

CONFORMED COPY

CREDIT NUMBER 1878 MAG

Development Credit Agreement

(Forests Management and Protection Project)

between

DEMOCRATIC REPUBLIC OF MADAGASCAR

and

INTERNATIONAL DEVELOPMENT ASSOCIATION

Dated March 23, 1988

CREDIT NUMBER 1878 MAG

DEVELOPMENT CREDIT AGREEMENT

AGREEMENT, dated March 23, 1988, between DEMOCRATIC REPUBLIC OF MADAGASCAR (the Borrower) and INTERNATIONAL DEVELOPMENT ASSOCIATION (the Association).

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

(B) part of the Project will be carried out by Fanalamanga with the Borrower's assistance and, as part of such assistance, the Borrower will make available to Fanalamanga a part of the proceeds of the Credit as provided in this Agreement;

(C) the Borrower intends to contract from the Association, acting as Administrator of development aid funds provided by The Kingdom of Norway a grant (the Norwegian Grant) in an amount of NOK thirteen million (NOK 13,000,000) to assist in financing the Project on the terms and conditions set forth in an agreement (the Norwegian Grant Agreement);

(D) the Borrower intends to obtain from the Government of the Swiss Confederation (Switzerland) a non-reimbursable contribution in an amount of ten million four hundred thousand Swiss Francs (SwF 10,400,000) (the Swiss Contribution) to assist in financing part of the Project on the terms and conditions set forth in an agreement (the Swiss Contribution Agreement) to be entered into between the Borrower and Switzerland; and

(E) Switzerland has appointed the Association to administer the Swiss Contribution in accordance with the provisions of a Procedural Agreement dated April 9, 1987 (the Arrangement) between Switzerland and the Association, and the Association has accepted such appointment;

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

NOW THEREFORE the parties hereto hereby agree as follows:

#### ARTICLE I

##### General Conditions; Definitions

Section 1.01. The "General Conditions Applicable to Development Credit Agreements" of the Association, dated January 1, 1985, with the last sentence of Section 3.02 deleted (the General Conditions) constitute an integral part of this Agreement.

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

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

(b) "Subsidiary Loan Agreement" means the agreement to be entered into between the Borrower and Fanalamanga pursuant to Section 3.01 (d) of this Agreement, as the same may be amended from time to time;

(c) "MPAEF" means Ministere de la Production Animale (Elevage, Peche) et des Eaux et Forets, the Borrower's Ministry of Livestock, Fisheries and Forestry;

(d) "MPARA" means Ministere de la Production Agricole et de la Reforme Agraire, the Borrower's Ministry of Agricultural Production and Agrarian Reform.

(e) "AVF" means Amenagement des Vallees Forestieres, the Forest Valley Development;

(f) "AWSA" means Zone d'Approvisionnement en Bois d'Antananarivo, Antananarivo Wood Supply Area;

(g) "AIVF" means Amenagement Integre des Vallees Forestieres, the Integrated Forest Valley Development;

(h) "CU" means the coordination unit within DEF established to coordinate implementation of the Project;

(i) "DASS" means Division Appui Suiwi et Statistiques, the Monitoring and Statistics Division of DEF (defined below);

(j) "DEF" means Direction des Eaux et Forets, the Forestry Department of MPAEF;

(k) "DEL" means Direction de l'Elevage, the Livestock Department of MPAEF;

(l) "DIR" means Direction de l'Infrastructure Rurale, the Rural Infrastructure Department of MPARA;

(m) "DVA" means Direction de la Vulgarisation Agricole, the Agricultural Extension Department of MPARA;

(n) "Fanalamanga Statutes" means the Statutes of Fanalamanga as

approved by Arrete No. 1731 by the Borrower dated May 16, 1975, as the same may be amended from time to time;

(o) "FOFIFA" means Foibem Pirenena Momba ny Fikarohana Ampiharina amin ny Fampandrosoana ny Ambanivohitra, of the Ministry of Scientific Research and Technological Development;

(p) "PEP" means Programme de Depenses Publiques, Public Expenditures Program;

(q) "SPN" means Service de la Protection de la Nature, the Nature Protection Service of DEF;

(r) "ZODAFARB" means Zone Delimitee d'Action en Faveur de l'Arbre, Reserved Private Reforestation Area;

(s) "Swiss Contribution Account" means the account established by Switzerland for the purpose of the Swiss Contribution;

(t) "Project Preparation Advance" means the project preparation advance granted by the Association to the Borrower pursuant to an exchange of letters dated December 1, 1987, and January 5, 1988, between the Borrower and the Association;

(u) "Special Accounts" means the accounts referred to in Section 2.02 (c) of this Agreement and "Special Account" means each individual special account;

(v) "FMG" means Franc Malgache, the currency of the Borrower; and

(w) "fiscal year of Fanalamanga" means the period starting on July 1 and ending on June 30.

