

CONFORMED COPY

CREDIT NUMBER 4101-MAG

Development Credit Agreement

(Integrated Growth Poles Project)

between

REPUBLIC OF MADAGASCAR

and

INTERNATIONAL DEVELOPMENT ASSOCIATION

Dated July 13, 2005

CREDIT NUMBER 4101-MAG

DEVELOPMENT CREDIT AGREEMENT

AGREEMENT, dated July 13, 2005, between REPUBLIC OF MADAGASCAR (the Borrower) and INTERNATIONAL DEVELOPMENT ASSOCIATION (the Association).

WHEREAS 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;

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

NOW THEREFORE the parties hereto hereby agree as follows:

ARTICLE I

General Conditions; Definitions

Section 1.01. The “General Conditions Applicable to Development Credit Agreements” of the Association, dated January 1, 1985 (as amended through May 1, 2004), with the modifications set forth below (the General Conditions), constitute an integral part of this Agreement.

(a) Section 6.03 (c) of the General Conditions is amended by replacing the words “corrupt or fraudulent” with the words “corrupt, fraudulent, collusive or coercive”.

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

business, occupation, work or place of residence or habitat adversely affected; and “Affected Person” means any of the Affected Persons;

(b) “Beneficiary” means any firm established and operating pursuant to the laws of the Borrower for which a Grant (as hereinafter defined) is financed or proposed to be financed out of the proceeds of the Credit pursuant to a Grant Agreement (as hereinafter defined) under the conditions set forth in the PIM (as hereinafter defined) and in Part D of Schedule 4 to this Agreement;

(c) “Cultural Heritage Policy Framework” or “CHPF” means the Borrower’s document dated February 2005, setting forth guidelines and procedures to protect any physical cultural property from loss or damage as a result of Parts A through D of the Project;

(d) “Eligible Categories” means Categories (2) through (8) set forth in the table in Part A.1 of Schedule 1 to this Agreement;

(e) “Eligible Expenditures” means the expenditures for goods, works and consultants’ services referred to in Section 2.02 of this Agreement;

(f) “Environmental and Social Advisory Panel” or “ESAP” means the panel of experts referred to in Part C.3 of Schedule 4 to this Agreement;

(g) “Environmental and Social Documents” or “ESDs” means collectively the CHPF, the ESIA (as hereinafter defined), the ESMF (as hereinafter defined), the EMP (as hereinafter defined), the Green Charter (as hereinafter defined), the PF (as hereinafter defined), the RAP (as hereinafter defined) and the RPF (as hereinafter defined);

(h) “Environmental and Social Impact Assessment” or “ESIA” means any of the three evaluations of the potential environmental and social risks and impacts of Parts A through D of the Project that have been prepared by the Borrower and dated March 2005, or that may be later prepared in accordance with the ESMF, as the same may be amended from time to time with the prior approval of the Association;

(i) “Environmental and Social Management Framework” or “ESMF” means the Borrower’s document dated February 2005, setting forth, *inter alia*, guidelines, procedures, timetable and other specifications for the ESIA and/or EMP that will be prepared, as the case may be, by the Borrower for additional activities that may be proposed during Project implementation for financing under Parts A through D of the Project, designed to offset adverse environmental and social impacts related to Project activities, or to reduce them to acceptable levels, or to enhance positive impacts, as the same may be amended from time to time with the prior approval of the Association;

(j) “Environmental Management Plan” or “EMP” means any of four plans, dated March 2005, describing measures for the mitigation, reduction and/or offset of the environmental and social impacts of activities under Parts A through D of the Project, that have been prepared as part of the three ESIA’s or, in the case of the proposed protected area at Nosy Tanikely as a separate document, or that may be prepared pursuant to the ESMF;

(k) “Export Processing Zone” or “EPZ” means any geographical zone established or to be established in relation to the Project by the Borrower, benefiting from specific investment incentives;

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

(m) “Grant” means a grant made, or to be made, out of the proceeds of the Credit, to finance a Micro-project (as hereinafter defined);

(n) “Grant Agreement” means the agreement to be entered into between NPS (as hereinafter defined) and a Beneficiary for the purpose of extending a Grant to said Beneficiary;

(o) “Green Charter” means the plan to be adopted by the Borrower for the sustainable development of hotels and restaurants in Tourism Reserves (as hereinafter defined), identifying *inter alia* norms in terms of waste disposal, pollution, code of ethics (including policies regarding Human Immuno-Deficiency Virus and Acquired Immuno-Deficiency Syndrome), safeguards and other footprints, for private sector investment on Tourism Reserves;

(p) “GUIDE” means the Borrower’s facility (*Guichet Unique pour l’Immatriculation des Entreprises*) in charge of all formalities necessary for the registration of companies established pursuant to the Borrower’s Decree No. 2003/938 dated September 9, 2003;

(q) “ICT” means information and communication technologies;

(r) “IFC” means the International Finance Corporation;

(s) “Ilmenite Mining Project” means the development of an ilmenite mining operation in the Taolagnaro area;

- (t) “Jiro Sy Rano Malagasy” or “JIRAMA” means the Borrower’s water and electricity company established and operating pursuant to the Borrower’s *Ordonnance* No. 75-024 dated October 17, 1975;
- (u) “Lease Registry” means the Borrower’s office for the registration of moveable collateral to be set up under Part A.4 (a) of the Project;
- (v) “MA” means the Borrower’s Ministry in charge of agriculture;
- (w) “ME” means the Borrower’s Ministry in charge of energy;
- (x) “MEFB” means the Borrower’s Ministry in charge of economy, finance and budget;
- (y) “Micro-project” means specific activities financed or to be financed through a Grant made under Part A.2 (b) of the Project;
- (z) “MPSI” means the Borrower’s Ministry in charge of private sector and industry;
- (aa) “MT” means the Borrower’s Ministry in charge of transport;
- (bb) “MTC” means the Borrower’s Ministry in charge of tourism and culture;
- (cc) “MTE” means the Borrower’s Ministry in charge of telecommunications;
- (dd) “MTRA” means the Borrower’s establishment in charge of telecommunication studies and regulation (*Office Malagasy d’Etudes et de Régulation des Télécommunications*), established pursuant to the Borrower’s Decree No. 97-1077 dated August 28, 1997;
- (ee) “National Environment Office” or “NEO” means the Borrower’s establishment in charge of the protection of environment (*Office National de l’Environnement*) established pursuant to the Borrower’s Decree No. 90-066 dated December 21, 1990, and as amended at the date hereof;
- (ff) “National Institute for Hotel and Tourism Training” or “NIHTT” means the national institute of the Borrower in charge of the development and promotion of training activities in the field of tourism established pursuant to the Borrower’s Decree No. 2000-320 dated May 16, 2000;

(gg) “National Project Secretariat” or “NPS” means the national Project management secretariat (*Secrétariat National du Projet*) to be established at MEFB under the Project Implementation Decree (as hereinafter defined), pursuant to Section 6.01 (b) of this Agreement;

(hh) “National Tourism Office” means the non-profit association established and operating under the Borrower’s laws and regulations and its by-laws dated December 4, 2003, in charge of the promotion of tourism (*Office National du Tourisme de Madagascar*);

(ii) “Partial Credit Guarantee” or “PCG” means, individually, a partial credit guarantee financed or to be financed out of the proceeds of the Credit under Part A.1 (b) (i) of the Project, and “Partial Credit Guarantees” or “PCGs” mean, collectively, more than one Partial Credit Guarantee;

(jj) “Participating Bank” means, individually, a commercial bank, established and operating pursuant to the laws of the Borrower, which has met the eligibility criteria specified in the PCG Framework Agreement and as a result has received a Partial Credit Guarantee under Part A.1 (b) (i) of the Project, and “Participating Banks” means, collectively, more than one Participating Bank;

