

CONFORMED COPY

LOAN NUMBER 3892 TUN

Loan Agreement

(National Rural Finance Project)

between

INTERNATIONAL BANK FOR RECONSTRUCTION  
AND DEVELOPMENT

and

BANQUE NATIONALE AGRICOLE

Dated June 7, 1995

LOAN NUMBER 3892 TUN

LOAN AGREEMENT

AGREEMENT, dated June 7, 1995, between the INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT (the Bank) and the BANQUE NATIONALE AGRICOLE (the Borrower).

WHEREAS (A) the Republic of Tunisia (the Guarantor) and the Borrower, having been satisfied as to the feasibility and priority of the Project described in Schedule 2 to this Agreement, have requested the Bank to assist in the financing of the Project;

(B) by an agreement (the Guarantee Agreement) of even date herewith between the Guarantor and the Bank, the Guarantor has agreed to guarantee the obligations of the Borrower in respect of the Loan and to undertake such other obligations as set forth in the Guarantee Agreement;

(C) the Borrower intends to contract from the Kreditanstalt fur Wiederaufbau and the Caisse Francaise de Developpement (collectively the Cofinanciers) loans (the Cofinanciers Loans) in an aggregate amount equivalent to about sixty million dollars (\$60,000,000) to assist in financing part of the cost of Parts A and B 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; 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;

NOW THEREFORE the parties hereto hereby agree as follows:

#### ARTICLE I

##### General Conditions

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 7 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) "Action Plan" means the three (3) year action plan referred to in Section 4.07 (a) of this Agreement, as the same shall be updated and extended from time to time in accordance with the provisions of Sections D and E of Schedule 4 to this Agreement, adopted by the Borrower on February 28, 1995 in line with its Medium-Term Strategy (as hereinafter defined), setting forth specific actions and measures to be carried out from Fiscal Year 1995 through Fiscal Year 1997 and designed to improve the management, organization, soundness and financial viability of the Borrower;

(b) "agricultural development enterprise" means an enterprise, an agro-investor, an entrepreneur and an agriculture enterprise;

(c) "ANPE" means the Guarantor's National Agency for Environmental Protection (Agence Nationale pour la Protection de l'Environnement) established and operating pursuant to the Guarantor's Law No. 88-91 dated August 2, 1988, and the Guarantor's Decree No. 88-1784, dated October 18, 1988, as the same may be amended from time to time;

(d) "Category" means any 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;

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

(f) "Circular" means the Circular (Circulaire) No. 91-24 issued by the Central Bank on December 17, 1991, setting forth prudential regulations applicable to banking institutions, as the same may be amended from time to time;

(g) "Code" means the Guarantor's Investments Incentives Code (Code d'Incitations aux Investissements), promulgated by the Guarantor's Law No. 93-120 dated December 27, 1993, as the same may be amended from time to time;

(h) "Credit Guidelines" means the guidelines (Conditions bancaires) approved by the Directors of the Borrower on June 8, 1994, regulating the provision of credit by the Borrower, as the same may be amended from time to time;

(i) "Decree 91-362" means the Guarantor's Decree No. 91-

362 dated March 13, 1991, regarding the preparation of environmental impact assessments, as the same may be amended from time to time;

(j) "Decree 94-427" means the Code's implementation Decree No. 94-427 dated February 14, 1994, setting forth the classification of investments and establishing the conditions of, and modalities for, incentives in the agriculture and fishing sector, as the same may be amended from time to time;

(k) "farmer" means both a small and medium farmer (as hereinafter defined) and a large farmer (as hereinafter defined);

(l) "Financial Performance Development Letter" means the letter referred to in Section 4.07 (b) of this Agreement, signed by the Borrower on March 25, 1995, setting forth key financial performance development indicators designed to assess the progress of the Borrower in carrying out certain aspects of its Action Plan;

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

(n) "fisherman" means both a small fisherman (as hereinafter defined) and a large fisherman (as hereinafter defined);

(o) "free-limit Sub-loan" means a Sub-loan (as hereinafter defined), which qualifies as a free-limit Sub-loan pursuant to the provisions of subparagraph 6 (b) of the Annex to Schedule 4 to this Agreement;

(p) "Investment Project" means a specific development project to be carried out by a Sub-borrower (as hereinafter defined) under Part A of the Project utilizing the proceeds of a Sub-loan;

(q) "large farmer" means an individual farmer who proposes to carry out an Investment Project which under the provisions of Article 28 of the Code and Article 4 of the Decree 94-427 qualifies as a category "C" investment;

