

CONFORMED COPY

CREDIT NUMBER 1804 MAG

Project Agreement

(Second Agricultural Credit Project)

between

INTERNATIONAL DEVELOPMENT ASSOCIATION

and

BANKIN'NY TANTSAHA MPAMOKATRA

Dated July 23, 1987

CREDIT NUMBER 1804 MAG

PROJECT AGREEMENT

AGREEMENT, dated July 23, 1987, between the INTERNATIONAL DEVELOPMENT ASSOCIATION (the Association) and BANKIN'NY TANTSAHA MPAMOKATRA (BTM).

WHEREAS by the Development Credit Agreement of even date herewith between Democratic Republic of Madagascar (the Borrower) and the Association, the Association has agreed to lend to the Borrower an amount in various currencies equivalent to eight million Special Drawing Rights (SDR 8,000,000), on the terms and conditions set forth in the Development Credit Agreement, but only on condition that BTM agree to undertake such obligations toward the Association as are set forth in this Agreement; and

WHEREAS BTM, in consideration of the Association's entering into the Development Credit, Agreement with the Borrower, has agreed to undertake the obligations set forth in this Agreement;

NOW THEREFORE the parties hereto hereby agree as follows:

ARTICLE I

Definitions

Section 1.01. Unless the context otherwise requires, the several terms defined in the Development Credit Agreement and in the General Conditions (as so defined) have the respective meanings therein set forth.

ARTICLE II

Execution of the Project
Management and Operations of BTM

Section 2.01. (a) BTM declares its commitment to the objectives of the Project as set forth in Schedule 2 to the Development Credit Agreement and, to this end, shall carry out the Project and conduct its operations and affairs, with due diligence and efficiency and in conformity with appropriate economic, financial and investment standards and practices, with qualified and experienced management assisted by qualified staff in adequate numbers and in accordance with its Statutes and Statement of Policy, and shall provide, or cause to be provided, promptly as needed, the funds, facilities, services and other resources required for the Project.

(b) By September 30, 1987, BTM shall assign adequately qualified staff in sufficient numbers to reinforce its Planning and Rural Development Department and Operations and Credit Department for the purposes of the Project.

Section 2.02. (a) BTM undertakes that, unless the Association shall otherwise agree, Sub-loans will be made in accordance with the procedures and on the terms and conditions set forth or referred to in Schedule 1 to this Agreement.

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

Section 2.03. Except as the Association shall otherwise agree, procurement of the goods 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 2 to this Agreement.

Section 2.04. By October 31 of each year of execution of the Project, BTM shall submit to the Association for approval a work program for the following FY of BTM of such scope as the Association shall reasonably request any such work program to include a report on the Sub-loans identified, prepared, appraised, or in process of implementation, BTM's recruitment and training programs, the budget for the carrying out of the activities under the Project during the following FY, a projection for the commitments and disbursements to be made under the Credit during any such FY, a projection of BTM's balance sheets, operating accounts, and profit and loss accounts and a discussion of problems to be anticipated concerning the Project.

Section 2.05. BTM shall carry out 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) in respect of this Agreement.

Section 2.06. (a) BTM shall, at the request of the Association, exchange views with the Association with regard to the progress of the Project, the performance of its obligations under this Agreement, and other matters relating to the purposes of the Credit.

(b) BTM shall furnish to the Association all such information as the Association shall reasonably request concerning the Project, the Beneficiaries, the Investment Projects, the Subloans, the expenditure of the proceeds of the Sub-loans and the administration, operations and financial condition of BTM.

(c) BTM shall promptly inform the Association of any condition which interferes or threatens to interfere with the progress of the Project, the accomplishment of the purposes of the Credit, or the performance by BTM of its obligations under this Agreement.

Section 2.07. BTM shall, semiannually during execution of the Project: (i) review with the Association the lending rates for Sub-loans, set forth in paragraph 1 of Schedule 1 to this Agreement; and (ii) adjust such rates for new Sub-loans, if necessary, to ensure that the lending rates for Sub-loans shall remain positive in real terms.

Section 2.08. (a) By June 30, 1988, BTM shall complete the study to be carried out under Part B.6 of the Project and furnish, for comments, to the Association a copy of such study and its recommendations.

(b) By December 31, 1988, BTM shall take all measures necessary to carry into effect, in a manner satisfactory to the Association, the recommendations of the study referred to in paragraph (a) of this Section as far as they relate to BTM.

Section 2.09. BTM shall not amend its Statement of Policy except in agreement with the Association.

ARTICLE III

Financial Covenants

Section 3.01. (a) BTM shall: (i) maintain procedures and records adequate to monitor and record the progress of the Project and of each Investment Project (including its cost and the benefits to be derived from it), to reflect, in accordance with consistently maintained sound accounting practices, the operations and financial condition of BTM, to identify, within its overall operations, the development project financing, and (ii) enable the Association's representatives to examine such records.

