

CONFORMED COPY

LOAN NUMBER 2911 TUN

(Second Small and Medium Scale Industry
Development Project)

between

REPUBLIC OF TUNISIA

and

INTERNATIONAL BANK FOR RECONSTRUCTION
AND DEVELOPMENT

Dated April 13, 1988

LOAN AGREEMENT

AGREEMENT, dated April 13, 1988, between REPUBLIC OF TUNISIA (the Borrower) and INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT (the Bank).

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

(B) Part A of the Project will be carried out by Banque de Developpement Economique de Tunisie (BDET), Banque du Sud (BS), Banque de Tunisie (BT), Banque de Tunisie et des Emirats d'Investissement (BTEI) and Societe Tunisienne de Banque (STB) (each hereinafter sometimes called a Participating Bank or, collectively, the Participating Banks) with the Borrower's assistance and, as part of such assistance, the Borrower will make available to the Participating Banks part of the proceeds of the Loan as provided in this Agreement;

(C) the Borrower intends to contract from the Kingdom of Belgium a grant (the Belgian Grant) in an amount equivalent to

approximately 1,247,000 dollars to assist in financing Part B.2 of the Project on the terms and conditions set forth in an agreement (the Belgian Grant Agreement) to be entered into between the Borrower and the Kingdom of Belgium; and

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

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 in Schedule 5 to this Agreement (the General Conditions) constitute an integral part of this Agreement.

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

(a) "API" means Agence de Promotion de l'Industrie, established by the Borrower's law No. 87-50 of August 2, 1987;

(b) "API Grant Agreement" means the agreement to be entered into between the Borrower and API pursuant to Section 3.03 of this Agreement, as the same may be amended from time to time;

(c) "BCT" means Banque Centrale de Tunisie, the central bank of the Borrower established by law No. 58-90 of September 19, 1958, of the Borrower, as amended and completed from time to time;

(d) "Dinar" or the sign "TD" means the currency of the Borrower;

(e) "Fiscal Year" means the Borrower's fiscal year which starts on January 1 and ends on December 31;

(f) "free-limit Sub-loan or Investment" means either a Sub-loan, or an Investment, or a Sub-loan and an Investment combined: (i) in an aggregate amount not exceeding the equivalent of \$400,000 at constant December 1987 value; and (ii) made or proposed to be made by a Participating Bank, once said Bank has made Sub-loans and Investments in an aggregate amount of at least the equivalent of \$1,000,000.

(g) "Investment" means an investment other than a Sub-loan, made or proposed to be made by a Participating Bank in an Investment Enterprise for an Investment Project out of the equivalent of the proceeds of the Loan relented to said Participating Bank under the Subsidiary Loan Agreement between the Borrower and said Participating Bank;

(h) "Investment Enterprise" means an enterprise to which a Participating Bank proposes to make or has made a Sub-loan or in which it proposes to make or has made an Investment;

(i) "Investment Project" means a specific development project to be carried out by an Investment Enterprise utilizing the proceeds of a Sub-loan or Investment;

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

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

(l) "Statement of Policy of BDET" means the statement of lending and investment policy approved by the directors of BDET on July 4, 1965, as amended from time to time;

(m) "Statement of Policy of BTEI" means the statement of lending and investment policy approved by the directors of BTEI on January 11, 1983, as amended from time to time;

(n) "Statements of Policy" means the Statement of Policy of BDET and the Statement of Policy of BTEI;

(o) "Statutes of BDET" means the statutes of BDET dated May 4, 1959, as amended from time to time;

(p) "Statutes of BS" means the statutes of BS dated August 10, 1968, as amended from time to time;

(q) "Statutes of BT" means the statutes of BT dated September 23, 1984, as amended from time to time;

(r) "Statutes of BTEI" means the statutes of BTEI dated April 27, 1982, as amended from time to time;

(s) "Statutes of STB" means the statutes of STB dated December 12, 1956, as amended from time to time;

(t) "Statutes" means the Statutes of BDET, the Statutes of BS, the Statutes of BT, the Statutes of BTEI, and the Statutes of STB;

