

CONFORMED COPY

CREDIT NUMBER 2956-MAG

Development Credit Agreement

(Private Sector Development and Capacity Building Project)

between

REPUBLIC OF MADAGASCAR

and

INTERNATIONAL DEVELOPMENT ASSOCIATION

Dated July 14, 1997

CREDIT NUMBER 2956-MAG

DEVELOPMENT CREDIT AGREEMENT

AGREEMENT, dated July 14, 1997, between REPUBLIC OF MADAGASCAR (the Borrower) and INTERNATIONAL DEVELOPMENT ASSOCIATION (the Association).

WHEREAS (A) the Association has received a letter of private sector development policy, dated May 2, 1997, from the Borrower, describing a program of actions, objectives and policies designed to promote and strengthen its private sector development strategy (hereinafter referred to as "the Program"), and declaring its commitment to the execution of the Program;

(B) 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; and

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

NOW THEREFORE the parties hereto hereby agree as follows:

ARTICLE I

General Conditions; Definitions

Section 1.01. The "General Conditions Applicable to Development Credit Agreements" of the Association, dated January 1, 1985, with the modifications set forth below (the General Conditions) constitute an integral part of this Agreement:

- (a) The last sentence of Section 3.02 is deleted;
- (b) The second sentence of Section 5.01 is modified to read:

"Except as the Association and the Borrower shall otherwise agree, no withdrawals shall be made: (a) on account of expenditures in the territories of any country which is not a member of the Bank 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.";

- (c) Section 6.03 is modified to read:

"If (a) the right of the Borrower to make withdrawals from the Credit Account shall have been suspended with respect to any amount of the Credit for a continuous period of thirty days, or (b) at any time, the Association determines, after consultation with the Borrower, that an amount of the Credit will not be required to finance the Project's costs to be financed out of the proceeds of the Credit, or (c) at any time, the Association determines, with respect to any contract to be financed out of the proceeds of the Credit, that corrupt or fraudulent practices were engaged in by representatives of the Borrower or of a beneficiary of the Credit during the procurement or the execution of such contract, without the Borrower having taken timely and appropriate action satisfactory to the Association to remedy the situation, and establishes the amount of expenditures in respect of such contract which would otherwise have been eligible for financing out of the proceeds of the Credit, or (d) at any time, the Association determines that the procurement of any contract to be financed out of the proceeds of the Credit is inconsistent with the procedures set forth or referred to in the Development Credit Agreement and establishes the amount of the expenditures in respect of such contract which would otherwise have been eligible for financing out of the proceeds of the Credit, or (e) after the Closing Date, an amount of the Credit shall remain unwithdrawn from the Credit Account, the Association may, by notice to the Borrower, terminate the right of the Borrower to make withdrawals with respect to such amount. Upon the giving of such notice, such amount of the Credit shall be cancelled."

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) "Arbitration Commission" means the arbitration commission established pursuant to the Borrower's Loi No. 96.012, dated August 13, 1996, relating to the settlement of legal disputes arising out of the Privatization Program;

(b) "Beneficiary" means beneficiary of a Grant;

(c) "Competitiveness Review Committee" or "CRC" means the Borrower's Competitiveness Review Committee, a private non-profit-making association established and existing under the laws of the Borrower, with a mandate to (i) identify and analyse policy and other business environment constraints to private sector competitiveness, (ii) develop detailed proposals for policy change, and (iii) submit its proposals for consideration by the policymakers;

(d) "FASP" means the Fonds d'Appui au Secteur Privé, a private non-profit-making association established and existing under the laws of the Borrower;

(e) "FASP Convention" means the FASP Convention referred to in Section 3.05 (a) of this Agreement, as same may be amended from time to time, and such term includes any schedules to the FASP Convention;

(f) "Grant" means a grant made, or to be made, out of the proceeds of the Credit to finance a Sub-project, a seminar under the Seminars Fund, or a Matchmaking Transaction;

(g) "Implementation Plan" means the implementation plan referred to in paragraph 2 of Schedule 4 to this Agreement, as same may be amended from time to time, and such term includes any schedules to the Implementation Plan;

(h) "Matchmaker" means a person who is in the business of facilitating Matchmaking Transactions;

(i) "Matchmaking Transaction" means a transaction pursuant to Part B.4 of the Project, designed to facilitate export-oriented enterprise collaboration between a Malagasy private firm and a foreign partner;

(j) "MB" means Ministère du Budget, the Borrower's Ministry of Budget;

(k) "MDSPP" means Ministère du Développement du Secteur Privé et de la Privatisation, the Borrower's Ministry of Private Sector Development and Privatisation;

(l) "MF" means Ministère des Finances, the Borrower's Ministry of Finance;

(m) "MMF" means the Matchmaking Fund under Part B.4 of the Project;

(n) "MMF Convention" means the MMF Convention referred to in Section 3.05 (c) of this Agreement, as same may be amended from time to time, and such term includes any schedules to the MMF Convention;

