

CONFORMED COPY

CREDIT NUMBER 1928 MAG

(Ilmenite Mining Engineering Project)

between

DEMOCRATIC REPUBLIC OF MADAGASCAR

and

INTERNATIONAL DEVELOPMENT ASSOCIATION

Dated July 18, 1988

DEVELOPMENT CREDIT AGREEMENT

AGREEMENT, dated July 18, 1988 between DEMOCRATIC 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) any financing so provided by the Association would be refunded, if the Association so requests, out of the proceeds of any credit by the Association or loan by the International Bank for Reconstruction and Development which may later be granted to the Borrower for the construction of the ilmenite mining project to be engineered under the Project; and

(C) OFFICE MILITAIRE NATIONAL POUR LES INDUSTRIES STRATEGIQUES (OMNIS) and QIT-FER ET TITANE INC ("QIT") previously agreed to assign QIT's joint venture interest to QIT Madagascar Minerals Ltee et Compagnie (QIT Madagascar) and to appoint QIT Madagascar as the operator, to carry out the Project with the

Borrower's assistance and, as part of such assistance, the Borrower will make available to OMNIS the proceeds of the Credit as provided in this Agreement;

WHEREAS the Association has agreed, on the basis, inter alia, of the foregoing, to extend a development credit to the Borrower on 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 last sentence of Section 3.02 deleted (the General Conditions) constitute an integral part of this Agreement.

Section 1.02. Unless the context otherwise requires, the several terms defined in the General Conditions and in the Preamble to this Agreement have the respective meanings therein set forth and the following additional terms have the following meanings:

(a) "Project Agreement" means the agreement between the Association and OMNIS of even date herewith, as the same may be amended from time to time, and such term includes all schedules and agreements supplemental to the Project Agreement;

(b) "Statuts" means the Statutes of OMNIS as set forth in Ordonnance No. 76-007, dated March 20, 1976 as amended by Ordonnance No. 76-027 of July 13, 1976, and Ordonnance No. 82-020 of August 11, 1982;

(c) "Joint Venture Agreement" means the agreement dated March 18, 1986 and ratified May 7, 1986 between QIT-FER ET TITANE INC and OMNIS, pursuant to which both parties agree to explore, exploit and commercialize minerals in Madagascar pursuant to an agreement dated November 23, 1986, ratified December 2, 1986, QIT's interest in the Joint Venture Agreement was assigned to QIT Madagascar;

(d) "QIT Madagascar" means QIT Madagascar Minerals Ltee et Compagnie, established, as societe en nom collectif, registered pursuant to Malagasy law and domiciled in Antananarivo, to act as OMNIS' joint venture partner under the Joint Venture Agreement and to act as operator in accordance with Article 8 of the Joint Venture Agreement;

(e) "Implementation Agreement" means the agreement to be entered into by OMNIS, QIT-FER ET TITANE INC and QIT Madagascar, pursuant to Section 2.01 (b) of the Project Agreement; and

(f) "Project Preparation Advance" means the project preparation advance granted by the Association to the Borrower pursuant to an exchange of letters dated July 22, 1987 and October 29, 1987 between the Borrower and the Association.

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 six million two hundred thousand Special Drawing Rights (SDR 6,200,000).

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 expenditures made (or, if the

Association shall so agree, to be made) in respect of the reasonable cost of goods and services required for the Project and to be financed out of the proceeds of the Credit.

(b) The Borrower shall, for the purposes of the Project, open and maintain in dollars a special account in its Central Bank on terms and conditions satisfactory to the Association. Deposits into, and payments out of, the Special Account shall be made in accordance with the provisions of Schedule 3 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 June 30, 1991 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 a 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; (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 as of the next payment date in that year specified in Section 2.06 of this Agreement, except that the rate set as of June 30, 1988 shall be applied as of July 1, 1988.

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

Section 2.05. The Borrower shall pay to the Association a service charge at the rate of three-fourths of one percent (3/4 of 1%) per annum on the principal amount of the Credit withdrawn and outstanding from time to time.

Section 2.06. Commitment charges and service charges shall be payable semiannually on May 1 and November 1 in each year.

Section 2.07. (a) Subject to paragraphs (b) and (c) below, the Borrower shall repay the principal amount of the Credit in semiannual installments payable on each May 1 and November 1 commencing November 1, 1998 and ending May 1, 2028. Each installment to and including the installment payable on May 1, 2008 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 gross national product per capita, as determined by the Association, shall have exceeded \$790 in constant 1985 dollars for five consecutive years 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 terms of repayment of installments under paragraph (a) above by 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. If so requested by the Borrower, the Association may revise such modification 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.

