

CONFORMED COPY

CREDIT NUMBER 1804 MAG

Development Credit Agreement
(Second Agricultural Credit Project)

between

DEMOCRATIC REPUBLIC OF MADAGASCAR

and

INTERNATIONAL DEVELOPMENT ASSOCIATION

Dated July 23, 1987

CREDIT NUMBER 1804 MAG

DEVELOPMENT CREDIT AGREEMENT

AGREEMENT, dated July 23, 1987, between DEMOCRATIC REPUBLIC OF MADAGASCAR (the Borrower) and INTERNATIONAL DEVELOPMENT ASSOCIATION (the Association).

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

(B) the Project will be carried out by Bankin'ny Tantsaha Mpamokatra (BTM) with the Borrower's assistance and, as part of such assistance, the Borrower will make available to BTM the proceeds of the Credit as provided in this Agreement; 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 and in the Project Agreement of even date herewith between the Association and BTM;

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 in Schedule 4 to this Agreement (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 have the respective meanings therein set forth and the following additional terms have the following meanings:

(a) "BTM" means Bankin'ny Tantsaha Mpamokatra, the National Rural Development Bank of the Borrower, established pursuant to the Borrower's Ordonnance No. 76-046, dated December 27, 1976;

(b) "Project Agreement" means the agreement between the Association and BTM, 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;

(c) "Statutes" means the statutes of BTM approved by the Borrower's Decree No. 76-440, dated December 27, 1976, as amended to date and as further amended from time to time;

(d) "Sub-loan" means a loan or credit made or proposed to be made by BTM to a Beneficiary for an Investment Project out of the equivalent of the proceeds of the Credit made available to BTM, and "free-limit Sub-loan" means a Sub-loan, as so defined, which qualifies as a free-limit Sub-loan pursuant to the provisions of paragraph 2 (b) of Schedule I to the Project Agreement;

(e) "Beneficiary" means a person, or a group of persons, or an entity with juridical capacity under the laws of the Borrower, predominantly dedicated to agricultural production, or primary processing/marketing of agricultural products, to whom or to which BTM proposes to make or has made a Sub-loan;

(f) "Investment Project" means a specific development project to be carried out by a Beneficiary utilizing the proceeds of a Sub-loan;

(g) "FMG" and "Franc Malagasy" mean the currency of the Borrower;

(h) "foreign currency" means any currency other than the currency of the Borrower;

(i) "Statement of Policy" means the statement of policy of BTM, adopted by its Board of Directors on March 12, 1987;

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

(k) "Subsidiary" means any company of which a majority of the outstanding voting stock or other proprietary interest is owned or effectively controlled by BTM or by any one or more Subsidiaries of BTM; and

(l) "FY" means the fiscal year of BTM, starting on January 1 and ending on December 31 of each year.

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 Agreement, an amount in various currencies equivalent to eight million Special Drawing Rights (SDR 8,000,000).

Section 2.02. (a) The amount of the Credit may be withdrawn from the Credit Account, in accordance with the provisions of Schedule I to this Agreement, as such Schedule may be amended from time to time by agreement between the Borrower and the Association, for amounts paid (or, if the Association shall so agree, to be paid) by BTM: (i) on account of withdrawals made by a Beneficiary under a Sub-loan to meet the reasonable foreign currency cost of goods and services required for the Investment Project in respect of which the withdrawal is requested; and (ii) in respect of the reasonable foreign currency cost of goods and services required for Part B of the Project and to be financed out of the proceeds of the Credit.

(b) The Borrower shall, for the purposes of the Project, open and maintain in Dollars a special account (the Special Account) in its Central Bank on terms and conditions satisfactory to the Association. Deposits into, and payments out of, the Special Account shall be made in accordance with the provisions of Schedule 3 to this Agreement.

Section 2.03. The Closing Date shall be June 30, 1994, or such later date as the Association shall establish. The Association shall promptly notify the Borrower of such later date.

Section 2.04. (a) The Borrower shall pay to the Association a commitment charge at the rate of one-half of one percent (1/2 of 1%) per annum on the principal amount of the Credit not withdrawn from time to time. The commitment charge shall accrue from a date sixty days after the date of this Agreement to the respective dates on which amounts shall be withdrawn by the Borrower from the Credit Account or shall be cancelled.

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

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

Section 2.06. Commitment charges and service charges shall be payable semiannually on February 15 and August 15 in each year,

Section 2.07. The Borrower shall repay the principal amount of the Credit in semiannual installments payable on each February 15 and August 15, commencing August 15, 1997, and ending February 15, 2037. Each installment to and including the installment payable on February 15, 2007, shall be one-half of one percent (1/2 of 1%) of such principal amount, and each installment thereafter shall be one and one-half percent (1-1/2%) of such principal amount.

