

CONFORMED COPY

CREDIT NUMBER 3217-MAG

Development Credit Agreement

(Microfinance Project)

between

REPUBLIC OF MADAGASCAR

and

INTERNATIONAL DEVELOPMENT ASSOCIATION

Dated June 10, 1999

CREDIT NUMBER 3217-MAG

DEVELOPMENT CREDIT AGREEMENT

AGREEMENT, dated June 10, 1999, between REPUBLIC OF MADAGASCAR (the Borrower) and INTERNATIONAL DEVELOPMENT ASSOCIATION (the Association).

WHEREAS (A) the Association has received a letter, dated April 9, 1999, from the Borrower describing a program of actions, objectives and policies designed to promote the carrying out by the Borrower of a program (the Program) for the sustainable development of microfinance in the Borrower's territories and declaring the Borrower's commitment to the execution of the Program;

(B) the Borrower has requested that the Association support its execution of the Program through a series of Credits over a period of fifteen years, the proceeds of such Credits to be utilized by the Borrower for executing the Program;

(C) the Borrower, having satisfied itself as to the feasibility and priority of the Project described in Schedule 2 to this Agreement, which Project forms the first phase of the Program, has requested the Association to assist in the financing of the Project;

(D) Part A.1 of the Project will be carried out by the Central Bank of Madagascar (CBM) with the Borrower's assistance and, as part of such assistance, the Borrower will make available to CBM part of the proceeds of the Credit as provided in this Agreement;

(E) Parts A.2 through D of the Project will be carried out by Agence d'Exécution du Projet Microfinance (AGEPMF) with the Borrower's assistance and, as part of such assistance, the Borrower will make available to AGEPMF part of 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 two Project Agreements of even date herewith, namely, the Project Agreement between the Association and CBM (the CBM Project Agreement) and the Project Agreement between the Association and AGEPMF (the AGEPMF Project 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 December 2, 1997) with the modifications set forth below (the General Conditions) constitute an integral part of this Agreement:

(a) A new paragraph (12) is added to Section 2.01 to read as set forth below, and the existing paragraphs (12) through (14) of said Section are accordingly renumbered as paragraphs (13) through (15):

'12. "Participating Country" means any country that the Association determines meets the requirements set forth in Section 10 of Resolution No. 183 of the Board of Governors of the Association adopted on June 26, 1996, and "Participating Countries" means, collectively, all such countries.'

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

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

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) "AGEPMF" means Agence d'Exécution du Projet Microfinance established and operating pursuant to the Borrower's ordinance No. 60-133, dated October 3, 1960;

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

(c) "AGEPMF Subsidiary Agreement" means the agreement to be entered into between the Borrower and AGEPMF pursuant to Section 3.01 (c) of this Agreement, as the same may be amended from time to time, and such term includes all schedules to the AGEPMF Subsidiary Agreement;

(d) "AGEPMF Special Account" means the account referred to in Section 2.02 (b) of this Agreement which is to be opened in the name of AGEPMF;

(e) "BTM" means Bankin 'ny Tantsaha Mpamokatra;

(f) "CBM" means the Central Bank of Madagascar established and operating pursuant to Law No. 94-004 of the Borrower, dated June 10, 1994;

(g) "CBM Project Agreement" means the Project Agreement between the Association and CBM of even date herewith, as the same may be amended from time to time, and such terms includes all schedules and agreements supplemental to the CBM Project Agreement;

(h) "CBM Special Account" means the account referred to in Section 2.02 (b) of this Agreement which is to be opened in the name of CBM;

(i) "CBM Subsidiary Agreement" means the agreement to be entered into between the Borrower and CBM pursuant to Section 3.01 (b) of this Agreement, as the same may be amended from time to time, and such term includes all schedules to the CBM Subsidiary Agreement;

(j) "CSBF" means the Commission de Supervision Bancaire et Financière; of the Borrower established and operating pursuant to Law No. 95-0300 dated February 22, 1996;

(k) "Project Account" means the account referred to in Section 3.04 of this Agreement;

(l) "Project Executing Agencies" means CBM and AGEPMF;

(m) "the Project Agreements" means the CBM Project Agreement and the AGEPMF Project Agreement;

(n) "Project Implementation Manual" means the Project Implementation Manual referred to in Part 1 (a) of Schedule 2 to the Project Agreements.