(c) 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, without any limitation or restriction upon any of its other obligations under the Development Credit Agreement, shall cause OMNIS to perform in accordance with the provisions of the Project Agreement all the obligations of OMNIS therein set forth, shall take and cause to be taken all action, including the provision of funds, facilities, services and other resources, necessary or appropriate to enable OMNIS to perform such obligations, and shall not take or permit to be taken any action which would prevent or interfere with such performance.

(b) The Borrower shall make the proceeds of the Credit available to OMNIS an advance and shall ensure that OMNIS shall make available such funds as its contribution to the joint venture for the carrying out of the Project. Upon the final decision of the partners to the Joint Venture Agreement as to whether to proceed with the development of the ilmenite mine, associated facilities and infrastructure, the Borrower and OMNIS shall decide on the terms and conditions of arrangements for settlement of the advance, which shall be satisfactory to the Association.

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 the Schedule to the Project Agreement.

Section 3.03. The Borrower and the Association hereby agree that the obligations set forth in Sections 9.03, 9.04, 9.05, 9.06, 9.07 and 9.08 of the General Conditions (relating to insurance, use of goods and services, plans and schedules, records and reports, maintenance and land acquisition, respectively) shall be carried out by OMNIS pursuant to Section 2.03 of the Project Agreement.

ARTICLE IV

Financial Covenants

Section 4.01. (a) For all expenditures with respect to which withdrawals from the Credit Account were made on the basis of statements of expenditures, the Borrower shall:

- (i) maintain or cause to be maintained in accordance with sound accounting practices, records and accounts reflecting such expenditures;
 - (ii) ensure that all records (contracts, orders, invoices, bills, receipts and other documents) evidencing such expenditures are retained until at least one year after the Association has received the audit report for the fiscal year in which the last withdrawal from the Credit Account was made; and
 - (iii) enable the Association's representatives to examine such records.
- (b) The Borrower shall:
- (i) have the records and accounts referred to in paragraph (a) (i) of this Section and those for the Special Account for each fiscal year audited, in accordance with appropriate auditing principles consistently applied, by independent auditors acceptable to the Association;
 - (ii) furnish to the Association as soon as available, but in any case not later than six months after the end of each such year the report of such audit by said auditors, of such scope and in such detail as the Association shall have reasonably requested, including a separate opinion by said auditors as to whether the statements of expenditures submitted during such fiscal year, together with the procedures and internal controls involved in their preparation, can be relied upon to support the related withdrawals; and
 - (iii) furnish to the Association such other information concerning said records and accounts and the audit thereof as the Association shall from time to time reasonably request.

ARTICLE V

Remedies of the Association

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

(a) OMNIS shall have failed to perform any of its obligations under the Project Agreement or the Implementation Agreement;

(b) QIT or QIT Madagascar shall have failed to perform any of their obligations under the Implementation Agreement.

(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: (i) OMNIS will be able to perform its obligations under the Project Agreement; or (ii) QIT Madagascar will be able to perform its obligations under the Implementation Agreement.

(d) The Statuts shall have been amended, suspended, abrogated, repealed or waived so as to affect materially and adversely the ability of OMNIS to perform any of its obligations under the Project Agreement.

(e) The Joint Venture Agreement or the Implementation Agreement shall have been amended, abrogated, repealed or waived so as to affect materially and adversely the Project, the performance of OMNIS of its obligations under the Project Agreement, or the performance of QIT Madagascar of its obligations under the Implementation Agreement.

(f) The Borrower or any other authority having jurisdiction shall have taken any action for the dissolution or disestablishment of OMNIS or for the suspension of its operations.

(g) OMNIS, QIT or any other authority having jurisdiction shall have taken any action for the dissolution or disestablishment of QIT Madagascar or for the suspension of its operations.

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

(a) the event specified in paragraphs (a) of Section 5.01 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; and

(b) any event specified in paragraphs (c) through (f) 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 this Development Credit Agreement within the meaning of Section 12.01 (b) of the General Conditions:

(a) the Association has approved the terms of reference for an environmental impact study; and

(b) OMNIS, QIT and QIT Madagascar have signed the Implementation Agreement in accordance with Section 2.01 (b) of the Project Agreement and it has become effective.

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 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: that the Project Agreement has been duly authorized or ratified by OMNIS and is legally binding upon OMNIS in accordance with its terms.