(r) "large fisherman" means an individual fisherman who proposes to carry out an Investment Project which under the provisions of Article 28 of the Code and Article 4 of the Decree 94-427 qualifies as a category "C" investment;

(s) "medium-size enterprise" means an individual entrepreneur, an agro-processing investor and a medium-size enterprise which proposes to carry out an Investment Project the cost of which does not exceed one million Tunisian dinars;

(t) "Medium-Term Strategy" means the declaration approved by the Directors of the Borrower on December 11, 1992, setting forth its policies and strategic orientations designed to further develop, modernize and rationalize the Borrower's managerial activities, credit policies and institutional capacity and consolidate the Borrower's financial viability, as the same may be amended from time to time;

(u) "semester" means the first six (6) months or the second six (6) months of a Fiscal Year;

(v) "service cooperative" means a service cooperative which provides on-farm and off-farm services in rural areas;

(w) "small and medium farmer" means an individual farmer who proposes to carry out an Investment Project which under the provisions of Article 28 of the Code and Articles 1, 2 and 3 of

the Decree 94-427 qualifies as either a category "A" or category "B" investment;

(x) "small fisherman" means an individual fisherman who proposes to carry out an Investment Project which under the provisions of Article 28 of the Code and Articles 1, 2 and 3 of the Decree 94-427 qualifies as either a category "A" or category "B" investment;

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

(z) "Statute" means the Borrower's Statute (Statuts) dated May 23, 1959, as amended to January 29, 1994, pursuant to which the Borrower has been established and is operating as a commercial banking institution;

(aa) "Sub-borrower" means an agricultural development enterprise, an artisan, a farmer, a fisherman, a household, a medium-size enterprise or a service cooperative to which the Borrower proposes to make or has made a Sub-loan (as hereinafter defined); and

(bb) "Sub-loan" means a loan made or proposed to be made by the Borrower out of the proceeds of the Loan to a Sub-borrower for an Investment Project.

## 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 sixty-five million dollars (\$65,000,000), 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: (i) amounts paid (or, if the Bank shall so agree, to be paid) by the Borrower on account of withdrawals made by a Sub-borrower under a Sub-loan 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) 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 of the Project and to be financed out of the proceeds of the Loan.

(b) The Borrower may, for the purposes of Parts A and B of the Project, open and maintain in dollars a special deposit account on its books on terms and conditions satisfactory to the Bank, including appropriate protection against set-off, seizure or attachment. Deposits into, and payments out of, the Special Account shall be made in accordance with the provisions of Schedule 6 to this Agreement.

Section 2.03. The Closing Date shall be September 30, 1999 or such later date as the Bank shall establish. The Bank shall promptly notify the Borrower and the Guarantor 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 per cent (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 and the Guarantor 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 and the Guarantor 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 semi-annually on January 1 and July 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;  
Management and Operations of the Borrower

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, shall: (i) carry out Parts A and B of the Project in accordance with appropriate administrative, economic, environmental, financial, and technical practices; (ii) provide, promptly as needed, the funds, facilities, services and other resources required for this purpose; and (iii) conduct its operations and affairs in accordance with sound banking, financial and agricultural standards and practices, with qualified management and personnel, and in accordance with the Action Plan, the Credit Guidelines, the Financial Performance Development Letter, the Medium-Term Strategy, and the Statute.

(b) Without limitation upon the provisions of paragraph (a) of this Section and except as the Bank and the Borrower shall otherwise agree, the Borrower shall carry out Parts A and B of the Project in accordance with the Implementation Program set forth in Schedule 4 to this Agreement.

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 5 to this Agreement.

Section 3.03. The Bank and the Borrower hereby agree that the obligations set forth in Sections 9.06, 9.07, 9.08 and 9.09 of the General Conditions (relating to plans and schedules, records and reports, and maintenance and land acquisition, respectively) in respect of Part C of the Project shall be carried out by the Guarantor pursuant to Section 3.02 of the Guarantee Agreement.

Section 3.04. Without limitation upon the provisions of Article IX of the General Conditions, the Borrower 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 Bank and the Borrower, a plan for the future operation of the Project;

(b) afford the Bank a reasonable opportunity to exchange views with the Borrower on said plan; and

(c) thereafter, carry out said plan with due diligence and efficiency and in accordance with appropriate practices, taking into account the Bank's comments thereon.

