

CONFORMED COPY

LOAN NUMBER 4037 TUN

Loan Agreement

(Industry Support Institutions Upgrading Project)

between

REPUBLIC OF TUNISIA

and

INTERNATIONAL BANK FOR RECONSTRUCTION
AND DEVELOPMENT

Dated July 2, 1996

LOAN NUMBER 4037 TUN

LOAN AGREEMENT

AGREEMENT, dated July 2, 1996, between the REPUBLIC OF TUNISIA (the Borrower) and the INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT (the Bank).

WHEREAS (A) the Borrower, having satisfied itself as to the feasibility and priority of the Project described in Schedule 2 to this Agreement, has requested the Bank to assist in the financing of the Project;

(B) the Bank has received a letter dated May 2, 1996, from the Borrower describing a program of actions, objectives and policies designed to support the upgrading of viable private sector industrial enterprises to international standards (hereinafter called the Program) and declaring the Borrower's commitment to the execution of the Program;

(C) the Borrower intends to contract from other external sources of funds (the Cofinanciers) one or more loans (the Cofinanciers Loans) and one or more grants (the Cofinanciers Grants) in an aggregate amount equivalent to sixteen million dollars (\$16,000,000) to assist in financing part of the cost of the Project on the terms and conditions set forth in loan agreements (the Cofinanciers Loan Agreements) and in grant agreements (the Cofinanciers Grant Agreements) to be entered into between the Borrower and the Cofinanciers; and

WHEREAS the Bank has agreed, on the basis, inter alia, of the foregoing, to extend the Loan to the Borrower upon the terms and conditions set forth in this Agreement;

NOW THEREFORE the parties hereto hereby agree as follows:

ARTICLE I

General Conditions

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

Section 1.02. Unless the context otherwise requires, the several terms defined in the General Conditions and in the Preamble to this Agreement have the respective meanings therein set forth, and the following additional terms have the following meanings:

- (a) "ANPE" means the Borrower's Agence Nationale pour la Protection de l'Environnement, established and operating pursuant to the Borrower's Law No. 88-91 dated August 2, 1988, and its implementation Decree No. 88-1784, as the same may be amended from time to time;
- (b) "Basic Legislation" means, collectively, the Borrower's Law No. 94-123 dated November 28, 1994, setting forth the legal framework for technical centers operating in the Borrower's industrial sector, and its implementation Decree No. 95-439 dated March 13, 1995;
- (c) "By-Laws" means, individually, the By-Laws (statut) enacted or to be enacted pursuant to the provisions of the Basic Legislation to govern the administrative and financial organization of a STC (as hereinafter defined);
- (d) "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;
- (e) "Central Bank" means the Central Bank of Tunisia (Banque Centrale de Tunisie) established and operating pursuant to the Borrower's Law No. 58-90 dated September 19, 1958, as the same may be amended from time to time;
- (f) "CETIME" means the Borrower's Centre Technique des Industries M caniques et Electriques, a juridical person of public economic interest (personne morale d'intrt conomique public) established and operating as a STC (as hereinafter defined) pursuant to the Basic Legislation, or any successor thereto;
- (g) "CETTEX" means the Borrower's Centre Technique du Textile, a juridical person of public economic interest (personne morale d'intrt conomique public) established and operating as a STC (as hereinafter defined) pursuant to the Basic Legislation, or any successor thereto;
- (h) "CNCC" means the Borrower's Centre National du Cuir et de la Chaussure, a juridical person of public economic interest (personne morale d'intrt conomique public) established and operating as a STC (as hereinafter defined) pursuant to the Basic Legislation, or any successor thereto;
- (i) "CTMCCV" means the Borrower's Centre Technique des Materiaux de Construction, Cramique et Verre, a juridical person of public economic interest (personne morale d'intrt conomique public) established and operating as a STC (as hereinafter defined) pursuant to the Basic Legislation, or any successor thereto;
- (j) "DGI" means the Direction Gnrale de l'Industrie within the MI (as hereinafter defined), established and operating pursuant to Articles 27 and 31 through 34 of the Borrower's Decree No. 95-917 dated May 22, 1995;

(k) "Financing" means a loan or a grant made or proposed to be made by the Borrower, through the MI (as hereinafter defined) and the MF (as hereinafter defined), out of the proceeds of the Loan to a STC (as hereinafter defined) for the purposes of carrying out an Investment Project (as hereinafter defined);

