

Public Disclosure Authorized

CONFORMED COPY

CREDIT NUMBER 3836-1-MAG

Financing Agreement

(Additional Financing for the Transport Infrastructure Investment Project)

between

REPUBLIC OF MADAGASCAR

and

INTERNATIONAL DEVELOPMENT ASSOCIATION

Dated June 5, 2007

Public Disclosure Authorized

CREDIT NUMBER 3836-1-MAG

FINANCING AGREEMENT

Agreement dated June 5, 2007, entered into between REPUBLIC OF MADAGASCAR (“Recipient”) and INTERNATIONAL DEVELOPMENT ASSOCIATION (“Association”) for the purpose of providing additional financing for activities related to the Original Project (as defined in the Appendix to this Agreement). The Recipient and the Association hereby agree as follows:

ARTICLE I — GENERAL CONDITIONS; DEFINITIONS

- 1.01. The General Conditions (as defined in the Appendix to this Agreement) constitute an integral part of this Agreement.
- 1.02. Unless the context requires otherwise, the capitalized terms used in this Agreement have the meanings ascribed to them in the General Conditions or in the Appendix to this Agreement.

ARTICLE II — FINANCING

- 2.01. The Association agrees to extend to the Recipient, on the terms and conditions set forth or referred to in this Agreement, a credit in an amount equivalent to ten millions four hundred thousand Special Drawing Rights (SDR 10,400,000) (variously, “Credit” and “Financing”) to assist in financing the project described in Schedule 1 to this Agreement (“Project”).
- 2.02. The Recipient may withdraw the proceeds of the Financing in accordance with Section IV of Schedule 2 to this Agreement.
- 2.03. The Maximum Commitment Charge Rate payable by the Recipient on the Unwithdrawn Financing Balance shall be one-half of one percent (1/2 of 1%) per annum.
- 2.04. The Service Charge payable by the Recipient on the Withdrawn Credit Balance shall be equal to three-fourths of one percent (3/4 of 1%) per annum.
- 2.05. The Payment Dates are November 15 and May 15 in each year.

- 2.06. The principal amount of the Credit shall be repaid in accordance with the repayment schedule set forth in Schedule 3 to this Agreement.
- 2.07. The Payment Currency is the Dollar.

ARTICLE III — PROJECT

- 3.01. The Recipient declares its commitment to the objectives of the Project. To this end, the Recipient shall cause the Project to be carried out by the Project Implementing Entity in accordance with the provisions of Article IV of the General Conditions and the Project Agreement.
- 3.02. Without limitation upon the provisions of Section 3.01 of this Agreement, and except as the Recipient and the Association shall otherwise agree, the Recipient shall ensure that the Project is carried out in accordance with the provisions of Schedule 2 to this Agreement.

ARTICLE IV — REMEDIES OF THE ASSOCIATION

- 4.01. The Additional Events of Suspension consists of the following:
 - (a) The Project Implementing Entity's Legislation has been amended, suspended, abrogated, repealed or waived so as to affect the ability of the Project Implementing Entity to perform any of its obligations under the Project Agreement.
 - (b) In the opinion of the Association, the annual technical, financial and organizational audit of the Program to be carried out by an external auditor satisfactory to the Association reveals serious shortcomings or other deficiencies in its implementation.
 - (c) The Recipient, the Project Implementing Entity or any party to the Concession Agreement shall have failed to perform any of their respective obligations thereunder.
 - (d) The Project Implementing Entity's shareholding shall have been modified in a manner that in the Association's opinion would impair the Recipient's or the Project Implementing Entity's ability to perform their obligations under the Project Agreement and the Concession Agreement.

- (e) In the opinion of the Association, the Recipient has failed to satisfactorily adopt and/or enforce regulations pertaining to truck road transport, including, but not limited to: proper truck axle control through strategically located weighing stations on the corridor between Toamasina and Antananarivo; technical and environmental regulations on freight transport trucks; and value-added tax collection on truck transport traffic.
- (f) In the opinion of the Association, the Recipient has failed to satisfactorily adopt and/or enforce regulations to include railway as a possible mode of transportation of petroleum products.
- (g) The Recipient has failed to ensure equal access to container scanning devices by rail and road operators involved in container transport.
- (h) The right of the Recipient to withdraw the proceeds under the Co-Financing Agreement shall have been suspended, canceled or terminated in whole or in part, pursuant to the terms of said agreement; provided, however, that the provisions of this paragraph shall not apply if the Recipient establishes to the satisfaction of the Association that: (i) such suspension, cancellation or termination is not caused by the failure of the Recipient to perform any of its obligations under such agreement; and (ii) adequate funds for the Project are available to the Recipient from other sources on terms and conditions consistent with the obligations of the Recipient under this Agreement.

