

CONFORMED COPY

CREDIT NUMBER 3217-1-MAG

Financing Agreement

(Additional Financing for the Microfinance Project)

between

REPUBLIC OF MADAGASCAR

and

INTERNATIONAL DEVELOPMENT ASSOCIATION

Dated May 22, 2007

CREDIT NUMBER 3217-1-MAG

FINANCING AGREEMENT

Agreement dated May 22, 2007, entered into between REPUBLIC OF MADAGASCAR (“Recipient”) and INTERNATIONAL DEVELOPMENT ASSOCIATION (“Association”) for the purpose of providing additional financing for activities related to the Original Project (as defined in the Appendix to this Agreement). The Recipient and the Association hereby agree as follows:

ARTICLE I — GENERAL CONDITIONS; DEFINITIONS

- 1.01. The General Conditions (as defined in the Appendix to this Agreement) constitute an integral part of this Agreement.
- 1.02. Unless the context requires otherwise, the capitalized terms used in this Agreement have the meanings ascribed to them in the General Conditions or in the Appendix to this Agreement.

ARTICLE II — FINANCING

- 2.01. The Association agrees to extend to the Recipient, on the terms and conditions set forth or referred to in this Agreement, a credit in an amount equivalent to three million four hundred thousand Special Drawing Rights (SDR 3,400,000) (variously, “Credit” and “Financing”) to assist in financing the project described in Schedule 1 to this Agreement (“Project”).
- 2.02. The Recipient may withdraw the proceeds of the Financing in accordance with Section IV of Schedule 2 to this Agreement.
- 2.03. The Maximum Commitment Charge Rate payable by the Recipient on the Unwithdrawn Financing Balance shall be one-half of one percent (1/2 of 1%) per annum.
- 2.04. The Service Charge payable by the Recipient on the Withdrawn Credit Balance shall be equal to three-fourths of one percent (3/4 of 1%) per annum.
- 2.05. The Payment Dates are May 1 and November 1 in each year.

- 2.06. The principal amount of the Credit shall be repaid in accordance with the repayment schedule set forth in Schedule 3 to this Agreement.
- 2.07. The Payment Currency is that of the United States of America.

ARTICLE III — PROJECT

- 3.01. The Recipient declares its commitment to the objectives of the Project. To this end, the Recipient shall cause Part A.1 of the Project to be carried out by CBM and Parts A.2 through D of the Project to be carried out by AGEPMF in accordance with the provisions of Article IV of the General Conditions and the Project Agreements.
- 3.02. Without limitation upon the provisions of Section 3.01 of this Agreement, and except as the Recipient and the Association shall otherwise agree, the Recipient shall ensure that the Project is carried out in accordance with the provisions of Schedule 2 to this Agreement.

ARTICLE IV — REMEDIES OF THE ASSOCIATION

- 4.01. The Additional Events of Suspension consists of the following:
 - (a) The CBM's Legislation has been amended, suspended, abrogated, repealed or waived so as to affect materially and adversely the ability of the CBM to perform any of its obligations under the Project Agreement.
 - (b) The AGEPMF's Legislation has been amended, suspended, abrogated, repealed or waived so as to affect materially and adversely the ability of the AGEPMF to perform any of its obligations under the Project Agreement.
- 4.02. The Additional Event of Acceleration consists of the following:

Any event specified in Section 4.01 of this Agreement occurs and is continuing for a period of 30 days after notice of the event has been given by the Association to the Recipient.

ARTICLE V — EFFECTIVENESS; TERMINATION

- 5.01. The Additional Conditions of Effectiveness consist of the following:

- (a) A subsidiary agreement has been executed on behalf of the Recipient and CBM.
- (b) A subsidiary agreement has been executed on behalf of the Recipient and AGEPMF.

5.02. The Additional Legal Matters consist of the following:

- (a) A subsidiary agreement has been duly authorized or ratified by the Recipient and CBM and is legally binding upon the Recipient and the CBM in accordance with its terms.
- (b) A subsidiary agreement has been duly authorized or ratified by the Recipient and AGEPMF and is legally binding upon the Recipient and the AGEPMF in accordance with its terms.

