

CONFORMED COPY

CREDIT NUMBER 3331-MAG

Development Credit Agreement

(Public-Private Partnership and Information
Management for Regional Development Project)

between

REPUBLIC OF MADAGASCAR

and

INTERNATIONAL DEVELOPMENT ASSOCIATION

Dated May 26, 2000

CREDIT NUMBER 3331-MAG

DEVELOPMENT CREDIT AGREEMENT

AGREEMENT, dated May 26, 2000, between REPUBLIC OF MADAGASCAR (the Borrower) and INTERNATIONAL DEVELOPMENT ASSOCIATION (the Association).

WHEREAS (A) the Borrower, having satisfied itself as to the feasibility and priority of the Project described in Schedule 2 to this Agreement, has requested the Association to assist in the financing of the Project; and

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

NOW THEREFORE the parties hereto hereby agree as follows:

ARTICLE I

General Conditions; Definitions

Section 1.01. The "General Conditions Applicable to Development Credit Agreements" of the Association, dated January 1, 1985 (as amended through December 2, 1997), with the modifications set forth below (the General Conditions), constitute an integral part of this Agreement:

(a) A new paragraph (c) is added to Section 3.04 to read:

"If the Association shall at any time receive less than the full amount

then due and payable to it under the Development Credit Agreement, the Association shall have the right to allocate and apply the amount so received in any manner and for such purposes under the Development Credit Agreement as the Association shall in its sole discretion determine." ; and

(b) Section 11.01 is modified by replacing, in the second sentence, the word "radiogram" with the word "facsimile" and adding a new sentence at the end of the said Section to read:

"Deliveries made by facsimile transmission shall also be confirmed by mail."

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) "CLID" means the "Centre Local d'Information pour le Développement" referred to under Part A.3 of the Project;

(b) "Economic Region" or "ER" means any of the economic regions established pursuant to the provisions of Law No. 94-001 dated April 26, 1995 of the Borrower but which is not a PER;

(c) "IC" means the Interministerial Committee referred to in paragraph 2 of Schedule 4 to this Agreement;

(d) "Pilot Economic Region" or "PER" means the Anosy Region, the Mangoro Region and the Menabe Region located in the Borrower's territory;

(e) "Project Implementation Manual" or "PIM" means the manual describing the Project reporting and monitoring procedures, plans and other implementation arrangements (including procurement and disbursement arrangements) and specifying the performance indicators to be used in assessing the progress achieved in the execution of the Project;

(f) "Project Management Report" means each report prepared in accordance with Section 4.02 of this Agreement;

(g) "RCPU" means the Regional and Country Planning Unit referred to in paragraph 2 of Schedule 4 to this Agreement;

(h) "RDU" means the Regional Data Unit referred to under Part A.3 of the Project;

(i) "RDC" means "Regional Development Committee", i.e. a consultative body established or to be established at the level of each ER for the purposes of fostering an active participation of private sector representatives and local communities' leaders in activities pertaining to economic development planning and investment programming at the level of each ER; and

(j) "Special Accounts" means the accounts referred to in Section 2.02 (b) of this Agreement.

ARTICLE II

The Credit

Section 2.01. The Association agrees to lend to the Borrower, on the terms and conditions set forth or referred to in the Development Credit Agreement, an amount in various currencies equivalent to three million four hundred thousand Special Drawing Rights (SDR 3,400,000).

Section 2.02. (a) The amount of the Credit may be withdrawn from the Credit Account in accordance with the provisions of Schedule 1 to this Agreement for expenditures made (or, if the Association shall so agree, to be made) in respect of the reasonable cost of goods and services required for the Project and to be financed

out of the proceeds of the Credit.

(b) The Borrower may, for the purposes of Part A of the Project and for the purposes of Parts B and C of the Project, open and maintain in dollars two separate special deposit accounts (Special Account A and Special Account B) in a commercial bank on terms and conditions satisfactory to the Association, including appropriate protection against set-off, seizure or attachment. Deposits into, and payments out of, each respective Special Account shall be made in accordance with the provisions of Schedule 5 to this Agreement.

Section 2.03. The Closing Date shall be December 31, 2004 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 (60) 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 February 1 and August 1 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 February 1 and August 1 commencing August 1, 2010, and ending February 1, 2040. Each installment to and including the installment payable on February 1, 2020 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 (3) 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 (6) 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 (5) 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.

