

CONFORMED COPY

CREDIT NUMBER 2538 MAG

Agreement Providing for Amendment
and Restatement of
Development Credit Agreement

(Petroleum Sector Reform Project)

between

REPUBLIC OF MADAGASCAR

and

INTERNATIONAL DEVELOPMENT ASSOCIATION

Dated January 30, 1997

CREDIT NUMBER 2538 MAG

DEVELOPMENT CREDIT AGREEMENT

AGREEMENT, dated January 30, 1997, between REPUBLIC OF MADAGASCAR (hereinafter called the Borrower) and INTERNATIONAL DEVELOPMENT ASSOCIATION (hereinafter called the Association).

WHEREAS the Borrower and the Association have agreed to amend the Development Credit Agreement between the Borrower and the Association dated August 25, 1993, (hereinafter called the Development Credit Agreement) in the manner hereinafter set forth; and

WHEREAS the Association and Société "SOLITANY MALAGASY" (hereinafter referred to as SOLIMA) have also agreed to amend the Project Agreement between the Association and SOLIMA, dated August 25, 1993, (hereinafter called the Project Agreement) in the manner set forth in the Amended Project Agreement of even date herewith;

NOW THEREFORE the parties hereto hereby agree as follows:

ARTICLE 1

Section 1.01. The Development Credit Agreement is hereby amended and restated in its entirety so as to read as set forth in the Annex hereto.

Section 1.02. This Agreement shall become effective upon receipt by the Association of evidence satisfactory to the Association that:

- (a) the execution and delivery of this Agreement on behalf of the Borrower

and the Amended and Restated Project Agreement on behalf of SOLIMA have been duly authorized or ratified by all necessary governmental or corporate actions; and

(b) the amendment to the SOLIMA Subsidiary Loan Agreement has been executed on behalf of the Borrower and SOLIMA, and authorized or ratified by all necessary governmental or corporate actions.

Section 1.03. As part of the evidence to be furnished pursuant to Section 1.02 (a) of this Agreement, there shall be furnished to the Association an opinion or opinions satisfactory to the Association of counsel acceptable to the Association showing:

(a) on behalf of the Borrower, that this Agreement has been duly authorized or ratified by, and executed and delivered on behalf of, the Borrower and is legally binding upon the Borrower in accordance with its terms;

(b) on behalf of SOLIMA, that the Agreement Providing for Amendment and Restatement of Project Agreement has been duly authorized or ratified by, and executed and delivered on behalf of SOLIMA, and is legally binding upon SOLIMA in accordance with its terms; and

(c) on behalf of the Borrower and SOLIMA, that the amendment to the Subsidiary Loan Agreement has been duly authorized and executed by the Borrower and SOLIMA, and is legally binding upon the Borrower and SOLIMA in accordance with its terms.

Section 1.04. This Agreement shall come into force and effect on the date upon which the Association dispatches to the Borrower notice of its acceptance of the evidence and notification required by Section 1.02 of this Agreement.

Section 1.05. If this Agreement shall not have come into force and effect by June 30, 1997, this Agreement and all obligations of the parties hereunder shall terminate, unless the Association establishes a later date for the purposes of this Section. If this Agreement shall terminate under the provisions of this Section, the Development Credit Agreement shall be cancelled.

IN WITNESS WHEREOF, the parties hereto, acting through their representatives thereunto duly authorized, 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/ Mohamady Faharouddine

Authorized Representative

INTERNATIONAL DEVELOPMENT ASSOCIATION

By /s/ Callisto Madavo

Regional Vice President
Africa

ANNEX
To Agreement providing
for Amendment and
Restatement of Development
Credit Agreement dated
August 25, 1993

