

CONFORMED COPY

LOAN NUMBER 4175 TUN

Loan Agreement

(Greater Tunis Sewerage and Re-use Project)

between

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

and

OFFICE NATIONAL DE L'ASSAINISSEMENT

Dated December 19, 1997

LOAN NUMBER 4175 TUN

LOAN AGREEMENT

AGREEMENT, dated December 19, 1997, between the INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT (the Bank) and the OFFICE NATIONAL DE L'ASSAINISSEMENT (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) Part B of the Project will be carried out by the Guarantor with the Bank's assistance and, as part of such assistance, the Bank has agreed to make available a loan to the Guarantor in an amount equal to fifty-seven million French Francs (FRF57,000,000) to assist in financing part of the cost of Part B of the Project on the terms and conditions set forth in a loan agreement of even date herewith (the Republic of Tunisia Loan Agreement, as further defined in Section 1.02 (h) of this Agreement); 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; Definitions

Section 1.01. The "General Conditions Applicable to Loan and Guarantee Agreements for Single Currency Loans" of the Bank, dated May 30, 1995, with the modification set forth below (the General Conditions) constitute an integral part of this Agreement:

Section 6.03 is modified to read:

"Section 6.03. Cancellation by the Bank. If (a) the right of the Borrower to make withdrawals from the Loan Account shall have been suspended with respect to any amount of the Loan for a continuous period of thirty days, or (b) at any time, the Bank determines, after consultation with the Borrower, that an amount of the Loan will not be required to finance the Project's costs to be financed out of the proceeds of the Loan, or (c) at any time, the Bank determines, with respect to any contract to be financed out of the proceeds of the Loan, that corrupt or fraudulent practices were engaged in by representatives of the Borrower or of a beneficiary of the Loan during the procurement or the execution of such contract, without the Borrower having taken timely and appropriate action satisfactory to the Bank to remedy the situation, and establishes the amount of expenditures in respect of such contract which would otherwise have been eligible for financing out of the proceeds of the Loan, or (d) at any time, the Bank determines that the procurement of any contract to be financed out of the proceeds of the Loan is inconsistent with the procedures set forth or referred to in the Loan Agreement and establishes the amount of expenditures in respect of such contract which would otherwise have been eligible for financing out of the proceeds of the Loan, or (e) after the Closing Date, an amount of the Loan shall remain unwithdrawn from the Loan Account, or (f) the Bank shall have received notice from the Guarantor pursuant to Section 6.07 with respect to an amount of the Loan, the Bank may, by notice to the Borrower and the Guarantor, terminate the right of the Borrower to make withdrawals with respect to such amount. Upon the giving of such notice, such amount of the Loan shall be cancelled."

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) "Category" means a category of items to be financed out of the proceeds of the Loan, as set forth in the table in paragraph 1 to this Agreement; and the term "Categories" means more than one Category collectively;

(b) "Basic Legislation" means the Guarantor's Law No. 74-73 dated August 3, 1974, as amended and completed by the Guarantor's Law No. 93-41 dated April 19, 1993, and its implementation Decree No. 95-1139 dated June 28, 1995, pursuant to which the Borrower has been established and is operating as an industrial and commercial public institution (établissement public à caractère industriel et commercial);

(c) "Performance Indicators" means the agreed performance indicators set forth in a letter of even date herewith to be utilized by the Borrower to measure the progress in the carrying out of Part A of the Project and the degree to which the objectives thereof are being achieved;

(d) "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;

(e) "French Franc" and "FRF" means each the lawful currency of the Republic of France;

(f) "Performance Contract" means the agreement (contrat-programme) between the Guarantor and the Borrower setting forth reciprocal undertakings designed to

enable the Guarantor and the Borrower to achieve certain financial, investment and operational targets during Fiscal Years 1997 through 2001; and

(g) "Republic of Tunisia Loan Agreement" means the loan agreement of even date herewith between the Republic of Tunisia and the Bank for the Project (Loan No. 4174 TUN).

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, an amount equal to two hundred eighty-three million French Francs (FRF283,000,000).

