

CONFORMED COPY

CREDIT NUMBER 1834 MAG

(Industry and Trade Policy Adjustment Credit)

between

DEMOCRATIC REPUBLIC OF MADAGASCAR

and

INTERNATIONAL DEVELOPMENT ASSOCIATION

Dated July 10, 1987

CREDIT NUMBER 1834 MAG

DEVELOPMENT CREDIT AGREEMENT

AGREEMENT, dated July 10, 1987, between DEMOCRATIC REPUBLIC OF MADAGASCAR (the Borrower) and INTERNATIONAL DEVELOPMENT ASSOCIATION (the Association).

WHEREAS (A) the Association has received a letter, dated May 29, 1987, from the Borrower describing the program of actions, objectives and policies designed to improve the efficiency of the industry and trade policy of Madagascar (hereinafter called the Program) and declaring the Borrower's commitment to the execution of the Program;

(B) the Borrower has also requested the Association, acting as Administrator of a Special Facility for Sub-Saharan Africa (the African Facility) established by its Executive Directors by Resolution No. IDA 85-1 of May 21, 1985, to provide additional assistance in support of the Program, and by an agreement of

even date herewith between the Borrower and the Association as Administrator of the African Facility (the African Facility Credit Agreement), the Association is agreeing to provide such assistance in an aggregate principal amount equivalent to fifty-two million two hundred thousand Special Drawing Rights (SDR 52,200,000);

(C) the Borrower intends to contract from Saudi Fund for Development a loan, under the Special Joint Financing Program for the Special African Facility, in an amount equivalent to twelve million Saudi Rials (SR 12,000,000) in support of the Program;

(D) the Borrower intends to contract from Japan Overseas Economic Cooperation Fund (hereinafter called OECF) under the Special Joint Financing Agreement for the Special African Facility a loan (the OECF Loan) in an amount of one billion yen (Y 1,000,000,000) to assist in supporting the Program on the terms and conditions set forth in an agreement (the OECF Loan Agreement) to be entered into between the Borrower and OECF; and

(E) the Borrower intends to contract from the Association acting as Administrator on behalf of Japan a grant (the Japanese Grant Agreement) in an amount equivalent to one billion Yen (Y 1,000,000,000) (the Japanese Grant) in support of the Program;

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

NOW THEREFORE the parties hereto hereby agree as follows:

ARTICLE I

General Conditions; Definitions

Section 1.01. The "General Conditions Applicable to Development Credit Agreements" of the Association, dated January 1, 1985, with the modifications thereof set forth below (the General Conditions) constitute an integral part of this Agreement:

(a) Section 2.01, paragraph 9, shall be modified to read:

"'Project' means the imports and other activities that may be financed out of the proceeds of the Credit pursuant to the provisions of Schedule 1 to the Development Credit Agreement.";

(b) Section 9.06 (c) shall be modified to read:

"(c) Not later than six months after the Closing Date or such later date as may be agreed for this purpose between the Borrower and the Association, the Borrower shall prepare and furnish to the Association a report, of such scope and in such detail as the Association shall reasonably request, on the execution of the Program referred to in the Preamble to the Development Credit Agreement, the performance by the Borrower and the Association of their respective obligations under the Development Credit Agreement and the accomplishment of the purposes of the Credit."; and

(c) the last sentence of Section 3.02 is deleted.

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

(b) "Project Preparation Advance" means the project preparation advance granted by the Association to the Borrower pursuant

to an exchange of letters, dated March 3, 1987, and March 20, 1987, between the Borrower and the Association;

- (c) "BNI" means Bankin'ny Indostria;
- (d) "BTM" means Bankin'ny Tantsaha Mpamokatra; and
- (e) "BFV" means Banky Fampandrosoana ny Varotra.

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 five hundred thousand Special Drawing Rights (SDR 12,500,000).

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, as such Schedule may be amended from time to time by agreement between the Borrower and the Association.

(b) The Borrower shall, for the purposes of the Program, cause its central bank to open and maintain in dollars a special account (Special Account A) in a commercial 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 4 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, 1989, 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 the Development Credit 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 January 15 and July 15 in each year.

Section 2.07. The Borrower shall repay the principal amount of the Credit in semiannual installments payable on each January 15 and July 15, commencing July 15, 1997, and ending

January 15, 2037. Each installment to and including the installment payable on January 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

Particular Covenants

Section 3.01. (a) The Borrower 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 and the actions specified in Schedule 3 to this Agreement.

