

CONFORMED COPY

CREDIT NUMBER 3498-2-MAG

Financing Agreement

(Additional Financing for the Community Development Project)

between

REPUBLIC OF MADAGASCAR

and

INTERNATIONAL DEVELOPMENT ASSOCIATION

Dated September 6, 2006

CREDIT NUMBER 3498-2 -MAG

FINANCING AGREEMENT

AGREEMENT dated September 6, 2006, 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 the Financing 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 twelve million two hundred thousand Special Drawing Rights (SDR 12,200,000) (“Credit”) 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 The Service Charge payable by the Recipient on the Withdrawn Credit Balance shall be equal to three-fourths of one percent (3/4 of 1%) per annum.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 March 1st and September 1st in each year.

- 2.06. The principal amount of the Credit shall be repaid in accordance with 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 cause the Project to be carried out by the Project Implementing Entity 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) The Project Implementing Entity's Legislation has been amended, suspended, abrogated, repealed or waived so as to affect materially and adversely the ability of the Project Implementing Entity to perform any of its obligations under the Project Agreement.
- 4.02. The Additional Event of Acceleration consists of the following:
 - (a) The event specified in paragraph (a) of Section 4.01 of this 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.

ARTICLE V — EFFECTIVENESS

- 5.01. The Additional Conditions of Effectiveness consist of the following:
 - (a) The Subsidiary Agreement has been executed on behalf of the Recipient and the Project Implementing Entity.

- (b) The Project Implementing Entity has: (i) updated the FID Administrative and Financial Manual to reflect the new chart of account and models of Project Reports, in a manner satisfactory to the Association and (ii) appointed external auditors referred to in Section 4.01 (b) of the Project Agreement, under terms, conditions and terms of reference acceptable to the Association;
- (c) The relevant texts regulating the Project Implementing Entity have been updated in a manner satisfactory to the Association and members of its board of directors have been appointed; and
- (d) Staff with experience and qualifications satisfactory to the Association to be responsible for the technical supervision of activities under Part B.2 of the Project has been nominated by MDTA.

5.02. The Additional Legal Matter consists of the following:

- (a) The Subsidiary Agreement has been duly authorized or ratified by the Recipient and the Project Implementing Entity and is legally binding upon the Recipient and the Project Implementing Entity in accordance with its terms.

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

AGREED in the District of Columbia, United States of America, as of the day and year first above written.

REPUBLIC OF MADAGASCAR

By: */s/ Eulalie N. Ravelosoa*
Authorized Representative

INTERNATIONAL DEVELOPMENT ASSOCIATION

By: */s/ James P. Bond*
Authorized Representative

SCHEDULE 1

Project Description

The objective of the Project is to contribute to the improved use of, and satisfaction with, social and economic services provided thereunder amongst participating rural and urban communities.

The Project consists of the following parts:

Part A: Transfers of Funds to Community Associations

In rural communes:

1. Appraisal, selection, implementation and supervision of social and economic infrastructure rehabilitation and development activities for the benefit of selected communities, and IEC activities, through the provision of grants to finance such activities or through the Project Implementing Entity as described in the Manual of Procedures; and
2. Training of members of community associations in community participation and mobilization methods and in contracting, monitoring of construction and maintenance.

Part B: Capacity Building Activities

1. In rural communes, training of elected officials and personnel of commune governments in community participation, mobilization and preparation of communal development plans, execution of Subprojects, basic accounting and fiscal budgeting at the local level, and procurement, implementation monitoring and maintenance.
2. Provide capacity building support to MDTA, including through: (a) training of Communal Support Centers (*Centres d'Appui aux Communes*) staff and the establishment and operating costs of eight CSC and; (b) the development of training modules on various themes (e.g. participatory planning, budget management, collection of fiscal revenues, monitoring and evaluation); (c) the training of deconcentrated and decentralized staff; (d) the development of a LDF database and monitoring and evaluation system, and (e) studies (e.g. a stocktaking of training for local development).

