

CONFORMED COPY

CREDIT NUMBER 3364-MAG

Development Credit Agreement

(Transport Sector Reform and Rehabilitation Project)

between

REPUBLIC OF MADAGASCAR

and

INTERNATIONAL DEVELOPMENT ASSOCIATION

Dated June 19, 2000

CREDIT No. 3364-MAG

DEVELOPMENT CREDIT AGREEMENT

AGREEMENT, dated June 19, 2000, between REPUBLIC OF MADAGASCAR (the Borrower) and INTERNATIONAL DEVELOPMENT ASSOCIATION (the Association).

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

(B) the Association has received a letter of transport sector policy and a road sector strategy letter, both dated April 6, 2000, from the Borrower, describing therein a program of actions, objectives, and policies (the Program) designed to redefine and strengthen its aviation, port, maritime, railway and road sector transport with a view to (i) promoting more efficient and reliable transport services; and (ii) facilitating economic development and declaring therein the Borrower's commitment to the execution of the Program; and

(C) the Borrower has requested that the Association support its execution of the Program through a series of credits over a period of nine (9) years, the proceeds of such credits to be utilized by the Borrower for the implementation of the Program; and

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

NOW THEREFORE the parties hereto hereby agree as follows:

ARTICLE I

General Conditions; Definitions

Section 1.01. The "General Conditions Applicable to Development Credit Agreements" of the Association, dated January 1, 1985 (as amended through October 6, 1999), (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) "ACM" means the Borrower's civil aviation regulatory agency responsible for adopting sector regulations and providing sector supervision, established pursuant to Law No. 99-024 of the Borrower;

(b) "Affiliated Agencies" means the existing departments and agencies of MOTM and MOPW (as hereinafter defined) and the ones to be established under the Project, including: (i) in respect of MOTM: Aéroports de Madagascar, Autorité Portuaire Maritime et Fluviale, Société d'exploitation du Port de Toamasina, Ports de Morondava, Tolanaro, Toliara et Mahajanga, Société des Ports Autonomes, and Société de Patrimoine des Chemins de Fer; and (ii) in respect of MOPW: Laboratoire National des Travaux Publics et du Bâtiment, Agence Routière Centrale, Agence Routière Provinciale, Fond d'Entretien Routier, Institut National de l'Infrastructure, Service des Bâtiments Civils, Service de la Logistique et de la Maintenance, and Unités de Production Autonome;

(c) "ENEAM" means Ecole Nationale d'Enseignement de l'Aéronautique et de la Météorologie, the school for aeronautics and meteorology, an affiliated agency of the MOTM;

(d) "Fiscal Year" and "FY" mean the Borrower's fiscal year commencing January 1 and ending December 31;

(e) "Malagasy Franc" means the currency of the Borrower;

(f) "MARPOL Convention" means the International Convention for the Prevention of Pollution from Ships;

(g) "MOPW" means the Ministry of Public Works of the Borrower;

(h) "MOTM" means the Ministry of Transport and Meteorology of the Borrower;

(i) "Operating Manuals" means the manuals adopted respectively by MOTM and MOPW and setting forth, inter alia, work plans, training programs, and procedures to be used for the purpose of implementing the Project, as may be amended from time to time with the prior written consent of the Association, such term to include any schedules thereto;

(j) "OPRC Convention" means the International Convention on Oil Prevention Preparedness;

(k) "PES" means Program Executive Secretariat, an autonomous unit of the Borrower to be established for the coordination of Project implementation;

(l) "PIP" and "Project Implementation Plan" mean the comprehensive plan for the implementation of the Project referred to in paragraph 1 (b) of Schedule 4 to this Agreement;

(m) "Project Accounts" means the accounts referred to in Section

3.04 (a) of this Agreement;

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

(o) "Project Year" means each twelve-month period during Project implementation starting from the day after the Effective Date;

(p) "RN" means Route Nationale, a road classified as a national road in the territory of the Borrower; and

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

## ARTICLE II

### The Credit

Section 2.01. The Association agrees to lend to the Borrower, on the terms and conditions set forth or referred to in this Development Credit Agreement, an amount in various currencies equivalent to forty-eight million four hundred thousand Special Drawing Rights (SDR 48,400,000).

