

CONFORMED COPY

CREDIT NUMBER 4341-MAG

Financing Agreement

(Fourth Poverty Reduction Support Credit)

between

REPUBLIC OF MADAGASCAR

and

INTERNATIONAL DEVELOPMENT ASSOCIATION

Dated August 14, 2007

CREDIT NUMBER 4341-MAG

FINANCING AGREEMENT

AGREEMENT dated August 14, 2007, entered into between REPUBLIC OF MADAGASCAR (“Recipient”) and INTERNATIONAL DEVELOPMENT ASSOCIATION (“Association”) for the purpose of providing financing in support of the Program (as defined in the Appendix to this Agreement). The Association has decided to provide this financing on the basis, *inter alia*, of: (a) the actions which the Recipient has already taken under the Program and which are described in Section I of Schedule 1 to this Agreement; and (b) the Recipient’s maintenance of an appropriate macro-economic policy framework. The Recipient and the Association therefore hereby agree as follows:

ARTICLE I — GENERAL CONDITIONS; DEFINITIONS

- 1.01. The General Conditions (as defined in the Appendix to this Agreement) constitute an integral part of this Agreement.
- 1.02. Unless the context requires otherwise, the capitalized terms used in the Financing Agreement have the meanings ascribed to them in the General Conditions or in the Appendix to this Agreement.

ARTICLE II — FINANCING

- 2.01. The Association agrees to extend to the Recipient, on the terms and conditions set forth or referred to in this Agreement, a credit in an amount equivalent to twenty six million three hundred thousand Special Drawing Rights (SDR 26,300,000) (“Credit”).
- 2.02. The Recipient may withdraw the proceeds of the Financing in support of the Program in accordance with Section II of Schedule 1 to this Agreement.
- 2.03. The Maximum Commitment Charge Rate payable by the Recipient on the Unwithdrawn Financing Balance shall be one-half of one percent (1/2 of 1%) per annum.
- 2.04. The Service Charge payable by the Recipient on the Withdrawn Credit Balance shall be equal to three-fourths of one percent (3/4 of 1%) per annum.
- 2.05. The Payment Dates are March 1 and September 1 in each year.

- 2.06. The principal amount of the Credit shall be repaid in accordance with repayment schedule set forth in Schedule 2 to this Agreement.
- 2.07. The Payment Currency is the Dollar.

ARTICLE III — PROGRAM

- 3.01. The Recipient declares its commitment to the Program and its implementation. To this end:
- (a) the Recipient and the Association shall from time to time, at the request of either party, exchange views on the progress achieved in carrying out the Program;
 - (b) prior to each such exchange of views, the Recipient shall furnish to the Association for its review and comment a report on the progress achieved in carrying out the Program, in such detail as the Association shall reasonably request; and
 - (c) without limitation upon the provisions of paragraphs (a) and (b) of this Section, the Recipient shall exchange views with the Association on any proposed action to be taken after the disbursement of the Financing which would have the effect of materially reversing the objectives of the Program, or any action taken under the Program including any action specified in Section I of Schedule 1 to this Agreement.

ARTICLE IV — REMEDIES OF THE ASSOCIATION

- 4.01. The Additional Event of Suspension consists of the following:
- (a) A situation has arisen which shall make it improbable that the Program, or a significant part of it, will be carried out.

ARTICLE V — TERMINATION

- 5.01. The Effectiveness Deadline is the date ninety (90) days after the date of this Agreement.

ARTICLE VI — REPRESENTATIVE; ADDRESSES

6.01. The Recipient's Representative is the Minister at the time responsible for finance.

6.02. The Recipient's Address is:

Ministry of Finance and Budget
B.P. 61
Antananarivo 101
Madagascar

Cable address: Facsimile:

MFB (261) 20 22 34530
Antananarivo

6.03. The Association's Address is:

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

Cable address: Telex: Facsimile:

INDEVAS 248423(MCI) or 1-202-477-6391
Washington, D.C. 64145(MCI)