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 due diligence and efficiency and in conformity with appropriate administrative, financial and economic planning practices, and shall provide, promptly as needed, the funds, facilities, services and other resources required for the Project.

(b) Without limitation upon the provisions of paragraph (a) of this Section and except as the Borrower and the Association shall otherwise agree, the Borrower shall carry out the Project in accordance with the Implementation Program set forth in Schedule 4 to this Agreement.

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

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

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

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

ARTICLE IV

Financial Covenants

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

(b) The Borrower shall:

(i) have the records and accounts referred to in paragraph (a) of this Section including those for the Special Account for each fiscal year audited, in accordance with appropriate auditing principles consistently applied, by independent auditors acceptable to the Association;

(ii) furnish to the Association as soon as available, but in any case not later than six (6) months after the end of each such year,

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

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

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

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

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

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

(iv) ensure that such records and accounts are included in the annual audit referred to in paragraph (b) of this Section and that the report of such audit contains a separate opinion by said auditors as to whether the Project Management Reports or statements of expenditure submitted during such fiscal year, together with the procedures and internal controls involved in their preparation, can be relied upon to support the related withdrawals.

Section 4.02. (a) Without limitation upon the provisions of Section 4.01 of this Agreement, the Borrower shall carry out a time-bound action plan acceptable to the Association for the strengthening of its financial management system for the Project in order to enable the Borrower, not later than December 31, 2001, or such later date as the Association shall agree, to prepare quarterly Project Management Reports, acceptable to the Association, each of which:

(i) (A) sets forth actual sources and applications of funds for the Project, both cumulatively and for the period covered by said report, and projected sources and applications of funds for the Project for the six-month period following the period covered by said report; and (B) shows separately expenditures financed out of the proceeds of the Credit during the period covered by said report and expenditures proposed to be financed out of the proceeds of the Credit during the six-month period following the period covered by said report;

(ii) (A) describes physical progress in Project implementation, both cumulatively and for the period covered by said report; and (B) explains variances between the actual and previously forecast implementation targets; and

(iii) sets forth the status of procurement under the Project and expenditures under contracts financed out of the proceeds of the Credit, as at the end of the period covered by said report.

(b) Upon the completion of the action plan referred to in paragraph (a) of this Section, the Borrower shall prepare, in accordance with guidelines acceptable to the Association, and furnish to the Association not later than 45 days after the end of each calendar quarter a Project Management Report for such period.

ARTICLE V

Effective Date; Termination

Section 5.01. 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 established the RCPU in accordance with the provisions of paragraph 2 (b) of Schedule 4 to this Agreement;

(b) the Borrower has concluded the contractual arrangements referred in paragraph 3 of Schedule 4 to this Agreement in form and substance satisfactory to the Association and in accordance with the provisions of Section II of Schedule 3 to this Agreement;

(c) the Borrower has recruited: (i) an accountant for the RCPU; and (ii) the auditors referred to in Section 4.01 (b) of this Agreement; all under terms and conditions acceptable to the Association and in accordance with the provisions of Section II of Schedule 3 to this Agreement; and

(d) the Borrower has submitted to the Association the PIM in form and substance satisfactory to the Association.

Section 5.02. 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 VI

Representative of the Borrower; Addresses

Section 6.01. The Minister of the Borrower responsible for finance is designated as representative of the Borrower for the purposes of Section 11.03 of the General Conditions.

Section 6.02. The following addresses are specified for the purposes of Section 11.01 of the General Conditions:

For the Borrower:

Ministry of Finance and Economy
BP 121
Antananarivo, 101
Madagascar

Cable address:	Telex:	Facsimile:
MINFIN Antananarivo	22489	261-20 22 345 30

For the Association:

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

Cable address:	Telex:	Facsimile:
INDEVAS Washington, D.C.	248423 (MCI) or 64145 (MCI)	(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/ Zina Andrianarivelo-Razafy

Authorized Representative

INTERNATIONAL DEVELOPMENT ASSOCIATION

By /s/ Callisto Madavo

Regional Vice President
Africa

SCHEDULE 1

Withdrawal of the Proceeds of the Credit

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

Category	Amount of the Credit Allocated (Expressed in SDR)	% of Expenditures to be Financed
(1) Equipment, materials and furniture	120,000	80%
(2) Consultants' services		100%
(a) under Part A of the Project; and	1,740,000	
(b) under Parts B and C of the Project	1,210,000	
(3) Operating costs	110,000	80%
(4) Unallocated	220,000	
TOTAL	3,400,000	

2. For the purposes of this Schedule the term "operating costs" means expenditures incurred under the Project for travel costs and subsistence expenses for travel related to the Project, and equipment maintenance and repairs.