(b) Prior to each such exchange of views, the Borrower 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.

Section 3.02. Except as the Association shall otherwise agree, procurement of the goods and services to be financed out of the proceeds of the Credit shall be governed by the provisions of Schedule 2 to this Agreement.

Section 3.03. By September 30, 1988, the Borrower shall complete: (i) an action program for the rehabilitation of public sector enterprises; and (ii) a study on the financial sector of the Borrower. To that end, the Borrower shall employ consultants whose qualifications, experience and terms and conditions of employment shall be satisfactory to the Association. Such consultants shall be selected in accordance with the principles and procedures satisfactory to the Association on the basis of the "Guidelines for the Use of Consultants by World Bank Borrowers and by The World Bank as Executing Agency" published by the Bank in August 1981.

Section 3.04. The Borrower shall take all appropriate actions for the implementation of the rehabilitation plans referred to in paragraph 1 (d) of Schedule 3 of this Agreement.

Section 3.05. (a) The Borrower shall maintain or cause to be maintained records and accounts adequate to reflect in accordance with consistently maintained sound accounting practices the expenditures financed out of the proceeds of the Credit.

(b) The Borrower shall:

- (i) have the records and accounts referred to in paragraph (a) of this Section, including those for Special Account A, 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 copy of the report of such audit by said auditors, of such scope and in such detail as the Association shall have reasonably requested; and
- (iii) furnish to the Association such other information concerning said records and accounts and the audit thereof as the Association shall, from time to time, reasonably request.

(c) For all expenditures with respect to which withdrawals

from the Credit Account were made on the basis of statements of expenditure, the Borrower shall:

- (i) maintain, or cause to be maintained, in accordance with paragraph (a) of this Section, records and accounts reflecting such expenditures;
- (ii) retain, until at least one year after the Association has received the audit report for the fiscal year in which the last withdrawal from the Credit Account was made, all records (contracts, orders, invoices, bills, receipts and other documents) evidencing such expenditures;
- (iii) enable the Association's representatives to examine such records; and
- (iv) ensure that such records and accounts are included in the annual audits referred to in paragraph (b) of this Section, and that the report of such audit contains a separate opinion by said auditors as to whether the 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.

ARTICLE IV

Additional Events of Suspension

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

(a) An event has occurred which shall make it improbable that the Program, or a significant part thereof, will be carried out.

(b) (i) Subject to subparagraph (ii) of this paragraph:

(A) the right of the Borrower to withdraw the proceeds of the African Facility Credit, the OECF Loan or the Japanese Grant, made to the Borrower for the financing of the Program shall have been suspended, cancelled or terminated in whole or in part, pursuant to the terms of the African Facility Credit Agreement, the OECF Loan Agreement or the Japanese Grant Agreement; or

(B) the African Facility Credit or the OECF Loan shall have become due and payable prior to the agreed maturity thereof.

(ii) Subparagraph (i) of this paragraph shall not apply if the Borrower establishes to the satisfaction of the Association that:

(A) such suspension, cancellation, termination or prematuring is not caused by the failure of the Borrower to perform any of its obligations under such agreement; and

(B) adequate funds for the Program are available to the Borrower from other sources on terms and conditions consistent with the obligations of the Borrower under this Agreement.

Section 4.02. Pursuant to Section 7.01 (d) of the General Conditions, the following additional event is specified, namely, that any event specified in paragraph (b) (i) (B) of Section 4.01 of this Agreement shall occur, subject to the proviso of paragraph

(b) (ii) of that Section.

ARTICLE V

Effective Date; Termination

Section 5.01. 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) all conditions precedent to the effectiveness of the African Facility Credit Agreement, other than the effectiveness of this Agreement, have been fulfilled;

(b) the Borrower shall have: (i) made its liberalized import regime applicable to the importation of all spare parts, raw materials, non-food consumer goods and equipment goods; and (ii) eliminated the separate categories from its liberalized import regime;

(c) the Borrower shall have employed the consultants for the carrying out of the studies referred to in Section 3.03 of this Agreement; and

(d) the Borrower shall have freed ex-factory prices for soap, candles, condensed milk, edible oil and baby food from all restrictions.