#### ARTICLE IV

##### Financial and Other Covenants

Section 4.01. The Borrower shall maintain procedures and records adequate to monitor and record the progress of Parts A and B of the Project and of each Investment Project (including its cost and the benefits to be derived from it) and to reflect in accordance with consistently maintained sound accounting practices the operations and financial condition of the Borrower.

Section 4.02. (a) The Borrower shall:

(i) have the records referred to in Section 4.01 of this Agreement, its accounts and financial statements (balance sheets, statements of income and expenses and related statements) and records and accounts for the Special Account for each Fiscal Year audited in accordance with sound 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, (A) certified copies of said financial statements for such year as so audited and (B) 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 the said records, accounts and financial statements and the audit thereof as the Bank shall from time to time reasonably request.

(b) 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, in accordance with Section 4.01 of this Agreement, 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 (a) 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 4.03. The Borrower shall take such steps satisfactory to the Bank as shall be necessary to protect itself against risk of loss resulting from changes in the rates of exchange between the currencies (including the currency of the Guarantor) used in its operations.

Section 4.04. (a) Except as the Bank may otherwise agree, the Borrower shall open and thereafter maintain on its books, in accordance with its normal financial procedures and on conditions satisfactory to the Bank, a separate account to which it shall credit each payment of interest or other charges on, or repayment of principal under, a Sub-loan upon receipt thereof.

(b) All amounts so credited to said separate account shall be utilized by the Borrower, to the extent they are not yet required to meet the Borrower's repayment obligations to the Bank under this Agreement, exclusively to finance additional development projects to further the development of the Guarantor's rural sector in accordance with guidelines satisfactory to the Bank.

Section 4.05. (a) The Borrower shall execute financial measures required to maintain for each Fiscal Year after its

Fiscal Year ending on December 31, 1994, a net financial intermediation margin of not less than 2%.

(b) Before June 30 in each Fiscal Year, the Borrower shall, on the basis of forecasts prepared by the Borrower and satisfactory to the Bank, review whether it has met the requirement set forth in paragraph (a) of this Section in respect of the preceding Fiscal Year and shall furnish to the Bank the results of such review upon its completion.

(c) If any such review shows that the Borrower would not meet the requirement set forth in paragraph (a) of this Section for the Fiscal Year covered by such review, the Borrower shall promptly take all measures as shall be necessary (including, without limitation, adjustments to the structure or levels of its interest rates and other financial charges) in order to meet such requirement.

(d) For the purposes of this Section:

- (i) The term "net financial intermediation margin" means the interest income of the Borrower as a percentage of the average portfolio outstanding minus interest expenses as a percentage of the average borrowing outstanding and deposits.
- (ii) The term "interest income" means the interest earned by the Borrower each Fiscal Year on all of its outstanding loans, interbank transactions and fees deriving from banking operations.
- (iii) The term "average portfolio" includes the Borrower's bills discounted, short-term loans and advances, term loans, and loans out of external resources during each Fiscal Year.
- (iv) The term "interest expenses" means interest paid by the Borrower on interbank borrowings, deposits and other borrowings during each Fiscal Year.
- (v) The term "average borrowings outstanding" includes money-market financing, deposits, external borrowings, long-term bonds and other liabilities incurred by the Borrower each Fiscal Year.
- (vi) The term "deposits" includes demand deposits and term deposits made in the Borrower each Fiscal Year.

Section 4.06. (a) The Borrower shall take all necessary measures to ensure that, not later than June 30, 1996, the Borrower shall reach, and thereafter maintain for each Fiscal Year, a risk-weighted capital ratio of not less than 5% calculated in accordance with the provisions of the Circular.

(b) For the purposes of this Section, the term "risk-weighted capital ratio" means the Borrower's ratio of capital to risk-weighted assets and off-balance sheet items as the same is defined to the date of this Agreement in the Circular.

Section 4.07. (a) The Borrower shall carry out the Action Plan with due diligence and efficiency and take at all times all actions necessary to ensure the effectiveness thereof.

(b) Without limitation upon the provisions of paragraph (a) of this Section, the Borrower shall at all times closely monitor its financial policy so as to promptly implement



suitable prudential measures necessary to ensure and facilitate the effectiveness of the indicators on capital adequacy, liquidity, financial profitability, and loan collection performance set forth in the Financial Performance Development Letter.

Section 4.08. The Borrower shall implement with due diligence and efficiency its agreement with the Guarantor dated March 25, 1995, outlining the Borrower's role, responsibilities, and remuneration for administering selected agricultural funds on behalf of the Guarantor.