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

4. The Association may require withdrawals from the Credit Account to be made on the basis of statements of expenditure (a) for goods and consultants' services (consulting firms) under contracts not exceeding \$50,000 equivalent each; and (b) for consultants' services under contracts not exceeding \$20,000 each for individual consultants; all, under such terms and conditions as the Association shall specify by notice to the Borrower.

SCHEDULE 2

Description of the Project

The objective of the Project is to assist the Borrower in designing appropriate methodologies and tools aimed at promoting regional economic development through active participation of private sector representatives in the decision making-process for investment programming at the ER level.

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: Promotion of Private Sector

Involvement in Regional Development Planning and Investment Programming

1. Carrying out of thematic workshops and seminars aimed at familiarizing RCDs with strategic planning techniques and investments programming.
2. Provision of technical advisory services and training to assist RCDs in the formulation of regional development frameworks and regional investment programs in a participatory manner in each PER.
3. Establishment of (a) a RDU in each PER aimed at collecting, updating and disseminating economic information and relevant data to the RDCs; and (b) CLIDs in Anosy and Menabe aimed at providing any interested party with relevant data pertaining to local and regional development potential, ongoing public or private development projects as well as potential business opportunities.
4. Formulation of an appropriate methodology for the establishment of regional economic accounts, and implementation of the said methodology in each PER.

Part B: Establishment of Regional Information and Knowledge Management Systems

1. Formulation of appropriate methodologies to be followed for preparing adequate regional development frameworks and adequate regional public investment programs, all in a participatory manner.
2. Design and establishment of an adequate regional information system aimed at providing each ER with the relevant data needed for strategic planning, investment programming and regional economic accounting.
3. Establishment of an adequate monitoring and evaluation system aimed at measuring the progress achieved in the implementation of the Project.
4. Design of appropriate information and communication tools such as users guides and toolkits to be used in carrying out the Project.

Part C: Dissemination of Appropriate Investment Programming Methodologies in other ERs

1. Strengthening RCPU's expertise in matters relating to regional investment planning and programming through the provision of technical advisory services and training.
2. Upgrading the skills of the Borrower's staff responsible for regional development planning through the provision of adequate training on the new methodologies developed under the Project.
3. Carrying out of seminars, workshops and other relevant activities aimed at (a) disseminating the results of the Project in the remaining ERs; and (b) fostering the establishment of RCDs in the said ERs.

* * *

The Project is expected to be completed by June 30, 2004.

Procurement and Consultants' Services

Section I. Procurement of Goods

Part A: General

Goods shall be procured in accordance with (a) the provisions of Section I of the "Guidelines for Procurement under IBRD Loans and IDA Credits" published by the Bank in January 1995 and revised in January and August 1996, September 1997 and January 1999 (the Guidelines) and the provisions of the following Parts of this Section I.

Part B: Procurement Procedures

1. National Competitive Bidding

Goods estimated to cost \$20,000 equivalent or more per contract may be procured under contracts awarded in accordance with the provisions of paragraphs 3.3 and 3.4 of the Guidelines.

2. Grouping of contracts

To the extent practicable, contracts for furniture, office equipment and other equipment shall be grouped in bid packages estimated to cost \$20,000 or more each.

3. National Shopping

Contracts for the acquisition of furniture and office equipment estimated to cost less than \$20,000 equivalent per contract up to an aggregate amount not to exceed \$50,000 equivalent, may be procured under contracts awarded on the basis of national shopping procedures in accordance with the provisions of paragraph 3.5 of the Guidelines.

Part C: Review by the Association of Procurement Decisions

1. Procurement Planning

Prior to the issuance of any invitations to bid for contracts, the proposed procurement plan for the Project shall be furnished to the Association for its review and approval, in accordance with the provisions of paragraph 1 of Appendix 1 to the Guidelines. Procurement of all goods and works shall be undertaken in accordance with such procurement plan as shall have been approved by the Association, and with the provisions of said paragraph 1.