(o) "Privatization Committee" means the privatization committee established under the Privatization Law to be responsible for the implementation of the Borrower's Privatization Program;

(p) "Privatization Law" means the Borrower's Loi No. 96.011, dated August 13, 1996, defining the Privatization Program and prescribing the rules governing such program;

(q) "Privatization Program" means the privatization program which is the subject matter of the Privatization Law;

(r) "Social and Regional Development Support Fund" means the Social and Regional Development Support Fund established under the Privatization Law for the purpose of ensuring that benefits of the privatization program accrue to the less privileged groups in the territory of the Borrower;

(s) "Privatization Trust Fund" means the privatization trust fund established under the Privatization Law for the purpose of establishing a share warehousing scheme to hold minority shares in the privatized public enterprises pending their sale to employees of privatized public enterprises, members of the public, national enterprises and institutional investors;

(t) "Procedures Manual" means the Procedures Manual referred to in paragraph 3 of Schedule 4 to this Agreement, as same may be amended from time to time, and such term includes any schedules to the Procedures Manual;

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

(v) "Project Coordinator" means the Project Coordinator referred to in paragraph 1 (a) of Schedule 4 to this Agreement;

(w) "Project Preparation Advance" means the project preparation advance granted by the Association to the Borrower pursuant to a first letter of agreement,

dated July 27, 1994, signed by the Association and countersigned on August 26, 1994 by the Borrower, and a second letter of agreement, dated August 28, 1995, signed by the Association and countersigned on September 13, 1995 by the Borrower;

(x) "Seminars Fund" means the Seminars Fund under Part B.3 of the Project;

(y) "Seminars Fund Convention" means the Seminars Fund Convention referred to in Section 3.05 (b) of this Agreement, as same may be amended from time to time, and such term includes any schedules to the Seminars Fund Convention;

(z) "Special Account" means each or any of the accounts referred to in Section 2.02 (b) of this Agreement;

(aa) "Sub-project" means an activity under Part B.1 of the Project, in respect of which a grant has been, or may be, provided to a Beneficiary; and

(ab) "Technical Secretariat" means the technical secretariat established under the Privatization Law to be responsible, under the authority of the Privatization Committee, to plan, arrange, coordinate and supervise the technical experts responsible of the day-to-day implementation of the Privatization 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 seventeen million two hundred thousand Special Drawing Rights (SDR 17,200,000).

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 described in Schedule 2 to this Agreement 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 for the benefit of a Beneficiary under a Grant to meet the reasonable cost of eligible expenditures related to such Grant, and in respect of which the withdrawal from the Credit Account is requested.

(b) The Borrower may open and maintain:

(i) one special deposit account in dollars in the name of MF (hereinafter referred to as Special Account A) for the purposes of Part A of the Project; and

(ii) one special deposit account in dollars in the name of FASP (hereinafter referred to as Special Account B) for the purposes of Part B.

Special Accounts shall be maintained 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 Accounts shall be made in accordance with the provisions of Schedule 5 to this Agreement.

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

Section 2.03. The Closing Date shall be December 31, 2002 or such later date as the Association shall establish. The Association shall promptly notify the Borrower of such later date.

Section 2.04. (a) The Borrower shall pay to the Association a commitment charge

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

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

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

Section 2.05. The Borrower shall pay to the Association a service charge at the rate of three fourths of one per cent (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 February 1 and August 1 in each year.

Section 2.07. (a) Subject to paragraphs (b) and (c) below, the Borrower shall repay the principal amount of the Credit in semiannual installments payable on each February 1 and August 1, commencing August 1, 2007, and ending February 1, 2037. Each installment to and including the installment payable on February 1, 2017, 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 rate 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:

(i) shall carry out Part A.1 and A.2 of the Project through MDSPP, and Part A.3 of the Project through MB, with due diligence and efficiency and in conformity with appropriate administrative, technical and financial practices, and shall provide, promptly as needed, the funds, facilities, services and other resources required for such Part of the Project;

(ii) shall cause FASP to carry out Part B of the Project with due diligence and efficiency and in conformity with appropriate administrative, technical and financial practices, shall take or cause to be taken all action, including the provision of funds, facilities, services and other resources, necessary or appropriate to enable FASP to carry out the Project, and shall not take or permit to be taken any action which would prevent or interfere with the carrying out of the Project by FASP.

(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 Part A, and cause FASP to carry out Part B of the Project, all in accordance with the Implementation Program set forth in Schedule 4 to this Agreement.

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

Section 3.03. For the purposes of Section 9.07 of the General Conditions and without limitation thereto, the Borrower shall:

(a) prepare, on the basis of guidelines acceptable to the Association, and furnish to the Association not later than six (6) months after the Closing Date or such later date as may be agreed for this purpose between the Borrower and the Association, a plan for the future operation of the Project; and

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

Section 3.04. The Association and the Borrower hereby agree that the obligations set forth in Sections 9.03, 9.04, 9.05, 9.06, 9.07 and 9.08 of the General Conditions (relating to insurance, use of goods and services, plans and schedules, records and reports, maintenance and land acquisition, respectively) in respect of Part B of the Project shall be carried out by FASP.