(kk) “PCG Account” means the account referred to in Section 2.02 (c) of this Agreement;

(ll) “PCG Facility Agreement” means an agreement entered or to be entered between IFC and a Participating Bank for the issuance of a Partial Credit Guarantee by IFC to such Participating Bank, and “PCG Facility Agreements” means, collectively, more than one PCG Facility Agreement;

(mm) “PCG Framework Agreement” means the agreement to be entered into between the Association, IFC and the Borrower pursuant to Section 3.01 (c) of this Agreement, as the same may be modified from time to time by written agreement among the parties thereto;

(nn) “Port Operator” means the company to be established and operating pursuant to the laws of the Borrower, which shall be in charge of carrying out activities under Part D.1 of the Project;

(oo) “Port Operator Concession Agreement” means the agreement to be entered into between the Borrower and the Port Operator for the purposes of the Ilmenite Mining Project, and such term includes all schedules to the Port Operator Concession Agreement;

(pp) “Port Operator Project Agreement” means the agreement referred to in Part A.3 (d) of Schedule 1 to this Agreement and to be entered into between the Association and the Port Operator, as the same may be amended from time to time, and such term includes all schedules to the Port Operator Project Agreement;

(qq) “Port Operator Subsidiary Agreement” means the agreement referred to in Part A.3 (d) of Schedule 1 to this Agreement and to be entered into between the Borrower and the Port Operator, as the same may be amended from time to time, and such term includes all schedules to the Port Operator Subsidiary Agreement;

(rr) “Process Framework” or “PF” means the specific resettlement framework dated February 2005, prepared for the Protected Area (as hereinafter defined) to be established at Nosy Tanikely;

(ss) “Procurement Plan” means the Borrower’s procurement plan, dated May 30, 2005 covering the initial 18 month period (or longer) of Project implementation, as the same shall be updated from time to time in accordance with the provisions of Section 3.02 to this Agreement, to cover succeeding 18 month periods (or longer) of Project implementation;

(tt) “Project Administrative, Financial and Accounting Manual” or “PAFAM” means the manual to be adopted by the Borrower pursuant to Section 6.01 (d) of this Agreement, outlining the financial and accounting procedures, policies, and guidelines to be followed by the Borrower in the implementation of the Project, as the same may be amended from time to time with the concurrence of the Association, and such term includes any schedules to the PAFAM;

(uu) “Project Implementation Decree” means the Decree establishing NPS and the Steering Committee (as hereinafter defined), to be issued by the Borrower pursuant to Section 6.01 (a) of this Agreement;

(vv) “Project Implementation Manual” or “PIM” means the manual to be adopted by the Borrower pursuant to Section 6.01 (d) of this Agreement, outlining the institutional and operational arrangements for the implementation of the Project, including, *inter alia*, the monitoring and evaluation arrangements and the eligibility criteria for activities, and guidelines to be followed in Project implementation, as the same may be amended from time to time with the concurrence of the Association, and such term includes any schedules to the PIM;

(ww) “Project Preparation Advance” means the project preparation advance granted by the Association to the Borrower pursuant to the letter agreement signed on behalf of the Association on April 27, 2004, and on behalf of the Borrower on May 27, 2004;

(xx) “Protected Area” means a delineated protected area established pursuant to the Borrower’s law No. 2001/05 dated August 7, 2002;

(yy) “Region” means an administrative subdivision of the Borrower’s territory;

(zz) “Regional Tourism Office” means any of the Borrower’s regional establishments in charge of the regional promotion of tourism (*Office Régional du Tourisme*) established pursuant to the laws and regulations of the Borrower;

(aaa) “Report-based Disbursements” means the Borrower’s option for withdrawal of funds from the Credit Account referred to in Schedule 1 to this Agreement;

(bbb) “Resettlement Action Plan” or “RAP” means any of the three plans describing measures for the mitigation of the Project’s impacts on Affected Persons dated February 2005, March 2005 and March 2005, respectively, or any plan that may later be prepared pursuant to the RPF, all in form and substance satisfactory to the Association;

(ccc) “Resettlement Policy Framework” or “RPF” means the Resettlement Policy Framework, dated February 2005, issued by the Borrower, and describing a program of actions, measures and policies designed to avoid or minimize any adverse impact or hardship to Affected Persons as a result of the Project or, if such adverse impact or hardship cannot be avoided altogether, provide for the compensation and resettlement of such Affected Persons as may be appropriate;

(ddd) “Special Account” means the account referred to in Part C of Schedule 1 to this Agreement;

(eee) “Steering Committee” means the Borrower’s Project steering committee to be established under the Project Implementation Decree;

(fff) “Tourism Reserve” means a delineated geographical zone (*Réserve foncière touristique*) where tourist enterprises are to be established pursuant to the Borrower’s law No. 95-017 dated August 25, 1995; and

(ggg) “WorldHotel-Link.com” means a website providing small and medium hotels with direct access to potential clients.

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 this Agreement, an amount in various currencies equivalent to eighty five million nine hundred thousand Special Drawing Rights (SDR 85,900,000).

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) amounts paid (or, if the Association shall so agree, amounts to be paid) by the Borrower on account of withdrawals made for the benefit of a Beneficiary under a Grant to meet the reasonable costs of goods, works and services required for a Micro-project to be financed under Part A.2 (b) of the Project, and in respect of which the withdrawal from the Credit Account is requested; (ii) expenditures made (or, if the Association shall so agree, to be made) in respect of the reasonable cost of goods, works and services required for the Project and to be financed out of the proceeds of the Credit; and (iii) for amounts required to cover the Borrower's obligations in connection with Partial Credit Guarantees to be issued pursuant to the terms of the PCG Framework Agreement and to be financed out of the proceeds of the Credit.

(b) 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 canceled.

(c) The Borrower shall, for the purposes of Part A.1 (b) (i) of the Project, entrust IFC to open and maintain, on behalf of the Borrower, an account on terms and conditions satisfactory to the Association (the PCG Account). Deposits into, and payments out of, the PCG Account shall be made in accordance with the terms and conditions set forth in this Agreement and the PCG Framework Agreement.

(d) The proceeds of the Credit deposited in the PCG Account shall be used exclusively for eligible expenditures in accordance with the terms of the PCG Framework Agreement.

(e) The Borrower may, through IFC, refund to the Association any amount on deposit in the PCG Account which IFC shall have determined will not be required to cover payments due under or in connection with the PCG Facility Agreements.

(f) The Borrower shall, through IFC, promptly refund to the Association any balance in the PCG Account remaining after the commitments under each PCG Facility Agreement have expired or said agreement has otherwise terminated in accordance with its terms.

(g) Refunds to the Association made pursuant to paragraphs (e) and (f) of this Section or otherwise pursuant to the provisions of the PCG Framework Agreement 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; provided, however, that amounts refunded to the Association pursuant to paragraph (f) of this Section after the Closing Date shall be used for such purposes as shall have been agreed between the Borrower and the Association.

Section 2.03. The Closing Date shall be December 31, 2010 or such later date as the Association shall establish. The Association shall promptly notify the Borrower of such later date.

Section 2.04. (a) The Borrower shall pay to the Association a commitment charge on the principal amount of the Credit not withdrawn from time to time at a rate to be set by the Association as of June 30 of each year, but not to exceed the rate of one-half of one percent (1/2 of 1%) per annum.

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

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

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

Section 2.06. Commitment charges and service charges shall be payable semiannually on January 15 and July 15 in each year.