## 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 five million one hundred thousand Special Drawing Rights (SDR 5,100,000).

Section 2.02. (a) The amount of the Credit and the amount of the Swiss Contribution may be withdrawn from the Credit Account and the Swiss Contribution 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 and of the Swiss Contribution.

(b) Except as the Association and Switzerland shall otherwise agree, the allocation and withdrawal of the Swiss Contribution shall be governed, mutatis mutandis, by the provision of the General Conditions.

(c) The Borrower shall, for the purposes of the Project, open and maintain three special accounts, one for each part of the Project, in its Central Bank on terms and conditions satisfactory to the Association. Two of the Special Accounts shall be kept in dollars and one in Swiss Francs. Deposits into, and payments out of each of the Special Accounts shall be made in accordance with the provisions of Schedule 5 to this Agreement.

(d) Promptly after the Effective Date, the Association shall, on behalf of the Borrower, withdraw from the Credit Account and pay to itself the amount required to repay the principal amount of the Project Preparation Advance withdrawn and outstanding as of such date and to pay all unpaid charges thereon. The unwithdrawn balance of the authorized amount of the Project Preparation Advance shall thereupon be cancelled.

Section 2.03. The Closing Date shall be January 31, 1996, 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 at the rate of one-half of one percent (1/2 of 1%) per annum on the principal amount of the Credit not withdrawn from time to time. The commitment charge shall accrue from a date sixty days after the date of the Development Credit Agreement to the respective dates on which amounts shall be withdrawn by the Borrower from the Credit Account or shall be cancelled.

(b) 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) and (c) below, the Borrower shall repay the principal amount of the Credit in semi-annual installments payable on each February 1 and August 1 commencing August 1, 1998, and ending February 1, 2028. Each installment to and including the installment payable on February 1, 2008, shall be one percent (1%) of such principal amount, and each installment thereafter shall be two percent (2%) of such principal amount.

(b) Whenever: (i) the Borrower's gross national product per capita, as determined by the Association, shall have exceeded \$790 in constant 1985 dollars for five consecutive years; and (ii) the Bank shall consider the Borrower creditworthy for Bank lending, the Association may, subsequent to the review and approval thereof by the Executive Directors of the Association and after due consideration by them of the development of the Borrower's economy, modify the terms of repayment of installments under paragraph (a) above by requiring the Borrower to repay twice the amount of each such installment not yet due until the principal amount of the Credit shall have been repaid. If so requested by the Borrower, the Association may revise such modification to include, in lieu of some or all of the increase in the amount 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 abovementioned repayment modification.

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

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

### ARTICLE III

#### Execution of the Project

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

(b) Without any limitation or restriction 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 Parts A and B of the Project in accordance with the Implementation Program set forth in Schedule 3 to this Agreement.

(c) Without any limitation or restriction upon any of its other obligations under this Agreement, the Borrower shall: (i) cause Fanalamanga to carry out Part C of the Project and to perform in accordance with the provisions of the Project Agreement all the obligations of Fanalamanga 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 Fanalamanga to perform such obligations; and (iii) not take, or permit to be taken, any action which would prevent or interfere with such performance.

(d) The Borrower shall relend a part of the proceeds of the Credit to Fanalamanga under a subsidiary loan agreement to be entered into between the Borrower and Fanalamanga, under terms and conditions which shall have been approved by the Association which shall provide, inter alia, that an amount equivalent to the proceeds of the Credit allocated from time to time to Category C of the table set forth in paragraph 1 of Schedule 1 to this Agreement for the carrying out of Part C of the Project shall be on-lent to Fanalamanga at an interest rate per annum equivalent to the lending rate of the International Bank for Reconstruction and Development in effect on the date of approval of the Credit by the Association, plus ten percent (10%) of such lending rate, to be repaid in 26 semi-annual installments following a grace period of seven years, with a commitment fee of 0.75% per annum on the amount undisbursed and with the foreign exchange risk on such amount on-lent to be borne by Fanalamanga.