Section 3.05. (a) For the purposes of Parts B.1 and B.2 of the Project, the Borrower shall conclude a convention with FASP (hereinafter referred to as the FASP Convention), whereby it shall agree to transfer to FASP on a non-reimbursable basis:

(i) in the case of Part B.1 of the Project, an amount of the Credit not exceeding such amount as may be allocated from time to time to Category (4) (a) of the table in paragraph 1 of Schedule 1 to this Agreement, to be used to provide Grants to Beneficiaries to finance Sub-projects on the terms and conditions specified in paragraph 7 of Schedule 4 to this Agreement, and on such other terms and conditions as shall be acceptable to the Association; and

(ii) in the case of Part B.2 of the Project, an amount of the Credit not exceeding such amount as may be allocated from time to time for purposes of Part B.2 of the Project, to be used to finance CRC-related activities, on such terms and conditions as shall be acceptable to the Association.

(b) For the purposes of Part B.3 of the Project, the Borrower shall conclude a convention with FASP (hereinafter referred to as the Seminars Fund Convention), whereby it shall agree to transfer to FASP on a non-reimbursable basis an amount of the Credit not exceeding the amount allocated to Category (4) (b) of the table in paragraph 1 of Schedule 1 to this Agreement, to be used to create a Seminars Fund to provide Grants to finance seminars for the benefit of public and private sector participants, on the terms and conditions specified in paragraph 8 of Schedule 4 to this Agreement, and on such other terms and conditions as shall be acceptable to the Borrower and the Association.

(c) For the purposes of Part B.4 of the Project, the Borrower shall conclude a convention with FASP (hereinafter referred to as the MMF Convention), whereby it shall agree to transfer to FASP on a non-reimbursable basis an amount of the Credit not exceeding such amount as may be allocated from time to time to Category (4) (c) of the table in paragraph 1 of Schedule 1 to this Agreement, to be used to create a Matchmaking Fund to provide Grants to finance Matchmaking Transactions, on the terms and conditions specified in paragraph 9 of Schedule 4 to this Agreement, and on such other terms and conditions as shall be acceptable to the Association.

(d) The Borrower shall exercise its rights under the FASP Convention, the Seminars Fund Convention and the MMF Convention, 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, shall not amend, abrogate or waive any provision thereof, if such amendment, abrogation or waiver may, in the opinion of the Association, materially or adversely affect the implementation of the Project.

Section 3.06. (a) Without limitation upon its obligations under Section 3.01 of this Agreement, the Borrower shall open, in a commercial bank and on terms and conditions satisfactory to the Association, an advance account (hereinafter referred to as Project Account), in the currency of the Borrower, to be operated and maintained by the Project Coordinator, into which it shall deposit from time to time its local counterpart contribution to the cost of the Project.

(b) The Borrower shall:

(i) make an initial deposit of the equivalent of \$50,000 into the Project Account; and

(ii) have the Project Account replenished on a monthly basis, or whenever the balance thereof equals not more than one third of the amount of the initial deposit, whichever occurs first.

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

ARTICLE IV

Financial Covenants

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

(b) The Borrower shall:

(i) have the records and accounts referred to in paragraph (a) of this Section, including those for Special Account A, 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, a certified

copy of the report of such audit by said auditors, of such scope and in such detail as the Association shall have reasonably requested; and

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

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

(i) maintain, or cause to be maintained, in accordance with paragraph (a) of this Section, records and accounts reflecting such expenditures;

(ii) retain, until at least one year after the Association has received the audit report for the fiscal year in which the last withdrawal from the Credit Account or payment out of the Special Account was made, all records (contracts, orders, invoices, bills, receipts and other documents) 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 cause FASP to maintain records and accounts adequate to reflect in accordance with sound accounting practices the operations and financial condition of FASP.

(b) The Borrower shall cause FASP to:

(i) have its records, accounts and financial statements (balance sheets, statements of income and expenses and related statements), including those for Special Account B, for each fiscal year audited, in accordance with appropriate auditing principles consistently applied, by independent auditors acceptable to the Association;

(ii) have its administrative, technical and managerial performance for each semester audited by independent auditors acceptable to the Association, having regard to the provisions of the FASP Convention, Seminars Fund Convention and MMF Convention, and the Procedures' Manual, during the first two years following the Effective Date;

(iii) furnish to the Association as soon as available, but in any case not later than six months after the end of each such year, or three months after the end of each semester, as the case may be, (A) certified copies of its financial statements for such year as so audited, and (B) the report of such audit by said auditors, of such scope and in such detail as the Association shall have reasonably requested; and

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

ARTICLE V

Other Covenants

Section 5.01. The Borrower shall cause FASP:

(a) 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;

(b) to carry on its operations and conduct its affairs in accordance with sound administrative, financial and technical practices under the supervision of qualified and experienced management assisted by competent staff in adequate numbers; and

(c) 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, financial and financial practices.

