

CONFORMED COPY

CREDIT NUMBER 2844 MAG

Development Credit Agreement

(Energy Sector Development Project)

between

REPUBLIC OF MADAGASCAR

and

INTERNATIONAL DEVELOPMENT ASSOCIATION

Dated May 29, 1996

CREDIT NUMBER 2844 MAG

DEVELOPMENT CREDIT AGREEMENT

AGREEMENT, dated May 29, 1996, between REPUBLIC OF MADAGASCAR (the Borrower) and INTERNATIONAL DEVELOPMENT ASSOCIATION (the Association).

WHEREAS: (A) the Borrower has submitted to the Association a letter, dated October 13, 1994, as supplemented by a further letter dated October 3, 1995, describing a program of actions, objectives and policies designed to achieve an adjustment of the Borrower's energy sector (hereinafter referred to as "the Program");

(B) the Borrower has declared its commitment to the execution of the Program and, having satisfied itself as to the feasibility and priority of the Project described in Schedule 2 to this Agreement, has requested the Association to assist in the financing of the Project;

(C) the Borrower intends to contract from European Investment Bank (EIB) a loan (the EIB Loan) in an amount equivalent to European Currency Units 20 million to assist in financing the Project on the terms and conditions set forth in an agreement (the EIB Loan Agreement) to be entered into between the Borrower and EIB;

(D) the Borrower intends to contract from Arab Bank for Economic Development in Africa (ABEDA) a loan (the ABEDA Loan) in an amount equivalent to \$7 million to assist in financing the Project on the terms and conditions set forth in an agreement (the ABEDA Loan Agreement) to be entered into between the Borrower and ABEDA;

(E) Part A of the Project will be carried out by the Borrower's national electricity and water company, Jiro Sy Rano Malagasy (JIRAMA),

with the Borrower's assistance and, as part of such assistance, the Borrower will make available to JIRAMA a portion of the proceeds of the Credit as provided in this Agreement;

(F) JIRAMA intends to contract from Caisse Francaise de Developpement (CFD) a loan (the CFD Loan) in an amount equivalent to French Francs 170 million to assist in financing the Project on the terms and conditions set forth in an agreement (the CFD Loan Agreement) to be entered into between JIRAMA and CFD; and

WHEREAS the Association has agreed, on the basis, inter alia, of the foregoing, to extend the Credit to the Borrower upon the terms and conditions set forth in this Agreement and in the Project Agreement of even date herewith between the Association and JIRAMA;

NOW THEREFORE the parties hereto hereby agree as follows:

ARTICLE I

General Conditions; Definitions

Section 1.01. The "General Conditions Applicable to Development Credit Agreements" of the Association, dated January 1, 1985, with the last sentence of Section 3.02 deleted (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) "MEM" means Ministere de l'Energie et des Mines of the Borrower;

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

(c) "Project Preparation Advance" means the project preparation advances granted by the Association to the Borrower pursuant to two letters of agreement signed by the Association and countersigned by the Borrower, dated March 31, 1993 and September 21, 1994, respectively;

(d) "Special Account" means either or both of the accounts referred to in Section 2.02 (b) of this Agreement; and

(e) "Subsidiary Loan Agreement" means the agreement to be entered into between the Borrower and JIRAMA pursuant to Section 3.01 (c) of this Agreement, as the same may be amended from time to time, and such term includes any schedules to the Subsidiary Loan Agreement.

ARTICLE II

The Credit

Section 2.01. The Association agrees to lend to the Borrower, on the terms and conditions set forth or referred to in the Development Credit Agreement, an amount in various currencies equivalent to thirty one million eight hundred thousand Special Drawing Rights (SDR 31,800,000).

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

(b) The Borrower may open and maintain in dollars one special deposit account (hereinafter referred to as JIRAMA Special Account) for the purposes of Part A of the Project, and another special deposit account (hereinafter referred to as MEM Special Account) for the purposes of Parts B, C and D of the Project. Special accounts shall be held and

maintained in a commercial bank on terms and conditions satisfactory to the Association, including appropriate protection against setoff, seizure or attachment. Deposits into, and payments out of, a Special Account shall be made in accordance with the provisions of Schedule 5 to this Agreement.

(c) Promptly after the Effective Date, the Association shall, on behalf of the Borrower, withdraw from the Credit Account and pay to itself the amount required to repay the principal amount of the Project Preparation Advance withdrawn and outstanding as of such date and to pay all unpaid charges thereon. The unwithdrawn balance of the authorized amount of the Project Preparation Advance shall thereupon be cancelled.

Section 2.03. The Closing Date shall be December 31, 2001, or such later date as the Association shall establish. The Association shall promptly notify the Borrower of such later date.