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

(b) The Borrower may, for the purposes of the Project, open and maintain in US dollars two special deposit accounts, one for the activities to be carried out by the MOTM and the other for those of the MOPW, in a commercial bank on terms and conditions satisfactory to the Association, including appropriate protection against set-off, seizure, or attachment. Deposits into, and payments out of, the Special Accounts shall be made in accordance with the provisions of Schedule 5 to this Agreement.

(c) 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 canceled.

Section 2.03. The Closing Date shall be July 31, 2005 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 15 and November 15 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 15 and November 15, commencing November 15, 2010 and ending May 15, 2040. Each installment to, and including the installment payable on May 15, 2020, shall be one percent (1%) of such principal amount, and each installment thereafter shall be two percent (2%) of such principal amount

(b) Whenever (i) the Borrower's per capita gross national product (GNP), as determined by the Association, shall have exceeded for three 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.

### ARTICLE III

#### Execution of the Project

Section 3.01. (a) The Borrower declares its commitment to the

objective of the Project as set forth in Schedule 2 to this Agreement and, to this end, shall carry out the Project with due diligence and efficiency and in conformity with appropriate administrative, financial, technical, public utility, and environmental practices, and shall provide, promptly as needed, the funds, facilities, services, and other resources required for the Project.

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

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

Section 3.03. For 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. Without limitation to its obligations under Section 3.01 of this Agreement, the Borrower shall:

(a) open and maintain two accounts (the Project Accounts) in Malagasy Francs, one for the MOTM and the other for the MOPW, in a commercial bank on terms and conditions satisfactory to the Association;

(b) promptly thereafter make two initial deposits of amounts equivalent to Malagasy Francs 3,290,000,000 for the MOTM and Malagasy Francs 4,385,000,000 for the MOPW into such accounts to finance the Borrower's contribution to the Project;

(c) thereafter deposit into the Project Accounts by March 31, July 31, and November 30 of each Fiscal Year during Project implementation such amounts as shall be required and agreed upon with the Association to replenish the Project Accounts in a timely manner to equal the amounts of the initial deposits referred to in paragraph (b); and

(d) use the funds in the Project Accounts exclusively to finance expenditures under the Project.

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

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

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

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

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

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

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

Section 4.02. (a) Without limitation upon the provisions of Section 4.01 of this Agreement, the Borrower shall carry out a time-bound action plan acceptable to the Association for the strengthening of its financial management system for the Project in order to enable the Borrower, not later than December 31, 2002, or such later date as the Association shall agree, to prepare quarterly Project Management Reports, acceptable to the Association, each of which:

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

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

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

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

#### ARTICLE V

##### Remedies

Section 5.01. Pursuant to Section 6.02 (h) of the General Conditions, the following additional event is specified, namely, that a situation shall have arisen which shall make it improbable that the Program, or a significant part thereof, will be carried out

#### 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, namely that:

(a) The Borrower has established the Project Accounts and deposited therein the initial deposits referred to in Section 3.04 (b) of this Agreement.

(b) The Borrower has established two Special Accounts for the Project, one for the MOTM and the other for the MOPW.

(c) The Borrower has established a financial management system for the Project Accounts, satisfactory to the Association.

(d) The Borrower has established financial management and accounting systems satisfactory to the Association for the operations of the MOTM and the MOPW with regard to the implementation of the Project.

(e) The Borrower has appointed to the staff of the PES an Executive Secretary, a Financial Management Advisor, and a Procurement Advisor.

(f) The Borrower has appointed to each Project unit in the MOTM and the MOPW, a Chief Accountant, an Accountant, and a Procurement Specialist.

(g) The Borrower has prepared and furnished to the Association a Project Implementation Plan, in form and substance satisfactory to the Association.

(h) The Borrower has appointed external auditors under terms of reference, and with qualifications and experience satisfactory to the Association.

