

CONFORMED COPY

CREDIT NUMBER 3111-MAG

Development Credit Agreement

(Mining Sector Reform Project)

between

REPUBLIC OF MADAGASCAR

and

INTERNATIONAL DEVELOPMENT ASSOCIATION

Dated July 30, 1998

CREDIT NUMBER 3111-MAG

DEVELOPMENT CREDIT AGREEMENT

AGREEMENT, dated July 30, 1998, between the REPUBLIC OF MADAGASCAR (the Borrower) and the INTERNATIONAL DEVELOPMENT ASSOCIATION (the Association).

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

(B) the Borrower has issued a mining sector policy statement, dated May 29, 1998, describing a program of actions, objectives and policies designed to promote sustainable development of its mining sector (the Program), and declaring the Borrower's commitment to the execution of the Program;

(C) the Borrower intends to contract from French Republic (France) a loan (the French Loan) and/or a grant (the French Grant) in an aggregate amount equivalent to \$2,400,000 to assist in financing part of the Project on the terms and conditions set forth in a loan agreement (the French Loan Agreement) and/or a grant agreement (the French Grant Agreement), as the case may be, to be entered into between the Borrower and France; 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;

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, as amended through December 2, 1997 (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) "DG/MEM" means Direction Générale de l'Energie et des Mines, the General Directorate of Energy and Mining of MEM;

(b) "Franc Malagasy" or "FMG" means the currency of the Borrower;

(c) "MEM" means Ministère de l'Energie et des Mines, the Borrower's Ministry of Energy and Mines;

(d) "Project Account" means the account referred to in Section 3.04 (a) of this Agreement;

(e) "Project Implementation Manual" means the Project Implementation Manual adopted by the Borrower pursuant to Section 6.01 (a) of this Agreement, and referred to in paragraph 3 (a) of Schedule 4 hereto, as the same may be amended from time to time, and such term includes any schedules to the Project Implementation Manual;

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

(g) "UCP" means Unité de Coordination du Projet, the Project Implementation Unit referred to in paragraph 1 (b) of Schedule 4 to this Agreement, and established by the Borrower pursuant to Section 6.01 (e) of this 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 three million eight hundred thousand Special Drawing Rights (SDR 3,800,000).

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 described in Schedule 2 to this Agreement and to be financed out of the proceeds of the Credit.

(b) The Borrower may, for the purposes of the Project, open and maintain in Dollars a special deposit account in a commercial bank on terms and conditions satisfactory to the Association including appropriate protection against set-off, seizure and attachment. Deposits into, and payments out of, the Special Account shall be made in accordance with the provisions of Schedule 5 to this Agreement.

Section 2.03. The Closing Date shall be March 31, 2002, 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 canceled; and (ii) at the rate set as of the June 30 immediately preceding the accrual date and 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 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 1 and November 1 in each year.

Section 2.07. (a) Subject to paragraphs (b), (c) and (d) below, the Borrower shall repay the principal amount of the Credit in semi-annual installments payable on each May 1 and November 1, commencing November 1, 2008, and ending May 1, 2038. Each installment to and including the installment payable on May 1, 2018, 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 per capita gross national product (GNP), as determined by the Association, shall have exceeded for three consecutive years the level established annually by the Association for determining eligibility to access the Association's resources; 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 repayment of installments under paragraph (a) above by: (A) 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; and (B) requiring the Borrower to commence repayment of the principal amount of the Credit as of the first semiannual payment date referred to in paragraph (a) above falling six months or more after the date on which the Association notifies the Borrower that the events set out in this paragraph (b) have occurred, provided, however, that there shall be a grace period of a minimum of five years on such repayment of principal.

(c) If so requested by the Borrower, the Association may revise the modification referred to in paragraph (b) above 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 judgement of the Association, such revision shall not change the grant element obtained under the above-mentioned repayment modification.

(d) 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.

ARTICLE III

Execution of the Project

Section 3.01. (a) The Borrower declares its commitment to the objectives of the Project as set forth in Schedule 2 to this Agreement and, to this end, shall carry out the Project through MEM with due diligence and efficiency, and in conformity with appropriate administrative, financial, engineering and technical practices, and with due regard to ecological and environmental factors, 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 Association shall otherwise agree, the Borrower shall carry out the Project through MEM, all in accordance with the Implementation Program set forth in Schedule 4 to this Agreement.

