

CONFORMED COPY

LOAN NUMBER 3783 TUN

Loan Agreement

(Water Supply and Sewerage Project)

between

INTERNATIONAL BANK FOR RECONSTRUCTION
AND DEVELOPMENT

and

SOCIETE NATIONALE D'EXPLOITATION ET DE
DISTRIBUTION DES EAUX

Dated September 21, 1994

LOAN NUMBER 3783 TUN

LOAN AGREEMENT

AGREEMENT, dated September 21, 1994, between the INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT (the Bank) and the SOCIETE NATIONALE D'EXPLOITATION ET DE DISTRIBUTION DES EAUX (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

(C) the Guarantor intends to contract from other external sources of funds (the Cofinanciers) one or more loans (the Cofinanciers Loans) in an aggregate amount equivalent to ten million seven hundred thousand dollars (\$10,700,000) to assist in financing part of the cost of Part C of the Project on the terms and conditions set forth in agreements (the Cofinanciers Loan Agreements) to be entered into between the Guarantor and the Cofinanciers;

(D) by a loan agreement of even date herewith (the Republic of Tunisia Loan Agreement, as further defined in Section 1.02 (e) of this Agreement) the Bank has agreed to make available a loan (the Republic of Tunisia Loan) to the Guarantor in an aggregate amount equivalent to twenty-nine million dollars (\$29,000,000) to assist in financing part of the cost of the Project on the terms and conditions set forth in the Republic of Tunisia Loan Agreement, in the SONEDE Project Agreement of even date herewith between the Bank and the Borrower and in the ONAS Project Agreement of even date herewith between the Bank and the Office National de l'Assainissement (ONAS);

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" of the Bank, dated January 1, 1985, with the modifications set forth below (the General Conditions) constitute an integral part of this Agreement:

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

(b) In Section 6.02, subparagraph (k) is relettered as subparagraph (l) and a new subparagraph (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."

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) "Basic Legislation" means the Guarantor's Law No. 68-22 dated July 2, 1968, as amended and completed by the Guarantor's Law No. 76-21 dated January 21, 1976, pursuant to which the Borrower has been established and is operating as an industrial and commercial public institution (etablissement public a caractere industriel et commercial);

(b) "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 of Schedule 1 to this Agreement; and the term "Categories" means more than one Category collectively;

(c) "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;

(d) "Fiscal Year" or "FY" 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) "Republic of Tunisia Loan Agreement" means the loan agreement of even date herewith between the Guarantor and the Bank for the Project (Loan No. 3782 TUN);

(f) "SONEDE's Financial, Investment and Operational Targets" means the financial, investment and operational targets designed to enable the Borrower to enhance its operational efficiency and strengthen its financial situation during the Fiscal Years 1994 through 2002, as the same may be updated from time to time in accordance with the provisions of Section A (c) of Schedule 5 to this Agreement;

(g) "Performance Contract" means the agreement (contrat-programme), dated June 10, 1994, between the Borrower and the Guarantor setting forth reciprocal undertakings designed to enable the Borrower to achieve certain financial, investment and operational targets during the Fiscal Years 1994 through 1996;

(h) "SONEDE Project Agreement" means the agreement between the Bank and the Borrower of even date herewith, as the same may be amended from time to time, and such term includes all schedules and agreements supplemental to the SONEDE Project Agreement;

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

(j) "Sub-project" means a specific rural water supply sub-project: (i) which, pursuant to the provisions of Section B of Schedule 2 to the SONEDE Project Agreement, shall have been approved by the Bank to be carried out under Part B of the Project; and (ii) to construct, upgrade, rehabilitate and maintain rural water supply systems.

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 twenty-nine million dollars (\$29,000,000), 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 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 the Project described in Schedule 2 to this Agreement and to be financed out of the proceeds of the Loan.

