

CONFORMED COPY

LOAN NUMBER 4202-TUN

Guarantee Agreement

(Second Municipal Development Project)

between

REPUBLIC OF TUNISIA

and

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

Dated September 24, 1997

LOAN NUMBER 4202 TUN

GUARANTEE AGREEMENT

AGREEMENT, dated September 24, 1997, between the REPUBLIC OF TUNISIA (the Guarantor) and the INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT (the Bank).

WHEREAS (A) the Guarantor and the CAISSE DES PRETS ET DE SOUTIEN DES COLLECTIVITES LOCALES (the Borrower), having been satisfied as to the feasibility and priority of the Project described in Schedule 2 to the Loan Agreement, have requested the Bank to assist in the financing of the Project;

(B) by the Loan Agreement of even date herewith between the Bank and the Borrower, the Bank has agreed to extend to the Borrower a loan in an amount equal to four hundred fifty-two million eight hundred thousand French Francs (FRF452,800,000), on the terms and conditions set forth in the Loan Agreement, but only on condition that the Guarantor agree to guarantee the obligations of the Borrower in respect of such loan as provided in this Agreement and to undertake such obligations toward the Bank as are set forth in this Agreement;

(C) by a subsidiary loan agreement to be entered into between the Guarantor and the Borrower, a portion of the proceeds of the Loan provided for under the Loan Agreement will be made available to the Guarantor on the terms and conditions set forth in said Subsidiary Loan Agreement; and WHEREAS the Guarantor, in consideration of the Bank's entering into the Loan Agreement with the Borrower, has agreed so to guarantee such obligations of the Borrower and to undertake the obligations set forth in this Agreement;

NOW THEREFORE the parties hereto hereby agree as follows:

## ARTICLE I

### General Conditions; Definitions

Section 1.01. The "General Conditions Applicable to Loan and Guarantee Agreements for Single Currency Loans" of the Bank, dated May 30, 1995, with the modifications set forth in Section 1.01 of the Loan 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 Loan Agreement, the Preamble to this Agreement and the General Conditions (as so defined) have the respective meanings therein set forth, and the term "Institutional Performance Indicators" means the agreed Performance Indicators set forth in a letter of even date herewith to be utilized by the Guarantor to measure the progress in the carrying out of Parts C, D and E of the Project and the degree to which the objectives thereof are being achieved.

## ARTICLE II

### Guarantee

Section 2.01. The Guarantor declares its commitment to the objectives of the Project as set forth in Schedule 2 to the Loan Agreement, and, to this end, it hereby unconditionally guarantees, as primary obligor and not as surety merely, the due and punctual payment of the principal of, and interest and other charges on, the Loan, and the premium, if any, on the prepayment of the Loan, all as set forth in the Loan Agreement.

## ARTICLE III

### Execution of Parts C, D and E of the Project

Section 3.01. (a) The Guarantor declares its commitment to the objectives of the Project as set forth in Schedule 2 to the Loan Agreement, and, to this end, shall carry out, or cause to be carried out, Parts C, D, and E of the Project with due diligence and efficiency and in conformity with appropriate administrative, economic, environmental, financial, municipal and technical practices, and shall provide, promptly as needed, the funds, facilities, services and other resources required for Parts C, D and E of the Project.

(b) Without limitation upon the provisions of paragraph (a) of this Section and except as the Guarantor and the Bank shall otherwise agree, the Guarantor shall carry out Parts C, D and E of the Project in accordance with the Implementation Program set forth in the Schedule to this Agreement.

Section 3.02. Except as the Bank shall otherwise agree, procurement of the goods and consultants' services required for Parts C, D and E of the Project and to be financed out of the proceeds of the Loan shall be governed by the provisions of Schedule 4 to the Loan Agreement.

Section 3.03. The Guarantor shall carry out 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 the Guarantee Agreement and Parts C, D and E of the Project.

Section 3.04. For the purposes of Section 9.08 of the General Conditions and without limitation thereto, the Guarantor shall:

(a) prepare, on the basis of guidelines acceptable to the Bank, and furnish to the Bank not later than six (6) months after the Closing Date or such later date as may be agreed for this purpose between the Guarantor and the Bank, a plan for the future operation of Parts C, D and E of the Project; and

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

Section 3.05. The Guarantor shall duly perform all its obligations under the Subsidiary Loan Agreement. Except as the Bank shall otherwise agree, the Guarantor shall not take or concur in any action which would have the effect of amending, abrogating, assigning or waiving the Subsidiary Loan Agreement or any provision thereof.

Section 3.06. (a) The Guarantor shall, at the request of the Bank, exchange views with the Bank with regard to the progress of Parts C, D and E of the Project, the performance of its obligations under this Agreement and under the Subsidiary Loan Agreement, and other matters relating to the Loan.

(b) The Guarantor shall promptly inform the Bank of any condition which interferes or threatens to interfere with the progress of Parts C, D and E of the Project, the accomplishment of the purposes of the Loan, or the performance by the Guarantor of its obligations under this Agreement and under the Subsidiary Loan Agreement.

#### ARTICLE IV

##### Financial and Other Covenants

Section 4.01. (a) The Guarantor shall maintain or cause to be maintained records and accounts adequate to reflect in accordance with sound accounting practices the operations, resources and expenditures in respect of Parts C, D and E of the Project of the departments or agencies of the Guarantor responsible for carrying out Parts C, D and E of the Project or any part thereof.

(b) The Guarantor shall:

(i) have the records and accounts referred to in paragraph (a) of this Section 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 six (6) 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.

Section 4.02. The Guarantor shall at all times take all adequate action satisfactory to the Bank to permit the Borrower to protect itself against risk of loss resulting from changes in the rates of exchange between the currencies (including the Dinar) used in its operations.

