Financing Agreement

(Public Finance Sustainability and Investment Development Policy Financing)

between

REPUBLIC OF MADAGASCAR

and

INTERNATIONAL DEVELOPMENT ASSOCIATION

Dated December 1, 2016
FINANCING AGREEMENT

AGREEMENT dated December 1, 2016, entered into between the 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: (i) the actions which the Recipient has already taken under the Program and which are described in Section I.A of Schedule 1 to this Agreement; and (ii) the Recipient’s maintenance of an adequate macroeconomic 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 this 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 grant in an amount equivalent to forty-six million six hundred thousand Special Drawing Rights (SDR 46,600,000) ("Financing").

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 Payment Dates are February 1 and August 1 in each year.

2.05. The Payment Currency is Dollar.

2.06. Without limitation upon the provisions of Section 4.08 of the General Conditions (renumbered as such pursuant to paragraph 4 of Section II of the Appendix to this Agreement and relating to Cooperation and Consultation), the Recipient shall promptly furnish to the Association such information relating to the provisions of this Article II as the Association may, from time to time, reasonably request.

ARTICLE III — PROGRAM

3.01. The Recipient declares its commitment to the Program and its implementation. To this end, and further to Section 4.08 of the General Conditions:
(a) the Recipient and the Association shall from time to time, at the request of either party, exchange views on the Recipient's macroeconomic policy framework and the progress achieved in carrying out the Program and the actions specified in Section I of Schedule 1 to this Agreement;

(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 promptly inform the Association of any situation that 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 Events of Suspension consists of the following: A situation has arisen which shall make it improbable that the Program, or a significant part of it, will be carried out.

ARTICLE V — EFFECTIVENESS; TERMINATION

5.01. The Additional Condition of Effectiveness consists of the following: The Association is satisfied with the progress achieved by the Recipient in carrying out the Program and with the adequacy of the Recipient’s macroeconomic policy framework.

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

5.03. For purposes of Section 8.05 (b) of the General Conditions, the date on which the obligations of the Recipient under this Agreement (other than those providing for payment obligations) shall terminate is twenty years after the date of this Agreement.

ARTICLE VI — REPRESENTATIVE; ADDRESSES

6.01. The Recipient’s Representative is its minister responsible for finance.

6.02. The Recipient’s Address is:

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

Cable address: MFB
Facsimile: (261) 20 22 34530

Antananarivo
6.03. The Association's Address is:

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

Cable: INDEVAS
Telex: 248423 (MCI)
Facsimile: 1-202-477-6391

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

REPUBLIC OF MADAGASCAR

By

Authorized Representative

Name: H. Spirinio Rakotoarimanana
Title: Minister of Finance and Budget

INTERNATIONAL DEVELOPMENT ASSOCIATION

By

Authorized Representative

Name: Marco Lundell
Title: Country Director for Madagascar
SCHEDULE 1

Program Actions; Availability of Financing Proceeds

Section I.  Actions under the Program

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

1. The Recipient has, through its Ministry of Finance and Budget, issued an Arrêté portant exonération des droits et taxes à l’importation that restricts the scope of the customs exemption regime in the Customs Code dated May 4, 2016 (N° 10416/2016/MFB/SG/DGD).

2. The Recipient has, through decisions of its General Directorate of Customs dated November 6, 2015 and September 19, 2016 respectively: (a) adopted an expedited custom clearance process based on objective measures for importers, and (b) established a practice of performance contracts for customs inspectors at the port of Toamasina.

3. The Recipient has through its Ministry of Energy and Hydrocarbons, issued an Arrêté relatif au mécanisme d’ajustement automatique des prix maxima affichés à la pompe, that establishes an automatic adjustment mechanism of fuel prices at retail locations, dated July 1, 2016 (N°14176/2016).

4. The Recipient has completed the verification of pension beneficiaries in the large urban centers to remove ineligible beneficiaries from the Pension Register.

5. The Recipient has, through its Ministry of Finance and Budget, issued an Arrêté précisant le mode de computation des seuils des marchés publics et fixant leurs montants, that imposes a priori review of all Jirama procurement by the CNM in accordance with the provisions of the 2004 Public Procurement Code dated March 31, 2016 (N°7275/2016/MFB).

6. The Recipient has caused Jirama to begin publication of quarterly statistics on the cost of electricity per KWh for each existing power supply contract beginning with the first two quarters of 2016.

7. The Recipient has strengthened the judicial procedures for commercial cases by its Ministry of Justice issuing a Circulaire pour l’Amélioration de la Justice commerciale et réduction des délais de traitement des dossiers commerciaux that mandates the random allocation of commercial cases to magistrates dated May 25, 2016 (N°016-MJ/SG/DGAJER/DAJ/CIR/16).