Section 6.02. The date ninety (90) days after the date of this Agreement is hereby specified for the purposes of Section 12.04 of the General Conditions.

#### ARTICLE VII

##### Representative of the Borrower; Addresses

Section 7.01. The Minister of the Borrower at the time responsible for Finance 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:

Ministry of Finance and Economy  
Antananarivo 101  
Madagascar

Facsimile:	Cable address:	Telex:
(261-20) 2222920	MINFIN Antananarivo	22489
(261-20) 2234530		

For the Association:

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

Facsimile:	Cable address:	Telex:
477-6391	INDEVAS Washington, D.C.	248423 (MCI) (202) 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/ Zina Andrianarivelo-Razafy  
Authorized Representative

INTERNATIONAL DEVELOPMENT ASSOCIATION

By /s/ Pamela Cox  
Acting Regional Vice President  
Africa

#### SCHEDULE 1

#### Withdrawal of the Proceeds of the Credit

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



to be financed in each Category:

Category	Amount of the Credit Allocated (Expressed in SDR Equivalent)	% of Expenditures to be Financed
(1) Works	17,130,000	100% of foreign expenditures and 75% of local expenditures
(2) Goods	4,620,000	100% of foreign expenditures and 80% of local expenditures
(3) Consultants' services, training, and audits	21,370,000	100% of foreign expenditures and 80% of local expenditures
(4) Operating costs	225,000	80% of local expenditures
(5) Refunding of Project Preparation of Advance	1,120,000	Amount due pursuant to Section 2.02 (c)  this Agreement
(6) Unallocated	3,935,000	
TOTAL	48,400,000	

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 expenses incurred on account of Project implementation, management, and monitoring, including office supplies, utilities expenses, vehicle and equipment operation, Special Account banking charges, transport, travel, per diem, supervision costs, and salaries of locally contracted administrative staff but excluding salaries of officials of the Borrower's civil service.

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

4. The Association may require withdrawals from the Credit Account to be made on the basis of statements of expenditures for (a) goods under contracts costing less than \$100,000 equivalent each; (b) works under contracts costing less than \$100,000 equivalent each; (c) services under contracts costing less than \$100,000 equivalent each for consulting firms and less than \$30,000 equivalent each for individual consultants; (d) local training programs under contracts costing less than \$50,000 equivalent each; and (e) operating costs, all under such terms and conditions as the Association shall specify by notice to the Borrower.

## SCHEDULE 2

### Description of the Project

The objective of the Project is to provide assistance to the Borrower's Program for the strengthening of its transport sector policy and management through support to the (a) further liberalization of its aviation, port, maritime, coastal shipping, and road transport services; (b) development of an autonomous regulatory framework; (c) reactivation of the trade and transport facilitation process; (d) promotion of public/private partnerships in investment and management of primary transport facilities and users/ beneficiaries in operations and maintenance; (e) restructuring of the MOTM, the MOPW; (f) improvement of the competitiveness of small private transport operators and contractors; (g) development of a strategy for road transport policy and management; and (h) implementation of an environmentally sustainable sector investment program.

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 objective:

#### Part A: Regulatory Reform and Private Sector Development

1. Strengthening the regulatory framework for civil aviation through the (i) provision of technical advisory services for capacity building in, and management of, the newly established ACM; (ii) carrying out of training programs for the staff of the ACM and the ENEAM; (iii) provision of technical advisory services to the ACM, including the formulation of appropriate sector regulations and policies; and (iv) acquisition of equipment for passenger transit control and the carrying out of related studies.

2. Reforming the port sector through the (i) provision of technical advisory services for the establishment of an autonomous shipping and ports regulatory agency and the concession of port operations and facilities; (ii) provision of technical advisory services to assist in reconciling the laws establishing new autonomous agencies for secondary and tertiary port management with the laws creating the autonomous provinces; and (iii) carrying out of a training program for the staff of the new agencies.

