

CONFORMED COPY

CREDIT NUMBER 3498 MAG

Development Credit Agreement
(Community Development Project)

between

REPUBLIC OF MADAGASCAR

and

INTERNATIONAL DEVELOPMENT ASSOCIATION

Dated May 22, 2001

CREDIT NUMBER 3498 MAG

DEVELOPMENT CREDIT AGREEMENT

AGREEMENT, dated May 22, 2001, between REPUBLIC OF MADAGASCAR (the Borrower) and 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 (the Project), has requested the Association to assist in the financing of the Project;

(B) the Project will be carried out by Fonds d'Intervention pour le Développement (FID) with the Borrower's assistance and, as part of such assistance, the Borrower will make the proceeds of the credit provided for in Article II of this Agreement (the Credit) available to FID, as set forth in this Agreement; 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 agreement of even date herewith between the Association and FID (the Project 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 October 9,

1999), with the modifications set forth below (the General Conditions), constitute an integral part of this Agreement:

(a) A new paragraph (12) is added to Section 2.01 to read as set forth below, and the existing paragraphs (12) through (14) of said Section are accordingly renumbered as paragraphs (13) through (15):

"12. 'Participating Country' means any country that the Association determines meets the requirements set forth in Section 11 of Resolution No. 194 of the Board of Governors of the Association, adopted on April 8, 1999; and 'Participating Countries' means, collectively, all such countries."; and

(b) The second sentence of Section 5.01 is modified to read:

"Except as the Borrower and the Association shall otherwise agree, no withdrawals shall be made: (a) on account of expenditures in the territories of any country which is not a Participating Country or for goods produced in, or services supplied from, such territories; or (b) for the purpose of any payment to persons or entities, or for any import of goods, if such payment or import, to the knowledge of the Association, is prohibited by a decision of the United Nations Security Council taken under Chapter VII of the Charter of the United Nations."

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) "Beneficiary" means beneficiary of a SubgrantGrant;

(b) "Commune" means a political sub-division of a Province;

(c) "Convention" means the convention to be entered into between the Borrower and FID pursuant to Section 3.02 (a) of this Agreement, as the same may be amended from time to time, and such term includes all schedules to the Convention;

(d) "FID" means Fonds d'Intervention pour le Développement, the Borrower's Community Development Fund, a not-for-profit association serving the public interest (association à but non lucratif reconnue d'intérêt public), established and existing pursuant to the Borrower's Décret No. 93-044, dated January 24, 1993;

(e) "Fiscal Year" or "FY" means any 12-month period beginning on January 1 and ending on December 31;

(f) "SubgrantGrant" means a grant made, or to be made, out of the proceeds of the Credit to finance a Subproject;

(g) "IEC" means information, education and communications;

(h) "Procedures Manual" means the Procedures Manual referred to in paragraph (3) (a) of Schedule 2 to the Project Agreement, as same may be amended from time to time in agreement with the Association, and such term includes any schedules to the Procedures Manual;

(i) "Project Account" means the project account referred to in Section 3.06 to this Agreement;

(j) "Project Agreement" means the agreement between the Association and FID 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;

(k) "Province" means any one or more of the six main political sub-divisions of the Borrower's territory;

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

(m) "Subproject" means any activity under Part A.1 or Part C of the Project, in respect of which a Grant has been, or may be, provided.

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 eighty-five million two hundred thousand Special Drawing Rights (SDR 85,200,000).

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: (i) 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; and (ii) amounts paid (or, if the Association shall so agree, to be paid) on account of withdrawals made under a SubgrantGrant [why not just grant] to meet the reasonable cost of eligible expenditures relating to a Subproject, and in respect of which the withdrawal from the Credit Account is requested.

(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 or attachment. Deposits into, and payments out of, the Special Account shall be made in accordance with the provisions of Schedule 3 to this Agreement.

Section 2.03. The Closing Date shall be June 30, 2007 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 semiannual installments payable on each May 1 and November 1, commencing May 1, 2011 and ending November 1, 2040. Each installment to and including the installment payable on November 1, 2020 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 judgment 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.

Section 2.09. FID is designated as representative of the Borrower 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, without any limitation or restriction upon any of its other obligations under the Development Credit Agreement, shall cause FID to perform in accordance with the provisions of the Project Agreement all the obligations of FID therein set forth, shall take and cause to be taken all action, including the provision of funds, facilities, services and other resources, necessary or appropriate to enable FID 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 its obligations under paragraph (a) above, the Borrower undertakes to approve and implement an annual five percent increase in the budgetary allocations of its Communes for the entire duration of the Project, beginning in Fiscal Year 2001.

Section 3.02. (a) The Borrower shall make the entire proceeds of the Credit available, on a non-reimbursable grant basis, to FID pursuant to a convention to be entered into between the Borrower and FID (hereinafter referred to as the Convention), under terms and conditions which shall have been approved by the Association and which shall include the terms and conditions set forth in Schedule 4 to this Agreement.