(l) "Financing Agreement" means a financing agreement to be entered into between the Borrower, through the MI (as hereinafter defined) and the MF (as hereinafter defined), and a STC (as hereinafter defined) pursuant to Section 3.02 (a) of this Agreement, as the same may be amended from time to time; and such term includes all schedules to the Financing Agreement;

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

(n) "free-limit Financing" means a Financing which qualifies as a free-limit Financing pursuant to the provisions of paragraph 1 (b) of Section B of Schedule 6 to this Agreement;

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

(p) "Investment Project" means a specific development project which, pursuant to the provisions of Schedule 6 to this Agreement, has been approved by the Bank to be carried out by a STC under Part A of the Project utilizing the proceeds of a Financing, to: (i) construct, upgrade, rehabilitate and maintain the infrastructure of buildings, including laboratories; (ii) acquire laboratory, computerized office, testing, certification and other equipment and vehicles necessary to complement the services rendered by a STC, including the improvement of the health and environment impact of the STC's operations; and (iii) expand and supplement sectoral and technological documentation and pedagogical material for training purposes;

(q) "Investment Study" means an investment study applying the agreed methodology for financial and economic analysis referred to in paragraphs 2 (a) and 2 (c) of Section B of Schedule 6 to this Agreement;

(r) "MF" means the Borrower's Ministry of Finance (Ministre des Finances), established and operating pursuant to the Borrower's Decrees No. 75-316 dated May 30, 1975, No. 91-556 dated April 23, 1991, and No. 95-522 dated March 22, 1995;

(s) "MI" means the Borrower's Ministry of Industry (Ministre de l'Industrie), established and operating pursuant to the Borrower's Decrees No. 95-916 and No. 95-917 dated May 22, 1995;

(t) "NMS" means the National Metrology System (système national de métrologie) to be established by the MI or any other institution so charged, identified in the conclusions of the study referred to in Section A.4 of Schedule 5 of this Agreement;

(u) "PCU" means the Project Coordination Unit (Unité de Suivi du Projet) to be established and maintained within the MI pursuant to the provisions of Section A.2 of Schedule 5 to this Agreement;

(v) "Performance Indicators" means the agreed performance indicators to be utilized under the Project to measure the degree to which the Project objectives are being achieved, as the same may be updated and supplemented from time to time in accordance with the provisions of Sections A.2 (b) and B (b) of Schedule 5 to this Agreement;

(w) "Program and Performance Contract" means a program and performance contract (contrat de programme et de performance) concluded or to be concluded between the MI and a STC (as hereinafter defined), setting forth reciprocal undertakings designed to clarify the role of each party and ensure that the actions of each STC are consistent and directed towards meeting the needs of private enter-

prises;

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

(y) "STC" means a sectoral technical center created and operating in the industrial sector pursuant to the provisions of the Basic Legislation to which the Borrower proposes to make or has made available a Financing; and such term includes, inter alia, CETIME, CETTEX, CNCC and CTMCCV collectively or individually.

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 million French Francs (FRF200,000,000).

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 and to be financed out of the proceeds of the Loan.

(b) The Borrower may, for the purposes of the Project, open and maintain in French Francs a special deposit account in its 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 7 to this Agreement.

Section 2.03. The Closing Date shall be December 31, 2002 or such later date as the Bank shall establish. The Bank shall promptly notify the Borrower 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 PIBOR Base Rate plus PIBOR Total Spread.

(b) For the purposes of this Section:

- (i) "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.
- (ii) "Interest Payment Date" means any date specified in Section 2.06 of this Agreement.
- (iii) "PIBOR Base Rate" means, for each Interest Period, 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 Interest Payment Date occurring on or next preceding the first day of such Interest Period), as reasonably determined by the Bank and expressed as a percentage per annum.
- (iv) "PIBOR Total Spread" means, for each Interest Period:
(A) one half of one percent ($1/2$ of 1%); (B) 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 the Loan; as reasonably determined by the Bank and expressed as a percentage per annum.

(c) The Bank shall notify the Borrower of PIBOR Base Rate and PIBOR Total Spread for Interest Period, promptly upon the determination thereof.

(d) Whenever, in light of changes in market practice affecting the determination of the interest rates referred to in this Section 2.05, 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 said Section, the Bank may modify the basis for determining the interest rates applicable to the Loan upon not less than six (6) months' notice to the Borrower of the new basis. The 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.