2. Prior Review

With respect to each contract estimated to cost the equivalent of \$50,000 or more, the procedures set forth in paragraphs 2 and 3 of Appendix 1 to the Guidelines shall apply.

3. Post Review

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

Section II. Employment of Consultants

Part A: General

1. Consultants' services shall be procured in accordance with (a) the provisions of the Introduction and Section IV of the "Guidelines: Selection and Employment of Consultants by World Bank Borrowers" published by the Association in January 1997 and revised in September 1997 and January 1999, subject to the modifications thereto set forth in paragraph 2 of this Part A (the Consultant Guidelines), and (b) the provisions of the following Parts of this Section II.

Part B: Quality- and Cost-Based Selection

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

2. The following provisions shall apply to consultants' services to be procured under contracts awarded in accordance with the provisions of the preceding paragraph. The short list of consultants for services estimated to cost less than \$50,000 equivalent per contract, may comprise entirely national consultants in accordance with the provisions of paragraph 2.7 of the Consultant Guidelines.

Part C: Other Procedures for the Selection of Consultants

1. Least-cost Selection

Services for financial audits estimated to cost less than \$50,000 equivalent per contract may be procured under contracts awarded in accordance with the provisions of paragraphs 3.1 and 3.6 of the Consultant Guidelines.

2. Selection Based on Consultants' Qualifications

Services estimated to cost less than \$20,000 equivalent per contract may be procured under contracts awarded in accordance with the provisions of paragraphs 3.1 and 3.7 of the Consultant Guidelines.

3. Individual Consultants

Services for tasks that meet the requirements set forth in paragraph 5.1 of the Consultant Guidelines shall be procured under contracts awarded to individual consultants in accordance with the provisions of paragraphs 5.1 through 5.3 of the Consultant Guidelines.

4. Selection under a Fixed Budget

Services required for the selection of the contract manager under Part A of the Project estimated to cost \$200,000 equivalent in the aggregate may be procured under contracts awarded in accordance with the provisions of paragraph 3.5 of the Consultant Guidelines.

Part D: Review by the Association of the Selection of Consultants

1. Selection Planning

Prior to the issuance to consultants of any requests for proposals, the proposed plan for the selection of consultants under the Project shall be furnished to the Association for its review and approval, in accordance with the provisions of paragraph 1 of Appendix 1 to the Consultant Guidelines. Selection of all consultants' services shall be undertaken in accordance with such selection plan as shall have been approved by the Association, and with the provisions of said paragraph 1.

2. Prior Review

(a) With respect to each contract for the employment of consulting firms estimated to cost the equivalent of \$50,000 or more, the procedures set forth in paragraphs 1, 2 (other than the third subparagraph of paragraph 2 (a)) and 5 of Appendix 1 to the Consultant Guidelines shall apply.

(b) With respect to each contract for the employment of individual consultants estimated to cost the equivalent of \$20,000 or more, the qualifications, experience, terms of reference and terms of employment of the consultants shall be furnished to the Association for its prior review and approval. The contract shall be awarded only after the said approval shall have been given.

(c) With respect to any amendment to a contract for the employment of a consulting firm or of an individual consultant as specified in subparagraphs (a) and

(b) above, the contract shall be furnished to the Association for its prior review and approval.

3. Post Review

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

SCHEDULE 4

Implementation Program

1. The Borrower shall implement the Project in accordance with the procedures, guidelines, timetables and criteria set forth in the PIM and, except as the Association shall otherwise agree, the Borrower shall not amend or waive any provision of said PIM if, in the opinion of the Association, such amendment or waiver may materially and adversely affect the implementation of the Project.

2. The Borrower shall, for the purposes of carrying out the Project, establish and thereafter maintain (a) the IC with membership and oversight functions and responsibilities satisfactory to the Association; and (b) the RCPU, with functions, responsibilities and qualified staff in adequate numbers, all satisfactory to the Association.