(u) "Sub-loan" means a loan made or proposed to be made by a Participating Bank to an Investment Enterprise for an Investment Project out of the proceeds of the Loan relented to said Participating Bank under the Subsidiary Loan Agreement between the Borrower and said Participating Bank;

(v) "Subsidiary Loan Agreements" means the agreements to be entered into between the Borrower and each of the Participating Banks 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 Agreements;

(w) "UTICA" means Union Tunisienne de l'Industrie, du Commerce et de l'Artisanat, a federation of employers established in 1946; and

(x) "UTICA Grant Agreement" means the agreement to be entered into between the Borrower and UTICA pursuant to Section 3.04 of this Agreement, as the same may be amended from time to time.

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 this Agreement, an amount in various currencies equivalent to twenty eight million dollars (\$28,000,000).

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: (i) amounts paid (or, if the Bank shall so agree, amounts to be paid) by the Participating Banks on account of withdrawals made by an Investment Enterprise under a Sub-loan or Investment to meet the reasonable cost of goods and services required for the Investment Project in respect of which the withdrawal from the Loan Account is requested; and (ii) for

expenditures made (or, if the Bank shall so agree, to be made) in respect of the reasonable cost of goods and services required for Part B.1 of the Project 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 account in BCT on terms and conditions satisfactory to the Bank. Deposits into, and payments out of, the Special Account shall be made in accordance with the provisions of Schedule 4 to this Agreement.

Section 2.03. The Closing Date shall be June 30, 1995 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 per annum for each Interest Period equal to one-half of one percent per annum above the Cost of Qualified Borrowings for the last Semester ending prior to the commencement of 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 for such Semester.

(c) For purposes of this Section:

- (i) "Interest Period" means the six-month period commencing on each date specified in Section 2.06 of this Agreement, including the Interest Period in which this Agreement is signed.
- (ii) "Cost of Qualified Borrowings" means the cost of the outstanding borrowings of the Bank drawn down after June 30, 1982, expressed as a percentage per annum, as reasonably determined by the Bank.
- (iii) "Semester" means the first six months or the second six months of a calendar year.

Section 2.06. Interest and other charges shall be payable semiannually on March 15 and September 15 in each year.

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

ARTICLE III

Execution of the Project

Section 3.01. (a) The Borrower declares its commitment to the objectives of the Project as set forth in Schedule 2 to this Agreement, and, to this end:

- (i) shall carry out Part B.3 of the Project with due diligence and efficiency and in conformity with appropriate financial and banking practices; and
- (ii) without any limitation or restriction upon any of its other obligations under this Loan Agreement, shall cause the Participating Banks to perform in accordance with the provisions of the Project Agreement all the obligations of the Participating Banks therein set forth, and shall cause API and UTICA to carry out Part B.1 and B.2, respectively,

of the Project in accordance with the provisions of the API Grant Agreement and the UTICA Grant Agreement.

(b) The Borrower shall take or cause to be taken all action, including the provision of funds, facilities, services and other resources required for Part B.3 of the Project, or necessary or appropriate to enable the Participating Banks to perform their respective obligations under the Project Agreement, and to enable API and UTICA to perform their obligations under the API Grant Agreement and the UTICA Grant Agreement, respectively, and shall not take or permit to be taken any action which would prevent or interfere with such performance.

Section 3.02. (a) The Borrower shall onlend to each of the Participating Banks amounts in Dinars up to the equivalent of the following amounts: \$6,500,000 to BDET, \$6,000,000 to BS, \$5,000,000 to BT, \$4,000,000 to BTEI and \$6,000,000 to STB, under Subsidiary Loan Agreements to be entered into between the Borrower and each Participating Bank, under terms and conditions which shall have been approved by the Bank and which shall include the principal terms and conditions set forth in Schedule 7 to this Agreement.