Section 2.07. (a) Subject to paragraphs (b), (c) and (d) below, the Borrower shall repay the principal amount of the Credit in semiannual installments payable on each January 15 and July 15 commencing July 15, 2015 and ending January 15, 2045. Each installment to and including the installment payable on January 15, 2025 shall be one percent (1%) of such principal amount, and each installment thereafter shall be two percent (2%) of such principal amount.

(b) Whenever: (i) the Borrower's per capita gross national product (GNP), as determined by the Association, shall have exceeded for three consecutive years the level established annually by the Association for determining eligibility to access the Association's resources; and (ii) the Bank shall consider the Borrower creditworthy for Bank lending, the Association may, subsequent to the review and approval thereof by the Executive Directors of the Association and after due consideration by them of the development of the Borrower's economy, modify the repayment of installments under paragraph (a) above by:

(A) requiring the Borrower to repay twice the amount of each such installment not yet due until the principal amount of the Credit shall have been repaid; and

(B) requiring the Borrower to commence repayment of the principal amount of the Credit as of the first semiannual payment date referred to in paragraph (a) above falling six months or more after the date on which the Association notifies the Borrower that the events set out in this paragraph (b) have occurred, provided, however, that there shall be a grace period of a minimum of five years on such repayment of principal.

(c) If so requested by the Borrower, the Association may revise the modification referred to in paragraph (b) above to include, in lieu of some or all of the increase in the amounts of such installments, the payment of interest at an annual rate agreed with the Association on the principal amount of the Credit withdrawn and outstanding from time to time, provided that, in the judgment of the Association, such revision shall not change the grant element obtained under the above-mentioned repayment modification.

(d) If, at any time after a modification of terms pursuant to paragraph (b) above, the Association determines that the Borrower's economic condition has deteriorated significantly, the Association may, if so requested by the Borrower, further modify the terms of repayment to conform to the schedule of installments as provided in paragraph (a) above.

Section 2.08. The currency of the United States of America is hereby specified for the purposes of Section 4.02 of the General Conditions.

Section 2.09. (a) The Executive Vice President of IFC or any person whom he or she shall designate in writing, is designated as representative of the Borrower for the purposes of taking any action required or permitted to be taken under the provisions of Section 2.02 (a) (iii) of this Agreement and Article V of the General Conditions.

(b) Without limitation or restriction to the foregoing, the Borrower hereby entrusts IFC with responsibility for preparing and delivering withdrawal applications in respect of Category (1) in the table in Part A.1 of Schedule 1 to this Agreement, and for collecting documents and other evidence to be furnished to the Association in support of such applications.

ARTICLE III

Execution of the Project

Section 3.01. (a) The Borrower declares its commitment to the objectives of the Project as set forth in Schedule 2 to this Agreement, and, to this end, shall carry out the Project, with the exception of Parts A.1 (b) (i) and D.1, through NPS with due diligence and efficiency and in conformity with appropriate administrative, financial, engineering and environmental practices, and shall provide, promptly as needed, the funds, facilities, services and other resources required for the Project.

(b) Without limitation upon the above provisions and except as the Borrower and the Association shall otherwise agree, the Borrower shall carry out the Project, with the exception of Parts A.1 (b) (i) and D.1, in accordance with the Implementation Program set forth in Schedule 4 to this Agreement.

(c) Without limitation upon the provisions of paragraphs (a) and (b) of this Section, the Borrower shall: (i) carry out Part A.1 (b) (i) of the Project through IFC in accordance with the PCG Framework Agreement and the PCG Facility Agreements, on terms and conditions acceptable to the Association; (ii) perform all its obligations and take all actions necessary on its part to enable IFC to perform all IFC's obligations under said agreements; (iii) not take or permit to be taken any action which would prevent or interfere with such performance; and (iv) except as the Association shall otherwise agree, not assign, amend, abrogate or waive, or permit to be assigned, amended, abrogated or, waived the said agreements or any provision thereof.

(d) Without limitation upon the provisions of paragraphs (a), (b) and (c) of this Section, the Borrower shall: (i) cause the Port Operator to carry out Part D.1 of the

Project, and to perform in accordance with the provisions of the Port Operator Project Agreement and the Port Operator Concession Agreement all the obligations of the Port Operator therein set forth; (ii) take and cause to be taken all action, including the provision of funds, facilities, services and other resources, necessary or appropriate to enable the Port Operator to perform such obligations; and (iii) not take or permit to be taken any action which would prevent or interfere with such performance.

(e) The Borrower shall make part of the proceeds of the Credit available to the Port Operator as a grant under a subsidiary agreement to be entered into between the Borrower and the Port Operator, under terms and conditions which shall have been approved by the Association, including, but without being limited to, the provisions set forth in Part A of Schedule 4 to this Agreement.

(f) The Borrower shall exercise its rights under the Port Operator Subsidiary Agreement and the Port Operator Concession 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 Port Operator Subsidiary Agreement and the Port Operator Concession Agreement or any provision thereof.

Section 3.02. (a) Except as the Association shall otherwise agree, procurement of the goods, works and services required for the Project, with the exception of Part D (1), and to be financed out of the proceeds of the Credit shall be governed by the provisions of Schedule 3 to this Agreement, and procurement of the goods, works and services required for Part D (1) of the Project and to be financed out of the proceeds of the Credit shall be governed by the provisions of Schedule 1 to the Port Operator Project Agreement, as said provisions may be further elaborated in the Procurement Plan.

(b) The Borrower shall update the Procurement Plan in accordance with guidelines acceptable to the Association, and furnish such update to the Association not later than 12 months after the date of the preceding Procurement Plan, for the Association's approval.

Section 3.03. Except for Part D.1 of the Project, for the purposes of Section 9.06 of the General Conditions and without limitation thereto, the Borrower shall:

(a) prepare, on the basis of guidelines acceptable to the Association, and furnish to the Association not later than three (3) 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 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 Part D.1 of the Project shall be carried out by the Port Operator pursuant to the Port Operator Project Agreement.

Section 3.05. The Borrower shall, not later than twelve months after the Effective Date, take all measures necessary, in form and substance satisfactory to the Association, to ensure that the sites included in the Tourism Reserve of Nosy Be can be leased to, or acquired by interested private sector investors in the hotel industry.

Section 3.06. The Borrower shall, not later than eighteen months after the Effective Date, take appropriate measures, in form and substance satisfactory to the Association, to ensure that the tourism sector be given appropriate incentives for its development.

Section 3.07. The Borrower shall, not later than six months after the Effective Date, adopt the Green Charter in form and substance satisfactory to the Association.

Section 3.08. The Borrower shall, not later than six months after the Effective Date, appoint a local representative of NPS at Nosy Be, Antsirabe and Taolagnaro, respectively, in a manner satisfactory to the Association.

Section 3.09. The Borrower shall, not later than four months after the Effective Date, employ an environmental specialist for NPS.

ARTICLE IV

Financial Covenants

Section 4.01. (a) The Borrower shall establish and maintain a financial management system, including records and accounts, and prepare financial statements, all in accordance with consistently applied accounting standards acceptable to the Association, adequate to reflect the operations, resources and expenditures related to the Project; and

(b) The Borrower shall:

(i) have the financial statements referred to in paragraph (a) of this Section and the records and accounts for the Special Account for each fiscal year (or other period agreed to by the Association) commencing with the fiscal year in which the first withdrawal under the Project Preparation Advance was made,

audited, in accordance with consistently applied auditing standards acceptable to the Association, 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 (or such other period agreed to by the Association): (A) certified copies of the financial statements referred to in paragraph (a) of this Section for such year (or such other period agreed to by the Association), as so audited; and (B) an opinion on such statements by said auditors, in scope and detail satisfactory to the Association; and

(iii) furnish to the Association such other information concerning such records, accounts and the audit of such financial statements and records and accounts, and concerning said auditors, as the Association may 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 reports referred to in Part A.5 of Schedule 1 to this Agreement (Report-based Disbursements) or on the basis of statements of expenditure, the Borrower shall:

(i) retain, until at least one year after the Association has received the audit report for, or covering, the fiscal year in which the last withdrawal from the Credit Account was made, all records (contracts, orders, invoices, bills, receipts and other documents) evidencing such expenditures;

(ii) enable the Association's representatives to examine such records; and

(iii) ensure that such reports or statements of expenditure are included in any audit that the Association may have requested pursuant to paragraph (b) of this Section.

