

CONFORMED COPY

LOAN NUMBER 7696-TN

Loan Agreement

(Integration and Competitiveness Development Policy Loan)

between

REPUBLIC OF TUNISIA

and

**INTERNATIONAL BANK FOR RECONSTRUCTION
AND DEVELOPMENT**

Dated May 11, 2009

LOAN AGREEMENT

Agreement dated May 11 2009, entered into between REPUBLIC OF TUNISIA (“Borrower”) and INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT (“Bank”) for the purpose of providing financing in support of the Program (as defined in the Appendix to this Agreement). The Bank has decided to provide this financing on the basis, inter alia, of (a) the actions which the Borrower has already taken under the Program and which are described in Section I.A of Schedule 1 to this Agreement, and (b) the Borrower’s maintenance of an appropriate macro-economic policy framework. The Borrower and the Bank therefore hereby agree as follows:

ARTICLE I - GENERAL CONDITIONS; DEFINITIONS

- 1.01. The General Conditions (as defined in the Appendix to this Agreement) constitute an integral part of this Agreement.
- 1.02. Unless the context requires otherwise, the capitalized terms used in this Agreement have the meanings ascribed to them in the General Conditions or in the Appendix to this Agreement.

ARTICLE II - LOAN

- 2.01. The Bank agrees to lend to the Borrower, on the terms and conditions set forth or referred to in this Agreement, the amount of two hundred and fifty million Dollars (USD 250,000,000), as such amount may be converted from time to time through a Currency Conversion in accordance with the provisions of Section 2.07 of this Agreement (“Loan”).
- 2.02. The Borrower may withdraw the proceeds of the Loan in support of the Program in accordance with Section II of Schedule 1 to this Agreement.
- 2.03. The Front-end Fee payable by the Borrower shall be equal to one quarter of one percent (0.25%) of the Loan amount.
- 2.04. The interest payable by the Borrower for each Interest Period shall be at a rate equal to LIBOR for the Loan Currency plus the Variable Spread; provided, that upon a Conversion of all or any portion of the principal amount of the Loan, the interest payable by the Borrower during the Conversion Period on such amount shall be determined in accordance with the relevant provisions of Article IV of the General Conditions. Notwithstanding the foregoing, if any amount of the Withdrawn Loan Balance remains unpaid when due and such non-payment continues for a period of thirty (30) days, then the interest payable by the

Borrower shall instead be calculated as provided in Section 3.02 (d) of the General Conditions.

- 2.05. The Payment Dates are January 15 and July 15 in each year.
- 2.06. The principal amount of the Loan shall be repaid in accordance with the amortization schedule set forth in Schedule 2 to this Agreement.
- 2.07. (a) The Borrower may at any time request any of the following Conversions of the terms of the Loan in order to facilitate prudent debt management: (i) a change of the Loan Currency of all or any portion of the principal amount of the Loan, withdrawn or unwithdrawn, to an Approved Currency; (ii) a change of the interest rate basis applicable to all or any portion of the principal amount of the Loan withdrawn and outstanding from a Variable Rate to a Fixed Rate, or vice versa; and (iii) the setting of limits on the Variable Rate applicable to all or any portion of the principal amount of the Loan withdrawn and outstanding by the establishment of an Interest Rate Cap or Interest Rate Collar on the Variable Rate.
- (b) Any conversion requested pursuant to paragraph (a) of this Section that is accepted by the Bank shall be considered a “Conversion”, as defined in the General Conditions, and shall be effected in accordance with the provisions of Article IV of the General Conditions and of the Conversion Guidelines.
- 2.08. Without limitation upon the provisions of Section 5.08 of the General Conditions (renumbered as such pursuant to paragraph 4 of Section II of the Appendix to this Agreement and relating to *Cooperation and Consultation*), the Borrower shall promptly furnish to the Bank such information relating to the provisions of this Article II as the Bank may, from time to time, reasonably request.

