MILLENNIUM CHALLENGE CORPORATION

[MCC FR 05–05]

Notice of Entering Into a Compact With the Government of Madagascar

AGENCY: Millennium Challenge Corporation.

ACTION: Notice.

SUMMARY: In accordance with Section 610(b)(2) of the Millennium Challenge Act of 2003 (Pub. L. 108–199, Division D), the Millennium Challenge Corporation is publishing a detailed summary and text of the Millennium Challenge Compact between the Government of the Republic of Madagascar and the United States of America acting through the Millennium Challenge Corporation. Representatives of the United States Government and the Republic of Madagascar executed the Compact documents on April 18, 2005.

Dated: April 25, 2005.

John C. Mantini,

Acting General Counsel, Millennium Challenge Corporation.

Summary of the Millennium Challenge Compact With the Republic of Madagascar

Poverty in Madagascar is overwhelmingly rural. Rice yields have consistently been among the world's lowest over the last forty years and fertilizer use is one-twelfth the African average. In this setting, the most effective vehicle to reduce poverty is for the rural poor to invest in their land, employ proven technology to enhance productivity, improve farming methods, and sell to new markets. Consequently, the Government of the Republic of Madagascar (''GoM'') asked MCC to support a major effort to attack two of its root causes of poverty: a poorly-functioning financial system that fails to serve the rural poor and a weak land-titling system that fails to provide legally-recognized collateral to support credit and investments in poor rural areas. Further, the Malagasy believe that reforming the weak land-titling system will increase trust in the government and encourage further reform. Finally, improved property rights in land will also help reduce the incentive to engage in environmentally destructive practices, such as slash-and-burn farming, that threaten this uniquely diverse eco-system.

The Program will address rural poverty on two geographic levels: certain activities will be implemented on a national basis and other activities shall be implemented in five high potential agricultural Zones, one of which has already been identified.

The Land Tenure Project of this Compact supports formalizing the titling and surveying systems, modernizing the national land registry, and decentralizing services to rural citizens. The Finance Project includes measures to make financial services available to rural areas, improve credit skills training, and create a streamlined national payments system that is expected to bring delays in check settlement down from 45 to 3 days. The Agricultural Business Investment Project will help support farmers and entrepreneurs identify new markets and improve their production and marketing practices.

Program Activities, Costs and Performance

Financial Plan Summary	Cost ($ thousands)
1. Land Tenure	37,803
2. Finance	35,888
3. Agricultural Business Investment Opportunities	17,683
4. Monitoring and Evaluation	3,375
5. Fiscal and Procurement Management and Audits	7,871
6. Program Administration	7,153
Total Estimated MCC Contribution	109,773

A. Land Tenure Project ($37.8 Million Over Four Years)

The informal and uncertain land ownership prevalent today means that poor families are reluctant to invest in improving the land they farm and have difficulty transferring property outside of people they know. In addition, much of the rural poor lack personal assets to invest themselves, even if they are willing to do so, and inadequately recorded land assets cannot be used as loan collateral. Consequently, producers cannot access credit to purchase supplies to expand production and reach domestic or export markets.

The existing Madagascar land registration system is an expensive and slow paper system with little penetration in rural areas. GoM has processed 1,500 titles per year over the past fifteen years. In 2002, there were 200,000 requests for land titles. Less than 7% of the country's land is titled. Based on current capacity, the backlog of registration requests could take over one hundred years to process.

In addition, the land tenure problem is the primary barrier to increased rural investment and limits agricultural productivity growth. Unregistered, untitled land cannot be used as collateral against loans to generate revenue. Recognizing this, GoM has already established a National Land Policy Framework (PNF).

Activities under this Project include:

- Supporting the PNF by developing new land laws and guiding implementation;
- Creating a land database using satellite imaging and improving the ability of the National Land Service Administration to restore damaged titles and surveys and issue new titles and certificates;
- Establishing local land management offices and training officials in land titling;
- Introducing standardized land registration into the project Zones; and
- Refining techniques for information gathering and dissemination on land tenure issues.

The Land Tenure Project aims to by its completion significantly reduce the time and cost of carrying out property transactions within the Madagascar land registration system and it is expected to issue titles or certificates covering approximately 250,000 hectares.

B. Finance Project ($35.9 Million Over Four Years)

Of twelve African countries with populations between 10 and 20 million, Madagascar has the lowest density of banking accounts with only 208,000 (relative to a population of nearly 17 million), total formal banking system credit representing only 4% of GDP and microfinance available to only 5% of households. The country's archaic internal payments system continues to be a drag on economic development. Ground transport is still used to move documents and cash. Bank deposits are generally non-interest bearing and loaned out to finance large enterprises and the government deficit. Until 2004, most companies were not required to produce audited financial statements and there are currently only 70 certified accountants in the country.

Without a centralized reporting system or widespread use of consistent financial reporting standards, lenders cannot verify the creditworthiness of applicants, thus, making lending decisions very risky. Local banks specializing in small loans are almost non-existent. Routine transfers between banks can take up to 45 days, making banking difficult if not impossible for the rural poor. The financial sector activities are designed to reduce risk in the country's financial system which will contribute to the increasing availability of financial services in rural areas.

Activities under this Project include:

• Improving financial system efficiency by modernizing banking laws and laws regulating financial instruments and markets;

• Mobilizing rural savings by making new treasury instruments available to savings institutions, entrepreneurs, and households;

• Making National Savings Bank savings products available in rural areas and establishing Micro Finance Institutions (MFIs) credit lines;

• Improving credit skills training and accounting standards to improve the creditworthiness of borrowers; and

• Modernizing the interbank payment system to reduce risk and bring delays in settlement down from 45 days to 3 days.

At completion, the Financial Sector Reform Project should result in a more efficient banking system with a larger number of households having access to formal loan and savings products.

C. Agricultural Business Investment Project ($17.7 Million Over Four Years)

The agricultural business investment activities are designed to build local and regional capacity to identify and access profitable agribusiness market opportunities which will increase investments and, thereby, incomes in rural areas. This Project will identify Madagascar's best investment opportunities. In addition, there will be a large rural information campaign and training programs in agribusiness technology and management and marketing skills.

Activities under this Project include:

• Creating and operating five Agricultural Business Centers (ABCs) in the five Zones to train rural farmers and entrepreneurs in good business practices and identifying the Zones;

• Establishing a National Coordinating Center (NCC) to link the five ABCs with Malagasy government agencies;

• Identifying investment opportunities by researching local, regional and international markets and communicating these to local farmers and entrepreneurs; and

• Teaching technical and business management and marketing skills in the five Zones.

The Agricultural Business Investment Project is designed to complement the land titling and financial reform activities by providing the knowledge needed to improve the productivity of farmers and entrepreneurs. The Project will identify the five targeted Zones in which the Program activities will be undertaken. It should also significantly improve production technologies and the market access capacity of the beneficiaries.

D. Measuring Outcome and Impact ($3.4 Million)

The objective of the Program is to reduce poverty in Madagascar through increasing investment in rural areas. The three Program components will be evaluated based on their contribution to three principal indicators:

• Increase in household income in each of the Zones;

• Increase in land productivity in each of the Zones (*e.g.*, agricultural output per hectare); and

• Increase investment in each of the Zones.

These indicators, together with others at the individual Project activity level (described in the table below), will be used to measure the impact of the Program and implementation progress in accordance with the guidelines set forth in the Monitoring and Evaluation Plan.

MCC and Madagascar have agreed to a series of benchmark indicators to measure progress on the Compact. MCC is also providing initial funding under Section 609(g) of the Millennium Challenge Act to initiate baseline data collection before the Compact enters into force. The use of such funds will provide baselines for the three indicators and would have independent capacity-building value to the Malagasy National Institute for Statistics.

The tables below summarize certain of the anticipated interim measurements and estimated targets for each Project.

Land tenure project activities	Measures	Estimated targets
■ Support the Development of the Malagasy National Land Policy Framework ■ Improve the Ability of the National Land Service Administration to Provide Land Services ■ Decentralization of Land Services ■ Land Regularization in Target Zones ■ Information Gathering, Analysis and Dissemination	■ Submission and passage of new legislation that recognizes improved land tenure procedures, documents (certificates) and techniques ■ Percentage of land documents inventoried, restored, and/or digitized ■ Percent of land in pilot sites in the Zones that is securely demarcated and registered ■ Average time and cost required to carry out property transactions at national and local levels	■ Land legislation that recognizes improved land tenure procedures adopted by Month 15. ■ 100% of approximately 800,000 documents inventoried, 300,000 damaged land documents restored and 400,000 of the existing documents digitized. ■ 100% of approximately 250,000 hectares demarcated.

Finance project activities	Measures	Estimated targets
■ Promote Legal and Regulatory Reform ■ Reform Sovereign Debt Management and Issuance ■ Strengthen the National Savings Bank ■ Provide New Instruments for Agribusiness Credit ■ Modernize National Interbanks Payments Systems ■ Improve Credit Skills Training, Increase Credit Information and Analysis	■ Submission, passage, and implementation of new legislation that permit a multi-tiered financial system as recommended by outside experts and relevant commissions ■ Number of holders of smaller denomination treasury bills ■ Volume of treasury bill holdings ■ Number of treasury bills held outside of Antananarivo ■ Check clearing delay ■ Volume of funds in the payment system ■ Volume of microfinance institution (MFI) lending in the targeted zones ■ MFI portfolio-at-risk delinquency rate ■ Reporting of credit and payment information to a central database	■ Legislation permitting a multi-tiered financial system submitted by Month 5. ■ Check clearing delay reduced form 45 days to 3 days. ■ Growth rate of volume of funds in the payment system to exceed GDP growth rate. ■ MFI portfolio-at-risk delinquency rate reaches and remains steady at 4–6%. ■ $5 million increase in MFI lending in the Zones.

Agriculture business investment project activities	Measures	Estimated targets
■ Create and Operate Five ABCs ■ Create NCC and Coordinate Activities with GoM Ministries and ABCs and Identify the Zones ■ Identify the Investment Opportunities ■ Build Management Capacity in the Zones	■ Zones identified and cost-effective investment strategies developed ■ Number of farms and enterprises employing technical assistance received ■ Number of farms/enterprises receiving/soliciting information on business opportunities	■ Five Zones identified and cost-effective investment strategies developed by Month 12. ■ One agribusiness investment strategy developed for each zone. ■ Value of change in marketing and production techniques exceeds costs.

E. Fiscal and Procurement Management and Audits ($7.9 Million)

Financial administration, procurement and financial and performance audits are budgeted at $7.9 million over four years.

Funds control for the MCA Program will be managed by a separate fiscal agent identified using a competitive process. A modified version of Madagascar's procurement law—which was written with technical assistance from international donors—will govern procurements in the Compact. Disbursements will be made periodically based on performance, projected cash requirements, and compliance with provisions in the Compact and related documents.

The Program will be supplemented by a fiscal accountability plan, setting forth principles on funds control, accounting, financial reporting, auditing, and disbursement.

F. Program Management ($7.2 Million)

Program management, which includes personnel, office space, equipment, and general administrative costs, is budgeted at approximately $7.2 million over four years.

The management and control structure is consistent with a priority identified by GoM in the PRSP: a commitment to public-private partnership in the management of key public enterprises. MCA-Madagascar will include representatives of GoM, the private sector, NGOs and intended beneficiaries. They will recruit key managers from both the public and private sectors. A simplified version of this structure is presented below.

MCA Madagascar will be headed by a Steering Committee which will act like a Board of Directors for MCA-Madagascar and be composed of the Chief of Staff of the President; the Secretaries General of each of the following Ministries: Agriculture, Livestock and Fisheries; Economy, Finance and Budget; Industry, Commerce and Private Sector Development; and three non-government members (*e.g.,* civil society or private sector representatives) who will be members of an Advisory Council.

The Steering Committee will appoint a management team, composed of a Managing Director, a Manager of Administration and Finance, a Manager of Monitoring and Evaluation, a Manager of Procurement, and three Project Managers with responsibility for each of the three project areas. MCC intends to place one, or possibly two, MCC field representative(s) in Madagascar to monitor and provide support to MCA-Madagascar (including full observer and information rights with respect to the Steering Committee). However, MCA-Madagascar will have the primary role for Program implementation and management.

The Advisory Council will be an independent body made up of beneficiary representatives (including civil society and private sector representatives) who will have a regular opportunity to provide the Steering Committee and MCA-Madagascar management with their views or recommendations on the performance and progress of implementation.

Other Highlights

Consultative Process: In developing the concepts for the activities covered in this Compact, GoM engaged in a consultative process solely focused on MCC. An introductory national workshop was organized on September 16, 2004 (consisting of more than 350 participants, including President Ravolomanana) to describe the MCA and discuss obstacles to economic growth and poverty reduction.

GoM then organized six regional consultative workshops, each consisting of 50 to 150 representatives of the business community, non-governmental organizations, civil society and donors in Antsiranana, Antsirabe, Mahajanga, Toliary, Fianarantsoa, and Toamasina and one national workshop in Antananarivo. During this period, GoM also ran radio and TV broadcasts on the MCA, soliciting on-air input, and published newspaper advertisements that announced meetings and called for submission of proposal ideas.

There is broad agreement among the Malagasy and donors that the activities suggested in the Malagasy Compact proposal are priorities for addressing poverty reduction through economic growth.

Sustainability: The Program activities are largely focused on promoting investment opportunities through unleashing the rural private sector. Sustainability will result from rural producers taking advantage of the increased access to financial resources and information. A number of Program activities will be reinforced by a system of graduated user fees for services, including land titling, registration, credit reporting, banking services, and technical assistance provided by the ABCs.

Environment: Madagascar is home to some 10,000 endemic plant species, 316 endemic reptile species and 109 endemic bird species. It is also home to 71 primates found only there. This unique eco-system is threatened by the prevalence of slash and burn agriculture. Instituting secure land tenure will confer an incentive on landowners to make investments that preserve and enhance the productivity of the land's natural capital rather than practice destructive farming techniques. The Agricultural Business Investment Project will encompass sustainable agriculture principles to design interventions sensitive to the environment.

Donor Coordination: The Program complements and supplements efforts by other donors in each of the areas being addressed. Increasing rural incomes is the focus of the Malagasy national development strategy and numerous donors are supporting the achievement of this goal. The EU, World Bank, IFAD, FAO and AFD are all active in supporting various elements of the PNF. Similarly, World Bank, UNDP, AFD, ILO and USAID have funded activities to build capacity of micro-finance institutions. Finally, IFC and USAID efforts will be complemented by the Agricultural Business Investment Project.

Summary and Conclusion

Madagascar has undertaken structural reforms, created a more favorable environment for private investment and taken steps to integrate into the world economy. These policies have improved macroeconomic stability and sustained economic growth. The greatest challenge, however, is to ensure that growth translates into improvements in the lives of the poor. Growth needs to be brought to rural areas: Getting the agriculture sector to grow and diversify, linking farmers to markets. Farmers must move beyond subsistence agriculture and start producing for export and for local processing if macroeconomic stability is to be translated into poverty reduction.

The basic premise of the Millennium Challenge Corporation is that establishing the right conditions is essential for economic growth and foreign aid effectiveness. The Madagascar Program establishes the proper conditions: land ownership, access to capital, and utilizing production and management know-how to reduce poverty.

This Program will have a positive economic impact on Madagascar: increased land security will result in more productive and environmentally friendly agricultural practices as well as improve access to credit in rural areas; financial sector reform includes measures to make financial services available to rural areas, improve credit skills training, and create a streamlined national payments system; and, agribusiness investment activities will support farmers and entrepreneurs as they move away from subsistence agriculture to more modern, market-based production.

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MILLENNIUM CHALLENGE COMPACT

BETWEEN

THE UNITED STATES OF AMERICA
ACTING THROUGH
THE MILLENNIUM CHALLENGE CORPORATION

AND

THE GOVERNMENT OF THE REPUBLIC OF MADAGASCAR

Millennium Challenge Compact

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MILLENNIUM CHALLENGE COMPACT

This MILLENNIUM CHALLENGE COMPACT (the "***Compact***") is made by and between the United States of America, acting through the Millennium Challenge Corporation, a United States Government corporation ("***MCC***"), and the Government of the Republic of Madagascar (the "***Government***") (referred to herein individually as a "***Party***" and collectively, the "***Parties***").

RECITALS

WHEREAS, MCC, acting through its Board of Directors, has selected the Republic of Madagascar as eligible to present to MCC a proposal for the use of 2004 and 2005 Millennium Challenge Account ("***MCA***") assistance to help facilitate poverty reduction through economic growth in Madagascar;

WHEREAS, the Government has carried out a consultative process with the country's private sector and civil society to outline the country's priorities for the use of MCA assistance and developed a proposal, which was submitted to MCC on October 4, 2004 (the "***Proposal***");

WHEREAS, the Proposal focused on, among other things, improving the environment for private sector investment through legal and policy reform as well as development of financial infrastructure, increasing land security and providing knowledge of market opportunities and requirements in rural areas;

WHEREAS, MCC has evaluated the Proposal and related documents to determine whether the Proposal is consistent with core MCA principles and includes proposed activities and projects that will advance the progress of Madagascar towards achieving economic growth and poverty reduction; and

WHEREAS, based on MCC's evaluation of the Proposal and related documents and subsequent discussions and negotiations between the Parties, the Government and MCC determined to enter into this Compact to implement a program using MCC Funding (defined below) to advance Madagascar's progress towards economic growth and poverty reduction (the "***Program***");

NOW, THEREFORE, in consideration of the foregoing and the mutual covenants and agreements set forth herein, the Parties hereby agree as follows:

ARTICLE I.
PURPOSE AND TERM

Section 1.1 Objectives. The overall objective of this Compact is to increase investment in rural Madagascar (the "***Program Objective***"), which is key to advancing the goal of economic growth and poverty reduction in Madagascar (the "***Compact Goal***"). The following project-level objectives (each, a "***Project Objective***" and together the "***Project Objectives***") have been identified to advance the Program Objective, each of which is described in more detail in Annex I attached hereto:

(a) Increase land titling and land security (the "***Land Tenure Objective***");

(b) Increase competition in the financial sector (the "***Finance Objective***"); and

(c) Improve agricultural production technologies and market capacity in rural areas (the "***Agricultural Business Investment Objective***").

(The Program Objective and the individual Project Objectives are referred to herein collectively as the "***Objectives***" and each individually as an "***Objective***"). The Government expects to achieve, and shall use its best efforts to ensure the achievement of, these Objectives during the Compact Term (defined below).

Section 1.2 Projects. The Annexes attached hereto describe the specific projects and the policy reforms and other activities related thereto (each, a "***Project***") that the Government will carry out, or cause to be carried out, in furtherance of this Compact to achieve the Objectives.

Section 1.3 Entry into Force; Compact Term. This Compact shall enter into force on the date of the last letter in an exchange of letters between the Principal Representatives (defined below) of each Party confirming that each Party has completed its domestic requirements for entry into force of this Compact and that all conditions set forth in Section 4.1 have been satisfied by the Government. This Compact shall remain in force for four years from the date of the entry into force of this Compact, unless earlier terminated in accordance with Section 5.4 (the "***Compact Term***").

ARTICLE II.
FUNDING AND RESOURCES

Section 2.1 MCC Funding.

(a) MCC's Contribution. MCC hereby grants to the Government, subject to the terms and conditions of this Compact, an amount not to exceed one hundred nine million seven hundred and seventy three thousand United States Dollars (USD $109,773,000) ("***MCC Funding***") during the Compact Term to enable the Government to implement the Program and achieve the Objectives.

(i) The allocation of the MCC Funding within the Program and among and within the Projects shall be as generally described in Annex II or as otherwise agreed upon by the Parties from time to time.

(ii) If at any time MCC determines that a condition precedent to an MCC Disbursement (defined below) has not been satisfied, MCC may, upon written notice to the Government, reduce the total amount of MCC Funding by an amount equal to the amount estimated in the Budget (defined in Annex I) for the Program activity for which such condition precedent has not been met. Upon the expiration or termination of this Compact, (A) any amounts of MCC Funding not disbursed by MCC to the Government shall be automatically released from any obligation in connection with this Compact and (B) any amounts of MCC Funding disbursed by MCC to the Government as provided in Section 2.1(b)(i), but not re-disbursed as provided in Section 2.1(b)(ii) or otherwise incurred as permitted pursuant to Section 5.4(e) prior to the expiration of the Compact, shall be returned to MCC in accordance with Section 2.5(a)(ii).

(b) Disbursements.

(i) Disbursements of MCC Funding. MCC shall from time to time make disbursements of MCC Funding (each such disbursement, an "***MCC Disbursement***") in accordance with the procedures and requirements set forth in Annex I, the Disbursement Agreement (defined in Annex I) or as otherwise provided in any other relevant Supplemental Agreement (defined below).

(ii) Re-Disbursements of MCC Funding. The release of MCC Funding from the account(s) into which the MCC Disbursement was made (or the Local Account to which the MCC Disbursement was transferred in accordance with Section 2.1(d)) (each such release, a "***Re-Disbursement***"), shall be made in accordance with the procedures and requirements set forth in Annex I, the Disbursement Agreement or as otherwise provided in any other relevant Supplemental Agreement.

(c) Interest. Unless the Parties agree otherwise in writing, any interest or other earnings on MCC Funding that accrue or earn (collectively, "***Accrued Interest***") shall be held in the account(s) into which the MCC Disbursement was made (or the Local Account to which the MCC Disbursement was transferred in accordance with Section 2.1(d)) and earned in accordance with the requirements for the earning and treatment of Accrued Interest as specified in Annex I or any relevant Supplemental Agreement. On a quarterly basis and upon the termination or expiration of this Compact, the Government shall return, or ensure the return of, all Accrued Interest to any United States Government account designated by MCC.

(d) Conversion; Exchange Rate. The Government shall ensure that all MCC Funding in the account(s) into which MCC Disbursements are made is held in the currency of the United States of America ("***United States Dollars***") prior to Re-Disbursement; *provided*, that a certain portion of MCC Funding may be transferred to a Local Account and may be held in such Local Account in the currency of Madagascar prior to Re-Disbursement in accordance with the requirements of Annex I. To the extent that any amount of MCC Funding held in United States Dollars must be converted into the currency of Madagascar for any purpose, including for any

Re-Disbursement or any transfer of MCC Funding into a Local Account, the Government shall ensure that such amount is converted consistent with Annex I and the requirements of the Disbursement Agreement or any other Supplemental Agreement between the Parties. The Government shall ensure that any MCC Funding that is converted into the currency of Madagascar is converted at the rate and in the manner set forth in Annex I.

(e) Guidance. From time to time, MCC may provide guidance to the Government through Implementation Letters (defined in Section 3.5(a)) on the frequency, form and content of requests for MCC Disbursements and Re-Disbursements or any other matter relating to MCC Funding. The Government shall apply such guidance in implementing this Compact.

Section 2.2 Government Resources.

(a) The Government shall provide or cause to be provided such Government funds and other resources, and shall take or cause to be taken such actions, including obtaining all necessary approvals and consents, as are specified in this Compact or in any Supplemental Agreement to which the Government is a party or as are otherwise necessary and appropriate to effectively carry out the Government Responsibilities (defined below) or other responsibilities or obligations of the Government under or in furtherance of this Compact during the Compact Term and through the completion of any post-Compact Term activities, audits or other responsibilities.