Section 3.02. Except as the Association shall otherwise agree, procurement of the goods, works, and consultants' services required for 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. 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 Association 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 for the future operation of the Project; and

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

Section 3.04. (a) Without limitation upon its obligations under Section 3.01 of this Agreement, the Borrower shall open, in a commercial bank, and on terms and conditions satisfactory to the Association, a Project Account in Francs Malagasy, to be operated and maintained by UCP, into which the Borrower shall deposit from time to time its local counterpart contribution to the cost of the Project.

(b) The Borrower shall:

(i) make an initial deposit of an amount equivalent to \$60,000

into the Project Account; and

- (ii) thereafter, on each January 1 and July 1, during the implementation period of the Project, deposit into the Project Account an amount equal to the amount of the initial deposit referred to in sub-paragraph (i) of this paragraph, or such other amount as shall have been agreed between the Borrower and the Association.

(c) Funds deposited into the Project Account shall be applied solely for the purposes of defraying the cost of expenditures incurred for the execution of the Project, and not otherwise financed out of the proceeds of the Credit.

ARTICLE IV

Financial Covenants

Section 4.01. (a) The Borrower shall establish and maintain a financial management system, including records and accounts, and prepare financial statements in a format acceptable to the Association, adequate to reflect the operations, resources and expenditures for and in connection with the carrying out of the Project.

(b) The Borrower shall:

- (i) have the records, accounts and financial statements referred to in paragraph (a) of this Section, and the records and accounts for the Special Account for each fiscal year audited, in accordance with auditing standards acceptable to the Association 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 months after the end of each such year, (A) certified copies of the financial statements referred to in paragraph (a) of this Section for such year as so audited, and (B) an opinion on such financial statements, records and accounts and a 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 such records and accounts and the audit thereof, and concerning said auditors, as the Association may 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 separate 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 was made, all records (contracts, orders, invoices, bills, receipts and other documents) 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 each 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 (1) of the General Conditions, the following additional events are specified:

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

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

(A) the right of the Borrower to withdraw the proceeds of the French Loan or the French Grant shall have been suspended, cancelled or terminated in whole or in part, pursuant to the terms of the French Loan Agreement or the French Grant Agreement, or

(B) the French Loan Agreement 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 (h) of the General Conditions, the following additional event is specified: namely, that any event specified in paragraph (b) (i) (B) of Section 5.01 of this Agreement shall occur, subject to the proviso of paragraph (b) (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 Project Implementation Manual has been duly approved by the Association, and adopted by the Borrower;

(b) the Borrower has selected the auditors referred to in Article IV of this Agreement, in accordance with Section II of Schedule 3 to this Agreement;

(c) the Project Account has been duly opened, and the amount of the initial deposit referred to in Section 3.04 (b) (i) of this Agreement has been paid therein

REPUBLIC OF MADAGASCAR

By /s/ Biclair H. G. Andrianatoandro
Authorized Representative

INTERNATIONAL DEVELOPMENT ASSOCIATION

By /s/ Callisto 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
(1) Civil works	210,000	80%
(2) Consultants' services, training and audits	2,350,000	100%
(3) Goods	910,000	100% of foreign expenditures and 80% of local expenditures
(4) Operating costs	180,000	80%
(5) Unallocated	150,000	
TOTAL	3,800,000	

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;

(c) the term "operating costs" means the incremental operating costs incurred by UCP under the Project on account of (i) salaries and related social charges, travel costs and allowances of locally-recruited contractual support staff, (ii) hiring of vehicles and equipment, (iii) operation and maintenance of vehicles and equipment, (iv) banking charges, and (v) office rent, supplies, and communications, water and electricity charges.

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 the equivalent of SDR 200,000 may be made in respect of Category (2) set forth in the table in paragraph 1 of this Schedule on account of payments made for expenditures before that date but after January 1, 1998.

4. The Association may require withdrawals from the Credit Account to be made on the basis of statements of expenditure for expenditures for goods, works and consultants' services (firms) under contracts not exceeding \$100,000 equivalent, consultants' services (individuals) under contracts not exceeding \$50,000 equivalent, operating costs and training, under such terms and conditions as the Association shall specify by notice to the Borrower.

SCHEDULE 2

Description of the Project

The objective of the Project is to support the Borrower's efforts to create an enabling environment for the promotion of private sector investments in mining development, increase fiscal revenues, and strengthen the environmental and social management of mining activities.

