

Public Disclosure Authorized

CONFORMED COPY

CREDIT NUMBER 3717 MAG

Development Credit Agreement

(Rural Transport Project)

between

REPUBLIC OF MADAGASCAR

and

INTERNATIONAL DEVELOPMENT ASSOCIATION

Dated November 15, 2002

Public Disclosure Authorized

**CONFORMED COPY
CREDIT NUMBER 3717 MAG**

DEVELOPMENT CREDIT AGREEMENT

AGREEMENT, dated November 15, 2002, 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, has requested the Association to assist in the financing of the Project;

(B) the Project is the second in a series of several projects in support of the transport sector for which the Borrower has requested the assistance of the Association;

(C) the Borrower has issued a statement of national transport policy and road sector strategy, dated April 6, 2000 (hereinafter referred to as National Transport Policy and Road Sector Strategy), as well as a statement of rural transport policy and strategy, dated May 30, 2001 (hereinafter referred to as the Rural Transport Policy and Strategy), describing a program of actions, objectives and policies, designed to improve the rural population's access to markets and basic social services in order to promote economic development and enhance rural livelihood;

(D) the Borrower has issued an amendment statement, dated September 17, 2002 (hereinafter referred to as the Transport Policy and Strategy Amendment), amending and supplementing the contents of both the National Transport Policy and Road Sector Strategy and the Rural Transport Policy and Strategy, and declared its commitment to the execution of the actions, objectives and policies described in both the National Transport Policy and Road Sector Strategy and the Rural Transport Policy and Strategy, as amended and supplemented by the Transport Policy and Strategy Amendment (hereinafter referred to collectively as the Program);

(E) the Borrower intends to contract from African Development Bank (AfDB) a loan in an amount equivalent to seven million four hundred thousand dollars (\$7,400,000) (the AfDB Loan) to assist in financing the Project on the terms and conditions set forth in an agreement to be entered into between the Borrower and AfDB (the AfDB Loan Agreement);

(F) the Borrower intends to contract from United States Agency for International Development (USAID) a grant in an amount of two million seven hundred thousand (\$2,700,000) (the USAID Grant) to assist in financing the Project on the terms

and conditions set forth in an agreement to be entered into between the Borrower and USAID (the USAID Grant Agreement);

(G) the Borrower intends to contract from European Union (EU) a grant in an amount equivalent to nineteen million six hundred thousand dollars (\$19,600,000) (the EU Grant) to assist in financing the Project on the terms and conditions set forth in an agreement to be entered into between the Borrower and EU (the EU Grant Agreement);

(H) the Borrower intends to contract from Norwegian Agency for Development Cooperation (NORAD) a grant in an amount equivalent to four million dollars (\$4,000,000) (the NORAD Grant) to assist in financing the Project on the terms and conditions set forth in an agreement to be entered into between the Borrower and NORAD (the NORAD Grant Agreement);

(I) the Borrower intends to contract from Japan International Cooperation Agency (JICA) a grant in an amount equivalent to one million seven hundred thousand dollars (\$1,700,000) (the JICA Grant) to assist in financing the Project on the terms and conditions set forth in an agreement to be entered into between the Borrower and JICA (the JICA Grant Agreement); and

(J) the Borrower intends to contract from *Agence Française de Développement* (AFD) a grant in an amount equivalent to three million dollars (\$3,000,000) to assist in financing the Project on the terms and conditions set forth in an agreement to be entered between the Borrower and AFD (the AFD Grant Agreement);

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 October 6, 1999), 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

(a) “Affected Persons” means persons who, on account of the execution of the Project, had or would have their: (i) standard of living adversely affected; or (ii) right, title, interest in any house, land (including premises, agricultural and grazing land) or any other fixed or movable asset acquired or possessed, temporarily or permanently; (iii) access to productive assets adversely affected, temporarily or permanently; or (iv) business, occupation, work or place of residence or habitat adversely affected; and “Affected Person” means any of the Affected Persons;