8. The Recipient has caused the Central Bank, through the Commission de Supervision Bancaire et Financière (CSBF), to complete on-site supervision of the two largest banks in its territory.
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 is allocated in a single withdrawal tranche, from which the Recipient may make withdrawals of the Financing. The allocation of the amounts of the Financing to this end is set out in the table below:

<table>
<thead>
<tr>
<th>Allocations</th>
<th>Amount of the Financing Allocated (expressed in SDR)</th>
</tr>
</thead>
<tbody>
<tr>
<td>(1) Single Withdrawal Tranche</td>
<td>46,600,000</td>
</tr>
<tr>
<td>TOTAL AMOUNT</td>
<td>46,600,000</td>
</tr>
</tbody>
</table>

C. Withdrawal Tranche Release Conditions

1. No withdrawal shall be made of the Single Withdrawal Tranche unless the Association is satisfied: (a) with the Program being carried out by the Recipient; and (b) with the adequacy of the Recipient's macroeconomic policy framework.

D. Deposits of Financing Amounts. Except as the Association may otherwise agree:

1. all withdrawals from the Financing Account shall be deposited by the Association into an designated by the Recipient and acceptable to the Association (“Dedicated Account”); and

2. the Recipient shall ensure that upon each deposit of an amount of the Financing into this account, an equivalent amount is accounted for in the Recipient’s budget management system, in a manner acceptable to the Association.

E. 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.

F. Audit. Upon the Association’s request, the Recipient shall:

1. have the Dedicated Account audited by independent auditors acceptable to the Association, in accordance with consistently applied auditing standards acceptable to the Association;

2. furnish to the Association, as soon as possible, but in any case not later than four months after such a request from the Association, a certified copy of the report of such audit, of such scope and in such detail as the Association shall reasonably request, and make such
report publicly available in a timely fashion and in a manner acceptable to the Association; and

3. furnish to the Association such other information concerning the Dedicated Account and their audit as the Association shall reasonably request.

G. **Closing Date.** The Closing Date is December 31, 2018.
APPENDIX

Section I. Definitions


4. “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 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:

<table>
<thead>
<tr>
<th>Group</th>
<th>Sub-group</th>
<th>Description of Item</th>
</tr>
</thead>
<tbody>
<tr>
<td>112</td>
<td></td>
<td>Alcoholic beverages</td>
</tr>
<tr>
<td>121</td>
<td></td>
<td>Tobacco, un-manufactured, tobacco refuse</td>
</tr>
<tr>
<td>122</td>
<td></td>
<td>Tobacco, manufactured (whether or not containing tobacco substitutes)</td>
</tr>
<tr>
<td>525</td>
<td></td>
<td>Radioactive and associated materials</td>
</tr>
<tr>
<td>667</td>
<td></td>
<td>Pearls, precious and semiprecious stones, unworked or worked</td>
</tr>
<tr>
<td>718</td>
<td>718.7</td>
<td>Nuclear reactors, and parts thereof; fuel elements (cartridges), non-irradiated, for nuclear reactors</td>
</tr>
<tr>
<td>728</td>
<td>728.43</td>
<td>Tobacco processing machinery</td>
</tr>
<tr>
<td>897</td>
<td>897.3</td>
<td>Jewelry of gold, silver or platinum group metals</td>
</tr>
</tbody>
</table>
for goods intended for a military or paramilitary purpose or for luxury consumption;

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;

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

with respect to which the Association determines that corrupt, fraudulent, collusive or coercive practices were engaged in by representatives of the Recipient or other recipient of the Financing proceeds, without the Recipient (or other such recipient) having taken timely and appropriate action satisfactory to the Association to address such practices when they occur.

5. “General Conditions” means the “International Development Association General Conditions for Credits and Grants”, dated July 31, 2010 with the modifications set forth in Section II of this Appendix.

6. “Jirama” means Jiro sy rano malagasy, the Recipient’s state-owned electric utility and water services company, established by ordonnance N° 075—027 dated October 17, 1975, portant création de la Société Jiro sy Rano Malagasy (JIRAMA) et fixant les statuts de ladite Société.

7. “Pension Register” means the Recipient’s list of public sector pension beneficiaries maintained by the Recipient’s Ministry of Finance and Budget.

8. “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 dated September 29, 2016 from the Recipient to the Association 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.

9. “Single Withdrawal Tranche” means the amount of the Financing allocated to the category entitled “Single Withdrawal Tranche” in the table set forth in Part B of Section II of Schedule 1 to this Agreement.
Section II. Modifications to the General Conditions

The General Conditions are hereby modified 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 subsequent 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 4 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 4 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. Paragraph (c) of Section 4.07 (renumbered as such pursuant to paragraph 4 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".