

Public Disclosure Authorized

CONFORMED COPY

LOAN NUMBER 7154 – TUN

Guarantee Agreement

(Third Municipal Development Project)

between

REPUBLIC OF TUNISIA

and

**INTERNATIONAL BANK FOR RECONSTRUCTION
AND DEVELOPMENT**

Dated January 9, 2003

Public Disclosure Authorized



LOAN NUMBER 7154 – TUN

GUARANTEE AGREEMENT

AGREEMENT, dated January 9, 2003, between REPUBLIC OF TUNISIA (the Guarantor) and INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT (the Bank).

WHEREAS (A) the Guarantor and Caisse des Prêts et de Soutien des Collectivités Locales (CPSCL) (the Borrower), having been satisfied as to the feasibility and priority of the Project described in Schedule 2 to the Loan Agreement of even date herewith between the Bank and CPSCL (the Loan Agreement), have requested the Bank to assist in the financing of the Project;

(B) by the Loan Agreement, the Bank has agreed to extend to the Borrower a loan in the amount of eighty million one hundred thousand euros (Eur 80,100,000), on the terms and conditions set forth in the Loan Agreement, but only on condition that: (i) the Guarantor agrees to guarantee the obligations of the Borrower in respect of the loan as provided in this Agreement; and (ii) the Guarantor agrees to undertake such obligations toward the Bank as are set forth in this Agreement; and

(C) by a Subsidiary Loan Agreement to be entered into between the Borrower and the Guarantor, part 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 the 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 Fixed-Spread Loans" of the Bank, dated September 1, 1999, (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, in the Preamble to this Agreement and in the Preamble to Section 1.02 of the Loan Agreement, have the respective meanings therein set forth.

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, without limitation or restriction upon any of its other obligations under the Guarantee Agreement, the Guarantor 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 Part B of the Project

Section 3.01. (a) The Guarantor shall carry out Part B of the Project with due diligence and efficiency and in conformity with appropriate administrative, economic, environmental, financial, municipal and technical practices, and shall provide, or cause to be provided, promptly as needed, the funds, facilities, services and other resources required for Part B of the Project.

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

Section 3.02. Except as the Bank shall otherwise agree, procurement of the goods and consultants' services required 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 4 to the Loan Agreement.

Section 3.03 (a) 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 Part B of the Project.

(b) For the purposes of Section 9.07 of the General Conditions and without limitation thereto, the Guarantor shall:

- (i) 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 Bank, the Borrower and the Guarantor, a plan for the future operation of the Project; and

- (ii) afford the Bank a reasonable opportunity to exchange views with the Guarantor and the Borrower on said plan.

Section 3.04. 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 3.05. (a) The Guarantor shall, at the request of the Bank, exchange views with the Bank with regard to progress of Part B of the Project, the performance of its obligations under this Agreement and under the Subsidiary Loan Agreement, and other matters relating to the purposes of the Loan.

(b) The Guarantor shall promptly inform the Bank of any condition which interferes or threatens to interfere with the progress of Part B 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.

Section 3.06. The Guarantor shall take all necessary measures in conformity with its legislation and satisfactory to the Bank for:

(a) the transformation, by December 31, 2006, of the Borrower into a joint stock company in accordance with the findings and recommendations of the mid-term review of the Project required under paragraph C.1(d) of Schedule 5 to the Loan Agreement;

(b) not later than June 30, 2006, enlarging the eligibility for loans from the Borrower to entities, other than Municipalities, intervening in the financing of local development projects;

(c) not later than December 31, 2005, enabling the Borrower to freely determine its interest rates for loans not falling under PIC (Programme d'Investissement Communal);

(d) not later than December 31, 2006, preparing and submitting to its Parliament for enactment, draft legislation to amend the Municipal Legal Code No. 75-33 of May 14, 1975, as amended, with a view to improving municipal management;

(e) not later than December 31, 2006, improving the legal and regulatory framework for local taxation with a view to strengthening financial resource mobilization of the Municipalities; and

(f) not later than December 31, 2005, increasing in a sustainable manner the funds collected under the FCCL.

ARTICLE IV

Financial Covenants

Section 4.01. (a) The Guarantor shall maintain a financial management system, including records and accounts, and prepare financial statements, all in accordance with accounting standards acceptable to the Bank, consistently applied, adequate to reflect its operations and financial condition and to register separately the operations, resources and expenditures related to Part B of the Project.