(b) “Co-financing Agreement” means any one or more of the co-financing agreements referred to in the Preamble to this Agreement;

(c) “Environmental Management Plan” or “EMP” means an Environmental Management Plan referred to in paragraph 8 (a) (ii) of Schedule 4 to this Agreement, including the EMPs referred to in paragraph 3 (b) (ii) and (c) (ii) of Schedule 1 to this Agreement;

(d) “Financial Monitoring Report” or “FMR” means a report prepared in accordance with Section 4.02 (a) of this Agreement;

(e) “Fiscal Year” means the Borrower’s fiscal year beginning on January 1 in any one calendar year and ending on December 31 in the same calendar year;

(f) “GIS” means Geographic Information System;

(g) “IMT” means Intermediate Means of Transport;

(h) “MTM” means *Ministère des Transports et de la Météorologie*, the Borrower’s Ministry of Transport and Meteorology;

(i) “MTP” means *Ministère des Travaux Publics*, the Borrower’s Ministry of Public Works;

(j) “PES” means the Program Executive Secretariat of the Transport Sector Program;

(k) “Port Concession Contract” means the concession contract to be entered into between the Borrower and the Port Operator pursuant to Section 3.02 (b) of this Agreement, as the same may be amended from time to time, and such term includes all schedules to the Port Concession Contract;

(l) “Port Operator” means the port operator referred to in Section 3.02 (b) of this Agreement;

(m) “PPWD” means any one or more of the Provincial Public Works Departments referred to in paragraph 2 (b) of Schedule 4 to this Agreement;

(n) “PRA” means any one or more of the Provincial Road Agencies referred to in paragraph 2 (a) of Schedule 4 to this Agreement;

(o) “Project Account” means the project account referred to in Section 3.05 (a) to this Agreement;

(p) “Project Implementation Plan” means the Project Implementation Plan referred to in paragraph 5 (a) of Schedule 4 to this Agreement, as same may be amended from time to time in agreement with the Association, and such term includes any schedules to the Project Implementation Plan;

(q) “Province” means any one or more of six administrative subdivisions of the Borrower’s territory;

(r) “Railway Concession Contract” means the concession contract to be entered into between the Borrower and the Railway Operator 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 Railway Concession Contract;

(s) “Railway Operator” means the railway operator referred to in Section 3.02 (a) of this Agreement;

(t) “Resettlement Action Plan” or “RAP” means a Resettlement Action Plan referred to in paragraph 8 (a) (iii) of Schedule 4 to this Agreement;

(u) “Resettlement Policy Framework” or “RPF” means the Resettlement Policy Framework, dated January 18, 2002, issued by the Borrower, and describing a program of actions, measures and policies designed to avoid or minimize any adverse impact or hardship to Affected Persons as a result of the Project or, if such adverse

impact or hardship cannot be avoided altogether, provide for the compensation and resettlement of such Affected Persons as may be appropriate;

(v) “RMF” means the Road Maintenance Fund established pursuant to the Borrower’s Decree No. 2002-577, dated July 4, 2002;

(w) “RTU” means the Rural Transport Unit of PES;

(x) “Southern Railway” means the railway link between the city of Fianarantsoa and the port city of Manakara;

(y) “Special Account” means the account referred to in Schedule 5 to this Agreement;

(z) “Subproject” means any civil works, or other rail or road network construction, rehabilitation or maintenance activity, under the Project; and

(aa) “Transport Sector Environmental Assessment” or “TSEA” means the Borrower’s Transport Sector Environmental Assessment, dated September 27, 1999, consisting of a detailed analysis of the social and environmental impacts associated with the Program, and giving details of measures appropriate or required to manage potential environmental risks and mitigate adverse impacts associated with the Program.

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 sixty million seven hundred thousand Special Drawing Rights (SDR 60,700,000).