Section 2.06. Interest and other charges shall be payable March 15 and September 15 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, without any limitation or restriction upon any of its other obligations under the Loan Agreement, shall: (i) carry out Part A of the Project through the MI with due diligence and efficiency and in conformity with appropriate administrative, economic, engineering, environmental, industrial and technical practices, and shall provide, promptly as needed, the funds, facilities, services and other resources required for the purpose; and (ii) carry out or cause to be carried out Part B of the Project with due diligence and efficiency and in conformity with appropriate administrative, economic, engineering, environmental, industrial and technical practices and shall provide, promptly as needed, the funds, facilities, services and other resources required for the purpose.

(b) Without limitation upon the provisions of paragraph (a) of this Section and except as the Borrower and the Bank shall otherwise agree, the Borrower shall carry out the Project in accordance with the Implementation Program set forth in Schedule 5 to this Agreement.

Section 3.02. (a) For the purposes of carrying out Part A of the Project, the Borrower shall, through the MI and the MF, relend or make available, as the case may be, to the STCs the proceeds of the Loan allocated from time to time to Categories (1) (a), (2) (a) (i), (2) (b) and 3 under Financing Agreements to be entered into between the Borrower and each STC on the basis of the criteria and in accordance with terms and conditions which shall have been approved by the Bank, which shall include, without limitation, those set forth in Schedule 6 to this Agreement.

(b) The Borrower shall to exercise its rights in relation to each Investment Project in such manner as to: (i) protect the interests of the Borrower and the Bank; (ii) comply with its obligations under this Agreement; and (iii) achieve the purposes of the Project.

Section 3.03. Except as the Bank shall otherwise agree, procurement of the goods, works and services required for 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 3.04. 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 Borrower and the Bank, a plan for the future operation of the Project; and

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

ARTICLE IV

Financial Covenants

Section 4.01. (a) The Borrower shall maintain or cause to be maintained records and accounts adequate to reflect in accordance with sound accounting practices the operations, resources and expenditures in respect of the Project of the departments or agencies of the Borrower responsible for carrying out the Project or any part thereof.

(b) The Borrower shall:

- (i) have the records and accounts referred to in paragraph (a) of this Section, including those 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 six (6) months after the end of each such year, 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 and accounts and 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 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.

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) a situation has arisen which shall make it improbable that the Program, or a significant part thereof, will be carried out.

(b) the Basic Legislation shall have been amended, suspended, abrogated, repealed or waived so as to affect materially and adversely the operations or the financial condition of the STC or its ability to carry out the Investment Project or to perform any of its obligations under the Financing Agreement.

(c) The Cofinanciers Loan Agreements and the Cofinanciers Grant Agreements shall have failed to become effective by December 31, 1997 or such later date as the Bank may agree; provided, however, that the provisions of this paragraph shall not apply if the Borrower establishes to the satisfaction of the Bank that adequate funds for the Project are available to the Borrower from other sources on terms and conditions consistent with the obligations of the Borrower under this Agreement.

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

(A) the right of the Borrower to withdraw the proceeds of any Cofinanciers Loans or Cofinanciers Grants made to the Borrower for the financing of the Project shall have been suspended, canceled or terminated in whole or in part, pursuant to the terms of the agreement providing therefor, or

(B) any such Cofinanciers Loan shall have become due and payable prior to the agreed maturity thereof.

(ii) Subparagraph (i) of this paragraph shall not apply if the Borrower establishes to the satisfaction of the Bank that: (A) such suspension, cancellation, termination or prematuring is not caused by the failure of the Borrower to perform any of its obligations under such agreement; and (B) adequate funds for the Project are available to the Borrower from other sources on terms and conditions consistent with the obligations of the Borrower under this Agreement.

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

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

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

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) that at least two (2) Financing Agreements shall have been executed in accordance with the provisions of Section 3.02 (a) of this Agreement; and

(b) that the PCU shall have been established under terms of reference and operational arrangements satisfactory to the Bank, and its Director shall have been appointed.