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

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

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

REPUBLIC OF MADAGASCAR

By: */s/ Benjamin Andriamparany Radavidson*
Authorized Representative

INTERNATIONAL DEVELOPMENT ASSOCIATION

By: */s/ Robert R. Blake*
Authorized Representative

SCHEDULE 1

Project Description

The objective of the Project is to assist the Borrower in carrying out: (a) the first phase of its program to provide about 300,000 low-income clients engaged in small-scale farming, livestock, fishing, commerce and handicraft production activities with long-term access to financial services and thereby improve their productivity, income and living standards and conditions; (b) the establishment of an appropriate legal and regulatory framework for microfinance operations; (c) the expansion of microfinance skills; and (d) the development of strong and sustainable microfinance institutions.

The Project consists of the following Parts:

Part A. Improving Microfinance Institutions Legal and Regulatory Framework

1. (a) Strengthening of the legal and regulatory framework in which microfinance institutions operate, including the adoption of prudential and supervision norms, the accounting plan, licensing requirements and procedures.
- (b) Strengthening the CBM capacity to supervise microfinance institutions through *inter alia*, the training of staff and acquisition of required technical advisory services and logistical support and the establishment and implementation of a monitoring database for microfinance institutions.
2. Support the formulation and implementation of laws and regulations aimed at addressing specific microfinance issues and providing a conducive environment for doing microfinance business in Madagascar.

Part B. Development of Viable and Sustainable Microfinance Institutions

1. Development of regional networks of microfinance institutions, including: (a) the strengthening of five existing SLA networks through technical assistance and capacity building in the provinces of Toamasina, Fianarantsoa, Antsiranana, and Antananarivo; (b) the extension of SLA network financial services to women and marginalized groups, through outreach programs, in isolated regions of Madagascar and the development and introduction of new microfinance products to respond to client needs; (c) the further development of linkages between SLA networks and the banking sector; (d) the support to microfinance

institutions in the provinces of Mahajanga and Toliary through the supervision activities of the CBM; and (e) the monitoring and evaluation of SLA networks.

Part C. Building Capacity in Microfinance through Training

Support the delivery of: (i) tested training courses developed by CGAP on delinquency management, interest rate setting, accounting for microfinance institutions, financial analysis, business planning, information system, operational risk management and product development; and (ii) new courses on regulations, accounting standards, and other topics tailored to the specific needs of the microfinance industry in Madagascar.

Part D. Audits and Studies to Expand Microfinance Knowledge

The carrying out of audits and studies including: (i) operational and financial audits of the SLA networks; (ii) studies to evaluate the impact of the Project on beneficiaries in each of the provinces where SLA networks operate; and (iii) the carrying out of studies satisfactory to the Association on other pertinent subjects relating to the microfinance sector.

SCHEDULE 2

Project Execution

Section I. Implementation Arrangements

A. Institutional Arrangements

1. The Recipient shall maintain CBM as the Project Implementing Entity with the overall responsibility for the implementation, coordination and oversight of Part A.1 of the Project.
2. The Recipient shall maintain AGEPMF as the Project Implementing Entity with the overall responsibility for the implementation, coordination and oversight of Parts A.2 through D of the Project.

B. Subsidiary Agreements

1. To facilitate the carrying out of the CBM's Respective Part of the Project, the Recipient shall make part of the proceeds of the Financing available to the CBM under a subsidiary agreement between the Recipient and the Project Implementing Entity, under terms and conditions approved by the Association.
2. To facilitate the carrying out of the AGEPMF's Respective Part of the Project, the Recipient shall make part of the proceeds of the Financing available to the AGEPMF under a subsidiary agreement between the Recipient and the Project Implementing Entity, under terms and conditions approved by the Association.
3. The Recipient shall exercise its rights under the subsidiary agreements in such manner as to protect the interests of the Recipient and the Association and to accomplish the purposes of the Financing. Except as the Association shall otherwise agree, the Recipient shall not assign, amend, abrogate or waive the subsidiary agreements or any of its provisions.