Section 2.02. The amount of the Loan may be withdrawn from the Loan Account in accordance with the provisions of Schedule 1 to this Agreement for expenditures made (or, if the Bank shall so agree, to be made) in respect of the reasonable cost of goods, works and services required for Part A of the Project and to be financed out of the proceeds of the Loan.

Section 2.03. The Closing Date shall be December 31, 2004, 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 percent ($3/4$ of 1%) per annum on the principal amount of the Loan not withdrawn from time to time.

Section 2.05. The Borrower shall pay interest on the principal amount of the Loan withdrawn and outstanding from time to time in accordance with the provisions of Schedule 3 to this Agreement.

Section 2.06. Interest and other charges shall be payable in arrears on February 15 and August 15 in each year.

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

ARTICLE III

Execution of the Part A 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 carry out Part A of the Project with due diligence and efficiency and in conformity with appropriate administrative, economic, engineering, environmental, financial, technical and waste water practices, and shall provide, promptly as needed, the funds, facilities, services and other resources required for Part A of the Project.

(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 Part A of the Project in accordance with the Implementation Program set forth in Schedule 5 to this Agreement.

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

Section 3.03. For the purposes of Section 9.08 of the General Conditions and without limitation thereto, 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 Part A of the Project; and

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

Section 3.04. The Borrower shall, at all times: (i) carry out the Performance Contract with due diligence and efficiency and take all action necessary to achieve the targets and objectives therein set forth; and (ii) duly perform its obligations under the Performance Contract and, except as the Guarantor, the Borrower and the Bank may otherwise agree, not take or concur in any action which would have the effect of amending, abrogating, assigning or waiving said Performance Contract or any provision thereof.

Section 3.05. The Borrower shall carry on its operations and conduct its affairs in accordance with sound administrative, economic, engineering, environmental, financial, public utility, technical and waste water practices under the supervision of qualified and experienced management assisted by competent staff in adequate numbers.

Section 3.06. The Borrower shall at all times operate and maintain its plant, machinery, equipment and other property, and from time to time, promptly as needed, make all necessary repairs and renewals thereof, all in accordance with sound engineering, environmental, financial, sewerage, technical and water practices.

Section 3.07. The Borrower shall take out and maintain with responsible insurers insurance against such risks and in such amounts as shall be consistent with appropriate practice.

ARTICLE IV

Financial Covenants

Section 4.01. (a) The Borrower shall maintain records and accounts adequate to reflect in accordance with sound accounting practices its operations and financial condition.

(b) The Borrower 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 appropriate auditing principles consistently applied, by independent auditors acceptable to the Bank;

(ii) furnish to the Bank as soon as available, but in any case not later than seven (7) months after the end of each such Year: (A) certified copies of its 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 said records, accounts and financial statements as well as the audit thereof, as the Bank shall from time to time reasonably request.

(c) For all expenditures with respect to which withdrawals from the Loan Account were made on the basis of statements of expenditure, the Borrower shall:

(i) maintain or cause to be maintained, in accordance with paragraph (a) of this Section, records and accounts reflecting such expenditures;

(ii) retain, until at least one (1) year after the Bank has received the audit report for the Fiscal Year in which the last withdrawal from the Loan Account was made, all records (contracts, orders, invoices, bills, receipts and other documents) evidencing such expenditures;

(iii) enable the Bank's representatives to examine such records;
and

(iv) ensure that such records and accounts are included in the annual audit referred to in paragraph (b) of this Section and that the report of such audit contains a separate opinion by said auditors as to whether the statements of expenditure submitted during such Fiscal Year, together with the procedures and internal controls involved in their preparation, can be relied upon to support the related withdrawals.

Section 4.02. (a) Except as the Bank may otherwise agree, the Borrower shall not incur any debt unless a reasonable forecast of the revenues and expenditures of the Borrower shows that the estimated net revenues of the Borrower for each Fiscal Year during the term of the debt to be incurred shall be at least one point three (1.3) times the estimated debt service requirements of the Borrower in such year on all debt of the Borrower including the debt to be incurred.

