Loan Agreement

(Urban Water Supply Project)

between

SOCIETE NATIONALE D'EXPLOITATION ET DE DISTRIBUTION DES EAUX

and

INTERNATIONAL BANK FOR RECONSTRUCTION
AND DEVELOPMENT

Dated December 5, 2005
AGREEMENT, dated December 5, 2005, between INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT (the Bank) and 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 (the Project), have requested the Bank to assist in the financing of the Project;

(B) by an agreement of even date herewith between the Guarantor and the Bank (the Guarantee Agreement), the Guarantor has agreed to guarantee the obligations of the Borrower in respect of the loan provided for in Article II of this Agreement (the Loan); and

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

NOW THEREFORE the parties hereto hereby agree as follows:

ARTICLE I

General Conditions; Definitions

Section 1.01. The “General Conditions Applicable to Loan and Guarantee Agreements for Fixed-Spread Loans” of the Bank dated September 1, 1999 (as amended through May 1, 2004), with the modifications set forth below (the General Conditions), constitute an integral part of this Agreement:

(a) Section 5.08 of the General Conditions is amended to read as follows:

“Section 5.08”. Treatment of Taxes

Except as otherwise provided in the Loan Agreement, the proceeds of the Loan may be withdrawn to pay for taxes levied by, or in the territory of, the Borrower or the Guarantor on the goods or services to be financed under the Loan, or on their importation, manufacture, procurement or supply. Financing of such taxes is subject to the Bank’s policy of requiring economy and efficiency in the use of the proceeds of its loans. To that end, if the Bank shall at any time determine that the amount of any taxes levied on or in respect of any item to be financed out of the proceeds of the Loan is
excessive or otherwise unreasonable, the Bank may, by notice to the Borrower, adjust the percentage for withdrawal set forth or referred to in respect of such item in the Loan Agreement as required to be consistent with such policy of the Bank.”

(b) Section 6.03(c) of the General Conditions is amended by replacing the words “corrupt or fraudulent” with the words “corrupt, fraudulent, collusive or coercive”.

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 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;

(b) “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;

(c) “Central Region” means the territory of the Guarantor that includes Jammel, Kalaa Kbira, Nassrallah, and Ouerdanine;

(d) “EMP” means the Environmental Management Plan dated March 30, 2005, duly adopted by the Borrower, which assesses the environmental impacts and sets out the environmental mitigation and protection measures in respect of the carrying out of Parts A, B, and C of the Project, as well as the administrative and monitoring arrangements to ensure the implementation of said measures, as such Plan may be amended from time to time with the prior approval of the Bank;

(e) “Financial Monitoring Report” and the acronym “FMR” means each report prepared in accordance with Section 4.02 of this Agreement;

(f) “Greater Tunis Region” means the territory of the Guarantor that includes Ghdir-el-Gollah, Ras Tabia, Mornag, Bir-el-Kassa, La Gazelle, and Borj Touil;

(g) “Land Acquisition Plan” means the plan, dated June 10, 2005 and adopted by the Borrower, for the carrying out of land acquisition activities under Parts A and B of the Project, which Plan identifies the Project sites requiring land acquisition and sets forth the procedures to be followed in the carrying out of said activities, referred to in paragraph 6 of Schedule 5 to this Agreement, as such Plan may be amended from time to time with the prior approval of the Bank;
Northern Region” means the territory of the Guarantor that includes Ain Draham, Ghardimaou, and Rouhia-Jedliane-Sbiba;

(i) “Operations Manual” means the Operations Manual furnished by the Borrower to the Bank on September 22, 2005 that sets forth the operational guidelines and procedures, and implementation and institutional arrangements, in respect of Project implementation activities and referred to in paragraph 3 of Schedule 5 to this Agreement, as such Manual maybe updated from time to time in form and substance satisfactory to the Bank;

(j) “PIU” means the Borrower’s Project Implementation Unit referred to in paragraph 1 of Schedule 5 to this Agreement and established pursuant to a decision of the President/Director General of the Borrower dated September 23, 2005; and

(k) “Procurement Plan” means the Borrower’s procurement plan, dated June 22, 2005, covering the initial eighteen (18) month period (or longer) of Project implementation, as the same shall be updated from time to time in accordance with the provisions of Section 3.02 to this Agreement, to cover succeeding eighteen (18) month period (or longer) of Project implementation.