#### 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) The Action Plan, the Credit Guidelines, the Financial Performance Development Letter, the Medium-Term Strategy or the Statute shall have been amended, suspended, abrogated, repealed or waived so as to affect materially and adversely the operations or the financial condition of the Borrower or its ability to carry out the Project or to perform any of its obligations under this Agreement.

(b) The Cofinanciers Loan Agreements shall have failed to become effective by June 30, 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.

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

- (A) the right of the Borrower to withdraw the proceeds of the Cofinanciers Loans or any grant or loan 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 therefor, or
- (B) any such loan 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) the event specified in paragraph (a) of Section 5.01 of this Agreement shall occur; and

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

ARTICLE VI

Termination

Section 6.01. 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 President Director General 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 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:

248423 (RCA)  
82987 (FTCC)  
64145 (WUI) or  
197688 (TRT)

For the Borrower:

Banque Nationale Agricole  
Rue Hedi Nouira  
1001 Tunis  
Republic of Tunisia

Cable address:

BANATU TUNIS

Telex:

15590

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.

INTERNATIONAL BANK FOR  
RECONSTRUCTION AND DEVELOPMENT

By/s/ Daniel Ritchie  
Acting Regional Vice President  
Middle East and North Africa

BANQUE NATIONALE AGRICOLE

By/s/ Azouz Ennifar  
Authorized Representative

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 under Part A.1 of the Project	15,000,000) ) ) )	
(2) Sub-loans under Part A.2 of the Project for:	) ) ) ) )	
(a) Small and Medium Farmers	10,500,000) ) ) ) )	50% of amounts paid by the Borrower
(b) Large Farmers	15,000,000) ) )	
(3) Sub-loans under Part A.3 of the Project	3,000,000) ) ) )	
(4) Sub-loans under Part A.4 of the Project	19,000,000)	
(5) Sub-loans under Part A.5 of the Project	1,000,000) ) ) ) )	60% of amounts paid by the Borrower
(6) Sub-loans under Part A.6 of the Project	1,000,000)	
(7) Goods and Computer Services for Part B of the Project	300,000	100% of foreign expenditures and 80% of local expenditures
(8) Consultants' Services and Training for Part B of the Project	200,000	100%
 TOTAL	 <hr/> 65,000,000	

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 Guarantor for goods or services supplied from the territory of any country other than that of the Guarantor; and

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

3. Notwithstanding the provisions of paragraph 1 above, no withdrawals shall be made in respect of payments made for amounts paid prior to the date of this Agreement, except that withdrawals, in an aggregate amount not to exceed \$6,500,000, may be made in respect of Categories (1) through (6) on account of payments made by the Borrower on account of withdrawals made by a Sub-borrower under a Sub-loan before that date but after January 1, 1995.

4. The Bank may require withdrawals from the Loan Account to be made on the basis of statements of expenditure for expenditures for: (i) Sub-loans in an amount not exceeding \$1,000,000 equivalent; (ii) goods, under contracts not exceeding \$100,000 equivalent; (iii) services of consulting firms, under contracts not exceeding \$100,000 equivalent; and (iv) 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 and the Guarantor in promoting viable private investment in rural areas and in strengthening, on a sustainable basis, the financial viability and institutional reform process of the Borrower so as to improve its development impact on the country's rural sector.

The Project consists of the following Parts, subject to such modifications thereof as the Bank and the Borrower may agree upon from time to time to achieve such objectives:

#### Part A: Credit Program

The financing, through the provision of Sub-loans, of:

1. investment projects of agricultural development enterprises to establish, upgrade, rehabilitate, develop, expand and enhance the efficiency of agriculture enterprises, agro-processing units and agro-industries;
2. agriculture investment projects of small, medium and large farmers, including, without limitation, investments in irrigation development, animal husbandry, tree farming, agricultural mechanization, silviculture plantation and water and soil conservation works;
3. investment projects of fishermen to acquire, equip, repair, upgrade and modernize fishing boats and develop the aquaculture;
4. investment projects of service cooperatives and medium-size enterprises aimed to establish and expand, inter alia, cold storage facilities and/or packaging plants of vegetables, fruits and fish;
5. investment projects designed to construct, expand, rehabilitate and modernize rural dwellings for farm families, agricultural laborers, rural women, and, in general, rural families, so as to improve their living conditions in rural areas; and
6. investment projects of artisans and women closely linked to rural areas activities to establish and develop entrepreneurial

activities in handicraft, cottage industries and other related suitable productive activities.