(b) The Borrower shall, from time to time and at least once a year, review, jointly with the Bank and the Participating Banks the rate of interest paid by the Participating Banks to the Borrower under the Subsidiary Loan Agreements and the rate of interest paid by Investment Enterprises to Participating Banks, and, if necessary, adjust such rates to levels acceptable to the Bank.

(c) Not later than December 31, 1989 or such other date as shall be agreed upon between the Borrower and the Bank, and thereafter from time to time but at least once a year, the Borrower shall, jointly with the Bank and the Participating Banks, review the level of commitments made by each Participating Bank out of the proceeds of the Loan relent to such Participating Bank pursuant to paragraph (a) of this Section, and, if necessary, reallocate the uncommitted balances of the amounts so relent to one or more other Participating Banks in a manner acceptable to the Bank.

Section 3.03. For the purpose of carrying out Part B.1 of the Project, the Borrower shall enter into a grant agreement with API (the API Grant Agreement) under which it shall make available to API, as a grant, the proceeds of the Loan allocated to Category (2) of the table set forth in Schedule 1 to this Agreement, under terms and conditions which shall have been approved by the Bank and which shall include the principal terms and conditions set forth in Schedule 6, Part I of this Agreement.

Section 3.04. For the purpose of carrying out Part B.2 of the Project the Borrower shall enter into a grant agreement with UTICA (the UTICA Grant Agreement) under which it shall make available to UTICA, as a grant, the equivalent of approximately 975,000 dollars under terms and conditions which shall have been approved by the Bank and which shall include the principal terms and conditions set forth in Schedule 6, Part II of this Agreement.

Section 3.05. The Borrower shall exercise its rights under the Subsidiary Loan Agreements, the API Grant Agreement and the UTICA Grant Agreement in such manner as to protect the interests of 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 any of said agreements or any provision thereof.

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 and 9.08 of the General Conditions (relating to insurance, use of goods and services, plans and schedules, records and reports and maintenance, respectively) in respect of Part A of the Project shall

be carried out by the respective Participating Banks pursuant to Section 2.03 of the Project Agreement.

Section 3.07. The Borrower shall: (a) not later than September 30, 1988, or such later date as shall be agreed upon between the Borrower and the Bank, furnish to the Bank for review and comment, the study and recommendations on the operations of the Borrower's Fonds de Promotion et de Decentralisation Industrielle, carried out pursuant to Part B.3 of the Project; and (b) thereafter take all measures necessary to implement said recommendations in accordance with a time schedule agreed upon between the Borrower and the Bank during said review.

ARTICLE IV

Financial and Other Covenants

Section 4.01. (a) The Borrower shall maintain or cause BCT and API to maintain separate records and accounts adequate to reflect in accordance with sound accounting practices the operations of BCT in connection with the Special Account, as well as the resources and expenditures of API in respect of the Project.

(b) The Borrower shall:

- (i) have the records and accounts referred to in paragraph (a) of this Section and those for the Special Account for each fiscal year audited, in accordance with appropriate auditing principles consistently applied, by independent auditors acceptable to the Bank;
- (ii) furnish to the Bank as soon as available, but in any case not later than nine months after the end of each such year the report of such audit by said auditors, of such scope and in such detail as the Bank shall have reasonably requested; and
- (iii) furnish to the Bank such other information concerning said records and accounts and the audit thereof as the Bank shall 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 shall:

- (i) maintain or cause to be maintained, in accordance with paragraph (a) of this Section, separate records and accounts reflecting such expenditures;
- (ii) retain, 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, all records (contracts, orders, invoices, bills, receipts and other documents) evidencing such expenditures;
- (iii) enable the Bank's representatives to examine such records; and
- (iv) ensure that such records and accounts are included in the annual audit referred to in paragraph (b) of this Section and that the report of such audit contains 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.

Section 4.02. (a) The Borrower shall reimburse BDET for

cumulative foreign exchange losses incurred by BDET: (i) up to December 31, 1987 and not previously reimbursed by the Borrower either directly or indirectly, not later than December 31, 1989; and (ii) in the period between January 1, 1988 and the implementation of a system of protection against exchange risks on foreign borrowings, acceptable to the Bank, not later than December 31 of the second year following the year in which said losses were incurred.