Section 2.04. (a) The Borrower shall pay to the Association a commitment charge on the principal amount of the Credit not withdrawn from time to time at a rate to be set by the Association as of June 30 of each year, but not to exceed the rate of one-half of one percent (1/2 of 1%) per annum.

(b) The commitment charge shall accrue: (i) from the date sixty days after the date of this Agreement (the accrual date) to the respective dates on which amounts shall be withdrawn by the Borrower from the Credit Account or cancelled; and (ii) at the rate set as of the June 30 immediately preceding the accrual date or at such other rates as may be set from time to time thereafter pursuant to paragraph (a) above. The rate set as of June 30 in each year shall be applied from the next payment date in that year specified in Section 2.06 of this Agreement.

(c) The commitment charge shall be paid: (i) at such places as the Association shall reasonably request; (ii) without restrictions of any kind imposed by, or in the territory of, the Borrower; and (iii) in the currency specified in this Agreement for the purposes of Section 4.02 of the General Conditions or in such other eligible currency or currencies as may from time to time be designated or selected pursuant to the provisions of that Section.

Section 2.05. The Borrower shall pay to the Association a service charge at the rate of three-fourths of one percent (3/4 of 1%) per annum on the principal amount of the Credit withdrawn and outstanding from time to time.

Section 2.06. Commitment charges and service charges shall be payable semiannually on May 15 and November 15 in each year.

Section 2.07. (a) Subject to paragraphs (b) and (c) below, the Borrower shall repay the principal amount of the Credit in semiannual installments payable on each May 15 and November 15, commencing May 15, 2006, and ending November 15, 2035. Each installment to and including the installment payable on November 15, 2015, shall be one percent (1%) of such principal amount, and each installment thereafter shall be two percent (2%) of such principal amount.

(b) Whenever: (i) the Borrower's gross national product per capita, as determined by the Association, shall have exceeded \$790 in constant 1985 dollars for five consecutive years; and (ii) the Bank shall consider the Borrower creditworthy for Bank lending, the Association may, subsequent to the review and approval thereof by the Executive Directors of the Association and after due consideration by them of the development of the Borrower's economy, modify the terms of repayment of installments under paragraph (a) above by requiring the Borrower to repay twice the amount of each such installment not yet due until the principal amount of the Credit shall have been repaid. If so requested by the Borrower, the Association may revise such modification to include, in lieu of some or all of the increase in the amounts of such installments, the payment of interest at an annual rate agreed with the Association on the principal amount of the Credit withdrawn and outstanding from time to time, provided that, in the judgment of the Association, such revision shall not change the grant element obtained under the above-mentioned repayment modification.

(c) If, at any time after a modification of terms pursuant to paragraph (b) above, the Association determines that the Borrower's economic condition has deteriorated significantly, the Association may, if so requested by the Borrower, further modify the terms of repayment to conform to the schedule of installments as provided in paragraph (a) above.

Section 2.08. The currency of the United States of America is hereby specified for the purposes of Section 4.02 of the General Conditions.

Section 2.09. JIRAMA is designated as representative of the Borrower in respect of Part A of the Project for the purposes of taking any action required or permitted to be taken under the provisions of Section 2.02 of this Agreement and Article V of the General Conditions.

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:

- (i) shall carry out Parts B, C and D of the Project with due diligence and efficiency, and in conformity with appropriate administrative, financial and environmental practices, and shall provide, promptly as needed, the funds, facilities, services and other resources required for such Parts of the Project; and
- (ii) without limitation or restriction upon any of its other obligations under the Development Credit Agreement, the Borrower shall cause JIRAMA to perform all its obligations set forth in the Project Agreement, shall take or cause to be taken all action, including the provision of funds, facilities, services and other resources, necessary or appropriate to enable JIRAMA to perform such obligations, and shall not take or permit to be taken any action which would prevent or interfere with such performance.

(b) Without limitation upon the provisions of paragraph (a) of this Section, and except as the Borrower and the Association shall otherwise agree, the Borrower shall carry out Parts B, C and D of the Project in accordance with the Implementation Program set forth in Schedule 4 to this Agreement.

(c) The Borrower shall relend the portion of the proceeds of the Credit allocated to Part A of the Project to JIRAMA under a subsidiary loan agreement to be entered into between the Borrower and JIRAMA, under terms and conditions which shall have been approved by the Association, which shall include: (i) an adjustable interest rate equal to the London Interbank Rate (LIBOR) plus nine-tenths of one percentage point per annum, (ii) a repayment period of twenty five years, including a grace period of five years, and (iii) a requirement that the foreign exchange risk involved in the transaction shall be borne by JIRAMA.