3. Commercializing of the MOPW's productive activities through the provision of technical advisory services for (i) the spinning-off of such activities; (ii) preparing for privatization such activities capable of meeting market needs; or (iii) preparing such activities for liquidation.

4. Increasing the entrepreneurial, managerial, and professional capacity and the environmental awareness of domestic road transport entrepreneurs through the carrying out of a comprehensive training program for small operators and the completion of impact assessments and regular evaluations of such training.

5. Increasing the entrepreneurial, managerial, and professional capacity, and the environmental awareness of private domestic construction contractors through the carrying out of a comprehensive training program for said contractors and the completion of impact assessments and regular evaluations of such training.

6. Strengthening the Borrower's trade and transport agenda through the establishment of a facilitation audit under a methodology approved by the Association.

#### Part B: Organizational Restructuring and Sector Policy

1. Completing the restructuring of the MOPW through the (i) provision

of technical advisory services for the conception and carrying out of transitional arrangements, the development and implementation of new management systems and operational procedures at the MOPW and the restructuring of the MOPW's affiliated agencies; (ii) carrying out of a training program for the MOPW staff; and (iii) acquisition of equipment for the newly decentralized units.

2. Establishment of the PES as a conduit for capacity building initiatives and activities in the MOPW and the MOTM through the (i) provision of technical advisory services to the PES in areas including, inter alia, transport sector policy, highway management, financial management, program and contract management, environment and social mitigation, information, public affairs and accounting, development of a Management Information System; (ii) provision of technical advisory services to the MOTM and the MOPW for the implementation of accounting and control systems; (iii) acquisition of goods and equipment, including vehicles, office equipment, communications and reproduction equipment, and computer software for the PES, the MOTM and the MOPW; (iv) carrying out of performance audits and procurement audits; and (v) financing of operating costs of the PES.

3. Development of a sustainable transport sector policy framework through the: (i) provision of technical advisory services for the carrying out of studies, including studies on road user charges, regulation and pricing issues for the trucking and passenger transport industries, inter-modal transport coordination, preparation of master concession agreements for land transport terminals and development of a database for sector monitoring; and (ii) carrying out of a training program for the MOTM staff in the areas referred to in paragraph 2 above;

4. Restructuring of the MOTM and the MOPW and their affiliated agencies through the carrying out of studies to determine a strategy and a program for the reinsertion of redundant staff into the labor market and for the mitigation of any social costs, satisfactory to the Association.

#### Part C: Environmental Protection

1. Strengthening transport sector environmental performance through the (i) provision of technical advisory services for the systematic assessment of sector investment programs in the MOTM and the MOPW to ensure that they meet national environmental regulations and for the development of a monitoring system for environmental performance; and (ii) carrying out of a training program for the MOTM and the MOPW staff in the area of environmental regulations.

2. Development of a strategy on natural catastrophe prevention and mitigation through the provision of technical advisory services for the carrying out of studies on preventive measures, the establishment of a database on natural disasters, the setting up of early warning and alert systems with national coverage, the upgrading and expansion of data collection coverage, and the improvement of data analysis methods.

3. Strengthening emergency coastal protection to preserve economic and social activities in Toamasina and Morondava through the (i) carrying out of protective construction work to ensure conservation of the sites and maintenance of threatened activities; and (ii) provision of technical advisory services for the improvement of coastal and environmental protection and preparation of engineering designs and supervision of works.

4. Preparation of an action plan to ensure that the Borrower's main ports conform to the requirements of the MARPOL and OPRC Conventions through the (i) provision of technical advisory services; and (ii) carrying out of a training program for MOTM staff.

5. Carrying out of a pilot operation in the port of Tolanaro for the removal of shipwrecks and the subsequent disposal of wreckage materials in accordance with sound environmental guidelines.

6. Strengthening emergency reserves for mitigating natural catastrophes through the acquisition of prefabricated metallic bridges and other temporary structures.

Part D: Improvement of Economic Infrastructure

1. Rehabilitation and other improvement works in the ports of Toliara and Mahajanga and the rivers Tsiribihina and Sofia as a pilot operation for the improvement of river navigation and cargo transfer facilities.