(b) The Borrower shall, for the purposes of the Project, open and maintain in dollars a special deposit account in the Central Bank on terms and conditions satisfactory to the Bank. 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 June 30, 2002 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. (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 semiannually on April 1 and October 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

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 Parts A, D.1, D.2, D.3 and D.5 (i) and (ii) of the Project with due diligence and efficiency and in conformity with appropriate administrative, economic, engineering, environmental, financial, public utility and technical practices, and shall provide, promptly as needed, the funds, facilities, services and other resources required for Parts A, D.1, D.2, D.3 and D.5 (i) and (ii) 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 Parts A, D.1, D.2, D.3 and D.5 (i) and (ii) 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 Parts A, D.1, D.2, D.3 and D.5 (i) and (ii) 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.

ARTICLE IV

Management and Operations of the Borrower

Section 4.01. The Borrower shall carry on its operations and conduct its affairs in accordance with sound administrative, financial and public utility practices under the supervision of qualified and experienced

management assisted by competent staff in adequate numbers.

Section 4.02. The Borrower shall at all times operate and maintain its plants, 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, financial and public utility practices.

Section 4.03. The Borrower shall take out and maintain with responsible insurers, or make other provision satisfactory to the Bank for, insurance against such risks and in such amounts as shall be consistent with appropriate practice.

ARTICLE V

Financial Covenants

Section 5.01. (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) and the records and accounts for the Special Account 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 nine (9) 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, in accordance with paragraph (a) of this Section, 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 or payment out of the Special 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 5.02. The provisions of Sections 4.03 and 4.04 of the Project Agreement between the Bank and the Borrower dated February 7, 1984 (Loan No. 2368 TUN - Seventh Water Supply Project) are hereby amended to read as set

forth in Sections 5.03 and 5.04, respectively, of this Agreement.

Section 5.03. (a) Except as the Bank shall 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 1.5 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 year after the date on which it is originally incurred.
- (ii) Debt shall be deemed to be incurred 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.
- (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 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 5.04. (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, 1993 funds from internal sources equivalent to not less than 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 rates) 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 (excluding operations carried out on behalf of the Guarantor), consumer deposits and consumer contributions in aid of construction, net non-operating income and any reduction in working capital other than cash; and

(B) the sum of all expenses related to operations (excluding operations carried out on behalf of the Guarantor), including administration, adequate maintenance and taxes and payments in lieu of taxes (excluding provision for 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) 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.

(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 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 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 (excluding operations carried out on behalf of the Guarantor).

- (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 5.05. The Borrower agrees, within the limits of its prerogatives to set levels of its water tariffs:

(a) to restructure, not later than December 31, 1998, the existing block rate structure for water consumption tariffs in accordance with guidelines satisfactory to the Bank and which would, in particular: (i) allow the Borrower and the Guarantor to better target consumers who need to be subsidized; and (ii) permit an in-depth and improved analysis of the intramarginal rate so as to better capture and predict changes in consumers' behaviors; and

(b) to take all necessary measures to reach, not later than June 30, 2002, the long run marginal cost for water tariffs, including, without limitation, increases for each of its Fiscal Years after its Fiscal Year ending on December 31, 1993, to the overall level of existing water tariffs, of seven percent (7%), or such other percentage necessary to achieve such requirement.

Section 5.06. The Borrower shall take all adequate action necessary to ensure that a separate cost-accounting system to monitor and evaluate the cost of its operations, including those in rural areas, shall be implemented and operational not later than December 31, 1996 in accordance with guidelines satisfactory to the Bank.

ARTICLE VI

Remedies of the Bank

Section 6.01. 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 Bank shall have exercised its right under Section 5.01 of the Republic of Tunisia Loan Agreement.

Section 6.02. 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 6.01 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 6.01 of this Agreement shall occur.