(b) For the purposes of this Section:

(i) The term "debt" means any indebtedness of the Borrower maturing by its terms more than one (1) year after the date on which it is originally incurred.

(ii) Debt shall be deemed to be incurred: (A) under a loan contract or agreement or other instrument providing for such debt or for the modification of its terms of payment on the date of such contract, agreement or instrument; and (B) under a guarantee agreement, on the date the agreement providing for such guarantee has been entered into.

(iii) The term "net revenues" means the difference between:

(A) the sum of revenues from all sources related to operations and net non-operating income; and

(B) the sum of all expenses related to operations including administration, adequate maintenance, taxes and payments in lieu of taxes, but excluding provision for depreciation, other non-cash operating charges and interest and other charges on debt.

(iv) The term "net non-operating income" means the difference between:

(A) revenues from all sources other than those related to operations; and

(B) expenses, including taxes and payments in lieu of taxes, incurred in the generation of revenues in (A)

above.

(v) The term "debt service requirements" means the aggregate amount of repayments (including sinking fund payments, if any) of, and interest and other charges on, debt.

(vi) The term "reasonable forecast" means a forecast prepared by the Borrower not earlier than twelve (12) months prior to the incurrence of the debt in question, which both the Bank and the Borrower accept as reasonable and as to which the Bank has notified the Borrower of its acceptability, provided that no event has occurred since such notification which has, or may reasonably be expected in the future to have, a material adverse effect on the financial condition or future operating results of the Borrower.

(vii) Whenever for the purposes of this Section it shall be necessary to value, in terms of the currency of the Guarantor, debt payable in another currency, such valuation shall be made on the basis of the prevailing lawful rate of exchange at which such other currency is, at the time of such valuation, obtainable for the purposes of servicing such debt, or, in the absence of such rate, on the basis of a rate of exchange acceptable to the Bank.

Section 4.03. (a) Except as the Bank shall otherwise agree, the Borrower shall generate, for each of its Fiscal Years after its Fiscal Year ending on December 31, 1997, funds from internal sources equivalent to not less than thirty percent (30%) of the annual average of the Borrower's capital expenditures incurred, or expected to be incurred, for that year and the two (2) next following Fiscal Years.

(b) Before November 30 in each of its Fiscal Years, the Borrower shall, on the basis of forecasts prepared by the Borrower and satisfactory to the Bank, review whether it would meet the requirements set forth in paragraph (a) in respect of such year and the two (2) next following Fiscal Years and shall furnish to the Bank a copy of such review upon its completion.

(c) If any such review shows that the Borrower would not meet the requirements set forth in paragraph (a) for the Borrower's Fiscal Years covered by such review, the Borrower shall promptly take all necessary measures (including, without limitation, adjustments of the structure or levels of its sewerage tariffs) in order to meet such requirements.

(d) For the purposes of this Section:

(i) The term "funds from internal sources" means the difference between:

(A) the sum of revenues from all sources related to operations, consumer deposits and consumer contributions in aid of construction, net income and any reduction in working capital other than cash; and

(B) the sum of all expenses related to operations, including administration, adequate maintenance and taxes and payments in lieu of taxes (excluding depreciation and other non-cash operating charges), debt service requirements, all cash dividends and other cash distributions of surplus, increase in working capital other than cash and other cash outflows other than capital expenditures.

(ii) The term "net non-operating income" means the difference between:

(A) revenue from all sources other than those related to operations; and

(B) expenses, including taxes and payments in lieu of taxes, incurred in the generation of revenues in (A) above.

(iii) The term "working capital other than cash" means the difference between current assets excluding cash and current liabilities at the end of each Fiscal Year.

(iv) The term "current assets excluding cash" means all assets other than cash which could in the ordinary course of business be converted into cash within twelve (12) months, including accounts receivable, marketable securities, inventories and pre-paid expenses properly chargeable to operating expenses within the next Fiscal Year.

(v) The term "current liabilities" means all liabilities which will become due and payable or could under circumstances then existing be called for payment within twelve (12) months, including accounts payable, customer advances, debt service requirements, taxes and payments in lieu of taxes, and dividends.

