

EBS/01/20
Supplement 1

CONFIDENTIAL

May 4, 2001

To: Members of the Executive Board

From: The Acting Secretary

Subject: **Madagascar—Poverty Reduction and Growth Facility—Three-Year Arrangement**

Attached for the records of Executive Directors is the text of the three-year arrangement under the Poverty Reduction and Growth Facility for Madagascar as agreed at Executive Board Meeting 01/20 (3/1/01).

Att: (1)

Other Distribution:
Department Heads

**MADAGASCAR—THREE-YEAR ARRANGEMENT UNDER
THE POVERTY REDUCTION AND GROWTH FACILITY**

Attached hereto (See EBS/01/20, 2/16/01) is a letter ("the Letter") dated February 9, 2001, with an annexed Memorandum of Economic and Financial Policies for 2001-04 (the "Memorandum"), from the Prime Minister of Madagascar requesting from the International Monetary Fund as Trustee of the Poverty Reduction and Growth Facility Trust ("the Trustee") a three-year arrangement under the Poverty Reduction and Growth Facility, and setting forth:

(a) the objectives and policies of the program that the authorities of Madagascar intend to pursue during the three-year period of the arrangement;

(b) the objectives, policies, and measures that the authorities of Madagascar intend to pursue during the first year of the arrangement; and

(c) understandings of Madagascar with the Trustee regarding reviews that will be made of progress in realizing the objectives of the program and of the policies and measures that the authorities of Madagascar will pursue for the second and third years of the arrangement.

To support these objectives and policies, the Trustee grants the requested three-year arrangement in accordance with the following provisions, and subject to the provisions applying to assistance under the Poverty Reduction and Growth Facility Trust.

1. (a) For a period of three years from March 2, 2001, Madagascar will have the right to obtain loan disbursements from the Trustee in a total amount equivalent to SDR 79.43 million, subject to the availability of resources in the Poverty Reduction and Growth Facility Trust.

(b) Disbursements under this arrangement shall not exceed the equivalent of SDR 34.04 million until March 1, 2002 and the equivalent of SDR 56.74 million until March 1, 2003.

(c) During the first year of the arrangement:

- (i) the first disbursement, in an amount equivalent to SDR 11.347 million, will be available on or after March 15, 2001, at the request of Madagascar;
- (ii) the second disbursement, in an amount equivalent to SDR 11.347 million, will be available on or after October 31, 2001, at the request of Madagascar and subject to paragraph 2 below; and
- (iii) the third disbursement, in an amount equivalent to SDR 11.347 million, will be available on or after the completion of the second review contemplated in paragraph 2 (e), at the request of Madagascar and subject to paragraph 2 below; and

(d) The right of Madagascar to request disbursements during the second and third years of this arrangement shall be subject to such phasing and conditions as shall be determined. The phasing of, and conditions for, disbursements during the second year of this arrangement shall be determined in the context of the second review of Madagascar's program with the Trustee contemplated in paragraph 2 (e) of this arrangement.

2. Madagascar will not request the second and third disbursements specified in paragraph 1(c)(ii) and 1(c)(iii) above:

(a) If the Managing Director of the Trustee finds that, with respect to the second disbursement, the data as of June 30, 2001 and, with respect to the third disbursement, the data as of December 31, 2001, indicate that:

- (i) the ceiling on the domestic financing of the central government, or
- (ii) the floor on the net foreign assets of the central bank, or
- (iii) the ceiling on the net domestic assets of the central bank, or
- (iv) the floor on government tax revenue, or
- (v) the ceiling on non concessional external debt contracted or guaranteed by the government

specified in Table 2 of the Memorandum and in paragraphs 3 to 15 of the Technical Memorandum of Understanding attached to the Memorandum, was not observed; or

(b) If the Managing Director of the Trustee finds:

(i) with respect to the second disbursement, that Madagascar has not carried out its intentions with respect to bringing the ASYCUDA 2.7 customs computer system to the point of operation at the three main customs offices, by June 30, 2001, as referred to in paragraph 16 of the Memorandum and as specified in Table 3 of the Memorandum; or

(ii) with respect to the third disbursement, that Madagascar has not carried out its intentions with respect to:

(a) bringing the treasury computer system, designed to centralize each month the accounts of the twenty-two main treasury offices to the point of operation by November 30, 2001, as referred to in paragraph 24 of the Memorandum and as specified in Table 3 of the Memorandum; and

(b) the adoption by the Council of Ministers of a bill to revise upward the mining royalty based on the value of the first transaction and lower the excise tax, by December 31, 2001, as specified in Table 3 of the Memorandum; or

(c) if, at any time during this arrangement, the Government of Madagascar accumulates any new external payments arrears as specified in Table 2 of the Memorandum and in paragraph 2 of the Technical Memorandum of Understanding attached to the Memorandum; or

(d) If Madagascar has:

- (i) imposed or intensified restrictions on payments and transfers for current international transactions, or
- (ii) introduced or modified multiple currency practices, or
- (iii) concluded bilateral payments agreements that are inconsistent with Article VIII, or
- (iv) imposed or intensified import restrictions for balance of payments reasons; or

(e) Until the Trustee has determined, with regard to the second disbursement, that the first review of Madagascar's program scheduled for completion on October 30, 2001 and referred to in paragraph 37 of the Memorandum has been completed, and, with regard to the third disbursement, that the second review of Madagascar's program scheduled for completion on February 28, 2002 and referred to in paragraph 37 of the Memorandum has been completed.

When Madagascar is prevented from requesting disbursements under this arrangement because of this paragraph 2, such disbursements may be made available only after consultation has taken place between the Trustee and Madagascar and understandings have been reached regarding the circumstances in which Madagascar may request the disbursements.

3. In accordance with paragraph 4 of the Letter, Madagascar will provide the Trustee with such information as the Trustee requests in connection with the progress of Madagascar in implementing the policies and reaching the objectives of the program supported by this arrangement.

4. In accordance with paragraph 5 of the Letter, during the period of this arrangement, Madagascar shall consult with the Trustee on the adoption of any measures that may be appropriate at the initiative of the Government or whenever the Managing Director of the Trustee requests such a consultation. Moreover, after the period of this arrangement and while Madagascar has outstanding financial obligations to the Trustee arising from loan disbursements under this arrangement, Madagascar will consult with the Trustee from time to time, at the initiative of the Government or whenever the Managing Director of the Trustee requests consultation on Madagascar's economic and financial policies. These consultations may include correspondence and visits of officials of the Trustee to Madagascar or of representatives of Madagascar to the Trustee.