ARTICLE VII

Effective Date; Termination

Section 7.01. The following event is specified as an additional condition to the effectiveness of the Loan Agreement within the meaning of Section 12.01 (c) of the General Conditions, namely, that 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 7.02. 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 VIII

Representative of the Borrower; Addresses

Section 8.01. 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 8.02. 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:

Societe Nationale d'Exploitation
et de Distribution des Eaux
23, Rue Jawaher Lel Nehru
Tunis
Republic of Tunisia

Cable address:

SONEDE
Tunis

Telex:

14262 TN

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/ Caio Koch-Weser
Regional Vice President
Middle East and North Africa

SOCIETE NATIONALE D'EXPLOITATION ET DE
DISTRIBUTION DES EAUX

By /s/ Oussama Romdhani
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) Civil Works and Pipeline Construction for Part A of the Project	7,000,000	100% of foreign expenditures and 50% of local expenditures
(2) Materials and Equipment for Parts A and D.3 of the Project	15,000,000	100% of foreign expenditures and 70% of local expenditures
(3) Technical Assistance, Studies and Training for Parts D.1, D.2 and D.5 (i) and (ii) of the Project	4,000,000	100%
(4) Unallocated	3,000,000	
	<hr style="width: 10%; margin: 0 auto;"/>	
TOTAL	29,000,000 =====	

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 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, works and services of consulting firms under contracts not exceeding \$100,000 equivalent; and (ii) 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 Guarantor in: (i) implementing a suitable demand management program and institutional building measures so as to increase the operational efficiency of the Borrower and ONAS and strengthen their technical and financial capabilities; (ii) providing safe, adequate and easily accessible water supply and sanitation services in the urban and rural areas, through the expansion and rehabilitation of existing facilities, in particular those in low-income households; (iii) promoting the reuse of treated sewage for irrigation and industrial use; and (iv) encouraging the Borrower and ONAS to contract some

of their operations to the private sector.

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

Part A: Urban Water Supply

1. Expansion of the Gdir-el-Goula treatment plant of Tunis through the construction of a new treatment unit and the execution of site stabilization works.
2. Rehabilitation of selected portions of the Borrower's transport and distribution pipelines, including the replacement of the 8.5 km 1200 mm diameter Ras Tabia-Bir Kasaa pipeline and the installation of about 29 km of smaller diameter pipeline to adjacent communities.
3. Construction of reservoirs totalling a storage capacity of 25,000m3 in the Grand Tunis area.
4. Installation of miscellaneous pipework necessitated to connect the reservoirs of Part A.3 hereof and improve water distribution.

Part B: Rural Water Supply

Carrying out of Sub-projects to service about 200,000 people amongst about 320 localities.

Part C: Sewerage

Construction of sanitary sewage treatment facilities in each of Tataouine, Tozeur and Jammel-Zermeddine, and extension and rehabilitation of related collection and sewerage systems as required to make such facilities operational.

Part D: Institutional Strengthening

Carrying out of a program to improve the Borrower's and ONAS' efficiency in managing their operations, consisting of:

1. Delivery of a campaign to raise the awareness of the Borrower's customers on proper use and conservation of water, including, inter alia, provision of television advertising, brochures, site visits, and production of a users' guide.
2. Provision of training to the Borrower's staff.
3. Provision to the Borrower of equipment necessary for water supply leak detection, and measuring, monitoring and control equipment.
4. Provision to ONAS of: (i) laboratory equipment required to control and monitor the treatment of domestic and industrial waste water; and (ii) specialized equipment required for the activities referred to in Part D.5 (iii), (iv) and (v) hereof.
5. Provision of technical assistance necessary for the implementation of: (i) an adequate update of the water supply master plans for Greater Tunis and southern Tunisia; (ii) a study to examine options for private sector participation in water supply services; (iii) final design studies for a proposed Fourth Sewerage Project; (iv) a study to identify appropriate disposal and treatment technologies in rural areas; and (v) a cartographic database for sewerage collection networks designed to improve the management of ONAS' systems.

* * *

The Project is expected to be completed by December 31, 2001.