(d) The Borrower shall exercise its rights under the Subsidiary Loan Agreement in such manner as to protect the interests of the Borrower and the Association and to accomplish the purposes of the Credit, and except as the Association shall otherwise agree, the Borrower shall not assign, amend, abrogate or waive the Subsidiary Loan Agreement or any provision thereof.

Section 3.02. Except as the Association shall otherwise agree, procurement of the goods, works and consultants' services required for Parts B, C and D of the Project and to be financed out of the proceeds of the Credit shall be governed by the provisions of Schedule 3 to this Agreement.

Section 3.03. The Borrower and the Association hereby agree that

the obligations set forth in Sections 9.03, 9.04, 9.05, 9.06, 9.07 and 9.08 of the General Conditions (relating to insurance, use of goods and services, plans and schedules, records and reports, maintenance and land acquisition, respectively) in respect of Part A of the Project shall be carried out by JIRAMA pursuant to Section 2.03 of the Project Agreement.

Section 3.04. Without limitation upon the provisions of Article IX of the General Conditions, the Borrower shall:

(a) prepare and furnish to the Association, 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 Association, a plan, of such scope and in such detail as the Association shall reasonably request, for the future operation of the Project;

(b) afford the Association a reasonable opportunity to exchange views with the Borrower on said plan; and

(c) thereafter, carry out said plan with due diligence and efficiency, and in accordance with appropriate practices, taking into account the Association's comments thereon.

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 Parts B, C and D 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 Association;

(ii) furnish to the Association, as soon as available, but in any case not later than six (6) months after the end of each such year, a certified copy of the report of such audit by said auditors, of such scope and in such detail as the Association shall have reasonably requested; and

(iii) furnish to the Association such other information concerning said records, accounts and the audit thereof as the Association shall from time to time reasonably request.

(c) For all expenditures with respect to which withdrawals from the Credit 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 Association has received the audit report for the fiscal year in which the last withdrawal from the Credit Account or payment out of the Special Account was made, all records (contracts, orders, invoices, bills, receipts and other documents, or customs certificates, as appropriate) evidencing such expenditures;

(iii) enable the Association'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 Association

Section 5.01. Pursuant to Section 6.02 (h) 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) JIRAMA shall have failed to perform any of its obligations under the Project Agreement;

(c) as a result of events which have occurred after the date of the Development Credit Agreement, an extraordinary situation shall have arisen which shall make it improbable that JIRAMA will be able to perform its obligations under the Project Agreement;

(d) except in accordance with the requirements of the Program, Ordinance No. 75-024 establishing JIRAMA or Arr't^ No. 7800-92 regarding tariff adjustments shall have been amended, suspended, abrogated, repealed or waived so as to affect materially and adversely the ability of JIRAMA to perform any of its obligations under the Project Agreement;

(e) except in accordance with the requirements of the Program, the Borrower or any other authority having jurisdiction shall have taken any action for the dissolution or disestablishment of JIRAMA or for the suspension of its operations; and

(f) (i) subject to subparagraph (ii) of this paragraph:

(A) the right of the Borrower to withdraw the proceeds of any loan or grant made to the Borrower for the financing of the Project shall have been suspended, cancelled or terminated in whole or in part, pursuant to the terms thereof, or

(B) any such 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 Association 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 (d) of the General Conditions, the following additional events are specified:

(a) any event specified in paragraph (b) of Section 5.01 of this Agreement shall occur and shall continue for a period of thirty days after notice thereof shall have been given by the Association to the Borrower;

(b) any event specified in paragraph (d) or (e) of Section 5.01 of this Agreement shall occur;

(c) any event specified in paragraph (f) (i) (B) of Section 5.01 of this Agreement shall occur, subject to the proviso of paragraph (f) (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 Development Credit Agreement within the meaning of Section 12.01 (b) of the General Conditions:

(a) the Subsidiary Loan Agreement has been executed on behalf of the Borrower and JIRAMA;

(b) a request for proposals for the recruitment of consultants required for purposes of the proposed restructuring of JIRAMA under Part C.3 of the Project has been issued;

(c) the Borrower or JIRAMA, as the case may be, has appointed all key personnel required for the implementation of the Project; and

(d) in respect of all contracts to be awarded during the first year of implementation of the Project, the Borrower or JIRAMA, as the case may be, has submitted to the Association the draft bidding documents for review.

Section 6.02. The following are specified as additional matters, within the meaning of Section 12.02 (b) of the General Conditions, to be included in the opinion or opinions to be furnished to the Association:

(a) that the Project Agreement has been duly authorized or ratified by JIRAMA, and is legally binding upon JIRAMA in accordance with its terms; and

(b) that the Subsidiary Loan Agreement has been duly authorized or ratified by the Borrower and JIRAMA and is legally binding upon the Borrower and JIRAMA in accordance with its terms.