Section 6.02. The following is specified as an additional matter, within the meaning of Section 12.02 (c) of the General Conditions, to

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 French Francs	% of Expenditures to be Financed
(1) Civil Works:		70%
(a) For Part A of the Project	27,500,000	
(b) For Part B of the Project	5,000,000	
(2) Goods:		100% of foreign expenditures, 100% of local expenditures (ex-factory cost) and 85% of local expenditures for other items pro- cured locally
(a) Equipment:		
(i) For Part A of the Project	102,500,000	
(ii) For Part B of the Project	30,000,000	
(b) Vehicles for Part A of the Project	12,500,000	
(3) Consultants' Services and Training for Part A of the Project	2,500,000	100%
(4) Unallocated	20,000,000	
	<hr style="width: 100px; margin: 0 auto;"/>	
TOTAL	200,000,000 =====	

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

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

3. Notwithstanding the provisions of paragraph 1 above, no withdrawals shall be made in respect of:

(a) payments made for expenditures prior to the date of this Agreement, except that withdrawals, in an aggregate amount not to exceed FRF20,000,000, may be made on account of payments made for expenditures before that date but after April 1, 1996; and

(b) under Categories (1) (a), (2) (a) (i), (2) (b) and (3), until and unless the Investment Project in respect of which the withdrawal is requested shall have been approved by the Bank in accordance with the provisions of sub-paragraph 2 (a) of Section B of Schedule 6 to 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 estimated to cost less than \$250,000 equivalent each; (ii) works, under contracts estimated to cost less than \$350,000 equivalent each; (iii) services of consulting firms, under contracts estimated to cost less than \$100,000 equivalent each; (iv) services of individual consultants, under contracts estimated to cost less than \$50,000 equivalent each; and (v) training, 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: (i) to assist in financing such productive facilities and resources of the technical institutions supporting the industrial sector as will contribute to the economic and social development of the Borrower; and (ii) to put in place an efficient and market responsive system of support agencies providing assistance to the industrial sector, consisting mainly of small and medium enterprises, and in particular to firms seeking to become more internationally competitive.

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: Institutional Support and Strengthening of the Industrial Technical Support System

(a) Financing of Investment Projects to support a program aimed at enabling existing and new STCs to strengthen their institutional and environmental capability, effectiveness and impact to support the enterprises undergoing competitiveness upgrading, in particular, through: (i) better focusing on those services needed by industrialists, development of areas of technical assistance and new services which better respond to clients needs; (ii) improvement of technical information and specialized vocational training, testing and analysis; and (iii) in general, effective delivery of those services for which they have been established.

(b) Provision of technical assistance as required for the activities described in paragraph (a) of this Part A.

Part B: National Metrology System (NMS)

Establishment of a suitable National Metrology System aimed at facilitating product quality assurance, including the provision of the equipment required to enable laboratories to certify and be recognized by trading partners.

* * *

The Project is expected to be completed by June 30, 2002.

SCHEDULE 3

Amortization Schedule

Date Payment Due	Payment of Principal (Expressed in French Francs)*
On each March 15 and September 15 beginning on March 15, 2002	8,335,000

and ending on March 15, 2013

and on September 15, 2013

8,295,000

* The figures in this column represent the amount in French Francs to be repaid, except as provided in Section 4.04 (d) of the General Conditions.

SCHEDULE 4

Procurement

Section I. Procurement of Goods and Works

Part A: General

Goods and works 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 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 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 to be procured under contracts awarded in accordance with the provisions of paragraph 1 of this Part B.

(a) Grouping of contracts

To the extent practicable, contracts for goods shall be grouped into bid packages estimated to cost the equivalent of \$250,000 or more each.

(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 Borrower.

(c) Notification and Advertising

The invitation to bid for each contract for goods 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) Goods estimated to cost less than \$250,000 equivalent per contract, up to an aggregate amount not to exceed \$1,000,000 equivalent per STC and \$1,000,000 equivalent under Part B of the Project; and (ii) works, may be procured under contracts awarded in accordance with the provisions of paragraphs 3.3 and 3.4 of the Guidelines.

2. International Shopping

Goods estimated to cost less than \$100,000 equivalent per contract, up to an aggregate amount not to exceed \$500,000 equivalent per STC and \$500,000 equivalent under Part B of the Project, may be procured under contracts awarded on the basis of international shopping procedures in accordance with the provisions of paragraphs 3.5 and 3.6 of the Guidelines.

3. National Shopping

Goods estimated to cost less than \$50,000 equivalent per contract, up to an aggregate amount not to exceed \$250,000 equivalent per STC and \$250,000 equivalent under Part B of the Project, 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.