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: Policy Implementation

1. Normalization of small-scale and artisanal mining, through provision of technical advisory services, and acquisition of materials and equipment, to (a) support an integrated management and technical assistance program to enhance technical yields, reduce the current serious adverse impact on the environment, and increase tax revenues, (b) support DG/MEM to design and deliver technical advice, geology information and extension services to small-scale miners, (c) strengthen the minerals laboratory, and (d) support the creation of a cutting center.

2. Establishment of a preventive environmental protection system for mining activities, through provision of technical advisory services, and acquisition of materials and equipment, to (a) develop an environmental information and management system, (b) define rules and procedures for the processing of environmental impact assessments in mining, (c) strengthen the capacity of MEM to monitor and enforce environmental regulations, (d) carry out environmental baseline studies in selected mining districts, (e) carry out socio-economic baseline studies in selected mining districts as a basis for development of methodology and capacity to assess and monitor social, cultural and economic impacts of mining on local communities, and (f) develop consultation and participatory procedures.

3. Reform and strengthening of the institutional capacity of public mining agencies, through:

(a) provision of technical advisory services, and acquisition of materials and equipment, to review the organization and staffing of key administrative units, establish efficient work procedures, train staff, and provide them with adequate office facilities and equipment; and rehabilitation of offices;

(b) provision of technical advisory services, and acquisition of materials and equipment, to organize communication campaigns to build ownership on mining sector reform, as well as seminars and roundtables to broaden the

participation of key stakeholders;

(c) provision of technical advisory services, and acquisition of materials and equipment, to establish a computer-based mining cadastre and registry system and train staff; and

(d) provision of technical advisory services, and acquisition of materials and equipment, to develop a minerals information database, strengthen the information management unit, systematize the collection and interpretation of information, make use of state-of-the-art technology to gather, store and provide information to interested parties, and retrieve geological information available overseas on Madagascar.

Part B: Project Coordination

Establishment of UCP, through provision of technical advisory services, and acquisition of materials and equipment, to assist in the monitoring and supervision of the Project.

* * *

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

SCHEDULE 3

Procurement and Consultants' Services

Section I. Procurement of Goods and Works

Part A: General

Goods and works shall be procured in accordance with the provisions of Section I of the "Guidelines for Procurement under IBRD Loans and IDA Credits" published by the Bank in January 1995, and revised in January and August 1996, and September 1997 (the Guidelines), and the following provisions of this Section.

Part B: International Competitive Bidding

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

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

(a) Grouping of contracts

To the extent practicable, contracts for goods shall be grouped in bid packages estimated to cost \$100,000 equivalent or more each.

(b) Preference for domestically manufactured goods

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

Part C: Other Procurement Procedures

1. National Competitive Bidding

Goods estimated to cost less than \$100,000 equivalent per contract, up to an aggregate amount not to exceed \$170,000 equivalent, and works estimated to cost less than \$100,000 equivalent per contract, up to an aggregate amount not to exceed \$160,000 equivalent, may be procured under contracts awarded in accordance with the provisions of paragraphs 3.3 and 3.4 of the Guidelines.

2. National Shopping

Goods estimated to cost less than \$30,000 equivalent per contract, up to an aggregate amount not to exceed \$420,000 equivalent, may be procured under contracts awarded on the basis of national shopping procedures in accordance with the provisions of paragraphs 3.5 and 3.6 of the Guidelines.

3. Procurement of Small Works.

Works estimated to cost less than \$30,000 equivalent per contract, up to an amount not to exceed \$120,000 equivalent, may be procured under lump-sum, fixed-price contracts awarded on the basis of quotations obtained from three (3) qualified domestic contractors in response to a written invitation. The invitation shall include a detailed description of the works, including basic specifications, the required completion date, a basic form of agreement acceptable to the Association, and relevant drawings, where applicable. The award shall be made to the contractor who offers the lowest price quotation for the required work, and who has the experience and resources to complete the contract successfully.

Part D: Review by the Association of Procurement Decisions

1. Procurement Planning

Prior to the issuance of any invitations to bid for contracts, the proposed procurement plan for the Project shall be furnished to the Association for its review and approval, in accordance with the provisions of paragraph 1 of Appendix 1 to the Guidelines. Procurement of all goods and works shall be undertaken in accordance with such procurement plan as shall have been approved by the Association, and with the provisions of said paragraph 1.

2. Prior Review

With respect to each contract estimated to cost the equivalent of \$100,000 or more, the procedures set forth in paragraphs 2 and 3 of Appendix 1 to the Guidelines shall apply.

