

CONFORMED COPY

CREDIT NUMBER 2968-MAG

Development Credit Agreement

(Urban Infrastructure Project)

between

REPUBLIC OF MADAGASCAR

and

INTERNATIONAL DEVELOPMENT ASSOCIATION

Dated July 14, 1997

CREDIT NUMBER 2968-MAG

DEVELOPMENT CREDIT AGREEMENT

AGREEMENT, dated July 14, 1997, between REPUBLIC OF MADAGASCAR (the Borrower) and the 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) the Project will be carried out by Agence d'Exécution des Travaux d'Infrastructures Publiques d'Antananarivo (AGETIPA) and by one or more Local Works Management Agencies (as hereinafter defined), as the case may be, with the Borrower's assistance, and as part of such assistance, the Borrower will make available to AGETIPA and such Local Works Management Agencies the proceeds of the Credit as provided in this Agreement;

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 AGETIPA;

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 modifications set forth below (the General Conditions) constitute an integral part of this Agreement:

(a) The last sentence of Section 3.02 is deleted.

(b) The second sentence of Section 5.01 is modified to read:

"Except as the Association and the Borrower shall otherwise agree, no withdrawals shall be made: (a) on account of expenditures in the territories of any country which is not a member of the Bank or for goods produced in, or services supplied from, such territories; or (b) for the purpose of any payment to persons or entities, or for any import of goods, if such payment or import, to the knowledge of the Association, is prohibited by a decision of the United Nations Security Council taken under Chapter VII of the Charter of the United Nations."

(c) Section 6.03 is modified to read:

"Section 6.03. Cancellation by the Association. If (a) the right of the Borrower to make withdrawals from the Credit Account shall have been suspended with respect to any amount of the Credit for a continuous period of thirty days, or (b) at any time, the Association determines, after consultation with the Borrower, that an amount of the Credit will not be required to finance the Project's costs to be financed out of the proceeds of the Credit, or (c) at any time, the Association determines, with respect to any contract to be financed out of the proceeds of the Credit, that corrupt or fraudulent practices were engaged in by representatives of the Borrower or of a beneficiary of the Credit during the procurement or the execution of such contract, without the Borrower having taken timely and appropriate action satisfactory to the Association to remedy the situation, and establishes the amount of expenditures in respect of such contract which would otherwise have been eligible for financing out of the proceeds of the Credit, or (d) at any time, the Association determines that the procurement of any contract to be financed out of the proceeds of the Credit is inconsistent with the procedures set forth or referred to in the Development Credit Agreement and establishes the amount of expenditures in respect of such contract which would otherwise have been eligible for financing out of the proceeds of the Credit, or (e) after the Closing Date, an amount of the Credit shall remain unwithdrawn from the Credit Account, the Association may, by notice to the Borrower, terminate the right of the Borrower to make withdrawals with respect to such amount. Upon the giving of such notice, such amount of the Credit shall be canceled."

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) "AGETIPA" means Agence d'Exécution des Travaux d'Infrastructures Publiques d'Antananarivo, a non-profit-making association established and existing in accordance with its Statutes, dated August 19, 1993, adopted pursuant to Ordinance No. 60.133 of October 13, 1960;

(b) "AGETIPA Convention" means the convention to be entered into between the Borrower and AGETIPA pursuant to Section 3.04 (a) of this Agreement, as the same may be amended from time to time, and such term includes all schedules to the AGETIPA Convention;

(c) "AGETIPA Project Account" means the AGETIPA Project Account referred to in Section 3.05 (a) of this Agreement;

(d) "Beneficiary" means a Municipality or other representative body of a Selected City, as the case may be, for whose benefit a Subproject has been, or is to be, executed;

(e) "Civil Works Contract" means a contract referred to in paragraph 4 (g) of Schedule 4 to this Agreement;

(f) "Delegated Works Management Contract" means a contract referred to in paragraph 2 of Schedule 1 to the Project Agreement;

(g) "Grant" means a grant made, or to be made, out of the proceeds of the Credit to finance a Subproject;