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

REPUBLIC OF MADAGASCAR

**By: /s/ Benjamin Andriamparany Radavidson
Authorized Representative**

INTERNATIONAL DEVELOPMENT ASSOCIATION

**By: /s/ Robert R. Blake
Authorized Representative**

SCHEDULE 1

Program Actions; Availability of Financing Proceeds

Section I. Actions under the Program

A. Actions Taken Under the Program. The actions taken by the Recipient under the Program include the following:

1. The Recipient has satisfactorily implemented the Priority Action Plan for FY 2006, in accordance with paragraph 7 of the Letter of Development Policy.
2. The Recipient has allocated adequate resources to MAP Priority Sectors in its budget for 2007, in accordance with paragraph 14 of the Letter of Development Policy.
3. All Sector Ministries have submitted budget execution reports based on an economic classification to the Ministry of Finance and Budget, within four weeks after the end of the reference period (every four months), in accordance with paragraph 8 of the Letter of Development Policy.
4. The Recipient has carried out an audit through, or under the oversight of, the Procurement Oversight Institution in at least three key ministries (education, health, transport) to assess compliance with new procurement rules and regulations, in accordance with paragraph 8 of the Letter of Development Policy.
5. The Recipient has adopted new regulations on fiscal decentralization as reflected in the FY 2007 Budget Law, in accordance with paragraph 18 of the Letter of Development Policy.
6. The Recipient has developed conflict of interest regulations, in accordance with paragraph 21 of the Letter of Development Policy.
7. The implementation by the Recipient of the National Education for All Initiative Plan is on track, in accordance with paragraph 22 of the Letter of Development Policy.
8. The Recipient has prepared and validated the Health Sector Development Program, in accordance with paragraph 23 of the Letter of Development Policy.

9. The Recipient has elaborated, validated and implemented the recommendations of a nutrition sector institutional assessment, in accordance with paragraph 24 of the Letter of Development Policy.
10. The Recipient in collaboration with its main partners (*i.e. AfdB, UNICEF, JICA, Water Aid, USID and EU*) has implemented the recommendations of the FY2006 joint donors / Recipient water supply sector review in the program budget 2007-2009, in accordance with paragraph 24 of the Letter of Development Policy.

Section II. Availability of Financing Proceeds

- A. General.** The Recipient may withdraw the proceeds of the Financing in accordance with the provisions of this Section and such additional instructions as the Association may specify by notice to the Recipient.
- B. Allocation of Financing Amounts.** The Financing shall be withdrawn in a single tranche. The allocation of the amounts of the Financing to this end is set out in the table below:

Allocations	Amount of the Financing Allocated (expressed in SDR)
Single Tranche	26,300,000
TOTAL AMOUNT	26,300,000

- C. Deposits of Financing Amounts.** Except as the Association may otherwise agree:
 1. all withdrawals from the Financing Account shall be deposited by the Association into an account designated by the Recipient and acceptable to the Association; and
 2. the Recipient shall ensure that upon each deposit of an amount of the Financing into this account, an equivalent amount is accounted for in the Recipient's budget management system, in a manner acceptable to the Association.

- D. Excluded Expenditures.** The Recipient undertakes that the proceeds of the Financing shall not be used to finance Excluded Expenditures. If the Association determines at any time that an amount of the Financing was used to make a payment for an Excluded Expenditure, the Recipient shall, promptly upon notice from the Association, refund an amount equal to the amount of such payment to the Association. Amounts refunded to the Association upon such request shall be cancelled.
- E. Closing Date.** The Closing Date is July 31, 2008.

SCHEDULE 2

Repayment Schedule

Date Payment Due	Principal Amount of the Credit repayable (expressed as a percentage)*
On each March 1 and September 1	
commencing September 1, 2017 to and including March 1, 2027	1%
commencing September 1, 2027 to and including March 1, 2047	2%

*The percentages represent the percentage of the principal amount of the Credit to be repaid, except as the Association may otherwise specify pursuant to Section 3.03 (b) of the General Conditions.

APPENDIX

Section I. Definitions

1. “Budget Law” means the Recipient law reflecting budget allocation for a given fiscal year.
2. “Excluded Expenditure” means any expenditure:
 - (a) for goods or services supplied under a contract which any national or international financing institution or agency other than the Association or the Bank has financed or agreed to finance, or which the Association or the Bank has financed or agreed to finance under another Financing, credit, grant or loan;
 - (b) for goods included in the following groups or sub-groups of the Standard International Trade Classification, Revision 3 (SITC, Rev.3), published by the United Nations in Statistical Papers, Series M, No. 34/Rev.3 (1986) (the SITC), or any successor groups or subgroups under future revisions to the SITC, as designated by the Association by notice to the Recipient:

Group	Sub-group	Description of Item
112		Alcoholic beverages
121		Tobacco, un-manufactured, tobacco refuse
122		Tobacco, manufactured (whether or not containing tobacco substitutes)
525		Radioactive and associated materials
667		Pearls, precious and semiprecious stones, unworked or worked
718	718.7	Nuclear reactors, and parts thereof; fuel elements (cartridges), non-irradiated, for nuclear reactors
728	728.43	Tobacco processing machinery
897	897.3	Jewelry of gold, silver or platinum group metals (except watches and watch cases) and goldsmiths' or

		silversmiths' wares (including set gems)
971		Gold, non-monetary (excluding gold ores and concentrates)