Section 4.02. (a) Without limitation upon the Borrower's progress reporting obligations set out in Part E of Schedule 4 to this Agreement, the Borrower shall prepare and furnish to the Association a Financial Monitoring Report, in form and substance satisfactory to the Association, which:

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

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

ARTICLE V

Remedies of the Association

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

- (a) the Project Implementation Decree shall have been amended, suspended, abrogated, repealed or waived so as to materially and adversely affect the implementation of the Project;
- (b) any text governing the operations of the Port Operator shall have been amended, suspended, abrogated, repealed or waived so as to materially and adversely affect the ability of the Port Operator to perform any of its obligations under the Port Operator Project Agreement;
- (c) the Port Operator shall have failed to perform any of its obligations under the Port Operator Project Agreement;
- (d) 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 the Port Operator will be able to perform its obligations under the Port Operator Project Agreement;

(e) the Borrower shall have failed to adopt, not later than six months after the Effective Date, legislation in form and substance satisfactory to the Association, to the effect of opening to national and international competition air access to its territory and specifically the island of Nosy Be and to Taolagnaro;

(f) the Borrower shall have failed to adopt, not later than thirty six months after the Effective Date, EPZ sectoral policies and legislation for the promotion of the EPZ sector, all in form and substance satisfactory to the Association;

(g) the Borrower shall have failed to adopt, not later than thirty six months after the Effective Date, a new regulatory framework for private investments in the Borrower's territory, in form and substance satisfactory to the Association;

(h) the Borrower or IFC shall have failed to perform any of their obligations under the PCG Framework Agreement; and

(i) as a result of events which have occurred after the date of this Agreement, an extraordinary situation shall have arisen which shall make it improbable that the Borrower or IFC will be able to perform their obligations under the PCG Framework Agreement.

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

(a) any events specified in paragraphs (a) and (b) of Section 5.01 of this agreement shall occur; and

(b) any events specified in paragraphs (c), (d), (e), (f) and (g) of Section 5.01 of this Agreement shall occur and shall continue for a period of sixty (60) days after notice thereof shall have been given by the Association to the Borrower.

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 Borrower has issued the Project Implementation Decree, in form and substance satisfactory to the Association;
- (b) the Borrower has established NPS in a manner satisfactory to the Association, and has employed the managing director, the head of the operational department and the head of the fiduciary department of NPS, all in compliance with the provisions of Schedule 3 to this Agreement;
- (c) the Borrower has established an accounting and financial management system for the Project, satisfactory to the Association;
- (d) the Borrower has adopted (i) the PIM and (ii) the PAFAM, both in form and substance satisfactory to the Association; and
- (e) the Borrower has employed the independent external auditors referred to in Section 4.01 (b) of this Agreement, in accordance with the provisions of Schedule 3 to this Agreement.

Section 6.02. The date ninety (90) days after the date of this Agreement is hereby specified for the purposes of Section 12.04 of the General Conditions.

ARTICLE VII

Representative of the Borrower; Addresses

Section 7.01. The Minister of the Borrower at the time 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:

Ministry of Economy, Finance and Budget
B.P. 61
Antananarivo 101
Madagascar

Cable address:

MEFB
Antananarivo

Facsimile:

(261) 20 22 34530

For the Association:

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

Cable address:

INDEVAS
Washington, D.C.

Telex:

248423 (MCI) or
64145 (MCI)

Facsimile:

(202) 477-6391

IN WITNESS WHEREOF, the parties hereto, acting through their duly authorized representatives, have caused this Agreement to be signed in their respective names in the District of Columbia, United States of America, as of the day and year first above written.

REPUBLIC OF MADAGASCAR

By: /s/ Benjamin Andriamparany Radavidson
Authorized Representative

INTERNATIONAL DEVELOPMENT ASSOCIATION

By: /s/ James Bond
Authorized Representative

SCHEDULE 1

Withdrawal of the Proceeds of the Credit

A. General

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

<u>Category</u>	Amount of the Credit Allocated (Expressed in <u>SDR Equivalent</u>)	% of Expenditures <u>to be Financed</u>
(1) PCGs	1,700,000	100% of amounts disbursed
(2) Grants	700,000	100% of amounts disbursed
(3) Works		85%
(a) under Part A of the Project	700,000	
(b) under Part B of the Project	1,700,000	
(c) under Part C of the Project	18,000,000	
(d) under Part D of the Project		
(i) under Part D.1 of the Project	23,100,000	
(ii) under Part D of the Project other than Part D.1	9,400,000	
(4) Equipment and goods		
(a) under Part A.4 (d) of the Project	3,300,000	100% of foreign expenditures and 85% of local expenditures
(b)	700,000	
(5) Engineering and Consultants' Services and audits	16,400,000	100% of foreign

<u>Category</u>	Amount of the Credit Allocated (Expressed in SDR Equivalent)	% of Expenditures to be Financed
		expenditures and 85% of local expenditures
(6) Training	2,700,000	100% of foreign expenditures and 85% of local expenditures
(7) Operating costs	1,300,000	100%
(8) Mitigation costs	2,700,000	100%
(9) Refunding of Project Preparation Advance	1,300,000	Amount due pursuant to Section 2.02 (b) of this Agreement
(10) Unallocated	2,200,000	
TOTAL	85,900,000	

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;

(c) the term “operating costs” means the costs incurred by NPS under the Project on account Project implementation, management and monitoring, including rental of office, utilities, office supplies, office refurbishing, consumables, maintenance and operation of

vehicles and equipment, travel and accommodation for Project staff and remuneration of Project staff; and

(d) the term “mitigation costs” means the costs incurred by the Borrower on account of mitigation measures implemented under the ESIA’s.

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) any PCG under Category (1) unless the PCG Framework Agreement and the PCG Facility Agreement for such PCG, on terms and conditions acceptable to the Association, have been duly authorized, executed and ratified by and are legally binding upon the parties thereto, and all conditions precedent to their effectiveness, except only the disbursement of the proceeds of the Credit for such PCG pursuant to Section 2.02 (a) (iii) of this Agreement, have been fulfilled.

(c) a Grant under Category (2) unless: (i) the criteria and terms and conditions applicable to the Grants, satisfactory to the Association, have been included in the PIM; and (ii) the Grant has been made in accordance with the criteria and on terms and conditions set forth or referred to in the PIM and the provisions of Part D of Schedule 4 to this Agreement;

(d) payments for expenditures under Category 3 (d) (i) above, until: (i) the terms and conditions applicable to Part D.1 of the Project, in form and substance satisfactory to the Association, have been included in the PIM; (ii) the Port Operator Concession Agreement, the Port Operator Project Agreement and the Port Operator Subsidiary Agreement, in form and substance satisfactory to the Association have been entered into; (iii) a legal opinion within the meaning of Section 12.02 (b) of the General Conditions, has been furnished to the Association confirming that the Port Operator Concession Agreement, the Port Operator Project Agreement and the Port Operator Subsidiary Agreement have each been duly authorized or ratified by the Port Operator and are legally binding upon the Port Operator in accordance with their respective terms; and (iv) the Borrower has completed a final EMP for the new Ehoala port, conforming to the final design of the port, including the delineation of the conservation area as an offset for the Eahola port development, publicly disclosed, approved by NOE and in form and substance satisfactory to the Association; and

(e) payments for expenditures under Category 4 (a) above, until evidence satisfactory to the Association has been furnished showing that the payment of petroleum products by the Borrower on behalf of JIRAMA has been properly accounted for.