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, works and services required for the Project and to be financed out of the proceeds of the Credit.

(b) The Borrower may, for purposes of the Project, open and maintain a special deposit account in dollars 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 5 to this Agreement.

Section 2.03. The Closing Date shall be June 30, 2009 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 15 and November 15 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 15 and November 15, commencing November 15, 2012 and ending May 15, 2042. Each installment to and including the installment payable on May 15, 2022 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.

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, with due diligence and efficiency and in conformity with appropriate technical, administrative and financial practices, and with due regard to environmental and ecological considerations, 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, in accordance with the Implementation Program set forth in Schedule 4 to this Agreement.

Section 3.02. (a) For purposes of Part D.1 of the Project, the Borrower shall conclude a concession contract (hereinafter referred to as the Railway Concession Contract) with a private railway operator (hereinafter referred to as the Railway Operator) on terms and conditions which shall have been approved by the Association, or make other arrangements satisfactory to the Association, for the proper management and operation of the Southern Railway.

(b) For purposes of Part D.2 of the Project, the Borrower shall conclude a concession contract (hereinafter referred to as the Port Concession Contract) with a private port operator (hereinafter referred to as the Port Operator) on terms and conditions which shall have been approved by the Association, or make other arrangements satisfactory to the Association, for the proper management and operation of the Port of Manakara.

Section 3.03. (a) For the purposes of Section 3.02 of this Agreement, the terms and conditions of the Railway Concession Contract and Port Concession Contract shall include provisions requiring the Railway Operator or Port Operator, as the case may be:

- (i) to take out and maintain with responsible insurers, or to make other provision satisfactory to the Association for, insurance against such risks and in such amounts as shall be consistent with appropriate practice;
- (ii) to carry on its operations and conduct its affairs in accordance with sound technical, administrative and financial practices, and with due regard to environmental and ecological considerations

practices, under the supervision of qualified and experienced management assisted by competent staff in adequate numbers; and

- (iii) at all times to operate and to maintain its plants, machinery, equipment and other property, and from time to time, promptly as needed, to make all necessary repairs and renewals thereof, all in accordance with sound engineering, administrative and financial practices, and with due regard to environmental and ecological considerations.

(b) The Borrower shall exercise its rights under the Railway Concession Contract and Port Concession Contract, respectively, in such manner as to protect the interests of the Borrower and the Association and to accomplish the purposes of the Credit, and, except as the Association shall otherwise agree, the Borrower shall not assign, amend, abrogate or waive the Railway Concession Contract or Port Concession Contract, or any provision thereof.

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 3 to this Agreement.

Section 3.05. 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 PES, 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 \$500,000, 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.

Section 3.06. 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.

ARTICLE IV

Financial Covenants

Section 4.01. (a) The Borrower shall maintain or cause to be maintained a financial management system, including records and accounts adequate to reflect in accordance with sound accounting practices the operations, resources and expenditures in respect of the Project of the departments or agencies of the Borrower responsible for carrying out the Project or any part thereof.

- (b) The Borrower shall:
 - (i) have the records and accounts referred to in paragraph (a) of this Section, including those for the Special Account, for each Fiscal Year audited, in accordance with appropriate auditing principles consistently applied, by independent auditors acceptable to the Association;
 - (ii) furnish to the Association as soon as available, but in any case not later than six months after the end of each such Fiscal 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 statements and reports of such audit, by said auditors, of such scope and in such detail as the Association shall have reasonably requested, including, as part of the information to be provided in each such report, a management letter concerning the Borrower's internal controls; 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.

(c) For all expenditures with respect to which withdrawals from the Credit Account were made on the basis of statements of expenditure, the Borrower shall:

- (i) maintain or cause to be maintained, in accordance with paragraph (a) of this Section, records and accounts reflecting such expenditures;
- (ii) retain, until at least one year after the Association has received the audit report for the Fiscal Year in which the last withdrawal from the Credit Account 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 such fiscal year, together with the procedures and internal controls involved in their preparation, can be relied upon to support the related withdrawals.