4. Direct Contracting

Goods which are of a proprietary nature may, with the Bank's prior agreement, be procured in accordance with the provisions of paragraph 3.7 of the Guidelines.

Part D: Review by the Bank of Procurement Decisions

1. Prior Review

With respect to: (i) each contract for goods awarded in accordance with the provisions of paragraph 1 of Part B of Section I of this Schedule; (ii) each contract for works estimated to cost the equivalent of \$350,000 or more per contract; and (iii) the first two (2) contracts to be awarded by each STC under Part A of the Project and the first two (2) contracts to be awarded under Part B of the Project and not subject to prior review pursuant to the provisions of subparagraphs (i) or (ii) of this paragraph, 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 required for 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 individual consultants estimated to cost less than \$50,000 equivalent each. However, said exceptions to prior Bank review shall not apply to: (i) the terms of reference for such contracts; (ii) single-source selection of consulting firms; (iii) assignments of a critical nature, as reasonably determined by the Bank; (iv) amendments to contracts for the employment of consulting firms raising the contract value to \$100,000 equivalent or above; or (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 A: Implementation and Oversight Arrangements

1. Direction Gnrale de l'Industrie (DGI)

(a) Overall responsibility for the Project shall reside with the MI. Within the MI, coordination, management and monitoring of the Project shall be entrusted to the DGI, which shall, to this end, be maintained by the Borrower with staff and under budgetary and reporting requirements adequate to enable it to carry out its responsibilities under the Project. To ensure consistency in the implementation of Project activities, the DGI shall establish specialized working groups including representatives of the STCs.

(b) For the purposes of Section 3.02 (a) of this Agreement, the MI shall, on the basis of a proposal of the DGI, be vested responsibility for drawing up the Financing Agreements.

2. Project Coordination Unit (PCU)

(a) For the purposes of ensuring the proper execution of the Project, the Borrower, through the MI, shall maintain during the period of Project implementation a Project Coordination Unit headed by a Director reporting directly to the Directeur Gnral of Industry. The Borrower shall take all adequate measures to maintain the PCU with staffing satisfactory to the Bank.

(b) The PCU shall be assigned specific responsibility for: (i) monitoring the financing of the Project, including approving free-limit financings in accordance with the provisions of paragraph 2 (c) of Section B of Schedule 6 to this Agreement, consolidating Project accounts, tracing and monitoring Project expenditures, disbursements and commitments; (ii) providing guidance and advising on procurement matters, and ensuring that procurement of goods and works is carried out in accordance with the requirements set forth in Section 3.03 and Schedule 4 to this Agreement; (iii) collecting, gathering and consolidating information from the STCs and, on the basis thereof, preparing and submitting to the Bank for its review (A) not later than March 31, June 30, September 30 and December 31 in each Fiscal Year, quarterly statements on procurement under the Project; (B) not later than March 31 and September 30 in each Fiscal Year, semiannual progress reports, including an assessment of the need to update or modify the Performance Indicators; and (C) the mid-term review report referred to in paragraph (b) of Section B of this Schedule; (iv) timely and prompt planning of Project activities and supervision of each STC responsible therefor; (v) coordinating and commissioning the biannual surveys referred to in paragraph 3 of this Section; and (vi) liaising with and among the Borrower, the Bank and the STCs.

3. Part A of the Project

The Borrower, through the MI, shall carry out, not later than March 31 in every other Fiscal Year, commencing with Fiscal Year 1998, a biennial survey of a sample of industrial enterprises, of such scope and in such detail as determined in agreement between the MI and the Bank, aimed at assessing said enterprises' awareness of the STCs, the quality of services offered by the said STCs, and other appropriate information necessary to monitor the Project. Without limitation upon the provisions of this paragraph, the biennial survey for start-up of

the Project activities shall be carried out not later than December 31, 1996.

4. Part B of the Project

In order to determine the most suitable and efficient NMS to be established under Part B of the Project, the Borrower, through the MI, shall complete, not later than March 31, 1997, a study to ascertain the most appropriate principles and system to set up the NMS, and, on the basis thereof, identify in agreement with the Bank the most adequate institution or institutions to implement Part B of the Project.