ARTICLE III - PROGRAM

- 3.01 The Borrower declares its commitment to the Program and its implementation. To this end, and further to Section 5.08 of the General Conditions:
- (a) the Borrower and the Bank shall from time to time, at the request of either party, exchange views on the progress achieved in carrying out the Program and the actions specified in Section I of Schedule 1 to this Agreement;
- (b) prior to each such exchange of views, the Borrower shall furnish to the Bank for its review and comment a report on the progress achieved in

carrying out the Program, in such detail as the Bank shall reasonably request; and

- (c) without limitation upon the provisions of paragraphs (a) and (b) of this Section, the Borrower shall promptly inform the Bank of any situation that would have the effect of materially reversing the objectives of the Program or any action taken under the Program including any action specified in Section I of Schedule 1 to this Agreement.

ARTICLE IV - REMEDIES OF THE BANK

- 4.01. The Additional Event of Suspension consists of the following, namely that a situation has arisen which shall make it improbable that the Program, or a significant part of it, will be carried out.
- 4.02. The Additional Event of Acceleration consists of the following, namely that the event specified in Section 4.01 of this Agreement occurs and is continuing for a period of sixty (60) days after notice of the event has been given by the Bank to the Borrower.

ARTICLE V - TERMINATION

- 5.01. The Effectiveness Deadline is the date one hundred and twenty (120) days after the date of this Agreement.

ARTICLE VI - REPRESENTATIVE; ADDRESSES

- 6.01. The Borrower's Representative is the Minister of Development and International Cooperation.
- 6.02. The Borrower's Address is:

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

Cable Address	Telex:	Facsimile:
MCCIIE	18060	216-71-351666/ 216-71-799069

- 6.03. The Bank's Address is:

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)	1-202-477-6391

AGREED at Tunis, Republic of Tunisia, as of the day and year first above written.

REPUBLIC OF TUNISIA

By /s/ Mohamed Nouri Jouini
Authorized Representative

INTERNATIONAL BANK FOR
RECONSTRUCTION AND DEVELOPMENT

By /s/ Mats Karlsson
Authorized Representative

SCHEDULE 1

Program Actions; Availability of Loan Proceeds

Section I. Actions under the Program

A. Actions Taken Under the Program. The actions taken by the Borrower under the Program include the following:

1. The Borrower's budget law for 2009 which revised the Customs tariff regime by reducing the number of Customs tariff rates from 9 to 6, including the tariff rate "zero", has been enacted.
2. The Inter-Ministerial Council has adopted a draft law related to standards and quality norms applicable to all products imported or utilized in the Borrower's territory, consistent with international best practices.
3. The Inter-Ministerial Council has adopted a draft Decree amending the Decree No. 2006-1826 dated June 26, 2006 regarding NCS, in order to: (i) mandate NCS to prepare a strategy for services development; (ii) formalize the creation of thematic commissions within NCS; and (iii) strengthen the role of the Permanent Secretariat of NCS through the establishment of a performance-based budgeting unit.
4. The Inter-Ministerial Council has adopted a draft Law amending the Law No. 95-44 dated May 2, 1995 regarding the Registry of Commerce, in order to ensure an effective updating of the information contained in such Registry.
5. The Inter-Ministerial Council has adopted a draft law amending the Urban and Regional Development Code (Code de l'aménagement du territoire et de l'urbanisme), in order to reduce the time necessary for businesses to acquire industrial land.
6. The Law No. 2008-78 dated December 22, 2008 has been enacted. Such Law amends the Law No. 88-92 dated August 2, 1988 regarding venture capital companies (Sociétés d'Investissement à Capital Risque), and mutual venture funds (Fonds Communs de Placement à risque), in order to: (i) encourage venture capital companies' risk taking by eliminating pre-determined exit conditions and basing exit from financed projects on the performance of the venture capital company at the time of the exit; (ii) simplify taxation of venture capital companies; (iii) encourage venture capital companies to invest in regional development areas; and (iv) eliminate the requirement that mutual venture funds must liberate the totality of the subscribed funds in order to benefit from tax exemption.