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 this Agreement, an amount equal to thirty one million euros (€31,000,000), as such amount may be converted from time to time through a Currency Conversion in accordance with the provisions of Section 2.09 of this Agreement.

Section 2.02. The amount of the Loan may be withdrawn from the Loan Account in accordance with the provisions of Schedule 1 to this Agreement for expenditures made (or, if the Bank shall so agree, to be made) in respect of the reasonable cost of goods, works, and services required for the Project and to be financed out of the proceeds of the Loan, the front-end fee referred to in Section 2.04 of this Agreement, and any premium in respect of an Interest Rate Cap or Interest Rate Collar payable by the Borrower in accordance with Section 4.04(c) of the General Conditions.

Section 2.03. The Closing Date shall be June 30, 2012, 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 front-end fee in an amount equal to one percent (1%) of the amount of the Loan, subject to any waiver of a portion of such fee as may be determined by the Bank from time to time. On or promptly after
the Effective Date, the Bank shall, on behalf of the Borrower, withdraw from the Loan Account and pay to itself the amount of such fee.

Section 2.05. The Borrower shall pay to the Bank a commitment charge on the principal amount of the Loan not withdrawn from time to time, at a rate equal to: (i) eighty five one-hundredths of one per cent (0.85%) per annum from the date on which such charge commences to accrue in accordance with the provisions of Section 3.02 of the General Conditions up to but not including the fourth anniversary of such date; and (ii) seventy five one-hundredths of one per cent (0.75%) per annum thereafter.

Section 2.06. The Borrower shall pay interest on the principal amount of the Loan withdrawn and outstanding from time to time, in respect of each Interest Period at the Variable Rate; provided, that upon a Conversion of all or any portion of the principal amount of the Loan, the Borrower shall, during the Conversion Period, pay interest on such amount in accordance with the relevant provisions of Article IV of the General Conditions.

Section 2.07. Interest and commitment charges shall be payable semiannually in arrears on March 15 and September 15 in each year.

Section 2.08. The Borrower shall repay the principal amount of the Loan in accordance with the provisions of Schedule 3 to this Agreement.

Section 2.09. (a) The Borrower may at any time request any of the following Conversions of the terms of the Loan in order to facilitate prudent debt management:

(i) a change of the Loan Currency of all or any portion of the principal amount of the Loan, withdrawn or unwithdrawn, to an Approved Currency;

(ii) a change of the interest rate basis applicable to all or any portion of the principal amount of the Loan from a Variable Rate to a Fixed Rate, or vice versa; and

(iii) the setting of limits on the Variable Rate applicable to all or any portion of the principal amount of the Loan withdrawn and outstanding by the establishment of an Interest Rate Cap or Interest Rate Collar on said Variable Rate.

(b) Any conversion requested pursuant to paragraph (a) of this Section that is accepted by the Bank shall be considered a “Conversion”, as defined in Section 2.01(7) of the General Conditions, and shall be effected in accordance with the provisions of Article IV of the General Conditions and of the Conversion Guidelines.
(c) Promptly following the Execution Date for an Interest Rate Cap or Interest Rate Collar in respect of which the Borrower has requested that the premium be paid out of the proceeds of the Loan, the Bank shall, on behalf of the Borrower, withdraw from the Loan Account and pay to itself the amounts required to pay any premium payable in accordance with Section 4.04(c) of the General Conditions up to the amount allocated from time to time for such purpose in the table in paragraph 1 of Schedule 1 to this Agreement.

ARTICLE III

Execution of the Project

Section 3.01. (a) The Borrower declares its commitment to the objectives of the Project, and, to this end, shall carry out the Project with due diligence and efficiency and in conformity with appropriate administrative, economic, engineering, financial, public utility and technical practices, and environmental and social standards, and shall provide, promptly as needed, the funds, facilities, services and other resources required for the Project.

(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) 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, as said provisions may be further elaborated in the Procurement Plan.