Section 5.02. The date ninety (90) days after the date of this Agreement is hereby specified for the purposes of Section 12.04 of the General Conditions.

ARTICLE 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 REmpublique chargE des
des Finances et de l'Economie
Antananarivo
Madagascar

Cable address:

MINFIN
Antananarivo

Telex:

22489

For the Association:

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

Cable address:

INDEVAS
Washington, D.C.

Telex:

440098 (ITT),
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/ Ismail Serageldin
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) Imported Goods and Materials | 11,700,000 | 100% of foreign expenditures |
| (2) Consultants' Services | 300,000 | 100% |
| (3) Refunding of Project Pre- paration Advance | 500,000 | Amount due pur- suant to Section 2.02 (c) of this Agreement |
| TOTAL | 12,500,000 | |

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:

(a) expenditures for goods included in the following SITC1 groups or sub-groups:

1/ "SITC" means the United Nations Standard International Trade

Classifications, 1986 Revision (SITC, Revision 3).

| Group | Sub-group | Description of Items |
|-------|-----------|---|
| 112 | - | Alcoholic beverages |
| 121 | - | Tobacco, unmanufactured tobacco refuse |
| 122 | - | Tobacco, manufactured (whether or not containing tobacco substitutes) |
| 525 | - | Radioactive and associated materials |
| 667 | - | Pearls, precious and semi-precious stones, unworked or worked |
| | 718.7 | Nuclear reactors and parts thereof, fuel elements (cartridges), non-irradiated for nuclear reactors |
| | 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) |

(b) payments made for expenditures prior to the date of this Agreement;

(c) expenditures for goods procured under contracts costing less than \$10,000 equivalent;

(d) expenditures for goods supplied under a contract which any national or international financing institution or agency other than the Association shall have financed or agreed to finance;

(e) expenditures for goods intended for a military or paramilitary purpose; and

(f) expenditures for petroleum products, rice, edible oil and flour.

4. Notwithstanding the provisions of paragraph 1 above, no withdrawal shall be made, and no commitment shall be entered into, to pay amounts to the Borrower or others in respect of expenditures to be financed out of the proceeds of the Credit allocated to Category 1 in the table set forth in paragraph 1 of this Schedule:

(A) after the aggregate of the proceeds of the Credit withdrawn from that Category and the total amount of such commitments shall have reached the equivalent of SDR 3,900,000, unless the Association shall be satisfied, after an exchange of views as described in Section 3.01 of this Agreement: (i) with the progress achieved by the Borrower in the carrying out of the Program; and (ii) that the actions described in paragraph 1 of Schedule 3 to this Agreement have been taken; and

(B) after the aggregate of the proceeds of the Credit withdrawn from that Category and the total amount of such commitments shall have reached the equivalent of SDR 7,800,000, unless the Association shall be satisfied, after an exchange of

views as described in Section 3.01 of this Agreement: (i) with the progress achieved by the Borrower in the carrying out of the Program; and (ii) that the actions described in paragraph 2 of Schedule 3 to this Agreement have been taken.

5. If, after any exchange of views under the provisions of the preceding paragraph, the Association is not satisfied and this situation shall not be rectified by the Borrower within 90 days after notice thereof by the Association, then the Association may, by notice to the Borrower, cancel the amount of the Credit unwithdrawn from the Credit Account or any part thereof.

SCHEDULE 2

Procurement

1. Contracts for the procurement of goods estimated to cost the equivalent of \$2,000,000 or more each shall be awarded through international competitive bidding in accordance with procedures consistent with those set forth in Sections I and II of the "Guidelines for Procurement under IBRD Loans and IDA Credits" published by the Bank in May 1985 (the Guidelines), subject to the following modifications:

(a) Paragraph 2.8 of the Guidelines is deleted and the following is substituted therefor:

"2.8 Notification and Advertising

The international community should be notified in a timely manner of the opportunity to bid. This will be done by advertising invitations to apply for inclusion in a bidder's invitation list, to apply for prequalification, or to bid; such advertisements should be placed in at least one newspaper of general circulation in the Borrower's country and, in addition, in at least one of the following forms:

- (i) a notice in the United Nations publication, Development Forum, Business Edition; or
- (ii) an advertisement in a newspaper, periodical or technical journal of wide international circulation; or
- (iii) a notice to local representatives of countries and territories referred to in the Guidelines that are potential suppliers of the goods required."