Section 4.02. (a) The Borrower shall prepare and furnish to the Association a financial monitoring report, in form and substance satisfactory to the Association, which:

- (i) sets forth sources and uses of funds for the Project, both cumulatively and for the period covered by said report, showing separately funds provided under the Credit, and explains variances between the actual and planned uses of such funds;
- (ii) describes physical progress in Project implementation, both cumulatively and for the period covered by said report, and explains variances between the actual and planned Project implementation ; and
- (iii) sets forth the status of procurement under the Project, as at the end of the period covered by said report.

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

ARTICLE V

Remedies of the Association

Section 5.01. Pursuant to Section 6.02 (l) of the General Conditions, the following additional events are specified:

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

(b) as a result of the technical and financial audit referred to in Part C.2 of the Project, there is evidence of unsatisfactory performance or major shortcomings in the implementation of the road maintenance program referred to in Part C.1 of the Project;

(c) any one or more of the Co-financing Agreements shall have failed to become effective by December 31, 2003, or such later date as the Association may agree; provided, however, that the provisions of this paragraph shall not apply if the Borrower establishes to the satisfaction of the Association that 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;

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

(A) the right of the Borrower to withdraw the proceeds of any grant or loan made to the Borrower pursuant the Co-financing Agreements shall have been suspended, canceled or terminated in whole or in part, pursuant to the terms of the respective Co-financing Agreement; or

(B) any such loan shall have become due and payable prior to the agreed maturity thereof; and

(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; and

(e) as a result of events which have occurred after the signing of the Port Concession Contract or Railway Concession Contract, a situation shall have arisen which shall make it improbable that the Port Operator or Railway Operator will be able to perform its obligations under the Port Concession Contract or Railway Concession Contract, as the case may be, or that the objectives of the Port Concession Contract or Railway Concession Contract, as the case may be, can be achieved; provided, however, that the provisions of this paragraph shall not apply if the Borrower establishes to the satisfaction of the Association that it has made other arrangements, acceptable to the Association, for the proper management and operation of the Southern Railway or the Port of Manakara, as the case may be.

Section 5.02. Pursuant to Section 7.01 (h) of the General Conditions, the following additional events are specified:

(a) an event specified in paragraph (b) 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;

(b) an event specified in paragraph (d) (i) (B) of Section 5.01 of this Agreement shall occur, subject to the proviso of paragraph (d) (ii) of that Section; and

(c) an event specified in paragraph (e) of Section 5.01 of this Agreement shall occur.

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 Account has been duly opened, and the amount of the initial advance deposited therein in accordance with Section 3.05 (b) of this Agreement;

(b) the Borrower has established a financial accounting and management system acceptable to the Association, and recruited the auditors referred to in Section 4.01 (b) of this Agreement under terms, conditions and terms of reference acceptable to the Association, and in accordance with the provisions of Section II of Schedule 3 to this Agreement;

(c) the Project Implementation Plan has been duly adopted by the Borrower in form and substance acceptable to the Association; and

(d) the accountant and information technology specialist referred to in paragraph 4 of Schedule 4 to this 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 3 to this Agreement.

Section 6.02. 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 6.03. The obligations of the Borrower under Articles III and 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. 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 Budget
B.P. 61
Antananarivo 101
Madagascar

Cable address:

MFB
Antananarivo

Facsimile:

(261) 20 22 34530

For the Association:

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

Cable address:

INDEVAS
Washington, D.C.