Section B: Mid-term Review

The Borrower, through the PCU, 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 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, 1999, a report integrating the results of the monitoring and evaluation activities performed pursuant to sub-paragraph (a) above, on the progress achieved in the carrying out 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 the Project, including an assessment on the need to update or modify the Performance Indicators, and the achievement of the objectives thereof during the period following such date; and

(c) review with the Bank, by December 31, 1999, or such later date as the Bank shall request, the report referred to in sub-paragraph (b) above, and, thereafter, take all measures required to ensure the efficient completion of the Project and the achievement of the objectives thereof, based on the conclusions and recommendations of the said report and the Bank's views on the matter.

Section C: Program and Performance Contract Implementation

The Borrower shall take all measures necessary to implement, and cause each STC to implement its respective Program and Performance Contract with due diligence and efficiency and at all times take all necessary actions to achieve the objectives thereof.

Section D: Consultants' Services

The Borrower shall employ consultants required for the Project and not to be financed out of the proceeds of the Loan whose qualifications, experience and terms of reference are satisfactory to the Bank.

SCHEDULE 6

Criteria and Terms for and Conditions of the Financing Agreements

Except as the Bank may otherwise agree, the provisions set forth or referred to in this Schedule shall apply for the purposes of Section 3.02 (a) of this Agreement:

Section A: Eligibility Criteria for STCs

A Financing Agreement may only be entered into with a STC: (i) which shall have concluded a Program and Performance Contract satisfactory to the Bank; and (ii) which, in the case of a newly created STC, shall have been found economically justified on the basis of a feasibility study prepared by the MI on its economic viability measured on the expected rate of return to be yielded by the STC's operations.

Section B: Eligibility Criteria for Investment Projects

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

(a) the Financing for such Investment Project shall have been approved by the Bank and such expenditures shall have been made not earlier than ninety (90) days prior to the date on which the Bank shall have received the application and information required under paragraph 2 (a) of this Section in respect of such Financing; or

(b) the Financing for such Investment Project shall have been a free-limit Financing for which the Bank has authorized withdrawals from the Loan Account and such expenditures shall have been made not earlier than ninety (90) days prior to the date on which the Bank shall have received the request and information required under paragraph 2 (b) of this Section in respect of such free-limit Financing. For the purposes of this Agreement, a free-limit Financing shall be a Financing, other than the first two (2) Financings to be made available to each STC, for an Investment Project in an amount to be financed out of the proceeds of the Loan which shall not exceed the sum of \$100,000 equivalent, when added to any other outstanding amounts financed or proposed to be financed out of the proceeds of the Loan, the proceeds of which have been or are being used for financing goods, works and services directly and materially related to such Investment Project.

(c) Except as the Bank may otherwise agree, the aggregate amount of all Financings made available to any one STC shall not exceed the equivalent of \$6,000,000.

2. (a) When presenting a Financing (other than a free-limit Financing) to the Bank for approval, the Borrower, through the PCU, shall furnish to the Bank not later than five (5) working days after receipt of the application by the STC: (i) a summary description of the Investment Project; (ii) an Investment Study determining that the Investment Project (A) is feasible and financially and/or economically viable; (B) calculated to yield an economic rate of return of at least twelve percent (12%); and (C) designed in accordance with safety, health, and environment guidelines satisfactory to the ANPE and the Bank; (iii) a description of the expenditures proposed to be financed out of the proceeds of the Financing; and (iv) such other information as the Bank shall reasonably request. Promptly thereafter, and not later than twelve (12) working days after transmittal to the Bank of the application and information required hereunder, the PCU may transmit to the Bank for its consideration an evaluation of the proposed Investment Project.

(b) Each request by the Borrower, through the PCU, for authorization to make withdrawals from the Loan Account in respect of a free-limit Financing shall contain: (i) a summary description of the STC in the case of a newly created STC, and of the Investment Project, including a description of the expenditures proposed to be financed out of the proceeds of the Loan and the Categories under which said expenditures are to be financed; (ii) the amount of the proposed free-limit Financing; (iii) the economic rate of return of the Investment Project; and (iv) a code number allocated to the Investment Project.

(c) Without any limitation upon the provisions of paragraphs (a) and (b) above, the Borrower, through the PCU, shall be responsible for approving free-limit Financings on the basis of: (i) a summary description of the Investment Project; (ii) an Investment Study determining that the Investment Project (A) is feasible and financially and/or economically viable; (B) calculated to yield an economic rate of return of at least twelve percent (12%); and (C) designed in accordance with safety, health, and environment guidelines satisfactory to the ANPE and the Bank; (iii) a description of the expenditures proposed to be financed out of the proceeds of the Financing; and (iv) such other information as the PCU shall reasonably request.