4.02. The Additional Events of Acceleration consists of the following:

- (a) Any event specified in paragraph (b) Section 4.01 of this Agreement occurs and is continuing for a period of 60 days after notice of the event has been given by the Association to the Recipient.
- (b) Any event specified in paragraph (h) of Section 4.01 of this Agreement shall occur, subject to the proviso of paragraph (i) and (ii) of that Section.

ARTICLE V — EFFECTIVENESS; TERMINATION

5.01. The Additional Conditions of Effectiveness consist of the following:

- (a) The Subsidiary Agreement has been executed on behalf of the Recipient and the Project Implementing Entity.
- (b) The Madarail Manual has been updated, in form and substance satisfactory to the Association and to the Beneficiary.

5.02. The Additional Legal Matters consist of the following:

- (a) The Subsidiary Agreement has been duly authorized or ratified by the Recipient and the Project Implementing Entity and is legally binding upon the Recipient and the Project Implementing Entity in accordance with its terms.

5.03. The Effectiveness Deadline is the date ninety (90) days after the date of this Agreement.

AGREED at Antananarivo, Republic of Madagascar, as of the day and year first above written.

REPUBLIC OF MADAGASCAR

By: */s/ Benjamin Andriamparany Radavidson*
Authorized Representative

INTERNATIONAL DEVELOPMENT ASSOCIATION

By: */s/ Robert R. Blake*
Authorized Representative

SCHEDULE 1

Project Description

The objective of the Project is to assist the Recipient in the rehabilitation of its major infrastructure in order to reduce transport costs and facilitate trade.

The Project consists of the following part in support of Part E of the Original Project:

Part A: Northern Railway Investment Program

1. Implementation of a program of upgrading, rehabilitation and maintenance of the Northern railway line, through:

(a) Rehabilitation and renewal of about 35 kilometers of track on the TCE section (Antananarivo – Toamasina);

(b) Installation of metallic sleepers on about 129 kilometers of track on the TA (Antananarivo – Antsirabe) and MLA (Moramanga – Lac Alaotra) sections;

(c) Rehabilitation of metallic bridges; and

(d) Rehabilitation of the Andasibe station;

all through the provision of works and goods, as well as related Operating Costs.

SCHEDULE 2

Project Execution

Section I. Implementation Arrangements

A. Institutional Arrangements

1. Throughout the implementation of the Project, the Recipient shall maintain Madarail as the Project Implementing Entity with overall responsibility for the implementation, coordination and oversight of activities carried out under the Project.

B. Subsidiary Agreement

1. To facilitate the carrying out of the Project, the Recipient shall make the proceeds of the Financing available to the Project Implementing Entity under a Subsidiary Agreement between the Recipient and the Project Implementing Entity, under terms and conditions approved by the Association.
2. The Recipient shall exercise its rights under the Subsidiary Agreement in such manner as to protect the interests of the Recipient and the Association and to accomplish the purposes of the Financing. Except as the Association shall otherwise agree, the Recipient shall not assign, amend, abrogate or waive the Subsidiary Agreement or any of its provisions.

C. Anti-Corruption

The Recipient shall ensure that the Project is carried out in accordance with the provisions of the Anti-Corruption Guidelines.

D. Safeguards

1. No later than three months from the Date of Effectiveness, the RAP, in form and substance satisfactory to the Association shall have: (a) been adopted by the Project Implementing Entity; (b) submitted for approval to the Association; (c) been disclosed by the Project Implementing Entity; and (d) been implemented by the Project Implementing Entity, all in a manner satisfactory to the Association.

2. The Recipient shall: (i) cause the Project Implementing Entity to carry out the Project in accordance with the guidelines, rules and procedures defined in the EMP, the RPF and the RAP and in a manner satisfactory to the Association; and (ii) throughout the implementation of the Project, maintain an environmental management officer with suitable qualifications and experience and with responsibility for implementing the EMP, the RPF and the RAP for all applicable activities undertaken under the Project.

3. Except as the Recipient and the Association may otherwise agree in writing, the Recipient shall not, and shall not permit the Project Implementing Entity to, abrogate, amend, repeal, suspend, waive or otherwise fail to enforce the EMP, the RPF and the RAP referred to in sub-paragraph (1) of this Part D or any provision of any thereof.

Section II. Project Monitoring, Reporting and Evaluation

A. Project Reports

1. The Recipient shall cause the Project Implementing Entity to monitor and evaluate the progress of the Project and prepare Project Reports in accordance *inter alia* with the provisions of Section 4.08 of the General Conditions. Each Project Report shall cover the period of one calendar semester, and shall be furnished to the Association not later than 45 days after the end of the period covered by such report.