C. Anti-Corruption

The Recipient shall ensure that the Project is carried out in accordance with the provisions of the Anti-Corruption Guidelines.

Section II. Project Monitoring, Reporting and Evaluation

A. Project Reports

1. The Recipient shall cause the Project Implementing Entities to monitor and evaluate the progress of the Project and prepare Project Reports in accordance *inter alia* with the provisions of Section 4.08 of the General Conditions. Each Project Report shall cover the period of one calendar quarter, and shall be furnished to the Association no later than 45 days after the end of the period covered by such report.

B. Financial Management, Financial Reports and Audits

1. The Recipient shall cause the Project Implementing Entities to: (i) maintain a financial management system in accordance with the provisions of Section 4.09 of the General Conditions; (ii) prepare and furnish to the Association not later than 45 days after the end of each calendar quarter, interim unaudited financial reports for the Project covering the quarter, in form and substance satisfactory to the Association; and (iii) have its Financial Statements audited in accordance with the provisions of Section 4.09 (b) of the General Conditions. Each audit of the Financial Statements shall cover the period of one fiscal year of the Recipient. The audited Financial Statements for each such period shall be furnished to the Association not later than six months after the end of such period.

Section III. Procurement

A. General

1. **Goods and Works.** All goods and works required for the Project and to be financed out of the proceeds of the Financing shall be procured in accordance with the requirements set forth or referred to in Section I of the Procurement Guidelines, and with the provisions of this Section.
2. **Consultants' Services.** All consultants' services required for the Project and to be financed out of the proceeds of the Financing shall be procured in accordance with the requirements set forth or referred to in Sections I and IV of the Consultant Guidelines, and with the provisions of this Section.
3. **Definitions.** The capitalized terms used below in this Section to describe particular procurement methods or methods of review by the Association of

particular contracts, refer to the corresponding method described in the Procurement Guidelines, or Consultant Guidelines, as the case may be.

B. Particular Methods of Procurement of Goods and Works

1. **International Competitive Bidding.** Except as otherwise provided in paragraph 2 below, goods and works shall be procured under contracts awarded on the basis of International Competitive Bidding.
2. **Other Methods of Procurement of Goods and Works.** The following table specifies the methods of procurement, other than International Competitive Bidding, which may be used for goods and works. The Procurement Plan shall specify the circumstances under which such methods may be used:

| Procurement Method |
|----------------------------------|
| (a) National Competitive Bidding |
| (b) Shopping |

C. Particular Methods of Procurement of Consultants' Services

1. **Quality- and Cost-based Selection.** Except as otherwise provided in paragraph 2 below, consultants' services shall be procured under contracts awarded on the basis of Quality- and Cost-based Selection.
2. **Other Methods of Procurement of Consultants' Services.** The following table specifies methods of procurement, other than Quality- and Cost-based Selection, which may be used for consultants' services. The Procurement Plan shall specify the circumstances under which such methods may be used.

| Procurement Method |
|---|
| (a) Least-cost Selection |
| (b) Selection Based on Consultants' Qualifications (CQS) |
| (c) Single-source Selection |
| (d) Procedures set forth in paragraphs 5.2 and 5.3 of the Consultant Guidelines for the Selection of Individual Consultants |

D. Review by the Association of Procurement Decisions

Except as the Association shall otherwise determine by notice to the Recipient, the following contracts shall be subject to Prior Review by the Association:

(a) each contract for goods or works estimated to cost the equivalent of \$100,000 or more; (b) each contract for consultants' services provided by: (i) a firm estimated to cost the equivalent of \$100,000 or more; or (ii) individual consultants estimated to cost the equivalent of \$50,000 or more; and (c) any single source selection. All other contracts shall be subject to Post Review by the Association.