(vi) The term "debt service requirements" means the aggregate amount of repayments (including sinking fund payments, if any) of, and interest and other charges on, debt.

(vii) The term "capital expenditures" means all expenditures on account of fixed assets, including interest charged to construction, related to operations.

(viii) Whenever for the purposes of this Section it shall be necessary to value, in terms of the currency of the Guarantor, debt payable in another currency, such valuation shall be made on the basis of the prevailing lawful rate of exchange at which such other currency is, at the time of such valuation, obtainable for the purposes of servicing such debt, or, in the absence of such rate, on the basis of a rate of exchange acceptable to the Bank.

Section 4.04. The Borrower agrees, within the limits of its prerogatives to set levels of its sewerage tariffs, to take all necessary measures to achieve full recovery of its operation and maintenance costs and make a reasonable contribution to its investment costs, including, without limitation, increases for each of its Fiscal Years after its Fiscal Year ending on December 31, 1997, to the overall level of existing sewer tariffs, of eight percent (8%), or such other percentage necessary to achieve such requirement.

Section 4.05. The provisions of Sections 4.04 and 4.05 of the Project Agreement between the Bank and the Borrower dated September 21, 1994 (Loan No. 3782 TUN - Water Supply and Sewerage Project) are hereby amended to read as set forth, respectively, in Sections 4.03 and 4.04 of this Agreement.

Section 4.06. The Borrower agrees, within the limits of its prerogatives to set levels of its sewerage tariffs, to restructure, not later than December 31, 2002, the existing progressive tariff rate structure to limit, in accordance with guidelines satisfactory to the Bank, the benefits of cross subsidy to those domestic consumers in the first tranches.

Section 4.07. The Borrower shall take all adequate action necessary to ensure that a comprehensive and separate cost-accounting system to monitor and evaluate the cost of its operations, including the cost of storm-water drainage, industry or tourism, shall be implemented and operational not later than December 31, 2000.

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 Guarantor shall have failed to perform any of its obligations under the Republic of Tunisia Loan Agreement.

(b) The Basic Legislation shall have been amended, suspended, abrogated, repealed or waived so as to affect materially and adversely the ability of the Borrower to perform any of its obligations under this Agreement.

Section 5.02. Pursuant to Section 7.01 (h) of the General Conditions, the following additional events specified:

(a) The event specified in paragraph (a) of Section 5.01 of this Agreement shall occur and shall continue for a period of sixty (60) days after notice thereof shall have been given by the Bank to the Borrower.

(b) The event specified in paragraph (b) of Section 5.01 of this Agreement shall occur.

ARTICLE VI

Effective Date; Termination

Section 6.01. The following events are specified as additional conditions to the effectiveness of the Loan Agreement within the meaning of Section 12.01 (c) of the General Conditions:

(a) The Performance Contract has been executed on behalf of the Borrower; and

(b) All conditions precedent to the effectiveness of the Republic of Tunisia Loan Agreement have been fulfilled, other than those related to the effectiveness of this Agreement.

Section 6.02. 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 General Director 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 (MCI) or
64145 (MCI)

For the Borrower:

Office National de l'Assainissement
32, rue Hédi Nouira
1001 Tunis
Republic of Tunisia

Cable address:

ONAS Tunis

Telex:

15080

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/ Gianni Brizzi

Acting Regional Vice President
Middle East and North Africa

OFFICE NATIONAL DE L'ASSAINISSEMENT

By /s/ Nouredine Majdoub

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 in French Francs	% of Expenditures to be Financed
(1) Works	136,000,000	100% of foreign expenditures and 60% of local expenditures
(2) Goods, including equipment and its installation	102,000,000	100% of foreign expenditures, 100% of local expenditures, (ex-factory cost) and 80% of local expenditures for other items procured locally
(3) Consultants' Services and Training	17,000,000	100%
(4) Unallocated	28,000,000	
TOTAL	283,000,000	

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, works 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, works 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 expenditures prior to the date of this Agreement.

