

CONFORMED COPY

CREDIT NUMBER 4221 MAG

Financing Agreement

(Third Poverty Reduction Support Credit)

between

REPUBLIC OF MADAGASCAR

and

INTERNATIONAL DEVELOPMENT ASSOCIATION

Dated July 17, 2006

CREDIT NUMBER 4221 MAG

FINANCING AGREEMENT

AGREEMENT dated July 17, 2006, 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 nine hundred thousand Special Drawing Rights (SDR 26,900,000) (“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 The Service Charge payable by the Recipient on the Withdrawn Credit Balance shall be equal to three-fourths of one percent (3/4 of 1%) per annum.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 Economy, Finance and Budget
B.P. 61
Antananarivo 101
Madagascar

Cable address:

Facsimile:

MEFB
Antananarivo

(261) 20 22 34530

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
Washington, D.C.

248423(MCI) or
64145(MCI)

1-202-477-6391

AGREED in the District of Columbia, United States of America, as of the day and year first above written.

REPUBLIC OF MADAGASCAR

By */s/ Narisoa Rajaonarivony*
Authorized Representative

INTERNATIONAL DEVELOPMENT ASSOCIATION

By */s/ Nils Tcheyan*
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 FY2005, in accordance with paragraphs 5 and 6 of the Letter of Development Policy.
2. The Recipient has allocated adequate resources to PRSP Priority Sectors in its budget for 2006, in accordance with paragraph 8 of the Letter of Development Policy.
3. The Recipient has established a fully operational transitional financial management system and produced monthly accounts of budget execution by the 15th of the following month in the five regional treasuries and central treasury, in accordance with paragraph 6 of the Letter of Development Policy.
4. The Recipient has: (i) submitted for Cabinet approval implementing rules and regulations for the Procurement Code and for the Minister of Finance, Economy and Budget's approval the Standard Bidding Documents; (ii) nominated key personnel (head and directors) for the Procurement Oversight Institution on an interim basis until final approval by Cabinet, and (iii) made procurement entities in key ministries (education, health, transport, agriculture) operational, in accordance with paragraph 11 of the Letter of Development Policy.
5. The Recipient has increased resource allocation to the Communes, in accordance with paragraph 13 of the Letter of Development Policy.
6. The Recipient has satisfactorily implemented the Customs Action Plan, in accordance with paragraph 5 of the Letter of Development Policy.
7. The Recipient has satisfactorily implemented the National Education for All Initiative, in accordance with paragraph 15 of the Letter of Development Policy.
8. The Recipient in collaboration with its main partners (*i.e. AfdB, UNICEF, JICA, Water Aid, USID and EU*) has begun implementing the recommendations of the Water Supply Sector Review in the program budget 2006-2008, in accordance with paragraph 17 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	26,900,000
TOTAL AMOUNT	26,900,000

- C. Deposits of Financing Amounts.** Except as the Association may otherwise agree:
- 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
 - 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, 2007.

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, 2016, to and including March 1, 2026.	1%
commencing September 1, 2026 to and including March 1, 2046.	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. "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) under a contract 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 during the procurement or execution of such contract, without the Recipient (or other such recipient) having taken timely and appropriate action satisfactory to the Association to remedy the situation.
2. "Communes" means an administrative sub-division established pursuant to laws No 93-005 dated January 28, 1994; No 94-039 dated January, 3, 1995, No 94-007 dated April, 26, 1995, No 94-008 dated April 26, 1995; and No 95-005 dated May 17, 1995.
 3. "Customs Action Plan" means a time-bound action plan for customs reform for FY2005 adopted by the Recipient in May 2005.
 4. "Fiscal Year" or "FY" means any 12-month period beginning on January 1 and ending on December 31.
 5. "General Conditions" means the "International Development Association General Conditions for Financings", dated July 1, 2005 with the modifications set forth in Section II of this Appendix.
 6. "Letter of Development Policy" means the letter from the Recipient to the Association dated April 13, 2006, 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. "National Education For All Initiative" means the educational program of the Recipient to reach the universal education at primary level as adopted by the Recipient in October 2003.

8. “PRSP Priority Sectors” means the sector of education, health, transport and agriculture.
9. “Priority Action Plan” means the priority action plan for public financial management reforms for FY 2005 adopted by the Recipient in April 2005.
10. “Procurement Oversight Institution” means *Autorité de Régulation des Marchés Publics*, the authority established by law No 2004-009 dated July 26, 2004.
11. “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.
12. “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.
13. “Water Supply Sector Review” means the annual joint Government/stakeholders meeting to review the progress of the water supply sector and address key issues.

Section II. Modifications to the General Conditions

The modifications to the “International Development Association General Conditions for Credits and Grants”, dated July 1, 2005 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".