(b) If at any time during the Compact Term, the Government materially reduces the allocation in its national budget or any other Government budget of the normal and expected resources that the Government would have otherwise received or budgeted, from external or domestic sources, for the activities contemplated herein, the Government shall notify MCC in writing within fifteen (15) days of such reduction, such notification to contain information regarding the amount of the reduction, the affected activities, and an explanation for the reduction. In the event that MCC determines upon review of the executed national annual budget that such a material reallocation or reduction of resources has occurred, MCC shall notify the Government and, following such notification, the Government shall provide a written explanation for such reallocation or reduction.

(c) The Government shall use its best efforts to ensure that all MCC Funding is fully reflected and accounted for in the annual budget of the Republic of Madagascar on a multi-year basis.

Section 2.3 Limitations on the Use or Treatment of MCC Funding.

(a) Abortions and Involuntary Sterilizations. The Government shall ensure that MCC Funding shall not be used to undertake, finance or otherwise support any activity that is subject to prohibitions on use of funds contained in (i) paragraphs (1) through (3) of section 104(f) of the Foreign Assistance Act of 1961 (22 U.S.C. 2151b(f)(1)-(3)), a United States statute, which prohibitions shall apply to the same extent and in the same manner as such prohibitions apply to funds made available to carry out Part I of such Act; or (ii) any provision of law comparable to the eleventh and fourteenth provisos under the heading "Child Survival and Health Programs Fund" of division E of Public Law 108-7 (117 Stat. 162), a United States statute.

(b) United States Job Loss or Displacement of Production. The Government shall ensure that MCC Funding shall not be used to undertake, finance or otherwise support any activity that is likely to cause a substantial loss of United States jobs or a substantial displacement of United States production, including:

(i) Providing financial incentives to relocate a substantial number of United States jobs or cause a substantial displacement of production outside the United States;

(ii) Supporting investment promotion missions or other travel to the United States with the intention of inducing United States firms to relocate a substantial number of United States jobs or a substantial amount of production outside the United States;

(iii) Conducting feasibility studies, research services, studies, travel to or from the United States, or providing insurance or technical and management assistance, with the intention of inducing United States firms to relocate a substantial number of United States jobs or cause a substantial displacement of production outside the United States;

(iv) Advertising in the United States to encourage United States firms to relocate a substantial number of United States jobs or cause a substantial displacement of production outside the United States;

(v) Training workers for firms that intend to relocate a substantial number of United States jobs or cause a substantial displacement of production outside the United States;

(vi) Supporting a United States office of an organization that offers incentives for United States firms to relocate a substantial number of United States jobs or cause a substantial displacement of production outside the United States; or

(vii) Providing general budget support for an organization that engages in any activity prohibited above.

(c) Military Assistance and Training. The Government shall ensure that MCC Funding shall not be used to undertake, finance or otherwise support the purchase or use of goods or services for military purposes, including military training, or to provide any assistance to the military, police, militia, national guard or other quasi-military organization or unit.

(d) Prohibition of Assistance Relating to Environmental, Health or Safety Hazards. The Government shall ensure that MCC Funding shall not be used to undertake, finance or otherwise support any activity that is likely to cause a significant environmental, health, or safety hazard. Unless MCC and the Government agree otherwise in writing, the Government shall ensure that activities undertaken or financed in whole or in part (directly or indirectly) by MCC Funding comply with environmental guidelines delivered by MCC to the Government or posted by MCC on its website or otherwise publicly made available, as such guidelines may be amended from time to time (the "***Environmental Guidelines***"), including any definition of "likely to cause a significant environmental, health, or safety hazard" as may be set forth in such Environmental Guidelines.

(e) Taxation.

(i) Taxes. The Government shall ensure that the Program, any Program Assets (defined below), MCC Funding and Accrued Interest, shall be free from any taxes imposed under laws currently or hereafter in effect in the Republic of Madagascar during the Compact Term. This exemption shall apply to any use of any Program Asset, MCC Funding and Accrued Interest, including any Exempt Uses (defined below), and to any work performed under or activities undertaken in furtherance of this Compact by any person or entity (including contractors and grantees) financed by MCC Funding, and shall apply to all taxes, tariffs, duties, and other levies (each a "***Tax***" and collectively, "***Taxes***"), including:

(1) to the extent attributable to MCC Funding, income taxes and other taxes on profit or businesses imposed on organizations or entities, other than nationals of Madagascar, receiving MCC Funding, including taxes on the acquisition, ownership, rental, disposition or other use of real or personal property, taxes on investment or deposit requirements and currency controls in Madagascar, or any other tax, duty, charge or fee of whatever nature, except fees for specific services rendered; for purposes of this Section 2.3(e), the term "national" refers to organizations established under the laws of Madagascar, other than MCA-Madagascar (defined in Annex I) or any other entity established solely for purposes of managing or overseeing the implementation of the Program or any wholly-owned subsidiaries, divisions, or Affiliates of entities not registered or established under the laws of Madagascar;

(2) customs duties, tariffs, import and export taxes, or other levies on the importation, use and re-exportation of goods, services, or the personal belongings and effects, including personally-owned automobiles, for Program use or the personal use of individuals who are neither citizens nor permanent residents of Madagascar and who are present in Madagascar for purposes of carrying out the Program or their family members, including all charges based on the value of such imported goods;

(3) taxes on the income or personal property of all individuals who are neither citizens nor permanent residents of Madagascar, including income and social security taxes of all types and all taxes on the personal property owned by such individuals, to the extent such income or property are attributable to MCC Funding; and

(4) taxes or duties levied on the purchase of goods or services financed by MCC Funding, including sales taxes, tourism taxes, value-added taxes (VAT), or other similar charges.

(ii) For purposes of this Compact, (A) an "***Affiliate***" of a party is a person or entity that controls, is controlled by, or is under the same control as the party in question, whether by ownership or by voting, financial or other power or means of influence and (B) a "***Government Affiliate***" is an Affiliate, ministry, bureau, department, agency, government corporation or any other entity chartered or established by the Government. References to any Affiliate or Government Affiliate herein shall include any of their respective directors, officers, employees, affiliates, contractors, representatives, and agents.

(iii) This Section 2.3(e) shall apply, but is not limited to (A) any transaction, service, activity, contract, grant or other implementing agreement financed in whole or in part by MCC Funding; (B) any supplies, equipment, materials, property or other goods (referred to herein collectively as "goods") or funds introduced into, acquired in, used or disposed of in, or imported into or exported from, the Republic of Madagascar by MCC, or by any person or entity (including contractors and grantees) as part of, or in conjunction with, MCC Funding or the Program; (C) any contractor, grantee, or other organization carrying out activities financed in whole or in part by MCC Funding; (D) any employee of such organizations; and (E) any individual contractor or grantee carrying out activities financed in whole or in part by MCC Funding (the uses set forth in clauses (A) through (E) are collectively referred to herein as "***Exempt Uses***").

(iv) If a Tax has been levied and paid contrary to the requirements of this Section 2.3(e), the Government shall refund promptly to MCC to an account designated by MCC or to others as MCC may direct the amount of such Tax in the currency of Madagascar, within fifteen (15) days after the Government is notified, whether by MCC or otherwise, of such levy and tax payment; *provided, however*, the Government shall apply national funds to satisfy its obligations under this Section 2.3(e)(iv) and no MCC Funding, Accrued Interest, or any assets, goods, or property (real, tangible, or intangible) purchased or financed in whole or in part (directly or indirectly) by MCC Funding ("***Program Assets***") may be applied by the Government in satisfaction of its obligations under this Section 2.3(e)(iv).

(f) Alteration. The Government shall ensure that neither MCC Funding nor Accrued Interest shall be subject to any impoundment, rescission, sequestration or any provision of law now or hereafter in effect in the Republic of Madagascar that would have the effect of requiring or allowing any impoundment, rescission or sequestration of any MCC Funding.

(g) Liens or Encumbrances. The Government shall ensure that no MCC Funding, Accrued Interest, nor Program Assets shall be subject to any lien, attachment, enforcement of judgment, pledge, or encumbrance of any kind, except with the prior approval of MCC in accordance with Section 3(c) of Annex I, and in the event of any lien, attachment, enforcement of judgment, pledge or encumbrance not so approved, the Government shall seek the release of such lien, attachment, enforcement of judgment, pledge or encumbrance and shall pay any amounts owed to obtain such release; *provided, however*, the Government shall apply national funds to satisfy its obligations under this Section 2.3(g) and no MCC Funding, Accrued Interest, nor Program Assets may be applied by the Government in satisfaction of its obligations under this Section 2.3(g).

(h) Other Limitations. The Government shall ensure that the use or treatment of MCC Funding shall be subject to such other limitations (i) as required by the applicable law of the United States of America now or hereafter in effect during the Compact Term, (ii) as advisable under or required by applicable United States Government policies now or hereafter in effect during the Compact Term, or (iii) to which the Parties may otherwise agree in writing.

(i) Utilization of Goods, Services and Works. The Government shall ensure that any Program Assets, services, facilities or works financed in whole or in part (directly or indirectly)

by MCC Funding, unless otherwise agreed by the Parties in writing, shall be used solely in furtherance of this Compact.

(j) Notification of Applicable Laws and Policies. MCC shall notify the Government of any applicable United States law or policy affecting the use or treatment of MCC Funding, whether or not specifically identified in this Section 2.3, and shall provide to the Government a copy of the text of any such applicable law and a written explanation of any such applicable policy.

Section 2.4 Incorporation; Notice; Clarification.

(a) The Government shall include, or ensure the inclusion of, all of the requirements set forth in Section 2.3 in all Supplemental Agreements to which MCC is not a party and shall use its best efforts to ensure that no such Supplemental Agreement is implemented in violation of the prohibitions set forth in Section 2.3.

(b) The Government shall ensure notification of all of the requirements set forth in Section 2.3 to any Government Affiliate or Permitted Designee (defined below) involved in any activities in furtherance of this Compact or any third party who receives at least USD$50,000 in the aggregate of MCC Funding (other than employees of MCA-Madagascar) during the Compact Term or such other amount as the Parties may agree in writing, whether directly from MCC, indirectly through Re-Disbursements, or otherwise (each, a "***Provider***" and together, the "***Providers***"), and all relevant officers, directors, employees, agents, representatives, contractors, grantees, subcontractors and sub-grantees of the Government or any Provider.

(c) In the event the Government or any Provider requires clarification from MCC as to whether an activity contemplated to be undertaken in furtherance of this Compact violates or may violate any provision of Section 2.3, the Government shall notify, or ensure that such Provider notifies, MCC in writing and provide in such notification a detailed description of the activity in question. In such event, the Government shall not proceed, and shall use its best efforts to ensure that no relevant Provider proceeds, with such activity, and the Government shall ensure that no Re-Disbursements shall be made for such activity, until MCC advises the Government or such Provider in writing that the activity is permissible.

Section 2.5 Refunds; Violation.

(a) Notwithstanding the availability to MCC, or exercise by MCC of, any other remedies, including under international law, this Compact, or any Supplemental Agreement:

(i) If any amount of MCC Funding or Accrued Interest, or any Program Asset, is used for any purpose prohibited under this Article II or otherwise in violation of any of the terms and conditions of this Compact or any Supplemental Agreement between the Parties, MCC may require the Government to repay promptly to MCC to an account designated by MCC or to others as MCC may direct the amount of such misused MCC Funding or Accrued Interest, or the cash equivalent of the value of any misused Program Asset, in United States Dollars, plus any interest that accrued or would have accrued thereon, within fifteen (15) days after the Government is notified, whether by MCC or otherwise, of such prohibited use; *provided, however*, the Government shall apply national funds to satisfy its obligations under this Section

2.5(a)(i) and no MCC Funding, Accrued Interest, nor Program Assets may be applied by the Government in satisfaction of its obligations under this Section 2.5(a)(i); and

(ii) If all or any portion of this Compact is terminated or suspended and upon the expiration of the Compact, the Government shall, subject to the requirement of Sections 5.4(e) and 5.4(f), refund, or ensure the refund, to MCC to such account(s) designated by MCC the amount of any MCC Funding, plus any Accrued Interest, promptly, but in no event later than thirty (30) days after the Government receives MCC's request for such refund; *provided*, that if this Compact is terminated or suspended in part, MCC may request a refund for only the amount of funds, plus any Accrued Interest, then allocated to the terminated or suspended portion; *provided, further*, that any refund of MCC Funding or Accrued Interest shall be to such account(s) as designated by MCC.

(b) Notwithstanding any other provision in this Compact or any other agreement to the contrary, MCC's right under this Section 2.5 for a refund shall continue during the Compact Term and for a period of (i) five (5) years thereafter or (ii) one (1) year after MCC receives actual knowledge of such violation, whichever is later.

(c) If MCC determines that any activity or failure to act violates, or may violate, any Section in this Article II, MCC may refuse any further MCC Disbursements for or conditioned upon such activity, and may take any action to prevent any Re-Disbursement related to such activity.

ARTICLE III.
IMPLEMENTATION

Section 3.1 Implementation Framework. This Compact shall be implemented by the Parties in accordance with this Article III and as further specified in the Annexes and in relevant Supplemental Agreements.

Section 3.2 Government Responsibilities.

(a) The Government shall have principal responsibility for oversight and management of the implementation of the Program (i) in accordance with the terms and conditions specified in this Compact and relevant Supplemental Agreements, (ii) in accordance with all applicable laws of Madagascar, and (iii) in at least a timely and cost-effective manner and in conformity with sound technical, financial and management practices (collectively, the "***Government Responsibilities***"). Unless otherwise expressly provided, any reference to the Government Responsibilities or any other responsibilities or obligations of the Government herein shall be deemed to apply to any Government Affiliate and any of their respective employees, contractors, agents or representatives.

(b) The Government shall ensure that no person or entity shall participate in the selection, award, administration or implementation of a contract, grant or other benefit or transaction financed in whole or in part (directly or indirectly) by MCC Funding, in which (i) the entity, the person, members of the person's immediate family or household or his or her business

partners, or organizations controlled by or substantially involving such person or entity, has or have a financial interest or (ii) the person is negotiating or has any arrangement concerning prospective employment, unless such person or entity has first disclosed in writing to the Government the conflict of interest and, following such disclosure, the Parties agreed in writing to proceed notwithstanding such conflict. The Government shall ensure that no person or entity involved in the selection, award, administration or implementation of any contract, grant or other benefit or transaction financed in whole or in part (directly or indirectly) by MCC Funding shall solicit or accept or offer a third party or seek or be promised directly or indirectly for itself or for another person or entity any gift, gratuity, favor or benefit, other than items of de minimis value and otherwise consistent with such guidance as MCC may provide from time to time.

(c) The Government shall not designate any person or entity, including any Government Affiliate, to implement, in whole or in part, this Compact or any Supplemental Agreement between the Parties or to exercise any rights of the Government under this Compact, except as expressly provided herein or with the prior written consent of MCC; *provided, however*, the Government may designate MCA-Madagascar or, with the prior written consent of MCC, such other mutually acceptable persons or entities, to implement some or all of the Government Responsibilities or any other responsibilities or obligations of the Government or to exercise any rights of the Government under this Compact or any Supplemental Agreement between the Parties (referred to herein collectively as "***Designated Rights and Responsibilities***"), in accordance with the terms and conditions set forth in this Compact or such Supplemental Agreement (each, a "***Permitted Designee***"). Notwithstanding any provision herein or any other agreement to the contrary, no aforementioned designation shall relieve the Government of such Designated Rights and Responsibilities, for which the Government shall retain ultimate responsibility. In the event that the Government designates any person or entity, including any Government Affiliate, to implement any portion of the Government Responsibilities or other responsibilities or obligations of the Government, or to exercise any rights of the Government under this Compact, in accordance with this Section 3.2(c), then the Government shall cause such person or entity to (i) perform such Designated Rights and Responsibilities in the same manner and to the full extent to which the Government is obligated to perform such Designated Rights and Responsibilities and (ii) certify to MCC in writing that it will so perform such Designated Rights and Responsibilities and will not assign, delegate, or contract (or otherwise transfer) any of such Designated Rights and Responsibilities to any person or entity without the prior written consent of MCC.

(d) The Government shall, upon a request from MCC, execute, or ensure the execution of, an assignment to MCC of any cause of action which may accrue to the benefit of the Government, a Government Affiliate or any Permitted Designee in connection with or arising out of any activities financed in whole or in part (directly or indirectly) by MCC Funding.

Section 3.3 Government Deliveries. The Government shall proceed, and cause others to proceed, in a timely manner to deliver to MCC all Government deliveries required by this Compact or any Supplemental Agreement between the Parties, in form and substance as set forth in this Compact or any such Supplemental Agreement.

Section 3.4 Government Assurances. The Government hereby provides the following assurances to MCC that as of the date this Compact is signed:

(a) The information contained in the Proposal and any agreement, report, statement, communication, document or otherwise delivered or otherwise communicated to MCC by or on behalf of the Government on or after the date of the submission of the Proposal (i) are true, accurate and complete in all material respects and (ii) do not omit any fact known to the Government that if disclosed would (A) alter in any material respect the information delivered, (B) likely have a material adverse effect on the Government's ability to effectively implement, or ensure the effective implementation of, the Program or any Project or to otherwise carry out its responsibilities or obligations under or in furtherance of this Compact, or (C) have likely adversely affected MCC's determination to enter into this Compact or any Supplemental Agreement between the Parties.

(b) Unless otherwise disclosed in writing to MCC, the MCC Funding made available hereunder is in addition to the normal and expected resources that the Government usually receives or budgets for such activities from external or domestic sources.

(c) This Compact does not conflict and will not conflict with any international agreement or obligation to which the Government is a party or by which it is bound.

(d) No payments have been (i) received by any official of the Government or any other government body in connection with the procurement of goods or services to be undertaken or financed in whole or in part (directly or indirectly) by MCC Funding, except fees, taxes, or similar payments legally established in Madagascar or (ii) made to any third party, in connection with this Compact, in violation of the United States Foreign Corrupt Practices Act of 1977, as amended (15 USC 78a *et seq.*).

Section 3.5 Implementation Letters; Supplemental Agreements.

(a) MCC may, from time to time, issue one or more letters to furnish additional information or guidance to assist the Government in the implementation of this Compact (each, an "***Implementation Letter***"). The Government shall apply such guidance in implementing this Compact.

(b) The details of any funding, implementing and other arrangements in furtherance of this Compact may be memorialized in one or more agreements between (A) the Government and MCC, (B) MCC and/or the Government and any third party, including any of the Providers or (C) any third parties where neither MCC nor the Government is a party, before, on or after the entry into force of this Compact (each, a "***Supplemental Agreement***"). The Government shall deliver, or cause to be delivered, to MCC within five (5) days of its execution a copy of any Supplemental Agreement to which MCC is not a party.

Section 3.6 Procurement; Awards of Assistance.

(a) The Parties shall agree, no later than the entry into force of this Compact, on guidelines for the procurement of goods, services and works by the Government or any Provider in furtherance of this Compact (the "***Procurement Guidelines***"), such agreement to be reflected in a Supplemental Agreement containing the Procurement Guidelines (the "***Procurement Agreement***"). The Government shall ensure the adoption of such Procurement Guidelines by

any Permitted Designee, and furnish MCC evidence of such adoption, no later than the time specified in the Disbursement Agreement.

(b) The Government shall follow, and shall use its best efforts to ensure that all Providers follow, the Procurement Guidelines in procuring goods, services and works and in awarding contracts, grants and other agreements in furtherance of this Compact, which shall include the following requirements:

(i) Open, fair and competitive procedures are used in a transparent manner to solicit, award and administer contracts, grants, and other agreements and to procure goods, services and works;

(ii) Solicitations for goods, services, and works shall be based upon a clear and accurate description of the goods, services or works to be acquired;

(iii) Contracts shall be awarded only to qualified and capable contractors that have the capability and willingness to perform the contracts in accordance with the terms and conditions of the applicable contracts and on a cost effective and timely basis; and

(iv) No more than a commercially reasonable price, as determined, for example, by a comparison of price quotations and market prices, shall be paid to procure goods, services, and works.

(c) The Government shall maintain, and shall use its best efforts to ensure that all Providers maintain, records regarding the receipt and use of goods and services acquired in furtherance of this Compact, the nature and extent of solicitations of prospective suppliers of goods and services acquired in furtherance of this Compact, and the basis of award of contracts, grants and other agreements in furtherance of this Compact.

(d) The Government shall use its best efforts to ensure that information, including solicitations, regarding procurement, grant and other agreement actions financed in whole or in part (directly or indirectly) by MCC Funding shall be made publicly available in the manner outlined in the Procurement Guidelines or in any other manner agreed upon by the Parties in writing.

(e) No goods, services or works may be financed in whole or in part (directly or indirectly) by MCC Funding which are procured pursuant to orders or contracts firmly placed or entered into prior to the entry into force of this Compact, except as the Parties may otherwise agree in writing.

(f) The Government shall include, or ensure the inclusion of, the requirements of this Section 3.6 into all Supplemental Agreements between the Government or any Government Affiliate or Permitted Designee or any of their respective directors, officers, employees, Affiliates, contractors, representatives or agents, on the one hand, and a Provider, on the other hand.

Section 3.7 Policy Performance; Policy Reforms. In addition to the specific policy and legal reform commitments identified in Annex I and the Schedules thereto, the Government shall seek

to maintain and improve its level of performance under the policy criteria identified in section 607 of the Millennium Challenge Act of 2003, as amended (the "***Act***"), and the MCA selection criteria and methodology published by MCC pursuant to section 607 of the Act from time to time ("***MCA Eligibility Criteria***").

Section 3.8 Records and Information; Access; Audits; Reviews.

(a) Reports and Information. The Government shall furnish to MCC, and shall use its best efforts to ensure that all Providers and any other third party receiving MCC Funding, as appropriate, furnish to the Government, any records and other information required to be maintained under this Section 3.8 and such other information, documents and reports as may be necessary or appropriate for the Government to effectively carry out its obligations under this Compact, including under Section 3.12.

(b) Government Books and Records. The Government shall maintain, and shall use its best efforts to ensure that all Providers maintain, accounting books, records, documents and other evidence relating to this Compact adequate to show, without limitation, the use of all MCC Funding, including all costs incurred by the Government and the Providers in furtherance of this Compact, the receipt and use of goods and services acquired in furtherance of this Compact by the Government and the Providers, agreed-upon cost sharing requirements, the nature and extent of solicitations of prospective suppliers of goods and services acquired by the Government and the Providers in furtherance of this Compact, the basis of award of Government and other contracts and orders in furtherance of this Compact, the overall progress of the implementation of the Program, and any documents required by this Compact or any Supplemental Agreement between the Parties or reasonably requested by MCC upon reasonable notice ("***Compact Records***"). The Government shall maintain, and shall use its best efforts to ensure that all Covered Providers (defined in Section 3.8(e)(iv)) maintain, Compact Records in accordance with generally accepted accounting principles prevailing in the United States, or at the Government's option and with the prior written approval by MCC, other accounting principles, such as those (1) prescribed by the International Accounting Standards Committee (an affiliate of the International Federation of Accountants) or (2) then prevailing in Madagascar. Compact Records shall be maintained for at least five (5) years after the end of the Compact Term or for such longer period, if any, required to resolve any litigation, claims or audit findings or any statutory requirements.