(b) The Guarantor shall:

- (i) have its records, accounts and financial statements (balance sheets, statements of income and expenses and related statements) for each fiscal year audited, in accordance with auditing standards acceptable to the Bank, 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 months after the end of each such year, (A) certified copies of the financial statements referred to in paragraph (a) of this Section, for such year as so audited, and (B) an opinion on such statements and 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 such records, accounts and financial statements, and the audit thereof, and concerning said auditors, as the Bank may from time to time reasonably request.

Section 4.02. The Guarantor shall at all times take all adequate actions satisfactory to the Bank, including maintaining the Foreign Exchange Risk Coverage Arrangement, 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 under the Project.

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.

ARTICLE V

**Effective Date; Termination;
Cancellation and Suspension**

Section 5.01. This Agreement shall come into force and effect on the date upon which the Loan Agreement becomes effective.

Section 5.02. This Agreement and all obligations of the Bank and of the Guarantor thereunder shall terminate on the date on which the Loan Agreement shall terminate in accordance with its terms, and the Bank shall promptly notify the Guarantor thereof.

Section 5.03. All the provisions of this Agreement shall continue in full force and effect notwithstanding any cancellation or suspension under the General Conditions.

ARTICLE VI

Representative of the Guarantor; Addresses

Section 6.01. The Minister of Development and International Cooperation is designated as representative of the Guarantor for the purposes of Section 11.03 of the General Conditions.

Section 6.02. The following addresses are specified for the purposes of Section 11.01 of the General Conditions:

For the Guarantor:

Ministry of Development and International Cooperation
Place Ali Zouaoui
1001 Tunis
Republic of Tunisia

Telex:

18060

Facsimile:

216-71-799-069
216-71-351-666

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:

Facsimile:

INTBAFRAD
Washington, D.C.

248423 (MCI) or
64145 (MCI)

(202) 477-6391

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/ Hatem Atallah
Authorized Representative

INTERNATIONAL BANK FOR
RECONSTRUCTION AND DEVELOPMENT

By /s/ Jean-Louis Sarbib
Regional Vice President
Middle East and North Africa

SCHEDULE

Implementation Program

A. Institutional Arrangements

1. The Guarantor shall establish six (6) months after the effectiveness of this Agreement, and maintain at all times during the implementation of the Project: (i) a steering committee composed of high level civil servants representing MOI, the Ministry of Finance, the Ministry of Development and International Cooperation and the Borrower, to guide the overall policy orientation of the Project; and (ii) a technical committee composed of representatives of MOI, the Ministry of Finance, the Ministry of Development and International Cooperation and the Borrower, in charge of supervising the implementation of the Project and monitoring the implementation of the restructuring and improvement plans of the Municipalities.

2. The Guarantor shall maintain DCPDM, throughout the life of the Project, with professional staffing in adequate number, whose qualifications and terms of reference shall be acceptable to the Bank. DCPDM, which shall be headed by a Project Director, shall be responsible for: (i) day-to-day coordination, monitoring and evaluation of the implementation of the Project, including the preparation of reports for submission to the Bank; (ii) approving annual work programs from the Project Implementing Agencies under Part B of the Project; (iii) designing and implementing municipal restructuring and improvement plans; and (iv) acting as secretariat to the steering committee and liaison between said committee and the Project Implementing Agencies.

3. The Borrower shall cause: (a) CNPRCRM to carry out Part B.1 of the Project; (b) DGCPL to carry out Parts B.2, B.3 and B.5 of the Project; and (c) DGAR to carry out Part B.4 of the Project.

B. Monitoring and Evaluation and Reviews

1. The Guarantor shall:

(a) maintain policies and procedures adequate to enable it to monitor and evaluate on an ongoing basis, in accordance with indicators acceptable to the Bank, the carrying out of Part B 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, 2005, a 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 Part 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 Part B 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 C.1 (b) of Schedule 5 to the Loan Agreement, on the progress achieved by the Borrower in the carrying out of Part A 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 Part A of the Project and the achievement of the objectives thereof during the period following such date; and

(c) review with the Borrower and the Bank, by June 30, 2006, or such later date as the Bank shall request, the report referred to in the preceding paragraph (b), and, thereafter, take all measures required to ensure the efficient completion of the Project and the achievement of the objectives thereof, based on the conclusions and recommendations of the said report and the Bank's views on the matter.