Part C: Transfers of Funds to Communes

In rural communes, appraisal, selection, implementation and supervision of social and economic infrastructure rehabilitation and development activities by communes, and provision of grants to finance such activities.

Part D: Social Safety Nets (Shocks)

In both rural and urban communes, appraisal, selection, implementation and supervision of labor intensive social and economic infrastructure maintenance and rehabilitation activities to be undertaken by Eligible NGOs and Associations to provide employment opportunities for the poorest unskilled segment of the population, and provision of grants to finance such activities.

Part E: Rehabilitation and reconstruction in response to natural disasters

In both rural and urban communes, appraisal, selection, implementation and supervision of reconstruction and rehabilitation of community infrastructure damaged by weather shocks, such as health facilities, schools, rural water supply and sanitation, feeder roads, bridges, markets, and administrative infrastructure, through the provision of grants to Beneficiaries or through the Project Implementing Entity, as described in the Manual of Procedures. Works must conform to Project Implementing Entity's regular anti-cyclone standards or standards that have received the prior approval of the Project Implementing Entity (in the case of NGO-executed contracts).

Part F: Project Administration and Supervision

Provision of technical and advisory services, and material assistance, to support the administration and supervision activities of the Project Implementing Entity, including impact studies, salaries and fixed operating costs of the Project Implementing Entity, monitoring and evaluation, and financial and technical audits.

SCHEDULE 2

Project Execution

Section I. Subsidiary Financing; Institutional and Other Arrangements

A. Subsidiary Agreement

1. To facilitate the carrying out by the Project Implementing Entity of the Project, the Recipient shall make the proceeds of the Financing available to the Project Implementing Entity under a subsidiary agreement between the Recipient and the Project Implementing Entity, under terms and conditions approved by the Association, which shall include the following:
 - a. The obligation of the Recipient to transfer the proceeds of the Credit, required for the implementation of the Project, to the Project Implementing Entity on a non-reimbursable grant basis, and otherwise to take all action necessary to permit the Project Implementing Entity to carry out the Project and ensure the achievement of the objectives thereof.
 - b. The obligation of the Project Implementing Entity to promptly inform the Recipient of any condition which interferes or threatens to interfere with the implementation of the Project and the achievement of the objectives thereof.
 - c. The obligation of the Project Implementing Entity, at the request of the Recipient, to exchange views with the Recipient with regard to the progress of the Project and the achievement of the objectives thereof, and the Project Implementing Entity's performance of its obligations under the Subsidiary Agreement and Procedures Manual.
 - d. The obligation of the Project Implementing Entity to carry out the Project in accordance with this Agreement, the Project Agreement, the Subsidiary Agreement and Procedures Manual, and at all times to ensure that only Subprojects that comply with the Subsidiary Agreement and Procedures Manual will be financed from the proceeds of the Credit.
 - e. The obligation of the Recipient to ensure that its ministries and departments responsible for reviewing the AWP shall provide their comments in respect of said AWP within a reasonable period of time after receipt thereof.

- f. The mutual obligation of the Recipient and the Project Implementing Entity to comply with the Environmental Procedures Manual and to take steps to ensure that: (a) in the event of the existence of any potential adverse environmental effects arising from the implementation of any Subproject, the environmental action plan shall be carried out in a manner acceptable to the Association and monitored on a regular basis by both the Recipient and the Project Implementing Entity; and (b) adequate operational procedures shall be maintained at all times to enable both the Recipient and the Project Implementing Entity to monitor and evaluate, on a regular basis and based on indicators acceptable to the Association, the prompt carrying out of the environmental action plan.
 - g. The obligation of the Project Implementing Entity to promptly refund to the Recipient any proceeds from the Credit not used for purposes of carrying out the Project or for achieving the objectives thereof, or otherwise utilized in a manner which does not comply with the provisions of this Agreement or the Project Agreement.
 - h. A provision stipulating that, in case of conflict between any of the provisions contained in the Subsidiary Agreement or Procedures Manual, on the one hand, and those set forth in this Agreement and the Project Agreement, on the other, the provisions of this Agreement and the Project Agreement shall at all times prevail.
2. The Recipient shall exercise its rights under the Subsidiary Agreement 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, arrogate or waive the Subsidiary Agreement of any of its provisions.