B. Actions to be Taken Under the Program. The actions to be taken by the Borrower under the Program include the following:

1. The Borrower's budget law for 2010 which shall revise the Customs tariff regime by reducing the number of Customs tariff rates from 6 to 5, including the tariff rate "zero", shall be enacted.
2. The Ministry of Commerce shall put in place a system of selective management of imports control based on the risks presented by the imported products and the importers in order to allow speedier controls for non-risks products and importers.
3. The Customs Authorities and the Rades Port Authorities shall make the first one-stop trade control procedures office (guichet unique) at Rades Port operational and the Ministry of Transport shall make the electronic platform (liasse transport) which shall connect all operators in the transport chain operational.
4. The Inter-Ministerial Council shall adopt an action plan to reform the regulatory framework of the services sectors, to be prepared on the basis of a regulatory assessment to be carried out by NCS.
5. The Prime Minister shall sign an executive order (arrêté) reducing by half the number of activities where operators are required to obtain a prior authorization in order to start their businesses.
6. The Inter-Ministerial Council shall adopt an action plan for the establishment of a unique common identification number for businesses to be used by the National Statistics Institute, the tax authorities and the social security authorities, based on a feasibility study to be conducted with the support of the Bank.
7. The Competition Council shall be requested by the relevant sector Ministries to conduct a regulatory and competition assessment of businesses in two new sectors within the services sector.
8. The Central Bank of Tunisia shall publish statistics for 2010 that shall show a decrease in the rate of non-performing loans to fifteen percent (15%), and an increase in provisioning of non-performing loans to seventy percent (70%).
9. The Stock Market shall publish its annual reports that shall show an increase of the stock market capitalization to at least twenty percent (20%) of the Borrower's Gross Domestic Product, due in particular to the increased number of privatizations implemented through the stock market.

10. The Borrower shall adopt institutional and regulatory provisions in order to improve the performance of the Borrower's micro-finance market, to be adopted on the basis of a study to be carried out by the Ministry of Finance.

Section II. Availability of Loan Proceeds

- A. General.** The Borrower may withdraw the proceeds of the Loan in accordance with the provisions of this Section and such additional instructions as the Bank may specify by notice to the Borrower.
- B. Allocation of Loan Amounts.** The Loan shall (except for amounts required to pay the Front-end Fee) be withdrawn in two tranches. The allocation of the amounts of the Loan to this end is set out in the table below:

Allocations	Amount of the Loan Allocated (expressed in Dollar)
First Tranche	125,000,000
Second Tranche	124,375,000
Front-end Fee	625,000
TOTAL AMOUNT	250,000,000

- C. Tranche Release Conditions.** No withdrawal shall be made of the Second Tranche unless the Bank is satisfied, after an exchange of views as described in Sections 3.01 (a) and (b) of this Agreement based on evidence satisfactory to the Bank:
1. with the progress achieved by the Borrower in carrying out the Program;
 2. that the macroeconomic policy framework of the Borrower is appropriate; and
 3. that the actions described in Part B of Section I of this Schedule have been taken and are satisfactory to the Bank.

If, after this exchange of views, the Bank is not so satisfied, it may give notice to the Borrower to that effect and, if within one hundred and twenty (120) days after the notice, the Borrower has not taken steps satisfactory to the Bank, with respect to paragraphs 1, 2 and 3 above, then the Bank may, by notice to the Borrower, cancel all or any part of the Unwithdrawn Loan Balance.