4. The Bank may require withdrawals from the Loan Account to be made on the basis of statements of expenditure for expenditures for: (i) goods, under contracts costing

less than \$500,000 equivalent each; (ii) works, under contracts costing less than \$3,000,000 equivalent each; (iii) services of consulting firms, under contracts costing less than \$100,000 equivalent each; and (iv) services of individual consultants, under contracts costing less than \$50,000 equivalent each, 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 Guarantor and the Borrower in: (i) improving service levels of urban sewerage; (ii) promoting efficient re-use of effluent from sewage treatment plants for agricultural purposes; (iii) reducing urban and coastal pollution; (iv) improving the Borrower's cost recovery and financial capacity, with the long-term objective of achieving the Borrower's financial autonomy; (v) introducing appropriate new sewage treatment technology; and (vi) developing private sector participation in the sewerage 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: Urban Sewerage

Carrying out of the Greater Tunis sewerage program, comprising the execution of works, the provision of equipment, and the carrying out of studies and research work required to implement the following:

1. expansion and rehabilitation of the Tunis South (Meliane) waste water treatment plant in the southern basin of Tunis to increase its capacity to about 675,000 population (approximately 70,000 cubic meters per day);
2. restructuring of the Tunis West sewage collection system, including the construction of approximately fifty-two (52) kilometers of primary sewers, in order to divert part of the sewage to the plant envisioned to be constructed separately under a concession scheme associating the private sector thereto;
3. strengthening of the Tunis South sewage collection system and connection of the villages of Mornag and Radès to the Tunis South (Meliane) waste water treatment plant, entailing the construction of a collection system of about forty-eight (48) kilometers of main sewer;
4. extension of the Tunis North sewage collection system by about thirty-three (33) kilometers, construction of a liaison conduit of about four (4) kilometers between the waste water treatment plants of Tunis North and Choutrana, and rehabilitation of the waste water treatment plant of Tunis North;
5. extension, rehabilitation, and resizing of the sewage collection networks of Tunis Central and North to prevent salty groundwater intrusion, including the construction of about forty-five (45) kilometers of sewers; and
6. strengthening of all secondary sewer systems, requiring the construction of about two hundred thirty (230) kilometers of sewers.

Part B: Re-use of Treated Sewage for Agriculture

Carrying out of a program to promote the reuse of treated sewage for agriculture, and comprising:

1. construction of a storage basin in the El Attar Valley to store treated waste water to be used for irrigation;
2. construction of a pumping station, balancing reservoirs, access roads, windbreaks, and water supply and irrigation systems for purposes of equipping an area of about one thousand (1,000) ha in the El Attar Valley; and
3. carrying out of a pilot project for groundwater recharge with purified sewage

treated with an appropriate tertiary method.

* * *

The Project is expected to be completed by June 30, 2004.

SCHEDULE 3

Interest and Principal Repayment Provisions

A. General Definitions

For purposes of this Schedule, the following terms have the following meanings:

(a) "Disbursed Amount" means, in respect of each Interest Period, the aggregate principal amount of the Loan withdrawn from the Loan Account in such Interest Period.

(b) "Interest Period" means the initial period from and including the date of this Agreement to, but excluding, the first Interest Payment Date occurring thereafter, and after the initial period, each period from and including an Interest Payment date to, but excluding, the next following Interest Payment Date.

(c) "Interest Payment Date" means any date specified in Section 2.06 of this Agreement.

(d) "Rate Fixing Date" means, for each Disbursed Amount, the first day of the Interest Period next following the Interest Period in which such Disbursed Amount is withdrawn.

B. Interest

1. The principal amount of the Loan shall be divided into Disbursed Amounts. Interest shall accrue on each Disbursed Amount outstanding from time to time at a rate based on a floating rate index prior to its Rate Fixing Date and at a fixed rate from its Rate Fixing Date, as described in paragraph 2 of this Part B.

2. (a) From the date of withdrawal of each amount of each Disbursed Amount withdrawn and outstanding, to but not including the Rate Fixing Date for such Disbursed Amount, interest on each such amount shall accrue, at a rate equal to the applicable:

(i) PIBOR Base Rate; plus

(ii) PIBOR Total Spread.