(b) The Borrower shall exercise its rights under the Convention in such a manner so as to protect the interests of the Borrower and the Association, and to accomplish the purposes of the Credit and the objectives of FID, and, except as the Association shall otherwise agree, the Borrower shall not assign, amend, abrogate or

waive the Convention, or any provision thereof.

Section 3.03. For the purposes of Section 9.06 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 designed to ensure the continued achievement of the objectives of the Project; and

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

Section 3.04. 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 1 to the Project Agreement.

Section 3.05. 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) shall be carried out by FID in respect of the Project pursuant to Section 2.05 of the Project Agreement.

Section 3.06. Without limitation upon its obligations under Section 3.01 of this Agreement, the Borrower shall:

(a) maintain, in a commercial bank and on terms and conditions satisfactory to the Association, an advance account in the currency of the Borrower (hereinafter referred to as the Project Account), to be operated and maintained by FID, into which it shall deposit from time to time its local counterpart contribution to the cost of the Project;

(b) deposit into the Project Account an initial advance equivalent to \$250500,000, and thereafter replenish the Project Account on a quarterly basis, or whenever the balance thereof equals not more than one third of the amount of the initial deposit, whichever occurs first; and

(c) ensure that funds deposited into the Project Account shall be used only for the purposes of defraying the cost of expenditures incurred in the execution of the Project which are not financed out of the proceeds of the Credit.

ARTICLE IV

Financial Covenants

Section 4.01. (a) 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 sound accounting practices, records and separate accounts reflecting such expenditures;

(ii) ensure that all records (contracts, orders, invoices, bills, receipts and other documents) evidencing such expenditures are retained 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; and

(iii) enable the Association's representatives to examine such records.

(b) The Borrower shall:

(i) have the records and accounts referred to in paragraph (a) (i) of this Section and 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 months after the end of each such year the report of such audit by said auditors, of such scope and in such detail as the Association shall have reasonably requested, including 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; and

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

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) the Borrower or FID shall have failed to perform any of their respective obligations under the Convention so as to affect materially and adversely the carrying out of the Project; and

(b) as a result of events which have occurred after the date of this Agreement, an extraordinary situation shall have arisen which shall make it improbable that FID will be able to perform any of its obligations under the Project 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 (a) of Section 5.01 of this Agreement shall occur and shall continue for a period of sixty (60) days after notice thereof shall have been given by the Association to the Borrower.

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 Convention has been executed on behalf of the Borrower and FID;

(b) the director general, technical director, financial and administrative director, communications director, training specialist, IEC specialist, and monitoring and evaluation specialist of the central office, as well as the provincial directors, IEC specialist and training specialist of each provincial office, accountants, Commune facilitators, and training, IEC and monitoring and evaluation specialists, referred to in paragraph 2 of Schedule 2 to the Project Agreement, have been duly recruited under terms, conditions and terms of reference acceptable to the Association, and in accordance with the provisions of Section II of Schedule 1 to the Project Agreement;

(c) FID has established a financial management and accounting system, acceptable to the Association, and appointed the auditors referred to in Section 4.01

(b) of the Project Agreement, under terms, conditions and terms of reference acceptable to the Association, and in accordance with the provisions of Section II of Schedule 1 to the Project Agreement;

(d) the Procedures Manual has been duly approved by the Association and adopted by FID; and

(e) the Project Account has been duly opened, and an initial amount of \$250500,000 deposited therein in accordance with Section 3.06 (b) of this Agreement; and

(f) the Borrower has approved and implemented a five percent increase in the annual budgetary allocations of its Communes for FY 2001.

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 FID, and is legally binding upon FID in accordance with its terms; and

(b) that the Convention has been duly authorized or ratified by the Borrower and FID, and is legally binding upon the Borrower and FID 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 Article IV 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

Representative 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 and Economy
Antananarivo 101
Madagascar

Cable address: Telex:

MINFIN 22489
Antananarivo

For the Association:

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

Cable address: Telex: Facsimile:

INDEVAS
Washington, D.C.

248423 (MCI) or (202) 477-6391
64145 (MCI)

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/ Tantely Gabrio Andrianarivo

Authorized Representative

INTERNATIONAL DEVELOPMENT ASSOCIATION

By /s/ Hafez Ghanem

Acting Regional Vice President
Africa Region

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) Works and goods under Subprojects	60,400,000	90% of amount of SubgrantGrants
(2) Consultants' services under Subprojects		100% of amount of Subgrants
(3) Technical assistance, training and audits	13,170,000	100% of foreign expenditures and 85% of local expenditures
(4) Vehicles, equipment, furniture and materials	1,170,000	100% of foreign expenditures and 80% of local expenditures
(5) Operating costs	3,100,000	90%
(6) Unallocated	7,360,000	
TOTAL	85,200,000	

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 "operating costs" means the incremental operating costs arising under the Project on account of local contractual support staff salaries, social employment benefits, travel expenditures and other travel-related allowances; equipment rental and maintenance; vehicle operation, maintenance and repair; office rental and maintenance, materials and supplies; utilities and communications' expenses; banking charges; and insurance.