(h) "Local Works Management Convention" means a convention to be entered into between the Borrower and a Local Works Management Agency pursuant to Section 3.04 (b) of this Agreement, as the same may be amended from time to time, and such term includes all schedules to the Local Works Management Convention;

(i) "Local Works Management Agency" means a local works management agency referred to in Section 3.01 (b) of this Agreement;

(j) "Local Works Management Project Account" means a Local Works Management Project Account referred to in Section 3.05 (a) of this Agreement;

(k) "Priority Investment Program" or "PIP" means the Priority Investment Program referred to in Part C.1 of the Project;

(l) "Procedures Manual" means the Procedures Manual of AGETIPA, dated February 12, 1994, and referred to in paragraph 1 (a) (ii) of Schedule 4 to this Agreement, as same may be amended from time to time, and such term includes any schedules to the Procedures Manual;

(m) "Project Account" means the AGETIPA Project Account or a Local Works Management Project Account;

(n) "Project Agreement" means the agreement between the Association and AGETIPA 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;

(o) "Project Implementation Plan" means the Project Implementation Plan referred to in paragraph 1 (a) (i) of Schedule 4 to this Agreement, as same may be amended from time to time, and such term includes any schedules to the Project Implementation Plan;

(p) "Revenue Earning Subproject" means a productive Subproject, having a projected financial rate of return of not less than 15 percent, calculated in accordance with methodology acceptable to the Association, or such other percentage as may be specified from time to time in the Procedures Manual;

(q) "Selected Cities" means any of the cities of Antsirabe, Antsiranana, Fianarantsoa, Mahajanga, Toamasina and Toliary, as may be declared eligible for financing, in terms of criteria specified in the Procedures Manual, and selected accordingly for purposes of the Project;

(r) "Special Account" means the account referred to in Section 2.02 (b) of this Agreement;

(s) "Subproject" means a subproject under Part A.1 or A.2 of the Project, in respect of which a Grant has been provided, or proposed to be provided, for the benefit of a Beneficiary.

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 twenty five million two hundred thousand Special Drawing Rights (SDR25,200,000).

Section 2.02. (a) The amount of the Credit may be withdrawn from the Credit Account in accordance with the provisions of Schedule 1 to this Agreement for: (i) 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 described in

Schedule 2 to this Agreement and to be financed out of the proceeds of the Credit; and (ii) amounts paid (or, if the Association shall so agree, to be paid) on account of withdrawals made for the benefit of a Beneficiary under a Grant to meet the reasonable cost of eligible expenditures related to a Subproject, and in respect of which the withdrawal from the Credit Account is requested.

(b) The Borrower may, for the purposes of the Project, open and maintain in Dollars a special deposit account in a commercial bank on terms and conditions satisfactory to the Association including appropriate protection against set-off, seizure and attachment. Deposits into, and payments out of, the Special Account shall be made in accordance with the provisions of Schedule 5 to this Agreement.

Section 2.03. The Closing Date shall be June 30, 2002 or such later date as the Association shall establish. The Association shall promptly notify the Borrower of such later date.

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

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

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

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

Section 2.06. Commitment charges and service charges shall be payable semiannually on May 1 and November 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 May 1 and November 1, commencing November 1, 2007 and ending May 1, 2037. Each installment to and including the installment payable on May 1, 2017 shall be one percent (1%) of such principal amount, and each installment thereafter shall be two percent (2%) of such principal amount.

(b) Whenever:

(i) the Borrower's per capita gross national product (GNP), as determined by the Association, shall have exceeded for three consecutive years the level established annually by the Association for determining eligibility to access the Association's resources; and

(ii) the Bank shall consider the Borrower creditworthy for Bank lending, the Association may, subsequent to the review and approval thereof by the Executive Directors of the Association and after due consideration by them of the development of the Borrower's economy, modify the repayment of installments under paragraph (a) above by:

(A) requiring the Borrower to repay twice the amount of each such installment not yet due until the principal amount of

the Credit shall have been repaid; and

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

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

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

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

Section 2.09. AGETIPA is designated as representative of the Borrower for the purposes of taking any action required or permitted to be taken under the Project (other than Part A.2 thereof) and the provisions of Section 2.02 of this Agreement and Article V 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, without any limitation or restriction upon any of its other obligations under this Agreement, and subject to paragraphs (b) and (c) of this section, cause AGETIPA to carry out the Project with due diligence and efficiency, and in conformity with appropriate administrative, financial, engineering, environmental and technical practices, and shall provide, promptly as needed, the funds, facilities, services and other resources required for the Project.

