

CONFORMED COPY

CREDIT NUMBER 3836-1-MAG

Project Agreement

(Additional Financing for the Transport Infrastructure Investment Project)

between

INTERNATIONAL DEVELOPMENT ASSOCIATION

and

MADARAIL

Dated June 5, 2007

CREDIT NUMBER 3836-1-MAG

PROJECT AGREEMENT

Agreement dated June 5, 2007, entered into between INTERNATIONAL DEVELOPMENT ASSOCIATION (“Association”) and MADARAIL (“Project Implementing Entity”) (“Project Agreement”) in connection with the Financing Agreement (“Financing Agreement”) of same date between the REPUBLIC OF MADAGASCAR (“Recipient) and the Association. The Association and the Project Implementing Entity hereby agree as follows:

ARTICLE I — GENERAL CONDITIONS; DEFINITIONS

- 1.01. The General Conditions (as defined in the Appendix to the Financing 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 Financing Agreement or the General Conditions.

ARTICLE II — PROJECT

- 2.01. The Project Implementing Entity declares its commitment to the objectives of the Project. To this end, the Project Implementing Entity shall carry out the Project in accordance with the provisions of Article IV of the General Conditions, and shall provide promptly as needed, the funds, facilities, services and other resources required for the Project.
- 2.02. Without limitation upon the provisions of Section 2.01 of this Agreement, and except as the Association and the Project Implementing Entity shall otherwise agree, the Project Implementing Entity shall carry out the Project in accordance with the provisions of the Schedule to this Agreement.

ARTICLE III— REPRESENTATIVE; ADDRESSES

3.01. The Project Implementing Entity's Representative is its General Manager.

3.02. The Association's Address is:

International Development Association
1818 H Street, NW
Washington, DC 20433
United States of America

Cable:

Telex:

Facsimile:

INDEVAS
Washington, D.C.

248423(MCI)

1-202-477-6391

4.03. The Project Implementing Entity's Address is:

MADARAIL
Gare de Soarano
1 Avenue de l'Indépendance
Antananarivo 101
Madagascar

Facsimile:

261-2022 36417

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

INTERNATIONAL DEVELOPMENT ASSOCIATION

By:

/s/ Robert R. Blake
Authorized Representative

MADARAIL

By:

/s/ Patrick Claes
Authorized Representative

SCHEDULE

Execution of the Project

Section I. Implementation Arrangements

A. Institutional Arrangements

1. The Project Implementing Entity shall:
 - (a) (i) Carry out the Project in accordance with the Madarail Manual; and (ii) except as the Association shall otherwise agree, not amend, abrogate or waive any provision of the Madarail Manual.
 - (b) Without limitation upon the provision of Paragraph 1 of this Section, the Madarail Manual shall include: (i) a Project implementation plan; (ii) a Project monitoring and evaluation plan; (iii) a Project procurement plan; (iv) a Project financial management manual; (v) a Project environmental management manual; and (vi) such other administrative, financial, technical and organizational arrangements as shall be required by the Project.
 - (c) Prepare a business plan, in form and substance satisfactory to the Association, which shall set out in such detail as the Association shall reasonably request activities and sources of financing, to be provided under the Project as well as financial projections in the form of a budget, operating account and marketing strategy.
 - (d) No later than November 1 of each year, furnish the business plan for the following year to its Board for approval and to the Association for review and comments. The Project Implementing Entity shall update the business plan annually and promptly furnish each updated plan to its Board for approval and to the Association for review and comments.

B. Anti-Corruption

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

C. Safeguards

1. The Project Implementing Entity shall 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.

Section II. Project Monitoring, Reporting and Evaluation

A. Project Reports

1. (a) The Project Implementing Entity shall monitor and evaluate the progress of the Project and prepare Project Reports for the Project in accordance with the provisions of Section 4.08 of the General Conditions and on the basis of the indicators set forth below in subparagraph (b) of this paragraph. Each such Project Report shall cover the period of one calendar semester, and shall be furnished to the Recipient no later than 45 days after the end of the period covered by such report for incorporation and forwarding by the Recipient to the Association of the overall Project Report.
- (b) The performance indicators referred to above in sub-paragraph (a) consist of the following:
 - (i) By the Closing Date, the number of breakdown for BB locomotives is not more than 2.5 per 100,000 kilometers;
 - (ii) by the Closing Date, at least 87.5 % of BB locomotives are operational;
 - (iii) by the Closing Date, the wagon turnaround time is not more than 4 days and a half;
 - (iv) by the Closing Date, the cumulative of slowdown for more than 90 days is not more than 4 kilometers;
 - (v) by the Closing Date, the personnel productivity is not less than 175,000 Ton Unit (ton kilometer for freight + ¼ of passenger kilometrer);
 - (vi) by the Closing Date, the liquidity ratio is not less than 1.1;
 - (vii) by the Closing Date, the long-term debt/equity ratio is not more than 5;
and

(viii) by the Closing Date, the debt coverage ratio is not less than 1.2.

B. Financial Management, Financial Reports and Audits

1. The Project Implementing Entity shall maintain a financial management system and prepare financial statements in accordance with consistently applied accounting standards acceptable to the Association, both in a manner adequate to reflect the operations and financial condition of the Project Implementing Entity, including the operations, resources and expenditures related to the Project.
2. Without limitation on the provisions of Part A of this Section, the Project Implementing Entity shall prepare and furnish to the Association not later than 45 day after the end of each calendar quarter, interim unaudited financial reports for its Respective Part of the Project covering the quarter, in form and substance satisfactory to the Association.
3. The Project Implementing Entity shall have its financial statements referred to above audited by independent auditors acceptable to the Association, in accordance with consistently applied auditing standards acceptable to the Association. Each audit of these financial statements shall cover the period of one fiscal year of the Project Implementing Entity. The audited financial statements for each period shall be furnished to the Association not later than six months after the end of the period.

Section III. Procurement

All goods, works and services required for the Project and to be financed out of the proceeds of the Financing shall be procured in accordance with the provisions of Section III of Schedule 2 to the Financing Agreement.