(c) Application to Providers. The Government shall include, or ensure the inclusion of, the requirements of paragraphs (a), (b), (c), (d), (e)(iii), (e)(vi), and (e)(viii) of this Section 3.8 into all Supplemental Agreements between the Government or any Government Affiliate or any Permitted Designee or any of their respective directors, officers, employees, Affiliates, contractors, representatives or agents, on the one hand, and a Covered Provider that is not a non-profit organization domiciled in the United States, on the other hand. The Government shall include, or ensure the inclusion of, at a minimum, the requirements of paragraphs (a), (b), (d), and (e)(viii) of this Section 3.8 into all Supplemental Agreements between the Government or any Government Affiliate or Permitted Designee or any of their respective directors, officers, employees, Affiliates, contractors, representatives or agents, on the one hand, and a Provider that does not meet the definition of a Covered Provider, on the other hand. The Government shall include, or ensure the inclusion of, at a minimum, the requirements of paragraphs (a), (b), and (d)

of this Section 3.8 into all Supplemental Agreements between the Government or any Government Affiliate or any Permitted Designee or any of their respective directors, officers, employees, Affiliates, contractors, representatives or agents, on the one hand, and a Covered Provider that is a non-profit organization domiciled in the United States, on the other hand.

(d) Access. The Government shall permit, or cause to be permitted, authorized representatives of MCC, the Inspector General (defined below), the United States Government Accountability Office, any auditor responsible for an audit contemplated herein or otherwise conducted in furtherance of this Compact, and any agents or representatives engaged by MCC or a Permitted Designee to conduct any assessment, review or evaluation of the Program, at all reasonable times the opportunity to audit, review, evaluate or inspect activities financed in whole or in part (directly or indirectly) by MCC Funding or undertaken in connection with the Program, the utilization of goods and services purchased or financed in whole or in part (directly or indirectly) by MCC Funding, and Compact Records, including of the Government or any Provider, relating to activities financed or undertaken in furtherance of, or otherwise relating to, this Compact, and shall use its best efforts to ensure access by MCC, the Inspector General, the United States Government Accountability Office or relevant auditor, reviewer or evaluator or their respective representatives or agents to all relevant directors, officers, employees, Affiliates, contractors, representatives and agents of the Government or any Provider.

(e) Audits.

(i) Government Audits. The Government shall, on at least an annual basis and as the Parties may otherwise agree in writing, conduct, or cause to be conducted, financial audits of all MCC Disbursements and Re-Disbursements during the year since the entry into force of this Compact or since the prior anniversary of the entry into force of this Compact in accordance with the following terms, except as the Parties may otherwise agree in writing. As requested by MCC in writing, the Government shall use, or cause to be used, or select, or cause to be selected, an auditor named on the approved list of auditors in accordance with the "*Guidelines for Financial Audits Contracted by Foreign Recipients*" issued by the Inspector General of the United States Agency for International Development (the "***Inspector General***"), and as approved by MCC, to conduct such annual audits. Such audits shall be performed in accordance with such Guidelines and be subject to quality assurance oversight by the Inspector General in accordance with such Guidelines. An audit shall be completed no later than 90 days after the first anniversary of the entry into force of this Compact and no later than 90 days after each anniversary of the entry into force of this Compact thereafter, or such other period as the Parties may otherwise agree in writing.

(ii) Audits of U.S. Entities. The Government shall ensure that Supplemental Agreements between the Government or any Provider, on the one hand, and a United States nonprofit organization, on the other hand, state that the United States organization is subject to the applicable audit requirements contained in OMB Circular A-133, notwithstanding any other provision of this Compact to the contrary. The Government shall ensure that Supplemental Agreements between the Government or any Provider, on the one hand, and a United States for-profit Covered Provider, on the other hand, state that the United States organization is subject to audit by the cognizant United States Government agency, unless the Government and MCC agree otherwise in writing.

(iii) Audit Plan. The Government shall submit, or cause to be submitted, to MCC, in form and substance satisfactory to MCC, a plan for the audit of the expenditures of any Covered Providers, which audit plan the Government shall adopt, or cause to be adopted, no later than sixty (60) days prior to the end of the first anniversary of the entry into force of this Compact or prior to the end of the first period to be audited.

(iv) Covered Provider. A "***Covered Provider***" is (A) any non-United States Provider that receives (other than pursuant to a direct contract or agreement with MCC) USD $300,000 or more in such Provider's fiscal year in MCC Funding or any other non-U.S. Party that receives, directly or indirectly, USD $300,000 or more of MCC Funding from any Provider in such other party's fiscal year or (B) any United States Provider that receives (other than pursuant to a direct contract or agreement with MCC) USD $500,000 or more in such Provider's fiscal year in MCC Funding or any other United States party that receives, directly or indirectly, USD $500,000 or more of MCC Funding from any Provider in such Provider's fiscal year.

(v) Corrective Actions. The Government shall use its best efforts to ensure that Covered Providers take, where necessary, appropriate and timely corrective actions in response to audits, consider whether a Covered Provider's audit necessitates adjustment of its own records, and require each such Covered Provider to permit independent auditors to have access to its records and financial statements as necessary.

(vi) Audit Reports. The Government shall furnish, or use its best efforts to cause to be furnished, to MCC an audit report in a form satisfactory to MCC for each audit required by this Section 3.8, other than audits arranged for by MCC, no later than 90 days after the end of the period under audit, or such other time as may be agreed by the Parties from time to time.

(vii) Other Providers. For Providers who receive MCC Funding under this Compact pursuant to direct contracts or agreements with MCC, MCC shall include appropriate audit requirements in such contracts or agreements and shall, on behalf of the Government, unless otherwise agreed by the Parties, conduct the follow-up activities with regard to the audit reports furnished pursuant to such requirements.

(viii) Audit by MCC. MCC retains the right to perform, or cause to be performed, the audits required under this Section 3.8 by utilizing MCC Funding or other resources available to MCC for this purpose, and to audit, conduct a financial review, or otherwise ensure accountability of any Provider or any other third party receiving MCC Funding, regardless of the requirements of this Section 3.8.

(f) Reviews or Evaluations. The Government shall conduct, or cause to be conducted, such performance reviews, data quality reviews, or program evaluations during the Compact Term in accordance with the M&E Plan (defined in Annex I) or as otherwise agreed in writing by the Parties.

(g) Cost of Audits, Reviews or Evaluations. MCC Funding may be used to finance the costs of any Audits, reviews or evaluations required under this Compact, including as

reflected on Exhibit A to Annex II, and in no event shall the Government be responsible for the costs of any such Audits, reviews or evaluations.

Section 3.9 Insurance. The Government shall insure or cause to be insured all Program Assets and obtain such other appropriate insurance to cover against risks or liabilities associated with the operations of the Program. The Government shall be responsible for the cost of such insurance, except as otherwise agreed by the Parties and expressly covered in the Budget (as defined in Annex I). MCC shall be named as additional insureds on any such insurance, to the extent permissible under applicable laws, and any payments received by the Government under such insurance shall be used to replace or repair any loss of Program Assets, and otherwise shall be deposited in an account as designated by MCC.

Section 3.10 Domestic Requirements. The Government shall proceed in a timely manner to seek any required ratification of this Compact or similar domestic requirement, which process the Government shall initiate promptly after the conclusion of this Compact. Notwithstanding anything to the contrary in this Compact, this Section 3.10 shall provisionally apply prior to the entry into force of this Compact.

Section 3.11 No Conflict. The Government shall undertake not to enter into any agreement in conflict with this Compact or any Supplemental Agreement during the Compact Term.

Section 3.12 Reports. The Government shall provide to MCC within thirty (30) days of any written request by MCC, or as otherwise agreed in writing by the Parties, the following information:

(a) The name of each entity to which MCC Funding has been provided;

(b) The amount of assistance provided to such entity;

(c) A description of the Program and each Project funded in furtherance of this Compact, including:

(i) A statement of whether the Program or any Project was solicited or unsolicited; and

(ii) A detailed description of the objectives and measures for results of the Program or Project;

(d) The progress made by Madagascar toward achieving the Compact Goal and Objectives;

(e) A description of the extent to which MCC Funding has been effective in helping Madagascar to achieve the Compact Goal and Objectives;

(f) A description of the coordination of MCC Funding with other United States foreign assistance and other related trade policies;

(g) A description of the coordination of MCC Funding with assistance provided by other donor countries;

(h) Any report, document or filing that the Government, any Government Affiliate or any Permitted Designee submits to any government body in connection with this Compact;

(i) Any report or document required to be delivered to MCC under the Environmental Guidelines, the Audit Plan, or any component of the Implementation Plan; and

(j) Any other report, document or information requested by MCC or required by this Compact or any Supplemental Agreement between the Parties.

Section 3.13 Publicity; Information and Marking. The Government shall give appropriate publicity to this Compact as a program to which the United States, through MCC, has contributed, including by posting this Compact, and any amendments thereto, on the MCA-Madagascar Website (defined in Annex I), identifying Program activity sites, and marking Program Assets; *provided*, any announcement, press release or statement regarding MCC or the fact that MCC is financing the Program or any other publicity materials referencing MCC, including the publicity described in this Section 3.13, shall be subject to prior approval by MCC and shall be consistent with any instructions provided by MCC from time to time in relevant Implementation Letters. MCC shall post this Compact on its website. Upon the termination or expiration of this Compact, MCC may request the removal of, and the Government shall, upon such request, remove, or cause the removal of, any such markings and any references to MCC in any publicity materials or on the MCA-Madagascar Website.

ARTICLE IV.

DELIVERIES; CONDITIONS PRECEDENT

Section 4.1 Government Deliveries and Other Conditions Prior to the Entry into Force. As condition precedent to the entry into force of this Compact, the Government shall satisfy, or ensure the satisfaction of, the conditions set forth in this Section 4.1.

(a) Government Deliveries. The Government shall deliver, or ensure the delivery, to MCC, in form and substance satisfactory to MCC, the following documents:

(i) A written statement of the name of the person holding or acting in the Government office specified in Section 5.2 and of any Additional Representative (defined below), together with a specimen signature for each person specified in such statement and an incumbency certificate for each such person;

(ii) An executed copy of the Disbursement Agreement, which agreement shall be in full force and effect as of the entry into force of this Compact, without any modification, amendment, alteration or suspension of any kind;

(iii) Executed copies of one or more term sheets by and between MCC and the Government that set forth the material and principal terms and conditions of each of the

Supplemental Agreements identified in Exhibit A attached hereto (the "***Supplemental Agreement Term Sheets***"); and

(iv) An executed copy of the Procurement Agreement, which agreement shall be in full force and effect as of the entry into force of this Compact, without any modification, amendment, alteration or suspension of any kind.

(b) Government Assurances. The Government shall certify to MCC in writing that all of the Government assurances contained in Section 3.4 were true, correct and complete when made and that the assurances in paragraphs (a) through (d) of Section 3.4 are true, accurate and complete in all material respects as of the entry into force of this Compact.

(c) No Material Breach or Adverse Change. The Government shall certify in writing to MCC that that there has been: (i) no material breach or default of any assurance, covenant or other obligation under any Supplemental Agreement between the Parties executed on or before the entry into force of this Compact; (ii) no material adverse change in the legal formation document or status of MCA-Madagascar; (iii) no modification, amendment, alteration, rescission, termination or suspension of any Supplemental Agreement delivered pursuant to Section 4.1(a); and (iv) no event has occurred that had or reasonably could be expected to have a material adverse change in or material adverse effect on: (A) the business, ministries, departments, property, operations, management, or condition, financial or otherwise, of the Government or any Government Affiliate or Permitted Designee, as it relates to this Compact; (B) the ability of the Government or any Government Affiliate or Permitted Designee to perform any of its obligations in furtherance of this Compact or exercise any of its rights under this Compact; or (C) the validity or enforceability of this Compact or any Supplemental Agreement to which any of them is a party.

Section 4.2 Conditions Precedent to MCC Disbursements or Re-Disbursements. Prior to, and as condition precedent to, any MCC Disbursement or Re-Disbursement, the Government shall satisfy, or ensure the satisfaction of, any applicable conditions precedent in the Disbursement Agreement.

ARTICLE V.

FINAL CLAUSES

Section 5.1 Communications. Unless otherwise expressly stated in this Compact or otherwise agreed in writing by the Parties, any notice, certificate, request, report, document or other communication required, permitted, or submitted by either Party to the other under this Compact shall be: (a) in writing, (b) in English, and (c) deemed duly given: (i) upon personal delivery to the Party to be notified; (ii) when sent by confirmed facsimile or electronic mail, if sent during normal business hours of the recipient Party, if not, then on the next business day; or (iii) one (1) business day after deposit with an internationally recognized overnight courier, specifying next day delivery, with written verification of receipt to the Party to be notified at the address indicated below, or at such other address as such Party may designate:

To MCC:

Millennium Challenge Corporation
Attention: Vice President for Country Relations
(with a copy to the Vice President and General Counsel)
1000 Wilson Boulevard - Suite 1400
Arlington, VA 22209
United States of America
Facsimile: (202) 521-3700
Email: VPCountryRelations@mcc.gov (Vice President for Country Relations);
VPGeneralCounsel@mcc.gov (Vice President and General Counsel)

To the Government:

Presidence de la Republique de Madagascar
Attention: Chief of Staff of the Presidency
BP 955
Antananarivo 101
Madagascar,
Facsimile: 261 20 22 628 50
E-mail: Henran@wanadoo.mg

Notwithstanding the foregoing, any audit report delivered pursuant to Section 3.8, if delivered by facsimile or electronic mail, shall be followed by an original in overnight express mail. This Section 5.1 shall not apply to the exchange of letters contemplated in Section 1.3 or any amendments under Section 5.3.

Section 5.2 Representatives. Unless otherwise agreed in writing by the Parties, for all purposes relevant to this Compact, the Government shall be represented by the individual holding the position of, or acting as, Chief of Staff of the Presidency of the Republic of Madagascar, and MCC shall be represented by the individual holding the position of, or acting as, Vice President for Country Relations (each, a "***Principal Representative***"), each of whom, by written notice, may designate one or more additional representatives (each, an "***Additional Representative***") for all purposes other than signing amendments to this Compact. The names of the Principal Representative and any Additional Representative of each of the Parties shall be provided, with specimen signatures, to the other Party, and the Parties may accept as duly authorized any instrument signed by such representatives relating to the implementation of this Compact, until receipt of written notice of revocation of their authority. A Party may change its Principal Representative to a new representative of equivalent or higher rank upon written notice to the other Party, which notice shall include the specimen signature of the new Principal Representative.

Section 5.3 Amendments. The Parties may amend this Compact only by a written agreement signed by the Principal Representatives of the Parties.

Section 5.4 Termination; Suspension.

(a) Subject to Section 2.5 and paragraphs (e) through (h) of this Section 5.4, either Party may terminate this Compact in its entirety by giving the other Party thirty (30) days' written notice.

(b) Notwithstanding any other provision of this Compact, including Section 2.1, or any Supplemental Agreement between the Parties, MCC may suspend or terminate MCC Funding, in whole or in part, and any obligation or sub-obligation related thereto, upon giving the Government written notice, if MCC determines that:

(i) Any use or proposed use of MCC Funding or Program Assets or continued implementation of the Compact would be in violation of applicable law or U.S. Government policy, whether now or hereafter in effect;

(ii) The Government, any Provider, or any other third party receiving MCC Funding or using Program Assets is engaged in activities that are contrary to the national security interests of the United States;

(iii) The Government has committed an act or an event has occurred that would render the Republic of Madagascar ineligible to receive United States economic assistance under Part I of the Foreign Assistance Act of 1961, as amended (22 U.S.C 2151 *et seq.*), by reason of the application of any provision of the Foreign Assistance Act of 1961 or any other provision of law;

(iv) The Government has engaged in a pattern of actions or omissions inconsistent with the MCA Eligibility Criteria, or there has occurred a significant decline in the performance of the Republic of Madagascar on one or more of the eligibility indicators contained therein;

(v) The Government or any Provider, in MCC's sole opinion, has materially breached one or more of its assurances or any other covenants, obligations or responsibilities under this Compact or any Supplemental Agreement;

(vi) An audit, report or any other document or other evidence reveals that actual expenditures for the Program or any Project Activity were greater than the projected expenditure for such activities identified in the applicable Budget;

(vii) If the Government (A) materially reduces the allocation in its national budget or any other Government budget of the normal and expected resources that the Government would have otherwise received or budgeted, from external or domestic sources, for the activities contemplated herein or (B) fails to contribute or provide the amount, level, type and quality of resources required to effectively carry out the Government Responsibilities or any other responsibilities or obligations of the Government under or in furtherance of this Compact;

(viii) If the Government, any Provider, or any other third party receiving MCC Funding or using Program Assets, or any of their respective directors, officers, employees,

Affiliates, contractors, representatives or agents, is found to have been convicted of a narcotics offense or to have been engaged in drug trafficking;

(ix) Any MCC Funding or Program Assets are applied, directly or indirectly, to the provision of resources and support to, individuals and organizations associated with terrorism, sex trafficking or prostitution;

(x) An event or condition of any character has occurred that, in MCC's sole opinion: (A) materially and adversely affects, or is likely to materially and adversely affect, the ability of the Government or any other party to effectively implement, or ensure the effective implementation of, the Program or any Project or to otherwise carry out its responsibilities or obligations under or in furtherance of this Compact or any Supplemental Agreement or to perform its obligations under or in furtherance of this Compact or any Supplemental Agreement or to exercise its rights thereunder; (B) makes it improbable that the Objectives will be achieved during the Compact Term; or (C) materially and adversely affects the Program Assets or any Permitted Account;

(xi) The Government or any Permitted Designee or Provider has taken any action or omission or engaged in any activity in violation of, or inconsistent with, the requirements of this Compact or any Supplemental Agreement to which the Government or any Permitted Designee or Provider is a party; or

(xii) There has occurred, in MCC's sole opinion, a failure to meet a condition precedent or series of conditions precedent to MCC Disbursement as set out in and in accordance with any Supplemental Agreement between the Parties.

(c) MCC may reinstate any suspended or terminated MCC Funding under this Compact or any Supplemental Agreement if MCC determines, in its sole discretion, that the Government or other relevant party has demonstrated a commitment to correcting each condition for which MCC Funding was suspended or terminated.

(d) The authority to suspend or terminate this Compact or any MCC Funding under this Section 5.4 includes the authority to suspend or terminate any obligations or sub-obligations relating to MCC Funding under any Supplemental Agreement without any liability to MCC whatsoever.

(e) All MCC Funding shall terminate upon expiration or termination of the Compact Term; *provided, however*, reasonable expenditures for goods and services that are properly incurred under or in furtherance of this Compact before expiration or termination of the Compact Term may be paid from MCC Funding, provided that the request for such payment is properly submitted within sixty (60) days after such expiration or termination.

(f) Except for payments which the Parties are committed to make under noncancelable commitments entered into with third parties before such suspension or termination, the suspension or termination of this Compact or any Supplemental Agreement, in whole or in part, shall suspend, for the period of the suspension, or terminate, or ensure the suspension or termination of, as applicable, any obligation or sub-obligation of the Parties to provide financial or other resources under this Compact or any Supplemental Agreement, or to the suspended or terminated

portion of this Compact or such Supplemental Agreement, as applicable. In the event of such suspension or termination, the Government shall use its best efforts to suspend or terminate, or ensure the suspension or termination of, as applicable, all such noncancelable commitments related to the suspended or terminated MCC Funding. Any portion of this Compact or any such Supplemental Agreement that is not suspended or terminated shall remain in full force and effect.

(g) Upon the full or partial suspension or termination of this Compact or any MCC Funding, MCC may, at its expense, direct that title to Program Assets be transferred to MCC if such Program Assets are in a deliverable state; *provided*, for any Program Asset(s) partially purchased or financed (directly or indirectly) by MCC Funding, the Government shall reimburse to a U.S. Government account designated by MCC the cash equivalent of the portion of the value of such Program Asset(s).

(h) Prior to the expiration of this Compact or upon the termination of this Compact, the Parties shall consult in good faith with a view to reaching an agreement in writing on (i) the post-Compact Term treatment of MCA-Madagascar, (ii) the process for ensuring the refunds of MCC Disbursements that have not yet been released from the account into which the MCC Disbursement was made (or the Local Account to which the MCC Disbursement was transferred in accordance with Section 2.1(d)) through a valid Re-Disbursement nor otherwise committed in accordance with Section 5.4(e), or (iii) any other matter related to the winding up of the Program and this Compact.

Section 5.5 Privileges and Immunities. MCC is an agency of the Government of the United States of America and its personnel assigned to the Republic of Madagascar will be notified pursuant to the Vienna Convention on Diplomatic Relations as members of the mission of the Embassy of the United States of America. The Government shall ensure that any employees of MCC, including individuals detailed to or contracted by MCC, and the members of the families of such employees, while such employees are performing duties in the Republic of Madagascar, shall enjoy at least the privileges and immunities that are enjoyed by a member of the United States Foreign Service, or the family of a member of the United States Foreign Service, as appropriate, of comparable rank and salary of such employee, if such employees or the members of the families of such employee are not a national of or permanently resident in the Republic of Madagascar.

Section 5.6 Attachments. Any annex, schedule, exhibit, table, appendix or other attachment expressly attached hereto (collectively, the "***Attachments***") is incorporated herein by reference and shall constitute an integral part of this Compact.

Section 5.7 Inconsistencies.

(a) Conflicts or inconsistencies between any parts of this Compact shall be resolved by applying the following descending order of precedence:

(i) Articles I through V

(ii) Any Attachments

(b) In the event of any conflict or inconsistency between this Compact and any Supplemental Agreement between the Parties, the terms of this Compact shall prevail. In the event of any conflict or inconsistency between any Supplemental Agreement between the Parties and any other Supplemental Agreement, the terms of the Supplemental Agreement between the Parties shall prevail. In the event of any conflict or inconsistency between Supplemental Agreements between any parties, the terms of a more recently executed Supplemental Agreement between such parties shall take precedence over a previously executed Supplemental Agreement between such parties. In the event of any inconsistency between a Supplemental Agreement between the Parties and any component of the Implementation Plan (defined in Annex I), the terms of the relevant Supplemental Agreement shall prevail.

Section 5.8 Indemnification. The Government shall indemnify and hold MCC and any MCC officer, director, employee, Affiliate, contractor, agent or representative (each of MCC and any such persons, an "***MCC Indemnified Party***") harmless from and against, and shall compensate, reimburse and pay such MCC Indemnified Party for, any liability or other damages which (i) are directly or indirectly suffered or incurred by such MCC Indemnified Party, or to which any MCC Indemnified Party may otherwise become subject, regardless of whether or not such damages relate to any third-party claim, and (ii) arise from or as a result of the gross negligence or willful misconduct of the Government, any Government Affiliate, or any Permitted Designee, directly or indirectly connected with, any activities (including acts or omissions) undertaken in furtherance of this Compact; *provided, however,* the Government shall apply national funds to satisfy its obligations under this Section 5.8 and no MCC Funding, Accrued Interest, or Program Asset may be applied by the Government in satisfaction of its obligations under this Section 5.8.

Section 5.9 Headings. The Section and Subsection headings used in this Compact are included for convenience only and are not to be considered in construing or interpreting this Compact.