(b) For the purposes of this Section and of Section 6.01 (c) of this Agreement, "cumulative foreign exchange losses" shall mean: (i) all of BDET's losses on principal and interest resulting, directly or indirectly, from changes in the rate of exchange between the Dinar and the foreign currency or currencies used in BDET's operations; and (ii) all costs of borrowings to cover BDET's losses referred to in subparagraph (i) of this paragraph.

Section 4.03. The Borrower shall take into account the Sub-loans and Investments made by a Participating Bank for the purpose of calculating for such Participating Bank BCT's ratios of priority activities financing, established pursuant to BCT's circular No. 86-30 of September 26, 1986.

ARTICLE V

Remedies of the Bank

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

(a) A Participating Bank shall have failed to perform any of its obligations under the Project Agreement or the Subsidiary Loan Agreement between the Borrower and such Participating Bank.

(b) API or UTICA shall have failed to perform any of its respective obligations under the API Grant Agreement or the UTICA Grant Agreement, respectively.

(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 a Participating Bank will be able to perform its obligations under the Project Agreement or the Subsidiary Loan Agreement between the Borrower and such Participating Bank.

(d) The Statutes of a Participating Bank or the Statement of Policy of BDET or BTEI shall have been amended, suspended, abrogated, repealed or waived so as to affect materially and adversely the ability of a Participating Bank to perform any of its obligations under the Project Agreement.

(e) Law No. 87-51 of August 2, 1987, of the Borrower on Industrial Investments or BCT's circular No. 86-30 of September 26, 1986, shall have been amended, suspended, abrogated, repealed or waived so as to affect materially and adversely the ability of a Participating Bank to perform any of its obligations under the Project Agreement.

(f) The Borrower or any other authority having jurisdiction shall have taken any action for the dissolution or dis-establishment of a Participating Bank or for the suspension of its operations.

(g) (i) Subject to subparagraph (ii) of this paragraph, the right of the Borrower to withdraw the proceeds of the Belgian Grant 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 Belgian Grant Agreement.

(ii) Subparagraph (i) of this paragraph shall not apply if the Borrower establishes to the satisfaction of

the Bank that: (A) such suspension, cancellation or termination 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) the event specified in paragraph (a) of Section 5.01 of this Agreement shall occur and shall continue for a period of sixty days after notice thereof shall have been given by the Bank to the Borrower; and

(b) the events specified in paragraphs (b) through (f) of Section 5.01 of this Agreement shall occur.

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 Agreements have been executed on behalf of the Borrower and each Participating Bank;

(b) the API Grant Agreement and the UTICA Grant Agreement have been executed on behalf of the Borrower and API and UTICA, respectively;

(c) the Borrower shall have reimbursed BDET in an amount of at least fifteen million Dinars for BDET's cumulative foreign exchange losses as defined in Section 4.02 (b) of this Agreement; and

(d) the Belgian Grant Agreement shall have become effective or the Borrower establishes to the satisfaction of the Bank that adequate funds for Part B.2 of 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 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) the Project Agreement has been duly authorized or ratified by each Participating Bank, and is legally binding upon each Participating Bank in accordance with its terms; and

(b) the Subsidiary Loan Agreements have been duly authorized or ratified by the Borrower and each Participating Bank and are legally binding upon the Borrower and each Participating Bank 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 Minister of Planning 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:

Ministere du Plan
Place Ali Zouaoui
Tunis
Republic of Tunisia

Telex:

MIPLAN 15117 TUN

For the Bank:

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

Cable address:

INTBAFRAD
Washington, D.C.