ARTICLE VII

Representative of the Borrower; Addresses

Section 7.01. The Minister of the Borrower responsible for finance 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:

Ministere aupres de la Presidence
de la Republique charge des Finances
et de l'Economie
Antananarivo, Madagascar

Cable address:

MINFIN
Antananarivo

Telex:

22489

For the Association:

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

Cable address:

INDEVAS
Washington, D.C.

Telex:

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

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.

DEMOCRATIC REPUBLIC OF MADAGASCAR

By /s/ Leon Rajaobelina
Authorized Representative

INTERNATIONAL DEVELOPMENT ASSOCIATION

By /s/ Paul Isenman
Acting 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	2,310,000	100% of foreign expenditures
(2) Consultants' services under Parts A through E of the Project	2,820,000	100% of foreign expenditures
(3) Consultants' services for, and Project promotion cost of, OMNIS	510,000	100% of foreign expenditures
(4) Refunding of Project Prepara- tion Advance	560,000	Amount due pur- suant to Section 2.02 (c) of this Agreement

TOTAL

6,200,000

2. For the purposes of this Schedule, the term "foreign expenditures" means expenditures in the currency of any country other than the Borrower and for goods or services supplied from the territory of any country other than the Borrower.

3. Notwithstanding the provisions of paragraph 1 above, no withdrawals shall be made in respect of payments made for expenditures prior to the date of this Agreement.

SCHEDULE 2

Description of the Project

The objectives of the Project are to assist in the preparation of an ilmenite mining project.

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:

Completion of preliminary and basic engineering to a point where detailed design and tendering can commence for the: (a) dredge and concentrator plant, (b) mineral separation plant, (c) power plant, (d) dock/harbor, and (e) other infrastructure facilities.

Part B:

Setting up of a Wet Pilot Plant and Mineral Separation Pilot Plant to optimize and confirm flowsheets.

Part C:

Preparation of a capital cost estimate and an estimate of mine start-up and operating costs.

Part D:

Preparation of market analysis and marketing strategy.

Part E:

Preparation of an environmental impact study.

Part F:

Carrying out of in-fill drilling and ore body delineation to improve definition of mineable reserves at Mandena.

Part G:

Construction of infrastructure, in particular road and bridge development for improved access to the location of the mineral processing and product facility.

* * * *

The Project is expected to be completed by December 31, 1990.

SCHEDULE 3

Special Account

1. For the purposes of this Schedule:

(a) the term "eligible Categories" means Categories set forth in the table in paragraph 1 of Schedule 1 to this Agreement;

(b) the term "eligible expenditures" means expenditures in respect of the reasonable cost of goods and services required for the Project and to be financed out of the proceeds of the Credit allocated from time to time to the eligible Categories in accordance with the provisions of Schedule 1 to this Agreement; and

(c) the term "Authorized Allocation" means an amount equivalent to \$1.8 million to be withdrawn from the Credit Account and deposited in the Special Account pursuant to paragraph 3 (a) of this Schedule.

2. Except as the Association shall otherwise agree, 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 may be made as follows:

(a) On the basis of a request or requests by the Borrower for a deposit or deposits which add up to the aggregate amount of the Authorized Allocation, 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) The Borrower shall furnish to the Association requests for replenishment of the Special Account at such intervals as the Association shall specify. On the basis of such requests, the Association shall withdraw from the Credit Account and deposit into the Special Account such amounts as shall be required to replenish the Special Account with amounts not exceeding the amount of payments made 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 the evidence supporting the request for such deposit furnished pursuant to paragraph 4 of this Schedule.

4. For each payment made by the Borrower out of the Special Account for which the Borrower requests replenishment pursuant to paragraph 3 (b) of this Schedule, the Borrower shall furnish to the Association, prior to or at the time of such request, such documents and other evidence as the Association shall reasonably request, showing that such payment was made for eligible expenditures.

5. (a) Notwithstanding the provisions of paragraph 3 of this Schedule, no further deposit into the Special Account shall be made by the Association when either of the following situations first arises:

(i) 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; or

(ii) the total unwithdrawn amount of the Credit allocated to the eligible Categories, minus 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 Project, shall be equal to the equivalent of twice

the amount of the Authorized Allocation.

(b) 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 any expenditure or in any 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 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. No further deposit by the Association into the Special Account shall be made until the Borrower has made such deposit or refund.

(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 for crediting to the Credit Account.