(b) The Borrower shall update the Procurement Plan in accordance with guidelines acceptable to the Bank, and furnish such update to the Bank not later than twelve (12) months after the date of the preceding Procurement Plan, for the Bank’s approval.

Section 3.03. For the purposes of Section 9.07 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 designed to ensure the continued achievement of the Project objectives; 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 a financial management system, including records and accounts, and prepare financial statements in accordance with consistently applied accounting standards acceptable to the Bank, adequate to reflect its operations and financial condition and to register separately the operations, resources and expenditures related to the Project.

(b) The Borrower shall:

(i) have its financial statements (balance sheets, statements of income and expenses and related statements) for each fiscal year (or other period agreed to by the Bank), audited in accordance with consistently applied auditing standards acceptable to the Bank, 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 (or such other period agreed to by the Bank): (A) certified copies of the financial statements referred to in paragraph (a) of this Section for such year (or other period agreed to by the Bank), as so audited; and (B) an opinion on such statements by said auditors, in scope and detail satisfactory to the Bank; and

(iii) furnish to the Bank such other information concerning such records and accounts, and the audit of such financial statements, and concerning said auditors, as the Bank may 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) retain, until at least one year after the Bank has received the audit report for, or covering, the fiscal year in which the last withdrawal from the Loan Account was made, all records (contracts, orders, invoices, bills, receipts and other documents) evidencing such expenditures;

(ii) enable the Bank’s representatives to examine such records; and

(iii) ensure that such statements of expenditure are included in the audit for each fiscal year (or other period agreed to by the Bank), referred to in paragraph (b) of this Section.
Section 4.02. (a) Without limitation upon the Borrower’s progress reporting obligations set out in paragraph 7 of Schedule 5 to this Agreement, the Borrower shall prepare and furnish to the Bank a financial monitoring report, in form and substance satisfactory to the Bank, which:

(i) sets forth sources and uses of funds for the Project, both cumulatively and for the period covered by said report, showing separately funds provided under the Loan, and explains variances between the actual and planned uses of such funds;

(ii) describes physical progress in Project implementation, both cumulatively and for the period covered by said report, and explains variances between the actual and planned Project implementation; and

(iii) sets forth the status of procurement under the Project, as at the end of the period covered by said report.

(b) The first FMR shall be furnished to the Bank not later than forty five (45) days after the end of the first calendar semester after the Effective Date, and shall cover the period from the incurrence of the first expenditure under the Project through the end of such first calendar semester; thereafter, each FMR shall be furnished to the Bank not later than forty five (45) days after each subsequent calendar semester, and shall cover such calendar semester.

Section 4.03. (a) Except as the Bank shall otherwise agree, the Borrower shall produce, for each of its fiscal years after its fiscal year ending on December 31, 2005, funds from internal sources equivalent to not less than thirty percent (30%) of the annual average of the Borrower’s capital expenditures incurred, or expected to be incurred, for that year and the following fiscal years.

(b) Before July 31 of 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 next two (2) 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 (prices), in order to meet such requirements.
(d) For the purposes of this Section:

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

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

(B) the sum of all expenses related to operations, including administration, adequate maintenance and taxes and payments in lieu of taxes (excluding 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 (12) months including accounts receivable, marketable securities, inventories and pre-paid expenses properly chargeable to operating expenses within the next Fiscal Year.

(v) The term "current liabilities" means all liabilities which will become due and payable or could under circumstances then existing be called for payment within twelve 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 principal 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 4.04. (a) Except as the Bank shall otherwise agree, the Borrower shall maintain, for each of its fiscal years after its fiscal year ending on December 31, 2005, a ratio of total operating expenses to total operating revenues not higher than one hundred percent (100%).

(b) Before July 31 of 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 next following fiscal year, and shall furnish to the Bank the results of such review upon its completion.

(c) If any such review shows that the Borrower would not meet the 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 "total operating expenses" means all expenses related to operations, including administration, adequate maintenance, and provision for depreciation on a straight-line basis at a rate of not less than 2.5% per annum of the average current gross value of the Borrower’s fixed assets in operation, or other basis acceptable to the Bank, but excluding interest, other charges on debt and taxes on the income.
(ii) The term "total operating revenues" means revenues from all sources related to operations.