(e) The Borrower shall exercise its rights under the Subsidiary Loan Agreement in such manner as to protect the interests of the Borrower and the Association and to accomplish the purposes of the Credit and, except as the Association shall otherwise agree, the Borrower shall not assign, amend, abrogate or waive the Subsidiary Loan Agreement or any provision thereof.

Section 3.02. Except as the Association shall otherwise agree, procurement of the goods, works and consultants' services required for the Project and to be financed out of the proceeds of the Credit and the Swiss Contribution shall be governed by the provisions of Schedule 4 to this Agreement.

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

#### 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 Accounts for each fiscal year audited, in accordance with appropriate auditing principles consistently applied, by independent auditors acceptable to the Association;
- (ii) furnish to the Association, as soon as available, but in any case not later than six months after the end of each such year, a certified copy of the report of such audit by said auditors, of such scope and in such detail as the Association shall have reasonably requested; and

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

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

- (i) maintain, or cause to be maintained, in accordance with sound accounting practices, records and accounts reflecting such expenditures;
- (ii) ensure that all records (contracts, orders, invoices, bills, receipts and other documents) evidencing such expenditures are retained until at least one year after the Association has received the audit report for the fiscal year in which the last withdrawal from the Credit Account or the Swiss Contribution Account was made; and
- (iii) enable the Association's representatives to examine such records.

(d) The Borrower shall:

- (i) have the records and accounts referred to in paragraph (c) (i) of this Section and those for the Special Accounts for each fiscal year audited, in accordance with appropriate auditing principles consistently applied, by independent auditors acceptable to the Association;
- (ii) furnish to the Association as soon as available, but in any case not later than six months after the end of each such year, the report of such audit by said auditors, of such scope and in such detail as the Association shall have reasonably requested, including a separate opinion by said auditors as to whether the statements of 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; and
- (iii) furnish to the Association such other information concerning said records and accounts and the audit thereof as the Association shall from time to time reasonably request.

#### ARTICLE V

##### Remedies of the Association

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

(a) Fanalamanga shall have failed to perform any of its obligations under the Project Agreement.

(b) As a result of events which have occurred after the date of the Development Credit Agreement, an extraordinary situation shall have arisen which shall make it improbable that Fanalamanga will be able to perform its obligations under the Project Agreement.

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

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

(e) (i) Subject to subparagraph (ii) of this paragraph, the right

of the Borrower to withdraw the proceeds of the Norwegian Grant or the Swiss Contribution to the Borrower for the financing of the Project shall have been suspended, cancelled or terminated in whole or in part, pursuant to the terms of the Norwegian Grant Agreement or the Swiss Contribution Agreement.

- (ii) Subparagraph (i) of this paragraph shall not apply if the Borrower establishes to the satisfaction of the Association that: (A) such suspension, cancellation, termination or prematuring is not caused by the failure of the Borrower to perform any of its obligations under such agreement; and (B) adequate funds for the Project are available to the Borrower from other sources on terms and conditions consistent with the obligations of the Borrower under this Agreement.

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

- (a) the event specified in paragraph (a) of Section 5.01 of this Agreement shall occur and shall continue for a period of sixty days after notice thereof shall have been given by the Association to the Borrower; and
- (b) the events specified in paragraphs (c), (d) and (e) of Section 5.01 of this Agreement shall occur, subject to the provision of paragraph (e) (ii) of that Section with respect to the event specified in paragraph (e) (i) of such Section 5.01.

#### ARTICLE VI

##### Effective Date; Termination

Section 6.01. The following events are specified as additional conditions to the effectiveness of the Development Credit Agreement within the meaning of Section 12.01 (b) of the General Conditions:

- (a) the Subsidiary Loan Agreement has been executed on behalf of the Borrower and Fanalamanga;
- (b) Arrete No. 4172/85 pertaining to the free disposition of seedlings has been abrogated;
- (c) counterpart funding procedures satisfactory to the Association have been put into effect by the Borrower and the Borrower has made an initial deposit of \$130,000 equivalent for Parts A and B, such deposit to be made into the account opened by the Borrower for the purpose of counterpart funding;
- (d) the conversion into equity of FMG 27.8 billion of the debt of Fanalamanga to the Borrower has been completed;
- (e) all conditions precedent to initial disbursement of the Norwegian Grant have been met; and
- (f) all conditions precedent to initial disbursement of the Swiss Contribution have been met.