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 and Other Covenants

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, without any limitation or restriction upon any of its other obligations under this Agreement, shall cause BTM to perform in accordance with the provisions of the Project Agreement all the obligations of BTM therein set forth, shall take and cause to be taken all action, including the provision of funds, facilities, services and other resources, necessary or appropriate to enable BTM to perform such obligations, and shall not take or permit to be taken any action which would prevent or interfere with such performance.

(b) The Borrower shall make the proceeds of the Credit available to BTM as an equity contribution.

Section 3.02. Except as the Association shall otherwise agree, procurement of computer equipment and consultants' services required for Part B of the Project and to be financed out of the proceeds of the Credit shall be governed by the provisions of Schedule 2 to the Project Agreement.

Section 3.03. The Borrower and the Association hereby agree that the obligations set forth in Sections 9.03, 9.04, 9.05, 9.06, 9.07 and 9.08 of the General Conditions (relating to insurance, use of goods and services, plans and schedules, records and

reports, maintenance and land acquisition, respectively) shall be carried out by BTM pursuant to Section 2.05 of the Project Agreement.

Section 3.04. During execution of the Project and as long as BTM continues its maximum bad debt provision policy in accordance with the provisions of Section 3.02 of the Project Agreement, the Borrower shall ensure that BTM shall not pay any dividends.

Section 3.05. By December 31, 1988, the Borrower shall take all measures necessary to carry into effect, in a manner satisfactory to the Association, the recommendations of the study to be carried out under Part B.6 of the Project, as far as they relate to the Borrower.

Section 3.06. By December 31, 1988, the Borrower shall have adopted rules and procedures to be applied by its Central Bank in supervising the banking system in Madagascar; such rules and procedures to be acceptable to the Association.

ARTICLE IV

Remedies of the Association

Section 4.01. Pursuant to Section 6.02 (h) of the General Conditions, the following additional events are specified:

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

(b) as a result of events which have occurred after the date of this Agreement, an extraordinary situation shall have arisen which shall make it improbable that BTM will be able to perform its obligations under the Project Agreement;

(c) the Borrower's Ordonnance No. 76-046 dated December 27, 1976, establishing BTM, or the Statutes shall have been amended so as to affect materially and adversely the operations or financial condition of BTM;

(d) the Borrower or any other authority having jurisdiction shall have taken any action for the dissolution or disestablishment of BTM or for the suspension of its operations; and

(e) a Subsidiary or any other entity shall have been created or acquired or taken over by BTM, if such creation, acquisition or taking over would adversely affect the conduct of BTM's business, its financial situation, the efficiency of its management and personnel, or the carrying out of the Project.

Section 4.02. Pursuant to Section 7.01 (d) of the General Conditions, the following additional events are specified:

(a) any event specified in paragraph (a), (c) or (e) of Section 4.01 of this Agreement shall occur and shall continue for a period of sixty days after notice thereof shall have been given by the Association to the Borrower and BTM; and

(b) any event specified in paragraph (d) of Section 4.01 of this Agreement shall occur.

ARTICLE V

Effective Date; Termination

Section 5.01. The following event is specified as additional conditions to the effectiveness of this Agreement within the meaning of Section 12.01 (b) of the General Conditions, namely that the Borrower has made a payment to BTM of FMG 2.5 billion for irrecoverable loans guaranteed by the Borrower and made by BTM to parastatals.

Section 5.02. The following is specified as an additional matter, 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, namely, that the Project Agreement has been duly authorized or ratified by BTM, and is legally binding upon BTM in accordance

with its terms.

Section 5.03. 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 5.04. The obligations of the Borrower under the provisions of Section 4.02 of this Agreement shall cease and determine on the date on which this Agreement shall terminate or on the date 20 years after the date of this Agreement, whichever shall be the earlier.

ARTICLE VI

Representative of the Borrower; Addresses

Section 6.01. The Minister of the Borrower responsible for finance is designated as representative of the Borrower for the purposes of Section 11.03 of the General Conditions.

Section 6.02. The following addresses are specified for the purposes of Section 11.01 of the General Conditions:

For the Borrower:

Ministere aupres de la
Presidence de la Republique
charge des Finances et de
l'Economie
Antananarivo 101
Madagascar

Cable address: Telex:

MINFIN Antananarivo 22339

For the Association:

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

Cable address: Telex:

INDEVAS 440098 (ITT)
Washington, D.C. 248423 (RCA) or
64145 (WUI)

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

DEMOCRATIC REPUBLIC OF MADAGASCAR

By /s/ Leon Rajaobelina

Authorized Representative

INTERNATIONAL DEVELOPMENT ASSOCIATION

By /s/ Sven Sandstrom

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) Sub-loans	6,400,000	100% of foreign expenditures for goods
(2) Consultants' services, audit and training	600,000	100% of foreign expenditures
(3) Computer equipment	900,000	100% of foreign expenditures
(4) Unallocated	100,000	
TOTAL	8,000,000	

2. For the purposes of this Schedule, 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.

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.