B. Institutional and Other Arrangements

- 1. The Recipient shall maintain at all times during the implementation of the Project, the Project Implementing Entity with a Board of Directors with composition and function satisfactory to the Association, including representatives from the civil society. The Board of Directors shall be responsible for providing overall support, strategic guidance, approving annual work and budget for implementation of the Project.
- 2. The Recipient shall ensure that MDTA maintains staff with appropriate experience and qualification to be responsible for the technical supervision of activities to be carried out under Part B.2 of the Project.

3. The Recipient shall ensure that MDTA submits to the Association's approval an eighteen month training plan, including a budget.
4. The Recipient shall ensure that all concerned ministries provide their comment to the AWP within 30 days from its submission.

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 below in sub-paragraph (b) of this paragraph. Each Project Report shall cover the period of one semester, and shall be furnished to the Association not later than 45 days after the end of the period covered by such report. The first Project Report shall cover the period between the Effective Date and December 31, following that date.
- (b) The key performance indicators referred to above in sub-paragraph (a) consist of the following, by the completion of the Project:
 - (i) A minimum of 80% utilization of designed capacity for:
 - Enrollment in primary schools (measured by the number of student per classroom);
 - Visits to health centers (measured by the increase in the number of visits);
 - Markets (measured by the proportion of stalls in operation);
 - Water supply sources (measured by the increase in the number of users of potable water schemes);
 - Usage of rehabilitated roads (measured by the increase in the number of vehicles per week).
 - (ii) 80% of Project supported infrastructures are maintained and operating adequately; and

- (iii) 75% of mayors and communal staff are satisfied with performance of the Communal Support Center.

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. Without limitation on the provisions of Part A of this Section, the Recipient shall prepare and furnish to the Association not later than 45 days after the end of each calendar semester, interim un-audited financial reports for the Project covering the semester, in form and substance satisfactory to the Association. The first un-audited financial report shall cover the period between the Effective Date and December 31, following that date.
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 Schedule.
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 Schedule.
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:

<u>Procurement Method</u>
(a) National Competitive Bidding
(b) Shopping
(c) 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
(b) Single Source Selection
(c) Procedures set forth in paragraphs 5.2 and 5.3 of Consultant Guidelines for the Selection of Individual Consultants
(d) Procedures set forth in paragraphs 3.16 and 3.21 of Consultant Guidelines for the selection of NGOs and Service delivery contractors

D. Review by the Bank of Procurement Decisions

1. 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.

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 this Section and such additional instructions as the Bank may specify by notice to the Recipient, 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:

Categories	Amount of the Financing Allocated (expressed in SDR)	Percentage of Expenditures to be Financed
(1) Goods, works consultants' services and grants		100% and 100% of amounts disbursed as regards Grants
(a) under Part B.2(a) of the Project	350,000	
(b) others	11,850,000	
TOTAL AMOUNT	12,200,000	

B. Withdrawal Conditions; Withdrawal Period

1. 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, or (b) for Eligible Expenditures under Category 1 (a) above unless the manual referred to in Section V.A of this Schedule satisfactory to the Association has been submitted by the Recipient, and the CSC legally established pursuant to the laws of the Recipient.
2. The Closing Date is June 30 2008.

Section V Other Undertakings

- A. No later than three months from the Date of Effectiveness, the Recipient shall have submitted for the Association's review an implementation manual for CSCs setting forth their legal status, composition and rules of operation, and administrative and financial procedures, including a proposed work plan and monitoring and evaluation plan.
- B. No later than November 30, 2006, the Project Implementing Entity shall have recruited a Project impact evaluation specialist with experience and qualifications satisfactory to the Association.