(b) From the Rate Fixing Date for each Disbursed Amount until final repayment thereof, interest on such Disbursed Amount shall accrue, at a rate equal to the applicable:

(i) Fixed Base Rate; plus

(ii) Fixed Total Spread.

3. For purposes of paragraph 2 of this Part B, the following terms have the following meanings:

(a) "PIBOR Base Rate" means, for the Interest Period in which a Disbursed Amount is withdrawn, the Paris interbank offered rate for six-month deposits in French Francs for value the first day of such Interest Period (or, in the case of the initial Interest Period, for value the day occurring on the Interest Payment Date preceding the first day of such Interest Period), as reasonably determined by the Bank and expressed as a percentage per annum.

(b) "PIBOR Total Spread" means, for the Interest Period in which each Disbursed Amount is withdrawn:

(i) one-half of one percent (1/2 of 1%);

(ii) minus (or plus) the weighted average margin, for such Interest Period, below (or above) the Paris interbank offered rates, or other reference rates, for six-month deposits, in respect of the Bank's outstanding borrowings or portions thereof allocated by the Bank to fund single currency loans or portions thereof made by it that include such Disbursed Amount for such Interest Period;

as reasonably determined by the Bank and expressed as a percentage per annum.

(c) "Fixed Base Rate" means, for each Disbursed Amount, the equivalent of the Paris interbank offered rate for six-month deposits in French Francs for value on the Rate Fixing Date for such Disbursed Amount, expressed as a single fixed interest rate based on the fixed interest rates corresponding to the repayment installments of such Disbursed Amount, as reasonably determined by the Bank and expressed as a percentage per annum.

(d) "Fixed Total Spread" means, for each Disbursed Amount:

(i) one-half of one percent (1/2 of 1%);

(ii) minus (or plus) the cost margin, applicable on the Rate Fixing Date for such Disbursed Amount, below (or above) the Paris interbank offered rates, or other reference rates, for six-month deposits, in respect of the Bank's outstanding borrowings or portions thereof allocated to fund single currency loans or portions thereof made by it that include such Disbursed Amount; plus

(iii) the Bank's risk spread applicable on the Rate Fixing Date for such Disbursed Amount;

as reasonably determined by the Bank and expressed as a percentage per annum.

4. The Bank shall notify the Guarantor and the Borrower of the PIBOR Base Rate, the PIBOR Total Spread, the Fixed Base Rate and the Fixed Total Spread applicable to each Disbursed Amount, promptly upon the determination thereof.

5. Whenever, in light of changes in market practice affecting the determination of the interest rates referred to in this Schedule, the Bank determines that it is in the interest of its borrowers as a whole and of the Bank to apply a basis for determining the interest rates applicable to the Loan other than as provided in this Schedule, the Bank may modify the basis for determining the interest rates applicable to amounts of the Loan not yet withdrawn upon not less than six (6) months' notice to the Borrower of the new basis. The new basis shall become effective on the expiry of the notice period unless the Borrower notifies the Bank during said period of its objection thereto, in which case said modification shall not apply to the Loan.

C. Repayment

1. Subject to the provisions of paragraph 2 of this Part C, the Borrower shall repay each Disbursed Amount of the Loan in semiannual installments payable on each February 15 and August 15, the first such installment to be payable on the seventh (7th) Interest Payment Date following the Rate Fixing Date for such Disbursed Amount and the last such installment to be payable on the eighteenth (18th) Interest Payment Date following the Rate Fixing Date for such Disbursed Amount. Each installment shall be one-twelfth (1/12) of such Disbursed Amount.

2. Notwithstanding the provisions of paragraph 1 of this Part C, if any installment of principal of each Disbursed Amount would, pursuant to the provisions of said paragraph 1, be payable after February 15, 2013, the Borrower shall also pay on said date the aggregate amount of all such installments.

3. After each Disbursed Amount shall have been withdrawn, the Bank shall promptly notify the Borrower and the Guarantor of the amortization schedule for such Disbursed Amount.