(o) "Project Preparation Advance" means the project preparation advances granted by the Association to the Borrower pursuant to exchanges of two letters signed by the Association on October 16, 1997 and October 21, 1998 and confirmed by the Borrower on October 29, 1997 and December 28, 1998, respectively.

(p) "Special Accounts" means the CBM Special Account and the AGEPMF Special Account;

(q) "Subsidiary Agreements" means the CBM Subsidiary Agreement and the AGEPMF Subsidiary Agreement; and

(r) "SLAs" means the Savings and Loan Associations included in Part B of the Project.

ARTICLE II

The Credit

Section 2.01. The Association agrees to lend to the Borrower, on the terms and conditions set forth or referred to in the Development Credit Agreement, an amount in various currencies equivalent to twelve million one hundred thousand Special Drawing Rights (SDR 12,100,000).

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 dollars: (i) a special deposit account for CBM in its Central Bank (the CBM Special Account), and (ii) a special deposit account for AGEPMF in a commercial bank (the AGEPMF Special Account). Each of the Special Accounts shall be on terms and conditions satisfactory to the Association, including appropriate protection against set-off, seizure or attachment. Deposits into, and payments out of, a Special Account shall be made in accordance with the provisions of Schedule 3 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 cancelled.

Section 2.03. The Closing Date shall be December 31, 2004 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 cancelled; and (ii) at the rate set as of the June 30 immediately preceding the accrual date and at such other rates as may be set from time to time thereafter pursuant to paragraph (a) above. The rate set as of June 30 in each year shall be applied from the next date in that year specified in Section 2.06 of this Agreement.

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

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

Section 2.06. Commitment charges and service charges shall be payable semiannually on May 1 and November 1 in each year.

Section 2.07. (a) Subject to paragraphs (b) and (c) below, the Borrower shall repay the principal amount of the Credit in semiannual installments payable on each May 1 and November 1, commencing November 1, 2009 and ending May 1, 2039. Each installment to and including the installment payable on May 1, 2019 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 required 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 judgement of the Association, such revision shall not change the grant element obtained under the above-mentioned repayment modification.

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

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

Section 2.09. For the purposes of the Project, CBM (with respect to Part A.1 (b) of the Project) and AGEPMF (with respect to Parts A.2 through D of the Project) are designated as representatives of the Borrower for the purposes of taking any action required or permitted to be taken under the provisions of Section 2.02 of this Agreement and Article V of the General Conditions.

ARTICLE III

Execution of the Project

Section 3.01. (a) The Borrower declares its commitment to the objectives of the Project as set forth in Schedule 2 to this Agreement and, to this end, without any limitation or restriction upon any of its other obligations under the Development Credit Agreement, shall cause CBM and AGEPMF to perform in accordance with the provisions of the Project Agreements all of the obligations of CBM and AGEPMF 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 CBM and AGEPMF 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 part of the proceeds of the Credit available to CBM as a grant under a subsidiary agreement (the CBM Subsidiary Agreement) to be entered into between the Borrower and CBM, under terms and conditions which shall have been approved by the Association.

(c) The Borrower shall make part of the proceeds of the Credit available to AGEPMF as a grant under a subsidiary agreement (the AGEPMF Subsidiary Agreement) to be entered into between the Borrower and AGEPMF, under terms and conditions which shall have been approved by the Association.

(d) The Borrower shall exercise its rights under the Subsidiary Agreements in such manner as to protect the interests of the Borrower and the Association and to accomplish the purposes of the Credit and, except as the Association shall otherwise agree, the Borrower shall not assign, amend, abrogate or waive the Subsidiary Agreements or any provision thereof.

Section 3.02. Except as the Association shall otherwise agree, procurement of the goods, works and consultants' services required for the Project and to be financed out of the proceeds of the Credit shall be governed by the provisions of Schedule 1 to the Project Agreements.

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 in respect of: (i) Part A.1 (b) of the Project by CBM pursuant to Section 2.03 of the CBM Project Agreement; and (ii) Parts A.2 through D of the Project by AGEPMF pursuant to Section 2.03 of the AGEPMF Project Agreement.

Section 3.04. The Borrower shall establish and thereafter maintain, until completion of the Project, a Project Account in a commercial bank, into which it shall deposit in advance, no later than January 31 in each year of the Project, the amount required to cover the Borrower's annual counterpart contributions to the Project for the 12 months immediately following thereafter, as such amount shall have been determined by the Borrower and the Association.