(b) Where, for purposes of Part A.2 of the Project, a local works management agency has been established in any of the Selected Cities to assume responsibility for the management of Subprojects on behalf of the city, and it is determined, in relation to that city, that (i) an annual PIP of at least \$3 million is sustainable for at least three years, (ii) the Beneficiary has the resources necessary to provide the requisite amount of corresponding counterpart funds, and (iii) the Local Works Management Agency satisfies all other criteria specified in this regard in the Procedures Manual, the Borrower may decide to confer responsibility for the management of such Subprojects on such Local Works Management Agency, on terms and conditions which shall be acceptable to the Association and specified in the Procedures Manual.

(c) Where a Local Works Management Agency has been entrusted with responsibility for the management of Subprojects, the Borrower shall cause such Local Works Management Agency to manage such Subprojects with due diligence and efficiency, and in conformity with appropriate administrative, financial, engineering, environmental and technical practices, shall take or cause to be taken all action, including the provision of funds, facilities, services and other resources, necessary or appropriate to enable such Local Works Management Agency to carry out the Project, and shall not take or permit to be taken any action which would prevent or interfere with the carrying out of the Project by such Local Works Management Agency.

(d) 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, and cause AGETIPA and other Local Works Management Agencies, if any, to carry out, the Project in accordance with the Implementation Program set forth in Schedule 4 to this Agreement.

(e) 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 3.02. 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) shall be carried out by AGETIPA, pursuant to Section 2.03 of the Project Agreement, or by other Local Works Management Agencies, as the case may be.

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 for the future operation of the Project; and

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

Section 3.04. (a) For the purposes of the Project (other than Part A.2 thereof), the Borrower shall conclude a convention with AGETIPA (hereinafter referred to as the AGETIPA Convention), whereby it shall agree to transfer on a non-reimbursable basis to AGETIPA an amount of the Credit not exceeding such amounts as may be allocated from time to time to Categories (1) (a), (2), (3) and (4) (a) of the table in paragraph 1 of Schedule 1 to this Agreement, on the terms and conditions set forth in this Agreement and the Project Agreement, and on such other terms and conditions as shall be acceptable to the Association.

(b) Where one or more Local Works Management Agencies have been entrusted with responsibility for the management of Subprojects under Part A.2 of the Project, the Borrower shall conclude a convention with each such Local Works Management Agency (hereinafter referred to as Local Works Management Convention), whereby it shall agree to transfer on a non-reimbursable basis to such Local Works Management Agencies an aggregate amount of the proceeds of the Credit not exceeding such amounts as may be allocated from time to time to Categories (1) (b) and (4) (b) of the table in paragraph 1 of Schedule 1 to this Agreement, on the terms and conditions set forth in this Agreement, and on such other terms and conditions as shall be acceptable to the Association.

(c) The Borrower shall exercise its rights under the AGETIPA Convention and Local Works Management Conventions 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, shall not assign, amend, abrogate or waive the AGETIPA Convention or Local Works Management Conventions, or any provision thereof.

Section 3.05. (a) Without limitation upon its obligations under Section 3.01 of this Agreement, the Borrower shall open, in a commercial bank and on terms and conditions satisfactory to the Association, an advance account in the currency of the Borrower to be operated and maintained by AGETIPA (hereinafter referred to as AGETIPA Project Account), and, upon the conclusion of each Local Works Management Convention, another advance account in the currency of the Borrower to be operated and maintained by the Local Works Management Agency which is party to the Local Works Management Convention (hereinafter referred to as Local Works Management Project Account).

(b) The Borrower shall from time to time deposit, and cause Beneficiaries to deposit, their respective counterpart contributions to the costs of the Project into

the AGETIPA Project Account or the Local Works Management Project Account, as the case may be.

