrower shall furnish to the Bank a request or requests for a deposit or deposits which do not exceed the aggregate amount of the Authorized Allocation. On the basis of such request or requests, the Bank shall, on behalf of the Borrower, withdraw from the Loan Account and deposit in the Special Account such amount or amounts as the Borrower shall have requested.

(b) (i) For replenishment of the Special Account, the Borrower shall furnish to the Bank requests for deposits into the Special Account at such intervals as the Bank shall specify.

(ii) Prior to or at the time of each such request, the Borrower shall furnish to the Bank the documents and other evidence required pursuant to paragraph 4 of this Schedule for the payment or payments in respect of which replenishment is requested. On the basis of each such request, the Bank shall, on behalf of the Borrower, withdraw from the Loan Account and deposit into the Special Account such amount as the Borrower shall have requested and as shall have been shown by said documents and other evidence to have been paid out of the Special Account for eligible expenditures.

All such deposits shall be withdrawn by the Bank from the Loan Account under the respective eligible Categories, and in the respective equivalent amounts, as shall have been justified by said documents and other evidence.

4. For each payment made by the Borrower out of the Special Account, the Borrower shall, at such time as the Bank shall reasonably request, furnish to the Bank such documents and other evidence showing that such payment was made exclusively for eligible expenditures.

5. Notwithstanding the provisions of paragraph 3 of this Schedule, the Bank shall not be required to make further deposits into the Special Account:

(a) if, at any time, the Bank shall have determined that all further withdrawals should be made by the Borrower directly from the Loan Account in accordance with the provisions of Article V of the General Conditions and paragraph (a) of Section 2.02 of this Agreement; or

(b) once the total unwithdrawn amount of the Loan allocated to the eligible Categories of the Project, less the amount of any outstanding special commitment entered into by the Bank pursuant to Section 5.02 of the General Conditions with respect to the Project, 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 of the Project 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.