Telex:

440098 (ITT),
248423 (RCA) or
64145 (WUI)

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/ Habib Ben Yahia
Authorized Representative

INTERNATIONAL BANK FOR
RECONSTRUCTION AND DEVELOPMENT

By /s/ Kemal Dervis
Acting Regional Vice President
Europe, Middle East and North Africa

SCHEDULE 1

Withdrawal of the Proceeds of the Loan

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

Category	Amount of the Loan Allocated (Expressed in Dollar Equivalent)	% of Expenditures to be Financed
(1) Sub-loans and Investments:	27,500,000	
(a) works		60%

(b) goods		100% of foreign expenditures and 70% of local expenditures
(2) Technical assistance for Part B.1 of the Project:		
(a) goods	160,000	100% of foreign expenditures and 70% of local expenditures
(b) consultants' services	240,000	100% of foreign expenditures and 75% of local expenditures
(c) training	100,000	100% of foreign expenditures
	28,000,000	
TOTAL		

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:

(a) works or goods under a Sub-loan or an Investment unless the Sub-loan or Investment has been made in accordance with the procedures and terms and conditions set forth or referred to in Schedule 2 to the Project Agreement;

(b) payments made for expenditures prior to the date of this Agreement; and

(c) Category (2) unless API shall have employed the multi-disciplinary engineer referred to in paragraph I.3 of Schedule 6, to this Agreement.

SCHEDULE 2

Description of the Project

The objective of the Project is to assist the Borrower in furthering the efficient development and rehabilitation of small and medium scale industrial enterprises through economically viable and financially sound investments and restructuring plans.

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:

Provision by the Participating Banks of Sub-loans to and Investments in Investment Enterprises for Investment Projects.

Part B:

1. Provision to API of training for its staff and of consultants' services and computer equipment, in order to enable API to assist prospective entrepreneurs in formulating new small and medium scale industrial projects.

2. Provision by UTICA of assistance to established entrepreneurs to solve management, production and financial planning questions in their small and medium scale industries.

3. Carrying out a study of the management and operations of the Borrower's Fonds de Promotion et de Decentralisation Industrielles.

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The Project is expected to be completed by December 31, 1994.

SCHEDULE 3

Amortization Schedule

Date Payment Due	Payment of Principal (Expressed in dollars)*
On each March 15 and September 15	
beginning September 15, 1992 through September 15, 2004	1,075,000
On March 15, 2005	1,125,000

* 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

The following premiums are specified for the purposes of Section 3.04 (b) of the General Conditions:

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

SCHEDULE 4

Special Account

1. For the purposes of this Schedule:

(a) the term "eligible Categories" means Categories (1) and (2) 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 2,500,000 dollars to be withdrawn from the Loan Account and deposited in the Special Account pursuant to paragraph 3 (a) of this Schedule.

2. Except as the Bank shall otherwise agree, 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 may be made as follows:

(a) On the basis of a request or requests by the Borrower for a deposit or deposits which add up to the aggregate amount of the Authorized Allocation, 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) The Borrower shall furnish to the Bank requests for replenishment of the Special Account at such intervals as the Bank shall specify. On the basis of such requests, the Bank shall withdraw from the Loan Account and deposit into the Special Account such amounts as shall be required to replenish the Special Account with amounts not exceeding the amount of payments made out of the Special Account for eligible expenditures. All such deposits shall be withdrawn by the Bank from the Loan Account under the eligible Categories, and in the respective equivalent amounts, as shall have been justified by the evidence supporting the request for such deposit furnished pursuant to paragraph 4 of this Schedule.

4. For each payment made by the Borrower out of the Special Account for which the Borrower requests replenishment pursuant to paragraph 3 (b) of this Schedule, the Borrower shall furnish to the Bank, prior to or at the time of such request, such documents and other evidence as the Bank shall reasonably request, showing that such payment was made for eligible expenditures.

5. (a) Notwithstanding the provisions of paragraph 3 of this Schedule, no further deposit into the Special Account shall be made by the Bank when either of the following situations first arises:

- (i) 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
- (ii) the total unwithdrawn amount of the Loan allocated to the eligible Categories, minus 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 be equal to the equivalent of twice the amount of the Authorized Allocation.