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

- (a) that the Project Agreement has been duly authorized or ratified by Fanalamanga, and is legally binding upon Fanalamanga in accordance with its terms; and
- (b) that the Subsidiary Loan Agreement has been duly authorized or ratified by the Borrower and Fanalamanga in accordance with its terms.

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

Section 6.04. In the event that Switzerland or the Association

terminate the functions of the Association as Administrator pursuant to paragraph 5 of the Arrangement, the Association shall notify the Borrower promptly of the date on which Switzerland shall assume the rights and obligations of the Association under this Agreement.

#### ARTICLE VII

##### Representative of the Borrower; Addresses

Section 7.01. The Minister responsible for Finance of the Borrower is designated as representative of the Borrower for the purposes of Section 11.03 of the General Conditions.

Section 7.02. The following addresses are specified for the purposes of Section 11.01 of the General Conditions:

For the Borrower:

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

Cable address:	Telex:
MINFIN Antananarivo	22489

For the Association:

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

Cable address:	Telex:
INDEVAS Washington, D.C.	440098 (ITT) 248423 (RCA) or 64145 (WUI)

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

DEMOCRATIC REPUBLIC OF MADAGASCAR

By /s/ Leon Rajaobelina  
Authorized Representative

INTERNATIONAL DEVELOPMENT ASSOCIATION

By /s/ Edward V. K. Jaycox  
Regional Vice President  
Africa

#### SCHEDULE 1

Withdrawal of the Proceeds of the  
Credit and Swiss Contribution



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

Part A of the Project - Forestry Development Reinforcement

Category	Amount of the Credit Allocated (Expressed in SDR Equivalent)	Amount of the Swiss Contribution Allocated (Expressed in Swiss Francs Equivalent)	% of Expenditures to be Financed
A. (1) Civil works		-	1,760,000 80%
(2) Vehicles and equipment		-	1,760,000 100%
(3) Consultants' services		-	3,600,000 100%
(4) Training		-	1,600,000 100%
(5) Local staff cost		-	80,000 100%
(6) Vehicle maintenance		-	1,330,000 50%
(7) Unallocated		-	200,000
Sub-total		-	10,330,000

Part B of the Project - Natural Forest Protection

B. (1) Civil works			90%
(a) for the new national park under Part B.1 of the Project	150,000		-
(b) other civil works	1,220,000		-
(2) Vehicles and equipment	260,000		- 100%
(3) Consultants' services	220,000		- 100%
(4) Training	-	70,000	100%
(5) Local staff cost	10,000		- 100%
(6) Vehicle maintenance	140,000		- 50%
(7) Unallocated	200,000		-
Sub-total	2,200,000	70,000	

Part C of the Project - Mangoro Plantation Management

C. (1) Civil works	950,000	-	70%
(2) Vehicles and equipment	180,000	-	100%
(3) Consultants' services	170,000	-	100%
(4) Maintenance plantation and infrastructure	220,000	-	30%
(5) Administrative costs	610,000	-	50%
(6) Unallocated	70,000	-	
Sub-total	2,200,000	-	
(7) Refunding of Project Preparation Advance	700,000	-	Amount due pursuant to Section 2.02 (d) of this Agreement
TOTAL	5,100,000	10,400,000	

2. 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) payments made for expenditures under Category A (1) through (6) for Part A of the Project and Category B (1) through (6) for Part B of the Project until:

- (1) the project coordinator within the CU has been appointed and a financial advisor and a training coordinator, with qualifications and experience satisfactory to the Association, have been employed;
- (2) the staffing plan of DEF, including the assignment of staff for each activity under Parts A and B of the Project, has been put into effect; such plan to be acceptable to the Association;
- (3) the AVF activities, which are carried out in zones in which the Project will be executed, and the Savoka project have been merged into AIVF within the Soil Conservation Division of DEF and an animation unit within such Division has been established;
- (4) a contract between DEF and DVA satisfactory to the Association for carrying out Part A.4 of the Project has been concluded; and
- (5) a contract between DEF and FOFIFA satisfactory to the Association for carrying out research under Part A.7 of the Project has been signed;

(c) payments for expenditures under Categories B (1) (a) for Part B.1 of the Project until the decree creating the new national park in the Andasibe region has been published in the Journal Officiel of the Borrower; and

(d) payments for expenditures under Category C (1) through (5) for Part C of the Project until:

- (1) a sales service within the Departement de la Mise en Valeur des Reboisements of Fanalamanga has been created and a sales manager with qualifications and experience satisfactory to the Association has been appointed; and
- (2) an amount equivalent to FMG 857 million has been disbursed from the loan of the Borrower to Fanalamanga for use during the 1988 fiscal year of Fanalamanga.