4. Notwithstanding the provisions of paragraph 3 (d) above, the Association shall reallocate the proceeds of the Credit allocated to Category 3 (d) (i) to other Categories if the evidence referred to in such paragraph 3 (d) above shall not have been delivered to the Association on or before March 31, 2006.

5. The Association may require withdrawals from the Credit Account to be made on the basis of statements of expenditure for expenditures under contracts for: (a) goods costing less than \$200,000 equivalent per contract; (b) works costing less than \$500,000 equivalent per contract; (c) for services of individual consultants costing less than \$50,000 equivalent per contract; (d) for services of consulting firms under contracts costing less than \$100,000 equivalent per contract; and (e) operating costs, all under such terms and conditions as the Association shall specify by notice to the Borrower.

6. The Borrower may request withdrawals from the Credit Account to be made on the basis of reports to be submitted to the Association in form and substance satisfactory to the Association, such reports to include the FMR and any other information as the Association shall specify by notice to the Borrower (Report-based Disbursements). In the case of the first such request submitted to the Association before any withdrawal has been made from the Credit Account, the Borrower shall submit to the Association only a statement with the projected sources and applications of funds for the Project for the six-month period following the date of such request.

B. Special Account

1. The Borrower may open and maintain in Dollars a special deposit account in a commercial Bank acceptable to the Association, on terms and conditions satisfactory to the Association, including appropriate protection against set-off, seizure and attachment.

2. After the Association has received evidence satisfactory to it that the Special Account has been opened, withdrawals from the Credit Account of amounts to be deposited into the Special Account shall be made as follows:

(a) if the Borrower is not making Report-based Disbursements, withdrawals shall be made in accordance with the provisions of Annex A to this Schedule 1; and

(b) if the Borrower is making Report-based Disbursements, withdrawals shall be made in accordance with the provisions of Annex B to this Schedule 1.

3. Payments out of the Special Account shall be made exclusively for Eligible Expenditures. For each payment made by the Borrower out of the Special Account, the Borrower shall, at such time as the Association shall reasonably request, furnish to the

Association such documents and other evidence showing that such payment was made exclusively for Eligible Expenditures.

4. Notwithstanding the provisions of Part B.2 of this Schedule, the Association shall not be required to make further deposits into the Special Account:

(a) if the Association, at any time, is not satisfied that the reports referred to in Part A.5 of this Schedule 1 adequately provide the information required for Report-based Disbursements;

(b) if the Association determines at any time that all further withdrawals for payment of Eligible Expenditures should be made by the Borrower directly from the Credit Account; or

(c) 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: (A) the records and accounts for the Special Account; or (B) the records and accounts reflecting expenditures with respect to which withdrawals were Report-based Disbursements or were made on the basis of statements of expenditure, as the case may be.

5. The Association shall not be required to make further deposits into the Special Account in accordance with the provisions of Part B.2 of this Schedule 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 Section 6.02 of the General Conditions. Upon such notification, the Association shall determine, in its sole discretion, whether further deposits into the Special Account may be made and what procedures should be followed for making such deposits, and shall notify the Borrower of its determination.

6. (a) If the Association determines at any time that any payment out of the Special Account was made for an expenditure which is not an Eligible Expenditure, or was not justified by the evidence furnished to the Association, the Borrower shall, promptly upon notice from the Association, provide such additional evidence as the Association may request, or 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. Unless the Association shall otherwise agree, no further deposit by the Association into the Special Account shall be made until the Borrower has provided such evidence or made such deposit or refund, as the case may be.

(b) If the Association determines at any time that any amount outstanding in the Special Account will not be required to cover payments for Eligible Expenditures during the six-month period following such determination, the Borrower shall, promptly upon notice from the Association, refund to the Association such outstanding amount.

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

(d) Refunds to the Association made pursuant to subparagraph (a), (b) or (c) of this paragraph 6 shall be credited to the Credit Account for subsequent withdrawal or for cancellation in accordance with the provisions of the Credit Agreement.

Annex A

to

SCHEDULE 1

**Operation of Special Account
When Withdrawals Are Not
Report-based Disbursements**

1. For the purposes of this Annex, the term “Authorized Allocation” means the amount of \$ 8,000,000 to be withdrawn from the Credit Account and deposited into the Special Account pursuant to paragraph 2 of this Annex.

2. Withdrawals of the Authorized Allocation and subsequent withdrawals to replenish the Special Account shall be made as follows:

(a) For withdrawals of the Authorized Allocation, the Borrower shall furnish to the Association a request or requests for deposit into the Special Account of an amount or amounts which in the aggregate do not exceed the Authorized Allocation. 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.

(b) For replenishment of the Special Account, the Borrower shall furnish to the Association requests for deposit into the Special Account at such intervals as the Association shall specify. 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 Part B.3 of Schedule 1 to this Agreement 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. Each such deposit into the Special Account shall be withdrawn by the Association from the Credit Account under one or more of the Eligible Categories.

3. The Association shall not be required to make further deposits into the Special Account, once the total unwithdrawn amount of the Credit minus the total amount of all outstanding special commitments entered into by the Association pursuant to Section 5.02 of the General Conditions 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 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.

Annex B

to

SCHEDULE 1

**Operation of Special Account
When Withdrawals Are
Report-based Disbursements**

1. Withdrawals from the Credit Account shall be deposited by the Association into the Special Account in accordance with the provisions of Schedule 1 to this Agreement. Each such deposit into the Special Account shall be withdrawn by the Association from the Credit Account under one or more of the Eligible Categories.

2. Upon receipt of each application for withdrawal of an amount of the Credit, the Association shall, on behalf of the Borrower, withdraw from the Credit Account and deposit into the Special Account an amount equal to the lesser of: (a) the amount so requested; and (b) the amount which the Association has determined, based on the reports referred to in Part A.5 of this Schedule 1 applicable to such withdrawal application, is required to be deposited in order to finance Eligible Expenditures during the six-month period following the date of such reports.

SCHEDULE 2

Description of the Project

The objective of the Project is to assist the Borrower to provide a business environment adequate to stimulate and lead economic growth in three regional poles in the areas of Antananarivo-Antsirabe, Nosy Be and Taolagnaro, and in particular to: (i) construct and rehabilitate critical infrastructure essential for sustained economic activity in the tourism, manufacturing, agribusiness and mining sectors; (ii) put in place appropriate incentive measures to achieve rapid growth; (iii) develop the instruments to ensure equitable, sustainable growth; and (iv) strengthen the capacity of local authorities to formulate, prepare, implement, and manage medium- and long-term integrated regional development projects in the future.

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 Strengthening the business environment

1. Improving access to finance

(a) Supporting the development of a leasing and factoring industry, through the provision of technical advisory services and training to selected beneficiaries in particular in the fields of corporate management, planning and marketing, information systems management, and setting up of policies and procedures.

(b) Supporting the development of a partial credit guarantee program for the benefit of, small and medium sized enterprises, through: (i) the provision of financing for local currency, small and medium enterprise loan portfolio partial credit guarantees to Participating Banks to be issued by IFC on a 50/50 pari passu basis and to be partially backstopped by the Borrower on a first loss basis; (ii) the provision of technical advisory services and training to personnel of Participating Banks; and (iii) the provision of training to the personnel of small and medium enterprises participating in the PCG program.