- D. Deposits of Loan Amounts.** Except as the Bank may otherwise agree:
1. all withdrawals from the Loan Account shall be deposited by the Bank into an account designated by the Borrower and acceptable to the Bank; and
 2. the Borrower shall ensure that upon each deposit of an amount of the Loan into this account, an equivalent amount is accounted for in the Borrower's budget management system, in a manner acceptable to the Bank.
- E. Excluded Expenditures.** The Borrower undertakes that the proceeds of the Loan shall not be used to finance Excluded Expenditures. If the Bank determines at any time that an amount of the Loan was used to make a payment for an Excluded Expenditure, the Borrower shall, promptly upon notice from the Bank, refund an amount equal to the amount of such payment to the Bank. Amounts refunded to the Bank upon such request shall be cancelled.
- G. Closing Date.** The Closing Date is June 30, 2011.

SCHEDULE 2**Amortization Schedule**

1. The following table sets forth the Principal Payment Dates of the Loan and the percentage of the total principal amount of the Loan payable on each Principal Payment Date (“Installment Share”). If the proceeds of the Loan have been fully withdrawn as of the first Principal Payment Date, the principal amount of the Loan repayable by the Borrower on each Principal Payment Date shall be determined by the Bank by multiplying: (a) Withdrawn Loan Balance as of the first Principal Payment Date; by (b) the Installment Share for each Principal Payment Date, such repayable amount to be adjusted, as necessary, to deduct any amounts referred to in paragraph 4 of this Schedule, to which a Currency Conversion applies.

Principal Payment Date	Installment Share (Expressed as a Percentage)
15 July 2015	2.00
15 January 2016	2.50
15 July 2016	2.50
15 January 2017	2.00
15 July 2017	0.00
15 January 2018	3.00
15 July 2018	4.00
15 January 2019	4.00
15 July 2019	4.00
15 January 2020	0.00
15 July 2020	0.00
15 January 2021	2.00
15 July 2021	2.00
15 January 2022	1.00
15 July 2022	0.00
15 January 2023	3.00
15 July 2023	4.00
15 January 2024	4.00
15 July 2024	4.00
15 January 2025	3.00
15 July 2025	3.00
15 January 2026	3.00
15 July 2026	3.00
15 January 2027	0.00
15 July 2027	0.00
15 January 2028	2.00
15 July 2028	3.00

15 January 2029	3.00
15 July 2029	2.00
15 January 2030	1.00
15 July 2030	0.00
15 January 2031	0.00
15 July 2031	2.00
15 January 2032	3.00
15 July 2032	3.00
15 January 2033	0.00
15 July 2033	0.00
15 January 2034	2.00
15 July 2034	3.00
15 January 2035	2.00
15 July 2035	2.00
15 January 2036	2.50
15 July 2036	3.00
15 January 2037	2.00
15 July 2037	2.00
15 January 2038	2.00
15 July 2038	2.00
15 January 2039	2.50

2. If the proceeds of the Loan have not been fully withdrawn as of the first Principal Payment Date, the principal amount of the Loan repayable by the Borrower on each Principal Payment Date shall be determined as follows:
- (a) To the extent that any proceeds of the Loan have been withdrawn as of the first Principal Payment Date, the Borrower shall repay the Withdrawn Loan Balance as of such date in accordance with paragraph 1 of this Schedule.
 - (b) Any amount withdrawn after the first Principal Payment Date shall be repaid on each Principal Payment Date falling after the date of such withdrawal in amounts determined by the Bank by multiplying the amount of each such withdrawal by a fraction, the numerator of which is the original Installment Share specified in the table in paragraph 1 of this Schedule for said Principal Payment Date (“Original Installment Share”) and the denominator of which is the sum of all remaining Original Installment Shares for Principal Payment Dates falling on or after such date, such amounts repayable to be adjusted, as necessary, to deduct any amounts referred to in paragraph 4 of this Schedule, to which a Currency Conversion applies.