3. Post Review

With respect to each contract not governed by paragraph 2 of this Part, the procedures set forth in paragraph 4 of Appendix 1 to the Guidelines shall apply.

Section II. Employment of Consultants

Part A: General

Consultants' services shall be procured in accordance with the provisions of the Introduction and Section IV of the "Guidelines: Selection and Employment

of Consultants by World Bank Borrowers" published by the Bank in January 1997, and revised in September 1997 (the Consultant Guidelines), and the following provisions of Section II of this Schedule.

Part B: Quality- and Cost-based Selection

1. Except as otherwise provided in Part C of this Section, consultants' services shall be procured under contracts awarded in accordance with the provisions of Section II of the Consultant Guidelines, paragraph 3 of Appendix 1 thereto, Appendix 2 thereto, and the provisions of paragraphs 3.13 through 3.18 thereof applicable to quality- and cost-based selection of consultants.

2. The following provisions shall apply to consultants services to be procured under contracts awarded in accordance with the provisions of the preceding paragraph. The short list of consultants for services estimated to cost less than \$50,000 equivalent per contract, may comprise entirely national consultants in accordance with the provisions of paragraph 2.7 of the Consultant Guidelines.

Part C: Other Procedures for the Selection of Consultants

1. Least-cost Selection.

Services for financial audits, up to an aggregate amount not to exceed \$150,000 equivalent, may be procured under contracts awarded in accordance with the provisions of paragraphs 3.1 and 3.6 of the Consultant Guidelines.

2. Selection Based on Consultants Qualifications.

Services required to assist in the technical supervision of contracts under Parts A.1, A.2 and A.3 (c) of the Project, estimated to cost less than \$50,000 equivalent per contract, up to an aggregate amount not to exceed \$230,000 equivalent, may be procured under contracts awarded in accordance with the provisions of paragraphs 3.1 and 3.7 of the Consultant Guidelines.

3. Individual Consultants.

Services for tasks that meet the requirements set forth in paragraph 5.01 of the Consultant Guidelines shall be procured under contracts awarded to individual consultants in accordance with the provisions of paragraphs 5.1 through 5.3 of the Consultant Guidelines.

Part D: Review by the Association of the Selection of Consultants

1. Selection Planning

Prior to the issuance to consultants of any requests for proposals, the proposed plan for the selection of consultants under the Project shall be furnished to the Association for its review and approval, in accordance with the provisions of paragraph 1 of Appendix 1 to the Consultant Guidelines. Selection of all consultants' services shall be undertaken in accordance with such selection plan as shall have been approved by the Association, and with the provisions of said paragraph 1.

2. Prior Review

(a) With respect to each contract for the employment of consulting firms estimated to cost the equivalent of \$200,000 or more, the procedures set forth in paragraphs 1, 2 (other than the third subparagraph of paragraph 2 (a))

and 5 of Appendix 1 to the Consultant Guidelines shall apply.

(b) With respect to each contract for the employment of consulting firms estimated to cost the equivalent of less than \$200,000 but more than \$100,000, the procedures set forth in paragraphs 1, 2 (other than the second subparagraph of paragraph 2(a)) and 5 of Appendix 1 to the Consultant Guidelines shall apply.

(c) With respect to each contract for the employment of individual consultants estimated to cost the equivalent of \$50,000 or more, the qualifications, experience, terms of reference and terms of employment of the consultants shall be furnished to the Administrator for its prior review and approval. The contract shall be awarded only after said approval shall have been given.

3. Post Review

With respect to each contract not governed by paragraph 2 of this Part, the procedures set forth in paragraph 4 of Appendix 1 to the Consultant Guidelines shall apply.

SCHEDULE 4

Implementation Program

1. (a) The Borrower shall designate DG/MEM to be responsible for overall supervision and general oversight of implementation of the Project.

(b) The Borrower shall establish the Project Implementation Unit (UCP) to be responsible, subject to the overall supervision and oversight functions of DG/MEM, for the day-to-day management of the activities of the Project, including: (i) coordination of procurement and disbursement activities, and audits, and preparation of annual and quarterly progress reports, and work plans and training programs, under the Project; and (ii) monitoring of the achievement of objectives of the Project, and evaluation of the impact of the activities thereof.

(c) UCP shall be headed by a Project Coordinator, who shall be assisted by a higher level staff with expertise in procurement matters, and other higher level and support staff, as needed.