SCHEDULE 3

Amortization Schedule

Payment of Principal

Date Payment Due	(expressed in dollars)*
On each April 1 and October 1 beginning on April 1, 2000 through April 1, 2011	1,210,000
And on October 1, 2011	1,170,000

* 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

Procurement and Consultants' Services

Section I. Procurement of Goods and Works

Part A: International Competitive Bidding

1. Except as provided in Part C hereof, goods, works and turnkey contracts for treatment plants under Part A of the Project shall be procured under contracts awarded in accordance with procedures consistent with those set forth in Sections I and II of the "Guidelines for Procurement under IBRD Loans and IDA Credits" published by the Bank in May 1992 (the Guidelines).

(a) For fixed-price contracts, the invitation to bid referred to in paragraph 2.13 of the Guidelines shall provide that, when contract award is delayed beyond the original bid validity period, the successful bidder's bid price will be increased for each week of delay by two predisclosed correction factors acceptable to the Bank, one to be applied to all foreign currency components and the other to the local currency component of the bid price. Such an increase shall not be taken into account in the bid evaluation.

(b) In the procurement of goods, works and turnkey contracts for treatment plants under Part A of the Project in accordance with this Part A, the Borrower shall use the relevant standard bidding documents issued by the Bank, with such modifications thereto as the Bank shall have agreed to be necessary for the purposes of the Project. Where no relevant standard bidding documents have been issued by the Bank, the Borrower shall use bidding documents based on other internationally recognized standard forms agreed with the Bank.

2. Bidders for the construction of treatment plants under Part A of the Project shall be prequalified as provided in paragraph 2.10 of the Guidelines.

Part B: Preference for Domestic Manufacturers

In the procurement of goods in accordance with the procedures described in Part A.1 hereof, goods manufactured in the Republic of Tunisia may be granted a margin of preference in accordance with, and subject to, the provisions of paragraphs 2.55 and 2.56 of the Guidelines and paragraphs 1 through 4 of Appendix 2 thereto.

Part C: Other Procurement Procedures

Local Competitive Bidding

1. Contracts for: (i) goods estimated to cost the equivalent of \$350,000 or less per contract, up to an aggregate amount not to exceed the equivalent of \$6,000,000, and (ii) civil works estimated to cost the equivalent of \$3,000,000 or less per contract, up to an aggregate amount not to exceed the equivalent of \$13,000,000, may be procured under contracts awarded on the basis of competitive bidding, advertised locally, in accordance with procedures satisfactory to the Bank.

Local Shopping

2. Small contracts for goods and/or works estimated to cost the equivalent of \$100,000 or less per contract and spare parts for brand equipment, up to an aggregate amount not to exceed the equivalent of \$1,500,000, may be procured under contracts awarded on the basis of comparison of price quotations solicited, respectively, from a list of at least three (3) suppliers or at least three (3) contractors, as the case may be, eligible under the Guidelines, in accordance with procedures acceptable to the Bank.

Part D: Review by the Bank of Procurement Decisions

1. Review of prequalification:

With respect to the prequalification of bidders as provided in Part A.2 hereof, the procedures set forth in paragraph 1 of Appendix 1 to the Guidelines shall apply.

2. Review of invitations to bid and of proposed awards and final contracts:

(a) With respect to each: (i) contract for goods estimated to cost the equivalent of \$350,000 or more; and (ii) contract for works estimated to

cost the equivalent of \$1,000,000 or more, the procedures set forth in paragraphs 2 and 4 of Appendix 1 to the Guidelines shall apply. Where payments for such contract are to be made out of the Special Account, such procedures shall be modified to ensure that the two conformed copies of the contract required to be furnished to the Bank pursuant to said paragraph 2 (d) shall be furnished to the Bank prior to the making of the first payment out of the Special Account in respect of such contract.

(b) With respect to each contract not governed by the preceding paragraph, the procedures set forth in paragraphs 3 and 4 of Appendix 1 to the Guidelines shall apply. Where payments for such contract are to be made out of the Special Account, said procedures shall be modified to ensure that the two conformed copies of the contract together with the other information required to be furnished to the Bank pursuant to said paragraph 3 shall be furnished to the Bank as part of the evidence to be furnished pursuant to paragraph 4 of Schedule 6 to this Agreement.