- (c) for goods intended for a military or paramilitary purpose or for luxury consumption;
 - (d) for environmentally hazardous goods, the manufacture, use or import of which is prohibited under the laws of the Recipient or international agreements to which the Recipient is a party;
 - (e) on account of any payment prohibited by a decision of the United Nations Security Council taken under Chapter VII of the Charter of the United Nations; and
 - (f) with respect to which the Association determines that corrupt, fraudulent, collusive or coercive practices were engaged in by representatives of the Recipient or other recipient of the Financing proceeds, without the Recipient (or other such recipient) having taken timely and appropriate action satisfactory to the Association to remedy the situation.
3. "Fiscal Year" or "FY" means any 12-month period beginning on January 1 and ending on December 31.
 4. "General Conditions" means the "International Development Association General Conditions for Credits and Grants", dated July 1, 2005 (as amended through October 15, 2006) with the modifications set forth in Section II of this Appendix.
 5. "Health Sector Development Program" means the Recipient's program for the development of the health sector adopted on April 26, 2007.
 6. "Letter of Development Policy" means the letter from the Recipient to the Association dated May 11, 2007, declaring the Recipient's commitment to the execution of the Program, and requesting assistance from the Association in support of the Program during its execution.
 7. "MAP" means Madagascar Action Plan, the Recipient's strategy for poverty reduction adopted in November 2006.

8. "MAP Priority Sectors" means the sector of education, health, transport and agriculture.
9. "National Education For All Program" means the educational program of the Recipient to reach the universal education at primary level as adopted by the Recipient in October 2003.
10. "National Education For All Plan" means the plan in support of the implementation of the National Education For All Program, as adopted by the Recipient in May 2005.
11. "Priority Action Plan" means the Recipient's priority action plan for public financial management reforms for FY 2006.
12. "Procurement Oversight Institution" means *Autorité de Régulation des Marchés Publics*, the authority established by law No 2004-009 dated July 26, 2004.
13. "Program" means the program of actions, objectives and policies designed to promote growth and achieve sustainable reductions in poverty and set forth or referred to in the Letter of Development Policy.
14. "Sector Ministries" means the ministries of the Recipient in charge of education, health, transport and agriculture.
15. "Single Tranche" means the amount of the Financing allocated to the category entitled "Single Tranche" in the table set forth in Part B of Section II of Schedule 1 to this Agreement.

Section II. Modifications to the General Conditions

The modifications to the "International Development Association General Conditions for Credits and Grants", dated July 1, 2005 (as amended through October 15, 2006) are as follows:

1. The last sentence of paragraph (a) of Section 2.03 (relating to Applications for Withdrawal) is deleted in its entirety.
2. Sections 2.04 (*Designated Accounts*) and 2.05 (*Eligible Expenditures*) are deleted in their entirety, and the remaining Sections in Article II are renumbered accordingly.

3. Sections 4.01 (*Project Execution Generally*), and 4.09 (*Financial Management; Financial Statements; Audits*) are deleted in their entirety, and the remaining Sections in Article IV are renumbered accordingly.
4. Paragraph (a) of Section 4.05 (renumbered as such pursuant to paragraph 3 above and relating to *Use of Goods, Works and Services*) is deleted in its entirety.
5. Paragraph (c) of Section 4.06 (renumbered as such pursuant to paragraph 3 above) is modified to read as follows:

“Section 4.06. *Plans; Documents; Records*

... (c) The Recipient shall retain all records (contracts, orders, invoices, bills, receipts and other documents) evidencing expenditures under the Financing until two years after the Closing Date. The Recipient shall enable the Association’s representatives to examine such records.”

6. Section 4.07 (renumbered as such pursuant to paragraph 3 above) is modified to read as follows:

Section 4.07. *Program Monitoring and Evaluation*

... (c) The Recipient shall prepare, or cause to be prepared, and furnish to the Association not later than six months after the Closing Date, a report of such scope and in such detail as the Association shall reasonably request, on the execution of the Program, the performance by the Recipient and the Association of their respective obligations under the Legal Agreements and the accomplishment of the purposes of the Financing.

7. The following terms and definitions set forth in the Appendix are modified or deleted as follows, and the following new terms and definitions are added in alphabetical order to the Appendix as follows, with the terms being renumbered accordingly:

- (a) The definition of the term “Eligible Expenditure” is modified to read as follows:

“‘Eligible Expenditure’ means any use to which the Financing is put in support of the Program, other than to finance expenditures excluded pursuant to the Financing Agreement.”

- (b) The term “Financial Statements” and its definition as set forth in the Appendix are deleted in their entirety.
- (c) The term “Project” is modified to read “Program” and its definition is modified to read as follows:

“‘Program’ means the program referred to in the Financing Agreement in support of which the Financing is made.” All references to “Project” throughout these General Conditions are deemed to be references to “Program”.