2. Carrying out of road works, including periodic maintenance, on about 530 km of national roads, including RN 25/45, RN 6, RN 34 and RN 44/3a.

3. Carrying out of infrastructure feasibility studies for selected tourist ports, for the port of Toamasina, for maritime signaling, for the rehabilitation of national roads, for the improvement of rural roads, and for the improvement of railways and secondary and tertiary airports through the provision of technical advisory services.

4. Supervision of civil works for roads, rivers, and ports under the Project through the provision of technical advisory services.

\* \* \*

The Project is expected to be completed by January 31, 2005.

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, September 1997, and January 1999 (the Guidelines) and the provisions of the following Parts of this Section I.

Part B: International Competitive Bidding

1. Except as otherwise provided in Part C of this Section, contracts for goods estimated to cost \$100,000 equivalent or more each and contracts for works 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 and works to be procured under contracts awarded in accordance with the provisions of paragraph 1 of this Part B.

(a) Prequalification

Bidders for civil works for port rehabilitation under Part D of the Project and for the removal of shipwrecks in Tolianaro under Part C of the Project shall be prequalified in accordance with the provisions of paragraphs 2.9 and 2.10 of the Guidelines.

(b) 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.

(c) Two-stage Bidding Procedure

The bidding procedure for works to be procured shall be carried out in two stages in accordance with the provisions of paragraph 2.6 of the Guidelines.

(d) Notification and Advertising

The invitation to prequalify or bid for (i) each contract for works; and (ii) each contract for goods estimated to cost \$100,000 equivalent or more shall be advertised in accordance with the procedures applicable to large contracts under paragraph 2.8 of the Guidelines.

(e) Preference for Domestically Manufactured Goods and Domestic Contractors

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 and works to be carried out by domestic contractors.

Part C: Other Procurement Procedures

1. National Competitive Bidding

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

2. National Shopping

Contracts for goods estimated to cost less than \$30,000 equivalent per contract, up to an aggregate amount not to exceed \$250,000 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.

Part D: Review by the Association of Procurement Decisions

1. Procurement Planning

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

2. Prior Review

(a) With respect to each contract for goods estimated to cost the equivalent of \$100,000 or more and with respect to each contract for works estimated to cost the equivalent of \$100,000 or more, the procedures set forth in paragraphs 2 and 3 of Appendix 1 to the Guidelines shall apply.

(b) With respect to each contract for national shopping estimated to cost the equivalent of \$30,000 or more, the following procedures shall apply:

(i) prior to the execution of any contract under national shopping procedures, the Borrower shall provide to the Association a report on the comparison and evaluation of quotations received from at least three suppliers;

(ii) prior to the execution of any contract procured under national shopping procedures, the Borrower shall provide to the Association a copy of the specifications and the draft contract; and

(iii) the procedures set forth in paragraphs 2 (f), 2 (g) and 3 of Appendix 1 to the Guidelines shall apply.

### 3. Post Review

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

## Section II. Employment of Consultants

### Part A: General

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

### Part B: Quality-and Cost-Based Selection

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

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

### Part C: Other Procedures for the Selection of Consultants

#### 1. Quality-Based Selection

Services shall be procured under contracts awarded in accordance with the provisions of paragraph 3.1 through 3.4 of the Consultant Guidelines

#### 2. Least-Cost Selection

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

#### 3. Individual Consultants

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

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

#### 1. Selection Planning

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

2. Prior Review

(a) With respect to each contract for the employment of consulting firms estimated to cost the equivalent of \$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 \$50,000 or more, but less than the equivalent of \$100,000, 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 \$30,000 or more, the qualifications, experience, terms of reference, and terms of employment of the consultants shall be furnished to the Association for its prior review and approval. The contract shall be awarded only after the said approval shall have been given.