SCHEDULE 4

Procurement and Consultants' Services

Section I. Procurement of Good and Works

Part A: General

Goods and works under Part A 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 and revised in January and August 1996 (the Guidelines) and the following provisions of this Section, as applicable.

Part B: International Competitive Bidding

1. Except as otherwise provided in Part C of this Section, goods and works under Part A of the Project shall be procured under contracts awarded in accordance with the provisions of Section II of the Guidelines and paragraph 5 of Appendix 1 thereto.

2. The following provisions shall apply to goods and works under Part A of the Project to be procured under contracts awarded in accordance with the provisions of paragraph 1 of this Part B.

(a) Prequalification

Bidders for the extension and rehabilitation of the Tunis South (Meliane) waste water treatment plant under Part A.1 of the Project shall be prequalified in accordance with the provisions of paragraphs 2.9 and 2.10 of the Guidelines.

(b) Preference for domestically manufactured goods

The provisions of paragraphs 2.54 and 2.55 of the Guidelines and Appendix 2 thereto shall apply to goods manufactured in the territory of the Guarantor.

(c) Notification and Advertising

The invitation to prequalify or bid for each contract under Part A of the Project estimated to cost \$10,000,000 equivalent or more shall be advertised in accordance with the procedures applicable to large contracts under paragraph 2.8 of the Guidelines.

Part C: Other Procurement Procedures

1. National Competitive Bidding

(i) Equipment under Part A of the Project estimated to cost less than \$500,000 equivalent per contract, up to an aggregate amount not to exceed \$7,000,000 equivalent; (ii) pipe supplies under Part A of the Project estimated to cost less than \$1,000,000 equivalent per contract, up to an aggregate amount not to exceed \$20,000,000 equivalent; (iii) works and pipe laying under Part A of the Project estimated to cost less than \$3,000,000 equivalent per contract, up to an aggregate amount not to exceed \$50,000,000 equivalent, may be procured under contracts awarded in accordance with the provisions of paragraphs 3.3 and 3.4 of the Guidelines.

2. National Shopping

Goods under Part A of the Project estimated to cost less than \$250,000 equivalent per contract, up to an aggregate amount not to exceed \$2,000,000 equivalent, may 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 D: Review by the Bank of Procurement Decisions

1. Prior Review

With respect to each contract for: (i) goods estimated to cost the equivalent of \$500,000 or more; and (ii) works estimated to cost the equivalent of \$3,000,000 or more, the procedures set forth in paragraphs 2 and 3 of Appendix 1 to the Guidelines shall apply.

2. Post Review

With respect to each contract not governed by paragraph 1 of this Part, the procedures set forth in paragraph 4 of Appendix 1 to the Guidelines shall apply.

Section II. Employment of Consultants

1. Consultants' services under Part A 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 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 individuals 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 (v) amendments to contracts for the employment of individual consultants raising the contract value to \$50,000 equivalent or above.

SCHEDULE 5

Implementation Program

Section I: Project Monitoring, Reporting and Evaluation

1. (a) Without limitation upon the provisions of Section 9.07 of the General Conditions, the Borrower shall, commencing on March 31, 1999 and not later than September 30 and March 31 in each Fiscal Year and until Project completion, prepare and furnish to the Bank a report, of such scope and in such detail as the Bank and the Borrower shall reasonably establish, describing, in accordance with parameters acceptable to the Bank, the progress achieved in the implementation of Part A of the Project during the preceding six-month period.

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

Section II: Mid-Term Review

2. The Borrower shall:

(a) maintain policies and procedures adequate to enable it to monitor and evaluate on an ongoing basis, in accordance with the Performance Indicators, the carrying out of Part A 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 September 30, 2001, 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 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 Bank, by December 31, 2001, or such later date as the Bank shall request, the report referred to in paragraph (b) of this Section, and, thereafter, take all measures required to ensure the efficient management and completion of Part A of the Project and the achievement of the objectives thereof and of the Performance Indicators, based on the conclusions and recommendations of the said report and the Bank views on the matter.