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

(a) in respect of payments made for expenditures prior to the date of this Agreement; and

(b) in respect of a Grant, unless the SubgrantGrant has been provided in accordance with the procedures, and on the terms and conditions set forth or referred to, in this Agreement, the Project Agreement and the Procedures Manual.

4. The Association may require withdrawals from the Credit Account to be made on the basis of statements of expenditure for expenditures for: (i) goods and works under contracts not exceeding \$75,000 equivalent; (ii) consultants services under contracts not exceeding \$50,000 equivalent, in the case of consulting firms, and \$30,000, in the case of individual consultants; (iii) operating costs; and (iv) 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 contribute to the improved use of, and satisfaction with, social and economic services provided thereunder amongst participating rural communities.

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: Transfers of Funds to Community AssociationsSub-projects

1. Appraisal, selection, implementation and supervision of social and economic infrastructure rehabilitation and development activities for the benefit of selected communities, including training of teachers, health workers, plumbers, road maintenance workers and others as needed, and IEC activities, and provision of grants to finance such activities.

2. Training of members of community associations in community participation and mobilization methods and in contracting, monitoring of construction and maintenance.

Part B: Capacity Building Activities

Training of elected officials and personnel of commune governments in community participation, mobilization and preparation of community development plans, legal status and powers of communes, execution of Sub-projectSubprojects, basic accounting and fiscal budgeting at the local level, and procurement, implementation monitoring

and maintenance.

Part C: Community-Driven Development Program Transfers of Funds to Communes

Appraisal, selection, implementation and supervision of social and economic infrastructure rehabilitation and development activities by communes, and provision of grants to finance such activities.

Part D: Project Administration and Supervision

Provision of technical and advisory services, and material assistance, to support the administration and supervision activities of FID, including beneficiary assessments, impact studies, social and community mobilization activities, training of FID staff, monitoring and evaluation, and financial and technical audits.

* * *

The Project is expected to be completed by December 31, 2006.

SCHEDULE 3

Special Account

1. For the purposes of this Schedule:

(a) the term "eligible Categories" means Categories (1) through (54) 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, as well as amounts paid or to be paid under Sub-grant/Grants, 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 \$9,000,000 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 \$4,500,000 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 10,000,000.

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

3. After the 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 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.

SCHEDULE 4

Terms and Conditions of the Convention

The Convention shall be valid for the duration of the Project, and shall include the following terms and conditions satisfactory to the Association:

1. The obligation of the Borrower to transfer the proceeds of the Credit, required for the implementation of the Project, to FID on a non-reimbursable grant basis, and otherwise to take all action necessary to permit FID to carry out the Project and ensure the achievement of the objectives thereof, including the prompt provision of counterpart funds required therefor.

2. The obligation of FID to promptly inform the Borrower of any condition which interferes or threatens to interfere with the implementation of the Project and the achievement of the objectives thereof.

3. The obligation of FID, at the request of the Borrower, to exchange views with the Borrower with regard to the progress of the Project and the achievement of the objectives thereof, and FID's performance of its obligations under the Convention and Procedures Manual.

4. The obligation of FID to carry out the Project in accordance with this Agreement, the Project Agreement, the Convention and Procedures Manual, and at all times to ensure that only Sub-projectSubprojects that comply with the Convention and Procedures Manual will be financed from the proceeds of the Credit.

5. The obligation of the Borrower to ensure that its ministries and departments responsible for reviewing the Sub-projectSubprojects shall provide their no-objection or reasons for objection, as the case may be, in respect of said Subprojects within a reasonable period of time after receipt of appropriate documentation from FID.

6. The mutual obligation of the Borrower and FID to take steps to ensure that: (a) in the event of the existence of any potential adverse environmental effects arising from the implementation of any Sub-projectSubproject, the environmental action plan shall be carried out in a manner acceptable to the Association and monitored on a regular basis by both the Borrower and FID; and (b) adequate operational procedures shall be maintained at all times to enable both the Borrower and FID to monitor and evaluate, on a regular basis and based on indicators acceptable to the Association, the prompt carrying out of the environmental action plan.

7. The obligation of FID to promptly refund to the Borrower any proceeds from the Credit not used for purposes of carrying out the Project or for achieving the objectives thereof, or otherwise utilized in a manner which does not comply with the provisions of this Agreement or the Project Agreement.

8. A provision stipulating that, in case of conflict between any of the provisions contained in the Convention or Procedures Manual, on the one hand, and those set forth in this Agreement and the Project Agreement, on the other, the provisions of this Agreement and the Project Agreement shall at all times prevail.