Section 6.03. The date ninety (90) days after the date of this Agreement is hereby specified for the purposes of Section 12.04 of the General Conditions.

Section 6.04. The obligations of the Borrower under Section 4.01 of this Agreement shall cease and determine on the date on which the Development Credit Agreement shall terminate or on the date fifteen years after the date of this Agreement, whichever shall be the earlier.

ARTICLE VII

Representatives of the Borrower; Addresses

Section 7.01. Except as provided in Section 2.09 of this Agreement, the Minister of Finance of the Borrower is designated as representative of the Borrower for the purposes of Section 11.03 of the General Conditions.

Section 7.02. The following addresses are specified for the purposes of Section 11.01 of the General Conditions:

For the Borrower:

Ministry of Finance
Antananarivo
Madagascar

Cable address:

MINFIN
Antananarivo

Telex:

22489

For the Association:

International Development Association
1818 H Street, N.W.
Washington, D.C. 20433
United States of America

Cable address:

INDEVAS
Washington, D.C.

Telex:

248423 (RCA)
82987 (FTCC)
64145 (WUI) or
197688 (TRT)

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

REPUBLIC OF MADAGASCAR

By /s/ Pierrot Rajaonarivelo
Authorized Representative

INTERNATIONAL DEVELOPMENT ASSOCIATION

By /s/ Callisto E. Madavo
Regional Vice President
Africa

SCHEDULE 1

Withdrawal of the Proceeds of the Credit

1. The table below sets forth the Categories of items to be financed out of the proceeds of the Credit, the allocation of the amounts of the Credit to each Category and the percentage of expenditures for items so to be financed in each Category:

Category	Amount of the Credit Allocated (Expressed in SDR Equivalent)	% of Expenditures to be Financed
Part A of the Project		
(1) Goods:		
(a) electromechanical equipment	12,700,000	100% of foreign expenditures
(b) general plant	3,800,000	100% of foreign expenditures and 90% of local expenditures

(2)	Consultancy services and training	2,200,000	100%
Parts B, C & D of the Project			
(3)	Works	650,000	100% of foreign expenditures and 80% of local expenditures
(4)	Electrical equipment and general plant	3,450,000	100% of foreign expenditures and 90% of local expenditures
(5)	Consultancy services	5,300,000	100%
(6)	Training	300,000	100% of foreign expenditures and 90% of local expenditures
Other			
(7)	Refunding of Project Preparation Advance	1,100,000	Amounts due pursuant to Section 2.02 (c) of this Agreement
(8)	Unallocated	2,300,000	
	TOTAL	31,800,000	

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 or services supplied from the territory of any country other than that of the Borrower;

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

(c) the term "general plant" means tools and other maintenance equipment; specialized trucks for transmission and distribution work, and other vehicles; data processing equipment, and other office equipment, and equipment for JIRAMA's training center.

3. Notwithstanding the provisions of paragraph 1 above, no withdrawals shall be made in respect of: (a) payments made for expenditures, or goods imported, as the case may be, prior to the date of this Agreement; or (b) expenditures under Categories (3) or (4) of the table in paragraph 1 of this Schedule, unless the regulatory agency under Part C.1 of the Project has been duly created.

4. The Association may require withdrawals from the Credit Account to be made on the basis of statements of expenditure for expenditures under contracts for goods, works and services not exceeding \$50,000 equivalent, under such terms and conditions as the Association shall specify by notice to the Borrower.

SCHEDULE 2

Description of the Project

The objectives of the Project are: (a) to improve the Borrower's

sustainable growth prospects by ensuring an adequate supply of electricity in the medium term, both for businesses and households, including an increased access of peri-urban and rural populations to the service; (b) to create an institutional foundation for greater economic and management efficiency in the power subsector, and (c) to promote greater efficiency in the production and consumption of energy, thus helping to mitigate the adverse environmental impact of woodfuel use.

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

Part A: JIRAMA's Priority Investment Program for Electricity

1. (a) Rehabilitation of the hydroelectric power stations of Antelomita I and II (8 MW in total), Mandraka (24 MW), Manandona (1.6 MW), and Volobe (7 MW), including:

- (i) in the case of Mandraka, replacement of turbine wheels, and overhaul of generators and control systems;
- (ii) in the case of Antelomita, rehabilitation of five units, and replacement of two other units with a single new 3-MW unit;
- (iii) in the case of Manandona, rehabilitation of three existing units and addition of one new 2.5 MW unit; and
- (iv) rehabilitation of civil and hydraulic structures, penstocks, auxiliaries and substation equipment for all four stations.