AMENDED AND RESTATED
DEVELOPMENT CREDIT AGREEMENT

(Petroleum Sector Reform Project)

between

REPUBLIC OF MADAGASCAR

and

INTERNATIONAL DEVELOPMENT ASSOCIATION

Dated August 25, 1993
As amended and restated on January 30, 1997

CREDIT NUMBER 2538 MAG

DEVELOPMENT CREDIT AGREEMENT

AGREEMENT, dated August 25, 1993, as amended and restated on January 30, 1997, 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 Borrower has stated in a letter, dated June 30, 1993, its policies and objectives designed to improve the petroleum sector in its territories (the Statement of Petroleum Sector Reform Policy);

(C) Parts C, D and E of the Project will be carried out by Société "SOLITANY MALAGASY" (SOLIMA) with the Borrower's assistance and, as part of such assistance, the Borrower will make available to SOLIMA a portion of the proceeds of the Credit as provided in this Agreement; and

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

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 Preparation Advance" means the project preparation advances granted by the Association to the Borrower pursuant to an exchange of letters dated September 21, 1989, October 13, 1989, June 17, 1991, April 5, 1991 and December 9, 1991 between the Borrower and the Association;

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

(c) "Project Agreement" means the agreement between the Association and Société "SOLITANY MALAGASY" (SOLIMA), 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;

(d) "Subsidiary Loan Agreement" means the agreement entered into between the Borrower and SOLIMA pursuant to Section 3.01 (c) of this Agreement, as the same may be amended from time to time, and such term includes any schedules to the Subsidiary Loan Agreement;

(e) "MEM" means the Borrower's ministry responsible for energy and mines;

(f) "SOLIMA" means Société "SOLITANY MALAGASY", a state company established and operating pursuant to its Statutes;

(g) "SOLIMA's Statutes" means the statutes of SOLIMA, set forth in the Borrower's Ordonnance No. 76-021 dated June 25, 1976, as amended from time to time;

(h) "SEPT" means the Société d'Exploitation du Port de Toamasina, established and operating pursuant to the Borrower's Décret No. 76-430, dated December 4, 1976, as amended by the Borrower's Décret No. 85-282, dated September 4, 1985; and

(i) "SOLIMA-SEPT Convention" means the convention entered into between SOLIMA and SEPT pursuant to Section 2.07 of the Project Agreement, as the same may be amended from time to time, and such term includes any schedules to the SOLIMA-SEPT Convention.

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 twenty-seven million three hundred twenty five thousand Special Drawing Rights (SDR 27, 325,000).

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 deposit account in the name of MEM (the MEM Special Account) and a special deposit account in the name of SOLIMA (the SOLIMA Special Account) in a commercial bank on terms and conditions satisfactory to the Association, including appropriate protection against set-off, seizure or attachment. Deposits into, and payments out of, the Special 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, 1998 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 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 June 15 and December 15 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 June 15 and December 15, commencing December 15, 2003 and ending June 15, 2033. Each installment to and including the installment payable on June 15, 2013 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.

Section 2.09. SOLIMA is designated as representative of the Borrower in respect of Parts C, D and E of the Project for the purposes of taking any action required or permitted to be taken under the provisions of Section 2.02 of this Agreement and Article V of the General Conditions.

ARTICLE III

Execution of the Project

Section 3.01. (a) The Borrower declares its commitment to the objectives of the Project as set forth in Schedule 2 to this Agreement and, to this end:

- (i) shall carry out Part A of the Project through MEM with due diligence and efficiency, in conformity with appropriate administrative, engineering and financial practices and with due

regard to ecological and environmental factors and shall provide, promptly as needed, the funds, facilities, services and other resources required for such Part of the Project; and

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

(b) Without limitation upon 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 of the Project in accordance with the Implementation Program set forth in Schedule 4 to this Agreement.