ARTICLE IV

Financial and other Covenants

Section 4.01. (a) The Borrower shall:

(i) cause BCM to maintain records and accounts adequate to reflect, in

accordance with sound accounting practices, the operations resources and expenditures in respect of the project of the departments of BCM responsible for carrying out part A.1 of the project; and

(ii) cause AGEPMF to maintain records and accounts adequate to reflect, in accordance with sound accounting practices, the operation and financial condition of AGEPMF.

(b) The Borrower shall (A) cause BCM to:

(i) have the records and accounts referred to in paragraph (a) (i) of this section, 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 no 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 as well as the audit thereof, as the Association shall from time to time reasonably request; and, cause AGEPMF to:

(i) have its records, accounts and financial statements (balance sheets, statements of income and expenses and related statements) 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: (A) certified copies of its financial statements for such year as so audited and (B) the report of such audit by said auditors of such scope and in such detail as the Association shall have reasonably requested; and

(iii) furnish to the Association such other information concerning said records, accounts and financial statements as well as 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 sound accounting practices, records and accounts reflecting such expenditures;

(ii) ensure that all records (contracts, orders, invoices, bills, receipts and other documents) evidencing such expenditures are retained 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; and

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

(d) The Borrower shall:

(i) have the records and accounts referred to in paragraph (a) of this Section and 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, including a separate opinion by said auditors as to whether the 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; 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.

Section 4.02. (a) Without limitations 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 system for the Project in order to enable the Borrower, not later than September 30, 2002, or such later date as the Association shall agree, to prepare quarterly Project management reports, acceptable to the Association. Each such report shall:

(i) set forth actual sources and application of funds for the Project, both cumulatively and for the period covered by said report, and projected sources and application of funds for the Project for the six-month period following the period covered by said report, and show separately expenditures financed out of the proceeds of the Credit during the six-month period following the period covered by said report;

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

(iii) set 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 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 no later than 45 days after the end of each calendar quarter a Project Management Report for such period.

ARTICLE V

Remedies of the Association

Section 5.01. Pursuant to Section 6.02 (1) of the General Conditions, the following additional events are specified:

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

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

(c) a situation shall have arisen which shall make it improbable that the Program or a significant part thereof, will be carried out;

(d) As a result of events which have occurred after the date of the Development Credit Agreement, an extraordinary situation shall have arisen which shall make it improbable that CBM or AGEPMF will be able to perform its respective obligations under the Project Agreements; and

(e) the Borrower or any other authority having jurisdiction shall have taken any action for the dissolution or disestablishment of CBM or AGEPMF or for the suspension of its operations.

Section 5.02. Pursuant to Section 7.01 (h) of the General Conditions, the

following additional events are specified:

(a) the event specified in paragraph (a) or (b) of Section 5.01 of this Agreement shall occur and shall continue for a period of sixty days after notice thereof shall have been given by the Association to the Borrower; and

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

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:

(a) the CBM Subsidiary Agreement has been executed on behalf of the Borrower and CBM;

(b) the AGEPMF Subsidiary Agreement has been executed on behalf of the Borrower and AGEPMF;

(c) the Borrower has opened the Project Account and deposited into the Project Account an amount equivalent to \$400,000;

(d) The Borrower has furnished to the Association the Project Implementation Manual in form and substance satisfactory to the Association; and

(e) a professional with qualifications and professional experience satisfactory to the Association has been appointed as AGEPMF Executive Secretary and has been recruited in accordance with the provisions of Section II of schedule 1 to the AGEPMF Project Agreement.

Section 6.02. The following are specified as additional matters, within the meaning of Section 12.02 (b) of the General Conditions, to be included in the opinion or opinions to be furnished to the Association:

(a) that the CBM Project Agreement has been duly authorized or ratified by CBM, and is legally binding upon CBM in accordance with its terms;

(b) that the AGEPMF Project Agreement has been duly authorized or ratified by AGEPMF, and is duly binding upon AGEPMF in accordance with its terms;

(c) that the CBM Subsidiary Agreement has been duly authorized or ratified by the Borrower and CBM and is legally binding upon the Borrower and CBM in accordance with its terms; and

(d) that the AGEPMF Subsidiary Agreement has been duly authorized or ratified by the Borrower and AGEPMF and is legally binding upon the Borrower and AGEPMF in accordance with its terms.