ARTICLE VI

Remedies of the Association

Section 6.01. Pursuant to Section 6.02 (h) of the General Conditions, the following additional events are specified:

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

(b) FASP shall have failed to perform any of its obligations arising under this Agreement, the FASP Convention, the Seminars Fund Convention or the MMF Convention;

(c) as a result of events which have occurred after the date of the Development Credit Agreement, an extraordinary situation shall have arisen which shall make it improbable that FASP will be able to perform its obligations arising under this Agreement, the FASP Convention, the Seminars Fund Convention or the MMF Convention;

(d) the statutes of FASP shall have been amended, suspended, abrogated, repealed or waived so as to affect materially and adversely the ability of FASP to perform any of its obligations arising under this Agreement, the FASP Convention, the Seminars Fund Convention or the MMF Convention;

(e) the Borrower or any other authority having jurisdiction shall have taken any action for the dissolution or disestablishment of FASP, or for the suspension of the operations of FASP.

Section 6.02. Pursuant to Section 7.01 (d) of the General Conditions, the following additional events are specified:

(a) any event specified in paragraph (b) of Section 6.01 of this Agreement shall occur and shall continue for a period of sixty days after notice thereof shall have been given by the Association to the Borrower;

(b) any event specified in paragraph (d) and (e) of Section 6.01 of this Agreement shall occur.

ARTICLE VII

Effective Date; Termination

Section 7.01. 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 FASP Convention, Seminars Fund Convention and MMF Convention have each been duly signed and delivered on behalf of the Borrower and FASP;

(b) the CRC Protocol of Agreement referred to in paragraph 4 of Schedule 4 to this Agreement has been duly signed and delivered on behalf of FASP and CRC;

(c) the Procedures Manual has been duly approved by the Borrower and the Association, and adopted by the FASP;

(d) the Implementation Plan has been duly approved by the Association, and adopted by the Borrower; and

(e) the Project Account has been duly opened, and the initial amount of \$50,000 equivalent deposited therein.

Section 7.02. The following is specified as an additional matter, 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: namely, that the FASP Convention, Seminars Fund Convention and MMF Convention have each been duly authorized or ratified by the Borrower and FASP, and are legally binding upon the Borrower and FASP in accordance with their respective terms.

Section 7.03. 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 7.04. The obligations of the Borrower under Article IV of this Agreement shall cease and determine on the date on which this Agreement shall terminate or on the date fifteen years after the date of this Agreement, whichever shall be the earlier.

ARTICLE VIII

Representatives of the Borrower; Addresses

Section 8.01. 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 8.02. 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 Antananarivo	22489

For the Association:

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

Cable address:	Telex:
INDEVAS Washington, D.C.	248423 (MCI) or 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/ Bicclair Andrianantoandro

Authorized Representative

INTERNATIONAL DEVELOPMENT ASSOCIATION

By /s/ Callisto Madavo

Regional Vice President
Africa

SCHEDULE 1

Withdrawal of the Proceeds of the Credit

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

Category	Amount of the Credit Allocated (Expressed in SDR Equivalent)	% of Expenditures to be Financed
(1) Goods:		100% of foreign expenditures and 85% of local expenditures
(a) under Part A.2 of the Project	70,000	
(b) under Part A.3 of the Project	700,000	
(c) under Part B of the Project	80,000	
(2) Consultants' services:		100%
(a) under Part A.1 and A.2 of the Project	4,060,000	
(b) under Part A.3 of the Project	420,000	
(c) under Part B of the Project	1,360,000	
(3) Operating costs:		100% of foreign expenditures and 85% of local
(a) under Part A.2 of	960,000	

	the Project	expenditures
	(b) under Part A.3 of the Project	50,000
	(c) under Part B of the Project	510,000
(4)	Grants:	
	(a) under Part B.1 of the Project	2,460,000
	(b) under Part B.3 of the Project	220,000
	(c) under Part B.4 of the Project	860,000
(5)	Project monitoring and audits	490,000
(6)	Retraining fund under Part A.2 (d) of the Project	2,390,000
(7)	Refunding of Project Preparation Advance	1,450,000
(8)	Unallocated	1,120,000
	TOTAL	17,200,000

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 incurred under the Project by MDSPP, MB and FASP, respectively, on account of (i) local contractual staff salaries, (ii) travel costs and allowances, (iii) maintenance of vehicles and equipment, (iv) banking charges, and (v) office rent, supplies and utilities.