## SCHEDULE 2

### Description of the Project

The objectives of the Project are: (a) to strengthen the capacity of DEF to manage the forestry sector and carry out priority programs to implement the Borrower's National Conservation Strategy and Forestry Policy; (b) to stimulate private reforestation by rural and urban populations; (c) to prevent further degradation of natural forests; and (d) to assist Fanalamanga in developing the Mangoro plantation to a production level which allows sustainable and profitable exploitation.

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: Forestry Development Reinforcement

1. Sector management strengthening activities, including improvements in sector programming, program monitoring, financial management, information system and forestry promotion.
2. Formulation and implementation of a forest exploitation policy relating to the forest revenue systems, the planning and the control of exploitation permits, including the carrying out of pilot forest management activities, a forest resource inventory of AWSA, identification of major conservation areas, a study of major wood products sources and markets, identification of major areas of agricultural encroachment on forests, a study of ownership patterns of the eucalyptus area, elaboration of an AWSA framework plan, and preparation of a detailed forest management plan.
3. ZODAFARB program to stimulate private reforestation in the regions of Antananarivo, Mahajanga and Antsiranana consisting of sensitizing, training and supervision of the operators concerned, development of nurseries, acquisition of equipment for land preparation and planting, and road rehabilitation and tracks to access plantation areas.
4. A program of integrated forest valley (AIVF) development activities which addresses the issue of slash and burn cultivation in the eastern forest, including sensitizing, and supervision of the populations concerned, small-scale irrigation works in forest valley bottoms, agro-forestry on valley slopes for soil conservation, food crops and export crops, testing of community forest management, and support to secondary products such as fruits, apiculture and fishery and the construction and equipping of technical support centers and staff training.
5. Seed supply activities, including the construction and equipping of regional seed collection centers at Fianarantsoa, Toamasina, Mahajanga, Antsiranana and Toliara.
6. Rehabilitation of forestry stations at Angavokely in Antananarivo and Marohogo in Mahajanga, including the rehabilitation of buildings for educational purposes, preparation of species trial sites and the provision of material and equipment for station maintenance and applied research.
7. Research activities, including:
  - (a) regeneration techniques for the eucalyptus plantations in the Antananarivo region;
  - (b) testing of multipurpose woody species beneficial to erosion control, fertilization, fodder, fuelwood at Beforona Research Station, in real sites and monitoring of agro-forestry measures;

(c) species trial, natural regeneration study and agro-forestry techniques testing in the region of Toliara; and

(d) species trial in the Marohogo forestry station.

Part B: Natural Forest Protection

1. Introduction of forest protection measures in the regions of Andasibe (150,000 ha) and Ankarafantsika (135,000 ha), including development of a new national park in the Andasibe region; improved demarcation methods, usage of patrols and enforcement of boundaries; use of buffer plantations; promotion of tourism; and development of village participatory methods to support forest conservation.

2. Expansion of forest protection measures to the reserves of Zahamena (93,350 ha) and Tsaratanana (138,872 ha).

Part C: Mangoro Plantation Management

Implementation of a silvicultural program including selective pruning and thinning and the carrying out of:

(1) a fire protection program;

(2) road maintenance and construction of secondary roads and forest tracks, upgrading of the central all-weather service road and bridge rehabilitation;

(3) inventory programs to monitor plantation resources;

(4) pasture improvement for local village communities adjacent to the plantation; and

(5) research to monitor the impact of the silvicultural program, including (a) continuation of the production-oriented research, with emphasis on wood utilization, and (b) research on the regeneration of the plantation.

\* \* \*

The Project is expected to be completed by June 30, 1995.