Section C: Terms and Conditions

1. (a) The Borrower shall relend to each of CETIME, CETTEX, CNCC and

CTMCCV a portion of the proceeds of the Loan allocated from time to time to Categories (1), (2) (a) (i), (2) (b) and (3) under a Financing Agreement which shall include the following terms and conditions:

- (i) the principal amount of each Financing Agreement shall be the aggregate amount of the principal of all Financings relent to each STC under its respective Financing Agreement; and
- (ii) the Financing shall be: (A) in French Francs; (B) charged on the principal amount withdrawn and outstanding from time to time interest set forth pursuant to the provisions of Section 2.05 of this Agreement; and (C) repaid in accordance with an amortization schedule calculated to have a maturity not exceeding the maturity of the Loan.

(b) The Borrower shall make available to a newly created STC on a grant basis a portion of the proceeds of the Loan allocated from time to time to Categories (1), (2) (a) (i), (2) (b) and (3) under a Financing Agreement which shall include the following terms and conditions:

- (i) the principal amount of each Financing Agreement shall be the aggregate amount of the principal of all Financings made available to each STC under its respective Financing Agreement; and
- (ii) the Financing shall be in French Francs.

2. Each Financing Agreement shall contain provisions pursuant to which each STC shall undertake to:

(a) carry out its activities under the Investment Project and conduct its operations with sound financial standards and practices, with qualified management and personnel in adequate numbers, and in conformity with an investment policy acceptable to the Borrower and the Bank;

(b) protect the interests of the Borrower and the Bank;

(c) assign to its Directeur Gnral responsibility for the proper execution and achievement of the purposes of the Investment Project, the responsibility for taking all action required for the successful organization and implementation of the Investment Project and the compliance with the undertakings under the Program and Performance Contract;

(d) in the case of an Investment Project for a newly created STC, assign responsibility for the proper execution and achievement of the purposes of the Investment Project and responsibility for taking all action required for the successful organization and implementation of the Investment Project to the MI until the appointment of the President du Conseil d'Administration of the STC, and, promptly thereafter, to effectively transfer said responsibility to its Directeur Gnral;

(e) carry out and operate the Investment Project with due diligence and efficiency and in accordance with sound financial, industrial, managerial and technical standards and to maintain adequate records;

(f) ensure that: (i) the goods and works to be financed out of the proceeds of the Loan shall be procured in accordance with the provisions of Schedule 4 to this Agreement; and (ii) such goods and works shall be used exclusively in the carrying out of the Investment Project;

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

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

(i) provide all such information as the Borrower or the Bank shall reasonably request relating to the foregoing and to the administration, operations and financial condition of the STC and to the benefits to be derived from the Investment Project; and

(j) comply with any requirements and conditions for the protection of the environment as shall have been determined by the ANPE.

SCHEDULE 7

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, works 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; provided, however, that notwithstanding the provisions of paragraph 1 (a) of Section B of Schedule 6 to this Agreement, payments for expenditures to be financed out of the proceeds of the free-limit Financings may be made out of the Special Account before the Bank shall have authorized withdrawals for the Loan Account in respect thereof. Such expenditures, however, shall qualify as eligible expenditures only if the Bank shall subsequently authorize such withdrawals; and

(c) the term "Authorized Allocation" means an amount equivalent to FRF12,000,000 to be withdrawn from the Loan Account and deposited in the Special Account pursuant to paragraph 3 (a) of this Schedule; provided, however, that unless the Bank shall otherwise agree, the Authorized Allocation shall be limited to an amount equivalent to FRF6,000,000 until the aggregate amount of withdrawals from the Loan Account plus the total amount of all outstanding special commitments entered into by the Bank pursuant to Section 5.02 of the General Conditions shall be equal to or exceed the equivalent of FRF60,000,000.

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) if the Borrower shall have failed to furnish to the Bank, within the period of time specified in Section 4.01 (b) (ii) of this Agreement, any of the audit reports required to be furnished to the Bank pursuant to said Section in respect of the audit of the records and accounts for the Special Account;

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

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