Section 5.10 Interpretation; Definitions. Any reference to the term "including" in this Compact shall be deemed to mean "including without limitation" except as expressly provided otherwise. Any reference to activities undertaken "in furtherance of this Compact" or similar language shall include activities undertaken by the Government, any Provider or any other third party receiving MCC Funding involved in carrying out the purposes of this Compact or any Supplemental Agreement, including their officers, directors, employees, Affiliates, contractors, agents and representatives, whether pursuant to the terms of this Compact, any Supplemental Agreement or otherwise. References to "day" or "days" shall be calendar days unless provided otherwise. The term "U.S. Government" shall mean any branch, agency, bureau, government corporation, government chartered entity or other body of the Federal government of the United States.

Section 5.11 Signatures. Other than a signature to this Compact or an amendment to this Compact pursuant to Section 5.3, a signature delivered by facsimile or electronic mail in accordance with Section 5.1 shall be deemed an original signature, and the Parties hereby waive any objection to such signature or to the validity of the underlying document, certificate, notice, instrument or agreement on the basis of the signature's legal effect, validity or enforceability solely because it is in facsimile or electronic form. Such signature shall be accepted by the receiving Party as an original signature and shall be binding on the Party delivering such signature.

Section 5.12 Designation. MCC may designate any Affiliate, agent, or representative to implement, in whole or in part, its obligations, and exercise any of its rights, under this Compact or any Supplemental Agreement between the Parties.

Section 5.13 Survival. Any Government Responsibilities, covenants, or obligations or other responsibilities to be performed by the Government after the Compact Term shall survive the termination or expiration of this Compact and expire in accordance with their respective terms. Notwithstanding the termination or expiration of this Compact, the following provisions shall remain in force: Sections 2.2, 2.3, 2.5, 3.2, 3.3, 3.4, 3.5, 3.8, 3.9 (for one year), 3.12, 3.13, 5.1, 5.2, 5.4(d), 5.4(e) (for sixty days), 5.4(f), 5.4(g), 5.4(h), 5.5, 5.6, 5.7, 5.8, 5.9, 5.10, 5.11, 5.12, this Section 5.13, 5.14, and 5.15.

Section 5.14 Consultation. Either Party may, at any time, request consultations relating to the interpretation or implementation of this Compact or any Supplemental Agreement between the Parties. Such consultations shall begin at the earliest possible date. The request for consultations shall designate a representative for the requesting Party with the authority to enter consultations and the other Party shall endeavor to designate a representative of equal or comparable rank. If such representatives are unable to resolve the matter within 20 days from the commencement of the consultations then each Party shall forward the consultation to the Principal Representative or such other representative of comparable or higher rank. The consultations shall last no longer than 45 days from date of commencement. If the matter is not resolved within such time period, either Party may terminate this Compact pursuant to Section 5.4(a). The Parties shall enter any such consultations guided by the principle of achieving the Compact Goal in a timely and cost-effective manner.

Section 5.15 MCC Status. MCC is a United States government corporation acting on behalf of the United States Government in the implementation of this Compact. As such, MCC has no liability under this Compact, is immune from any action or proceeding arising under or relating to this Compact and the Government hereby waives and releases all claims related to any such liability. In matters arising under or relating to this Compact, MCC is not subject to the jurisdiction of the courts or other body of Madagascar.

Signature page begins on the next page.

IN WITNESS WHEREOF, the undersigned, duly authorized by their respective governments, have signed this Compact this 18th day of April, 2005 and this Compact shall enter into force in accordance with Section 1.3.

Done at Washington, D.C. in the English language.

FOR MILLENNIUM CHALLENGE CORPORATION, ON BEHALF OF THE UNITED STATES OF AMERICA

/ s /

Name: Paul V. Applegarth
Title: Chief Executive Officer

FOR THE GOVERNMENT OF THE REPUBLIC OF MADAGASCAR

/ s /

Name: Benjamin Andriamparany Radavidson
Title: Minister of Economy, Finance and Budget

Signature Page to Millennium Challenge Compact by and between the United States of America, acting through the Millennium Challenge Corporation, and the Government of the Republic of Madagascar

EXHIBIT A

LIST OF CERTAIN SUPPLEMENTAL AGREEMENTS

1. Governance Agreement
2. Form of Fiscal Agent Agreement
3. Form of Implementing Entity Agreement
4. Form of Bank Agreement

ANNEX I

PROGRAM DESCRIPTION

This Annex I to the Compact (the "***Program Annex***") generally describes the Program that MCC Funding will support in Madagascar during the Compact Term and the results to be achieved from the investment of MCC Funding. Prior to any MCC Disbursement or Re-Disbursement, including for the Projects described herein, the Parties shall enter into a Supplemental Agreement that (i) further specifies the terms and conditions of such MCC Disbursements and Re-Disbursements, (ii) is in a form and substance mutually satisfactory to the Parties, and (iii) is signed by the Principal Representative of each Party (the "***Disbursement Agreement***").

Except as specifically provided herein, the Parties may amend this Program Annex only by written agreement signed by the Principal Representative of each Party. Each capitalized term in this Program Annex shall have the same meaning given such term elsewhere in this Compact. Unless otherwise expressly stated, each Section reference herein is to the relevant Section of the main body of the Compact.

1. Background; Consultative Process.

The Madagascar national poverty reduction strategy paper ("***PRSP***") focuses on increasing rural incomes. Eighty percent of Madagascar's poor live in rural areas and the PRSP shows that the majority of these people did not benefit from the macroeconomic growth achieved during the 1997-2001 period when welfare gains failed to spread to rural areas. The latest Joint Staff Assessment of the Malagasy PRSP supports the three guiding principles that underpin the PRSP aimed at stimulating growth and investment: (i) a commitment to major investment in public transport infrastructure in order to integrate farmers into the market economy through a better road network, (ii) a commitment to public-private partnership in the management of key public enterprises, and (iii) a commitment to improving the environment for private investment through reforms in, *inter alia*, land titling and land security laws.

Given the predominantly rural basis of poverty in Madagascar, a rural-focused approach to economic growth will be of paramount importance to any successful effort to reduce poverty. The IMF/IDA endorse the poverty reduction strategy, which they conclude is "correctly built around raising agricultural productivity and attracting agro-business investments to high potential zones."

In developing the concepts for the Proposal, the Government engaged in a consultative process that reached out through workshops and subsequent sessions to the business community (banks, business associations, chambers of commerce, farmers associations, microfinance institutions, industrial enterprises), non-governmental organizations, civil society, and donors. The Government first organized an introductory national workshop (consisting of more than 350 participants and including the presence of President Ravalomanana) to describe the MCA and discuss obstacles to economic growth and poverty reduction. The feedback from this national consultation workshop served as the basis for the Government's first draft proposal. The Government subsequently organized six regional consultative workshops consisting of 50 to 150

participants each (in Antsiranana, Antisrabe, Mahajanga, Toliary, Fianarantsoa, and Toamasina) and one national workshop (in Antananarivo), during which participants offered their insights on obstacles to economic growth and poverty reduction in Madagascar. The Government also ran radio and TV broadcasts on the MCA, at times soliciting on-air input, and also published newspaper advertisements that announced meetings and called for submission of proposal ideas. Following this consultation period, the Government revised its first draft proposal into the Proposal. In order to solicit on-going feedback on the Proposal, the Government set up an "e-mail submission box" and posted the Proposal on the Ministry of Finance website.

The Proposal also reflects the ideas and strategies expressed in the PRSP. In that regard, the PRSP process is relevant to understanding the extent of national consultation on the issues underlying the Proposal. The PRSP consultative process was similar to the MCA consultative process in many respects, such as by including regional workshops and participation by representatives from the private sector, civil society, donors, and other groups. The PRSP process also incorporated consultations along sectoral or thematic lines, which were absent from the MCA process. Participation in the PRSP regional and sectoral/thematic workshops was (on average) as follows: private sector and civil society (46%); public sector (35%); donors (10%). Representatives of the business community, civil society, international non-governmental organizations and donors all received invitations to consultative process sessions and all groups participated. Farmers associations and microfinance institutions were also key participants, which helped highlight concerns of the rural poor (80% of Madagascar's population live in rural areas; 73% of rural inhabitants live under the poverty line).

Based on the PRSP and the consultations described above, the Government developed and submitted the Proposal to MCC. The Proposal focused, among other things, on raising agricultural productivity and increasing agro-investment in five targeted high potential zones. The three primary components of the Proposal – which focus on what are widely accepted as deep-rooted factors affecting economic growth and poverty reduction on a national level – enjoy broad support and enthusiasm from the business community, local and international non-governmental organizations, civil society, and other donors.

Following MCC's review of the Proposal and discussions and negotiations of the Parties, the Parties have identified certain mutually acceptable components of the Proposal and other components developed through the discussions of the Parties that together shall constitute the Program. The Program is fully consistent with, and directly supports, the following priority area identified by the Government in the PRSP: improving the environment for private sector investment through legal and policy reform as well as development of financial infrastructure, increasing land security and providing knowledge of market opportunities and requirements in rural areas. Furthermore, the proposed implementation framework for this Compact, as described in Section 3 of this Program Annex, is consistent with another priority area identified by the Government in the PRSP: a commitment to public-private partnership in the management of key public enterprises, as it will include representatives of the Government and the beneficiaries in the decision-making body and will recruit from both public and private sector for the key management positions.

2. Overview.

(a) **Program Objectives.** The Program involves a series of specific and complementary interventions that the Parties expect will achieve the Land Tenure Objective, the Finance Objective and the Agricultural Business Investment Objective and advance the progress of Madagascar towards the Compact Goal, particularly in five discrete geographic and high-potential pilot areas (each, a "***Zone***").

(b) **Projects.** The Parties have identified, for each Objective, Projects that they intend for the Government to implement, or cause to be implemented, using MCC Funding, each of which is described in the Schedules to this Program Annex. The Schedules to this Program Annex identify the activities that will be undertaken in furtherance of each Project (each, a "***Project Activity***"). Notwithstanding anything to the contrary in this Compact, the Parties may agree to modify, amend, terminate or suspend these Projects or create a new project by written agreement signed by the Principal Representative of each Party without amending this Compact; *provided, however*, any such modification or amendment of a Project or creation of a new project is (i) consistent with the Objectives; (ii) does not cause the amount of MCC Funding to exceed the aggregate amount specified in Section 2.1(a) of this Compact; (iii) does not cause the Government's responsibilities or contribution of resources to be less than specified in Section 2.2 of this Compact or elsewhere in this Compact; and (iv) does not extend the Compact Term. The Program will be conducted on two geographic levels: certain Project activities shall be implemented on a national basis and other Project activities shall be implemented solely within the five targeted Zones (three Zones shall be as identified through the Agricultural Business Investment Project and two Zones shall be selected by the Government in accordance with criteria mutually agreed upon by the Parties).

(c) **Beneficiaries.** The intended beneficiaries of each Project are described in the respective Schedule to this Program Annex to the extent identified as of the date hereof. Since all of the Zones will likely not be identified until after the entry into force of this Compact, the Parties are unable to state with more specificity as of the date hereof, or on a disaggregated basis, the intended beneficiaries of the Program or the Projects. As the Zones are identified, the Government shall provide to MCC information on the population of such Zones, disaggregated by gender, income level and age. After the Zones have been selected, the Parties shall agree upon the description of the intended beneficiaries and the Parties will make publicly available a more detailed description of the intended beneficiaries of the Program, including publishing such description on the website operated by MCA-Madagascar (the "***MCA-Madagascar Website***"). The Government shall ensure that MCA-Madagascar presents to the Advisory Council (described below) (i) a detailed description of the intended beneficiaries and (ii) the methodology used to determine the intended beneficiaries within thirty (30) days of the determination of Zones and completion of the analysis of the intended beneficiaries therein, disaggregated, to the maximum extent practicable, by income level, gender, and age.

(d) **Civil Society.** Civil society shall participate in overseeing the implementation of the Program through its representation on the Advisory Council, as provided in Section 3(e) of this Program Annex. In addition, the Work Plans or Procurement Plans (defined below) for each Project shall note the extent to which civil society will have a role in the implementation of a

particular Project Activity. Finally, members of civil society may be recipients of training or other public awareness programs that are integral to the Project Activities.

(e) **Monitoring and Evaluation ("*M&E*")**. Annex III of this Compact generally describes the plan to measure and evaluate progress toward achievement of the Objectives of this Compact. (the "***M&E Plan***").

3. Implementation Framework.

The implementation framework and the plan for ensuring adequate governance, oversight, management, monitoring, evaluation and fiscal accountability for the use of MCC Funding is summarized below and in the Schedules attached to this Program Annex, or as may otherwise be agreed in writing by the Parties.

(a) **General**. The elements of the implementation framework will be further described in relevant Supplemental Agreements and in a detailed plan for the implementation of the Program and each Project (the "***Implementation Plan***"), which will be memorialized in one or more documents and shall consist of: a Financial Plan (defined below), Budget (defined below), Fiscal Accountability Plan (defined below), Procurement Plan (defined below), Program and Project Work Plans (defined below), and M&E Plan. MCA-Madagascar (defined below) shall adopt each component of the Implementation Plan in accordance with the requirements and timeframe as may be specified in this Program Annex, the Disbursement Agreement or as may otherwise be agreed by the Parties from time to time. MCA-Madagascar may modify, alter, or amend the Implementation Plan or any component thereof without amending this Compact, provided any material modification, alteration, or amendment of the Implementation Plan or any component thereof has been approved by MCC and is otherwise consistent with the requirements of this Compact and any relevant Supplemental Agreement between the Parties. By such time as may be specified in the Disbursement Agreement or as may otherwise be agreed by the Parties from time to time, MCA-Madagascar shall adopt one or more work plans for the overall administration of the Program and for each Project (collectively, the "***Work Plans***"). The Work Plan(s) shall set forth the details of each activity to be undertaken or financed by MCC Funding as well as the allocation of roles and responsibilities for specific Project activities, or other programmatic guidelines, performance requirements, targets, or other expectations for a Project.

(b) **Government**. The Government shall promptly take all necessary and appropriate actions to carry out the Government Responsibilities and other obligations or responsibilities under this Compact and in furtherance of this Compact, including undertaking or pursuing such legal, legislative or regulatory actions or procedural changes as may be necessary or appropriate for the achievement of the Objectives and successful implementation of the Program. The Government shall establish, or cause to be established, a legal entity, in a form mutually agreeable to the Parties ("***MCA-Madagascar***"), which shall be a Permitted Designee and shall be responsible for the oversight and management of the implementation of this Compact on behalf of the Government. MCA-Madagascar shall be organized, and have such roles and responsibilities, as described in Section 3(d) of this Program Annex and as provided in the Governance Agreement; *provided, however*, the Government or other Permitted Designee may, subject to MCC approval, carry out any of the roles and responsibilities delegated to MCA-Madagascar and described in Section 3(d) of this Program Annex or elsewhere in this Program

Annex, the Governance Agreement, or any other Supplemental Agreement prior to and during the initial period of the establishment and staffing of MCA-Madagascar, but in no event longer than six months from the entry into force of this Compact, unless otherwise agreed by the Parties in writing. The Government shall promptly take all necessary and appropriate actions, including any necessary legal, legislative or regulatory actions, to ensure that MCA-Madagascar is duly authorized and sufficiently organized, staffed and empowered to carry out any Designated Rights and Responsibilities, entering into an appropriate agreement with MCA-Madagascar to designate MCA-Madagascar to implement and to exercise the Designated Rights and Responsibilities.

(c) **MCC.**

(i) Notwithstanding Section 3.1 of this Compact or any provision in this Program Annex to the contrary, and except as may be otherwise agreed upon by the Parties from time to time, MCC must approve in writing each of the following transactions, activities, agreements and documents prior to the execution or carrying out of such transaction, activity, agreement or document and prior to MCC Disbursements or Re-Disbursements in connection therewith:

(1) MCC Disbursements;

(2) Each Budget, and any amendments thereto;

(3) The Financial Plan, Supplemental Financial Plan (defined in Annex II) and any amendments thereto;

(4) Agreements (i) between the Government and MCA-Madagascar, (ii) between the Government, a Government Affiliate, MCA-Madagascar or any other Permitted Designee on the one hand, and any Provider or Affiliate of a Provider, on the other hand, with an aggregate value of MCC Funding equal to or greater than USD $500,000, or such other amount as may be agreed to by the Parties, or which, when added to the value of other agreements made or expected to be made between the Government, any Government Affiliate, MCA-Madagascar or any other Permitted Designee with the same Provider or any Affiliate of such Provider during the Compact Term would be equal to or greater than USD $500,000, or such other amount as may be agreed to by the Parties, or (iii) in which the Government, a Government Affiliate, MCA-Madagascar or any other Permitted Designee appoints or engages any of the following in furtherance of this Compact with any of the following:

(A) Auditor (defined below) or Reviewer (defined below);

(B) Fiscal Agent (defined below);

(C) Each Bank (defined below);

(D) Procurement Agent (defined below);

(E) Outside Project Manager (defined below);

(F) Implementing Entity (as defined below); and

(G) Director, officer, and other key employee of MCA-Madagascar, including the Manager of Administration and Finance (including any compensation for such person).

(Any agreement described in clause (i) through (iii) of this Section 3(c)(i)(4) and any amendments thereto, each, a "***Material Agreement***");

(5) Any modification, termination or suspension of a Material Agreement, or any action that would have the effect of such a modification, termination or suspension of a Material Agreement;

(6) Any agreements that are not at arm's length or with a party related to the Government or MCA-Madagascar or any of their respective Affiliates;

(7) Re-Disbursements (each, a "***Material Re-Disbursement***") equal to or greater than USD $100,000, or such other amount as may be agreed to by the Parties, or which, when added to other Re-Disbursements made or expected to be made to the same Provider or any Affiliate during the Compact Term, or such other period as MCC may determine from time to time, would be equal to or greater than USD $100,000, or such other amount as may be agreed to by the Parties;

(8) Terms of reference for the procurement of goods or services for which the value of the contract if entered into or the goods or services procured would be equal to or greater than USD $250,000, or such other amount as may be agreed to by the Parties (each, a "***Material Terms of Reference***");

(9) The Implementation Plan, including each component plan thereto, and any material amendments to the Implementation Plan or any component thereto;

(10) Pledges of any MCC Funding or any Program Assets or any guarantee directly or indirectly of any indebtedness (each, a "***Pledge***");

(11) Any disposition (in whole or in part), liquidation, dissolution, winding up, reorganization or other change of (A) MCA-Madagascar, including any revocation or modification of any decree or charter document establishing MCA-Madagascar, or (B) any subsidiary or Affiliate of MCA-Madagascar;

(12) Any change in character or location of any Permitted Account (defined below);

(13) Formation or acquisition of any subsidiary (direct or indirect) or other Affiliate of MCA-Madagascar;

(14) Any change in the composition of the Steering Committee of MCA-Madagascar (defined below), including approval of the nominee for Chairman (defined below), and any filling of the vacancy of the Chairman's seat, and the representatives nominated by the Advisory Council (defined below) for the designated Advisory Council seats on the Steering Committee;

(15) The management information system to be developed and maintained by the Management of MCA-Madagascar (defined below), and any material modifications to such system;

(16) Any decision to amend, replace, terminate or otherwise change any of the foregoing; and

(17) Any other activity, agreement, document or transaction requiring the approval of MCC in this Compact, the Governance Agreement, the Disbursement Agreement, or any other Supplemental Agreement between the Parties.

The Chairman of the Steering Committee (the "***Chairman***") and/or the Managing Director of MCA-Madagascar (the "***Managing Director***") or other designated officer, as provided in the Governance Agreement, shall certify any documents or reports delivered to MCC in satisfaction of the Government's reporting requirements under this Compact or any Supplemental Agreement between the Parties (the "***Compact Reports***").

(ii) MCC shall have the authority to exercise its approval rights set forth in this Section 3(c) in its sole discretion and independent of any participation or position taken by the MCC Representative at a meeting of the Steering Committee.

(d) **MCA-Madagascar**.

(i) General. Unless otherwise agreed by the Parties in writing, MCA-Madagascar shall, as a Permitted Designee, be responsible for the oversight and management of the implementation of this Compact. MCA-Madagascar shall be governed by the terms and conditions set forth in a governance agreement to be entered into by the Government and MCA-Madagascar, in a form and substance satisfactory to MCC, on or before the time specified in the Disbursement Agreement ("***Governance Agreement***") and on the following principles:

(1) The Government shall ensure that MCA-Madagascar shall not assign, delegate or contract any of the Designated Rights and Responsibilities without the prior written consent of the Government and MCC. MCA-Madagascar shall not establish any Affiliates or subsidiaries (direct or indirect) without the prior written consent of the Government and MCC.

(2) Unless otherwise agreed by the Parties in writing, MCA-Madagascar shall consist of (a) a special steering committee (the "***Steering Committee***") to oversee MCA-Madagascar's responsibilities and obligations under the this Compact (including any Designated Rights and Responsibilities) and (b) a management team ("***Management***") to have overall management responsibility for the implementation of this Compact.

(ii) Steering Committee.

(1) Formation. The Government shall ensure that the Steering Committee shall be formed, constituted, governed and operated in accordance with the terms and conditions set forth in the Governance Agreement.

(2) Composition. Unless otherwise agreed by the Parties in writing, the Steering Committee shall consist of seven voting members, one of whom shall be appointed the Chairman as provided in the Governance Agreement, and three non-voting observers.

(A) The voting members shall be as follows, provided that the Government members identified in subsections (i) – (v) below may be replaced by another government official, subject to approval by the Government and MCC:

(i) Chief of Staff of the Presidency of the Republic of Madagascar;

(ii) The Secretary General of the Ministry of Economy, Finance and Budget;

(iii) The Secretary General of the Ministry of Industry, Commerce and Private Sector Development;

(iv) The Secretary General of Agriculture, Livestock and Fisheries; and

(v) Three (3) representatives of the Advisory Council (nominated to serve two year terms by the Advisory Council and any vacancy to be filled by nomination by the Advisory Council).

(B) The non-voting observers shall be:

(i) A Representative designated by MCC (the "***MCC Representative***"); and

(ii) Two Advisory Council representatives-elect who will be non-voting observers during the one-year period prior to the beginning of their respective terms.

(C) Each voting member position identified in Sections 3(d)(ii)(2)(A)(i) – (iv) of this Program Annex shall filled by the individual then holding the office identified and such individuals shall serve in their capacity as the applicable Government official and not in their personal capacity.

(D) Subject to the Governance Agreement, the Parties contemplate that the Chief of Staff of the Presidency of the Republic of Madagascar shall initially fill the seat of Chairman.

(E) Each non-voting observer identified in Section 3(d)(ii)(2)(B) of this Program Annex shall have rights to attend all meetings of the Steering Committee, participate in the discussions of the Steering Committee, and receive all information and documents provided to the Steering Committee, together with any other rights of access to records, employees or facilities as would be granted to a member of the Steering Committee under the Governance Agreement.

(3) Role and Responsibilities.

(A) The Steering Committee shall oversee Management, the overall implementation of the Program, and the performance of the Designated Rights and Responsibilities.