Part B: Borrower's Institutional Development

Carrying out of a program to strengthen the Borrower's financial viability and organizational structure, improve its management effectiveness through enhanced management tools, and facilitate the effective decentralization of its operations, including provision of training, data processing equipment and management information systems.

Part C: Informal Rural Finance and Group Lending Schemes

Carrying out of a study to assess the feasibility of group lending at the village level, including its risks, terms, conditions and debt recovery, and to define, on the basis thereof, an institutional framework suitable to promote mutual guarantee credit groups and credit unions at the village level.

\* \* \*

The Project is expected to be completed by March 31, 1999.

SCHEDULE 3

Amortization Schedule

Date Payment Due	Payment of Principal (expressed in dollars)*
On each of January 1 and July 1 beginning on January 1, 2001 and through January 1, 2012	2,710,000
and on July 1, 2012	2,670,000

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\*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

##### Implementation Program

The provisions of this Schedule shall apply for the purposes of Section 3.01 (b) of this Agreement.

##### Section A: Part A of the Project

The Borrower shall:

1. make Sub-loans in accordance with the criteria and procedures and on the terms and conditions set forth or referred to in the Annex to this Schedule;
2. exercise its rights in relation to each Investment Project in such manner as to: (i) protect the interests of the Bank and the Borrower; (ii) comply with its obligations under this Agreement; and (iii) achieve the purposes of the Project; and
3. appraise the Investment Projects and supervise, monitor, evaluate and report on, the carrying out by the Sub-borrowers of their respective Investment Projects, in accordance with policies and procedures satisfactory to the Bank.

##### Section B: Part B of the Project

In order to ensure the effective implementation of Part B of the Project, the Borrower shall:

1. introduce a cost-accounting system, which the Bank agrees is designed to suitably support the Borrower's regionalized structure, to determine the Borrower's financial operations per sector and per local/regional branch, and ensure that said system is fully operational not later than June 30, 1996;

2. prepare and furnish to the Bank, not later than November 30 in each Fiscal Year, a proposed training program, including, without limitation, training in impact assessments for staff of the Borrower's regional branches, which it proposes to carry out during the next following Fiscal Year, and, thereafter, carry out such training program for said next Fiscal Year as shall have been agreed upon between the Bank and the Borrower; and

3. (a) carry out, not later than December 31, 1995, a study to define a new strategic masterplan (schema directeur strategique) formulated on the basis of a multilevel planning process and which the Bank agrees is designed to improve the Borrower's strategic and business planning; and

(b) on the basis of the aforementioned masterplan, promptly develop and introduce an executive decision-making information and management control system (systeme de pilotage de management) to assist the Borrower in achieving its financial and operational targets, and ensure that said system is operational not later than December 31, 1996.

Section C: Assistance to the Guarantor under Part C of the Project

The Borrower shall assign a full-time technical coordinator, acceptable to the Bank, to lead the study to be carried out under Part C of the Project and who shall report to the Guarantor.

Section D: Mid-term Review

The Borrower shall:

(a) maintain policies and procedures adequate to enable it to monitor and evaluate on an ongoing basis, in accordance with the Action Plan and the Financial Performance Development Letter, the carrying out of the Parts A and 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 Guarantor and the Bank, by February 28, 1997, a report integrating the results of the monitoring and evaluation activities performed pursuant to paragraph (a) of this Section, on the progress achieved in the carrying out of Parts A and B of the Project during the period preceding the date of said report, with a special focus on: (i) the advancement made under Part B of the Project and the impact of the Project on the Borrower's development and sustainability; (ii) the Borrower's uses and sources of funds; (iii) a proposal consistent with the Action Plan to restructure (apurer) the Borrower's non-performing portfolio through write-off, consolidation, payment, rescheduling and enforced recovery; and (iv) any recommendation to update, as needed, the Action Plan; and setting out the measures undertaken in conjunction with the Guarantor under Part C of the Project and in the context of Sections 4.03, 4.04 and 4.06 of the Guarantee Agreement, and the measures recommended to ensure the efficient carrying out of the Project and the achievement of the objectives thereof during the period following such date; and

(c) review with the Guarantor and the Bank, by April 30, 1997, the report referred to in paragraph (b) of this Section, 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.