- (c) (i) The Borrower shall, under a subsidiary loan agreement to be entered into between the Borrower and SOLIMA, under terms and conditions which shall have been approved by the Association: (A) relend to SOLIMA a portion of the proceeds of the Credit allocated to Categories (2) (b), (3) and (4) of the table set forth in paragraph 1 of Schedule 1 to this Agreement, at an interest rate of eight percent (8%) per annum, with the principal to be repaid in twenty years including a five-year grace period, and with SOLIMA bearing the cost of fluctuations in the currencies so relent to it; and (B) make available to SOLIMA, on a grant basis, the portion of the proceeds of the Credit allocated to Category 2 (c) of said table.

(ii) [Deleted]

(d) The Borrower shall exercise its rights under the Subsidiary Loan Agreement 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 Subsidiary Loan Agreement or any provision thereof.

Section 3.02. 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 3.03. 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) in respect of Parts C, D and E of the Project shall be carried out by SOLIMA pursuant to Section 2.03 of the Project Agreement.

Section 3.04. [Deleted]

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 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 in respect of Part A of the Project, including those for the MEM 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, 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 MEM 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. The Borrower shall: (a) not later than November 30, 1993, and thereafter not later than September 30 of each year, until the completion of the Project, exchange views with the Association with regard to petroleum products prices and taxes applicable in the Borrower's territories; and (b) establish and maintain said prices and taxes, taking into account the results of such exchange of views.

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) SOLIMA shall have failed to perform any of its obligations under the Project Agreement.

(b) 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 SOLIMA will be able to perform its obligations under the Project Agreement.

(c) SOLIMA's Statutes shall have been amended, suspended, abrogated, repealed or waived so as to affect materially and adversely the operations or financial condition of SOLIMA or the ability of SOLIMA to perform any of its obligations under the Project Agreement.

(d) The Borrower or any other authority having jurisdiction shall have taken any action for the dissolution or disestablishment of SOLIMA or for the suspension of any of its operations without prior arrangements satisfactory to the Association for the transfer to another entity of its functions with regard to the carrying out of Parts C, D and E of the Project.

(e) A situation has arisen which shall make it improbable that the Statement of Petroleum Sector Reform Policy, or a significant part thereof, will be carried out.

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

(a) any event specified in paragraph (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 SOLIMA; and

(b) any event specified in paragraphs (c) or (d) 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 Subsidiary Loan Agreement has been executed on behalf of the Borrower and SOLIMA;

(b) the Project coordinator referred to in paragraph 1 of Schedule 4 to this Agreement has been appointed;

(c) the Project manager, the mechanical engineer, the accountant and the engineering consultant have been employed, in accordance with the provisions of paragraph 1 of the Schedule to the Project Agreement; and

(d) [Deleted]

(e) standard bidding documents for the procurement of crude oil, acceptable to the Association, have been adopted by the Borrower and SOLIMA.

Section 6.02. The following are specified as additional matters, within the meaning of Section 12.02 (b) of the General Conditions, to be included in the opinion or opinions to be furnished to the Association:

(a) that the Project Agreement has been duly authorized or ratified by SOLIMA and is legally binding upon SOLIMA in accordance with its terms;

(b) that the Subsidiary Loan Agreement has been duly authorized or ratified by the Borrower and SOLIMA and is legally binding upon the Borrower and SOLIMA in accordance with its terms.

Section 6.03. The date ninety (90) days after the date of this Agreement is hereby specified for the purposes of Section 12.04 of the General Conditions.

Section 6.04. The obligations of the Borrower under Section 4.01 of this Agreement shall cease and determine on the date on which the Development Credit Agreement shall terminate or on the date fifteen years after the date of this Agreement, whichever shall be the earlier.

ARTICLE VII

Representative of the Borrower; Addresses

Section 7.01. Except as provided in Section 2.09 of this Agreement, the Minister of the Borrower responsible for finance is designated as representative 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
Antananarivo
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:

INDEVAS
Washington, D.C.