(c) The Borrower shall:

(i) make an initial deposit of the equivalent of \$500,000 into the AGETIPA Project Account, and an initial deposit of the equivalent of \$25,000 into each of the Local Works Management Project Accounts; and

(ii) thereafter, prior to the beginning of each semester, deposit into each of the Project Accounts an amount equal to the amount of the initial deposit referred to in sub-paragraph (i) of this paragraph, or such other amount as shall have been agreed between the Borrower and the Association.

(d) Funds deposited in any of the Project Accounts shall be applied solely for the purposes of defraying the cost of expenditures incurred for the execution of the Project, and not otherwise financed out of the proceeds of the Credit.

ARTICLE IV

Financial Covenants

Section 4.01. (a) For purposes of Part A.2 of the Project, the Borrower shall cause each Local Works Management Agency to maintain records and accounts adequate to reflect in accordance with sound accounting practices the operations and financial condition of such Local Works Management Agency.

(b) The Borrower shall cause such Local Works Management Agency to:

(i) have its records, accounts and financial statements (balance sheets, statements of income and expenses and related statements), for each semester audited, in accordance with appropriate auditing principles consistently applied, by independent auditors acceptable to the Association;

(ii) have its administrative, technical and managerial performance for each semester audited by independent auditors acceptable to the Association, having regard to the provisions of this Agreement, the Local Works Management Convention and the Procedures' Manual;

(iii) furnish to the Association as soon as available, but in any case not later than three months after the end of each semester, (A) certified copies of its financial statements for such semester as so audited, and (B) the report of such audit by said auditors, of such scope and in such detail as the Association shall have reasonably requested; and

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

Section 4.02. For all expenditures with respect to which withdrawals from the Credit Account were made on the basis of statements of expenditure, the Borrower shall cause AGETIPA and other Local Works Management Agencies, if any, to:

(a) maintain, or cause to be maintained, in accordance with sound accounting practices, records and accounts reflecting such expenditures;

(b) 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;

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

(d) ensure that such records and accounts are included in the six-monthly audit referred to in paragraph (b) of Section 4.01 of this Agreement and paragraph (b) of Section 4.01 of the Project Agreement, and that the report of such audit contains a separate opinion by said auditors as to whether the statements of expenditure submitted during such semester, together with the procedures and internal controls involved in their preparation, can be relied upon to support the related withdrawals.

ARTICLE V

Other Covenants

Section 5.01. The Borrower shall cause each Local Works Management Agency:

(a) to take out and maintain with responsible insurers, or to make other provision satisfactory to the Association for, insurance against such risks and in such amounts as shall be consistent with appropriate practice;

(b) to carry on its operations and conduct its affairs in accordance with sound administrative, financial and technical practices under the supervision of qualified and experienced management assisted by competent staff in adequate numbers; and

(c) at all times to operate and to maintain its plants, machinery, equipment and other property, and from time to time, promptly as needed, to make all necessary repairs and renewals thereof, all in accordance with sound engineering, financial and technical practices.

ARTICLE VI

Remedies of the Association

Section 6.01. Pursuant to Section 6.02 (h) of the General Conditions, the following additional events are specified:

(a) AGETIPA or a Local Works Management Agency shall have failed to perform any of its obligations arising under or out of this Agreement, or the Project Agreement, as the case may be;

(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 AGETIPA or a Local Works Management Agency will be able to perform its obligations arising under or out of this Agreement, or the Project Agreement, as the case may be;

(c) the statutes of AGETIPA or a Local Works Management Agency shall have been amended, suspended, abrogated, repealed or waived so as to affect materially and adversely the ability of AGETIPA or the Local Works Management Agency to perform any of its obligations arising under or out of this Agreement, or the Project Agreement, as the case may be;

(d) the Borrower or any other authority having jurisdiction shall have taken any action for the dissolution or disestablishment of AGETIPA, or a Local Works Management Agency, or for the suspension of the operations of AGETIPA or a Local Works Management Agency.

Section 6.02. Pursuant to Section 7.01 (d) of the General Conditions, the following additional events are specified:

(a) any 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;

(b) any event specified in paragraph (c) and (d) of Section 5.01 of this Agreement shall occur.