(iii) The average current gross value of the Borrower’s fixed assets in operation shall be calculated as one half of the sum of the gross value of the Borrower’s fixed assets in operation at the beginning and at the end of the fiscal year, as valued from time to time in accordance with sound and consistently maintained methods of valuation satisfactory to the Bank.

Section 4.05. (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 principal 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 contractor agreement or other instrument providing for such debtor 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; (excluding operations carried out on behalf of the Guarantor, internal works to be depreciated and bad debts to be written off);

(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 such as revenues from financial placements; and

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

(v) The term “principal 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 that twelve (12) months prior to the incurrence of the debt in question, which both the Bank and 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.

**ARTICLE V**

**Management and Operations of the Borrower**

Section 5.01. The Borrower shall:

(a) carry on its operations and conduct its affairs in accordance with sound administrative, economic, engineering, financial, public utility and technical practices, and environmental and social standards under the supervision of qualified and experienced management, who is assisted by competent staff in adequate numbers;

(b) 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; and
(c) 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 VI

Remedies of the Bank

Section 6.01. Pursuant to Section 6.02(p) of the General Conditions, the following additional event is specified, namely, that the Basic Legislation shall have been amended, suspended, abrogated, repealed or waived so as to affect materially and adversely the ability of the Borrower to perform any of its obligations under this Agreement.

ARTICLE VII

Termination

Section 7.01. The date one hundred twenty (120) days after the date of this Agreement is hereby specified for the purposes of Section 12.04 of the General Conditions.

ARTICLE 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
Telex: 248423 (MCI) or 64145 (MCI)
Facsimile: (202) 477-6391
For the Borrower:

Societe Nationale d’Exploitation et de Distribution des Eaux
Avenue Sliman Ben Slimane
El-Manar
Tunis - 2092
Republic of Tunisia

Cable address: SONEDE
Facsimile: 216.71.871.000
Tunis

IN WITNESS WHEREOF, the parties hereto, acting through their duly authorized representatives, have caused this Agreement to be signed in their respective names in Tunis, Republic of Tunisia, as of the day and year first above written.

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

By /s/ Theodore Ahlers
Authorized Representative

SOCIETE NATIONALE D’EXPLOITATION ET DE DISTRIBUTION DES EAUX

By /s/ Mohamed Ali Khouadja
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:

<table>
<thead>
<tr>
<th>Category</th>
<th>Amount of the Loan Allocated (expressed in Euros)</th>
<th>% of Expenditures To be Financed</th>
</tr>
</thead>
<tbody>
<tr>
<td>(1) Treatment Works (Turnkey, design-build)</td>
<td>9,200,000</td>
<td>80%</td>
</tr>
<tr>
<td>(2) Works</td>
<td>9,800,000</td>
<td>80%</td>
</tr>
<tr>
<td>(3) Goods</td>
<td>10,000,000</td>
<td>100% of foreign expenditures, and 80% of local expenditures</td>
</tr>
<tr>
<td>(4) Technical Assistance and training</td>
<td>1,922,500</td>
<td>96%</td>
</tr>
<tr>
<td>(5) Front-end Fee</td>
<td>77,500</td>
<td></td>
</tr>
<tr>
<td>(6) Premia for Interest Rate Caps and Interest Rate Collars</td>
<td>0</td>
<td>Amount due under Section 2.09(c) of this Agreement</td>
</tr>
</tbody>
</table>

**TOTAL** 31,000,000

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;

   (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; and
the term “treatment works” means civil works and equipment associated with the water treatment facility for the production of potable water under Part A of the Project.

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, except that withdrawals, in an aggregate amount not exceeding four million Euros (€4,000,000), may be made in respect of Categories (2) and (3) set forth in the table in paragraph 1 of this Schedule on account of payments made for expenditures before that date but after July 9, 2005.