Section 4.03. The Guarantor agrees, as long as it exercises control over the setting of interest rates charged by the Borrower, to establish rates which would allow the Borrower, under conditions of efficient operation, to meet its financial obligations and covenants under the Loan Agreement.

Section 4.04. The Guarantor shall take all action required on its behalf to submit to the vote of its Chamber of Deputies, not later than December 31, 1997, a draft law, in form and substance satisfactory to the Bank, amending the provisions of Article 3 of the Guarantor's Law No. 75-36 dated May 14, 1975 in order to modify the existing distribution criteria of the Fonds Commun des Collectivités Locales to make them more equitable and allow the poorer local governments to mobilize the resources necessary to their development.

#### ARTICLE V

##### Representative of the Guarantor; Addresses

Section 5.01. The Minister of International Cooperation and Foreign Investment of the Guarantor is designated as representative of the Guarantor for the purposes of

Section 11.03 of the General Conditions.

Section 5.02. The following addresses are specified for the purposes of Section 11.01 of the General Conditions:

For the Guarantor:

Ministry of International Cooperation  
and Foreign Investment  
98, Avenue Mohamed V  
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 Washington, D.C.	248423 (MCI) or 64145 (MCI)

IN WITNESS WHEREOF, the parties hereto, acting through their duly authorized representatives, have caused this Agreement to be signed in their respective names in Hong Kong Special Administrative Region of the People's Republic of China, as of the day and year first above written.

REPUBLIC OF TUNISIA

By /s/ Mohamed Ghannouchi

Authorized Representative

INTERNATIONAL BANK FOR  
RECONSTRUCTION AND DEVELOPMENT

By /s/ Kemal Dervis

Regional Vice President  
Middle East and North Africa

SCHEDULE

Implementation Program

1. (a) Without limitation upon the provisions of Section 9.07 of the General Conditions, the Guarantor shall, not later than May 31 and November 30 in each Fiscal Year, commencing on May 31, 1998 and until Project completion, prepare and furnish to the Bank for its review a global report, of such scope and in such detail as the Bank shall reasonably request: (i) describing, in accordance with parameters acceptable to

the Bank, the progress achieved by the Guarantor in the implementation of Parts C, D and E of the Project during the preceding six (6) month period; and (ii) consolidating and integrating the report prepared by the Borrower pursuant to the provisions of paragraph 1 of Section I of Schedule 5 to the Loan Agreement and describing the progress achieved by the Borrower in the implementation of Parts A and B of the Project during the preceding six (6) month period.

(b) For the purposes of the preparation of the global reports due May 31 in each Fiscal Year, the parameters to be utilized by the Guarantor pursuant to the provisions of the preceding paragraph (a) shall include the Institutional Performance Indicators evaluated on a yearly basis.

2. The Guarantor shall:

(a) maintain policies and procedures adequate to enable it to monitor and evaluate on an ongoing basis, in accordance with the Institutional Performance Indicators, the carrying out of Parts C, D and E of the Project and the achievement of the objectives thereof;

(b) prepare, under terms of reference satisfactory to the Bank, and furnish to the Bank, on or about December 31, 1999, a global report integrating: (i) the results of the monitoring and evaluation activities performed pursuant to the preceding paragraph (a), on the progress achieved by the Guarantor in the carrying out of Parts C, D and E of the Project during the period preceding the date of said report and setting out the measures recommended to ensure the efficient carrying out of Parts C, D and E of the Project and the achievement of the objectives thereof during the period following such date; and (ii) the results of the monitoring and evaluation activities performed by the Borrower pursuant to paragraph 2 (a) of Section I of Schedule 5 to the Loan Agreement, on the progress achieved by the Borrower in the carrying out of Parts A and B of the Project during the period preceding the date of said report and setting out the measures recommended to ensure the efficient carrying out of Parts A and B of the Project and the achievement of the objectives thereof during the period following such date; and

(c) review with the Bank and the Borrower, by June 30, 2000, or such later date as the Bank shall request, the global report referred to in the preceding paragraph (b), and, thereafter, take all measures required to ensure the efficient completion of Parts C, D and E of the Project and the achievement of the objectives thereof, based on the conclusions and recommendations of the said report and the Bank views on the matter.

3. For the purposes of paragraphs 1 and 2 of this Schedule, the Guarantor shall maintain throughout Project implementation a Project Coordinator within MOI, under appropriate terms of reference and with suitable qualifications and experience, responsible for: (i) the coordination of all Project activities, and among the Borrower, DGCPL, DGAR and the Training Center; (ii) the overall monitoring and evaluation of the Project; and (iii) the preparation, consolidation and integration of the progress and mid-term review global reports referred to in the aforementioned paragraphs for submission to the Bank.

4. The Guarantor shall, not later than March 31, 1998, furnish to the Bank for its review and approval, an implementation plan regarding Parts A (ii) and E of the Project and describing:

(a) the strategy for extending the program under Part E of the Project, said strategy to be limited to four (4) neighboring governorates of the Guarantor during the first two (2) years of Project implementation and, thereafter, to be expanded to a feasible number of governorates, towns and neighborhoods (quartiers);

(b) criteria to select: (i) the disadvantaged urban or peri-urban neighborhoods in which to carry out Microprojects; and (ii) the governorates, towns and neighbourhoods (quartiers) to benefit from the implementation of Parts A (ii) and E of the Project;

(c) implementation modalities of the training program under Part E of the Project adequate to ensure its satisfactory execution; and

(d) envisaged arrangements required for the financial management of Microprojects, including proposals for monitoring and use of the proceeds of the Loan at the communal level under the Microprojects.