(b) Thereafter, withdrawal from the Loan Account of the re-

maining 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 any expenditure or in any amount not eligible pursuant to paragraph 2 of this Schedule, or (ii) was not justified by the evidence furnished pursuant to paragraph 4 of this Schedule, the Borrower shall, promptly upon notice from the Bank, 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. No further deposit by the Bank into the Special Account shall be made until the Borrower has made such deposit or refund.

(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 for crediting to the Loan Account.

SCHEDULE 5

Modifications of General Conditions

For the purposes of this Agreement, the provisions of the General Conditions are modified as follows:

1. The last sentence of Section 3.02 is deleted.
2. The following subparagraph is added to Section 2.01:

"21. The term 'Project Agreement' has the meaning set forth in paragraph (j) of Section 1.02 of the Loan Agreement."

3. The words "the Bank may, by notice to the Borrower and the Guarantor, terminate the right of the Borrower to make withdrawals with respect to such amount. Upon the giving of such notice, such amount to the Loan shall be cancelled." set forth in the end of Section 6.03 are deleted and the following is substituted therefor:

"or (f) by the date specified in paragraph II.4 of Schedule 2 to the Project Agreement, no applications or requests permitted under paragraph II.3 of said Schedule 2 shall have been received by the Bank in respect of any portion of the Loan, or having been so received, shall have been denied, the Bank may, by notice to the Borrower, terminate the right to submit such applications or requests or to make withdrawals from the Loan Account, as the case may be, with respect to such amount or portion of the Loan. Upon the giving of such notice, such amount or portion of the Loan shall be cancelled."

SCHEDULE 6

Principal Terms and Conditions of the API Grant Agreement and the UTICA Grant Agreement

I. API Grant Agreement

1. API shall carry out Part B.1 of the Project with due diligence and efficiency and in conformity with appropriate financial and investment practices.

2. API shall strengthen its promotional activities to help entrepreneurs with new investments through:

- the provision of assistance to prospective entrepreneurs with identification of project opportunities and formulation of projects;
- the preparation of model feasibility report standards for the use of prospective entrepreneurs;
- the provision of advice to the Participating Banks at their request on the economic feasibility of a proposed Investment Project;
- the collection and analysis of data on small and medium scale industries in Tunisia; and
- the provision of information on macroeconomic and regulatory matters, upon request by the general public.

3. API shall employ a multidisciplinary engineer and short-term consultants for feasibility and market studies, identification of subcontracting opportunities, promotional work and engineering services. The qualifications, experience and terms and conditions of employment of such engineer and consultants shall be satisfactory to the Borrower and the Bank and they shall be selected in accordance with principles and procedures satisfactory to the Bank on the basis of the "Guidelines for the Use of Consultants by World Bank Borrowers and by The World Bank as Executing Agency" published by the Bank in August 1981.

4. API shall cause its staff to attend training seminars for the evaluation of projects and sectoral analysis. API shall strengthen its activities for the promotion of industrial development. API shall procure about six personal computers and related software and twenty-seven terminals and various transmission and reproduction equipment, under contracts awarded on the basis of comparison of price quotations solicited from at least three suppliers eligible under the Guidelines for Procurement under IBRD Loans and IDA Credits, published by the Bank in May 1985, in accordance with procedures satisfactory to the Borrower and the Bank.

5. At least once a year, API shall prepare and furnish to the Borrower and the Bank a report on its promotional activities.

II. UTICA Grant Agreement

1. UTICA shall carry out Part B.2 of the Project with due diligence and efficiency and in conformity with appropriate financial and management practices.

2. UTICA shall strengthen its services to establish small and medium scale industries notably by providing:

- diagnostic assessments of overall operations; and
- analysis of specific problems.

3. UTICA shall train about 20 persons to provide advice on finance, production management, administration, marketing and management to small and medium scale industries.

4. UTICA shall employ a specialist in management consulting for small and medium scale enterprises, a multidisciplinary engineer specializing in production and organization and short-term management and marketing consultants. The qualifications, experience and terms and conditions of employment of such specialist, engineer and consultants shall be satisfactory to the Borrower and the Bank.