4. The Bank may require withdrawals from the Loan Account to be made on the basis of statements of expenditure for expenditures under contracts for: (a) goods costing less than $1,500,000 equivalent per contract; (b) works costing less than $1,500,000 equivalent per contract; (c) for services of individual consultants costing less than $50,000 equivalent per contract; and (d) for services of consulting firms under contracts costing less than $100,000 equivalent per contract, all under such terms and conditions as the Bank shall specify by notice to the Borrower.
SCHEDULE 2

Description of the Project

The objectives of the Project are to assist the Borrower in: (a) improving the quality of the water supply and service delivery infrastructure in the Greater Tunis, Northern and Central Regions of Tunisia; and (b) enhancing its operational and management functions.

Part A: Improvements to the Greater Tunis Region Water Supply System

Carrying out civil works and provision of equipment and technical assistance to strengthen the Greater Tunis Region water supply system through improvements to the water treatment, transmission, and distribution infrastructure, including:

1. expansion and improvement works on the water treatment plant in Ghdir El Golla to increase its water and sludge treatment and storage capacities;
2. rehabilitation of the water supply transmission pipeline between Ghdir El Golla and Ras Tabia;
3. upgrading the distribution network and construction of a water pumping station with associated electromechanical equipment in Mornag;
4. upgrading the distribution network, construction of a water pumping station with associated electromechanical equipment and the construction of a water storage tank in Borj Touil;
5. construction of a water storage tank in La Gazelle; and
6. construction of a water storage tank in each of Ghdir El Golla and Bir El Kassa.

Part B: Improvements to the Water Supply Systems of Urban Centers of the Northern and Central Regions

Carrying out of civil works and provision of equipment and technical assistance to strengthen the Northern and Central Regions’ water supply systems through the upgrading of water production, storage, transmission and distribution infrastructure, including:

1. construction of a water storage tank in Ain Draham;
(2) construction of a water storage tank, drilling of one new borehole, rehabilitation of an existing borehole and two borehole protection structures, and installation of associated electromechanical equipment in Ghardimaou;

(3) construction of two water storage tanks, upgrading the water transmission network, and drilling of a borehole in Rouhia;

(4) construction of a water storage tank, and retrofitting an existing borehole with a new power supply and electrometrical systems in Nasrallah;

(5) upgrading the distribution network in Kalaa Kbira;

(6) construction of a pumping station, including the provision of associated power supply and electromechanical equipment, and upgrading the distribution network in Jammel; and

(7) construction of a water storage tank and a pressure regulation tank in Ouerdanine.

Part C: Management Capacity Building

Carrying out of technical and managerial studies and provision of technical assistance and training, decision-making tools, and establishment of management information systems to enhance the Borrower’s management, planning and service performance, including:

1. Corporate Plan and Organizational Audit: Provision of technical assistance to sustain the Borrower’s market competitiveness through focused management capacity building activities, including:

   (a) the carrying out of a strategic planning exercise to identify water supply market trends and develop an associated corporate plan; and

   (b) the carrying out of an organizational and human resources audit.

2. Financial Simulation Model: Provision of technical assistance to optimize the Borrower’s investment and borrowing programs, tariff adjustment rationales, and performance management goals through the development of a financial simulation model.

4. **Human Resources Management Information System:** Provision of technical assistance and computer software to facilitate the Borrower’s efficient management of labor resources and costs.

5. **Monitoring of EMP:** Provision of technical assistance and training to assist the Borrower in carrying out the EMP.

* * *

The Project is expected to be completed by December 31, 2011.
SCHEDULE 3

Amortization Schedule

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

<table>
<thead>
<tr>
<th>Payment Date</th>
<th>Installment Share (Expressed as a %)</th>
</tr>
</thead>
<tbody>
<tr>
<td>March 15, 2011</td>
<td>4.17%</td>
</tr>
<tr>
<td>September 15, 2011</td>
<td>4.17%</td>
</tr>
<tr>
<td>March 15, 2012</td>
<td>4.17%</td>
</tr>
<tr>
<td>September 15, 2012</td>
<td>4.17%</td>
</tr>
<tr>
<td>March 15, 2013</td>
<td>4.17%</td>
</tr>
<tr>
<td>September 15, 2013</td>
<td>4.17%</td>
</tr>
<tr>
<td>March 15, 2014</td>
<td>4.17%</td>
</tr>
<tr>
<td>September 15, 2014</td>
<td>4.17%</td>
</tr>
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<td>March 15, 2015</td>
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2. If the proceeds of the Loan shall not have been fully withdrawn as of the first Principal Payment Date, the principal amount of the Loan repayable by the Borrower on each Principal Payment Date shall be determined as follows:

   (a) To the extent that any proceeds of the Loan shall have been withdrawn as of the first Principal Payment Date, the Borrower shall repay the amount withdrawn and outstanding as of such date in accordance with paragraph 1 of this Schedule.

   (b) Any withdrawal made after the first Principal Payment Date shall be repaid on each Principal Payment Date falling after the date of such withdrawal in amounts determined by the Bank by multiplying the amount of each such withdrawal by a fraction, the numerator of which shall be the original Installment Share specified in the table in paragraph 1 of this Schedule for said Principal Payment Date (the Original Installment Share) and the denominator of which shall be the sum of all remaining Original Installment Shares for Principal Payment Dates falling on or after such date, such repayment amounts to be adjusted, as necessary, to deduct any amounts referred to in paragraph 4 of this Schedule, to which a Currency Conversion applies.

3. (a) Withdrawals made within two (2) calendar months prior to any Principal Payment Date shall, for the purposes solely of calculating the principal amounts payable on any Principal Payment Date, be treated as withdrawn and outstanding on the second Principal Payment Date following the date of withdrawal and shall be repayable on each Principal Payment Date commencing with the second Principal Payment Date following the date of withdrawal.

   (b) Notwithstanding the provisions of sub-paragraph (a) of this paragraph 3, if at any time the Bank shall adopt a due date billing system under which invoices are issued on or after the respective Principal Payment Date, the provisions of such sub-paragraph shall no longer apply to any withdrawals made after the adoption of such billing system.

4. Notwithstanding the provisions of paragraphs 1 and 2 of this Schedule, upon a Currency Conversion of all or any portion of the withdrawn principal amount of the Loan to an Approved Currency, the amount so converted in said Approved Currency that shall be repayable on any Principal Payment Date occurring during the Conversion Period, shall be determined by the Bank by multiplying such amount in its currency of denomination immediately prior to said Conversion by either: (i) the exchange rate that reflects the amounts of principal in said Approved Currency payable by the Bank under the Currency Hedge Transaction relating to said Conversion; or (ii) if the Bank so determines in accordance with the Conversion Guidelines, the exchange rate component of the Screen Rate.
5. If the principal amount of the Loan withdrawn and outstanding from time to time shall be denominated in more than one Loan Currency, the provisions of this Schedule shall apply separately to the amount denominated in each Loan Currency, so as to produce a separate amortization schedule for each such amount.
SCHEDULE 4

Procurement

Section I. General

A. All goods, works and services (other than consultants’ services) shall be procured in accordance with the provisions of Section I of the “Guidelines: Procurement under IBRD Loans and IDA Credits” dated May 2004 (the Procurement Guidelines), and with the provisions of this Schedule.

B. All consultants’ services shall be procured in accordance with Sections I and IV of the “Guidelines: Selection and Employment of Consultants by World Bank Borrowers” dated May 2004 (the Consultant Guidelines), and with the provisions of this Schedule.

C. The capitalized terms used below in this Schedule to describe particular procurement methods or methods of review by the Bank of particular contracts, have the meanings ascribed to them in the Procurement Guidelines, or Consultant Guidelines, as the case may be.

Section II. Particular Methods of Procurement of Goods, Works and Services (other than Consultants’ Services)

A. International Competitive Bidding. Except as otherwise provided in Part B of this Section, contracts shall be awarded on the basis of International Competitive Bidding. The provisions of paragraphs 2.55 and 2.56 of the Procurement Guidelines, providing for domestic preference in the evaluation of bids, shall apply to goods manufactured by contractors in the territory of the Guarantor.