Telex:

248423 (MCI) or
64145 (MCI)

Facsimile:

(202) 477-6391

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/ Zina Andrianarivelo Razafy
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:

<u>Category</u>	<u>Amount of the Credit Allocated (Expressed in SDR Equivalent)</u>	<u>% of Expenditures to be Financed</u>
(1) Civil works		100%** until December 31, 2003; 100% of foreign expenditures and 80% of local expenditures thereafter
(a) under Part D.1 of the Project	5,090,000	
(b) under Part D.2 of the Project	1,410,000	
(c) other	38,000,000	
(2) Goods	160,000	100%** until December 31, 2003; 100% of foreign expenditures and 80% of local expenditures thereafter
(3) (a) Consultants' services and audits	8,540,000	100%** until December 31, 2003; 80% thereafter
(b) training	540,000	
(4) Operating costs	190,000	100%** until December 31, 2003; 80% thereafter
(5) Unallocated	6,770,000	
TOTAL	<u>60,700,000</u> =====	

**** Note: These percentages have been calculated on the understanding that, in accordance with the applicable laws of the Borrower, the corresponding goods, works and services will be exempted from taxes and customs duties levied by the Borrower. It is understood that, if any change is made to such laws, or in their scope or application, which has the effect of permitting or requiring taxes or customs duties to be levied on such goods, works or services, these percentages shall be adjusted accordingly, in accordance with the provisions of Section 5.08 of the General Conditions.**

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, works 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, works 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, 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; and utilities and communications' expenses; and bank charges.

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;

(b) in respect of payments made for expenditures under Category (1) (a) of the table in paragraph 1 above, unless: (i) the Borrower has concluded a Railway Concession Contract with the Railway Operator or made other arrangements satisfactory to the Association for the proper management and operation of the Southern Railway; and (ii) the Borrower has, in respect of Part D.1 of the Project, carried out an environmental audit and developed an environmental management plan, both of which shall be acceptable to the Association;

(c) in respect of payments made for expenditures under Category (1) (b) of the table in paragraph 1 above, unless: (i) the Borrower has concluded a Port Concession Contract with the Port Operator or made other arrangements satisfactory to the Association for the proper management and operation of the Port of Manakara; and (ii)

the Borrower has, in respect of Part D.2 of the Project, carried out an environmental assessment and developed an environmental management plan, both of which shall be acceptable to the Association; and

(d) in respect of payments made in any Fiscal Year for expenditures under Category (3) (b) of the table in paragraph 1 above, unless an annual training program for that Fiscal Year has been submitted to, and approved by, the Association, and the proposed expenditure is part of, or consistent with, the annual training program as approved.

4. The Association may require withdrawals from the Credit Account to be made on the basis of statements of expenditure for expenditures for: (i) works under contracts below \$150,000 equivalent; (ii) goods under contracts below \$100,000 equivalent; (iii) consulting and auditing services under contracts below \$50,000 equivalent, in the case of consulting firms, and \$30,000 equivalent, in the case of individual consultants; (iv) operating costs; and (v) training, under such terms and conditions as the Association shall specify by notice to the Borrower.

SCHEDULE 2

Description of the Project

The objectives of the Project are to improve access of rural communities to markets, schools, health centers and other economic and social infrastructure, and enhance the mobility of the rural population, and, in so doing, improve the quality of life of the rural population and promote economic development.

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: Capacity Building for Implementation of Rural Transport Policy and Strategy

Provision of technical advisory services and support services to assist RTU in the implementation of the rural transport policy and strategy, including:

- (a) development of the capacity of RTU to facilitate the coordination and implementation of the rural transport policy and strategy, and monitor its progress;
- (b) provision of support and guidance to decentralized organs of government in the management of their road networks; and
- (c) implementation of an information, education and communication campaign to disseminate information about the rural transport policy and strategy, the *Charte routière*, RMF, HIV/AIDS and other social issues.

Part B: Rehabilitation of Rural Transport Infrastructure

1. Implementation of a program of improvement of the rural road network involving 9,000 kilometers of rural roads to be selected on a participatory basis, and in accordance with criteria which shall include the cost of upgrading each link to basic access standard, population served, social and environmental considerations, and developmental priorities.
2. Implementation of a pilot program to define and propagate appropriate transport infrastructure interventions at community level.