(b) Improvement of electro-mechanical and control equipment of other hydro plants.

2. Provision of new diesel generating sets with unit capacities ranging from 40 kW to 1 MW, as well as spare parts, auxiliary equipment and expert assistance to undertake rehabilitation works in JIRAMA's diesel plants.

3. Construction of a transmission extension to link the port cities of Manakara and Mananjary to the Namorona hydroelectric power station.

4. (a) Reconstruction of the 30-kV line between Moramanga and Perinet, and replacement of old structures in the 63-kV line between Antananarivo and Antsirabe.

(b) Reconstruction of the 20-kV line linking Manandray hydro power station to the city of Fianarantsoa, and replacement of old poles in the 20-kV line between the hydro power station of Namorona and the town of Ifanadiana.

5. Introduction of a new distribution network structure in Antananarivo, involving construction of a new line and a new 138-kV, 40-MVA substation to the north of the city, construction of 20-kV lines, and installation of new distribution transformers, as well as rehabilitation and reinforcement of existing substations, and rehabilitation of parts of the existing 35-kV, 20-kV and 5-kV networks.

6. Reinforcement of distribution substations, as well as rehabilitation and extension of distribution networks in the large distribution centers other than Antananarivo, namely, Antsirabe, Fianarantsoa, Toamasina, Antsiranana, Nosy-Be, Mahajanga and Toliara.

7. Provision of about 30,000 new service connections.

8. (a) Extension of the pilot electrification project to the west of Antananarivo, designed to incorporate the thermal isolated systems of Tsiroanomandidy, Miarinarivo and Soavinandriana, with a combined demand of 0.5 MW, and to electrify 17 small villages along the way by means of single phase branches.

(b) Electrification of the villages of Alakamisy-Ambohimaha,

Amontana and Ankijana by extending the Fianarantsoa distribution network.

9. Systematic investigation of energy losses, including preparation and implementation of a loss reduction program.

10. (a) Preparation of a Master Plan for human resource management, in accordance with the parameters for improvements in personnel management as defined under Part C.4 of the Project, including updating of the Jobs Manual, revision of job families and career streams, revision of salary structure and rules for promotions, establishment of an incentive system to attract qualified personnel to the regions, and a plan for the evolution of JIRAMA's manpower, both in numbers and in level of qualification, in accordance with JIRAMA's strategic plans.

(b) Development of a training program designed to improve operational capacity and methods, including short courses for operation and maintenance personnel on specialized technical subjects, and provision of equipment and materials for the training center as well as for operation and maintenance.

(c) Promotion of prevention and security services, through: (i) evaluation of the general level of security within JIRAMA, (ii) identification of the needs of JIRAMA, and preparation of a master plan for the improvement of the security of personnel, and (iii) training of personnel in matters of prevention and security.

11. Provision of hardware, software, technical assistance and training, designed to develop a company-wide management information system, in accordance with the master plan for information technology as reviewed under Part C.4 of the Project, integrating accounting, stock management, commercial operations, personnel management and technical applications.

12. Implementation of feasibility studies for two hydro projects, Ambodiroka (13-MW) and Ramena (6-MW), designed to substitute for thermal generation in the north of Madagascar.

Part B: Electrification Program

Development of a master plan for the extension of low cost electricity services in the country, beginning with a country-wide survey to identify areas with a high enough level of economic activity and other infrastructure to make productive use of electricity; and, based on such a master plan, implementation of an electrification program.

Part C: Institutional Reform

1. Revision of the legal and regulatory framework governing the electricity sector, including the establishment of clear rules for the future operations in the sector, and the creation of a regulatory agency to be responsible, inter alia, for the determination of electricity tariffs.

2. Establishment of the regulatory agency, provision of data processing equipment and software, other office equipment and vehicles, and implementation of a tariffs' study to define regulated prices and adjustment formulae.

3. Preparation of a restructuring package for JIRAMA, in view of adapting JIRAMA to the revised legal and regulatory environment and its transformation into a commercially-oriented joint stock company, taking into account the specific corporate objectives of JIRAMA and the need to attract private sector participation in the equity capital of the company, including:

(a) an assessment of the existing situation of JIRAMA;

(b) the redefinition of its corporate mission and strategy;

(c) details of a proposed financial restructuring package, including revision of the asset base, revaluation of assets and recapitalization; and

(d) review of its statutes, organizational structure and management systems.

4. Definition of the parameters for improvements in personnel management, and review of the master plan for information technology.

Part D: Energy Efficiency Program

1. Implementation of a national program to improve charcoal stoves and to promote more efficient cooking practices in 16 cities, as well as a national program to promote energy efficiency in industry and transport.