ARTICLE VII

Effective Date; Termination

Section 7.01. The following events are specified as additional conditions to the effectiveness of Association within the meaning of Section 12.01 (b) of the General Conditions:

(a) the AGETIPA Convention has been duly signed and delivered on behalf of the Borrower and AGETIPA;

(b) the Procedures Manual has been duly amended, pursuant to paragraph 1 (a) (ii) of Schedule 4 to this Agreement, to take account of the specific objectives of the Project;

(c) the AGETIPA Project Account has been duly opened, and the initial amount of \$500,000 equivalent deposited therein;

(d) the auditors referred to in Article IV of this Agreement and the Project Agreement have been duly selected in accordance with Section II of Schedule 3 to this Agreement.

Section 7.02. 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) the Project Agreement has been duly authorized or ratified by AGETIPA, and is legally binding upon AGETIPA in accordance with its terms;

(b) the AGETIPA Convention has been duly authorized or ratified by the Borrower and AGETIPA, and is legally binding upon the Borrower and AGETIPA in accordance with its terms. Section 7.03. 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 7.04. The obligations of the Borrower under Article IV of this Agreement shall cease and determine on the date on which the Development Credit Agreement shall terminate or on the date fifteen years after the date of this Agreement, whichever shall be the earlier.

ARTICLE VIII

Representatives of the Borrower; Addresses

Section 8.01. Except as provided in Section 2.09 of this Agreement, the Minister of Finance of the Borrower is designated as representative of the Borrower for the purposes of Section 11.03 of the General Conditions.

Section 8.02. The following addresses are specified for the purposes of Section 11.01 of the General Conditions:

For the Borrower:

Ministry of Finance and Economy
Antananarivo 101
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:

INDEVAS
Washington, D.C.

Telex:

248423 (MCI) or
64145 (MCI)

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/ Bicclair Andrianantoandro

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

Category	Amount of the Credit Allocated (Expressed in SDR Equivalent)	% of Expenditures to be Financed
(1) Subprojects		
(a) under Part A.1 of the Project	16,100,000	
(b) under Part A.2 of the Project	5,350,000	
(2)	410,000	
(3)	1,740,000	
(4) Operating costs		
(a) under Part A.1 of the Project	1,200,000	
(b) under Part A.2 of the Project	400,000	

25,200,000

2. For the purposes of this Schedule:

(a) the term "foreign expenditures" means expenditures in the currency of any country other than that of the Borrower for goods or services supplied from the territory of any country other than that of the Borrower;

(b) the term "local expenditures" means expenditures in the currency of the Borrower or for goods or services supplied from the territory of the Borrower; and

(c) the term "operating costs" means the incremental operating costs incurred by AGETIPA and other Local Works Management Agencies, if any, under the Project on account of local contractual staff salaries and allowances, maintenance of vehicles, fuel and equipment, office rent, supplies and utilities, and bank charges.

3. Notwithstanding the provisions of paragraph 1 above, no withdrawals shall be made:

(a) in respect of payments made for expenditures prior to the date of this Agreement;

(b) in respect of a Grant, unless the Grant has been provided in accordance with procedures, and on the terms and conditions set forth or referred to, in this Agreement and the Project Agreement;

(c) in respect of payments under Categories (1) (b) and (4) (b) of the table in paragraph 1 of this Schedule, in favor of any Local Works Management Agency, unless the Borrower has signed a Local Works Management Convention with the Local Works Management Agency, on terms and conditions acceptable to the Association.

4. The Association may require withdrawals from the Credit Account to be made on the basis of statements of expenditure for expenditures for goods and consultants' services (firms) under contracts not exceeding \$50,000 equivalent, consultants' services (individuals) under contracts not exceeding \$25,000 equivalent, operating costs, training and Grants, 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 in providing increased income and employment for the poor, and improving the provision and maintenance of urban infrastructure in the city of Antananarivo and other Selected Cities of Madagascar.

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: Execution of Subprojects

1. Provision of Grants, and establishment of a delegated project management system, using AGETIPA, to assist in the design, supervision and implementation of economic infrastructure subprojects, including roads, drainage, sidewalks, public stairways and retaining walls, and revenue earning subprojects, including markets, bus stations and abattoirs, in Antananarivo and other Selected Cities.