3. The Borrower shall, for the purposes of carrying out Part A of the Project, conclude, with a services provider whose technical expertise is satisfactory to the Association, a contract acceptable to the Association, including inter alia appropriate arrangements enabling the services provider to undertake, on the behalf of the Borrower, any activities pertaining to the implementation of Part A of the Project including the procurement and management of all contracts for goods and consultants' services required for the said Part A of the Project.

4. 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 6 to this Agreement, the carrying out of the Project and the achievement of the objectives thereof;

(b) prepare, under terms of reference satisfactory to the Association, and furnish to the Association, by February 15 of 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) review with the Association, by April 15 of each year, or such later date as the Association shall request, the report referred to in paragraph (b) of this Section, 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.

5. The Borrower shall (a) no later than December 31, 2001, carry out with the Association, a mid-term review of the progress made in carrying out the Project. The said mid-term review shall cover, inter alia, the (i) progress in achieving the objectives of the Project; and (ii) execution by the Borrower of its obligations under the Project; and (b) carry out, no later than one month after the completion of the mid-term review referred to in paragraph (a) above the recommendations of said review as agreed upon with the Association and as set out in an action plan satisfactory to the Association.

6. The Borrower shall (a) by October 31 of each year, submit to the Association a draft work program and the draft budget related thereto; (b) finalize the said draft work program and related budget by taking into account the comments made by the

Association; and (c) carry out the said work program as agreed upon with the Association.

SCHEDULE 5

Special Accounts

1. For the purposes of this Schedule:

(a) the terms "eligible Categories" means Categories (1) through (4) set forth in the table in paragraph 1 of Schedule 1 to this Agreement;

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

(c) the term "Authorized Allocation" means an amount equivalent to (i) \$300,000 to be withdrawn from the Credit Account and deposited into the Special Account A pursuant to paragraph 3 (a) of this Schedule; and (ii) \$100,000 to be withdrawn from the Credit Account and deposited into the Special Account B pursuant to said paragraph 3 (a), provided, however, that unless the Association shall otherwise agree, the Authorized Allocation shall be limited to an amount equivalent to (A) \$150,000 in the case of the Special Account A; and (B) \$50,000 in the case of the Special Account B until the aggregate amount of withdrawals from the Credit Account plus the total amount of all outstanding special commitments entered into by the Association pursuant to Section 5.02 of the General Conditions shall be equal to or exceed the equivalent of SDR 1,500,000.

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

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

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

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

(ii) Prior to or at the time of each such request, the Borrower shall furnish to the Association the documents and other evidence required pursuant to paragraph 4 of this Schedule for the payment or 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 relevant 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 relevant Special Account for eligible expenditures. All such deposits shall be withdrawn by the Association from the Credit Account under the respective eligible Categories, and in the respective equivalent amounts, as shall have been justified by said documents and other evidence.

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

5. Notwithstanding the provisions of paragraph 3 of this Schedule, the Association

shall not be required to make further deposits into a Special Account:

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

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

(c) if, at any time, the Association shall have notified the Borrower of its intention to suspend in whole or in part the right of the Borrower to make withdrawals from the Credit Account pursuant to the provisions of Section 6.02 of the General Conditions; or

(d) once the total unwithdrawn amount of the Credit allocated to the eligible Categories, minus the total amount of all outstanding special commitments entered into by the Association pursuant to Section 5.02 of the General Conditions with respect to the Project, shall equal the equivalent of twice the amount of the Authorized Allocation. Thereafter, withdrawal from the Credit Account of the remaining unwithdrawn amount of the Credit allocated to the eligible Categories shall follow such procedures as the Association shall specify by notice to the Borrower. Such further withdrawals shall be made only after and to the extent that the Association shall have been satisfied that all such amounts remaining on deposit in the Special Accounts as of the date of such notice will be utilized in making payments for eligible expenditures.

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

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

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

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

SCHEDULE 6

Performance Indicators

1. By June 30, 2004, more than 50% of public investment programs of regional or local interest included in the three-year regional rolling public investment program in each PER for the following three years shall have been selected in accordance with local priorities identified by their RDCs.

2. By June 30, 2004, more than 50% of the total amount of public and private investments carried out in each PER shall have been financed by private sector entities.

3. By June 30, 2004, at least 50 % of ERs shall have established their own RDCs.
4. By June 30, 2004, public investment projects carried out in at least two PER shall have been financed in accordance with the methodologies developed under the Project.