(B) Certain actions, documents or agreements may only be taken or executed and delivered, as the case may be, by MCA-Madagascar upon the approval and authorization of the Steering Committee as set forth in the Governance Agreement, including each MCC Disbursement Request (defined below), selection or termination of certain Providers, any component of the Implementation Plan, certain Re-Disbursements and certain terms of reference.

(C) The Chairman shall certify the approval by the Steering Committee of all Compact Reports or any other documents or reports from time to time delivered to MCC by MCA-Madagascar (whether or not such documents or reports are required to be delivered to MCC), and that such documents or reports are true, accurate and complete.

(D) Without limiting the generality of the Designated Rights and Responsibilities that the Government may designate MCA-Madagascar as the implementer or exerciser of in accordance with this Compact, and subject to MCC's contractual rights of approval as set forth in Section 3(c) of this Program Annex or elsewhere in this Compact or any relevant Supplemental Agreement, the Steering Committee shall have the exclusive authority as between the Steering Committee and the Management for all actions defined for the Steering Committee in the Governance Agreement and which are expressly designated therein as responsibilities that cannot be delegated further.

(4) Indemnification of Non-Government Steering Committee Representatives. The Government shall ensure, at the Government's sole cost and expense, that appropriate insurance is obtained and appropriate indemnifications and other protections are

provided, to the fullest extent permitted under the laws of the Republic of Madagascar, to ensure that as voting members or non-voting observers the Advisory Council representatives serving on the Steering Committee shall not be held personally liable for the actions or omissions of the Steering Committee. Pursuant to Section 5.5 and Section 5.8 of this Compact, the Government and MCA-Madagascar shall hold harmless the MCC Representative for any liability or action arising out of the MCC Representative's role as a non-voting observer on the Steering Committee. MCA-Madagascar shall provide a written waiver and acknowledgement that no fiduciary duty to MCA-Madagascar is owed by the MCC Representative.

(iii) Management. Unless otherwise agreed in writing by the Parties, Management shall report, through the Managing Director or other Officer (defined below) as designated in the Governance Agreement, directly to the Steering Committee and shall have the composition, roles and responsibilities described below and set forth more particularly in the Governance Agreement.

(1) Appointment. The Officers that make up the Management of MCA-Madagascar shall be selected and appointed by the Steering Committee after a competitive selection process and subject to MCC approval.

(2) Composition. The Government shall ensure that the Management shall be composed of qualified experts from the public or private sectors, including such offices and staff as may be necessary to carry out effectively its responsibilities, each with such powers and responsibilities as set forth in the Governance Agreement and from time to time in any Supplemental Agreement, including without limitation the following: (i) Managing Director; (ii) Manager of Monitoring and Evaluation; (iii) Manager of Procurement; (iv) Manager of Administration and Finance; and (v) a Manager of Land Tenure Project, a Manager of Finance Project, and a Manager of Agricultural Business Investment Project (each a, "***Project Manager***") (the persons holding the positions in sub-clauses (i) through (v) shall be collectively referred to as "***Officers***"). The Parties contemplate that for purposes of the initial period of operations, and in no event longer than six months, MCA-Madagascar may appoint an acting Managing Director, subject to the approval of MCC; *provided*, during such period, the Steering Committee shall ratify the actions of such acting Managing Director and MCA-Madagascar shall select a permanent Managing Director through a competitive selection process and subject to MCC approval in accordance with this Annex I.

(3) Role and Responsibilities.

(A) Management shall assist the Steering Committee in overseeing the implementation of the Program and shall have principal responsibility (subject to the direction and oversight of the Steering Committee and subject to MCC's contractual rights of approval as set forth in Section 3(c) of this Program Annex or elsewhere in this Compact or any relevant Supplemental Agreement) for the overall management of the implementation of the Program.

(B) Without limiting the foregoing general responsibilities or the generality of Designated Rights and Responsibilities

that the Government may designate MCA-Madagascar as the implementer or exerciser of in accordance with this Compact, Management shall develop the components of the Implementation Plan, oversee the implementation of the Projects, manage and coordinate monitoring and evaluation, maintain internal accounting records, conduct and oversee certain procurements, and such other responsibilities as set out in the Governance Agreement or delegated to Management by the Steering Committee from time to time.

(C) Management shall have the obligation and right to approve certain actions and documents or agreements, including certain Re-Disbursements, MCC Disbursement Requests, Compact Reports, certain human resources decisions, and certain procurement actions, as provided in the Governance Agreement.

(4) Additional Resources. Management shall have the authority to engage qualified entities to serve as outside project managers (each, an "***Outside Project Manager***") in the event that it is advisable to do so for the proper and efficient day-to-day management of a Project; *provided, however*, that the appointment or engagement of any Outside Project Manager after a competitive selection process shall be subject to approval by the Steering Committee and MCC prior to such appointment or engagement. Upon Steering Committee approval, Management may delegate, assign, or contract to the Outside Project Managers such duties and responsibilities as it deems appropriate with respect to the management of the Implementing Entities and the implementation of the specific Projects; and *provided, further*, that Management and the relevant Project Manager shall remain accountable for those duties and responsibilities and all reports delivered by the Outside Project Manager notwithstanding any such delegation, assignment or contract. The Steering Committee may, independent of any request from Management, determine that it is advisable to engage one or more Outside Project Managers and instruct Management or, where appropriate, a Procurement Agent to commence and conduct the competitive selection process for such Outside Project Manager.

(e) **Advisory Council**.

(i) Formation and Composition. The Government shall cause to be established an advisory council (the "***Advisory Council***") consisting of no more than twelve (12) members, unless otherwise agreed by the Parties, and comprised of: (A) one or more representatives of the private sector (*e.g.*, association of banks, microfinance association, farmers' association); (B) one or more representatives of civil society (*e.g.*, women's association, chambers of commerce, anti-corruption association, environmental organization); (C) one or more representatives of mayors within the Zones; and (D) one or more representatives of regional governments of the Zones. The composition of the Advisory Council shall be adjusted upon the final determination of all five Zones in order to adequately represent each Zone.

(ii) Role. The Advisory Council shall be a mechanism to provide representatives of the private sector, civil society and local and regional governments the opportunity to provide advice and input to MCA-Madagascar regarding the implementation of the Compact. During quarterly meetings of the Advisory Council, the Manager of Monitoring and Evaluation or other appropriate Management representative shall present an update on the implementation of this Compact and progress towards achievement of the Objectives. The Advisory Council will have an opportunity to regularly provide to Management and the Steering Committee its views or recommendations on the performance and progress on the Projects, components of the Implementation Plan, procurement, financial management or such other issues as may be presented from time to time to the Advisory Council or as otherwise raised by the Advisory Council.

(iii) Meetings. The Advisory Council shall hold quarterly meetings of the full Advisory Council as well as such other periodic meetings of the Advisory Council or subcommittees thereof designated along sectoral (*e.g.*, banking, credit, agribusiness, environmental issues, gender issues), regional (by Zones), or other lines, as may be necessary or appropriate from time to time.

(iv) Steering Committee Representation. The Advisory Council shall nominate, by majority decision, three (3) representatives of the Advisory Council to the Steering Committee as voting members to each serve a two-year term, along with two representatives-elect. A nominee to the Steering Committee shall become a member of the Steering Committee upon approval by MCC and the Government. The Advisory Council shall rotate its representative every two years. No Advisory Council representative may serve on the Steering Committee for more than a single two-year term during the Compact Term. Any vacancy of any Advisory Council seat on the Steering Committee shall be filled by the representative-elect designated for such seat; *provided*, that the elevation of any such representative-elect to the Steering Committee shall be subject to approval by MCC and the Government at the time of such proposed elevation and that, following such approval, the Advisory Council shall appoint a new representative-elect for such position; *provided, further*, that in the absence, or if MCC or the Government do not approve the elevation to the Steering Committee, of a representative-elect, the vacancy shall be filled by a nominee who shall be nominated by the Advisory Council and approved by MCC and the Government.

(v) Accessibility; Transparency. Advisory Council members will be accessible to the beneficiaries they represent to receive the beneficiaries' comments or suggestions regarding the Program. The minutes of all meetings of the Advisory Council and any subcommittee shall be made public on the MCA-Madagascar Website in a timely manner.

(f) **Implementing Entities**. Subject to the terms and conditions of this Compact and any other Supplemental Agreement between the Parties, MCA-Madagascar may provide MCC Funding to one or more Government agencies or to one or more nongovernmental or other public- or private-sector entities or persons to implement and carry out the Projects or any other activities to be carried out in furtherance of this Compact (each, an "***Implementing Entity***"). The Government shall ensure that MCA-Madagascar enters into an agreement with each Implementing Entity, in form and substance satisfactory to MCC, that sets forth the roles and responsibilities of such Implementing Entity and other appropriate terms and conditions, such as

payment of the Implementing Entity (the *"Implementing Entity Agreement"*). An Implementing Entity shall report directly to the relevant Project Manager or Outside Project Manager, as designated in the applicable Implementing Entity Agreement or as otherwise agreed by the Parties.

(g) **Fiscal Agent**. The Government shall ensure that MCA-Madagascar engages one or more fiscal agents (each, a "***Fiscal Agent***"), who shall be responsible for, among other things: (i) ensuring and certifying that Re-Disbursements are properly authorized and documented in accordance with established control procedures set forth in the Disbursement Agreement, the Fiscal Agent Agreement and other relevant Supplemental Agreements; (ii) instructing a Bank to make Re-Disbursements from a Permitted Account, following applicable certification by the Fiscal Agent; (iii) providing applicable certifications for MCC Disbursement Requests; and (iv) producing reports on MCC Disbursements and Re-Disbursements (including any requests therefore) in accordance with established procedures set forth in the Disbursement Agreement, the Fiscal Agent Agreement or any other relevant Supplemental Agreements. Upon the written request of MCC, the Government shall ensure that MCA-Madagascar terminates a Fiscal Agent, without any liability to MCC, and the Government shall ensure that MCA-Madagascar engages a new Fiscal Agent, subject to the approval by the Steering Committee and MCC. The Government shall ensure that MCA-Madagascar enters into an agreement with each Fiscal Agent, in form and substance satisfactory to MCC, that sets forth the roles and responsibilities of the Fiscal Agent and other appropriate terms and conditions, such as payment of the Fiscal Agent (each, a "***Fiscal Agent Agreement***"). During the Compact Term, subject to MCC's approval, certain Fiscal Agent duties and responsibilities may be transferred to the duties and responsibilities of the Manager of Administration and Finance, at which time the Fiscal Agent Agreement shall be amended accordingly.

(h) **Auditors and Reviewers**. The Government shall ensure that MCA-Madagascar engages one or more auditors, reviewers or evaluators to audit, review or evaluate all or any portion of the activities carried out in furtherance of this Compact or audit, review or evaluate such other matters as MCC may reasonably request from time to time. There shall be at a minimum an auditor with the capacity to conduct audits of financial information (the "***Auditor***") in accordance with Section 3.8(e) of this Compact. As requested by MCC in writing from time to time, MCA-Madagascar shall also engage an independent reviewer to conduct reviews of performance and compliance under this Compact, an independent reviewer with the capacity to conduct data quality assessments in accordance with the M&E Plan, as described more fully in Annex III, and/or an independent evaluator to assess performance as required under the M&E Plan (each, a "***Reviewer***"). MCA-Madagascar shall select the Auditor(s) or Reviewers in accordance with the Governance Agreement or other relevant Supplemental Agreement. The Government shall ensure that MCA-Madagascar enters into an agreement with each Auditor or Reviewer, in form and substance satisfactory to MCC, that sets forth the roles and responsibilities of the Auditor or Reviewer with respect to the audit, review or evaluation, including access rights, required form and content of the applicable audit, review or evaluation and other appropriate terms and conditions such as payment of the Auditor or Reviewer (the "***Auditor/Reviewer Agreement***"). In the case of the financial audit, such Auditor/Reviewer Agreement shall be effective no later than 120 days prior to the end of the relevant fiscal year or other period to be audited.

(i) **Procurement Agent**. If requested by MCC, the Government shall ensure that MCA-Madagascar engages one or more procurement agents (each, a "***Procurement Agent***") to carry out and/or certify specified procurement activities in furtherance of this Compact on behalf of the Government, MCA-Madagascar, any Outside Project Manager or Implementing Entity. The role and responsibilities of such Procurement Agent and the criteria for selection of a Procurement Agent shall be as set forth in the applicable Implementation Letter or Supplemental Agreement. The Government shall ensure that MCA-Madagascar enters into an agreement with the Procurement Agent, in form and substance satisfactory to MCC, that sets forth the roles and responsibilities of the Procurement Agent with respect to the conduct, monitoring and review of procurements and other appropriate terms and conditions, such as payment of the Procurement Agent (the "***Procurement Agent Agreement***"). Any Procurement Agent shall adhere to the procurement standards set forth in the Procurement Guidelines and ensure procurements are consistent with the procurement plan (the "***Procurement Plan***") adopted by MCA-Madagascar, which plan shall forecast the upcoming six month procurement activities and be updated every six months.

4. Finances and Fiscal Accountability.

(a) **Financial Plan and Budget.**

(i) Financial Plan. The multi-year financial plan for the Program and for each Project (the "***Financial Plan***") is summarized in Annex II to this Compact.

(ii) Budget. During the Compact Term, the Government shall ensure that MCA-Madagascar delivers to MCC a report of annual and quarterly budget requirements for the Program and each Project, projected both on a commitment and cash requirement basis (each a "***Budget***"). Each Budget shall be delivered by such time as specified in the Disbursement Agreement or as may otherwise be agreed by the Parties.

(iii) Modifications to Financial Plan or Budget. Notwithstanding anything to the contrary in this Compact, MCA-Madagascar may modify, alter, or amend the Financial Plan, or any Supplemental Financial Plan, or any Budget without amending this Compact, provided such modification, alteration, or amendment has been approved by MCC and is otherwise consistent with the requirements of this Compact and any relevant Supplemental Agreement between the Parties.

(b) **Disbursement and Re-Disbursement**. The Disbursement Agreement (and disbursement schedules thereto), as amended from time to time, shall specify the terms, conditions and procedures on which MCC Disbursements and Re-Disbursements shall be made. The obligation of MCC to make MCC Disbursements or approve Re-Disbursements is subject to the fulfillment or waiver of any such terms and conditions. The Government and MCA-Madagascar shall jointly submit the applicable request for an MCC Disbursement (the "***MCC Disbursement Request***"), certified by the Fiscal Agent, as may be specified in the Disbursement Agreement. MCC will make MCC Disbursements in tranches to a Permitted Account from time to time as provided in the Disbursement Agreement or as may otherwise be agreed by the Parties, subject to Program requirements and performance by the Government, MCA-Madagascar and other relevant parties in furtherance of this Compact. Re-Disbursements will be made from time to time based on requests by an authorized representative of the appropriate

party designated for the size and type of Re-Disbursement in accordance with the Governance Agreement and Disbursement Agreement; *provided, however*, unless otherwise agreed by the Parties in writing, no Re-Disbursement shall be made unless and until the written approvals specified herein or in the Governance Agreement and Disbursement Agreement for such Re-Disbursement have been obtained and delivered to the Fiscal Agent.

(c) **Fiscal Accountability Plan**. By such time as specified in the Disbursement Agreement or as otherwise agreed by the Parties, MCA-Madagascar shall adopt as part of the Implementation Plan a fiscal accountability plan that identifies the principles and mechanisms to ensure appropriate fiscal accountability for the use of MCC Funding provided under this Compact, including the process to ensure that open, fair, and competitive procedures will be used in a transparent manner in the administration of grants or cooperative agreements and the procurement of goods and services for the accomplishment of the Objectives (the "***Fiscal Accountability Plan***"). The Fiscal Accountability Plan shall set forth, among other things, requirements with respect to the following matters: (i) funds control and documentation; (ii) separation of duties and internal controls; (iii) accounting standards and systems; (iv) content and timing of reports; (v) policies concerning public availability of all financial information; (vi) cash management practices; (vii) procurement and contracting practices, including timely payment to vendors; (viii) the role of independent auditors; and (ix) the roles of fiscal agents and procurement agents.

(d) **Permitted Accounts**. The Government shall establish, or cause to be established, such accounts (each, a "***Permitted Account***", and collectively "***Permitted Accounts***") as may be agreed by the Parties in writing from time to time, including:

(i) A single, completely separate U.S. Dollar interest-bearing account (the "***Special Account***") at the Central Bank of Madagascar ("***Central Bank***") to receive MCC Disbursements.

(ii) An interest-bearing local currency of Madagascar account (the "***Local Account***") at a commercial bank (the "***Commercial Bank***") to which the Fiscal Agent may authorize transfer from any U.S. Dollar Permitted Account of an amount equal to the upcoming month's local currency cash needs of MCA-Madagascar as reflected in the monthly request from MCA-Madagascar. The Commercial Bank shall be selected by MCA-Madagascar following a competitive tender process and subject to MCC approval.

(iii) Such other interest-bearing accounts to receive MCC Disbursements in such bank as the Parties mutually agree upon in writing.

No other funds shall be commingled in a Permitted Account other than MCC Funding and Accrued Interest thereon. All MCC Funding held in a Permitted Account shall earn interest at a rate of no less than such amount as the Parties may agree in the respective Bank Agreement or otherwise. MCC shall have the right, among other things, to view any Permitted Account statements and activity directly on-line or at such other frequency as the Parties may otherwise agree. By such time as shall be specified in the Disbursement Agreement or as otherwise agreed by the Parties, the Government shall ensure that MCA-Madagascar enters into an agreement with each Bank, respectively, satisfactory to MCC, that sets forth the signatory authority, access rights, anti-money laundering and anti-terrorist financing provisions, and other terms related to

the Permitted Account, respectively (each, a "***Bank Agreement***"). For purposes of this Compact, the Central Bank, the Commercial Bank, and any bank holding an account referenced in Section 4(d)(iii) of this Program Annex are each a "***Bank***" and are collectively referred to as the "***Banks***."

(e) **Currency Exchange**. MCC Funding shall be converted to the currency of Madagascar either (i) at the Central Bank prior to the transfer to the Local Account or (ii) at the Commercial Bank upon the transfer to the Local Account; *provided*, currency conversion occurs at the institution offering the more competitive exchange rate and fee structure at the time of the exchange. For this purpose, the Central Bank will use as a standard the mid-point of the trading range on the day prior to the proposed transfer as published by the Central Bank or as otherwise may be agreed to by the Parties in writing. The Fiscal Agent shall instruct the banks at the time of the monthly transfer request whether the Central Bank or the Commercial Bank shall exchange the currency.

5. Transparency; Accountability. Transparency and accountability to MCC and to the beneficiaries are important aspects of the Program and Projects. Without limiting the generality of the foregoing, in an effort to achieve the goals of transparency and accountability, the Government shall ensure that MCA-Madagascar:

(a) Establishes an e-mail suggestion box that interested persons may use to communicate ideas, suggestions or feedback to MCA-Madagascar.

(b) Considers as a factor in its decision-making the recommendations of the Advisory Council, particularly in MCA-Madagascar's deliberations over pending key Management decisions and key Steering Committee decisions as shall be specified in the Governance Agreement;

(c) Develops and maintains the MCA-Madagascar Website in a timely, accurate and appropriately comprehensive manner, such MCA-Madagascar Website to include postings of information and documents in English and French, with a summary in Malagasy;

(d) Posts on the MCA-Madagascar Website and otherwise makes publicly available the following documents or information, including by posting on the MCA-Madagascar Website from time to time:

(i) All minutes of the meetings of the Advisory Council and the meetings of the Steering Committee;

(ii) The M&E Plan, as amended from time to time, along with periodic reports on Program performance;

(iii) Such financial information as may be required by this Compact or as may otherwise be agreed from time to time by the Parties;

(iv) All Compact Reports;

(v) All audit reports by an Auditor and any periodic reports or evaluations by a Reviewer; and

(vi) A copy of any formation documents that established MCA-Madagascar and any amendments thereto and the Governance Agreement and any amendments thereto.

SCHEDULE 1 to ANNEX I

LAND TENURE PROJECT

This Schedule 1 generally describes and summarizes the key elements of a land tenure Project that the Parties intend to implement in furtherance of the Land Tenure Objective (the "***Land Tenure Project***"). Additional details regarding the implementation of the Land Tenure Project will be included in the Implementation Plan and in relevant Supplemental Agreements.

1. Background.

The Government identified the lack of clear land ownership rights as the primary barrier to increased rural investment and agricultural productivity growth. Similarly, the consultative process consistently identified land insecurity and inefficient government land services as high priority areas for reform. Presently, there is widespread distrust of the formal property registration system. Also, a severe backlog exists of requests for title that cannot be processed due to a lack of resources and cumbersome registration processes. Although informal land tenure practices provide a land user with a relative degree of local land tenure security, the conflict between the informal and formal practices is reported to be generating an increasing number of disputes, constraining rural investment and land use improvements, and hindering the expansion of collateral-based lending. As long as land remains an informal and insecure asset, it is more likely to be utilized for subsistence needs than for other revenue-generating activities, and rural credit and land market development will be limited. There is a demand for and a need to blend traditional and modern property recognition and ownership practices so that land tenure security will be increased and transaction costs lowered, particularly in areas where the rural market economy is developing new opportunities for market-based income growth.

2. Summary of Project Activities and Expected Results.

The Land Tenure Project is designed to increase land titling and land security in the Zones and improve the efficiency of land service administration. These, in turn, will contribute to better land use, increased rural enterprise investment, and a better environment for collateral-based lending. The Land Tenure Project will strengthen institutional and human resource capacity for land administration services at national, regional, and local levels to ensure sustainability of reforms achieved by the Land Tenure Project. MCC funding will assist Madagascar in formalizing, implementing, and making more efficient its National Land Policy Framework (*"PNF"*), which is considered by property rights experts a coherent approach to land tenure reform that builds from customary into modern practices progressively. The approach is threefold:

1. Formalize the National Land Policy Framework through a communications and education campaign leading to stronger legal recognition of new land tenure procedures, documents, and techniques.

2. Protect property rights and formalize customary rights to land (titling or certification), resolve disputes, and reduce transaction costs by improving the efficiency and transparency of land service administration through system modernization, computerization, and decentralization.

3. Build human capacity for land tenure policy development and land administration services at national, regional and local levels that focuses, *inter alia*, on land tenure regularization (*e.g.*, titling, certification, and dispute resolution).

The Land Tenure Project is aimed at eliminating short-run bottlenecks to poverty-reducing growth and creating effective processes first in priority rural zones where there is a clear opportunity for increased productivity and market participation. This will enable more remote or traditional communities to formalize their land tenure over time as their social and economic conditions create incentives for increased use by such communities of improved national and local land administration services.

The following summarizes the contemplated Land Tenure Project Activities, anticipated results, and, where appropriate, regular benchmarks that may be used to monitor implementation progress. Performance against the benchmarks and the overall impact of the Land Tenure Project will be assessed and reported at the intervals to be specified in the M&E Plan (described in Annex III) or as otherwise agreed by the Parties from time to time. The Parties expect that additional benchmarks will be identified during the implementation of the Land Tenure Project. Estimated amounts of MCC Funding for each Project Activity for the Land Tenure Project are identified in Annex II of this Compact. Conditions precedent to each Land Tenure Project Activity and sequencing of the Land Tenure Project Activities shall be set forth in the Disbursement Agreement or other relevant Supplemental Agreements.