Section 6.03. 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.

ARTICLE VII

Representative of the Borrower; Addresses

Section 7.01. Except as provided in Section 2.09 of this Agreement, 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 7.02. The following addresses are specified for the purposes of Section 11.01 of the General Conditions:

For the Borrower:

	materials		of local expenditures
(a)	AGEPMF	70,000	
(b)	CBM	40,000	
(3)	Consultants' services, training and audits:		100% of foreign expenditures and 85% of local expenditures
(a)	AGEPMF	1,625,000	
(b)	CBM	295,000	
(4)	Incremental operating costs	550,000	85%
(5)	Refunding of Project Preparation Advance	1,480,000	Amount due pursuant to Section 2.02 (c) of this Agreement
(6)	Unallocated	1,460,000	
	TOTAL	12,100,000 =====	

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 "incremental operating costs" means expenditures incurred in respect of AGEPMF under the Project on account of salaries and allowances of local contractual staff of AGEPMF, travel costs and allowances of such staff, costs of vehicle operation and maintenance, equipment, banking charges, office rental, supplies, and utilities 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 expenditure for expenditures for: (i) goods, works and services of consulting firms under contracts not exceeding \$100,000 equivalent; (ii) services of individual consultants under contracts not exceeding \$25,000 equivalent; (iii) items in respect of training programs under contracts not exceeding \$5,000 equivalent; and (iv) items included in incremental operating costs, under such terms and conditions as the Association shall specify by notice to the Borrower.

SCHEDULE 2

Description of the Project

The objectives of the Project are to assist the Borrower in: (a) carrying out the first phase of its program to provide about 80,000 low-income families engaged in small-scale farming, livestock, fishing, commerce and handicraft production activities with long-term access to financial services and thereby improve their productivity, income and living standards and conditions; (b) the establishment of an appropriate legal and regulatory framework for microfinance operations; (c) the expansion of microfinance skills; and (d) the development of strong and sustainable microfinance

institutions through inter alia, establishment of a refinancing mechanism.

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: Improving Microfinance Institutions Legal and Regulatory Framework

1. (a) Strengthening of the legal and regulatory framework in which microfinance institutions operate, including: the adoption of prudential and management norms, the accounting plan, and licensing requirements and procedures.

(b) Strengthening CBM capacity to supervise microfinance institutions through inter alia, the training of staff and acquisition of required technical advisory services and logistical support.

2. Formulation of draft laws and regulations aimed at addressing specific microfinance issues including, inter alia, issues relating to liens and secured transactions for microfinance operations.

Part B: Development of Microfinance Institutions

1. Development of regional networks of microfinance institutions, including: (a) the strengthening of two existing SLA networks and the establishment of two new SLA networks in the provinces of Toamasin, Fianarantsoa, Antsiranana, and Antananarivo; (b) the extension to the poor, through outreach programs, in isolated regions of the Borrower's territories, of SLA network financial services; and (c) the construction of office space and provision of logistical support to SLAS.

2. Carrying out of feasibility studies aimed at establishing microfinance institutions in the provinces of Mahajanga and Toliara.

3. Monitoring, evaluation and coordination of activities pertaining to microfinance institutions.

Part C: Building Microfinance Capabilities

The development of a training strategy for the development of the microfinance sector and a market driven training capacity in the said sector with the assistance of private firms and the public education system, including: (i) the training of microfinance stakeholders in regulatory best practice; (ii) the design and implementation of courses in training engineering and training of trainers; (iii) technical courses to help disseminate best practice methodologies in microfinance (including liquidity management, interest rate determination, and loan recovery); (iv) new courses (included courses in regulations and accounting standards) tailored to the specific needs of (A) microfinance institutions or (B) particular groups of beneficiaries; (v) a national campaign to promote microfinance concepts and operations.

Part D: Audits and Studies

The carrying out of audits and studies including: (i) operational and financial audits of the SLA networks; (ii) studies to evaluate the impact of the Project on beneficiaries in each of the provinces where SLA networks operate; (iii) feasibility studies and other participatory research aimed at identifying poverty stricken regions where microfinance services can be usefully extended to the poor; (iv) studies and surveys on the feasibility of (A) transfer of BTM microfinance activities to SLA networks, and (B) establishing non-mutualist microfinance institutions; and (v) the carrying out of studies satisfactory to the Association on other pertinent subjects relating to the microfinance sector.