Part C: Maintenance of Rural Road Network

1. Implementation of a program of periodic and routine maintenance of the rural road network, using resources of the RMF and contributory financing provided by the Provinces and communes.
2. Implementation of a financial and technical audit to provide feedback on the execution of the maintenance program.
3. Provision of technical advisory services and material support to strengthen RMF and enhance its efficiency.

Part D: Rehabilitation of the Fianarantsoa – Manakara Corridor

1. Rehabilitation of Southern Railway, including improvement of its infrastructure.
2. Rehabilitation of the Port of Manakara, including infrastructure improvements, rehabilitation of the oil pipeline and implementation of environmental protection measures.
3. Implementation of community activities for slope stabilization and community organization.

Part E: Promotion of Intermediate Means of Transport

1. Provision of advisory services to support: (a) development by private sector institutions, civil society and not-for-profit organizations of small-scale initiatives designed to enhance rural mobility, through greater or more efficient use of cycle-based technologies, human-powered and animal-powered carts, water-based transport or a combination of complementary transport modes; and (b) implementation, monitoring and evaluation of such initiatives.
2. Carrying out of investigations, including participatory surveys, collaborative research and development activities, to identify problem areas and identify solutions in key areas of rural transport mobility.
3. Implementation of a program of training, workshops, publications, professional exchanges and networking activities to enhance capacity and expertise in the sector, promote the exchange of information and facilitate collaboration among users, operators and contractors.

4. Carrying out of local spot improvements of waterways and jetties to improve water transport infrastructure.

* * *

The Project is expected to be completed by December 31, 2008.

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, September 1997 and January 1999 (the Guidelines), and the provisions of the following Parts of this Section I.

Part B: International Competitive Bidding

1. Except as otherwise provided in Part C of this Section, works 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 provision shall apply to works to be procured under contracts awarded in accordance with the provisions of paragraph 1 of this Part B.

(a) Prequalification

Bidders for civil works under Part D.1 of the Project shall be prequalified in accordance with the provisions of paragraphs 2.9 and 2.10 of the Guidelines.

(b) Grouping of Contracts

To the extent practicable, contracts for works shall be grouped in bid packages estimated to cost \$150,000 equivalent or more each.

(c) Notification and Advertising

The invitation to prequalify or bid for each contract for works estimated to cost \$150,000 equivalent or more shall be advertised in accordance with the procedures applicable to large contracts under paragraph 2.8 of the Guidelines.

(d) Preference for Domestic Contractors

The provisions of paragraphs 2.54 and 2.55 of the Guidelines and Appendix 2 thereto shall apply to works to be carried out by domestic contractors.

Part C: Other Procurement Procedures

1. National Competitive Bidding

Works estimated to cost less than \$150,000 equivalent per contract, up to an aggregate amount not to exceed \$28,600,000 equivalent, and goods, may be procured under contracts awarded in accordance with the provisions of paragraphs 3.3 and 3.4 of the Guidelines; provided, however, that: (i) all bids shall be in one envelope which shall be opened in public; (ii) methods used in evaluation of bids and the award of contracts shall be made known to all bidders and not applied arbitrarily; (iii) any bidder shall be given adequate response time (four weeks) for preparation and submission of bids; (iv) bid evaluation and bidder qualification criteria shall clearly be specified in bidding documents and not applied arbitrarily; (v) eligible firms shall not be precluded from participation; (vi) no preference margin shall be granted to domestic suppliers; (vii) the award shall be made to the lowest evaluated bidder in accordance with pre-determined and transparent methods; (viii) bid evaluation reports shall clearly state the reasons for rejection of any non-responsive bid; and (ix) prior to issuing the first call for bids, draft standard bidding documents shall have been prepared and submitted to the Association, and found acceptable.

2. National Shopping

Goods estimated to cost less than \$30,000 equivalent per contract, up to an aggregate amount not to exceed \$150,000 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.