Section E: Project Monitoring

The Borrower shall:

(a) maintain operational procedures adequate to enable it to monitor and evaluate, in accordance with the Action Plan and the Financial Performance Development Letter, the carrying out of Parts A and B of the Project and any constraints hindering the achievement of the objectives of the Project;

(b) prepare and furnish to the Bank, not later than three (3) months after the end of each semester in each Fiscal Year beginning with the semester after the semester ending on June 30, 1995, a progress report, of such scope and in such detail as the Bank shall reasonably request, on the conclusions and recommendations resulting from the monitoring activities performed pursuant to paragraph (a) of this Section during the preceding semester, in particular: (i) commitments, prospective future disbursements, Sub-loan maturities and collection per category of Sub-borrower; (ii) contemplated changes in lending policies and procedures proposed to be introduced into its Medium Term Strategy and Credit Guidelines; (iii) the Borrower's financial results and revised financial projections; (iv) a summary statement breaking down loan collection (principal and interest) on payments due and on arrears on all of the Borrower's agricultural credit operations pursuant to the utilization of the cost-accounting system referred to in Section B.1 of this Schedule; (v) the utilization which the Borrower has made of the drought risk management scheme referred to in Section 4.06 of the Guarantee Agreement; (vi) any recommendation to update, as needed, the Action Plan; and (vii) any corrective action proposed for the following semester to further the progress of the Project; and

(c) afford the Bank a reasonable opportunity to exchange views on said reports, and, thereafter, undertake any measures agreed upon by the Bank and the Borrower to ensure the proper execution of the Project.

#### ANNEX TO SCHEDULE 4

##### Criteria, Procedures, and Principal Terms and Conditions of Sub-loans

1. Except as the Bank and the Borrower may otherwise agree, the criteria, procedures, and terms and conditions set forth in this Annex shall apply for the purposes of Section A.1 of Schedule 4 to this Agreement.

##### Eligibility Criteria

2. Each Sub-loan shall be made only to a Sub-borrower which, on the basis of guidelines satisfactory to the Bank, shall have established to the satisfaction of the Borrower: (i) its creditworthiness; and (ii) its ability to carry out the Investment Project, and to provide, promptly as needed, the funds, facilities, staff and other resources required for the efficient carrying out of its operations.

3. Each Sub-loan shall be made only for an Investment Project which, on the basis of appraisal procedures carried out in accordance with guidelines satisfactory to the Bank, including, as the case may be, the preparation of an environmental impact assessment approved by ANPE pursuant to the requirements of the Decree 91-362 and fulfillment of other applicable requirements determined by ANPE, is: (i) determined to be technically feasible and commercially, economically and financially viable; (ii) calculated to yield a suitable financial rate of return; and (iii) designed in accordance with appropriate safety, health and environment guidelines satisfactory to the Bank.

##### Terms

4. (a) The principal amount of each Sub-loan shall: (i) be the



amount in Tunisian dinars of amounts paid (or, if the Bank shall so agree, to be paid) by the Borrower on account of withdrawals made by a Sub-borrower under a Sub-loan 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 to be financed out of the proceeds of the Loan allocated from time to time to Categories (1) through (6); (ii) have a maturity from 5 to 15 years or the economic life of the Investment Project, whichever is shorter, including a grace period ranging from 1 to 5 years; and (iii) be made on other terms and conditions, including those relating to interest rate and other charges determined in accordance with the Borrower's investment and lending policies and practices which shall have been determined to be satisfactory to the Bank; provided, however, that the average lending interest rate and spread shall cover the average financial cost of the Borrower's resources plus the operating cost plus the credit risk.

(b) For the purposes of sub-paragraph 4 (a):

- (i) the term "average financial cost" means the weighted average financial cost of all resources of the Borrower;
- (ii) the term "Borrower's resources" means the Borrower's financial resources;
- (iii) the term "operating cost" means the administrative cost of the Borrower for its direct and indirect lending operations; and
- (iv) the term "credit risk" means the regulatory provisioning for credit risk.

5. Unless the Borrower may otherwise establish with the prior approval of the Bank, the amount of a Sub-loan shall not exceed: (i) 90% of the cost of each Investment Project to be carried out under Parts A.2 and A.3 of the Project, in the case the Sub-borrower is a small and medium farmer or a small fisherman, and under Parts A.4, A.5 and A.6 of the Project; and (ii) 70% of the cost of each Investment Project to be carried out under Part A.1 of the Project and under Parts A.2 and A.3 of the Project, in the case the Sub-borrower is a large farmer or a large fisherman.