SCHEDULE 3

Implementation Program

Public Expenditures Program (PEP)

1. The Borrower through MPAEF shall: (a) by November 15 of each year, starting with the 1989-1991 cycle, furnish to the Association for approval a sector PEP; and (b) prior to initiation, furnish to the Association for approval each new forestry project having a cost in excess of the equivalent of \$3,000,000.

Organization and Staff

2. The Borrower shall maintain within DEF the CU with qualified and experienced staff in adequate numbers for purposes of coordinating execution of Parts A and B of the Project on the basis of terms of reference satisfactory to the Association.

3. The Borrower shall, by August 31, 1988, prepare specific job descriptions for staff of DEF assigned to the protection of the natural forest program.

DEF Work Program

4. The Borrower shall, by September 15 of each year, furnish to the Association, for review and comment, the annual work program of DEF and shall, by November 30 of each year, furnish to the Association the final annual work program, which shall reflect the comments made by the

Association.

#### Forest Revenue System

5. The Borrower shall: (a) by December 31, 1988, prepare a schedule and an action program for the definition and implementation of appropriate changes in the forest revenue system, including appropriate modifications of the collection system and forest exploitation regulations; such schedule and action program to be acceptable to the Association;

(b) by December 31, 1989, the Borrower shall implement such action program.

#### Seed Prices

6. The Borrower shall, by December 31, 1988, adopt a seed pricing table and procedures for adjusting such prices so as to be satisfactory to the Association.

#### Fonds Forestier National

7. Before the Fonds Forestier National becomes operative, the Borrower shall obtain the prior approval of the Association of the terms and conditions which shall have an impact on the financial management of the Project.

#### ZODAFARB Program

8. The Borrower shall, during execution of the Project, limit the individual participation in the ZODAFARB program to 100 ha.

#### Training

9. By August 31, 1988, the Borrower shall adopt criteria and procedures, acceptable to the Association, relating to the selection of participants for overseas study and study tour participation.

#### Mid-Term Review

10. The Borrower shall: (a) by December 31, 1991, furnish to the Association for approval the draft terms of reference, together with a proposed staffing plan, for the mid-term review; and (b) by May 31, 1992, furnish to the Association for review and comment such mid-term review.

### SCHEDULE 4

#### Procurement and Consultants' Services

##### Section I: Procurement of Goods and Works

##### Part A: International Competitive Bidding

1. Except as provided in Part C hereof, goods shall be procured under contracts awarded in accordance with procedures consistent with those set forth in Sections I and II of the "Guidelines for Procurement under IBRD Loans and IDA Credits" published by the Bank in May 1985 (the Guidelines).

2. To the extent practicable, contracts for goods shall be grouped in bid packages estimated to cost the equivalent of \$50,000 or more each.

##### Part B: Preference for Domestic Manufacturers

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

##### Part C: Other Procurement Procedures

1. Civil works for Parts A and B of the Project, and goods estimated to cost less than the equivalent of \$50,000 per contract up to an aggregate of

the equivalent of \$900,000, may be procured under contracts awarded on the basis of competitive bidding, advertised locally, in accordance with procedures satisfactory to the Association, provided that:

- (a) registration of bidders in the Borrower's Registry of Commerce shall not be required for the acceptance of their bids;
- (b) no procurement shall be made on the basis of selected tendering or direct contracting except in the case of rejection of all bids;
- (c) bids shall be opened in public, i.e., bidders or their representatives shall be allowed to be present; and
- (d) no special preference shall be given to local bidders in the evaluation of bids.

2. Civil works for Part C of the Project may be carried out by Fanalamanga on the basis of force account in accordance with procedures satisfactory to the Association.

#### Part D: Review by the Association of Procurement Decisions

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

(a) With respect to each contract for civil works estimated to cost the equivalent of \$150,000 or more and with respect to each contract for goods estimated to cost the equivalent of \$100,000 or more, the procedures set forth in paragraphs 2 and 4 of Appendix 1 to the Guidelines shall apply. Where payments for such contract are to be made out of the Special Account, such procedures shall be modified to ensure that the two conformed copies of the contract required to be furnished to the Association pursuant to paragraph 2 (d) shall be furnished to the Association prior to the making of the first payment out of the Special Account in respect of such contract.

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

(c) The provisions of the preceding subparagraphs (a) and (b) shall not apply to contracts on account of which the Association has authorized withdrawals from the Credit Account on the basis of statements of expenditure. Such contracts shall be retained in accordance with Section 4.01 (a) (ii) of the Development Credit Agreement.