(b) BTM shall:

(i) have its accounts and financial statements (balance sheets, statements of income and expenses and related statements) and the Special Account for each fiscal year audited, in accordance with appropriate auditing principles consistently applied, by independent auditors (the 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 its financial statements for such year as so audited, and (B) the report of such audit by the 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 accounts and financial statements as well as the audit thereof and said records 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, BTM shall:

(i) maintain, in accordance with paragraph (a) of this Section, separate 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 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 separate accounts are included in the annual audit referred to in paragraph (b) of this Section and that the report thereof contains, in respect of such separate accounts, a separate opinion by the auditors as to whether the proceeds of the Credit withdrawn in respect of such expenditures were used for the purposes for which they were provided.

Section 3.02. BTM shall continue its maximum bad debt provision policy until one hundred percent (100%) of its bad debts, as certified by the auditors as of December

31, 1985, are covered by reserves and, thereafter, BTM shall make adequate provisions for bad debt, as certified by the auditors at the end of any FY.

Section 3.03. During execution of the Project, BTM shall withhold from interest payments to be made for certificates of deposit all amounts needed to pay the taxes due on the interest earned by any holder of any such certificate of deposit.

Section 3.04. (a) By September 30, 1987, BTM shall establish a system of portfolio analysis which shall take into due consideration aging of receivables.

(b) BTM shall take all measures necessary to ensure that BTM's recovery rate of principal and interest of its loans shall be at least eighty percent (80%) during FY 1988 and at least ninety-five percent (95%) during FY 1989 and thereafter; in the calculation of such ratio the loans, which have been certified by BTM's auditors to be irrecoverable, are to be excluded.

(c) BTM shall consult with the Association, annually, on the measures needed to achieve the recovery rate stipulated in paragraph (b) of this Section during the next following FY.

Section 3.05. Except as the Association shall otherwise agree, BTM shall not make any repayment in advance of maturity in respect of any of its debt which, in the judgment of the Association, would materially affect BTM's ability to meet its financial obligations.

Section 3.06. BTM shall take such steps satisfactory to the Association as shall be necessary to protect itself against risk or loss resulting from changes in the rates of exchange between the various currencies (including FMG) used in its operations.

ARTICLE IV

Effective Date; Termination Cancellation and Suspension

Section 4.01. This Agreement shall come into force and effect on the date upon which the Development Credit Agreement becomes effective.

Section 4.02. (a) This Agreement and all obligations of the Association and of BTM thereunder shall terminate on the earlier of the following two dates:

- (i) the date on which the Development Credit Agreement shall terminate; or
- (ii) a date twenty (20) years after the date of this Agreement.

(b) If the Development Credit Agreement terminates before the date specified in subparagraph (a) (ii) of this Section, the Association shall promptly notify BTM of this event.

Section 4.03. All the provisions of this Agreement shall continue in full force and effect notwithstanding any cancellation or suspension under the General Conditions.

ARTICLE V

Miscellaneous Provisions

Section 5.01. Any notice or request required or permitted to be given or made under this Agreement, and any agreement between the parties contemplated by this Agreement shall be in writing. Such notice or request shall be deemed to have been duly given or made when it shall be delivered by hand or by mail, telegram, cable, telex or radiogram to the party to which it is required or permitted to be given or made at such party's address hereinafter specified or at such other addresses as such party shall have designated by notice to the party giving such notice or making such request. The addresses so specified are:

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:

440098 (ITT)
248423 (RCA) or
64145 (WUI)

For BTM:

Bankin'ny Tantsaha Mpamokatra
B.P. 183
Place de l'Independance
Antananarivo
Madagascar

Cable address:

BANTANTSAHA
Antananarivo

Telex:

22-323

Section 5.02. Any action required or permitted to be taken, and any documents required or permitted to be executed, under this Agreement on behalf of BTM, may be taken or executed by its Directeur General, or by such other person or persons as the Directeur General of BTM shall designate in writing, and BTM shall furnish to the Association sufficient evidence of the authority and the authenticated specimen signature of each such person.

Section 5.03. This Agreement may be executed in several counterparts, each of which shall be an original, and all collectively but one instrument.

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.

INTERNATIONAL DEVELOPMENT ASSOCIATION

By /s/ Sven Sandstrom

Acting Regional Vice President
Africa

BANKIN'NY TANTSAHA MPAMOKATRA

By /s/ Leon Rajaobelina

Authorized Representative

SCHEDULE 1

Terms and Conditions of Sub-loans

1. (a) At the option of the Beneficiary, either:

(i) 11.92%, the foreign exchange risk to be borne by the Beneficiary;
or

(ii) BTM's lending rate and commission for local currency lending applicable at the time of signature of the Sub-loan, plus a front-end fee of the equivalent of ten percent (10%) of the amount of the Sub-loan, plus a fee of three percent (3%) per annum on the amount outstanding of any such Sub-loan.