Telex:

248423 (RCA)
82987 (FTCC)
64145 (WUI) or
197688 (TRT)

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/ Pierrot Rajaonarivelo

Authorized Representative

INTERNATIONAL DEVELOPMENT ASSOCIATION

By /s/ Francisco Aguirre-Sacasa

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
Borrower's Expenditures		
(1) Consultants' services and training for Part A of the Project	1,340,000	100%
SOLIMA's Expenditures		
(2) Works:		100% of foreign expenditures and 80% of local expenditures
(a) [Deleted]		

	(b)	for Part C of 6,140,000 the Project		
	(c)	for Part D of 9,530,000 the Project		
(3)	Equipment and materials	5,000,000		100% of foreign expenditures
(4)	Consultants' services and training for Parts C and E of the Project	1,500,000		100%
Miscellaneous				
(5)	Refunding of Project Preparation Advance	815,000		Amounts due pursuant to Section 2.02 (c) of this Agreement
(6)	Unallocated	3,000,000		
	TOTAL	27,325,000		

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; and

(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.

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

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

(b) [Deleted]

(c) in respect of Category (2) (b), until: (i) the open access system included in Part A (b) of the Project shall have been established with operating rules satisfactory to the Association; (ii) the national regulatory authority referred to in Part A (c) of the Project shall have been established with operating rules satisfactory to the Association; and (iii) the Borrower shall have taken all steps required to allow refined petroleum products prices to reflect differential transport and storage costs in the different regions of the Borrower's territories; and

(d) in respect of Category (2) (c), until: (i) agreements have been reached between the Borrower and the Association on a satisfactory mitigation plan and its implementation, including an oil spill contingency plan; (ii) the SOLIMA-SEPT Convention shall have been executed on behalf of SOLIMA and SEPT; (iii) [deleted]; and (iv) import of refined petroleum products shall have been liberalized.

SCHEDULE 2

Description of the Project

The objectives of the Project are to: (a) open up the petroleum sector to private sector participation and create an appropriate framework for a competitive environment; (b) support the basic infrastructure investments required to increase operational efficiency and to attract private operators and investors; and (c) develop institutional capacity for the efficient regulation of the petroleum sector.

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: Liberalization and Support to Privatization of the Petroleum Sector

(a) Restructuring and corporatization of SOLIMA and eventual private sector participation in the capital.

(b) Establishment and operation of a system, with clear and transparent rules, of open access by all operators to key infrastructure facilities for loading, storage and transport of petroleum products, and the carrying out of a training program relating thereto.

(c) Establishment and operation of a national regulatory authority to oversee the competitiveness and the adequate functioning of the petroleum sector and the setting up of minimum technical, safety and environmental standards applicable to all operators, and the carrying out of a training program relating thereto.

Part B: SOLIMA's Refinery

[Deleted]

Part C: Petroleum Storage and Transport Infrastructure

Increasing the efficiency and reliability of petroleum supply through:

(a) the acquisition of about 18 rail tankers and other minor equipment;
(b) repairs to existing crude and product storage tanks at Toamasina;
(c) replacement of pipelines from the port of Toamasina to the storage facilities;

(d) improvement in the petroleum unloading facilities, including the construction of a pontoon at Mahajanga and construction of a pipeline at Manakara; and

(e) carrying out of studies to identify faster and safer methods to unload petroleum products and the acquisition of software packages to improve planning of transport and distribution.

Part D: Petroleum Loading/Unloading Facility at Toamasina

Construction of a petroleum loading/unloading facility at the port of Toamasina, consisting of a dolphin mooring and related pipelines.

Part E: LPG Promotion Program

Carrying out of a promotion program for the sale of butane gas (LPG) for urban household cooking energy use, including the acquisition of bottles, the construction of additional storage capacity, the rehabilitation of existing filling plants and the acquisition of transport equipment.

* * *

The Project is expected to be completed by June 30, 1998.

SCHEDULE 3

Procurement and Consultants' Services

Section I. Procurement of Goods and Works

Part A: International Competitive Bidding

1. Except as provided in Part C hereof, goods and works shall be procured under contracts awarded in accordance with procedures consistent with those set forth in Sections I and II of the "Guidelines for Procurement under IBRD Loans and IDA Credits" published by the Bank in May 1992 (the Guidelines).