2. Implementation of an integrated set of measures on an experimental basis in the Mahajanga region, including development of a master plan for the supply of woodfuels to the city of Mahajanga, establishment of organizational and other mechanisms for improved forest management in the region, training of wood cutters, charcoal makers and stove manufacturers in more efficient techniques, identification of alternative fuels for cooking, and promotion of improved charcoal stoves.

3. Development of a training program designed to improve capacity and methods, including short courses on specialized subjects for personnel responsible for project monitoring.

* * *

The Project is expected to be completed by June 30, 2001.

SCHEDULE 3

Procurement and Consultants' Services

Section I. Procurement of Goods and Works

Part A: International Competitive Bidding

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

(a) When contract award is delayed beyond the original bid validity period, such period may be extended once, subject to and in accordance with the provisions of paragraph 2.59 of the Guidelines, by the minimum amount of time required to complete the evaluation, obtain necessary approvals and clearances and award the contract. The bid validity period may be extended a second time only if the bidding documents or the request for extension shall provide for appropriate adjustment of the bid price to reflect changes in the cost of inputs for the contract over the period of extension. Such an increase in the bid price shall not be taken into account in the bid evaluation. With respect to each contract made subject to the Association's prior review in accordance with the provisions of Part C of this Section, the Association's prior approval will be required for: (i) a first extension of the bid validity period if the period of extension exceeds sixty (60) days; and (ii) any subsequent extension of the bid validity period.

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

(c) In the procurement of goods in accordance with this Part A, the Borrower shall use the relevant standard bidding documents issued by the Bank, with such modifications thereto as the Association shall have agreed to be necessary for the purposes of the Project. Where no relevant standard bidding documents have been issued by the Bank, the Borrower

shall use bidding documents based on other internationally recognized standard forms agreed with the Association.

2. Goods procured in accordance with the procedures described in paragraph 1 (a) above shall be exempted from pre-shipment price inspection by third parties.

Part B: Preference for Domestic Manufacturers

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

Part C: Other Procurement Procedures

1. Works, up to an aggregate amount equivalent to \$840,000, and goods estimated to cost the equivalent of \$250,000 or less per contract, up to an aggregate amount equivalent to \$700,000, may be procured under contracts awarded on the basis of competitive bidding, advertised locally, in accordance with procedures satisfactory to the Association.

2. General plant estimated to cost the equivalent of \$300,000 or less per contract, up to an aggregate amount equivalent to \$500,000, may be procured through the Inter-Agency Procurement Services Office, in accordance with procedures acceptable to the Association.

Part D: Review by the Association of Procurement Decisions

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

(a) With respect to each contract for goods estimated to cost the equivalent of \$250,000 or more, the procedures set forth in paragraphs 2 and 4 of Appendix 1 to the Guidelines shall apply. Where payments for such contract are to be made out of the Special Account, such procedures shall be modified to ensure that the two conformed copies of the contract required to be furnished to the Association pursuant to said paragraph 2 (d) shall be furnished to the Association prior to the making of the first payment out of the Special Account in respect of such contract.

(b) With respect to each contract not governed by the preceding paragraph, the procedures set forth in paragraphs 3 and 4 of Appendix 1 to the Guidelines shall apply. Where payments for such contract are to be made out of the Special Account, such procedures shall be modified to ensure that the two conformed copies of the contract together with the other information required to be furnished to the Association pursuant to said paragraph 3 shall be furnished to the Association as part of the evidence to be furnished pursuant to paragraph 4 of Schedule 5 to this Agreement.

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

2. The figure of 15% is hereby specified for purposes of paragraph 4 of Appendix 1 to the Guidelines.

Section II. Employment of Consultants

1. In order to assist the Borrower in carrying out Parts B, C and D of the Project, the Borrower shall employ consultants whose qualifications, experience and terms and conditions of employment shall be satisfactory to the Association. Such consultants shall be selected in accordance with principles and procedures satisfactory to the Association on the basis of the "Guidelines for the Use of Consultants by World Bank Borrowers and by the World Bank as Executing Agency" published by the Bank in August 1981.