2. Provision of Grants, and establishment of a delegated project management system, using autonomous works management agencies other than AGETIPA, to assist in the design, supervision and implementation of economic infrastructure subprojects, including roads, drainage, sidewalks, public stairways and retaining walls, and revenue earning subprojects, including markets, bus stations and abattoirs, in Selected Cities.

Part B: Machinery and Equipment

Acquisition of machinery and equipment to support the geographical expansion of the delegated project management system established for the implementation of urban infrastructure works, and to promote the development of the construction industry.

Part C: Training and Studies

1. Provision of technical advisory services to assist the city of Antananarivo and other Selected Cities in the identification, selection and management of Subprojects, and in the development of a Priority Investment Program (PIP), consisting of a pipeline of Subprojects eligible for financing under the Project.

2. Provision of technical advisory services to train potential civil works contractors to enhance the quality of works, work site management and corporate management, and to support the development of staff involved in the proposed expansion of the delegated project management system established for the implementation of urban infrastructure works.

3. Carrying out of studies relating to technical and financial audits, economic and environmental assessments, information and sensitization campaigns, and annual reviews.

* * *

The Project is expected to be completed by December 31, 2001.

SCHEDULE 3

Procurement and Consultants' Services

Section I. Procurement of Good and Works

Part A: General

Goods and works shall be procured in accordance with 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 (the Guidelines) and the following provisions of this Section, as applicable.

Part B: International Competitive Bidding

1. Except as otherwise provided in Part C of this Section, goods shall be procured under contracts awarded in accordance with the provisions of Section II of the Guidelines and paragraph 5 of Appendix 1 thereto.

2. The following provisions shall apply to goods to be procured under contracts awarded in accordance with the provisions of paragraph 1 of this Part B.

(a) Grouping of contracts To the extent practicable, contracts for goods shall be grouped in bid packages estimated to cost \$100,000 equivalent or more each.

(b) Preference for domestically manufactured goods

The provisions of paragraphs 2.54 and 2.55 of the Guidelines and Appendix 2 thereto shall apply to goods manufactured in the territory of the Borrower.

Part C: Other Procurement Procedures

National Competitive Bidding

Goods estimated to cost less than \$100,000 equivalent per contract, up to an aggregate amount not to exceed \$200,000 equivalent, may be procured under contracts awarded in accordance with the provisions of paragraphs 3.3 and 3.4 of the Guidelines.

National Shopping

Goods estimated to cost less than \$30,000 equivalent per contract, up to an

aggregate amount not to exceed \$100,000 equivalent, may be procured under contracts awarded on the basis of national shopping procedures in accordance with the provisions of paragraphs 3.5 and 3.6 of the Guidelines.

Community Participation Goods and works required for Part A of the Project shall be procured in accordance with procedures acceptable to the Association, and specified in the Procedures Manual.

Part D: Review by the Association of Procurement Decisions

1. Procurement Planning

Prior to the issuance of any invitations to prequalify for bidding or 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 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 for goods estimated to cost the equivalent of \$100,000 or more, and works estimated to cost the equivalent of \$150,000 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

Consultants' services shall be procured in accordance with the provisions of the Introduction and Section IV of the "Guidelines: Selection and Employment of Consultants by World Bank Borrowers" published by the Bank in January 1997 (the Consultant Guidelines) and the following provisions of Section II of this Schedule.

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 for design and supervision of Subprojects under Part A of the Project, and training under Part C of the Project, estimated to cost less than \$200,000 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 under the Project, up to an aggregate amount not to exceed \$160,000 equivalent, may be procured under contracts awarded in accordance with the provisions of paragraphs 3.1 and 3.6 of the Consultant Guidelines.

2. Individual Consultants

Services for specialized technical studies, up to an aggregate amount not to

exceed \$400,000 equivalent, may be procured under contracts awarded to individual consultants in accordance with the provisions of paragraphs 5.1 through 5.3 of the Consultant Guidelines.