(a) ***Activity: Support the Development of the Malagasy PNF***

Madagascar's initial PNF articulates an integrated coherent approach to land tenure reform. To enable necessary land tenure reforms, MCC Funding will support the following activities designed to assist Madagascar in developing and promoting the country's initial PNF:

(i) Carry out information, education and communication campaigns designed to explain the specific land tenure reforms contemplated in the initial PNF to potential beneficiaries of such reforms, the staff of the National Land Service Administration and other interested parties.

(ii) Consolidate and refine the PNF, during and after completion of the campaigns outlined above, which may result in additional white papers, additional land law proposals, including property tax policy and corresponding legal reform, and suggested donor interventions.

(iii) Conduct public outreach and dissemination of the final PNF after completion of the consolidation and refinement outlined above.

The *expected results* from these activities are:

(1) The adoption of new land legislation that reflects a more coherent approach to land tenure reform and provides stronger legal recognition of new land tenure procedures, documents (certificates) and techniques.

(2) Consensus and broad acceptance for land tenure reform from the National Land Service Administration, potential beneficiaries of such reforms and other interested parties.

(3) The adoption of a new land law that reflects a more coherent approach to land tenure reform and provides stronger legal recognition of new land tenure procedures, documents (certificates) and techniques.

The *key benchmark* to measure progress is expected to be:

(1) Submission to Parliament of draft land legislation based on the final PNF and that recognizes improved land tenure procedures, documents (certificates) and techniques.

(b) ***Activity: Improve the Ability of the National Land Service Administration to Provide Land Services***

To improve the efficiency and transparency of services provided by the National Land Service Administration with respect to property transactions, MCC Funding will support the following activities to be undertaken in the central offices in Antananarivo and in the local land management offices in the Zones:

(i) Index and Restore Documents.

(1) Ask all current holders of land titles and other formal ownership documents to bring these documents to existing land offices to compare the information currently on record with the physical documents being produced.

(2) Take inventory of the existing 800,000 land documents (land titles and surveys) currently stored at the existing land management offices and produce a plan for (i) restoring the damaged land documents and (ii) scanning and digitizing all of the existing documents, including those produced by current holders above.

(3) Restore a portion of the damaged land titles and surveys in and around Antananarivo and in the Zones (approximately 300,000).

(4) Resolve disputes and address irregularities encountered in the indexing and restoration process.

(ii) Modernize and Computerize System.

(1) Install an automated land parcel information system containing property rights information relating to each parcel (*e.g.*, date of transfer, identification of occupant, legal property description, physical boundaries and restrictions).

(2) Scan and digitize a portion of the existing land titles and surveys in and around Antananarivo and in the Zones (approximately 400,000), including those produced by current holders.

(3) Procure satellite imagery for use in generating parcel maps.

(4) Train staff of National Land Service Administration (central and regional offices).

(5) Introduce mobile service units of the National Land Service Administration.

The *expected results* from these activities are:

(1) The protection of existing property rights.

(2) The ability to identify competing property claims and prioritization of property rights.

(3) Low-cost and timely property transactions and other related services, including value-added GIS products.

(4) Central integration of information relating to property registration held at local land management offices.

(5) Elimination of bottlenecks and delays in the present land registration system.

(6) The development of technical capacity and skills within the land management offices in order to sustain reforms.

The *key benchmarks* to measure progress are expected to include:

(1) Percentage of land documents inventoried, restored and/or digitized.

(2) Average time and cost required to carry out property transactions at the national and local land management offices.

(c) ***Activity: Decentralization of Land Services***

MCC Funding will finance the following activities designed to decentralize land services:

(i) Build and equip new local land management offices (ten per Zone).

(ii) Finance an initial two-year period of the operating costs of such new land management offices.

(iii) Provide on-the-job training to local land management office staff.

(iv) Establish procedures and practices for communications and coordination between the National Land Service Administration and local land management offices.

(v) Develop capacity for on-going management of records in the local land management offices.

The *expected results* from these activities are:

(1) Improved access and affordability of property transactions and other related services at local land management offices and sustainability of the same.

(2) Increased confidence in the formal land tenure system by potential beneficiaries.

The *key benchmark* to measure progress is expected to be:

(1) Average time and cost required to carry out property transactions at local land management offices.

(d) ***Activity: Land Tenure Regularization in the Zones***

MCC Funding will finance the following activities designed to facilitate the issuance of titles or land rights certificates for potential beneficiaries in the Zones:

(i) Formalize tenure in selected municipalities (communes) using one of three registration methods endorsed by the National Land Service Administration.

(ii) Implement a fast-track titling and/or property registration process within selected areas within the Zones.

The *expected results* from these activities are:

(1) Formalization of traditional land use and tenure practices.

(2) Improvement in land tenure security and standardized land documentation processes and procedures.

(3) Reduction in time required for titling and/or property registration for potential investors.

The *key benchmarks* to measure progress are expected to include:

(1) Percentage of land in pilot sites in the Zones that is securely demarcated and registered.

(2) Average time and cost required to respond to investor requests for property transactions by the fast-track titling and/or property registration process.

(e) ***Activity: Information Gathering, Analysis and Dissemination***

MCC Funding will finance the following activities designed to improve the capacity of the National Land Service Administration and the local land management offices to sustain the results as listed above (in paragraphs (a) through (d) of this Section 2):

(i) Finance the cost of a resident long-term land tenure expert with international experience to provide ongoing advice and technical assistance regarding policy matters (*e.g.*, to eliminate market distortions) to MCA-Madagascar and policy-level government institutions, offices or agencies.

(ii) Finance occasional short-term national and international experts to provide more operational ongoing technical assistance and training to the staffs of the National Land Service Administration and local land management offices.

(iii) Organize and conduct workshops, seminars and other outreach activities with intended beneficiaries and other stakeholders in order to obtain their feedback and comments to improve procedures relating to property transactions and other related services.

(iv) Organize formal training and study tours outside of Madagascar for the staffs of the National Land Service Administration and local land management offices.

(v) Complete needs assessments for future reform relating to (i) land conflict resolution methods, (ii) policy development and (iii) legal framework, including property tax policy and corresponding legal reform, based on lessons learned from the activities carried out under the Land Tenure Project.

3. Beneficiaries.

The principal beneficiaries of the Land Tenure Project are expected to be current land title holders and households and enterprises in the Zones without formal land rights. Following the selection of a Zone, MCA-Madagascar shall publish a more precise identification of the beneficiaries as provided in Section 2(c) of the Program Annex. Certain activities in the Land Tenure Project will have a national scope and impact. These include upgrading the archives and information systems of the National Land Service Administration in Antananarivo, supporting the development of the PNF and knowledge management. Other activities, including the establishment of local land management offices, the development of local expertise and the formalization of traditional land tenure within selected communities, will have specific impact in the Zones.

4. Donor Coordination.

Land security is a key element of the Government's development strategy. The country's PRSP recommended establishment of the PNF. The PNF was launched in early 2004 and has attracted the attention of several donors. To date, however, no donors have funded a systematic approach to implement this program on a national scale.

At present, the French government is supporting a technical advisor to the Ministry of Agriculture to develop further the PNF. Several donors are preparing to engage more fully on

land tenure issues in Madagascar. The European Union, International Fund for Agricultural Development (IFAD), Food and Agriculture Organization (FAO) and Agence Française de Développement (AFD) have expressed strong interest in and/or commitment to supporting the establishment of 12 local land management offices. These plans are in varying stages of development. For example, IFAD has commenced a pilot project and the EU intends to provide broader budget support. In preparation for these donor activities, a series of project design activities are being undertaken by various donors. The World Bank (WB) is funding a comprehensive review of land tenure reform proposals in order to refine and further develop the PNF and identify areas of WB intervention.

The Land Tenure Project complements and catalyzes the activities of other donors in the land tenure area. Given the size of MCC support and depending upon the rate of disbursement, the experience gained from the Land Tenure Project will help shape and consolidate other donor support. The Ministry of Agriculture is determining how to allocate donor resources to the needs identified in the PNF.

5. U.S. Agency for International Development.

USAID/Madagascar has contributed to reform in land management practices through its community-based natural resource management project but has not funded extensive or direct work on land tenure reform. USAID and its partners have contributed to the consultative process on the initial PNF and assisted in efforts to introduce a secured transactions law in 2002. USAID/Washington can provide land tenure and property registration assistance to MCC and/or MCA-Madagascar as more specific needs are identified.

6. Sustainability.

New government institutions have great potential to provide sustainable vehicles for land management and land tenure reform. By decentralizing property transaction and other related services, beneficiaries will be more likely to utilize the system, which should result in better and more current record keeping. In addition, the Land Tenure Project Activities can be implemented with varying levels of technology that are appropriate to the local resources available (*e.g.*, human resources, the availability of electricity). The Land Tenure Project will provide long and short-term technical assistance to ensure the effective design and implementation of Project Activities. The Government intends to use additional donor funds after the Compact to sustain the changes and reforms that may be achieved in the Land Tenure Project and to complete the implementation of the PNF outside the Zones. It is expected that local land management offices will be self-funding based on service fees and user charges after the initial two years of undertaking the Project Activities under this Compact.

7. Policy and Legal Reform.

To realize the full benefits of the Land Tenure Project Activities, the following legal reforms will be required in two stages, the Disbursement Agreement to specify in more particularity the sequencing and requirements of each:

(a) The adoption of new land laws that reflects the PNF and provides stronger legal recognition of new land tenure procedures, documents and techniques, including a law to give legal character and value to certificates.

(b) The adoption of ancillary and related legal and regulatory reforms that streamline property transactions and related services, including property tax policy and corresponding legal reforms, *e.g.*, to prevent or eliminate potential negative tax consequences on title or certificate holders.

SCHEDULE 2 to ANNEX I

FINANCE PROJECT

This Schedule 2 generally describes and summarizes the key elements of the finance Project that the Parties intend to implement in furtherance of the Finance Objective (the "***Finance Project***"). Additional details regarding the implementation of the Finance Project will be included in the Implementation Plan and in relevant Supplemental Agreements.

1. Background.

Through the consultative process, the Government determined that the mobilization of domestic savings and the reduction of the cost of credit are priority conditions for sustained economic growth and poverty reduction in Madagascar. In order to accomplish these goals, it is necessary (i) to increase efficiency and reduce risk in the country's financial system; (ii) to improve the real and perceived creditworthiness of potential borrowers so that financial institutions can increase lending; and (iii) to introduce greater competition among banks and other financial institutions. In addition, the Government determined that the introduction of more appropriate financial products into the financial system (*e.g.*. savings bonds, Treasury Bills in small denominations, warehouse receipts, leasing) and improvement in the manner through which financial institutions distribute their products to buyers will increase the alternatives for investors and the availability of credit in rural areas.

2. Summary of Project Activities and Expected Results.

Given the goals of increasing efficiency and reducing risk in the financial system, improving creditworthiness, and introducing greater competition, the Finance Project is designed to strengthen different areas of the financial system. Most of the Finance Project Activities are aimed at assisting in the improvement of key foundations of a modern financial system: a sound legal environment, an efficient payments and settlement system, a professional Ministry of Finance, and a Central Bank with various monetary policy implementation tools at its disposal. The other Finance Project Activities are aimed at assisting lenders and borrowers to build on that foundation by strengthening accounting services, building capacity among rural producers to access the financial system, and increasing the capabilities of microfinance institutions ("***MFIs***").

The following summarizes the Finance Project activities, anticipated results, and, where appropriate, regular benchmarks that can be used to monitor implementation progress. Performance against the benchmarks and the overall impact of the Finance Project will be assessed at the intervals specified in the M&E Plan (described in Annex III) or otherwise agreed by the Parties from time to time. The Parties expect that additional benchmarks will be identified during the implementation of the Finance Project. The estimated amounts of MCC Funding for each Project Activity of the Finance Project are identified in Annex II. Conditions precedent to each Finance Project Activity and sequencing of the Finance Project Activities shall be set forth in the Disbursement Agreement or other relevant Supplemental Agreements.

(a) ***Activity: Promote Legal and Regulatory Reform***

MCC Funding will support the following activities designed to improve the efficiency of the Malagasy financial system:

(i) Finance the development of new banking laws and laws regulating financial instruments and markets, including enabling legislation for expanded intermediation and new credit and investment instruments.

(ii) Train government officials, judges and potential beneficiaries on the contents and application of these new laws.

(iii) Promote public awareness of these new laws through an educational and public awareness campaign.

The *expected result* of these activities is:

(1) Legislation permitting a multi-tiered financial system.

The *key benchmark* to measure progress is expected to be:

(1) Submission, passage and implementation of new legislation that permit a multi-tiered financial system, as recommended by outside experts and relevant commissions.

(b) ***Activity: Reform Sovereign Debt Management and Issuance***

MCC Funding will support the following activities designed to reform sovereign debt management and issuance:

(i) Automate all sovereign debt issuance operations.

(ii) Create new forms of sovereign debt that will appeal to a broader set of investors, including new denominations of Treasury bills.

(iii) Create a fiscal policy unit within the Ministry of Finance that will advise the Minister of Finance on sovereign debt portfolio management and issuance alternatives.

The *expected results* of these activities are:

(1) Wider distribution of treasury bills among entrepreneurs and enterprises.

(2) Increased investment of savings in financial instruments.

(3) Increased lending by financial institutions.

The *key benchmarks* to measure progress are expected to include:

(1) Number of holders of smaller denomination treasury bills.

(2) Number of treasury bills held outside of Antananarivo.

(3) Volume of treasury bill holdings.

(c) ***Activity: Strengthen the National Savings Bank ("NSB")***

The NSB has the largest branch network and customer base of any financial institution in Madagascar and the greatest potential of any financial institution to reach large numbers of rural poor. MCC Funding will support the following activities designed to create conditions to permit NSB to administer funds on behalf of MCA-Madagascar directed to MFIs and, thereby, improve access to financial services in the Zones:

(i) Increase the operational efficiency of the NSB through modernization and computerization, in particular by automating branch operations and agency issuance for sovereign debt instruments.

(ii) Increase the quality of service through staff training and the establishment of new NSB branches in the Zones.

(iii) Increase mobilization of domestic savings.

(iv) Strengthen capacity to manage liquidity facilities for MFIs.

The *expected results* for these activities are:

(1) Availability of savings products (*e.g.*, access to treasury bills, savings accounts) in rural areas.

(2) Increase in administration of funds by NSB on behalf of MCA-Madagascar directed to MFIs.

The *key benchmarks* to measure progress are expected to include:

(1) Number of new NSB bank accounts opened in the Zones.

(2) Volume of savings collected by NSB in the Zones.

(d) ***Activity: Provide New Instruments for Agribusiness Credit***

MCC Funding will support the following activities designed to provide new instruments for agribusiness credit and increase financial lending instruments available for rural producers in the Zones:

(i) Create a revolving fund for refinance of MFI assets.

(ii) Extend warehouse receipts and leasing as a means of extending credit to rural and agricultural producers.

(iii) Conduct a major study on constraints and alternatives for providing access to market-based credit to agribusiness all along the value chain.

The *expected results* for these activities are:

(1) Increased MFI lending in the Zones.

(2) Increased secured warehoused based credit available.

(3) Identification of credit instruments appropriate for the agricultural value chain (producers, packers, processors, shippers, exporters and other enterprises) in the Zones.

(4) Improved stability of MFIs.

The *key benchmarks* to measure progress are expected to include:

(1) Volume of bank credit to rural borrowers.

(2) Volume of MFI lending in the Zones.

(3) MFI portfolio-at-risk delinquency rate.

(e) ***Activity: Modernize National Interbank Payments System***

MCC Funding will support the following activities designed to modernize the bank payment and settlement system:

(i) Conduct a design and cost study for a new national interbank payments system that will reduce check clearing from the current 45 days to D+3.

(ii) Provide information technology and telecommunications equipment and installation services, if the above study demonstrates feasibility and the results are acceptable to MCC (including within the expected budget or if additional financing is secured).

The *expected results* for these activities are:

(1) Implementation of an efficient and secure modern interbank payment system.

(2) Increased confidence in and use of the formal payment system by a wider variety of economic actors.

The *key benchmarks* to measure progress are expected to include:

(1) Time period for check clearing.

(2) Volume of funds in the payment system.

(f) ***Activity: Improve Credit Skills Training, Increase Credit Information and Analysis***

MCC Funding will support the following activities designed to improve the perceived creditworthiness of potential borrowers, in particular to improve credit skills training, increase credit information and enhance ability of financial institutions to conduct credit analysis:

(i) Increase awareness of new accounting standards and provide sustainable training of finance and accounting professionals through Madagascar including accountants, business managers, and microfinance loan officers.

(ii) Create a central database accessible by all providers of credit that contains credit data and payment and repayment history.

The *expected results* for these activities are:

(1) Utilization of the new accounting standards in the Zones.

(2) Increased reliability of financial information for creditors.

The *key benchmark* to measure progress is expected to be:

(1) Reporting of credit and payment information into the central database.

3. Beneficiaries.

The principal beneficiaries of the Finance Project are expected to be rural producers and enterprises located in the Zones. Following the selection of the Zones, MCA-Madagascar will publish a more precise identification of the beneficiaries as provided in Section 2(c) of the Program Annex.

Certain activities in the Finance Project activities will have national scope and impact (*e.g.*, legal reforms, interbank payment system) while other activities (*e.g.*, support to MFIs) will have specific impact in the Zones.

4. Donor Coordination.

MCA-Madagascar plans to participate in an evaluation of the financial sector to be conducted by the World Bank and IMF. To date, no donors have funded activities to reform the Malagasy financial sector on a national scale; however, there have been several donor-funded projects in microfinance. The World Bank, UNDP, European Union, Agence Française de Développement, African Development Bank, International Labor Organization and USAID have funded activities to study and build capacity of MFIs, improve the legal and regulatory framework for microfinance, and provide financing for MFIs. MCC Funding in the Finance Project will build on these interventions by implementing many of the recommendations of the studies and lessons learned from these other donor projects.

5. Coordination with U.S. Agency for International Development.

USAID has helped to develop access to financial services for the poor by supporting the NSB in becoming a profitable private service provider in the area of microfinance by increasing its role as a financial intermediary for low-income savers in the informal sector. In addition to continuing to strengthen capacity of NSB, the Finance Project will build on USAID-funded activities related to warehouse receipts and operationalize many of the recommendations listed in the USAID's 2003 microfinance study. MCC and MCA-Madagascar, where relevant, will solicit input from USAID on the implementation and monitoring of the Finance Project.

6. Sustainability.

The Finance Project will (i) support the modernization of the national payments and settlement system; (ii) strengthen the accounting services; (iii) decentralize the treasury bill auction system; (iv) strengthen MFIs; and (v) build capacity among rural producers to access the financial system, all of which actions are intended to promote competition among financial institutions. An enhanced competitive environment is intended to create a cycle that will attract more funds into the financial system and ensure that those funds are allocated at better prices. In association with the World Bank and the IMF, a study of capital markets constraints and opportunities will be undertaken in 2005. The availability of diverse products and services from both capital markets and commercial bank will improve pricing and quality of those products and services. The Finance Project Activities, coupled with the legal and regulatory reforms identified in Section 7 below, will continue to have an impact after expiration of the Compact. Since the activities are largely focused on unleashing the private sector, if successfully implemented under the Compact, they should be self-sustaining.

7. Policy and Legal Reform.

The Government has identified the following policy, legal and regulatory reforms and actions that it intends to pursue in support of the Finance Project:

(a) Establish new roles, responsibilities, reporting requirements, and organizational procedures of the Central Bank required for the decentralization of treasury bill operations and their oversight.

(b) Adopt legislation or regulations relating to the new payment and settlement system, including giving legal status to electronic images and signatures.

(c) Adopt legislation establishing a central credit and payment database and defining reporting requirements and procedures for all financial institutions.

(d) Adopt necessary legal and regulatory changes to permit adoption of new financial instruments identified through the agribusiness credit study described in Section 2(d) above.

SCHEDULE 3 to ANNEX I

AGRICULTURAL BUSINESS INVESTMENT PROJECT

This Schedule 3 summarizes and describes the key elements of an agricultural business investment project in furtherance of the Agricultural Business Investment Objective (the ***"Agricultural Business Investment Project"***). Additional details regarding the implementation of the Agricultural Business Investment Project will be included in the Implementation Plan and in relevant Supplemental Agreements.

1. Background.

The key element in the Malagasy National Agricultural Master Plan is to assist farmers in transitioning from subsistence farming to market agriculture. Low agricultural productivity and non-competitive agribusiness value chains (resulting in high rural poverty) were frequently identified during the consultative process as priority issues that must be addressed. At present, low levels of agricultural investment and profitability throughout Madagascar's agricultural economy result from insecure land rights, limited availability of credit and agribusiness finance, deteriorating transport and irrigation infrastructure, and low use by farmers of inputs such as fertilizer, machinery and pesticides. In addition, there is a limited understanding among agribusiness producers in general of market opportunities and associated requirements.

2. Summary of Project Activities and Expected Results.

The Agricultural Business Investment Project will be implemented through a network of MCC funded Agricultural Business Centers ("***ABCs***") in the Zones, with a national coordinating center in Antananarivo ("***NCC***"). These centers will work with a broad set of partners and stakeholders to provide information regarding agribusiness, technology, finance and management, the lack of which constrain growth of the agribusiness sector. The ABCs will improve the quality of credit demand by enhancing the ability, at the firm level, to make better decisions on planting, input management and marketing and to be able to communicate those decisions to possible investors or lenders. There is a clear demand for higher quality resources in order to build regional and local capacity to identify and access profitable agribusiness market opportunities. Linking market opportunities and Malagasy suppliers requires enhanced capacities in market research, agricultural research, access to improved technologies, farm management and business planning, infrastructure development and policies to support productivity and investment returns in the Madagascar agribusiness sector.

The ABC network will leverage management know-how and expertise in agricultural production, policy, finance and value chains to help farmers and entrepreneurs profit from promising agricultural investment opportunities. The Agricultural Business Investment Project is consistent with and reinforces Government's efforts to stimulate the rural market economy by developing new opportunities for market-based income growth. The Agricultural Business Investment Project will also provide the opportunity to support the Government's efforts to implement the National Agriculture Master Plan and to engage in a continuing policy dialogue with relevant stakeholders on agricultural and rural development issues.

The following summarizes each component of the Agricultural Business Investment Project, activities, anticipated results, and, where appropriate, regular benchmarks that can be used to monitor implementation progress. Performance against the benchmarks and the overall impact of the Agricultural Business Investment Project will be assessed at the intervals specified in the M&E Plan (described in Annex III) or otherwise agreed by the Parties from time to time. The Parties expect that additional benchmarks will be identified during the implementation of the Agricultural Business Investment Project. The estimated amounts of MCC Funding for each Project Activity of the Agricultural Business Investment Project are identified in Annex II. Conditions precedent to each Agricultural Business Investment Project Activity and sequencing of the Agricultural Business Investment Project Activities shall be set forth in the Disbursement Agreement or other relevant Supplemental Agreements.

(a) ***Activity: Create and Operate Five ABCs***

MCC Funding will support the following activities designed to promote the development and expansion of micro, small and medium sized enterprises ("***MSMEs***") in the Zones:

(i) Establish five ABCs that will offer a range of services to MSMEs and farmers in the respective Zones. These services may include assistance in the development of business and marketing plans, training in good business practices (*e.g.,* accounting) and in the promotion and adoption of improved technologies by businesses and farmers alike.