(a) For fixed-price contracts, the invitation to bid referred to in paragraph 2.13 of the Guidelines shall provide that, when contract award is delayed beyond the original bid validity period, the successful bidder's bid price will be increased for each week of delay by two predisclosed correction factors acceptable to the Association, one to be applied to all foreign currency components and the other to the local currency component of the bid price. Such an increase shall not be taken into account in the bid evaluation.

(b) In the procurement of goods and works in accordance with this Part A, the Borrower shall use the relevant standard bidding documents issued by the Bank, with such modifications thereto as the Association shall have agreed to be necessary for the purposes of the Project. Where no relevant standard bidding documents have been issued by the Bank, the Borrower shall use bidding documents based on other internationally recognized standard forms agreed with the Association.

2. Goods to be procured through international competitive bidding shall be exempted from pre-shipment price inspection by a third party.

Part B: Preference for Domestic Manufacturers

In the procurement of goods in accordance with the procedures described in Part A.1 hereof, goods manufactured in Madagascar may be granted a margin of preference in accordance with, and subject to, the provisions of paragraphs 2.55 and 2.56 of the Guidelines and paragraphs 1 through 4 of Appendix 2 thereto.

Part C: Other Procurement Procedures

1. Minor equipment for storage and transport under Part C of the Project and for the LPG promotion program under Part E of the Project, estimated to cost between the equivalent of \$100,000 and \$500,000 per contract, up to an aggregate amount equivalent to \$2,500,000, may be procured under contracts awarded through limited international bidding procedures on the basis of evaluation and comparison of bids obtained from a list of potential bidders acceptable to the Association and in accordance with procedures set forth in Sections I and II of the Guidelines (excluding paragraphs 2.8, 2.9, 2.55 and 2.56 hereof).

2. Items or groups of items for equipment and spare parts estimated to cost less than the equivalent of \$100,000 per contract, up to an aggregate amount equivalent to \$400,000, may be procured under contracts awarded on the basis of comparison of price quotations obtained from at least three suppliers from at least two different countries eligible under the Guidelines, in accordance with procedures acceptable to the Association.

3. [Deleted]

Part D: Review by the Association of Procurement Decisions

1. Review of invitations to bid and of proposed awards and final contracts:

(a) With respect to each contract estimated to cost the equivalent of \$150,000 or more, the procedures set forth in paragraphs 2 and 4 of Appendix 1 to the Guidelines shall apply. Where payments for such contract are to be made out of a Special Account, such procedures shall be modified to ensure that the two conformed copies of the contract required to be furnished to the Association pursuant to said paragraph 2 (d) shall be furnished to the Association prior to the making of the first payment out of a Special Account in respect of such contract.

(b) With respect to each contract not governed by the preceding paragraph, the procedures set forth in paragraphs 3 and 4 of Appendix 1 to the Guidelines shall apply. Where payments for such contract are to be made out of a Special Account, such procedures shall be modified to ensure that the two conformed copies of the contract together with the other information required to be furnished to the Association pursuant to said paragraph 3 shall be furnished to the Association as part of the evidence to be furnished pursuant to paragraph 4 of Schedule 5 to this Agreement.

(c) The provisions of the preceding subparagraph (b) shall not apply to contracts on account of which withdrawals from the Credit Account are to be made on the basis of statements of expenditure.

2. The figure of 15% is hereby specified for purposes of paragraph 4 of Appendix 1 to the Guidelines.

Section II. Employment of Consultants

1. In order to assist the Borrower in carrying out Part A of the Project and SOLIMA in carrying out Parts C, D and E of the Project, the Borrower and SOLIMA shall employ consultants whose qualifications, experience and terms and conditions of employment shall be satisfactory to the Association. Such consultants shall be selected in accordance with principles and procedures satisfactory to the Association on the basis of the "Guidelines for the Use of Consultants by World Bank Borrowers and by the World

Bank as Executing Agency" published by the Bank in August 1981. For complex, time-based assignments, the Borrower shall employ such consultants under contracts using the standard form of contract for consultants' services issued by the Bank, with such modifications as shall have been agreed by the Association. Where no relevant standard contract documents have been issued by the Bank, the Borrower shall use other standard forms agreed with the Association.