B. Other Procurement Procedures

1. National Competitive Bidding. Goods estimated to cost less than $1,500,000 equivalent per contract and works estimated to cost less than $5,000,000 equivalent per contract, may be procured under contracts awarded on the basis of National Competitive Bidding in accordance with procedures acceptable to the Bank. Said procedures shall ensure, inter alia, that:

   (i) Bids are advertised in national newspapers with wide circulation.

   (ii) The bid document clearly explains the bid evaluation, award criteria and bidder qualification criteria.
(iii) Bidders are given adequate response time to prepare and submit bids four (4) weeks minimum.

(iv) Bids may be submitted, at the bidder’s option, in person or by courier service.

(v) Technical and financial bids are publicly and simultaneously opened.

(vi) Bids shall be evaluated on price and any other criteria disclosed in the bid documents and quantified in monetary terms and contract area awarded to the qualified bidder with the lowest evaluated responsive bid.

(vii) No eligible bidder is excluded from participation.

(viii) Government owned enterprises in the Recipient’s country may participate only if they can establish that they: (a) are legally and financially autonomous; (b) operate under commercial law; and (c) are not dependent agencies of the Recipient or of any other entity that is a dependant of the Recipient.

(ix) No domestic preference is applicable to domestic bids.

(x) No foreign bidder is forced to submit a bid in association with domestic firms as a condition for bidding.

(xi) Prior to issuing the first call for bids, a draft standard bidding document to be used under National Competitive Bidding Procurement must be submitted to, and found acceptable by, the Bank.

(xii) The procedures shall include publication of evaluation results and the details of the contract awarded, and provisions for bidders to protest.

2. **Shopping.** Goods estimated to cost less than $75,000 equivalent per contract may be procured under contracts awarded on the basis of Shopping.

3. **Direct Contracting.** Goods which are specialized or of a proprietary nature costing less than $50,000 may, with Bank’s prior agreement, be procured in accordance with the provisions of paragraph 3.6 of the Guidelines.
Section III. Particular Methods of Procurement of Consultants’ Services

A. Quality- and Cost-based Selection. Except as otherwise provided in Part B of this Section, consultants’ services shall be procured under contracts awarded on the basis of Quality- and Cost-based Selection.

B. Other Procedures

1. Quality-based Selection. Services for assignments which the Bank agrees meet the requirements set forth in paragraph 3.2 of the Consultant Guidelines may be procured under contracts awarded on the basis of Quality-based Selection in accordance with the provisions of paragraphs 3.1 through 3.4 of the Consultant Guidelines.

2. Selection Based on Consultants’ Qualifications. Services estimated to cost less than $100,000 equivalent per contract may be procured under contracts awarded in accordance with the provisions of paragraphs 3.1, 3.7 and 3.8 of the Consultant Guidelines.

3. Single Source Selection. Services for tasks in circumstances which meet the requirements of paragraph 3.10 of the Consultant Guidelines for Single Source Selection, may, with the Bank’s prior agreement, be procured in accordance with the provisions of paragraphs 3.9 through 3.13 of the Consultant Guidelines.

4. Individual Consultants. Services for assignments that meet the requirements set forth in the first sentence of paragraph 5.1 of the Consultant Guidelines may be procured under contracts awarded to individual consultants in accordance with the provisions of paragraphs 5.2 through 5.3 of the Consultant Guidelines. Under the circumstances described in paragraph 5.4 of the Consultant Guidelines, such contracts may be awarded to individual consultants on a single-source basis.

For purposes of paragraph 2.07 of the Consultant Guidelines, the short list of consultants for services estimated to cost less than $200,000 equivalent per contract may comprise entirely national consultants.

Section IV. Review by the Bank of Procurement Decisions

The Procurement Plan shall set forth those contracts which shall be subject to the Bank’s Prior Review. All other contracts shall be subject to Post Review by the Bank.
SCHEDULE 5

Implementation Program

Project Coordination and Implementation

1. The Borrower shall, throughout the duration of the Project, maintain the PIU under terms of reference and with a composition satisfactory to the Bank. The PIU shall be responsible for overall Project oversight, supervision, monitoring, and coordination. The Borrower shall ensure that the PIU is at all times: (i) staffed with key personnel to carry out its operations, including a Project Manager who is responsible for the day-to-day operations of the PIU; engineers; and specialists in financial management, and procurement; and (ii) provided with adequate resources and suitably qualified and experienced staff in adequate numbers.