B. Financial Management, Financial Reports and Audits

1. The Recipient shall cause the Project Implementing Entity to: (i) maintain a financial management system in accordance with the provisions of Section 4.09 of the General Conditions; (ii) prepare and furnish to the Association not later than 45 days after the end of each calendar quarter, interim unaudited financial reports for the Project covering the quarter, in form and substance satisfactory to the Association; and (iii) have its Financial Statements audited in accordance with the provisions of Section 4.09 (b) of the General Conditions. Each audit of the Financial Statements shall cover the period of one fiscal year of the Project Implementing Entity. The audited Financial Statements for each such period shall be furnished to the Association not later than six months after the end of such period.

Section III. Procurement

A. General

1. **Goods and Works.** All goods and works required for the Project and to be financed out of the proceeds of the Financing shall be procured in accordance with the requirements set forth or referred to in Section I of the Procurement Guidelines, and with the provisions of this Section.
2. **Consultants' Services.** All consultants' services required for the Project and to be financed out of the proceeds of the Financing shall be procured in accordance with the requirements set forth or referred to in Sections I and IV of the Consultant Guidelines, and with the provisions of this Section.
3. **Definitions.** The capitalized terms used below in this Section to describe particular procurement methods or methods of review by the Association of particular contracts, refer to the corresponding method described in the Procurement Guidelines, or Consultant Guidelines, as the case may be.

B. Particular Methods of Procurement of Goods and Works

1. **International Competitive Bidding.** Except as otherwise provided in paragraph 2 below, goods and works shall be procured under contracts awarded on the basis of International Competitive Bidding.
2. **Other Methods of Procurement of Goods and Works.** The following table specifies the methods of procurement, other than International Competitive Bidding, which may be used for goods and works. The Procurement Plan shall specify the circumstances under which such methods may be used:

Procurement Method
(a) National Competitive Bidding
(b) Shopping
(c) Direct Contracting
(d) Force Account

C. Particular Methods of Procurement of Consultants' Services

1. **Quality- and Cost-based Selection.** Except as otherwise provided in paragraph 2 below, consultants' services shall be procured under contracts awarded on the basis of Quality- and Cost-based Selection.
2. **Other Methods of Procurement of Consultants' Services.** The following table specifies methods of procurement, other than Quality- and Cost-based Selection, which may be used for consultants' services. The Procurement Plan shall specify the circumstances under which such methods may be used.

Procurement Method
(a) Single-source Selection
(b) Procedures set forth in paragraphs 5.2 and 5.3 of the Consultant Guidelines for the Selection of Individual Consultants

D. Review by the Association of Procurement Decisions

Except as the Association shall otherwise determine by notice to the Recipient, the following contracts shall be subject to Prior Review by the Association:

- (a) each contract for works estimated to cost the equivalent of \$500,000 or more;
- (b) each contract for goods estimated to cost the equivalent of \$250,000 or more;
- (c) each contract for consultants' services provided by a firm estimated to cost the equivalent of \$100,000 or more;
- (d) each contract for individual consultants' estimated to cost the equivalent of \$50,000 or more, and
- (e) each contract concluded on a sole source basis.

All other contracts shall be subject to Post Review by the Association.

Section IV. Withdrawal of the Proceeds of the Financing

A. General

1. The Recipient may withdraw the proceeds of the Financing in accordance with the provisions of Article II of the General Conditions, this Section, and such additional instructions as the Association shall specify by notice to the Recipient (including the "World Bank Disbursement Guidelines for Projects" dated May 2006, as revised from time to time by the Association and as made applicable to this Agreement pursuant to such instructions), to finance Eligible Expenditures as set forth in the table in paragraph 2 below.
2. The following table specifies the categories of Eligible Expenditures that may be financed out of the proceeds of the Financing ("Category"), the allocations of the

amounts of the Credit to each Category, and the percentage of expenditures to be financed for Eligible Expenditures in each Category:

Category	Amount of the Credit Allocated (expressed in SDR)	Percentage of Expenditures to be Financed (inclusive of Taxes)
(1) Works	3,900,000	100%
(2) Goods, audits, and Operating Costs	6,500,000	100%
TOTAL AMOUNT	10,400,000	

B. Withdrawal Conditions; Withdrawal Period

1. Notwithstanding the provisions of Part A of this Section, no withdrawal shall be made:
 - (a) for payments made prior to the date of this Agreement; and
 - (b) under Category 1 hereabove, until the RAP, in form and substance satisfactory to the Association shall have: (i) been adopted by the Project Implementing Entity; (ii) submitted for approval to the Association; (iii) disclosed by the Project Implementing Entity; and (iv) implemented by the Project Implementing Entity, all in a manner satisfactory to the Association.
2. The Closing Date is June 30, 2009.