3. (a) Amounts of the Loan withdrawn within two calendar months prior to any Principal Payment Date shall, for the purposes solely of calculating the principal amounts payable on any Principal Payment Date, be treated as withdrawn and outstanding on the second Principal Payment Date following the date of withdrawal and shall be repayable on each Principal Payment Date commencing with the second Principal Payment Date following the date of withdrawal.
 - (b) Notwithstanding the provisions of sub-paragraph (a) of this paragraph, if at any time the Bank adopts a due date billing system under which invoices are issued on or after the respective Principal Payment Date, the provisions of such sub-paragraph shall no longer apply to any withdrawals made after the adoption of such billing system.
4. Notwithstanding the provisions of paragraphs 1 and 2 of this Schedule, upon a Currency Conversion of all or any portion of the Withdrawn Loan Balance to an Approved Currency, the amount so converted in the Approved Currency that is repayable on any Principal Payment Date occurring during the Conversion Period, shall be determined by the Bank by multiplying such amount in its currency of denomination immediately prior to the Conversion by either: (i) the exchange rate that reflects the amounts of principal in the Approved Currency payable by the Bank under the Currency Hedge Transaction relating to the Conversion; or (ii) if the Bank so determines in accordance with the Conversion Guidelines, the exchange rate component of the Screen Rate.
5. If the Withdrawn Loan Balance is denominated in more than one Loan Currency, the provisions of this Schedule shall apply separately to the amount denominated in each Loan Currency, so as to produce a separate amortization schedule for each such amount.

APPENDIX

Section I. Definitions

1. “Excluded Expenditure” means any expenditure:
- (a) for goods or services supplied under a contract which any national or international financing institution or agency other than the Bank or the Association has financed or agreed to finance, or which the Bank or the Association has financed or agreed to finance under another loan, credit, or grant;
 - (b) for goods included in the following groups or sub-groups of the Standard International Trade Classification, Revision 3 (SITC, Rev.3), published by the United Nations in Statistical Papers, Series M, No. 34/Rev.3 (1986) (the SITC), or any successor groups or subgroups under future revisions to the SITC, as designated by the Bank by notice to the Borrower:

Group	Sub-group	Description of Item
112		Alcoholic beverages
121		Tobacco, un-manufactured, tobacco refuse
122		Tobacco, manufactured (whether or not containing tobacco substitutes)
525		Radioactive and associated materials
667		Pearls, precious and semiprecious stones, unworked or worked
718	718.7	Nuclear reactors, and parts thereof; fuel elements (cartridges), non-irradiated, for nuclear reactors
728	728.43	Tobacco processing machinery
897	897.3	Jewelry of gold, silver or platinum group metals (except watches and watch cases) and goldsmiths’ or silversmiths’ wares (including set gems)

971		Gold, non-monetary (excluding gold ores and concentrates)
-----	--	--

- (c) for goods intended for a military or paramilitary purpose or for luxury consumption;
 - (d) for environmentally hazardous goods, the manufacture, use or import of which is prohibited under the laws of the Borrower or international agreements to which the Borrower is a party;
 - (e) on account of any payment prohibited by a decision of the United Nations Security Council taken under Chapter VII of the Charter of the United Nations; and
 - (f) with respect to which the Bank determines that corrupt, fraudulent, collusive or coercive practices were engaged in by representatives of the Borrower or other recipient of the Loan proceeds, without the Borrower (or other such recipient) having taken timely and appropriate action satisfactory to the Bank to address such practices when they occur.
2. “First Tranche” means the amount of the Loan allocated to the category entitled “First Tranche” in the table set forth in Part B of Section II of Schedule 1 to this Agreement.
 3. “General Conditions” means the “International Bank for Reconstruction and Development General Conditions for Loans”, dated July 1, 2005 (as amended through February 12, 2008) with the modifications set forth in Section II of this Appendix.
 4. “NCS” means the Borrower’s National Council of Services, established and operating pursuant to Decree No. 2006-1826 dated June 26, 2006.
 5. “Program” means the program of actions, objectives and policies designed to enhance integration and competitiveness in order to promote growth and reduce unemployment, and set forth or referred to in the letter dated February 17, 2009 from the Borrower to the Bank declaring the Borrower’s commitment to the execution of the Program, and requesting assistance from the Bank in support of the Program during its execution.
 6. “Second Tranche” means the amount of the Loan allocated to the category entitled “Second Tranche” in the table set forth in Part B of Section II of Schedule 1 to this Agreement.