Part D: Review by the Bank 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 \$100,000 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 consulting firms estimated to cost the equivalent of less than \$100,000 but more than \$50,000, the procedures set forth in paragraphs 1, 2 (other than the second subparagraph of paragraph 2(a)) and 5 of Appendix 1 to the Consultant Guidelines shall apply.

(c) With respect to each contract for the employment of individual consultants estimated to cost the equivalent of \$25,000 or more, the qualifications, experience, terms of reference and terms of employment of the consultants shall be furnished to the Administrator for its prior review and approval. The contract shall be awarded only after said approval shall have been given.

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:

(a) prepare and transmit to the Association:

(i) a Project Implementation Plan, acceptable to the Association, giving details of all procurement and disbursement arrangements, performance indicators and other administrative, financial and organizational arrangements, as shall have been agreed with the Association for purposes of the Project, and for monitoring of progress achieved under the Project;

(ii) a duly amended Procedures Manual, as adopted by the Borrower and AGETIPA, and acceptable to the Association, giving details of all procedural arrangements for the preparation, approval and implementation of Subprojects, including procedures for identification of Subprojects and submission of requests for financing, criteria for the determination of eligible Subprojects and approval of PIPs, monitoring and evaluation processes, applicable procurement, disbursement and other implementation guidelines, and model forms of Delegated Works Management Contracts and Civil Works Contracts; and

(b) cause AGETIPA and other Local Works Management Agencies, if any, to carry out the Project in accordance with procedures set out in the Project Implementation Plan and the Procedures Manual, and, except as the Association shall otherwise agree, shall not amend or waive any provision thereof, or concur in any such amendment or

waiver, if such amendment or waiver may, in the opinion of the Association, materially or adversely affect the implementation of the Project.

2. The Borrower shall:

(a) cause AGETIPA and other Local Works Management Agencies, if any, to maintain policies and procedures adequate to enable it to monitor and evaluate on an ongoing basis, in accordance with performance indicators referred to in paragraph 1 (a) (i) of this Schedule, the carrying out of the Project and the achievement of the objectives thereof;

(b) not later than November 30 of each year, undertake, in conjunction with the Association, AGETIPA and other Local Works Management Agencies, if any, a joint annual review of the Project, during which they shall exchange views generally on all matters relating to the progress of the Project and the performance by the Borrower, AGETIPA and other Local Works Management Agencies, if any, of their respective obligations under this Agreement, including:

(i) the progress achieved by the Borrower, AGETIPA and other Local Works Management Agencies, if any, in the implementation of the Project, having regard to the performance indicators referred to in paragraphs 1 (a) (i) and 2 (a) of this Schedule;

(ii) a review of the proposed work plans and budget for the forthcoming fiscal year;

(iii) a review of the level of Beneficiaries' contributions, and of management fees charged by AGETIPA and other Local Works Management Agencies, if any;

(iv) a review of the progress achieved in the implementation of Subprojects, and in the maintenance of completed works; and

(v) an assessment of the social impact of Subprojects, and the level of satisfaction of users with the outcomes thereof;

(c) not later than one month prior to each annual review, furnish to the Association, for its comments, a report, in such detail as the Association shall reasonably request, on the progress and status of the Project, and giving details, of the various matters to be discussed at such review; and

(d) following each annual review, undertake to act promptly and diligently in order to take, or cause AGETIPA or other Local Works Management Agencies, if any, to take, any corrective action deemed necessary to remedy any shortcoming noted in the implementation of the Project, or to implement, or cause AGETIPA or other Local Works Management Agencies, if any, to implement, such other measures as may have been agreed upon between the parties in furtherance of the objectives of the Project.

3. (a) The Borrower shall, not later than October 31 of each year, submit to the Association, for review and approval, proposed annual work plans and budget for the forthcoming fiscal year, giving details of proposed budgetary allocations and disbursement estimates, proposed procurement activities, and such other particulars as the Association may require.

(b) The Borrower shall submit to the Association, for review,

(i) not later than one month after the end of each quarter, quarterly progress reports on the status of the Project; and

(ii) reports as needed on the award of contracts under the Project.