(ii) Identify local, regional and international market opportunities for MSMEs and assist them in developing effective business plans in order to improve competitiveness and access to investments.

(iii) Undertake market studies for MSMEs for key higher valued commodities, including production, economic, and financial analysis.

The *expected results* of these activities are:

(1) Market and technology information for key commodities disseminated widely in the Zones.

(2) Viable business plans for MSMEs in the Zones.

(3) Adoption of improved production technologies and higher value crops by farmers.

The *key benchmarks* to measure progress are intended to include:

(1) Number of business plans prepared by or with MSMEs.

(2) Number of farms and enterprises employing the technical assistance received from ABCs.

(b) ***Activity: Create NCC and Coordinate Activities with Government Ministries and ABCs and Identify the Zones***

MCC Funding will support the following activities designed to improve coordination between the Ministry of Agriculture and ABCs:

(i) Establish the NCC in Antananarivo which will coordinate operations and performance in the Zones.

(ii) Develop scopes of work and provisional budgets for the ABCs, including mission, objectives, management functions and services to be provided.

(iii) Provide technical assistance, training and other support to enable the Government to implement effectively its National Agricultural Master Plan.

(iv) Provide the analysis required to select the five Zones and identify the Zones.

The *expected result* from these activities is:

(1) Improved ability of the Government to implement its National Agriculture Master Plan.

(2) Effective information sharing and coordination among the ABCs, the NCC and relevant government agencies.

The *key benchmarks* to measure progress are expected to include:

(1) Zones identified.

(2) NCC created.

(c) ***Activity: Identify Investment Opportunities***

MCC Funding will support the following activity designed to identify local, regional and international market opportunities and the necessary requirements and means to allow investors and producers to take advantage of such opportunities:

(i) Provide technical assistance and conduct research to identify business opportunities and requirements in local, regional and international markets.

The *expected results* for this activity are:

(1) Completion of five zonal investment strategies which identify local, regional, and international market opportunities and the means, especially investments, required to respond to such opportunities.

(2) Dissemination of information regarding such market opportunities and necessary requirements through the NCC and the ABCs to local, regional, international investors and producers and donors.

The *key benchmarks* to measure progress are expected to include:

(1) Number of cost-effective investment strategies developed for each Zone.

(2) Number of agribusiness investment strategies developed in each Zone.

(3) Number of investors (local, regional, international), producers, donors receiving or soliciting information from the ABCs with respect to business opportunities.

(d) ***Activity: Build Management Capacity in the Zones***

MCC Funding will support the following activity designed to increase business management expertise and technical knowledge in the Zones:

(i) Conduct training and outreach activities (information, education and communication) with MSMEs and rural producers to improve entrepreneurial capacities and management skills and disseminate best practices to enable them to operate in a more efficient manner.

(ii) Establish demonstration centers in the Zones to illustrate to rural producers the benefits of sustainable production and processing practices, including environmental stewardship factors.

The *expected results* from these activities are:

(1) MSMEs and rural producers, trained in best practices, operate more competitively.

(2) Rural producers and MSMEs adopt improved production and processing practices.

The *key benchmarks* to measure progress are expected to be:

(1) Number of farms and enterprises that adopt new marketing and/or production technologies or techniques or engage in higher value production.

(2) Value of change in marketing and production techniques.

3. Beneficiaries.

The principal direct beneficiaries of the Agricultural Business Investment Project are expected to be MSMEs, rural producers and households in the Zones. Following the selection of the Zones, MCA-Madagascar will publish a more precise identification of the beneficiaries as provided in Section 2(c) of the Program Annex. Certain activities in the Agricultural Business Investment Project will have national scope and impact (*e.g.*, investment strategy development, NCC and ABC activities, information systems and knowledge management). Other activities (*e.g.*. training MSMEs and rural producers) will have specific impact in the Zones.

4. Donor Coordination.

Enhanced agricultural productivity and reduced rural poverty is an integral part of Government's national development strategy as highlighted in the PRSP. The Agricultural Business Investment Project complements other donor supported projects, including the USAID Agricultural Business Investment project (BAMEX) and the International Finance Corporation SME Solutions Center. The Agricultural Business Investment Project catalyzes and scales up the activities of other donors in this area. Given the size of MCC support and speed of disbursement, the experience gained from the Agricultural Business Investment Project will help shape and consolidate other donor support.

5. Coordination with U.S. Agency for International Development.

The Agricultural Business Investment Project Activities are fully consistent with USAID's program in Madagascar. The current USAID agricultural and trade program, which was initiated in 2004, addresses market and business development through the introduction of more productive technologies, creation of linkages between producers, agribusinesses, and external markets, and improvements in macroeconomic and trade policies to encourage investments and exports. These USAID activities lay a solid foundation for the Agricultural Business Investment Project Activities which will scale up both the geographic coverage and commercial services to be offered.

6. Sustainability.

Beyond the Compact Term, the services provided by the ABCs to targeted clients in the agribusiness community in the Zones should be available through local and regional private sector entities. The Agricultural Business Investment Project will enhance the technical and management capacities of micro, small, and medium sized companies and agricultural producers by providing information and resources to the private sector to take advantage of investment opportunities. At the same time, the public sector will be able to identify further activities or investment that will strengthen such opportunities. Sustainability will result from the profitable use of such information and resulting increased investment. After the Compact Term, these enterprises should be both successful models and providers of services similar to those to be offered by the ABCs. While the ABCs may not continue indefinitely, to the extent they are continued after the Compact Term, ABCs will be able to support their operations through fee-based or subscription services by implementing a plan in which required participation by the private sector will increase progressively. Additional strategies by the Government include producer check-off programs to fund a portion of the operations. A stronger presence of the

Ministry of Agriculture, Livestock and Fisheries in the Zones will continue to provide services to farmers and MSMEs.

7. Policy and Legal Reform.

It is not expected that there are specific policy and legal reforms required to support the Agricultural Business Investment Project. The Agricultural Business Investment Project is consistent with the overall Malagasy National Agricultural Master Plan for moving subsistence farming to market driven agriculture.

8. Proposals.

MCA-Madagascar will develop, subject to MCC approval, a process for consideration of solicited and unsolicited proposals. With respect to solicited proposals, the evaluation process will include, consistent as appropriate with the Procurement Guidelines, the issuance of a published request for proposals with specific identified evaluation criteria and peer reviewers. MCA-Madagascar may receive unsolicited proposals for the enhancement of the environment for agribusiness investment in the Zones. These unsolicited proposals will be evaluated for their relevance in contributing to the attainment of the Agricultural Business Investment Objective and the qualifications of the applicants together with the availability of Agricultural Business Investment Project resources and MCC Funding in connection therewith.

ANNEX II

FINANCIAL PLAN SUMMARY

This Annex II to the Compact (the "***Financial Plan Annex***") summarizes the Financial Plan for the Program. Each capitalized term in this Financial Plan Annex shall have the same meaning given such term elsewhere in this Compact.

1. **General.** A Multi-year Financial Plan Summary is attached hereto as Exhibit A (the "***Multi-Year Financial Plan Summary***"). By such time as specified in the Disbursement Agreement, MCA-Madagascar will adopt, subject to MCC approval, a Financial Plan that includes, in addition to the multi-year summary of anticipated estimated MCC Funding and the Government's contribution of funds and resources, an estimated draw-down rate for the first year of the Compact based on the achievement of performance milestones, as appropriate, and the satisfaction or waiver of conditions precedent. Each year, at least 30 days prior to the anniversary of the entry into force of this Compact, the Parties shall mutually agree in writing to a supplemental annual financial plan for the upcoming year of the Program, which shall include a more detailed plan for such year, taking into account the status of the Program at such time and making any necessary adjustments to the Financial Plan (each, a "***Supplemental Financial Plan***").

2. **Implementation and Oversight.** The Financial Plan shall be implemented by MCA-Madagascar, consistent with the approval and oversight rights of MCC and the Government as provided in this Compact, the Governance Agreement and the Disbursement Agreement.[1]

3. **Estimated Contributions of the Parties.** The Multi-Year Financial Plan Summary identifies the estimated annual contribution of MCC Funding for Program administration and each Project. The Government's contribution of resources to Program administration and each Project shall consist of (i) "in-kind" contributions in the form of Government Responsibilities and any other obligations and responsibilities of the Government identified in the Compact, including contributions identified in the notes to the Multi-Year Financial Plan Summary, and (ii) such other contributions or amounts as may be identified in relevant Supplemental Agreements between the Parties or as may otherwise be agreed by the Parties; *provided*, in no event shall the Government's contribution of resources be less than the amount, level, type and quality of resources required to effectively carry out the Government Responsibilities or any other responsibilities or obligations of the Government under or in furtherance of this Compact.

4. **Modifications.** The Parties recognize that the anticipated distribution of MCC Funding between and among the various Program activities and Project Activities will likely require adjustment from time to time during the Compact Term. In order to preserve flexibility in the administration of the Program, the Parties may, upon agreement of the Parties in writing and without amending the Compact, change the designations and allocations of funds between

[1] The role of civil society in the implementation of the Compact (including through participation on the Advisory Board and Steering Committee), the responsibilities of the Government and MCC in achieving the Compact Objectives, and the process for the identification of beneficiaries are addressed elsewhere in this Compact and therefore are not repeated here.

Program administration and a Project, between one Project and another Project, between different activities within a Project, or between a Project identified as of the entry into force of this Compact and a new Project, without amending the Compact; *provided, however*, that such reallocation (i) is consistent with the Objectives, (ii) does not cause the amount of MCC Funding to exceed the aggregate amount specified in Section 2.1(a) of this Compact, and (iii) does not cause the Government's responsibilities or overall contribution of resources to be less than specified in Section 2.2(a) of this Compact, this Annex II or elsewhere in the Compact.

5. **Conditions Precedent; Sequencing.** MCC Funding will be disbursed in tranches. The obligation of MCC to approve MCC Disbursements and Material Re-Disbursements for the Program and each Project is subject to satisfactory progress in achieving the Objectives and on the fulfillment or waiver of any conditions precedent specified in the Disbursement Agreement for the relevant Program activity or Project Activity. The sequencing of Project Activities and other aspects of how the Parties intend the Projects to be implemented will be set forth in the Disbursement Agreement and the applicable components of the Implementation Plan, including Work Plans for the applicable Project, and MCC Disbursements and Re-Disbursements will be disbursed consistent with that sequencing.

6. **Objectives; Benchmarks.** The Compact Goal, Program Objective and the Project Objectives are identified in Section 1.1 of this Compact. The key expected results of each Project Activity are identified in Schedules 1 to 3 of Annex I. Progress towards achievement of the Compact Goal, the Objectives, and the expected results shall be measured in accordance with the M&E Plan, which is summarized at Annex III. The M&E Plan will include regular benchmarks for measuring progress, including those Compact-, Program- and Project-level performance indicators identified in Annex III, along with the frequency by which such benchmarks will be measured.

EXHIBIT A: Multi-Year Financial Plan Summary

Project	Year 1	Year 2	Year 3	Year 4[1]	Total
1. Land Tenure Project[2]					
(a) Support the Development of the Malagasy National Land Policy Framework[3]	295[4]	759	12		1,066
(b) Improve the Ability of the National Land Service Administration to Provide Land Services	6,823	11,370	1,650		19,844
(c) Decentralization of Land Services	1,727	4,059	1,922	27	7,735
(d) Land Tenure Regularization in the Zones	251	3,685	3,770	159	7,865
(e) Information Gathering, Analysis and Dissemination	645	424	224		1,293
Sub-Total	**9,740**	**20,298**	**7,579**	**186**	**37,803**
2. Finance Project[5]					
(a) Promote Legal and Regulatory Reform	888	176			1,064
(b) Reform Sovereign Debt Management and Issuance	723	285			1,008
(c) Strengthen the National Savings Bank	1,505	427			1,932
(d) Provide New Instruments for Agribusiness Credit	2,637	5,289	500		8,426
(e) Modernize National Interbank Payments System	1,000	10,000[6]	10,000[7]		21,000
(f) Improve Credit Skills Training, Increase Credit Information and Analysis	782	1,546	130		2,458
Sub-Total	**7,535**	**17,723**	**10,630**	**0**	**35,888**
3. Agricultural Business Investment Project[8]					
(a) Create and Operate Five Agricultural Business Centers (ABCs)	2,500	2,781	2,888	3,120	11,289
(b) Create National Coordinating Center and Coordinate Activities with Government Ministries and ABCs and Identify the Zones	74	30			104
(c) Identify Investment Opportunities	2,000	3,000	1,090		6,090
(d) Build Management Capacity in the Zones	100	50	50		200
Sub-Total	**4,674**	**5,861**	**4,028**	**3,120**	**17,683**
4. Monitoring and Evaluation[9]	305	847	844	1,379	3,375
Sub-Total	**305**	**847**	**844**	**1,379**	**3,375**
5. Program Administration and Control					
(a) Program administration	2,297	1,627	1,617	1,612	7,153
(b) Fiscal control, procurement management and audit	2,198	1,891	1,891	1,891	7,871
Sub-Total	**4,495**	**3,518**	**3,508**	**3,503**	**15,024**
TOTAL ESTIMATED MCC CONTRIBUTION	**26,749**	**48,247**	**26,589**	**8,188**	**109,773**

EXHIBIT A: MULTI-YEAR FINANCIAL PLAN SUMMARY (Notes)

[1] Although most Project Activities will take place from Year 1 through Year 3, the four-year Compact term will allow additional time to ensure that Project Activities are completed. Monitoring and Evaluation, Administrative, Procurement and Control costs are allocated in Year 4 to maintain a consistent level of monitoring and evaluation and Program management to support these activities, but only will be expended for monitoring and evaluation and Program management if the Program delays make the expenditures necessary.

[2] The Government will provide in-kind contributions in the form of Ministry of Agriculture staff time and resources to work towards the expected results of this Project, which contributions will be more specifically set forth in the relevant components of the Implementation Plan or relevant Supplemental Agreement between the Parties.

[3] The Government has provided in-kind contributions in the form of Ministry of Agriculture staff time and responses used for drafting the Land Policy Letter, which serves as the support document for the National Land Policy Framework, which contributions will be more specifically set forth in the relevant components of the Implementation Plan or relevant Supplemental Agreement between the Parties.

[4] Amounts shown are U.S. Dollars in thousands.

[5] The Government will provide in-kind contributions in the form of Ministry of Finance and Central Bank staff time and resources to work towards the expected results for this Project, which contributions will be more specifically set forth in the relevant components of the Implementation Plan or relevant Supplemental Agreement between the Parties.

[6] This amount will be disbursed only upon satisfaction of (i) completion of feasibility cost study satisfactory to MCC, (ii) agreements executed with users regarding fees and charges, and (iii) other conditions set out in the Disbursement Agreement.

[7] This amount will be disbursed only upon satisfaction of (i) completion of feasibility cost study satisfactory to MCC, (ii) agreements executed with users regarding fees and charges, and (iii) other conditions set out in the Disbursement Agreement.

[8] The Government will provide in-kind contributions in the form of Ministry of Agriculture and Ministry of Finance staff time and resources to work towards the expected results for this Project, which contributions will be more specifically set forth in the relevant components of the Implementation Plan or relevant Supplemental Agreement between the Parties.

[9] The Government will provide in-kind contributions in the form of Ministry of Agriculture and INSTAT staff time and resources towards data collection and other monitoring and evaluation functions, which contributions will be more specifically set forth in the relevant components of the Implementation Plan or relevant Supplemental Agreement between the Parties.

ANNEX III

DESCRIPTION OF THE M&E PLAN

This Annex III to the Compact (the "***M&E Annex***") generally describes the elements of the M&E Plan for the Program. Each capitalized term in this M&E Annex shall have the same meaning given such term elsewhere in this Compact.

1. Overview.

In accordance with Section 609(b)(1)(c) of the Act, the Parties contemplate implementing an M&E Plan to regularly assess the progress towards the Compact Goal and Objectives, estimate the magnitude of the economic growth and poverty reduction impacts of the Program, and generally contribute to the overall accountability for the implementation of the Program. As described below, the M&E Plan shall include a monitoring component, which will describe the monitoring methodology and specify the expectations for certain results for each Project and for the Program (the "***Monitoring Component***") and an evaluation component, which will describe the evaluation methodology and focus on the process for estimating the economic growth and poverty reduction impacts of the Program (*i.e.*, the Compact Goal) (the "***Evaluation Component***").

The M&E Plan will consist of multiple parts developed separately for the Program and each of the Project Activities. Subject to satisfaction of other conditions precedent, MCC Disbursements and Re-Disbursements for any Project Activity may be made only after MCA-Madagascar adopts, and MCC approves, the components of the overall M&E Plan related to such Project Activities. As described below in Section 2 of this M&E Annex, the M&E Plan will identify the appropriate performance indicators, targets, and baselines, or a process for the identification of indicators, targets, and baselines, institutions responsible for their measurement; describe intended beneficiaries; identify milestones for progress on policy or legal reforms; set out requirements for periodic performance reporting; identify the assumptions and risks underlying the accomplishment of the Objectives; and set a timeline for program evaluation. Identification of the Zones and collection of additional baseline data is required before the estimated targets can be finalized for certain Project Activities. The Parties will seek to promptly collect and review such data and expect to have this completed for all Program and Project Activities no later than 12 months after the entry into force of this Compact. Shortly thereafter, the Parties expect to have a complete M&E Plan. The Parties expect that the M&E Plan for each Project Activity will be completed prior to MCC Disbursement or Re-Disbursement for the Project Activity.

The Parties anticipate the key terms of the M&E Plan, including estimated indicators and targets, to be as set forth in this M&E Annex, subject to (i) modifications based on (A) identification of the Zones and (B) collection and review of the baseline data and other data; and (ii) the completion and adoption of the final M&E Plan by MCA-Madagascar, subject to MCC approval.

2. Elements of the M&E Plan.

The roles and responsibilities of the relevant parties and Providers in connection with monitoring and evaluation shall be set forth in the M&E Plan, which shall include the following elements for the Program, each Project and Project Activity:

(a) **Monitoring Component**. The Monitoring Component shall set out (i) the expected results of the Program as described under Section 2 of Schedules 1 – 3 of the Program Annex, and (ii) the performance indicators to be used to measure progress at the Compact Goal, Program Objective, Project Objective and Project Activity levels (as described in Section 4 below). The Monitoring Component shall also identify, where appropriate, any additional indicators, baseline data, data sources, reporting requirements, expected timelines, performance targets, policy milestones (including ministry procedural changes) and legal reforms. Exhibit A attached hereto illustrates the M&E Plan in terms of the Compact Goal and Objectives.

(b) **Evaluation Component**. The Program shall be evaluated on the extent to which the interventions contributed to the Compact Goal. The Evaluation Component shall set out a process and timeline for analyzing data collected through baseline data collection and the monitoring process in order to assess the economic impact of the Program. In addition, the M&E Plan may require interim independent evaluations of individual Project Activities, Projects or the Program as a whole prior to the expiration of the Compact. Either MCC or MCA-Madagascar may from time to time request such interim independent evaluations. If an evaluator is engaged by MCA-Madagascar, the evaluator will be an externally contracted independent source, selected by MCA-Madagascar subject to the approval of MCC, following a tender in accordance with the Procurement Guidelines, and otherwise in accordance with any relevant Implementation Letter or Supplemental Agreement. The cost of an independent evaluation may be paid from MCC Funding. In the event MCA-Madagascar requires an interim independent evaluation at the request of the Government, no MCC Funding or MCA-Madagascar resources may be applied to such evaluation, without MCC's prior written approval, if the evaluation is for the purpose of contesting an MCC determination with respect to a Project or to seek funding from other donors. MCC shall engage an independent evaluator to conduct an impact evaluation at the completion of the Program.

(c) **Beneficiaries**. As Zones are identified, the M&E Plan shall be modified to reflect this additional Zone-specific information about the beneficiaries, including, to the extent practicable, disaggregated by gender, income level and age. In accordance with the Evaluation Component of the M&E Plan, MCA-Madagascar shall deliver to MCC information about the characteristics of the beneficiaries of the Program that are inside and outside the Zones.

(d) **Data Quality Reviews**. From time to time, as determined in the M&E Plan or as otherwise requested by MCC, the quality of the data gathered through the M&E Plan shall be reviewed to ensure that data reported are as valid, reliable, and timely as resources will allow. The objective of any data quality review will be to verify the quality and the consistency of performance data across different implementation units and reporting institutions. Such data

quality reviews will also serve to identify where those levels of quality are not possible given the realities of data collection.

(e) **Policy or Legal Reform; Procedural Changes or Regulatory Actions**. The M&E Plan shall identify mechanisms to measure progress on any required changes in government ministry procedures, regulatory actions, policy and/or legal reforms identified as conditions necessary or advisable to achievement of the Objectives.

(f) **Data Collection and Reporting**. The M&E Plan shall establish guidelines for data collection and a reporting framework, including a schedule of activities and responsible parties. Prior to, and as a condition precedent to, any Re-Disbursements with respect to a Project or Project Activity, the baseline data or report, as applicable and as specified in the Disbursement Agreement, with respect to such Project or Project Activity must be completed, in form and manner satisfactory to MCC. With respect to any data or reports received by MCA-Madagascar pursuant to Section 4 of this Annex III or as otherwise set forth in the M&E Plan, MCA-Madagascar shall promptly deliver such reports to MCC along with any other related documents, as specified in this Annex III or as may be requested from time to time by MCC.

(g) **Performance; Transparency**. The M&E Plan shall require MCA-Madagascar to conduct regular Program and Project performance reviews and issue reports on such reviews. Information regarding the Program's performance, including the M&E Plan, and any amendments or modifications thereto, and periodic reports, will be made publicly available on the MCA-Madagascar Website and elsewhere.

(h) **Costs**. A detailed cost estimate for all components of the M&E Plan shall be set forth in the M&E Plan.

(i) **Assumptions and Risks**. The M&E Plan shall identify any assumptions and risks, external to the Program, underlying the accomplishment of the Objectives; *provided, however,* such assumptions and risks shall not excuse performance of the Parties, unless otherwise expressly agreed to in writing by the Parties.

(j) **Modifications**. Notwithstanding anything to the contrary in the Compact, including the requirements of this M&E Annex, the Parties may modify or amend the M&E Plan or any component thereof, including those elements described herein, without amending the Compact; *provided*, any such modification or amendment of a M&E Plan has been approved by MCC and is otherwise consistent with the requirements of this Compact and any relevant Supplemental Agreement between the Parties.

3. Evaluation of Economic Growth and Poverty Reduction Impacts.

The Proposal identified low investment in rural areas as a major cause of low economic growth and poverty in Madagascar. The Program seeks to stimulate such investment through the Land Tenure, Finance, and Agriculture Business Investment Projects. At the termination or expiration

of the Compact Term or shortly thereafter, an impact evaluation will be conducted to determine the extent to which income and productivity were raised by the Program. Specifically, the impact on economic growth and poverty reduction will be measured through the following two indicators (as described in Section 4(a) of this M&E Annex):

1. Household income
2. Land productivity

The evaluation should seek to understand and quantify the causal relationship between the Projects and these goals, including the channels through which the Projects make an impact.