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 for works estimated to cost the equivalent of \$150,000 or more and goods 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 Association in January 1997 and revised in September 1997, January 1999, and May 2002 (the Consultant Guidelines), and the provisions of the following Parts of this Section II.

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 under Parts B through D of the Project, estimated to cost less than \$100,000 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. Selection Based on Consultants' Qualifications

Services estimated to cost less than \$50,000 equivalent per contract may be procured under contracts awarded in accordance with the provisions of paragraphs 3.1 and 3.7 of the Consultant Guidelines.

2. Individual Consultants

Services for tasks that meet the requirements set forth in paragraph 5.1 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.

3. Single Source Selection

Services under Parts A, D and E of the Project, which are estimated to cost less than \$100,000 equivalent per contract, may, with the Association's prior agreement, be procured in accordance with the provisions of paragraphs 3.8 through 3.11 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 \$100,000 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 \$50,000 or more, but less than the equivalent of \$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 \$30,000 or more, the qualifications, experience, terms of reference and terms of employment of the consultants shall be furnished to the Association for its prior review and approval. The contract shall be awarded only after the 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. The Borrower shall establish and maintain:
 - (a) a Program Executive Secretariat (PES), whose mandate, terms of reference and composition shall be acceptable to the Association, to be responsible for day-to-day execution of the Project, including management of procurement activities, consolidation of annual work programs and budgets, preparation and production of annual progress reports and financial statements;
 - (b) a Rural Transport Unit (RTU), whose mandate, terms of reference and composition shall be acceptable to the Association, to facilitate the coordination and implementation of the Program, monitor its progress, disseminate information pertaining to rural transport among all concerned parties and ensure proper coordination of interventions in the rural transport sector; and
 - (c) an Advisory Steering Committee (ASC), whose mandate, terms of reference and composition shall be acceptable to the Association, to promote rural mobility through increased use of IMTs, and assist the Borrower in the development and coordination of national policy on use of IMTs.

2. The Borrower shall establish and maintain in each Province:
 - (a) a Provincial Road Agency (PRA), whose mandate, terms of reference and composition shall be acceptable to the Association, to execute road rehabilitation and maintenance programs on behalf of road owners in the Province; and
 - (b) a Provincial Public Works Department (PPWD), whose mandate, terms of reference and composition shall be acceptable to the Association, to assist in classifying, keep inventories of, and survey, the road network in the Province, conduct traffic counts and prepare annual maintenance programs to be presented to RMF for approval and financing, prepare medium and long-term rehabilitation programs for the entire network and update them periodically, maintain GIS-based road network databases, and produce and update provincial road maps.

3. Upon the establishment of a PRA in any Province, PES may, without prejudice to its continuing fiduciary responsibility for execution of the Project, delegate management of the procurement and financial management of works and services under contracts involving amounts not exceeding \$150,000 to the PRA, under terms and conditions

which shall be specified in service agreements to be concluded on an annual basis between PES and the PRA.

4. The Borrower shall take steps to ensure that:

(a) PES shall consist of an executive secretary, who shall be assisted by suitably qualified and experienced staff in adequate numbers, including an accountant to be specifically recruited for the purposes the Project;

(b) RTU shall consist of a rural transport coordinator, who shall be assisted by an information technology specialist and other suitably qualified and experienced staff in adequate numbers; and

(c) the positions of executive secretary, accountant, rural transport coordinator and information technology specialist, which are referred to in this paragraph, shall be kept filled at all times by persons having qualifications and experience acceptable to the Association.