(d) The Borrower shall ensure that the position of Project Coordinator, and other higher level positions of UCP referred to in subparagraph (c) of this paragraph, shall be kept filled at all times by appropriate officials, having qualifications, experience and terms of reference which shall have been communicated to, and deemed acceptable by, the Association.

2. (a) The Borrower shall establish a new unit of MEM to be known as the Mining Cadastre and Registry Unit, and strengthen the existing Geological and Environmental Affairs Units of MEM, and provide them with the staffing and other resources that they require under the Project, including, in the case of the Environmental Affairs Unit, the appointment of three higher level staff with expertise in earth sciences or mining-related economic analysis, all of whom shall have experience in environmental matters, and a support staff member.

(b) In the exercise of its functions under Parts A.2, A.3 (c) and A.3 (d) of the Project, DG/MEM shall be assisted by the Environmental Affairs, Mining Cadastre and Registry and Geological Units, respectively.

3. The Borrower shall:

(a) prepare and transmit to the Association a Project Implementation Manual, acceptable to the Association, giving details of all procurement and disbursement arrangements, performance indicators and other administrative, financial and organizational arrangements, as shall have been agreed with the Association for purposes of the Project; and

(b) carry out the Project in accordance with procedures set out in the Project Implementation Manual and, except as the Association shall otherwise agree, shall not amend or waive any provision thereof, if such amendment or waiver may, in the opinion of the Association, materially or adversely affect the implementation of the Project.

4. The Borrower shall:

(a) maintain policies and procedures adequate to enable it to monitor and evaluate on an ongoing basis, in accordance with performance indicators referred to in paragraph 3 (a) of this Schedule, the carrying out of the Project and the achievement of the objectives thereof;

(b) not later than March 31, 2000, undertake, in conjunction with the Association, a midterm review of the Project, during which they shall exchange views generally on all matters relating to the progress of the Project and the performance by the Borrower of its obligations under this Agreement, including,

(i) the progress achieved by the Borrower in the implementation of the Project, having regard to the performance indicators referred to in paragraph 3 (a) of this Schedule,

(ii) a review of the proposed work plans and budget for the forthcoming fiscal year, and

(iii) a review of the impact of the Project;

(c) not later than one month prior to the midterm review, 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 giving details, of the various matters to be discussed at such review; and

(d) following the midterm review, undertake to act promptly and diligently in order to take or cause to be taken any corrective action deemed necessary to remedy any shortcoming noted in the implementation of the Project, or to implement or cause to be implemented such other measures as may have been agreed upon between the parties in furtherance of the objectives of the Project.

5. (a) The Borrower shall, not later than October 31 of each year, submit to the Association, for review and approval, proposed work plans and budget for the forthcoming fiscal year, giving details of proposed budgetary allocations and disbursement estimates, proposed procurement activities, and such other particulars as the Association may require.

(b) The Borrower shall submit to the Association, for review:

(i) annual and quarterly progress reports on the status of the Project, to be submitted not later than two months after the end of each fiscal year and 45 days after the end of each quarter, respectively; and

(ii) reports as needed on the award of contracts under the Project.

SCHEDULE 5

Special Account

1. For the purposes of this Schedule:

(a) the term "eligible Categories" means Categories (1) through (4) 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 an amount equivalent to \$700,000 to be withdrawn from the Credit Account and deposited into the Special Account pursuant to paragraph 3 (a) of this Schedule, provided, however, that unless the Association shall otherwise agree, the Authorized Allocation shall be limited to an amount equivalent to \$500,000 until the aggregate amount of withdrawals from the Credit Account plus the total amount of all outstanding special commitments entered into by the Association, pursuant to Section 5.02 of the General Conditions, shall be equal to or exceed the equivalent of SDR 800,000.

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

3. After the Association has received evidence satisfactory to it that the Special Account has been duly opened, withdrawals of the Authorized Allocation and subsequent withdrawals to replenish the Special Account shall be made as follows:

(a) For withdrawals of the Authorized Allocation, the Borrower shall furnish to the Association a request or requests for deposit into the Special Account of an amount or amounts 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 the 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 the 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 the 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, minus the total amount of all outstanding special commitments 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 the Special Account: (i) was made for an expenditure or in an amount not eligible pursuant to paragraph 2 of this Schedule; or (ii) was not justified by the evidence furnished to the 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 the 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 the Special Account.

(d) Refunds to the Association made pursuant to paragraph 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.