* * *

The Project is expected to be completed by June 30, 2004.

SCHEDULE 3

Special Account

1. For the purposes of this Schedule:

(a) the terms "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: (i) \$50,000 to be withdrawn from the Credit Account and deposited into the CBM Special Account pursuant to paragraph 3(a) of this Schedule; and (ii) \$100,000 to be withdrawn from the Credit Account and deposited into the AGEPMF Special Account pursuant to said paragraph 3(a); provided, however, that unless the Association shall otherwise agree, the Authorized Allocation shall be limited to an amount equivalent to (A) \$25,000 in the case of the CBM Special Account, and (B) \$50,000 in the case of the AGEPMF Special Account until the aggregate amount of withdrawals from the Credit Account plus the total amount of all outstanding special commitments entered into by the Association pursuant to Section 5.02 of the General Conditions shall be equal to or exceed the equivalent of SDR 2,500,000.

2. Payments out of a 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 a Special Account has been duly opened, withdrawals of the Authorized Allocation and subsequent withdrawals to replenish the Special Account shall be made as follows:

(a) For withdrawals of the Authorized Allocation, the Borrower shall furnish to the Association a request or requests for deposit into the Special Account of an amount or amounts which do not exceed the aggregate amount of the Authorized Allocation. On the basis of such request or requests, the Association shall, on behalf of the Borrower, withdraw from the Credit Account and deposit into the Special Account such amount or amounts as the Borrower shall have requested.

(b) (i) For replenishment of a Special Account, the Borrower shall furnish to the Association requests for deposits into the Special Account at such intervals as the Association shall specify.

(ii) Prior to or at the time of each such request, the Borrower shall furnish to the Association the documents and other evidence required pursuant to paragraph 4 of this Schedule for the payment or replenishment is requested. On the basis of each such request, the Association shall, on behalf of the Borrower, withdraw from the Credit Account and deposit into the Special Account such amount as the Borrower shall have requested and as shall have been shown by said documents and other evidence to have been paid out of the Special Account for eligible expenditures. All such deposits shall be withdrawn by the Association from the Credit Account under the respective eligible Categories, and in the respective equivalent amounts, as shall have been justified by said documents and other evidence.

4. For each payment made by the Borrower out of a Special Account, the Borrower shall, at such time as the Association shall reasonably request, furnish to the Association such documents and other evidence showing that such payment was made exclusively for eligible expenditures.

5. Notwithstanding the provisions of paragraph 3 of this Schedule, the Association shall not be required to make further deposits into a 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 Account;

(c) if, at any time, the Association shall have notified the Borrower of its intention to suspend in whole or in part the right of the Borrower to make withdrawals from the Credit Account pursuant to the provisions of Section 6.02 of the General Conditions; or

(d) once the total unwithdrawn amount of the Credit allocated to the eligible Categories, minus the total amount of all outstanding special commitments entered into by the Association pursuant to Section 5.02 of the General Conditions with respect to the Project, shall equal the equivalent of twice the amount of the Authorized Allocation. Thereafter, withdrawal from the Credit Account of the remaining unwithdrawn amount of the Credit allocated to the eligible Categories shall follow such procedures as the Association shall specify by notice to the Borrower. Such further withdrawals shall be made only after and to the extent that the Association shall have been satisfied that all such amounts remaining on deposit in the Special Account as of the date of such notice will be utilized in making payments for eligible expenditures.

6. (a) If the Association shall have determined at any time that any payment out of a Special Account: (i) was made for an expenditure or in an amount not eligible pursuant to paragraph 2 of this Schedule; or (ii) was not justified by the evidence furnished to the Association, the Borrower shall, promptly upon notice from the Association: (A) provide such additional evidence as the Association may request; or (B) deposit into the Special Account (or, if the Association shall so request, refund to the Association) an amount equal to the amount of such payment or the portion thereof not so eligible or justified. Unless the Association shall otherwise agree, no further deposit by the Association into the Special Account shall be made until the Borrower has provided such evidence or made such deposit or refund, as the case may be.

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

(d) Refunds to the Association made pursuant to paragraphs 6 (a), (b) and (c) of this Schedule shall be credited to the Credit Account for subsequent withdrawal or for cancellation in accordance with the relevant provisions of this Agreement, including the General Conditions.