Section II. Modifications to the General Conditions

The modifications to the General Conditions are as follows:

1. The last sentence of paragraph (a) of Section 2.03 (relating to Applications for Withdrawal) is deleted in its entirety.
2. Sections 2.04 (*Designated Accounts*) and 2.05 (*Eligible Expenditures*) are deleted in their entirety, and the remaining Sections in Article II are renumbered accordingly.
3. Paragraph (a) of Section 2.05 (renumbered as such pursuant to paragraph 2 above) is modified to read as follows:

“Section 2.05. *Refinancing Preparation Advance; Capitalizing Front-end Fee and Interest*

(a) If the Loan Agreement provides for the repayment out of the proceeds of the Loan of an advance made by the Bank or the Association (“Preparation Advance”), the Bank shall, on behalf of such Loan Party, withdraw from the Loan Account on or after the Effective Date the amount required to repay the withdrawn and outstanding balance of the advance as at the date of such withdrawal from the Loan Account and to pay all accrued and unpaid charges, if any, on the advance as at such date. The Bank shall pay the amount so withdrawn to itself or the Association, as the case may be, and shall cancel the remaining unwithdrawn amount of the advance.”

4. Sections 5.01 (*Project Execution Generally*), and 5.09 (*Financial Management; Financial Statements; Audits*) are deleted in their entirety, and the remaining Sections in Article V are renumbered accordingly.
5. Paragraph (a) of Section 5.05 (renumbered as such pursuant to paragraph 4 above and relating to *Use of Goods, Works and Services*) is deleted in its entirety.
6. Paragraph (c) of Section 5.06 (renumbered as such pursuant to paragraph 4 above) is modified to read as follows:

“Section 5.06. *Plans; Documents; Records*

... (c) The Borrower shall retain all records (contracts, orders, invoices, bills, receipts and other documents) evidencing expenditures under the Loan until two years after the Closing Date. The Borrower shall enable the Bank’s representatives to examine such records.”

7. Paragraph (c) of Section 5.07 (renumbered as such pursuant to paragraph 4 above) is modified to read as follows:

“Section 5.07. Program Monitoring and Evaluation

... (c) The Borrower shall prepare, or cause to be prepared, and furnish to the Bank not later than six months after the Closing Date, a report of such scope and in such detail as the Bank shall reasonably request, on the execution of the Program, the performance by the Loan Parties and the Bank of their respective obligations under the Legal Agreements and the accomplishment of the purposes of the Loan.”

8. The following terms and definitions set forth in the Appendix are modified or deleted as follows, and the following new terms and definitions are added in alphabetical order to the Appendix as follows, with the terms being renumbered accordingly:

- (a) The definition of the term “Conversion Date” is modified to read as follows:

“‘Conversion Date’ means, in respect of a Conversion, the Execution Date (as herein defined) or such other date as requested by the Borrower and accepted by the Bank, on which the Conversion enters into effect, and as further specified in the Conversion Guidelines.”

- (b) The definition of the term “Eligible Expenditure” is modified to read as follows:

“‘Eligible Expenditure’ means any use to which the Loan is put in support of the Program, other than to finance expenditures excluded pursuant to the Loan Agreement.”

- (c) The term “Financial Statements” and its definition are deleted in their entirety.

- (d) The term “Project” is modified to read “Program” and its definition is modified to read as follows (and all references to “Project” throughout these General Conditions are deemed to be references to “Program”):

“‘Program’ means the program referred to in the Loan Agreement in support of which the Loan is made.”

- (e) The term “Program Preparation Advance” (renamed as such pursuant to subparagraph 8 (d) above) is modified to read “Preparation Advance” and its definition is modified to read as follows:

“‘Preparation Advance’ means the advance referred to in the Loan Agreement and repayable in accordance with Section 2.07.”