

Public Disclosure Authorized

CONFORMED COPY

CREDIT NUMBER 4399-MAG

Financing Agreement

(Additional Financing For the Integrated Growth Poles Project)

between

REPUBLIC OF MADAGASCAR

and

INTERNATIONAL DEVELOPMENT ASSOCIATION

Dated May 8, 2008

Public Disclosure Authorized

CREDIT NUMBER 4399-MAG

FINANCING AGREEMENT

Agreement dated May 8, 2008, entered into between REPUBLIC OF MADAGASCAR (“Recipient”) and INTERNATIONAL DEVELOPMENT ASSOCIATION (“Association”) for the purpose of providing additional financing for 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 Original Agreement 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 twenty five million Special Drawing Rights (SDR 25,000,000) (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 The Service Charge payable by the Recipient on the Withdrawn Credit Balance shall be equal to three-fourths of one percent (3/4 of 1%) per annum.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 January 15 and July 15 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 the Dollar.

ARTICLE III — PROJECT

- 3.01. The Recipient declares its commitment to the objectives of the Project. To this end, the Recipient shall carry out the Project through NPS in accordance with the provisions of Article IV of the General Conditions.
- 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 consist of the following:
- (a) Any event listed in Section 5.01 of the Original Agreement.
 - (b) The Recipient shall have failed to comply with any of its obligations under Section V of Schedule 2 to this Agreement.
- 4.02. The Additional Events of Acceleration consist of the following:
- (a) The events specified in paragraph (b) of Section 4.01 of this Agreement or any event specified in paragraphs (c) through (g) of Section 5.01 of the Original Agreement occurs and is continuing for a period of 60 days after notice of the event has been given by the Association to the Recipient.
 - (b) The event specified in paragraphs (a) or (b) of Section 5.01 of the Original Agreement occurs.

ARTICLE V — EFFECTIVENESS; TERMINATION

- 5.01. The Additional Conditions of Effectiveness consist of the following:
- (a) The PIM and the PAFAM have been updated, all in a manner satisfactory to the Association.
 - (b) The Recipient has employed the independent external auditors referred to in Section 4.09 (b) of the General Conditions, in accordance with the provisions of Section III of Schedule 2 to this Agreement; and

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

REPUBLIC OF MADAGASCAR

By: */s/ Haja Nirina Razafinjatovo*
Authorized Representative

INTERNATIONAL DEVELOPMENT ASSOCIATION

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

SCHEDULE 1

Project Description

The objectives of the Project are those of the Original Project as stated in Schedule 2 to the Original Agreement.

The Project consists of the following parts of the Original Project:

Part A 1 (a) and (b); Part A 2 (a), (b) and (c); and Part A 3 (a), (b) and (c); Part A.4 (e);

Part B 1 (b) and Part B3;

Part C.1; Part C.2; Part C.5 (it being specified that works for the ports of Ankify and Hellville under the Project shall not be limited to light works as specified in the Original Agreement); Part C.6; Part C.8; Part C.9; and Part C.11;

Part D.2; Part D. 3; Part D.5; Part D.6; Part D.7; Part D.8; and Part D.9; and

Part E. 1 and Part E.2.

SCHEDULE 2

Project Execution

Section I. Implementation Arrangements

A. Overall implementation

The Project shall be implemented in accordance with the provisions of Section B.1, B.2 (a) through (c) and B.4 of Schedule 4 to the Original Agreement.

B. Safeguards

The Project shall be implemented in accordance with the provisions of Section C of Schedule 4 to the Original Agreement.

C. Procedures and Eligibility Criteria for Grants

The Project shall be implemented in accordance with the provisions of Section D of Schedule 4 to the Original Agreement, it being specified that in addition to the terms and conditions listed in said Section of the Original Agreement, the Grant agreements will include the following three provisions, to ensure proper application of the Anti-Corruption Guidelines: (a) the Beneficiary's undertaking to carry out its Sub-project in accordance with the provisions of the Anti-Corruption Guidelines applicable to recipients of loan proceeds other than the Recipient; (b) the Association's and the Recipient's right to require audits of the Beneficiary's records and accounts; and (c) the Recipient's right to suspend, terminate or accelerate or seek refund of the Grant.

D. 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. (a) The Recipient shall monitor and evaluate the progress of the Project and prepare Project Reports in accordance with the provisions of Section 4.08 of the General Conditions and on the basis of the indicators set forth in Schedule 5 of the Original Agreement. Each Project Report shall cover

the period of one calendar quarter, and shall be furnished to the Association not 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 maintain or cause to be maintained a financial management system in accordance with the provisions of Section 4.09 of the General Conditions.
2. The Recipient shall prepare and furnish to the Association as part of the Project Report, interim unaudited financial reports for the Project covering each quarter, in form and substance satisfactory to the Association.
3. The Recipient shall 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) Direct Contracting
(d) Procurement from UN Agencies
(e) Community Participation

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
(c) Single Source Selection
(d) Individual Consultants

D. Review by the Association of Procurement Decisions

The Procurement Plan shall set forth those contracts which shall be subject to the Association's Prior Review. All other contracts shall be subject to Post Review by the Association. 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 \$500,000 or more for works and \$250,000 or more for goods procured on the basis of International Competitive Bidding, or National

Competitive Bidding, and all contracts procured on the basis of Direct Contracting]; and (b) each contract for consultants' services provided by a firm and Individual consultants estimated to cost the equivalent of \$100,000 or more for firms and \$50,000 or more for Individuals and all contracts procured on the basis of Sole 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 Financing to each Category, and the percentage of expenditures to be financed for Eligible Expenditures in each Category:

Category	Amount of the Financing Allocated (expressed in US\$)	Percentage of Expenditures to be Financed
(1) Goods, works and consultants' services, audits and training for the Project	1,600,000	100%
(a) Under Part B.3 of the Project	500,000	
(b) Under Parts A.3, C.1, C.2 and C.11	7,500,000	
(c) Under Part C.5 of the Project;	12,000,000	
(d) Under all other Parts of		

Category	Amount of the Financing Allocated (expressed in US\$)	Percentage of Expenditures to be Financed
the Project.		
(2) Grants	600,000	100% of amount disbursed
(3) Operating Costs	700,000	100%
(4) Mitigation Costs	800,000	100%
(5) Unallocated	1,300,000	
TOTAL AMOUNT	25,000,000	

B. Withdrawal Conditions; Withdrawal Period

1. It is understood that except for expenditures related to activities under Part A.2.(b) of the Project which shall be withdrawn in accordance with paragraph 2 (e) below, expenditures for activities to be financed under this Financing as set forth in Schedule 1 to this Agreement will be withdrawn exclusively from the Financing Account.
2. Notwithstanding the provisions of Part A of this Section, no withdrawal shall be made:
 - (a) for payments made prior to the date of this Agreement;
 - (b) under Category 1(a) above until the Recipient shall have submitted a business plan satisfactory to the Association for each of the Sabotsy Market and the agro-technopole in Antsirabe;
 - (c) under Category 1(b) until the Recipient shall have: (a) submitted an action plan satisfactory to the Association, spelling out the measures to be implemented to allow for the exploitation for tourism purposes by the private sector for the eight sites mentioned hereafter; and (b) entered into concession arrangements, satisfactory to the Association, for the tourism exploitation of at least two of these sites: (i) *Réserves Foncières Touristiques* sites in *Nosy Sakatia*, *Ampasindava Befotaka* and *Amporaha Ambohiday* in Nosy Be; (ii) the *Libanona*, *Evatra*, *Lokaro*

and *Andoahela* sites in Fort Dauphin; and (iii) parts of the SIRAMA property in Nosy Be to be managed by EDBM.

- (d) under Category 1(c) above until the Recipient shall have completed the establishment of the port authority company for Antsiranana-Nosy Be (SPGAAN), as per the provisions of the Law No 2003-025 dated September 5, 2003, and consequently completed the process started in December 2005 with the sales of shares of the SPGAAN to the private sector, so that adequate private participation in the management and operation of the ports of Nosy Be (Hellville/Ankify) and Antsiranana can be achieved; and
- (e) under Category 2 above unless: (i) funds under Category 2 of the table in Part A.1 of Schedule 1 of the Original Agreement have been exhausted; and (ii) the Grant has been made in accordance with the criteria and on terms and conditions set forth or referred to in the PIM and the provisions of Part D of Schedule 4 to the Original Agreement.

2. The Closing Date is December 31 2012.

Section V. Other Undertakings

- A. The Recipient shall have (a) no later than December 31, 2008 submitted an action plan satisfactory to the Association, spelling out the measures to be implemented to allow for the exploitation, for tourism purposes, by the private sector for the eight sites mentioned hereafter; and (b) no later than June 30, 2009, entered into concession arrangements, satisfactory to the Association, for the tourism exploitation of at least two of these sites: (i) *Réserves Foncières Touristiques* sites in *Nosy Sakatia, Ampasindava Befotaka and Amporaha Ambohiday* in Nosy Be; (ii) the *Libanona, Evatra, Lokaro and Andoahela* sites in Fort Dauphin; and (iii) parts of the SIRAMA property in Nosy Be to be managed by EDBM
- B. No later than October 31, 2008, the Recipient shall have submitted a management plan, including an inventory of clients and the establishment of an operational invoicing system, all satisfactory to the Association, for the water and power sectors in Nosy Be and Fort Dauphin and shall have implemented such management plan no later than June 30, 2009.

SCHEDULE 3

Repayment Schedule

Date Payment Due	Principal Amount of the Credit repayable (expressed as a percentage)*
On each January 15 and July 15:	
commencing July 15, 2018 to and including January 15, 2028	1
commencing July 15, 2028 to and including January 15, 2048	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. “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.
2. “Category” means a category set forth in the table in Section IV of Schedule 2 to this Agreement.
3. “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.
4. “General Conditions” means the “International Development Association General Conditions for Credits and Grants”, dated July 1, 2005 (as amended through October 15, 2006).
5. “Original Agreement” means the development credit agreement for the Integrated Growth Poles Project between the Recipient and the Association, dated July 13, 2005, as amended to the date of this Agreement (Credit No. 4101-MAG).
6. “Original Project” means the Project described in the Original Agreement.
7. “Procurement Guidelines” means the “Guidelines: Procurement under IBRD Loans and IDA Credits” published by the Bank in May 2004 and revised in October, 2006.
8. “Procurement Plan” means the Recipient’s procurement plan for the Project, dated March 4 2008 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.
9. “*Réserve Foncière Touristique*” means a delineated geographical zone (tourism reserve) where tourist enterprises are to be established pursuant to the Recipient’s Law No. 95-017 dated August 25, 1995.
10. “SIRAMA” means SIRAMAMY MALAGASY, the Borrower’s sugar company established and operating pursuant to the Borrower’s Law No. 76-053 dated December 29, 1976.

11. “SPGAAN” means *Société du Port à Gestion Autonome d’Antsiranana-Nosy Be*, a company to be established and operating pursuant to the laws of the Recipient.