The economic analysis of the Program estimates that it will produce an increase in total investment of approximately 27 percent (27%) of average land values in each region. The analysis further estimates that each dollar of credit invested will, on average, raise crop-related income by approximately 18 cents per year. The analysis yields an overall target of an increase in income equal to five percent (5%) of average land values in each Zone starting in Year 3 of the Program. Once baseline data on average land value and the Zones are identified, targets for increased household income can be established. Therefore, any targets provided herein or in the M&E Plan are estimates only.

In order to support this evaluation, the Program will fund a portion of the annual national household surveys in addition to the annual agricultural productivity and enterprise surveys described below. National data collection for these surveys will allow for a better understanding of the impact of the Program by enabling Program evaluators to compare the households, farms, and enterprises in the Zones to households, farms, and enterprises in other regions with similar characteristics. In addition, national data will produce benefits outside of evaluating the Program. The availability of this data will allow the Government to better plan and carry out its economic development agenda more broadly.

4. Performance Indicators.

(a) **Compact Goal**. It is anticipated that the Compact Goal will be achieved through successful implementation of the Projects as well as with other non-Compact activities or sources of funding. Progress towards the Compact Goal shall be measured in the following manner:

(i) Indicators. The performance indicators for the Compact Goal are: (i) increase in household income in each of the Zones (***"Compact Goal Indicator 1"***) and (ii) increase in land productivity in each of the Zones, (*e.g.*, agricultural output per hectare) (***"Compact Goal Indicator 2"***).

(ii) Estimated Target. Following the identification of the Zones and collection and review of baseline data, the Parties will estimate the targets for these indicators and the M&E Plan will specify such estimated targets.

(iii) Baseline. Once baseline data on average land value and the Zones are identified, targets for increased household income can be established. MCA-Madagascar shall ensure that INSTAT (defined below) provides to MCC the baseline data, as specified in the M&E Plan, with respect to Compact Goal Indicator 1 and Compact Goal Indicator 2 no later than the 10 month anniversary following the entry into force of this Compact.

(iv) Frequency and Reporting of Measurement. With respect to Compact Goal Indicator 1, MCA-Madagascar shall obtain, at least on an annual basis or at such other interval agreed to in writing by the Parties, data from the National Institute of Statistics ("***INSTAT***") household survey (including survey report and underlying data), which survey MCA-Madagascar shall provide to MCC. The M&E Plan will specify what surveys or portions thereof will be paid for with MCC Funding. With respect to Compact Goal Indicator 2, MCA-Madagascar shall obtain, at least on an annual basis or at such other interval agreed to in writing by the Parties, data from surveys (including the survey report and underlying data) conducted by the INSTAT with the Republic of Madagascar's Ministry of Agriculture, Livestock and Fisheries (the "***Ministry of Agriculture***"), which survey MCA-Madagascar shall provide to MCC.

(v) Results. Results from the Compact Goal Indicator 1 and Compact Goal Indicator 2 are expected by the end of the Compact Term.

(b) **Program Objective**. Progress towards the completion of the Program Objective shall be measured in the following manner:

(i) Indicator. The performance indicator for the Program Objective shall be the total new investment made by farms and enterprises in the Zones (the "***Program Objective Indicator***").

(ii) Estimated Target. In order to establish the specific target for the Program, the Agricultural Business Investment Project will identify all five Zones by the first anniversary of the entry into force of this Compact. As a starting point for establishing the estimated target, estimates of the economic growth and poverty reduction impacts of the Program anticipate the Land Tenure Project will increase investment in the Zones by approximately 27 percent (27%) of the total current land value. The analysis assumes that the Finance Project will make sufficient credit available in the Zones to achieve the target.

(iii) Baseline. The baseline for the Program shall be established by the 10 month anniversary of the entry into force of this Compact. The Government shall cause INSTAT to conduct an enterprise survey and INSTAT, working with the Ministry of Agriculture, to conduct an agricultural productivity survey that will collect information on the current level of investment by farms and enterprises. Data collection will occur on a national basis, allowing for comparisons of the Zones with similar regions outside the Zones. MCC provided funding, not reflected in the MCC Funding, for these baseline surveys to commence prior to conclusion of this Compact and continue in the initial period of the Compact Term through assistance for the implementation of the Program and under the administration and management of USAID and U.S. Census Bureau working with INSTAT and the Ministry of

Agriculture. MCA-Madagascar shall ensure that INSTAT and the Ministry of Agriculture provide to MCC this baseline data prior to the MCC Disbursement or Re-Disbursement for any Project Activity to which this baseline data is relevant as specified in the Disbursement Agreement.

(iv) Frequency and Reporting of Measurement. MCA-Madagascar shall obtain, on an annual basis or at such other interval agreed to in writing by the Parties, data from the INSTAT enterprise survey, which measures investment by enterprises, and the Ministry of Agriculture agriculture survey and INSTAT household survey, which both measure investment by farms. MCA-Madagascar shall provide each survey (including survey reports and underlying data) to MCC.

(v) Results. Results from the Program Objective Indicator are expected by the third anniversary of the Compact Term.

(c) **Project Objectives**. Progress towards the completion of the Project Objectives shall be measured using the indicators identified below.

(i) Land Tenure Objective. Progress towards the completion of the Land Tenure Objective shall be measured in the following manner:

(1) Indicator. The performance indicator for the Land Tenure Objective shall be percentage of targeted hectares within the Zones with a title or certificate (the "***Land Tenure Objective Indicator***").

(2) Estimated Target. The estimated target for the Land Tenure Project is 100 percent (100%) of 250,000 hectares by the end of the Compact Term. A more precise estimate of the number of hectares will be established by the first anniversary of the entry into force of this Compact for the first two Zones and by the second anniversary of the entry into force of this Compact for the remaining three Zones. The Proposal estimated that the Land Tenure Project will title approximately 50,000 hectares in each of the Zones. In order to establish more definitively the target, the Agricultural Business Investment Project will identify the Zones and the Land Tenure Project will identify the areas for titling or land certificates.

(3) Baseline. The baseline for the Land Tenure Project is zero.

(4) Frequency and Reporting of Measurement. In accordance with specifications and requirements as set forth in the M&E Plan, MCA-Madagascar shall obtain, every six months or at such other interval agreed to in writing by the Parties, information regarding the hectares targeted for title or certificate issuance in the Zones from the Ministry of Agriculture (Land Management Department), and report such information to MCC. MCA-Madagascar shall obtain and report to MCC data on the Land Tenure Objective Indicator every six months starting at month 18 following the entry into force of this Compact for the first two

identified Zones and starting at month 24 following the entry into force of this Compact for the remaining three Zones.

(5) Results. The results from the Land Tenure Objective Indicator are expected for the first two identified Zones within 18 months following the entry into force of this Compact and within 25 months following the entry into force of this Compact for the remaining three Zones.

(ii) Finance Objective. Progress towards the completion of the Finance Objective shall be measured in the following manner:

(1) Indicators. The performance indicators for the Finance Project are: (i) the value of new loans; (ii) the number of new loans; (iii) the value of new bank accounts; and (iv) the number of new bank accounts (collectively referred to as the "***Finance Objective Indicators***").

(2) Estimated Target. Estimates of the economic growth and poverty reduction impacts of the Program anticipate that the Land Tenure Project will result in land being used as collateral for increased lending in the Zones, and that the Finance Project will increase the client base of the National Savings Bank by approximately 25 percent (25%). The estimated targets for the Finance Project are (i) an increase of an additional USD $31 million in lending in the Zones and (ii) an increase of 184,000 savings accounts with a value of USD $1.8 million. In order to establish the target for loans, the Agricultural Business Investment Project will identify the specific Zones and establish average land value for each Zone. Targets may be revised upon identification of the specific Zones and collection of baseline data.

(3) Baseline. The Parties expect to establish the baseline by the third month following the entry into force of this Compact. To establish the baseline, the Government shall ensure that the Central Bank reports to MCA-Madagascar (or the Government) baseline for loans on a national basis, disaggregated by region. The Government shall ensure that the National Savings Bank reports to MCA-Madagascar (or the Government) on bank accounts by Zone. MCA-Madagascar shall provide to MCC the baseline data, as specified in the M&E Plan, with respect to each of the Finance Objective Indicators prior to the MCC Disbursement or initial Re-Disbursement for any Finance Project Activity.

(4) Frequency and Reporting of Measurement. In accordance with the specifications and reporting requirements of the M&E Plan, MCA-Madagascar shall obtain, every six months commencing at the second anniversary of the entry into force of this Compact or at such other interval as agreed to in writing by the Parties, data and report on the number and value of bank accounts and loans from a source acceptable to MCC and to be selected prior to the adoption of the M&E Plan. MCA-Madagascar shall provide such data and report to MCC.

(5) Results. The results from the Finance Objective Indicators are expected by the second anniversary after the entry into force of this Compact.

(iii) Agriculture Business Investment Objective. Progress towards the completion of the Agriculture Business Investment Objective shall be measured in the following manner:

(1) Indicator. The performance indicator for the Agricultural Business Investment Project is the number of farms and enterprises that adopt new technologies or engage in higher value production (***"Agricultural Business Investment Objective Indicator"***).

(2) Estimated Target. A timeline and plan for establishing the target for the Agricultural Business Investment Project shall be determined by the Parties prior to any MCC Disbursement or Re-Disbursement of MCC Funding relating to this Project, except as may be necessary to identify the Zones. The INSTAT/Ministry of Agriculture agricultural survey and the INSTAT enterprise survey will provide information on the farms and enterprises in the Zones. In order to establish the estimated target for the number of farms and enterprises, (i) the Zones must be identified and (ii) data collection related to farms and enterprises must be completed.

(3) Baseline. The baseline for the Agricultural Business Investment Project is zero.

(4) Frequency and Reporting of Measurement. MCA-Madagascar shall obtain, on an annual basis or at such other interval agreed to in writing by the Parties, data from the INSTAT enterprise survey or from the Agricultural Business Centers as agreed in writing by the Parties. The relevant Implementing Entit(y)(ies) shall deliver a report to MCA-Madagascar, and MCA-Madagascar shall deliver such report to MCC, on the recommendations for the selection of Zones three through five following their identification. In accordance with the specifications, reporting requirements and timeframe specified in the M&E Plan, MCA-Madagascar shall obtain data and report on current production methods and crops from a source acceptable to MCC, and MCA-Madagascar shall provide such data and report to MCC. MCA-Madagascar shall obtain and report to MCC data on the Agricultural Business Objective Indicator on at least an annual basis starting at month 24 following the entry into force of this Compact.

(5) Results. The results from the Agricultural Business Investment Objective Indicator are expected by the second anniversary of the entry into force of this Compact.

(d) **Project Activity Objectives**. The M&E Plan will also include activity-level measures and a timeline for collecting baselines and establishing targets, where applicable, representing interim measures of the progress towards the Project Objectives. These measures and timelines, as well as any additional measures, shall be finalized for each Project Activity (including adoption by MCA-Madagascar of the relevant portion of the M&E Plan and approval by MCC) before any MCC Disbursement or Re-Disbursement for the specific Project Activities; *provided, however*, with respect to the Agricultural Business Investment Project Activity of identifying the Zones, MCC Disbursements or Re-Disbursements may be made, subject to

satisfaction of other conditions precedent in the Disbursement Agreement, even if the activity-level measures, baseline and targets are not set for the entire Project Activity (*i.e.*, the activity described in Section 2(b) of Schedule 3 of Annex I). The M&E Plan shall further specify the plan for measuring and monitoring each of the Project Activities. The estimated targets for these activities will be determined following the identification of the Zones and collection and review of baseline data. Some of the anticipated expected results and key benchmarks for each Project Activity are described in Section 2 of the Schedule for each Project attached to the Program Annex and in this Section 4(d). The targets listed in this Section 4(d) are estimates until the Parties (i) obtain additional information through implementation of the Compact (*e.g.*, all existing land documents are inventoried) and (ii) establish certain baseline data (*e.g.*, average time and cost of property transactions). The table below summarizes certain of the anticipated interim measurements and estimated targets for each Project.

Land Tenure Project Activities	Measures	Estimated Targets
▪ Support the Development of the Malagasy PNF ▪ Improve the Ability of the National Land Service Administration to Provide Land Services ▪ Decentralization of Land Services ▪ Land Regularization in the Zones ▪ Information Gathering, Analysis and Dissemination	▪ Submission and passage of new legislation that recognizes improved land tenure procedures, documents (certificates) and techniques ▪ Percentage of land documents inventoried, restored, and/or digitized ▪ Percent of land in pilot sites in the Zones that is securely demarcated and registered ▪ Average time and cost required to carry out property transactions at national and local levels	▪ Land legislation that recognizes improved land tenure procedures adopted by Month 15 ▪ 100% of approximately 800,000 documents inventoried, 300,000 damaged land documents restored and 400,000 of the existing documents digitized ▪ 100% of approximately 250,000 hectares demarcated

Finance Project Activities	Measures	Estimated Targets
▪ Promote Legal and Regulatory Reform ▪ Reform Sovereign Debt Management and Issuance ▪ Strengthen the National Savings Bank ▪ Provide New Instruments for Agribusiness Credit ▪ Modernize National Interbanks Payments System	▪ Submission, passage, and implementation of new legislation that permit a multi-tiered financial system as recommended by outside experts and relevant commissions ▪ Number of holders of smaller denomination treasury bills ▪ Volume of treasury bill holdings	▪ Legislation permitting a multi-tiered financial system submitted by Month 5 ▪ Check clearing delay reduced from 45 days to 3 days ▪ Growth rate of volume of funds in the payment system to exceed GDP growth rate ▪ MFI portfolio-at-risk delinquency rate reaches and remains steady at 4-6%

Finance Project Activities	Measures	Estimated Targets
▪ Improve Credit Skills Training, Increase Credit Information and Analysis	▪ Number of treasury bills held outside of Antananarivo ▪ Check clearing delay ▪ Volume of funds in the payment system ▪ Volume of microfinance institution (MFI) lending in the targeted zones ▪ MFI portfolio-at-risk delinquency rate ▪ Reporting of credit and payment information to a central database	▪ $5 million increase in MFI lending in the Zones

Agriculture Business Investment Project Activities	Measures	Estimated Targets
▪ Create and Operate Five ABCs ▪ Create NCC and Coordinate Activities with Government Ministries and ABCs and Identify the Zones ▪ Identify the Investment Opportunities ▪ Build Management Capacity in the Zones	▪ Zones identified and cost-effective investment strategies developed ▪ Number of farms and enterprises employing technical assistance received ▪ Number of farms/enterprises receiving/soliciting information on business opportunities	▪ Five Zones identified and cost-effective investment strategies developed by Month 12 ▪ One agribusiness investment strategy developed for each zone ▪ Value of change in marketing and production techniques exceeds costs

5. Implementation of M&E Plan.

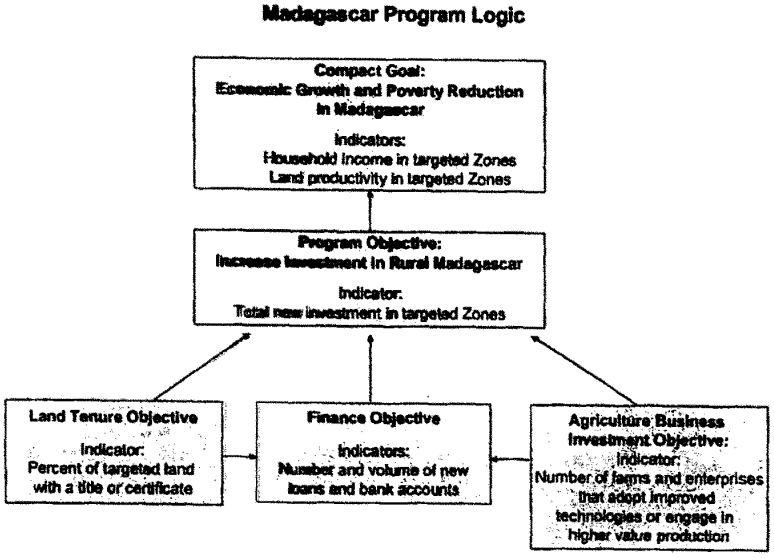
(a) **Approval and Implementation**. The approval and implementation of the M&E Plan, as amended from time to time, shall be in accordance with the Program Annex, this M&E Annex, the Governance Agreement, and any other relevant Supplemental Agreement.

(b) **Advisory Council**. The completed portions of the M&E Plan will be presented to the Advisory Council at the Advisory Council's initial meetings and any amendments or modifications thereto or any additional components of the M&E Plan will be presented to the Advisory Council at appropriate subsequent meetings of the Advisory Council. The Advisory Council will have opportunity to present its suggestions to the M&E Plan, which the Steering Committee will take into consideration, as a factor, in its review of any amendments to the M&E Plan during the Compact Term.

(c) **MCC Disbursement and Initial Re-Disbursement for a Project Activity**. Prior to, and as a condition precedent to, the initial MCC Disbursement or Re-Disbursement with respect to a Project Activity that will be covered by a baseline survey, or the execution of the initial contract for services with any Provider with respect to a Project Activity that will be covered by a baseline survey, a technical review of the baseline survey shall be completed to ensure compliance with standard statistical practices. The Parties shall specify in the Disbursement Agreement the Project Activities that require completion of baseline data collection and technical review of that data as a condition precedent to MCC Disbursement or Re-Disbursement.

EXHIBIT A

MADAGASCAR PROGRAM LOGIC



[FR Doc. 05–8531 Filed 4–27–05; 8:45 am]

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NUCLEAR REGULATORY COMMISSION

[Docket No. 50–382]

Entergy Operations, Inc.; Notice of Issuance of Amendment to Facility Operating License

The U.S. Nuclear Regulatory Commission (Commission) has issued Amendment No. 199 to Facility Operating License (FOL) No. NPF–38 to Entergy Operations, Inc. (the licensee), which revised the FOL and Technical Specifications (TSs) for operation of the Waterford Steam Electric Station, Unit 3 (Waterford 3), located in St. Charles Parish, Louisiana. The amendment modified the FOL and the TSs to allow an increase in the maximum authorized reactor core power level from 3441 megawatts thermal (MWt) to 3716 MWt, which represents a power increase of about 8 percent and is considered to be an extended power uprate (EPU). The amendment is effective as of the date of issuance and is to be implemented prior to restart from refueling outage 13 at the uprated power level.

The application for the amendment was dated November 13, 2003, Agencywide Documents Access and Management System (ADAMS) Accession Number ML040260317, as supplemented by letters dated January 29 (ML040340728), March 4 (ML040690028), April 15 (ML041110527), May 7 (ML041330175), May 12 (ML041380147), May 13 (ML041380145), May 21 (ML041460407), May 26 (ML041490335), July 14 (ML042010150), July 15 (ML042020294), July 28 (ML042120475), August 10 (ML042250177), August 19 (ML042360712), August 25 (ML042440417), September 1 (ML042470194), September 14 (ML042660243), October 8 (2 letters, ML042880327 and ML042880418), October 13 (ML042890193), October 18 (ML042940577), October 19 (ML043010129) October 21 (ML043010238), October 29 (2 letters, ML043080406 and ML043080403), November 4 (ML043140283), November 8 (ML043200122), November 16 (ML043270472), and November 19, 2004 (ML043280359), and January 5 (ML050100225), January 14 (ML050210054), February 5 (ML050400463), February 16 (ML050490396), and March 17, 2005 (ML050810095).

The application for the amendment complies with the standards and requirements of the Atomic Energy Act of 1954, as amended (the Act), and the Commission's rules and regulations in Title 10 of the Code of Federal Regulations (10 CFR) Chapter I, which are set forth in the license amendment.

The draft environmental assessment (EA), published in the **Federal Register** on October 12, 2004 (69 FR 60672), was related to the application dated November 13, 2003, as supplemented through August 10, 2004. The supplements, including those dated through March 17, 2005, did not change the assessment in the draft EA. The draft EA was published to provide a 30-day public comment period. There was one comment from Entergy Operations, Inc. dated November 11, 2004, which stated that (1) while the draft EA had implied that all sanitary wastes at Waterford 3 discharge to an onsite sewage treatment plant, the sanitary wastes at Waterford 3 are discharged from two different locations, and (2) the draft EA does accurately reflect that no increase in sanitary wastes is expected as a result of the proposed EPU.

The Commission has issued the Final EA related to the action and the determination on the environmental impact stated in the draft EA has not changed. Based upon the EA, the Commission has concluded that the issuance of the amendment will not have a significant effect on the quality of the human environment (70 FR 17128, published April 4, 2005).

As a part of the EPU application, by supplement dated October 29, 2004, the licensee requested, pursuant to 10 CFR 50.90, approval of an amendment for Waterford 3, to revise the minimum volume in the emergency diesel generator fuel oil storage tanks (FOSTs) required by Waterford 3 TSs 3.8.1.1 and 3.8.1.2. The NRC staff has determined that the amendment involves no significant increase in the amounts, and no significant change in the types, of any effluents that may be released offsite, and that there is no significant increase in individual or cumulative occupational radiation exposure. The Commission had previously issued a proposed finding that the amendment involved no significant hazards consideration, and there was no public comment on such finding published December 7, 2004 (69 FR 70716). This amendment revised the TSs for FOL No. NPF–38. The Commission's related evaluation of this change is contained in the Safety Evaluation for the EPU application. The effective date for this amendment is as of the date of issuance and to be implemented prior to restart from the refueling outage 13 in the spring of 2005 to support the power uprate implementation.

Accordingly, the amendment requesting changes to the FOST TSs meets the eligibility criteria for categorical exclusion set forth in 10 CFR 51.22(c)(9). Pursuant to 10 CFR 51.22(b) no environmental impact statement or environmental assessment need be prepared in connection with the issuance of this amendment. For further details with respect to the action, see (1) the application for the EPU amendment dated November 13, 2003, as supplemented by letters dated January 29, March 4, April 15, May 7, May 12, May 13, May 21, May 26, July 14, July 15, July 28, August 10, August 19, August 25, September 1, September 14, October 8 (2 letters), October 13, October 18, October 19, October 21, October 29 (2 letters), November 4, November 8, November 16, November 19, 2004, January 5, January 14, February 5, February 16, and March 17, 2005; (2) the Commission's related Safety Evaluation dated April 15, 2005; and (3) the Commission's EA. Documents may be examined, and/or copied for a fee, at the NRC's Public Document Room (PDR), located at One White Flint North, Public File Area O1F2, 11555 Rockville Pike (first floor), Rockville, Maryland. Publicly available records will be accessible electronically from the ADAMS Public Electronic Reading Room on the internet at the NRC Web site, *http://www.nrc.gov/NRC/ADAMS/index.html*. Persons who do not have access to ADAMS or who encounter problems in accessing the documents located in ADAMS should contact the NRC PDR Room Reference staff by telephone at 1–800–397–4209, (301) 415–4737, or by e-mail to *pdr@nrc.gov*.

Dated at Rockville, Maryland, this 15th day of April 2005.

For The Nuclear Regulatory Commission.

Thomas W. Alexion,

Project Manager, Section 1, Project Directorate IV, Division of Licensing Project Management, Office of Nuclear Reactor Regulation.

[FR Doc. E5–2038 Filed 4–27–05; 8:45 am]

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