2. Capacity building

(a) Provision of training to micro, small and medium enterprises in the tourism sector in the Nosy Be Region and in the Taolagnaro Region.

(b) Supporting NPS to provide grants to Beneficiaries for the financing of Micro-projects to support growth for selected enterprises in the three regional poles.

3. Support to tourism development initiatives

(a) Supporting the Borrower's capacity to manage the tourism sector, through the provision of: (i) technical advisory services and training for national and regional staff of MTC and Regional Tourism Offices to strengthen their capacity to implement the regional tourism master plans; (ii) technical advisory services and training to strengthen the capacities of MTC and the National Tourism Office to manage, regulate, market and enhance the quality of services and a new information system; (iii) technical advisory services and training to MTC to develop a communication strategy and carry out an international marketing campaign for promotion of the relevant areas; and (iv) technical advisory services and training to MTC and the National Tourism Office to develop the Green Charter.

(b) Supporting the development of the marketing capacity of selected micro, small and medium enterprises, through the provision of: (i) technical advisory services to such enterprises for the creation of websites; and (ii) support for such enterprises to join WorldHotel-Link.com.

(c) Strengthening the Borrower's national tourism training system, through: (i) the provision of technical advisory services to redefine NIHTT's role; (ii) the rehabilitation of NIHTT facilities; and (iii) the training of trainers in tourism-related subjects.

4. Improving the business environment

(a) Supporting the development of the Lease Registry through: (i) the provision of legal and technical advisory services for establishing the Lease Registry; (ii) the provision of training for the Lease Registry staff; and (iii) the provision of technical advisory services to carry out an information dissemination campaign regarding the Lease Registry, and surveys with financial institutions and clients.

(b) Strengthening the promotion of investments and the registration of micro, small and medium enterprises, through: (i) the provision of technical advisory services to GUIDE, MPSI and MEFB to carry out investment promotion activities needed to attract foreign direct investment; and (ii) supporting GUIDE for a five-year period in connection with the establishment of GUIDE in Nosy Be, Taolagnaro and Antsirabe.

(c) Supporting the monitoring of institutional reforms to increase private sector investments, through the provision of technical advisory services to: (i) MT, ME and MEFB to carry out a dialogue with the private sector company involved in the Ilmenite

Mining Project in Taolagnaro; (ii) MT to achieve an efficient open sky/freedom sky policy; and (iii) to MA to improve access to land by private investors.

(d) Supporting the supply of electricity by JIRAMA, through the acquisition of petroleum products.

Part B Supporting export led growth in the Antananarivo-Antsirabe area

1. Enhancing the competitiveness of the EPZ and manufacturing sector through: (a) the provision of technical advisory services to MPSI and MEFB to support EPZ activities, the adoption and implementation of a new regulatory framework for private sector investment in the Borrower's territory, and EPZ legislation; (b) the provision of technical advisory services to MPSI for the establishment of an institutional and funding system to support enterprise-based skills development through public-private partnerships; (c) the provision of technical advisory services to build capacity of MPSI and MEFB in the fields of trade negotiations, formulation and adoption of policies and strategies for strengthening vertical and horizontal integration of the textiles and garments industry; (d) the provision of technical advisory services to improve capacity of MPSI in the field of logistics and trade facilitation, including customs administration; and (e) the provision of technical advisory services and works to MPSI to establish an industrial zone in a strategic location in Antananarivo and/or Antsirabe.

2. Supporting the development of an ICT business park and of an incubator, through: (a) the provision of works, technical advisory services, goods and training to MTE to establish an ICT business park in Antanetibe; (b) the provision of technical advisory services to MTE to select a private investment partner to develop and manage the business park; and (c) the provision of technical advisory services to MTRA to develop and implement a new regulatory framework for the ICT sector and to strengthen its capacity in this field.

3. Strengthening the capacities of the municipalities of Antananarivo and Antsirabe in relation to the implementation of the Project through the provision of: (a) technical advisory services; (b) training; (c) rehabilitation of existing facilities; and (d) office equipment.

Part C Supporting tourism led growth in Nosy Be

1. Supporting the adoption by the municipality of Nosy Be of a regional tourism master plan and of an urban development plan for Nosy Be, through the provision of technical advisory services to the staff of the Diana Region and the Nosy Be municipality and the tourism authorities, including the local offices of MCT and the National Tourism Office.

2. Supporting the implementation by the Diana Region and the Nosy Be municipality of the national tourism master plan and urban development plan for Nosy Be, through the provision to MA of technical advisory services and goods in support of land acquisition.
3. Supporting MEFB and GUIDE in the development and implementation of business incentives measures to attract investments, through the provision of technical advisory services.
4. Supporting the upgrading of the road network in the territory of the Nosy Be municipality, through the provision of technical advisory services and works for the rehabilitation of about 60 km of roads.
5. Supporting the upgrading of: (a) the Hellville port, through the provision of works and technical advisory services for: (i) the rehabilitation of the North and East berths; (ii) the construction of a new berth of about 100 meters; (iii) the construction of slipways; (iv) the dismantling of warehouses and demolition of buildings; (v) the rehabilitation of warehouses and offices; (vi) the pavement, fencing and utilities relating thereto; and (vii) the rehabilitation of the passenger and cruises terminals; and (b) the Ankify port, through the provision of works and technical advisory services for: (i) the construction of a new berth of about 100 meters; and (ii) the rehabilitation of the existing slipway and berthing slope.
6. Supporting the upgrading of selected urban infrastructure, such as paved and unpaved urban roads, water drainage infrastructure and infrastructure against erosions in the cities of Hellville, Ambatoloaka and Djamadjary, through the provision of works and technical advisory services.
7. Supporting the development of a reliable telecommunication network, through the provision of works, goods and technical advisory services to MTE to install microwave transmission, electrical connections, antennas and related equipment.
8. Supporting the upgrading of the power system to give existing hotels access to reliable power and accommodate growth in the sector by: (i) rehabilitating the most recent existing generators and retiring the oldest ones; (ii) installing new capacity through the acquisition of additional generators; (iii) maintaining the generators; and (iv) extending medium-tension lines to tourist areas as defined in the Regional Tourism Master Plan for Nosy Be, all through the provision of works, goods and technical advisory services.
9. Supporting the upgrading of the water and sewerage system by: (i) developing new water supply for the island of Nosy Be including the necessary pumping, water

treatment, transport, and water reserves arrangements; (ii) rehabilitating and upgrading the water distribution system, including the water meters; (iii) demolishing the existing facilities that are contaminated; and (iv) managing solid and liquid waste, all through the provision of works, goods and technical advisory services.

10. Supporting the upgrading of the medical facilities at the Hellville hospital, by rehabilitating the second floor of the hospital and the surgery block, all through the provision of works, goods and technical advisory services.

11. Strengthening the capacities of the municipality of Nosy Be in relation to the implementation of the Project through the provision of: (a) technical advisory services; (b) training; (c) rehabilitation of existing facilities; and (d) office equipment.

12. Supporting the Regional Tourism Office and MTC in Nosy Be, through the provision of goods and technical advisory services.

Part D Supporting mining and tourism led growth in Taolagnaro

1. Supporting: (a) the development of a new public port on the north side of the Ehoala peninsula, through the provision of works, goods and technical advisory services in connection with: (i) the construction of a new port including a breakwater, new quays to accommodate vessels up to 35,000 DWT; (ii) establishing short-term storage areas adjacent to the quays, establishing an area for third party users; (iii) establishing a storage for ilmenite and zircon, including transport facilities for the ilmenite mineral; and (iv) constructing a groin structure to prevent sediments; and (b) the rehabilitation of the existing port, through the: (i) provision of works to dredge the port basin; (ii) provision of works and goods to repair the slipway, tugboats and lighters, and (iii) acquisition of a forklift.