2. The Borrower shall:

   (a) ensure that:

      (i) its Directorate for Engineering Studies is vested with the responsibility of preparing and supervising the preparation of the infrastructure designs associated with Parts A and B of the Project;

      (ii) its Directorate of Construction is vested with the responsibility of carrying out the civil works under Parts A and B of the Project;

      (iii) its General Studies Directorate is vested with the responsibility of supervising the carrying out of the corporate plan study under Part C of the Project;

      (iv) its Directorate of Organization is vested with the responsibility of supervising the organizational and human resources audit under Part C of the Project;

      (v) its Directorate of Finance and Accounting is vested with the responsibility of supervising the development of the financial simulation model under Part C of the Project;

      (vi) its Directorate of Operations and Directorate of Information Systems are jointly vested with the responsibility of the carrying out of activities under Part C of the Project; and
(vii) its Directorate of Human Resources and Directorate of Information Systems are jointly vested with the responsibility of the carrying out of activities under Part C of the Project; and

(b) cause each of said Directorates to carry out its respective responsibilities consistent with this Agreement, all in a manner and substance satisfactory to the Bank.

Operations Manual

3. The Borrower shall ensure that:

(a) all Project activities are carried out in accordance with the Operations Manual; and

(b) the Operations Manual, or any portions thereof, shall not be revised, amended, abrogated, repealed, or deviated from without the prior approval of the Bank.

Corporate Plan and Organizational Audit

4. For purposes of carrying out Part C.1 of the Project, the Borrower shall:

(a) (i) by November 1, 2008, prepare and furnish to the Bank for its review and comments, a corporate plan that includes an assessment of the Borrower’s future market trends and appropriate medium- to long-range action plans all aimed at maintaining the Borrower’s market competitiveness; and

(ii) immediately thereafter, carry out a program of actions to commence the implementation of said plans, taking into account the Bank’s comments thereon; and

(b) (i) by April 30, 2008, carry out an audit of the Borrower’s organization and human resource management; and

(ii) based upon said audit, by October 31, 2009, prepare and furnish to the Bank for its review and comments, a management action plan, and immediately thereafter carry out said plan, taking into account the Bank’s comments thereon.

Financial Simulation Model

5. For purposes of Part C.2 of the Project, the Borrower shall prepare and furnish to the Bank for its review and comments by December 31, 2008, under terms of reference satisfactory to the Bank, a financial simulation model, and immediately thereafter carry
out a program of actions consistent with said model, taking into account the Bank’s comments thereon.

**Environmental and Social Safeguards**

6. In carrying out Parts A and B of the Project, the Borrower shall ensure that:

(a) (i) all works and land acquisition activities are carried out in accordance with the EMP or the Land Acquisition Plan, as the case may be, in a manner and substance satisfactory to the Bank; and

(ii) the EMP and the Land Acquisition Plan shall not be amended, revised, or abrogated without the prior approval of the Bank; and

(b) (i) prior to the carrying out of any Project activities not identified, assessed, nor included in the EMP, such activities shall be subject to an environmental impact study, under terms of reference and in form and substance satisfactory to the Bank, and

(ii) such activities included in said environmental impact study shall be carried out in accordance with an environmental management plan, in a manner and substance satisfactory to the Bank.

**Mid-Term review, Project Monitoring and Evaluation**

7. The Borrower shall:

(a) maintain policies and procedures adequate to enable it to monitor and evaluate project performance on an ongoing basis, in accordance with indicators agreed upon with the Bank;

(b) prepare, under terms of reference satisfactory to the Bank, and furnish to the Bank, on or about April 30, 2009, a report integrating the results of the monitoring and evaluation activities performed pursuant to paragraph (a) of this Section, on the progress achieved in the carrying out of 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 and the achievement of the objectives thereof during the period following such date; and

(c) review with the Bank, by June 30, 2009, or such later date as the Bank shall request, the report referred to in paragraph (b) of this paragraph 7, 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.