(b) The following is added at the end of paragraph 2.21 of the Guidelines:

"As a further alternative, bidding documents may require the bidder to state the bid price in a single currency widely used in international trade and specified in the bidding documents."

(c) Paragraphs 2.55 and 2.56 of the Guidelines are deleted.

2. Contracts for goods estimated to cost the equivalent of less than \$2,000,000 each and for proprietary spare parts shall be awarded on the basis of the normal procurement procedures of the purchaser of such goods.

3. With respect to each contract referred to in paragraph 1 of this Schedule, the Borrower shall furnish to the Association, prior to the submission to the Association of the first application for withdrawal of funds from the Credit Account in respect of such contract, two conformed copies of such contract, together with the analysis of the respective bids and recommendations for award, a description of the advertising and tendering procedures followed and such other information as the Association shall

reasonably request.

4. With respect to each contract referred to in paragraph 2 of this Schedule, the Borrower shall furnish to the Association, prior to the submission to the Association of the first application for withdrawal of funds from the Credit Account in respect thereof, such documentation and information as the Association may reasonably request to support withdrawal applications in respect of such contract.

5. Notwithstanding the provisions of paragraphs 3 and 4 of this Schedule, where payments under a contract are to be made out of the proceeds of Special Account A, the copies of such contract or the documentation and the information to be furnished to the Association pursuant to the provisions of paragraph 3 or paragraph 4 of this Schedule, as the case may be, shall be furnished to the Association as part of the evidence required under paragraph 4 of Schedule 4 to this Agreement.

6. The provisions of the preceding paragraphs 3, 4 and 5 shall not apply to contracts on account of which the Association has authorized withdrawals from the Credit Account on the basis of statements of expenditure.

SCHEDULE 3

Conditions of Tranche Release

1. (a) the Borrower shall have eliminated all import prohibitions, for protective purposes, in a manner acceptable to the Association;
 - (b) the Borrower shall have simplified and reformed the import tariff system in a manner acceptable to the Association;
 - (c) the Borrower shall have taken all necessary measures to reduce the number of goods for which profit margins are controlled by the Borrower from 16 to 8;
 - (d) the Borrower shall have completed rehabilitation plans for ten public enterprises; such plans to be acceptable to the Association;
 - (e) the Borrower shall have prepared portfolio rehabilitation plans for BNI, BTM and BFV acceptable to the Association;
 - (f) the Borrower shall have furnished the Association with a public investment program for 1988, acceptable to the Association; and
 - (g) all conditions precedent to the effectiveness of the OECF Loan Agreement and the Japanese Grant Agreement shall have been fulfilled.
2. The Borrower shall have:
 - (a) adopted a four-year program of tariff reform, acceptable to the Association, to reduce the average level and dispersion of import tariffs;
 - (b) implemented rules and procedures, acceptable to the Association, to be applied by its central bank in supervising the banking sector;
 - (c) implemented the portfolio restructuring plan for BNI, BTM and BFV;
 - (d) introduced an open general licensing system acceptable

to the Association; and

- (e) taken all necessary measures to eliminate all restrictions on profit margins.

SCHEDULE 4

Special Account A

1. For the purposes of this Schedule:

(a) the term "Eligible Expenditures" means expenditures in respect of the reasonable cost of goods and services required during the execution of the Program and to be financed out of the proceeds of the Credit in accordance with the provisions of Schedule 1 to this Agreement; and

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

2. Except as the Association shall otherwise agree, payments out of Special Account A 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 Special Account A has been duly opened, withdrawals of the Authorized Allocation and subsequent withdrawals to replenish Special Account A 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 Special Account A such amount or amounts as the Borrower shall have requested.

(b) The Borrower shall furnish to the Association requests for replenishment of Special Account A 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 Special Account A such amounts as shall be required to replenish Special Account A with amounts not exceeding the amount of payments made out of Special Account A for Eligible Expenditures. Each such deposit shall be withdrawn by the Association from the Credit Account 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 Special Account A 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 Special Account A shall be made by the Association when either of the following situations first arises:

- (i) the Association shall have determined that all further withdrawals can 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; or

- (ii) the total unwithdrawn amount of the Credit, 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 Program, 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 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 Special Account A 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 Special Account A: (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 Special Account A (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 Special Account A 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 Special Account A 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.