5. (a) The Borrower shall prepare and transmit to the Association for comments, and thereafter adopt in form and substance acceptable to the Association a Project Implementation Plan, giving details of all operational guidelines and procedures as shall have been agreed with the Association for the implementation, monitoring and supervision of the Project, including:

- (i) performance indicators, monitoring and evaluation guidelines, and environmental assessment methodology;
- (ii) administrative, accounting and financial procedures;
- (iii) procurement and disbursement guidelines;
- (iv) guidelines for the compensation and resettlement of Affected Persons consistent with the RPF, including, as they become available, details of individual RAPs; and
- (v) details of the TSEA and EMPs, including, as they become available, the EMPs referred to in paragraph 3 (b) (ii) and (c) (ii) of Schedule 1 to this Agreement.

(b) The Borrower shall carry out the Project in accordance with procedures set out in the Project Implementation Plan, 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.

6. (a) The Borrower shall, not later than May 31 of each year, undertake, in conjunction with the Association and other interested parties, an annual review of the Project or, in the case of the review to be undertaken not later than May 31, 2005, a midterm review, during which they shall exchange views generally on all matters relating to the progress of the Project and the Program, and the performance by the Borrower of its obligations under this Agreement, including the progress achieved by the Borrower under the Project and the Program, having regard to the monitoring indicators agreed upon between the Borrower and the Association.

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

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

7. (a) The Borrower shall establish and maintain a Road Maintenance Fund (RMF) to provide timely and adequate resources for road maintenance under terms and conditions which shall be acceptable to the Association, including clear, transparent and efficient criteria for financing of rural road maintenance, clear and transparent guidelines governing oversight of RMF, clarification of the role of local governments, provision for independent technical, financial and organizational audits to monitor the operations of RMF, and an increasing share of road user charges in the aggregate resources of RMF.

(b) The Borrower shall, beginning January 1, 2003:

- (i) take steps to have technical, financial and organizational audits of the RMF undertaken on a semi-annual basis; and
- (ii) promptly after the completion of each such audit and, in any event, not later than three (3) months after the end of the reporting

period to which it relates, forward the report of such audit to the Association, for review and comments.

8. Using the TSEA and, wherever applicable, the RPF as a basis for further and more detailed social and environmental analysis, the Borrower shall develop, in respect of each Subproject:

- (a) prior to the approval of bid documents for the Subproject:
 - (i) an Environmental Assessment (EA), acceptable to the Association, giving details of the social and environmental status, and potential environmental risks and adverse impacts, which are specific to the Subproject, along with proposed mitigation measures;
 - (ii) an Environmental Management Plan (EMP), acceptable to the Association, giving details of measures appropriate or required to manage potential environmental risks and mitigate adverse impacts associated with the Subproject, together with adequate institutional, monitoring and reporting arrangements capable of ensuring proper implementation of, and regular feedback on compliance with, the EMP; and
 - (iii) wherever applicable, a Resettlement Action Plan (RAP), acceptable to the Association, giving details of a program of actions, measures and policies consistent with the RPF, and designed to facilitate the compensation and resettlement of Affected Persons, including the magnitude of displacement, proposed compensation and resettlement arrangements, and budget and cost estimates, together with adequate institutional, monitoring and reporting arrangements capable of ensuring proper implementation of, and regular feedback on compliance with, the RAP; and
- (b) proceed thereafter to implement the EMP and, wherever applicable, the RPF, in accordance with the guidelines, timetable and other specifications set forth in the EMP and RAP, respectively.

9. The Borrower shall submit quarterly consolidated reports on compliance with social and environmental safeguard measures under the Project, giving details of measures taken in furtherance of the TSEA, RPF, EMPs and RAPs, conditions, if any, which

interfere or threaten to interfere with the smooth implementation of the TSEA, RPF, EMPs and RAPs, and remedial measures taken or required to be taken to address such conditions.

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, works 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;
 - (c) the term “Authorized Allocation” means an amount equivalent to \$4,500,000, to be withdrawn from the Credit Account and deposited into the Special Account pursuant to paragraph 2 (a) of this Annex, provided, however, that unless the Association shall otherwise agree, the Authorized Allocation shall be limited to an amount equivalent to \$2,250,000, 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 SDR5,120,000.
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.