2. Notwithstanding the provisions of paragraph 1 of this Section, the provisions of the Consultant Guidelines requiring prior Association review or approval of budgets, short lists, selection procedures, letters of

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

SCHEDULE 4

Implementation Program

1. (a) The Borrower and the Association shall, not later than December 31, 1997 and, thereafter, not later than December 31 of each subsequent year, undertake, in conjunction with JIRAMA, a joint annual review of the Project (or, as the case may be, not later than December 31, 1998, a midterm review), during which they shall exchange views generally on all matters relating to the progress of the Project and the Program, and the performance by the Borrower and JIRAMA of their respective obligations under this Agreement, the Project Agreement and the Subsidiary Loan Agreement; including, but not limited to:

- (i) progress achieved in the implementation of the Project, having regard to the performance indicators agreed to this effect upon between the Borrower and the Association;
- (ii) a review of the proposed investment program of JIRAMA, including any proposed changes thereto;
- (iii) a review of the level of tariffs applicable to electricity, and the adequacy thereof, having regard to all relevant factors; and
- (iv) progress achieved in the implementation of the action plan referred to in paragraph 4 (a) of this Schedule.

(b) Not later than one month prior to each such review, the Borrower shall furnish to the Association, for its comments, a report, in such detail as the Association shall reasonably request, on the progress and status of the Project, and on the specific matters to be addressed at such review.

(c) Following each such review, the Borrower shall act promptly and diligently, in order to take, or assist JIRAMA in taking, any corrective action deemed necessary to remedy any shortcoming noted in the implementation of the Project, or to implement, or assist JIRAMA in implementing, such other measures as may have been agreed upon between the parties in furtherance of the objectives of the Project.

2. The Borrower shall, not later than May 31, 1996, (a) settle all arrears due to JIRAMA in respect of outstanding electricity bills, and (b) in collaboration with JIRAMA, establish and implement a simplified procedure to ensure the prompt payment of electricity bills by the Borrower and all its constitutive departments and agencies within three (3) months of the receipt of the bills.

3. The Borrower shall, in conjunction with the Association, conduct an annual review of its proposed investment program in the electricity subsector, and, except with the agreement of the Association, shall not engage in any capital investment in the electricity subsector, involving an amount in excess of \$2 million.

4. (a) The Borrower shall proceed to implement, or cause JIRAMA to implement, a short term action plan agreed with the Association and designed to enable JIRAMA to attain a debt to equity ratio of not more than 70/30 by December 31, 1996.

(b) For the purposes of paragraph (a) above the term "debt to equity ratio" means the respective proportions, with a reference to a basis of 100 points, of JIRAMA's long term debt (i.e. all indebtedness maturing by its terms more than one year after the date on which it is originally incurred), including the current portion of it, and equity as sources of funds in the capital structure of JIRAMA.

5. For the purposes of Part B of the Project, the Borrower shall, not later than May 31, 1996;

(a) create a specialized unit to coordinate and supervise the implementation of the electrification program; and

(b) submit to the Association for review an action plan, giving details of its proposed strategy and institutional framework for the implementation of the program; and, subject to the approval of the Association, shall proceed thereafter to implement such action plan.

6. For the purposes of Part C.2 of the Project, the Borrower shall take appropriate steps to ensure that:

(a) the regulatory agency shall have been established, not later than September 30, 1996; and

(b) the electricity tariffs' study shall have been launched, not later than March 31, 1997.

7. Pending the establishment of the regulatory agency provided for under Part C.1 of the Project, and implementation of the tariffs' study under Part C.2 of the Project, the Borrower shall continue to apply the tariff adjustment principles and indexation formulae set forth in Arrete No. 7800-92 of December 31, 1992.

8. For purposes of Part C.3 of the Project, the Borrower shall:

(a) carry out a revaluation of the fixed assets of the electricity section of JIRAMA and incorporate the revised values in the books of accounts of the electricity section not later than January 1, 1997;

(b) not later than December 1, 1996, and in conjunction with JIRAMA, complete a review of the adequacy of the currently used methods of allocating expenses common to the electricity and water sections of JIRAMA, and communicate the findings and recommendations thereof to the Association; and thereafter proceed to implement such findings and recommendations not later than January 1, 1997;

(c) not later than December 1, 1996, complete a study designed to assess the financial implications of past installation of plant in areas where expected electricity demand did not materialize, or of past decisions to provide electricity services to areas of low demand, and communicate the findings and recommendations thereof to the Association; and thereafter proceed to implement such findings and recommendations in accordance with a time table and other modalities agreed upon with the Association; and

(d) not later than January 30, 1997 submit to the Association its proposals for the reorganization, recapitalization and transformation of JIRAMA into a joint stock company, and subject to the approval of the Association, proceed thereafter to implement such proposals.

9. The Borrower shall have quarterly reports prepared by JIRAMA and MEM, and submitted to the Association, on the progress of the project, showing details of any revised cost estimates in respect of individual contracts and under the Project, changes, if any, in the timing of procurement actions, and the extent of compliance with agreed methods of procurement and with the ceilings agreed for each such procurement method.