SCHEDULE 2

Description of the Project

The objectives of the Project are to provide foreign exchange for new investments, rehabilitation, or expansion of existing businesses, in agricultural production or primary processing/marketing of agricultural products, to contribute to the strengthening of BTM, and to assist in the development of a long-term agricultural credit policy.

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: Credit Component

Provision of Sub-loans to Beneficiaries for new investments in, or rehabilitation and expansion of, activities in agricultural production, or primary processing/marketing of agricultural products.

Part B: Institution Building Component

1. Strengthening of BTM's training and computer divisions through provision of technical assistance and acquisition of computer equipment;

2. strengthening of BTM's project promotion and appraisal capabilities through

provision of short-term technical assistance;

3. carrying out of a training program for BTM's staff;
4. carrying out of a pilot project in field-level credit management aimed at reviving BTM's smallholder credit program;
5. provision of consultants' services through BTM to entrepreneurs to assist in the preparation of viable projects; and
6. carrying out of a study to formulate a national agricultural credit policy.

* * *

The Project is expected to be completed by December 31, 1993.

SCHEDULE 3

Special Account

1. For the purposes of this Schedule:

(a) the term "Eligible Categories" means Categories (1) and (2) 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 I to this Agreement; and

(c) the term "Authorized Allocation" means an amount equivalent to \$400,000 to be withdrawn from the Credit Account and deposited into the Special Account pursuant to paragraph 3 (a) of this Schedule.

2. Except as the Association shall otherwise agree, 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 may be made as follows:

(a) On the basis of a request or requests by the Borrower for a deposit or deposits which add up to the aggregate amount of the Authorized Allocation, 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) The Borrower shall furnish to the Association requests for replenishment of the Special Account at such intervals as the Association shall specify. on the basis of such requests, the Association shall withdraw from the Credit Account and deposit into the Special Account such amounts as shall be required to replenish the Special Account with amounts not exceeding the amount of payments made out of the Special Account for Eligible Expenditures. All such deposits shall be withdrawn by the Association from the Credit Account under the respective Eligible Categories, and in the respective equivalent amounts, as shall have been justified by the evidence supporting the request for such deposit furnished pursuant to paragraph 4 of this Schedule.

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

5. (a) Notwithstanding the provisions of paragraph 3 of this Schedule, no

further deposit into the Special Account shall be made by the Association when either of the following situations first arises:

(i) the Association shall have determined that all further withdrawals should be made directly by the Borrower from the Credit Account in accordance with the provisions of paragraph (a) of Section 2.02 of this Agreement; or

(ii) the total unwithdrawn amount of the Credit allocated to the Eligible Categories, minus the amount of any outstanding special commitment entered into by the Association pursuant to Section 5.02 of the General Conditions with respect to the Project, shall be equal to the equivalent of twice the amount of the Authorized Allocation.

(b) 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 have been or 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 any expenditure or in any amount not eligible pursuant to paragraph 2 of this Schedule; or (ii) was not justified by the evidence furnished pursuant to paragraph 4 of this Schedule, the Borrower shall, promptly upon notice from the Association, deposit into 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. No further deposit by the Association into the Special Account shall be made until the Borrower has made such deposit or refund.

(b) If the Association shall have determined at any time that any amount outstanding in 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 for crediting to the Credit Account.

SCHEDULE 4

Modifications of General Conditions

For the purpose of this Agreement, the provisions of the General Conditions are modified as follows:

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

(2) The following subparagraph is added to Section 2.01:

"15. The term 'Project Agreement' has the meaning set forth in paragraph (b) of Section 1.02 of the Development Credit Agreement."

(3) The words "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 cancelled" set forth at the end of Section 6.03 are deleted and the following is substituted therefor:

"or (e) by the date specified in paragraph 3 (c) of Schedule 1 to the Project Agreement, no applications or requests permitted under sub-paragraphs (a) or (b) of such Section shall have been received by the Association in respect of any portion of the Credit, or having been so received, shall have been denied, the Association may, by notice to the Borrower, terminate the right to submit such applications or approvals or to make withdrawals from the Credit Account, as the case may be, with respect to submit such applications or approvals or to make withdrawals from the Credit Account, as the case may, with respect to such amount or portion of the Credit. Upon the giving of such

notice, such amount or portion of the Credit shall be cancelled."