Section IV. Withdrawal of the Proceeds of the Financing

A. General

1. The Recipient may withdraw the proceeds of the Financing in accordance with the provisions of Article II of the General Conditions, this Section, and such additional instructions as the Association shall specify by notice to the Recipient (including the "World Bank Disbursement Guidelines for Projects" dated May 2006, as revised from time to time by the Association and as made applicable to this Agreement pursuant to such instructions), to finance Eligible Expenditures as set forth in the table in paragraph 2 below.
2. The following table specifies the categories of Eligible Expenditures that may be financed out of the proceeds of the Financing ("Category"), the allocations of the amounts of the Credit to each Category, and the percentage of expenditures to be financed for Eligible Expenditures in each Category:

| Category | Amount of Additional Credit Allocated (in SDR) | Percentage of Expenditures to be Financed (inclusive of taxes) |
|---|---|---|
| (1) Development of MFIs, Goods, works, consultant services, training, and operating costs for the project | 3,400,000 | 100% |
| Total | 3,400,000 | 100% |

B. Withdrawal Period

1. The Closing Date is June 30, 2009.

SCHEDULE 3

Repayment Schedule

| Date Payment Due | Principal Amount of the Credit repayable (expressed as a percentage)* |
|---|--|
| On each May 1 and November 1: | |
| commencing May 1 2017 to and including November 1, 2026 | 1% |
| commencing May 1, 2027 to and including November 1, 2046 | 2% |

* The percentages represent the percentage of the principal amount of the Credit to be repaid, except as the Association may otherwise specify pursuant to Section 3.03 (b) of the General Conditions.

APPENDIX

Section I. Definitions

1. “AGEPMF” means *Agence d’Exécution du Projet Microfinance* established and operating pursuant to the Recipient’s ordinance No. 60-133, dated October 3, 1960, as amended to the date of this agreement.
2. “Anti-Corruption Guidelines” means the “Guidelines on Preventing and Combating Fraud and Corruption in Projects Financed by IBRD Loans and IDA Credits and Grants”, dated October 15, 2006.
3. “Category” means a category set forth in the table in Section IV of Schedule 2 to this Agreement.
4. “CBM” means the Central Bank of Madagascar established and operating pursuant to Law No. 94-004 of the Recipient, dated June 10, 1994, as amended to the date of this agreement.
5. “CSBF” means the Recipient’s *Commission de Supervision Bancaire et Financière* established and operating pursuant to Law No. 95-0300 of the Recipient, dated February 22, 1996.
6. “CGAP” means the Consultative Group to Assist the Poor.
7. “Consultant Guidelines” means the “Guidelines: Selection and Employment of Consultants by World Bank Borrowers” published by the Bank in May 2004 and revised in October 2006.
8. “General Conditions” means the “International Development Association General Conditions for Credits and Grants”, dated July 1, 2005 (as amended through October 15, 2006).
9. “Original Financing Agreement” means the development credit agreement for a Microfinance Project between the Recipient and the Association, dated June 10, 1999, as amended to the date of this Agreement (Credit No 3217-MAG).
10. “Original Project” means the Project described in the Original Financing Agreement.

11. “Procurement Guidelines” means the “Guidelines: Procurement under IBRD Loans and IDA Credits” published by the Bank in May 2004 and revised in October, 2006.
12. “Procurement Plan” means the Recipient’s procurement plan for the Project, dated February 26, 2007 and referred to in paragraph 1.16 of the Procurement Guidelines and paragraph 1.24 of the Consultant Guidelines, as the same shall be updated from time to time in accordance with the provisions of said paragraphs.
13. “Project Implementing Entities” means the Central Bank of Madagascar (CBM) and the *Agence d’Exécution du Projet Microfinance* (AGEMPF).
14. “SLAs” means the Savings and Loan Associations established and operating pursuant to Law No. 96-020 of the Recipient, dated September 22, 1996, as amended to the date of this agreement.
15. “Subsidiary Agreements” means the agreements referred to in Section I.B of Schedule 2 to this Agreement pursuant to which the Recipient shall make the proceeds of the Financing available to the Project Implementing Entities.