2. Supporting the upgrading of the road network to improve traffic flow between tourist sites and rural areas, through the provision of technical advisory services and works for the rehabilitation and maintenance of about 65 km of provincial roads and about 75 km of rural roads.

3. Supporting the implementation by the Anosy Region and the Taolagnaro municipality of the Regional Tourism Master Plan and Urban Development Plan for Taolagnaro, through the provision to MA of technical advisory services and goods in support of land acquisition.

4. Supporting the development of a reliable telecommunication network, through the provision to MTE of works, goods and technical advisory services, to install

microwave transmission facilities, electrical connections, exit antennas and related equipment.

5. Supporting the upgrading of the power system by: (i) rehabilitating low-tension and medium-tension lines; (ii) installing new capacity through the purchase of new generators; and (iii) maintaining the generators, all through the provision of works, goods and technical advisory services.

6. Supporting the upgrading of the water and sewerage system by: (i) stabilizing the Lakandava production; (ii) installing new pumps; (iii) rehabilitating the secondary network for distribution; (iv) preparing the new production site at Efaoa and rehabilitating water pipes; and (v) managing solid and liquid waste, all through the provision of works, goods and technical advisory services.

7. Supporting the upgrading of selected urban roads through the provision of works and technical advisory services.

8. Supporting the upgrading of medical facilities at the Tsiranana hospital by rehabilitating a portion of the hospital and upgrading a surgery block, all through the provision of works, goods and technical advisory services.

9. Strengthening the capacities of the municipality of Taolagnaro in relation to the implementation of the Project through the provision of: (a) technical advisory services; (b) training; (c) rehabilitation of existing facilities; and (d) office equipment.

10. Supporting MTC and the Regional Tourism Office in Taolagnaro through the provision of goods, services and technical advisory services.

Part E Support to Project implementation, evaluation and monitoring

1. Supporting Project implementation, Project coordination, procurement and financial management through the provision of technical advisory services, training services, goods and small works for the carrying out of technical audits and financial audits and monitoring and evaluation activities under the Project.

2. Supporting the preparation and implementation of regional development plans and local land use plans, and the implementation of the provisions of the EMPs, as well as the carrying out of all environmental and social activities under the Project.

The Project is expected to be completed by June 30, 2010.

SCHEDULE 3

Procurement

Section I. General

A. All goods, works and services (other than consultants' services) shall be procured in accordance with the provisions of Section I of the "Guidelines: Procurement under IBRD Loans and IDA Credits" dated May 2004 (the Procurement Guidelines), and with the provisions of this Schedule.

B. All consultants' services shall be procured in accordance with Sections I and IV of the "Guidelines: Selection and Employment of Consultants by World Bank Borrowers" dated May 2004 (the Consultant Guidelines), and with the provisions of this Schedule.

C. The capitalized terms used below in this Schedule to describe particular procurement methods or methods of review by the Association of particular contracts, have the meanings ascribed to them in the Procurement Guidelines, or Consultant Guidelines, as the case may be.

Section II. Particular Methods of Procurement of Goods, Works and Services (other than Consultants' Services)

A. International Competitive Bidding. Except as otherwise provided in Part B of this Section, contracts shall be awarded on the basis of International Competitive Bidding. The provisions of paragraphs 2.55 and 2.56 of the Procurement Guidelines, providing for domestic preference in the evaluation of bids, shall apply to goods manufactured in the territory of the Borrower and works to be carried out by domestic contractors.

B. Other Procurement Procedures

1. National Competitive Bidding. Goods estimated to cost less than \$ 200,000 equivalent per contract and works estimated to cost less than \$ 500,000 equivalent per contract, may be procured under contracts awarded on the basis of National Competitive Bidding.

2. Shopping. Goods estimated to cost less than \$ 50,000 equivalent per contract and works estimated to cost less than \$ 50,000 equivalent per contract, may be procured under contracts awarded on the basis of Shopping.

3. Direct Contracting. Goods and works which the Association agrees meet the requirements for Direct Contracting may be procured in accordance with the provisions of said procurement method.
4. Procurement from UN Agencies. Goods estimated to cost less than \$ 200,000 equivalent per contract may be procured directly from the Inter-Agency Procurement Services Office (IAPSO) in accordance with the provisions of paragraphs 3.1 and 3.9 of the Procurement Guidelines.
5. Community Participation. Goods, works and services required for Part A.2 (b) of the Project may be procured on the basis of community participation in accordance with the Simplified guidelines for procurement and disbursement for investments with community participation (dated February 1998), and any other procedures acceptable to the Association, as set forth in the PIM.

Section III. Particular Methods of Procurement of Consultants' Services

A. Quality- and Cost-based Selection. Except as otherwise provided in Part B of this Section, consultants' services shall be procured under contracts awarded on the basis of Quality- and Cost-based Selection. For purposes of paragraph 2.7 of the Consultant Guidelines, the short list of consultants for services estimated to cost less than \$ 200,000 equivalent per contract may comprise entirely national consultants.

B. Other Procedures

1. Quality-based Selection. Services for assignments which the Association agrees meet the requirements set forth in paragraph 3.2 of the Consultant Guidelines may be procured under contracts awarded on the basis of Quality-based Selection in accordance with the provisions of paragraphs 3.1 through 3.4 of the Consultant Guidelines.
2. Least-cost Selection. Services for assignments which the Association agrees meet the requirements of paragraph 3.6 of the Consultant Guidelines may be procured under contracts awarded on the basis of Least-cost Selection in accordance with the provisions of paragraphs 3.1 and 3.6 of the Consultant Guidelines.
3. Selection Based on Consultants' Qualifications. Services estimated to cost less than \$ 200,000 equivalent per contract may be procured under contracts awarded in accordance with the provisions of paragraphs 3.1, 3.7 and 3.8 of the Consultant Guidelines.

4. Single Source Selection. Services for tasks in circumstances which meet the requirements of paragraph 3.10 of the Consultant Guidelines for Single Source Selection, may, with the Association's prior agreement, be procured in accordance with the provisions of paragraphs 3.9 through 3.13 of the Consultant Guidelines.

5. Individual Consultants. Services for assignments that meet the requirements set forth in the first sentence of paragraph 5.1 of the Consultant Guidelines may be procured under contracts awarded to individual consultants in accordance with the provisions of paragraphs 5.2 through 5.3 of the Consultant Guidelines. Under the circumstances described in paragraph 5.4 of the Consultant Guidelines, such contracts may be awarded to individual consultants on a sole-source basis.

Section IV. Review by the Association of Procurement Decisions

The Procurement Plan shall set forth those contracts which shall be subject to the Association's Prior Review. All other contracts shall be subject to Post Review by the Association.

SCHEDULE 4

Implementation Program

A. Main Provisions of the Port Operator Subsidiary Agreement

The Port Operator Subsidiary Agreement shall include, but without being limited to, provisions to the following effect:

- (a) part of the proceeds of the Credit shall be made available to the Port Operator by the Borrower as a grant;
- (b) the Port Operator shall perform all of its obligations under the Port Operator Project Agreement; and
- (c) goods, works and services required for Part D.1 of the Project shall be procured in accordance with the Association's procedures.

B. Overall Project Implementation

1. Except as the Association shall otherwise agree, the Borrower shall: (a) apply the criteria, policies, procedures and arrangements set out in the PIM and the PAFAM; and (b) not amend or waive, or permit to be amended or waived, the PIM and the PAFAM, or any provision thereof, in a manner which, in the opinion of the Association, may materially and adversely affect the implementation of the Project.