(d) With respect to amendments to contracts for the employment of consulting firms and individual consultants which increase the original value of the contracts to the equivalent of \$100,000 or more for consulting firms or to the equivalent of \$30,000 or more for individual consultants, the procedures set forth in paragraph 3 of Appendix 1 to the Consultant 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 Consultant Guidelines shall apply.

SCHEDULE 4

Implementation Program

1. The Borrower shall:

(a) maintain policies and procedures adequate to enable it to monitor and evaluate on an ongoing basis, in accordance with the indicators set forth in Supplemental Letter No. 2, the carrying out of the Project and the achievement of the objectives thereof;

(b) not amend the Project Implementation Plan or waive any provision thereof which, in the opinion of the Association, will materially and adversely affect the implementation of the Project or the objectives thereof;

(c) prepare, under terms of reference satisfactory to the Association, and furnish to the Association on or about December 31 and June 30, respectively, semiannual reports integrating the results of the monitoring and evaluation activities performed pursuant to paragraph (a) of this Section, on the progress achieved in the carrying out of the Project during the period preceding the date of said report and setting out the measures recommended to ensure the efficient carrying out of the Project and the achievement of the objectives thereof during the period

following such date;

(d) carry out, jointly with the Association on July 31 and January 31 of each year or such later dates as shall be agreed upon with the Association, semiannual reviews of the procurement activities during the implementation of the Project;

(e) carry out, jointly with the Association, no later than eighteen (18) months after Effectiveness Date, a midterm review which shall (i) assess the overall progress in the implementation of the Project; and (ii) review the outcomes of the implementation of the sector reform program; and

(f) based on the reviews referred to in paragraphs (d) and (e) of this Schedule, prepare a revised action plan, satisfactory to the Association, for the further implementation of the Project and thereafter implement such action plan.

2. The Borrower shall have prepared the new regulations on autonomous ports fifteen months after the Effectiveness Date.

#### SCHEDULE 5

##### Special Accounts

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 and to be financed out of the proceeds of the Credit allocated from time to time to the eligible Categories in accordance with the provisions of Schedule 1 to this Agreement; and

(c) the term "Authorized Allocation" means an amount equivalent to \$1,900,000 in respect of the Special Account for the MOTM and \$2,600,000 in respect of the Special Account for the MOPW, 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 \$1,000,000 in respect of the Special Account for the MOTM, and an amount equivalent to \$1,300,000 until (i) in respect of Special Account for the MOTM, the aggregate amount of withdrawals from the Credit Account plus the total amount of all outstanding special commitments entered into by the Association pursuant to Section 5.02 of the General Conditions shall be equal to or exceed the equivalent of SDR 7,600,000; and (ii) in respect of the Special Account for MOPW, the aggregate amount of withdrawals from the Credit Account plus the total amount of all outstanding special commitments entered into by the Association pursuant to Section 5.02 of the General Conditions shall be equal to or exceed the equivalent of SDR 10,600,000.

2. Payments out of the respective 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 respective Special Accounts have been duly opened, withdrawals of the Authorized Allocation and subsequent withdrawals to replenish the respective Special Accounts 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 respective Special Accounts 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 respective Special Accounts such amount or amounts as the Borrower shall have requested.

(b) (i) For replenishment of the respective Special Accounts, the Borrower shall furnish to the Association requests for deposits into the respective Special Accounts 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 payments in respect of which 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 respective Special Accounts 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 respective Special Accounts 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 respective Special Accounts, 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 any Special Account:

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

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

(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 for the respective Special Accounts 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 respective Special Accounts as of the date of such notice will be utilized in making

payments for eligible expenditures.

6. (a) If the Association shall have determined at any time that any payment out of any Special Account (i) was made for an expenditure or in an amount not eligible pursuant to paragraph 2 of this Schedule; or (ii) was not justified by the evidence furnished to the Association, the Borrower shall, promptly upon notice from the Association: (A) provide such additional evidence as the Association may request; or (B) deposit into the Special Account in question (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 any 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 any Special Account will not be required to cover further payments for eligible expenditures, the Borrower shall, promptly upon notice from the Association, refund to the Association such outstanding amount.

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

(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.