2. Notwithstanding the provisions of paragraph 1 of this Section, the provisions of the Consultant Guidelines requiring prior Association review or approval of budgets, short lists, selection procedures, letters of invitation, proposals, evaluation reports and contracts, shall not apply to: (a) contracts for the employment of consulting firms estimated to cost less than \$100,000 equivalent each, or (b) contracts for the employment of individuals estimated to cost less than \$50,000 equivalent each. However, said exceptions to prior Association review shall not apply to: (a) the terms of reference for such contracts, (b) single-source selection of consulting firms, (c) assignments of a critical nature, as reasonably determined by the Association, (d) amendments to contracts for the employment of consulting firms raising the contract value to \$100,000 equivalent or above, or (e) amendments to contracts for the employment of individual consultants raising the contract value to \$50,000 equivalent or above.

SCHEDULE 4

Implementation Program

1. Project Coordination

The Directorate of Energy of MEM shall be responsible for the overall administration of the Project. For said purpose and for the execution of Part A of the Project, the Minister for Energy and Mines shall appoint, and thereafter maintain in functions, a Project coordinator under terms of reference and with qualifications and experience satisfactory to the Association.

2. Part A of the Project

(a) Not later than June 30, 1997, the Borrower shall furnish to the Association, for its review and comments, a study for the establishment and operation of the system of open access included under Part A (b) of the Project, and thereafter shall implement the recommendations of said study, as determined in agreement with the Association.

(b) [Deleted]

(c) The Borrower shall: (i) not later than June 30, 1997, furnish to the Association, for its review and comments, detailed proposals for the restructuring of SOLIMA; (ii) adopt a restructuring plan on the basis of said proposals; and (iii) thereafter implement said restructuring plan.

(d) Not later than June 30, 1997, the Borrower shall furnish to the Association, for its review and comments, a study for the establishment and operation of the authority referred to in Part A (c) of the Project, and thereafter shall take all necessary steps to establish said authority.

3. Project Midterm Review

The Borrower shall, not later than December 31, 1997, carry out jointly with the Association, and with the participation of SOLIMA, a midterm review of the Project and, soon thereafter, shall implement the recommendations of such a review. In order to facilitate this review, the Borrower shall prepare and furnish to the Association, not later than four weeks before the scheduled date of this review, a report of Project activities of such scope and in such detail as the Association shall have reasonably requested. The review shall cover, inter alia: (a) an assessment of the restructuring of SOLIMA operations; (b) the functioning of the competitive market in the petroleum sector; (c) the pricing and taxation of petroleum products; and (d) overall Project performance against established and agreed key performance indicators.

SCHEDULE 5

Special Accounts

1. For the purposes of this Schedule:

(a) the term "eligible Categories" means: (i) Category (1) in the case of the MEM Special Account; and (ii) Categories (2), (3) and (4) in the case of the SOLIMA Special Account, 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: (i) an amount equivalent to \$500,000 for the MEM Special Account, and (ii) an amount equivalent to \$1,000,000 for the SOLIMA Special Account, to be withdrawn from the Credit Account and deposited into the Special Accounts pursuant to paragraph 3 (a) of this Schedule.

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 into a Special Account such amount or amounts as the Borrower shall have requested.

(b) (i) For replenishment of a Special Account, the Borrower shall furnish to the Association requests for deposits into a 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 a 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; or

(b) once the total unwithdrawn amount of the Credit allocated to the eligible Categories, 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 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 a 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 a 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 a 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 paragraph 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.