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 a Grant, unless the Grant has been provided in accordance with procedures, and on the terms and conditions set forth or referred to, in this Agreement and the Procedures Manual;

(c) in respect of payments under Categories (1) (b), (2) (b) and (3) (b) of the table in paragraph 1 of this Schedule, unless the Borrower has signed an agreement with an executing agency, on terms and conditions acceptable to the Association, for the execution of Part A.3 of the Project;

(d) in respect of payments under Category (6) of the table in paragraph 1 of

this Schedule, unless the Borrower has defined the legal framework, and established rules and procedures acceptable to the Association, for the utilisation of the retraining fund under Part A.2 (d) of the Project.

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

SCHEDULE 2

Description of the Project

The objective of the Project is to support accelerated export-led growth in Madagascar by increasing private sector investment and productivity through reforms in the policy and business environment, upgrading the global market knowledge, involvement and capabilities of private sector firms, and attracting foreign direct investment.

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: Economic Policy Reform Program

1. Design and implementation of reforms in the business environment and in private sector incentives, including market liberalization and regulatory reforms to encourage competition, support privatization and open up the economy to foreign direct investment.

2. (a) Privatization program: provision of technical advisory services and logistical support for the preparation, implementation and performance monitoring of the privatization program, including preparation and execution of divestiture transactions for individual public enterprises, design and adoption of pro-competitive sector regulatory frameworks and demonopolization measures, and establishment and operation of key elements of the legal and institutional framework for the privatization program.

(b) Privatization Committee and Technical Secretariat: provision of technical advisory services and logistical support for the establishment and operation of the Privatization Committee and the Technical Secretariat.

(c) Privatization Trust Fund, Social and Regional Development Support Fund, and Arbitration Commission: provision of technical advisory services and logistical support for the establishment and operation of the Privatization Trust Fund, the Social and Regional Development Support Fund, and the Arbitration Commission.

(d) Retraining Fund: Establishment of a retraining fund to finance the training and redeployment of persons affected by measures linked to the Borrower's divestiture policy in relation to public enterprises.

3. (a) Modernization of value added tax system: modernization of the Value Added Tax (VAT) system, including introduction of a threshold above which all enterprises are subjected to VAT, irrespective of sectors of intervention or types of activities, and reduction of list of zero-rated or exempted goods.

(b) Rehabilitation of fiscal administration: rehabilitation of fiscal administration, including creation of a large taxpayer unit and a simplified single tax system for small firms, computerization of tax administration, improvement of collection rate, introduction of a single identification number system, and a staff recruitment and training program.

(c) Strengthening of customs administration: strengthening of the customs administration, including updating of customs software, creation of a new office in Antananarivo to monitor free zone enterprise operations, and a staff recruitment and

training program.

Part B: Private Sector Capacity Building Program.

1. (a) Support services: establishment and operation of the Fonds d'Appui au Secteur Privé (FASP), to provide access to business support services to private firms and business associations, in order to develop a private knowledge bank and promote the development of information, advisory and support services by well-established private sector associations and groups of firms for the benefit of their members.

(b) Information access: provision of an internet-based information service, on a walk-in fee for service basis, for the benefit of Malagasy private firms to provide access to international data and market sources and to interconnect firms in different parts of Madagascar.

2. Provision of technical advisory services and logistical support to the Competitiveness Review Committee (CRC), to enable it to perform its functions under its statutes and its Protocol of Agreement with the Borrower, including review of constraints to private sector development, identification of solutions and recommendations based on policy diagnostic studies, organization of visits by international experts to disseminate lessons learned and best practices, seminars and communications activities, and carrying out of a public awareness campaign.

3. Establishment of a Seminars Fund to finance the preparation and organization of seminars by Government and the private sector on topics of broad national interest in terms of private sector competitiveness.

4. Establishment and operation of a foreign direct investment (FDI) matchmaking scheme, through the creation of a Matchmaking Fund (MMF), to provide grants to finance success fees involved in Matchmaking Transactions, and to finance the training of prospective Matchmakers.

* * *

The Project is expected to be completed by June 30, 2002.

SCHEDULE 3

Procurement

Section I. Procurement of Goods

Part A: General

Goods 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 (the Guidelines) and the following provisions of this Section, as applicable.

Part B: International Competitive Bidding

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

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

(a) Grouping of contracts

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

(b) Preference for domestically manufactured goods

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

Part C: Other Procurement Procedures

1. National Shopping

Goods estimated to cost less than \$30,000 equivalent per contract, up to an aggregate amount not to exceed \$175,000 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.

2. Community Participation

Goods required under Parts B.1, B.2 and B.3 of the Project shall be procured in accordance with procedures acceptable to the Association.

Part D: Review by the Association of Procurement Decisions

1. Procurement Planning

Prior to the issuance of any invitations to prequalify for bidding or 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 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 goods estimated to cost the equivalent of \$50,000 or more, the procedures set forth in paragraphs 2 and 3 of Appendix 1 to the Guidelines shall apply.