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

#### Section II: Employment of Consultants

In order to assist the Borrower and Fanalamanga in carrying out the Project, the Borrower and Fanalamanga shall employ consultants whose qualifications, experience and terms and conditions of employment shall be satisfactory to the Association. Such consultants shall be selected in accordance with principles and procedures satisfactory to the Association on the basis of the "Guidelines for the Use of Consultants by World Bank Borrowers and by the World Bank as Executing Agency" published by the Bank in August 1981.

#### SCHEDULE 5

##### Special Accounts

##### 1. For the purposes of this Schedule:

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

- (b) the term "eligible Categories" means:
- (i) in respect of Special Account A, Categories A (1) through (6) and B (4);
  - (ii) in respect of Special Account B, Category B (1), (2), (3), (5) and (6); and
  - (iii) in respect of Special Account C, Category C (1) through (5);

(c) 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 and the Swiss Contribution allocated from time to time to the eligible Categories in accordance with the provisions of Schedule 1 to this Agreement; and

- (d) the term "Authorized Allocation" means:
- (i) an amount of SwF 500,000 in the case of Special Account A;
  - (ii) an amount of \$250,000 in the case of Special Account B; and
  - (iii) an amount of \$180,000 in the case of Special Account C.

Such amounts are to be withdrawn from the Credit Account and the Swiss Contribution Account and deposited into the respective Special Accounts pursuant to paragraph 3 (a) of this Schedule.

2. Except as the Association shall otherwise agree, payments out of the Special Accounts shall be made exclusively for eligible expenditures in accordance with the provisions of this Schedule.

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

(a) On the basis of a request or requests by the Borrower for a deposit or deposits which add up to the aggregate amount of the respective Authorized Allocation, the Association shall, on behalf of the Borrower, withdraw from the Credit Account or the Swiss Contribution Account, as the case may be, and deposit into the respective Special Account such amount or amounts as the Borrower shall have requested.

(b) The Borrower shall furnish to the Association requests for replenishment of each Special Account at such intervals as the Association shall specify. On the basis of such requests, the Association shall withdraw from the Credit Account or the Swiss Contribution Account, as the case may be, and deposit into the respective Special Account such amounts as shall be required to replenish the Special Account with amounts not exceeding the amount of payments made out of the Special Account for eligible expenditures. All such deposits shall be withdrawn by the Association from the Credit Account or the Swiss Contribution Account, as the case may be, under the respective eligible Categories, and in the respective equivalent amounts, as shall have been justified by the evidence supporting the request for such deposit furnished pursuant to paragraph 4 of this Schedule.

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

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

- (i) the Association shall have determined that all further withdrawals should be made by the Borrower directly from the Credit Account or the Swiss Contribution Account, as

the case may be, in accordance with the provisions of Article V of the General Conditions and paragraph (a) of Section 2.02 of this Agreement; or

- (ii) the total unwithdrawn amount of the Credit or the Swiss Contribution, as the case may be, allocated to the eligible Categories, minus the amount of any outstanding special commitment entered into by the Association pursuant to Section 5.02 of the General Conditions with respect to the Project, shall be equal to the equivalent of twice the amount of the respective Authorized Allocation.

(b) Thereafter, withdrawal from the Credit Account or the Swiss Contribution Account, as the case may be, of the remaining unwithdrawn amount of the Credit or the Swiss Contribution allocated to the eligible Categories shall follow such procedures as the Association shall specify by notice to the Borrower. Such further withdrawals shall be made only after and to the extent that the Association shall have been satisfied that all such amounts remaining on deposit in the Special Account as of the date of such notice will be utilized in making payments for eligible expenditures.

6. (a) If the Association shall have determined at any time that any payment out of any Special Account: (i) was made for any expenditure or in any amount not eligible pursuant to paragraph 2 of this Schedule; or (ii) was not justified by the evidence furnished pursuant to paragraph 4 of this Schedule, the Borrower shall, promptly upon notice from the Association, deposit into such Special Account (or, if the Association shall so request, refund to the Association) an amount equal to the amount of such payment or the portion thereof not so eligible or justified. No further deposit by the Association into such Special Account shall be made until the Borrower has made such deposit or refund.

(b) If the Association shall have determined at any time that any amount outstanding in 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 for crediting to the Credit Account or the Swiss Contribution Account, as the case may be.