2. The Borrower shall maintain for the duration of the Project implementation:

(a) the Steering Committee to: (i) provide general strategic direction and oversight of the Project implementation; (ii) ensure communication and cooperation among stakeholders; including the private sector; (iii) approve annual work programs and budgets; and (iv) review progress reports, and audit reports;

(b) NPS, with functions, composition and staffing (including qualifications and experience of personnel) satisfactory to the Association, to be responsible for: (i) day-to-day supervision of Project implementation, including management of procurement and disbursement for activities under its responsibility and replenishment applications for the Special Account, and management of all environmental and social matters; (ii) consolidation of annual work programs and budgets; (iii) maintenance of records for all transactions and accounts related to NPS; (iv) contracting and supervision of contractors; (v) management of disbursements; (vi) preparation and production of progress reports, consolidated financial statements and quarterly FMR; and (vii) monitoring and evaluation of Project activities; and

(c) local representatives of NPS at Nosy Be, Antsirabe and Tolagnaro with qualifications, experience and performance satisfactory to the Association, to be responsible for monitoring and coordination of Project activities at the local level.

3. The Borrower shall ensure that all decentralized authorities, in particular *Chef de Régions* and other authorities at the regional and communal levels as provided by the laws of the Borrower, regulatory bodies and public utilities companies be properly involved where necessary and shall cause the same to duly cooperate for the proper implementation of the Project.

C. Safeguard Policies

1. The Borrower shall ensure that the Project is implemented in accordance with the provisions of the ESDs, and except as the Association shall otherwise agree, shall not amend or waive any provision of such ESDs, if such amendment or waiver may, in the opinion of the Association materially or adversely affect the implementation of the Project.

2. The Borrower shall: (a) before commencing the implementation of any activity listed in Schedule 2 to this Agreement with respect to which the completion of an ESIA, EMP or RAP is necessary, prepare and furnish to the Association said ESIA, EMP or RAP specific to such activity, in form and substance satisfactory to the Association, describing: (i) the potential adverse environmental and social impact of such activity; (ii) the measures for the offsetting, reducing, or mitigating of such impact; and (iii) the arrangement for monitoring and implementing such measures; (b) publicly disclose the ESIA, EMP or RAP; and (c) carry out such activity in accordance with the provisions of the ESIA, EMP or RAP.

3. The Borrower shall: (i) maintain, at all times during the implementation of the Project, ESAP in form and with terms of reference, composition and resources satisfactory to the Association, for the purpose of reviewing and advising the Borrower on all environmental and social aspects of the Project; and (ii) promptly provide to the Association a copy of each report prepared by ESAP, and shall make such reports publicly available.

D. Procedures and Eligibility Criteria for Grants

1. Micro-project proposals shall be submitted by each proposed Beneficiary to NPS for approval based on rules set forth in the PIM, giving details of: (a) Grants, activities to be financed by Grants, Beneficiaries and eligibility criteria; (b) arrangements and procedures for preparation, appraisal, approval, implementation and supervision of Micro-projects to be financed by Grants; (c) procurement, financial management and

disbursement arrangements; (d) performance indicators; (e) standard formats for Grant Agreements; and (f) such other legal, administrative, financial and organizational arrangements as shall be required for providing Grants.

2. The selected Micro-projects must meet the requirements set forth in the relevant ESDs and the eligibility criteria set forth in the PIM, including but not limited to the Beneficiary having the capacity to contract under the laws of the Borrower.

3. Following receipt of the approved Micro-project proposal, and prior to the disbursement of any Grant to the relevant Beneficiary, NPS shall enter into a Grant Agreement with said Beneficiary under terms and conditions satisfactory to the Association, as set out in the PIM, which, *inter alia*, shall include the following:

(a) the obligation of the Beneficiary to carry out the Micro-project in accordance with the PIM and the relevant ESDs with due diligence and efficiency and in accordance with sound technical, financial, environmental, and managerial standards, and to maintain adequate records to reflect, in accordance with sound accounting practices, the operations, resources and expenditures in respect of the Micro-project;

(b) the requirement that the goods, works and services to be financed from the proceeds of the Grant shall be used exclusively in carrying out the Micro-project;

(c) the right of the Borrower to inspect by itself, or jointly with the Association, if the Association shall so request, the goods, works, sites or plants included in the Micro-project, the operations thereof and any relevant records and documents;

(d) the right of the Borrower to obtain all information as the Association shall reasonably request regarding the administration, operation and financial management of the Micro-project;

(e) the right of the Borrower to suspend or terminate the right of the Beneficiary to use or benefit from the use of the proceeds of the Grant upon failure by the Beneficiary to perform any of its obligations under the Grant Agreement; and

(f) the right to receive from the Beneficiary quarterly (or any other period agreed upon by the Association) progress reports reflecting, *inter alia*, the Micro-project performance indicators, and a final report upon completion of the Micro-project.

E. Monitoring, Evaluation and Reporting Arrangements

1. The Borrower shall:

(a) maintain policies and procedures adequate to enable it to monitor and evaluate on an ongoing basis, in accordance with the indicators set forth in Schedule 5 to this Agreement, the carrying out of the Project and the achievement of the objectives thereof as well as the implementation of the ESIA's, the ESMF, the RPF, the EMPs, the RAPs, the CHPF and the PF;

(b) prepare, under terms of reference satisfactory to the Association, and furnish to the Association, on or about June 30 and December 31 each year a report integrating the results of the monitoring and evaluation activities performed pursuant to paragraph (a) of this Section, on the progress achieved in the carrying out of the Project during the period preceding the date of said report and setting out the measures recommended to ensure the efficient carrying out of the Project and the achievement of the objectives thereof during the period following such date; and

(c) carry out, jointly with the Association not later than March 31 each year, beginning on March 31, 2006, an annual progress review of the implementation of the Project, and thereafter take all measures required to ensure the efficient completion of the Project and the achievement of the objectives thereof, based on the conclusions and recommendations of the said report and the Association's views on the matter.

2. On or about thirty six months after the Effective Date, the Borrower shall carry out, jointly with the Association, a midterm review of the progress made in carrying out the Project (the Midterm Review). The Midterm Review shall cover among other things an assessment of: (i) work programs prepared as of the date of the Midterm Review and the progress made in carrying out the said programs; (ii) training provided under the Project; (iii) the fiduciary and procurement performance under the Project; (iv) the extent to which actions described in the agreed indicators have been carried out; (v) plans made or proposed for updating said indicators; (vi) public private partnerships mechanisms; and (vii) the design and implementation of appropriate environmental and social mitigation measures and the adequacy of safeguard procedures agreed for the Project.

SCHEDULE 5

Performance Indicators

A. Antananarivo-Antsirabe area

1. By the Midterm Review and by the end of the Project, about 2,600,000 and 3,200,000 tons of merchandise and minerals, respectively, shall have been shipped annually through the Toamasina port.
2. By the Midterm Review and by the end of the Project, about 3,000 and 4,500 positions, respectively, shall have been created and filled in the ICT sector.

B. Nosy Be area

1. By the Midterm Review and by the end of the Project, about 29,000 and 39,000 tourists, respectively, shall have arrived annually at Nosy Be airport and port.
2. By the Midterm Review and by the end of the Project, about 2,000 and 4,000 positions, respectively, shall have been created and filled in the tourism sector.

C. Taolagnaro area

1. By the Midterm Review and by the end of the Project, about 13,500 and 17,000 tourists, respectively, shall have arrived annually at Taolagnaro.
2. By the Midterm Review and by the end of the Project, about 700 and 1,500 positions, respectively, shall have been created and filled in the tourism sector.