3. Post Review

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

Section II. Employment of Consultants

Part A: General

Consultants' services shall be procured in accordance with the provisions of the Introduction and Section IV of the "Guidelines: Selection and Employment of Consultants by World Bank Borrowers" published by the Bank in January 1997 (the Consultant Guidelines) and the following provisions of Section II of this Schedule.

Part B: Quality- and Cost-based Selection

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

2. The following provisions shall apply to consultants' services to be procured under contracts awarded in accordance with the provisions of the preceding paragraph. The short list of consultants for services for policy reform and private sector capacity building under Parts A and B of the Project, estimated to cost less than \$75,000 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. Quality-based Selection

Services for advisory services, policy studies, enterprise consultancies and implementation monitoring under Parts A and B of the Project may be procured under

contracts awarded in accordance with the provisions of paragraphs 3.1 through 3.4 of the Consultant Guidelines. 2. Least-cost Selection

Services for audits, enterprise consultancies and seminars, under Parts A and B of the Project, 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 3.6 of the Consultant Guidelines.

3. Selection Based on Consultants' Qualifications

Services for seminars, policy studies and enterprise consultancies under Parts A and B of the Project, 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.

4. Single Source Selection

Services for enterprise consultancies, policy studies and seminars under Parts A and B of the Project which are estimated to cost less than \$50,000 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.

5. Commercial Practices

Services to assist Beneficiaries in carrying out Sub-projects under Part B.1 (a) of the Project and estimated to cost less than \$50,000 equivalent may be procured in accordance with commercial practices acceptable to the Bank. 6. Individual Consultants

Services for policy studies, advisory services, enterprise consultancies and seminars under Parts A and B of the Project shall be procured under contracts awarded to individual consultants in accordance with the provisions of paragraphs 5.1 through 5.3 of the Consultant Guidelines.

Part D: Review by the Bank 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 Bank 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 Bank, and with the provisions of said paragraph 1.

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

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

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

3. Post Review

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

Implementation Program

General Provisions

1. (a) The Borrower shall designate a representative of MDSPP, whose qualifications and experience shall be acceptable to the Association, to be the Project Coordinator and, as such, to be responsible for the overall coordination of the Project, including overall coordination of procurement and disbursement activities, coordination of annual and quarterly progress reports, work plans and training programs, and audits under Article IV of this Agreement.

(b) The Borrower shall cause FASP to appoint (i) a supervisory board consisting of suitably qualified and experienced private sector representatives to be responsible for overall supervision of Part B of the Project, and (ii) a General Manager, whose qualifications and experience shall be acceptable to the Association, to be responsible for the supervision and coordination of the day-to-day management of Part B of the Project, including coordination of procurement and disbursement activities, coordination of annual and quarterly progress reports, work plans and training programs, and audits under Section 4.02 of this Agreement.

2. The Borrower shall:

(a) prepare and submit to the Association an implementation plan for the Project, giving details of all procurement and disbursement arrangements, performance indicators and other administrative, financial and organizational arrangements agreed upon with the Association for purposes of implementation and monitoring of the Project; and

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

3. The Borrower shall take steps to ensure that FASP:

(a) shall prepare and transmit to the Association a Procedures' Manual, acceptable to the Borrower and the Association, giving details of operational guidelines governing the preparation and implementation of Part B of the Project, including, in the case of Parts B.1, B.3 and B.4, eligibility criteria for the provision of Grants, Sub-project identification and appraisal procedures, relevant environmental appraisal criteria, monitoring and evaluation processes, and applicable procurement, disbursement and other implementation guidelines; and

(b) shall carry out Part B of the Project in accordance with operational guidelines set out in the Procedures' Manual, and, except as the Association shall otherwise agree, shall not amend, abrogate or waive any provision thereof, if such amendment, abrogation or waiver may, in the opinion of the Association, materially or adversely affect the implementation of Part B of the Project.

4. The Borrower shall ensure that FASP and CRC:

(a) shall conclude a Protocol of Agreement, acceptable to the Association, for the execution of Part B.2 of the Project; and

(b) shall carry out Part B.2 of the Project in accordance with the Protocol of Agreement referred to in sub-paragraph (a) of this paragraph, and, except as the Association shall otherwise agree, shall not amend, abrogate or waive any provision thereof, if such amendment, abrogation or waiver may, in the opinion of the Association, materially or adversely affect the implementation of Part B.2 of the Project.

5. (a) The Borrower shall maintain policies and procedures adequate to enable it to monitor and evaluate on an ongoing basis, in accordance with performance indicators referred to in paragraph 2 (a) of this Schedule, the carrying out of the Project and the achievement of the objectives thereof.

(b) The Borrower shall, not later than September 30 of each year, beginning September 30, 1998, undertake, in conjunction with the Association and FASP, a joint annual review of the Project, during which they shall exchange views generally on all matters relating to the progress of the Project and the performance by the Borrower and FASP of their respective obligations under this Agreement, or arising thereunder, and, in particular:

(i) the progress achieved by the Borrower and FASP, having regard to indicators referred to in paragraphs 2 (a) and 5 (a) of this Schedule;

(ii) the progress of training activities under the Project;

(iii) the status of MMF operations; and

(iv) the performance of consultants under the Project.