4. Further to Section 3.04 of the Development Credit Agreement, the proceeds of the Credit provided to finance Subprojects shall be subject to the following additional terms and conditions:

(a) the amount so provided shall be used exclusively to provide Grants to finance Subprojects, including the operating costs of AGETIPA and other Local Works

Management Agencies, if any, in accordance with criteria, and terms and conditions, set forth in the Procedures Manual;

(b) applications for Grants to finance Subprojects in excess of \$150,000, as well as the first three applications to be submitted to AGETIPA and other Local Works Management Agencies, if any, for approval, in respect of any Selected City, irrespective of amounts involved, shall be submitted to the Association for prior review and approval;

(c) goods, services and civil works required for the purposes of financing Subprojects shall be procured in accordance with procedures acceptable to the Association, and set forth in the Procedures Manual;

(d) no Subproject shall be considered for financing under the Project unless:

(i) the Subproject has been subjected to economic and financial analysis, as appropriate, and has been determined, on the basis thereof, to have a projected economic rate of return of not less than 12 percent and, in the case of a Revenue Earning Subproject, a financial rate of return of not less than 15 percent or such other percentage as may be specified in the Procedures Manual;

(ii) the required amount of counterpart funds has been provided for in the Beneficiary's annual budget, and appropriate arrangements made for such funds to be deposited into the Project Account prior to the commencement of works;

(iii) the Beneficiary has made adequate arrangements for the financing of maintenance and other incremental recurrent costs involved in the Subproject;

(e) every Subproject proposal shall be classified according to environmental impact category, and subjected as necessary to environmental impact analysis, to ensure that:

(i) it is fully consistent with environmental appraisal criteria set out in the Procedures' Manual, and

(ii) where appropriate, mitigation measures designed to minimize adverse effects of proposed Subprojects are identified and incorporated in the Subproject design;

(f) Grants shall be provided on a declining annual percentage basis, according to a cost-sharing formula, which shall be acceptable to the Association and specified in the Procedures Manual; provided, however, that:

(i) the proceeds of a Grant shall not be used to finance taxes or duties levied on or in respect of eligible expenditures arising out of Subprojects, or any part thereof;

(ii) the amount of a Grant shall not in any event exceed 95 percent of the cost of the Subproject; and

(g) for purposes of each Grant, AGETIPA and other Local Works Management Agencies, if any, shall conclude a Civil Works Contract with a civil works contractor in the form of the model form provided in the Procedures Manual (hereinafter called Civil Works Contract), setting forth the respective obligations of the parties thereunder, including details of the Subproject to be implemented, the contract price and works schedules, details of disbursement and procurement schedules and procedures, including, but without being limited to, the right of AGETIPA or other Local Works Management Agency, as the case may be, to:

(i) require the contractor to carry out the Subproject with due diligence and efficiency and in accordance with sound administrative, financial, engineering, environmental, and technical practices, and to maintain adequate records; and

(ii) obtain all such information as the Borrower, Association or the Beneficiary shall reasonably request relating to the implementation of the Subproject and the performance of the contractor thereunder.

SCHEDULE 5

Special Account

1. For the purposes of this Schedule:

(a) the term "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, as well as amounts paid or to be paid under Grants, 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 \$6,000,000 to be withdrawn from the Credit Account and deposited into the Special Account pursuant to paragraph 3 (a) of this Schedule, provided, however, that unless the Association shall otherwise agree, the Authorized Allocation shall be limited to an amount equivalent to \$3,000,000 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 SDR5,000,000.

2. Payments out of the 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 the 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 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 Special Account such amount or amounts as the Borrower shall have requested.

(b) (i) For replenishment of the 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 Special Account such amount as the Borrower shall have requested and as shall have been shown by said documents and other evidence to have been paid out of the Special Account for eligible expenditures. 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 the Special Account, the Borrower shall, at such time as the Association shall reasonably request, furnish to the Association such documents and other evidence showing that such payment was made exclusively for eligible expenditures.

5. Notwithstanding the provisions of paragraph 3 of this Schedule, the Association shall not be required to make further deposits into the 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 the Project 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 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 the 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 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 Account shall be made until the Borrower has provided such evidence or made such deposit or refund, as the case may be.

(b) If the Association shall have determined at any time that any amount outstanding in the 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 the 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.

[Redacted]