(c) The provisions of the preceding subparagraph (b) shall not apply to contracts on account of which withdrawals are to be made on the basis of statements of expenditure.

3. The figure of 20% is hereby specified for purposes of paragraph 4 of Appendix 1 to the Guidelines.

Section II. Employment of Consultants

1. In order to assist the Borrower in carrying out Parts D.1, D.2, D.3 and D.5 (i) and (ii) of the Project, the Borrower shall employ consultants: (i) whose qualifications, experience and terms and conditions of employment shall be satisfactory to the Bank; and (ii) who shall be selected in accordance with principles and procedures satisfactory to the Bank on the basis 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, the Borrower shall employ such consultants under contracts using 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, the Borrower shall use other standard forms agreed with the Bank.

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 (a) contracts for the employment of consulting firms estimated to cost less than \$100,000 equivalent each or (b) contracts for the employment of individuals estimated to cost less than \$50,000 each. However, said exceptions to prior Bank review shall not apply to (a) the terms of reference for such contracts, (b) single-source selection of consulting firms, (c) assignments of a critical nature, as reasonably determined by the Bank, (d) amendments to contracts for consulting firms raising the contract value to \$100,000 equivalent or above, or (e) amendments to contracts for the employment of individual consultants raising the contract value to \$50,000 equivalent or above.

SCHEDULE 5

Implementation Program

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

A. Performance Monitoring

The Borrower shall:

(a) Implement the Performance Contract with due diligence and efficiency and at all times take all necessary action to achieve the objectives thereof;

(b) Monitor and evaluate, in accordance with performance indicators, the carrying out of the Project and the achievement of SONEDE's Financial, Investment and Operational Targets;

(c) Prepare and furnish to the Guarantor and the Bank: (i) not later than the 30th day after the end of each semester in each Fiscal Year; and (ii) not later than June 30 in each Fiscal Year, a report, of such scope and in such detail as the Borrower and the Bank shall establish, on the progress achieved by the Borrower in carrying out the Project and the conclusions and recommendations resulting from the monitoring and evaluation activities performed pursuant to paragraph (b) above, together with any revisions proposed to be introduced into SONEDE's Financial, Investment and Operational Targets; and

(d) Exchange views with the Guarantor and the Bank on said reports, and, thereafter, undertake the remedial measures which the Guarantor, the Bank and the Borrower shall have agreed are necessary to ensure the proper execution of the Project and the efficient management of the Borrower.

B. 1997-2001 Performance Contract

The Borrower shall:

(a) Not later than December 31, 1997, transmit for the Bank's review and comments a proposed draft performance contract between the Borrower and the Guarantor designed to further the achievement of progress in the financial, investment and operational performance of the Borrower during Fiscal Years 1997 through 2001; and

(b) Thereafter, take all action required to sign said performance contract during Fiscal Year 1998.

C. Mid-term Review

(a) The Borrower shall prepare and furnish to the Guarantor and the Bank, not later than December 31, 1998, a report, of such scope and in such detail as the Borrower and the Bank shall establish, on, inter alia, the Borrower's progress: (i) in carrying out measures on tariff policies as set forth in Section 5.05 of this Agreement; and (ii) in utilizing and further implementing the cost-accounting system referred to in Section 5.06 of this Agreement.

(b) The Borrower shall afford the Guarantor and the Bank a reasonable opportunity to exchange views on said report, and, thereafter, shall take all action which the Guarantor, the Borrower and the Bank shall have agreed is required on the Borrower's part for the successful implementation of the Project.

D. Private Sector Participation

The Borrower shall carry out the study referred to in Part D.5 (ii) of the Project not later than December 31, 1996.

SCHEDULE 6

Special Account

1. For the purposes of this Schedule:

(a) the term "eligible Categories" means Categories (1) (2) and (3) 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 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; and

(c) the term "Authorized Allocation" means an amount equivalent to \$750,000 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; or

(b) once the total unwithdrawn amount of the Loan allocated to the eligible Categories, 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 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 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.