Section V. Other Undertakings

1. In reimbursement for investments carried out by the Project Implementing Entity in accordance with the Concession Agreement, the Recipient shall provide the Project Implementing Entity with a payment of two million two hundred ninety thousand dollars (\$2,290,000) to be paid in two installments of one million hundred and forty five thousand dollars (\$1,145,000) each, no later than June 30, 2007, and no later than March 31, 2008 respectively.

SCHEDULE 3

Repayment Schedule

Date Payment Due	Principal Amount of the Credit repayable (expressed as a percentage)*
On each November 15 and May 15: commencing November 15, 2017 to and including May 15, 2027	1%
commencing November 15, 2027 to and including May 15, 2047	2%

* The percentages represent the percentage of the principal amount of the Credit to be repaid, except as the Association may otherwise specify pursuant to Section 3.03 (b) of the General Conditions.

APPENDIX

Section I. Definitions

1. “Anti-Corruption Guidelines” means the “Guidelines on Preventing and Combating Fraud and Corruption in Projects Financed by IBRD Loans and IDA Credits and Grants”, dated October 15, 2006.
2. “Category” means a category set forth in the table in Section IV of Schedule 2 to this Agreement.
3. “Co-financier” means the European Investment Bank, referred to in paragraph 10 of the Appendix to the General Conditions.
4. “Co-financing” means an amount of fourteen million two hundred and ninety thousand dollars (\$14,290,000), provided by the Co-financier to assist in financing the Project.
5. “Co-financing Agreement” means the agreement entered into on July 17, 2003 between the Recipient and the Co-financier providing for the Co-financing.
6. “Concession Agreement” means the agreement entered into between the Recipient and the Project Implementing Entity, on October 10, 2002, as may be amended with the Association’s prior agreement.
7. “Consultant Guidelines” means the “Guidelines: Selection and Employment of Consultants by World Bank Borrowers” published by the Bank in May 2004 and revised in October 2006.
8. “EMP” means the Environmental Management Plan prepared by the Project Implementing Entity, dated January 8, 2004.
9. “General Conditions” means the “International Development Association General Conditions for Credits and Grants”, dated July 1, 2005 (as amended through October 15, 2006).
10. “Madarail Manual” means the manual giving details of guidelines and procedures agreed with the Association for the implementation, supervision, and monitoring and evaluation, of Part E of the Original Project, to be amended for the purpose of the Project pursuant to Section 5.01 (b) of this Agreement.

11. “Operating Costs” means the incremental operating costs for the Project Implementing Entity arising under the Project on account of salaries, social benefits, travel expenditures and other travel-related allowances; equipment rental and maintenance; vehicle operation, maintenance and repair; office rental and maintenance, materials and supplies; and utilities and communications’ expenses; and bank charges.
12. “Original Financing Agreement” means the development credit agreement for a transport infrastructure investment project between the Recipient and the Association, dated December 11, 2003, as amended to the date of this Agreement (Credit No 3836-MAG).
13. “Original Project” means the Project described in the Original Financing Agreement.
14. “Procurement Guidelines” means the “Guidelines: Procurement under IBRD Loans and IDA Credits” published by the Bank in May 2004 and revised in October, 2006.
15. “Procurement Plan” means the Project Implementing Entity’s procurement plan for the Project, dated April 13, 2007 and referred to in paragraph 1.16 of the Procurement Guidelines and paragraph 1.24 of the Consultant Guidelines, as the same shall be updated from time to time in accordance with the provisions of said paragraphs.
16. “Program” means the Program, as such term is defined in the preamble to the Original Financing Agreement.
17. “Project Implementing Entity” means Madarail, a company established and operating pursuant to the laws of the Recipient.
18. “Project Implementing Entity’s Legislation” means the Decree 2003-410, dated March 27, 2003 “*portant approbation de la Convention de Concession de Gestion et d'Exploitation ferroviaire Nord de la République de Madagascar*”, and its bylaws, dated September 25, 2003.
19. “RAP” means the resettlement action plan in form and substance satisfactory to the Association to be prepared by the Project Implementing Entity, as provided for in Section I D.1 of Schedule 2 to this Agreement.

20. "RPF" means the resettlement policy framework satisfactory to the Association adopted by the Beneficiary on July 8, 2002, as may be amended with the Association's prior agreement.
21. "Subsidiary Agreement" means the agreement referred to in Section I.B of Schedule 2 to this Agreement pursuant to which the Recipient shall make the proceeds of the Financing available to the Project Implementing Entity.