#### Conditions

6. No expenditures for goods or services required for an Investment Project shall be eligible for financing out of the proceeds of the Loan unless:

(a) the Sub-loan for such Investment Project shall have been approved by the Bank and such expenditures shall have been made not earlier than one hundred twenty (120) days prior to the date on which the Bank shall have received the application and information required under paragraph 7 (a) of this Schedule in respect of such Sub-loan; or

(b) the Sub-loan for such Investment Project shall have been a free-limit Sub-loan for which the Bank has authorized withdrawals from the Loan Account and such expenditures shall have been made not earlier than one hundred eighty (180) days prior to the date on which the Bank shall have received the request and information required under paragraph 7 (b) of this Schedule in respect of such free-limit Sub-loan. For the purposes of this Agreement, a free-limit Sub-loan shall be: (i) a Sub-loan for an Investment Project to be carried out under Parts A.2, A.4, A.5 or A.6 of the Project; and (ii) a Sub-loan for an Investment Project to be carried out under Parts A.1 or A.3 of the Project in an amount to be financed out of the

proceeds of the Loan which shall not exceed the sum of \$1,000,000 equivalent, when added to any other outstanding amounts financed or proposed to be financed out of the proceeds of the Loan or of any other loan, provided for in any outstanding loan agreement between the Bank and the Borrower or the Guarantor entered into before the date of this Agreement, the proceeds of which have been or are being used for financing goods and services directly and materially related to such Investment Project, the foregoing amounts being subject to change from time to time as determined by the Bank.

#### Procedures

7. (a) When presenting a Sub-loan (other than a free-limit Sub-loan) to the Bank for approval, the Borrower shall furnish to the Bank an application, in form satisfactory to the Bank, together with (i) a description of the Sub-borrower and an appraisal of the Investment Project, including a description of the expenditures proposed to be financed out of the proceeds of the Sub-loan; (ii) the proposed terms and conditions of the Sub-loan, including the schedule of amortization of the Sub-loan; and (iii) such other information as the Bank shall reasonably request.

(b) Each request by the Borrower for authorization to make withdrawals from the Loan Account in respect of a free-limit Sub-loan shall contain such information as the Bank may reasonably request.

8. Sub-loans shall be made on terms whereby the Borrower shall obtain, by written contract with the Sub-borrower or by other appropriate legal means, rights adequate to protect the interests of the Bank and the Borrower, including the right to:

(a) require the Sub-borrower to carry out and operate the Investment Project with due diligence and efficiency and in accordance with sound technical, financial and managerial standards and to maintain adequate records;

(b) require that: (i) the goods and services to be financed out of the proceeds of the Loan shall be purchased at a reasonable price, account being taken also of other relevant factors such as time of delivery and efficiency and reliability of the goods and availability of maintenance facilities and spare parts therefor, and, in the case of services, of their quality and competence of the parties rendering them; and (ii) such goods and services shall be used exclusively in the carrying out of the Investment Project;

(c) inspect, by itself or jointly with representatives of the Bank if the Bank shall so request, such goods and the sites, works, plants and construction included in the Investment Project, the operation thereof, and any relevant records and documents;

(d) require that: (i) the Sub-borrower shall, as appropriate, take out and maintain with responsible insurers such insurance, against such risks and in such amounts, as shall be consistent with sound business practice; and (ii) without any limitation upon the foregoing, such insurance shall cover hazards incident to the acquisition, transportation and delivery of goods financed out of the proceeds of the Loan to the place of use or installation, any indemnity thereunder to be made payable in a currency freely usable by the Sub-borrower to replace or repair such goods;

(e) obtain all such information as the Bank or the Borrower shall reasonably request relating to the foregoing and to the administration, operations and financial condition of the Sub-borrower and to the benefits to be derived from the Investment Project;

(f) require the Sub-borrower to comply with any requirements and conditions for the protection of the environment as shall have been determined by the ANPE; and

(g) suspend or terminate the right of the Sub-borrower to the use of the proceeds of the Loan upon failure by such Sub-borrower to perform its obligations under its contract with the Borrower.

## SCHEDULE 5

### Procurement and Consultants' Services

#### Section I. Procurement of Goods

##### Part A: General

Goods for Part B of the Project shall be procured in accordance with the provisions of Section I of the "Guidelines for Procurement under IBRD Loans and IDA Credits" published by the Bank in January 1995 (the Guidelines) and the following provisions of this Section.