Principal Terms and Conditions
of Subsidiary Loan Agreements

The Subsidiary Loan Agreements shall provide, inter alia, that:

1. The Borrower shall onlend to each of the Participating Banks amounts in Dinars up to the equivalent of the following amounts: \$6,500,000 to BDET, \$6,000,000 to BS, \$5,000,000 to BT, \$4,000,000 to BTEI and \$6,000,000 to STB out of the proceeds of the Loan.
2. If the first review carried out pursuant to Section 3.02 (c) of this Agreement indicates that a Participating Bank has not committed amounts equivalent to at least \$2,000,000 under Sub-loans or Investments, the Borrower may reallocate part or whole of the uncommitted balance of the original amount, relent by the Borrower to that Participating Bank, to one or more Participating Banks who have reached a level of commitments equivalent to at least \$2,000,000.
3. If a subsequent review carried out pursuant to Section 3.02 (c) of this Agreement indicates that a Participating Bank may not be able to commit the full amount onlent to it by the Borrower out of the Loan, the Borrower and that Participating Bank may agree to reallocate part or whole of the uncommitted balance of the initial amount, onlent by the Borrower to that Participating Bank, to one or more Participating Banks who are likely to commit the full amount so onlent to them.
4. Each Participating Bank shall repay to the Borrower the equivalent in Dinars (such equivalent to be determined as of the date or the respective dates of withdrawal from the Loan Account or payment out of the Special Account) of the value of the currency or currencies so withdrawn or paid out for expenditures disbursed for under Sub-loans or Investments by such Participating Bank: (a) under Sub-loans, over a period not exceeding 11 years, including a grace period not exceeding 3 years, and in accordance with an amortization schedule which shall conform in relevant part substantially to the aggregated amortization schedules applicable to the Sub-loans made by such Participating Bank; and (b) under Investments, over a period of 11 years, including a grace period of 3 years.
5. Each Participating Bank shall pay the equivalent in Dinars (such equivalent to be determined as of the date of payment by the Borrower to the Bank) of the commitment charge payable by the Borrower to the Bank pursuant to Section 3.02 of the General Conditions and Section 2.04 of this Agreement in respect of the unwithdrawn amount of the Loan onlent to it under a Subsidiary Loan Agreement.
6. Until such time as the Borrower shall have notified each Participating Bank that a new system of protection against exchange risks on the Borrower's foreign borrowings has been put in place, each Participating Bank shall pay to the Borrower's Exchange Risk Equalization Fund a fee at the rate of one percent (1%) on the principal amounts of the Loan onlent to it, payable on the date of withdrawal of such amounts from the Loan Account or payment out of the Special Account, to reimburse the Borrower for the foreign exchange risk borne by the Borrower pursuant to the Loan Agreement.
7. Each Participating Bank shall pay interest on the amount onlent to it under a Subsidiary Loan Agreement at a rate equal to the rate of interest applicable to the Loan pursuant to Section 2.05 of this Agreement on the date of this Agreement, provided, however, that the Borrower and the Participating Banks may agree to adjust said interest rate to a level acceptable to the Bank if a review pursuant to Section 3.02 (b) of this Agreement indicates that:

- (a) the interest rate paid by the Participating Banks to

the Borrower is lower than the interest rate paid by the Borrower to the Bank pursuant to Section 2.05 of this Agreement; or

(b) the interest rate paid by the Participating Banks to the Borrower and that paid by the Investment Enterprises to Participating Banks do not allow the Participating Banks to cover their operating costs, adequately fund their bad debt reserves and make a reasonable profit.

Unless the Borrower and the Participating Banks shall otherwise agree:

(a) the adjusted interest rate shall be applied only to the amounts of the Loan not committed under a Sub-loan or Investment at the time the interest rate is adjusted; and

(b) the interest rate paid by the Participating Banks to the Borrower shall not be lower than the interest rate paid by the Borrower to the Bank pursuant to Section 2.05 of this Agreement.

8. Each Participating Bank shall take such action as shall be necessary or appropriate on its part to enable the Borrower to perform its obligations under the Loan Agreement.