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

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

6. (a) The Borrower shall, prior to the beginning of each fiscal year, submit to the Association, for review and approval, a proposed annual work program and budget for such fiscal year, giving details of proposed budgetary allocations and disbursement estimates, proposed procurement activities, and such other particulars as the Association may require, including an annual training and study tour program for each component of the Project and, where applicable, an evaluation of the results of the training program for the current fiscal year.

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

(i) annual and quarterly progress reports on the status of the Project, including quarterly procurement reports giving details of:

(A) revised cost estimates for individual contracts and for the Project, including best estimates of allowances for price contingencies;

(B) revised timing of procurement actions, including advertising, bidding, contract award and completion time for individual contracts; and

(C) status of compliance with aggregate limits prescribed for specific procurement procedures; and

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

Additional Terms and Conditions Governing Grants and Guarantees

7. Further to Section 3.05 of this Agreement, the proceeds of the Credit allocated under Part B.1 of the Project for purposes of Grants to Beneficiaries to finance Sub-projects shall be subject to the following terms and conditions:

(a) the amount so transferred to FASP shall be used exclusively to provide Grants to finance information, advisory and support services for the benefit of privately-owned enterprises, groups of enterprises and business associations;

(b) no Sub-project shall be considered for financing under the Project except in accordance with criteria, and terms and conditions, set forth in the Procedures'

Manual;

(c) every Sub-project proposal shall be classified according to environmental impact category, and subjected as necessary to environmental impact analysis, to ensure that: (i) it is fully consistent with environmental appraisal criteria set out in the Procedures' Manual, and (ii) where appropriate, mitigation measures designed to minimize adverse effects of proposed Sub-projects are identified and incorporated in the Sub-project design;

(d) goods and services required for the purposes of financing sub-projects shall be procured in accordance with procedures referred to in Schedule 3 to this Agreement, and set forth in the Procedures' Manual;

(e) the amount of each grant shall be determined according to a cost-sharing formula, which shall be acceptable to the Association and specified in the Procedures' Manual; provided, however, that:

(i) the proceeds of a Grant shall not be used to finance taxes or duties levied on or in respect of any eligible expenditures relating to the Grant; and

(ii) except as the Association may otherwise agree, the cumulative amount of any one or more Grants made in favor of a single Beneficiary shall not exceed \$50,000; and

(f) no Sub-project shall be executed under the Project, unless a contract has been concluded between the Beneficiary and FASP, setting forth the respective rights and obligations of the parties thereunder, details of disbursement schedules and procurement procedures, and the amount of the relevant counterpart contribution, including, where appropriate, the right of FASP to:

(i) obtain all such information as the Association or FASP shall reasonably request relating to the implementation of the Sub-project and the performance of the Beneficiary thereunder; and

(ii) 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 such contract.

8. Further to Section 3.05 (b) of this Agreement, the proceeds of the Credit allocated under Part B.3 of the Project for purposes of Grants to finance seminars shall be subject to the following terms and conditions:

(a) the proceeds so allocated shall be used exclusively to finance the preparation and organization of seminars on competitiveness issues for the benefit of public and private sector participants, including private sector stakeholders, labor unions and policymakers;

(b) no seminar shall be considered for financing under the Project except in accordance with criteria, and terms and conditions, set forth in the Procedures' Manual;

(c) Grants shall be provided to finance seminars on a demand-driven basis, and according to a cost sharing formula, acceptable to the Association;

(d) except as the Association may otherwise agree, the amount of the Grant payable in respect of a single seminar shall not exceed \$80,000; and

(e) goods and services required for the purposes of financing seminars shall be procured in accordance with procedures referred to in Schedule 3 to this Agreement, and set forth in the Procedures' Manual;

9. Further to Section 3.05 (c) of this Agreement, the proceeds of the Credit allocated under Part B.4 of the Project for purposes of Grants to finance Matchmaking Transactions shall be subject to the following terms and conditions:

(a) the proceeds so allocated shall be used exclusively for the payment of

success fees involved in Matchmaking Transactions;

(b) no Matchmaking Transaction shall be considered for financing under the Project except in accordance with criteria, and terms and conditions, set forth in the Procedures' Manual;

(c) Grants shall be provided for the sole benefit of eligible and duly registered private Malagasy or foreign Matchmakers, and according to a cost sharing formula, acceptable to the Association;

(d) except as the Association may otherwise agree, the amount of the Grant payable in respect of a single Matchmaking Transaction shall not exceed \$50,000, or 50 percent of the total matchmaking success fees involved in the transaction, whichever is less;

(e) no Grant shall be made except in respect of a Matchmaking Transaction pre-approved by or on behalf of FASP, and upon satisfactory evidence that a partnership contract between an eligible Malagasy firm and its foreign partner has been completed, and the outstanding balance of the matchmaking success fees payable by the parties to the partnership contract has been duly paid.