10. The Borrower shall take appropriate steps to expedite procurement actions under the Project and, to this end, shall ensure that, not later than two months after the latest date for submission of bids: (a) MEM

shall have reviewed all bids, and submitted a bid evaluation report, along with a recommendation, to the Procurement Committee; and (b) based on the findings and recommendation thereof, a final determination shall have been made by the Procurement Committee and communicated to MEM.

11. For purposes of works undertaken under the Project, the Borrower shall take adequate steps to ensure that such works shall be conducted with due regard to the need for adequate safeguards for the protection of the environment, and that adequate provisions to that effect are included in the relevant works contracts.

SCHEDULE 5

Special Accounts

1. For the purposes of this Schedule:

(a) the term "eligible Categories" means:

(i) in the case of the JIRAMA Special Account, Categories (1) and (2) set forth in the table in paragraph 1 of Schedule 1 to this Agreement; and

(ii) in the case of the MEM Special Account, Categories (3), (4), (5) and (6) set forth in the table in paragraph 1 of Schedule 1 to this Agreement;

(b) the term "eligible expenditures" means expenditures in respect of the reasonable cost of goods and services required for the Project and to be financed out of the proceeds of the Credit allocated from time to time to the eligible Categories in accordance with the provisions of Schedule 1 to this Agreement; and

(c) the term "Authorized Allocation" means the amount indicated below to be withdrawn from the Credit Account and deposited into the Special Account pursuant to paragraph 3 (a) of this Schedule:

(i) in the case of the JIRAMA Special Account, an amount of \$600,000, provided, however, that, unless the Association shall otherwise agree, the Authorized Allocation shall be limited to an amount equivalent to \$300,000 until the aggregate amount of withdrawals from the Credit Account plus the total amount of all outstanding special commitments entered by the Association pursuant to Section 5.02 of the General Conditions shall be equal to or exceed the equivalent of \$600,000; and

(ii) in the case of the MEM Special Account, an amount of \$350,000, provided, however, that, unless the Association shall otherwise agree, the Authorized Allocation shall be limited to an amount equivalent to \$175,000 until the aggregate amount of withdrawals from the Credit Account plus the total amount of all outstanding special commitments entered by the Association pursuant to Section 5.02 of the General Conditions shall be equal to or exceed the equivalent of \$350,000.

2. Payments out of a Special Account shall be made exclusively for eligible expenditures in accordance with the provisions of this Schedule.

3. After the Association has received evidence satisfactory to it that a 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 Association 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 Association shall, on behalf of the Borrower, withdraw from the Credit Account and deposit into 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 Association requests for deposits into the Special Account at such intervals as the Association shall specify.
- (ii) Prior to, or at the time of each such request, the Borrower shall furnish to the Association 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 Association shall, on behalf of the Borrower, withdraw from the Credit 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 Association from the Credit 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 a Special Account, the Borrower shall, at such time as the Association shall reasonably request, furnish to the Association 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 Association shall not be required to make further deposits into a Special Account:

(a) if, at any time, the Association shall have determined that all further withdrawals should be made by the Borrower directly from the Credit Account in accordance with the provisions of Article V of the General Conditions and paragraph (a) of Section 2.02 of this Agreement;

(b) if the Borrower shall have failed to furnish to the Association, 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 Association pursuant to said Section in respect of the audit of the records and accounts for a Special Account;

(c) if, at any time, the Association 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 Credit Account pursuant to the provisions of Section 6.02 of the General Conditions; or

(d) once the total unwithdrawn amount of the Credit allocated to the eligible Categories, less the amount of any outstanding special commitment entered into by the Association 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 Credit Account of the remaining unwithdrawn amount of the Credit allocated to the eligible Categories shall follow such procedures as the Association shall specify by notice to the Borrower. Such further withdrawals shall be made only after and to the extent that the Association 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 Association shall have determined at any time that any payment out of a 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 Association, the Borrower shall, promptly upon notice from the Association: (A) provide such additional evidence as the Association may request; or (B) deposit into the Special Account (or, if the Association shall so request, refund to the Association) an amount equal to the amount of such payment

or the portion thereof not so eligible or justified. Unless the Association shall otherwise agree, no further deposit by the Association 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 Association shall have determined at any time that any amount outstanding in a Special Account will not be required to cover further payments for eligible expenditures, the Borrower shall, promptly upon notice from the Association, refund to the Association such outstanding amount.

(c) The Borrower may, upon notice to the Association, refund to the Association all or any portion of the funds on deposit in a Special Account.

(d) Refunds to the Association made pursuant to paragraphs 6 (a), (b) and (c) of this Schedule shall be credited to the Credit Account for subsequent withdrawal or for cancellation in accordance with the relevant provisions of this Agreement, including the General Conditions.