SCHEDULE 3

Repayment Schedule

Date Payment Due	Principal Amount of the Credit repayable (expressed as a percentage)*
On each March 1 st and September 1 st :	
commencing September 1 st , 2016, to and including March 1 st , 2026	1%
commencing September 1 st , 2026, to and including March 1 st , 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. “AWP” means annual work plan, the work plan to be prepared and submitted yearly by the Project’s Implementing Entity for the Recipient’s and the Association’s approval, as set forth in the Procedures Manual.
2. “Beneficiary” means beneficiary of a Grant.
3. “Category” means a category set forth in the table in Section IV of Schedule 2 to this Agreement.
4. “Communal Support Centers” and “CSC” means centers for the facilitation of capacity building for Communes to be legally established pursuant to the laws of the Recipient.
5. “Commune” means a political sub-division of a Province.
6. “Consultant Guidelines” means the “Guidelines: Selection and Employment of Consultants by World Bank Borrowers” published by the Bank in May 2004.
7. “Dollar” and “\$” mean the currency of the United States of America.
8. “Eligible NGOs and Associations” means NGOs and associations established and operating pursuant to the laws of the Recipient and deemed eligible pursuant to the Manual of Procedures to carry out Sub Projects under Part E of the Project.
9. “Environmental Procedures Manual” means the manual adopted in July 2005 describing procedures and mechanisms for the appraisal of environmental impacts under the Project as well as measures to be implemented for their mitigation.
10. “FID Administrative and Financial Manual” means the manual adopted by FID setting forth its administrative and financial arrangements and procedures.
11. “Fiscal Year” or “FY” means any 12-month period beginning on January 1 and ending on December 31.

12. “General Conditions” means the “International Development Association General Conditions for Credits and Grants”, dated July 1, 2005.
13. “Grant” means a grant made, or to be made, out of the proceeds of the Credit to finance a Subproject.
14. “Grant Agreement” means the agreement to be entered into for the purpose of extending a Grant.
15. “IEC” means information, education and communications.
16. “LDF” means Local Development Fund to be legally established pursuant to the laws of the Recipient for the purpose of making funds for development and capacity building available to Communes.
17. “MDTA” means the Recipient’s Ministry in charge of decentralization and territorial administration established pursuant to Decree Nr 2005-144 dated March 17, 2005 *“portant remaniement de la composition des membres du Gouvernement”*.
18. “Original Financing Agreement” means the development credit agreement for a Community Development Project between the Recipient and the Association, dated May 22, 2001, as amended to the date of this Agreement (Credit No 3498 MAG).
19. “Original Project” means the Project described in the Original Financing Agreement.
20. “Procedures Manual” means the Manual adopted for the purpose of the Original Project setting forth procedural arrangements for the review, appraisal, supervision, and monitoring and evaluation, of Subprojects, including procedures for submission and review of requests for financing, criteria for the review and approval of Subprojects, and approval of Grants, applicable procurement, disbursement and other implementation guidelines, and model forms of Grant Agreements.
21. “Procurement Guidelines” means the “Guidelines for Procurement under IBRD Loans and IDA Credits” published by the Bank in May 2004.
22. “Procurement Plan” means the Recipient’s procurement plan for the Project, dated June 9, 2006, 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.

23. “Project Agreement” means the agreement between the Association and the Project Implementing Entity of even date herewith, as the same may be amended from time to time, and such term includes all schedules and agreements supplemental to the Project Agreement.
24. “Project Implementing Entity” means FID or *Fonds d’Intervention pour le Développement*, the Recipient’s Community Development Fund, a not-for-profit association serving the public interest (*association à but non lucratif reconnue d’intérêt public*).
25. “Project Implementing Entity’s Legislation” means the Recipient’s *Décret* No. 93-044, dated January 24, 1993, as well as its bylaws dated June 23, 2003 and any subsequent change as may be agreed upon by the Association.
26. “Province” means any one or more of the six main political sub-divisions of the Recipient’s territory.
27. “Subproject” means any activity under Part A.1, Part C, Part D or Part E of the Project, in respect of which a Grant has been, or may be, provided.
28. “Subsidiary Agreement” means the agreement referred to in Section I.A of Schedule 2 to this Agreement pursuant to which the Recipient shall make the proceeds of the Financing available to the Project Implementing Entity.