SCHEDULE 5

Special Accounts

1. For the purposes of this Schedule:

(a) the term "eligible Categories" means

(i) in the case of Special Account A, Categories (1) (a), (1) (b), (2) (a), (2) (b), (3) (a), (3) (b), (5) and (6) set forth in the table in paragraph 1 of Schedule 1 to this Agreement;

(ii) in the case of Special Account B, Categories (1) (c), (2) (c), (3) (c), and (4) set forth in the table in paragraph 1 of Schedule 1 to this Agreement;

(b) the term "eligible expenditures" means expenditures in respect of the reasonable cost of goods and services required for the Project, as well as amounts paid or to be paid under Grants, 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:

(i) in the case of Special Account A, an amount equivalent to \$300,000 to be withdrawn from the Credit Account and deposited in 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 \$150,000, until the aggregate amount of withdrawals from the Credit Account allocated to the corresponding Categories specified in sub-paragraph (a) of this paragraph in respect of Special Account A, plus the total amount of all outstanding special commitments entered into by the Association pursuant to Section 5.02 of the General Conditions for Part A of the Project, shall be equal to or exceed the equivalent of SDR 1,600,000;

(ii) in the case of Special Account B, an amount equivalent to \$600,000 to be withdrawn from the Credit Account and deposited in 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 \$300,000, until the aggregate amount of withdrawals from the Credit Account allocated to the corresponding Categories specified in sub-paragraph (a) of this paragraph in respect of Special Account B, plus the total amount of all outstanding special commitments entered

into _____ by the Association pursuant to Section 5.02 of the General Conditions for Part _____ B of the Project, shall be equal to or exceed the equivalent of SDR 1,600,000.

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

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

(a) For withdrawals of the Authorized Allocation, the Borrower shall furnish to the Association a request or requests for a deposit or deposits which do not exceed the aggregate amount of the Authorized Allocation. On the basis of such request or requests, the Association shall, on behalf of the Borrower, withdraw from the Credit Account and deposit in the Special Account such amount or amounts as the Borrower shall have requested.

(b) (i) For replenishment of the Special Account, the Borrower shall furnish to the _____ Association requests for deposits into the Special Account at such intervals _____ as the Association shall specify.

(ii) Prior to, or at the time of each such request, the Borrower shall furnish to _____ the Association the documents and other evidence required pursuant to _____ paragraph 4 of this Schedule for the payment or payments in respect of which _____ replenishment is requested. On the basis of each such request, the _____ Association shall, on behalf of the Borrower, withdraw from the Credit _____ Account and deposit into the Special Account such amount as the Borrower shall have requested and as shall have been shown by said documents and other evidence to have been paid out of the Special Account for eligible expenditures.

All such deposits shall be withdrawn by the Association from the Credit Account under the respective eligible Categories, and in the respective equivalent amounts, as shall have been justified by said documents and other evidence.

4. For each payment made by the Borrower out of a Special Account, the Borrower shall, at such time as the Association shall reasonably request, furnish to the Association such documents and other evidence showing that such payment was made exclusively for eligible expenditures.

5. Notwithstanding the provisions of paragraph 3 of this Schedule, the Association shall not be required to make further deposits into a Special Account:

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

(b) if the Borrower shall have failed to furnish to the Association, within the period of time specified in Section 4.01 (b) (ii) of this Agreement, any of the audit reports required to be furnished to the Association pursuant to said Section in respect of the audit of the records and accounts for any of the Special Accounts;

(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 for the Special Account, less the amount of any outstanding special commitment entered into by the Association pursuant to Section 5.02 of the General Conditions with respect to the corresponding parts of 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 for the Special Account shall follow such procedures as the Association shall specify by notice to the Borrower. Such further withdrawals shall be made only after and to the extent that the Association shall have been satisfied that all such amounts remaining on deposit in the Special Account as of the date of such notice will be utilized in making payments for eligible expenditures.

6. (a) If the Association shall have determined at any time that any payment out of a Special Account: (i) was made for an expenditure or in an amount not eligible pursuant to paragraph 2 of this Schedule; or (ii) was not justified by the evidence furnished to the Association, the Borrower shall, promptly upon notice from the Association: (A) provide such additional evidence as the Association may request; or (B) deposit into the Special Account (or, if the Association shall so request, refund to the Association) an amount equal to the amount of such payment or the portion thereof not so eligible or justified. Unless the Association shall otherwise agree, no further deposit by the Association into any Special Account shall be made until the Borrower has provided such evidence or made such deposit or refund, as the case may be.

(b) If the Association shall have determined at any time that any amount outstanding in a Special Account will not be required to cover further payments for eligible expenditures, the Borrower shall, promptly upon notice from the Association, refund to the Association such outstanding amount.

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

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