##### Part B: National Shopping

Goods for Part B of the Project shall be procured under contracts awarded on the basis of national shopping procedures in accordance with the provisions of paragraphs 3.5 and 3.6 of the Guidelines.

##### Part C: Review by the Bank of Procurement Decisions

Review of price quotations and of proposed and final contracts under Part B of the Project:

(a) The Borrower shall furnish to the Bank, promptly after its signing and prior to delivery to the Bank of the first application for withdrawal of funds from the Loan Account in respect of such contract, one (1) conformed copy of such contract, together with the analysis of the price quotations, recommendations to select a supplier and such other information as the Bank shall reasonably request. Where payments for the contract are to be made out of the Special Account, a copy of the contract, together with the other information required to be furnished to the Bank, shall be furnished to the Bank prior to delivery to the Bank of the first replenishment application in respect of such contract. The Bank shall, if it determines that the selection of the supplier or the contract itself is not consistent with the Loan Agreement, promptly inform the Borrower and state the reasons for such determination.

(b) The provisions of the preceding subparagraph (a) shall not apply to contracts on account of which withdrawals from the Loan are to be made on the basis of statements of expenditure, for which case all such documents shall be retained by the Borrower for subsequent examination by independent auditors and Bank supervision missions.

#### Section II. Employment of Consultants

1. Consultants' services for Part B of the Project shall be procured under contracts awarded in accordance with the provisions 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 (the Consultant Guidelines). For complex, time-based assignments, such contracts shall be based on the standard form of contract for consultants' services issued by the Bank, with such modifications thereto as shall have been agreed by the Bank. Where no relevant standard contract documents have been issued by the Bank, other standard forms acceptable to the Bank shall

be used.

2. Notwithstanding the provisions of paragraph 1 of this Section, the provisions of the Consultant Guidelines requiring prior Bank review or approval of budgets, short lists, selection procedures, letters of invitation, proposals, evaluation reports and contracts, shall not apply to: (i) contracts for the employment of consulting firms estimated to cost less than \$100,000 equivalent each; or (ii) contracts for the employment of individual consultants estimated to cost less than \$50,000 equivalent each. However, said exceptions to prior Bank review shall not apply to: (i) the terms of reference for such contracts; (ii) single-source selection of consulting firms; (iii) assignments of a critical nature, as reasonably determined by the Bank; (iv) amendments to contracts for the employment of consulting firms raising the contract value to \$100,000 equivalent or above; or (iv) amendments to contracts for the employment of individual consultants raising the contract value to \$50,000 equivalent or above.

#### SCHEDULE 6

##### Special Account

1. For the purposes of this Schedule:

(a) the term "eligible Categories" means Categories (1), (2), (3), (4), (5), (6), (7) and (8) 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 Parts A and B of 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, provided, however, that notwithstanding the provisions of paragraph 6 (b) of the Annex to Schedule 4 to this Agreement, payments for expenditures to be financed out of the proceeds of free limit Sub-loans may be made out of the Special Account before the Bank shall have authorized withdrawals from the Loan Account in respect thereof. Such expenditures, however, shall qualify as eligible expenditures only if the Bank shall subsequently authorize such withdrawals; and

(c) the term "Authorized Allocation" means an amount equivalent to \$6,500,000 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;

(b) if the Borrower shall have failed to furnish to the Bank, within the period of time specified in Section 4.02 (b) (ii) of this Agreement, any of the audit reports required to be furnished to the Bank pursuant to said Section in respect of the audit of the records and accounts for the Special Account;

(c) if, at any time, the Bank shall have notified the Borrower of its intention to suspend in whole or in part the right of the Borrower to make withdrawals from the Loan Account pursuant to the provisions of Section 6.02 of the General Conditions; or

(d) once the total unwithdrawn amount of the Loan allocated to the eligible Categories for Parts A and B 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 Parts A and B of 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 for Parts A and B 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.

#### SCHEDULE 7

##### Modifications of the General Conditions

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

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

(b) The second sentence of Section 5.01 is modified to read:

"Except as the Bank and the Borrower shall otherwise agree, no withdrawals shall be made: (a) on account of expenditures in the territories of any country which is not a member of the Bank or for goods produced in, or services supplied from, such territories; or (b) for the purpose of any payment to persons or entities, or for any import of goods, if such payment or import, to the knowledge of the Bank, is prohibited by a decision of the United Nations Security Council taken under Chapter VII of the Charter of the United Nations."

(c) 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."