(b) The terms of any Sub-loan shall not exceed fifteen (15) years nor the useful average life of assets to be financed under any given Sub-loan; such term to include a maximum grace period of three (3) years.

2. No expenditures for goods or services required for an Investment Project shall be eligible for financing out of the proceeds of the Credit unless:

(a) the Sub-loan for such Investment Project shall have been approved by the Association, and such expenditures shall have been made not earlier than ninety (90) days prior to the date on which the Association shall have received the application and information required under paragraph 3 (a) in respect of such Sub-loan; or

(b) the Sub-loan for such Investment Project shall have a free-limit Sub-loan for which the Association has authorized withdrawals from the Credit Account, and such expenditures shall have been made not earlier than ninety (90) days prior to the date on which the Association shall have received the request and information required under paragraph 3 (b) of this Schedule in respect of such free-limit Sub-loan. For the purposes of the Development Credit Agreement and this Agreement, a free-limit Sub-loan shall be a Sub-loan for an Investment Project in an amount to be financed out of the proceeds of the Credit which shall not exceed the sum of: (i) \$150,000 equivalent, when added to any other outstanding amounts financed or proposed to be financed out of the proceeds of the Credit, the proceeds of which have been or are being used for financing goods and services directly and materially related to such Investment Project; or (ii) \$3,200,000 equivalent, when added to all other free-limit Sub-loans financed or proposed to be financed out of the proceeds of the Credit, the foregoing amounts being subject to change from time to time as determined by the Association. It is understood, however, that the first ten Sub-loans to be financed under the Credit shall have to be approved by the Association in accordance with the provisions of paragraph 3 (a) of this Schedule, irrespective of the amount to be financed out of the proceeds of the Credit.

3. (a) When presenting a Sub-loan (other than a free-limit Sub-loan) to the Association for approval, BTM shall furnish to the Association an application, in form satisfactory to the Association, together with: (i) a description of the Beneficiary and an appraisal of the Investment Project, including a description of the expenditures proposed to be financed out of the proceeds of the Credit; (ii) the proposed terms and conditions of the Sub-loan, including the schedule of amortization of the Sub-loan; (iii) a calculation confirming that the economic rate of return of any such Investment Project shall be at least twelve percent (12%) and its financial rate of return shall exceed the cost of borrowing to the Beneficiary by at least three percent (3%); and (iv) such other information as the Association shall reasonably request. It is understood, however, that the Association shall not approve any Sub-loan during any FY for which the annual work program has not been approved by the Association pursuant to Section 2.04 of this Agreement.

(b) Each request by BTM for authorization to make withdrawals from the Credit Account in respect of a free-limit Subloan shall contain: (i) a summary description of the Beneficiary and the Investment Project, including a description of the expenditures proposed to be financed out of the proceeds of the Credit; (ii) the terms and conditions of the Sub-loan, including the schedule of amortization therefor; and (iii) for Investment Projects requiring financing of the equivalent of \$100,000 or more, a calculation confirming that the economic rate of return of any such Investment Project shall be at least twelve percent (12%) and its financial rate of return shall exceed the cost of borrowing to the Beneficiary by at least three percent (3%).

(c) Applications and requests made pursuant to the provisions of

sub-paragraphs (a) and (b) of this paragraph shall be presented to the Association on or before June 30, 1993.

4. Sub-loans shall be superior to the equivalent of \$20,000 and inferior to the equivalent of \$500,000, and shall be made on terms whereby BTM shall obtain, by written contract with the Beneficiary or by other appropriate legal means, rights adequate to protect the interests of the Association and BTM, including the right to:

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

(b) require that: (i) the goods and services to be financed out of the proceeds of the Credit shall be purchased at a reasonable price, account being taken also of other relevant factors such as time of delivery, and efficiency and reliability of the goods, and availability of maintenance facilities and spare parts therefor and, in the case of services, of their quality and the competence of the parties rendering them; and (ii) such goods and services shall be used exclusively in the carrying out of the Investment Project;

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

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

(e) obtain all such information as the Association or BTM shall reasonably request relating to the foregoing and to the administration, operations and financial condition of the Beneficiary, and to the benefits to be derived from the Investment Project; and

(f) suspend or terminate the right of the Beneficiary to the use of the proceeds of the Credit upon failure by such Beneficiary to perform its obligations under its contract with BTM.

SCHEDULE 2

Procurement and Consultants' Services

Section I. Procurement of Computer Equipment

Part A: International Competitive Bidding

Computer equipment 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 1985 (the Guidelines).

Part B: Review by the Association of Procurement Decisions

(1) With respect to each contract for computer equipment estimated to cost the equivalent of \$100,000 or more, the procedures set forth in paragraphs 2 and 4 of Appendix 1 to the Guidelines shall apply.

(2) 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.

(3) The figure of fifteen percent (15%) is hereby specified for purposes of

paragraph 4 of Appendix 1 to the Guidelines.

Section II. Employment of Consultants

In order to assist BTM in carrying out Part A of the Project, BTM 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.

