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CONFORMED COPY

GRANT NUMBER H454-TG

Financing Agreement

(Financial Sector and Governance Project)

between

REPUBLIC OF TOGO

and

INTERNATIONAL DEVELOPMENT ASSOCIATION

Dated April 23, 2009

GRANT NUMBER H454-TG

FINANCING AGREEMENT

AGREEMENT dated April 23, 2009, entered into between REPUBLIC OF TOGO (“Recipient”) and INTERNATIONAL DEVELOPMENT ASSOCIATION (“Association”).

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 grant in an amount equivalent to eight million Special Drawing Rights (SDR 8,000,000) (“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 Payment Dates are May 15 and November 15 in each year.
- 2.05. The Payment Currency is the Euro.

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 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 Event of Suspension consists of the following, namely, that in the opinion of the Association, after the date of the Letter of Sector Policy:
 - (a) any of the actions specified in the Letter of Sector Policy has been materially and adversely modified without the prior written approval of the Association; or
 - (b) the Recipient has taken any action, or has omitted to take any action, that has materially and adversely affected the intent or purposes of the Letter of Sector Policy, or the realization of the plan of actions set forth in said Letter or a significant part thereof without the prior written approval of the Association.

ARTICLE V — EFFECTIVENESS; TERMINATION

- 5.01. The Additional Condition of Effectiveness consists of the following, namely, that the Recipient has adopted the Project Implementation Manual and the Accounting, Financial and Administrative Manual, in each case in form and substance satisfactory to the Association.
- 5.02. The Effectiveness Deadline is the date ninety (90) days after the date of this Agreement.

ARTICLE VI — REPRESENTATIVE; ADDRESSES

6.01. The Recipient's Representative is the Minister at the time in charge of Finance.

6.02. The Recipient's Address is:

Ministère de l'Economie et des Finances
Immeuble CASEF
B.P. 387
Lomé, Togo

Facsimile:

228-221-09-05

6.03. The Association's Address is:

International Development Association
1818 H Street, N.W.
Washington, D.C. 20433
United States of America

Facsimile:

1-202-477-6391

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

REPUBLIC OF TOGO

By /s/ Adjì Otèth Ayassor

Authorized Representative

INTERNATIONAL DEVELOPMENT ASSOCIATION

By /s/ Madani M. Tall

Authorized Representative

SCHEDULE 1

Project Description

The objective of the Project is to improve the Recipient's financial sector stability by supporting its financial sector reform program.

The Project consists of the following parts:

Part A: Banking sector restructuring

1. Provision of technical assistance to selected Togolese state-owned commercial banks to (a) improve the governance of banks under restructuring (including BTCI, UTB, and BPEC) through the development or updating of procedure manuals for loan assessment, granting, and monitoring; and (b) assist in finding strategic private sector banking partners for BTCI, BIA Togo, UTB and BTB.

2. Development of a training program for interested commercial banks active in Togo to upgrade staff skills in banking practices, on a cost-sharing basis.

3. (a) Carrying out of a study to determine a special mechanism to deal with loan recovery and/or a possible secondary market for securities issued in the context of banking restructuring; and

(b) Implementation of the recommendations of the study referred to in paragraph (a) above, after it has been validated by the Recipient and the Association.

Part B: Strengthening of the microfinance sector

1. Provision of technical assistance and equipment to the Microfinance Supervision Unit at the Ministry of Economy and Finance to: (a) disseminate and undertake training on the new microfinance law elaborated by the BCEAO; (b) improve its capacity to undertake field supervision; (c) develop a database for off-site microfinance supervision; (d) finance, on a declining basis, inspectors under fixed term contracts in charge of microfinance supervision (on-site and off-site) for the Microfinance Supervision Unit; (e) develop and implement a training plan for inspectors; and (f) fund inspection missions on a declining basis.

2. Strengthening of internal controls within microfinance institutions through technical assistance and training activities, including: (a) the development and

dissemination of an internal control and inspection manual; (b) the provision of training for internal inspectors and external auditors; (c) the provision of technical assistance to selected large microfinance institutions to improve their internal control procedures and their management information systems; (d) the development of externalized inspection services; (e) the provision of technical assistance and workshops in support of sector rationalization by encouraging independent savings and credit cooperatives to join networks; and (f) partial funding of external audits on terms and conditions set forth in the Project Implementation Manual.

3. (a) Improving financial information transparency of microfinance institutions through the co-financing of ratings on terms and conditions set forth in the Project Implementation Manual; and

(b) Supporting the development of regional rating firms through training on best practice rating methodologies.

Part C: Pension sector reform

Provision of technical assistance to CRT and CNSS with a view to reforming the Togolese pension sector:

(a) With regard to CRT: by (i) undertaking a financial and organizational audit; (ii) undertaking an actuarial study; (iii) developing an information and technology master plan; (vi) improving information systems by purchasing equipment; and (v) developing and implementing a human resources training plan to improve staff capacities.

(b) With regard to CNSS: by (i) undertaking a financial and organizational audit; (ii) undertaking an actuarial study; (iii) analyzing CNSS investment options with a view to diversification; (iv) analyzing the possibility of adding a supplementary fully funded scheme; and (v) developing and implementing a human resources training plan to improve staff capacities.

Part D: Support to the implementation of reforms in the financial and private sectors

1. Provision of technical assistance, training, and equipment to the Reform Secretariat and the Economy Directorate within the Recipient's Ministry of Economy and Finance with a view to strengthening their respective capacities to monitor and evaluate progress in the implementation of reforms in the financial and private sectors.

2. Provision of support to public-private sector dialogue through the organization of roundtables with interested stakeholders.

SCHEDULE 2**Project Execution****Section I. Implementation Arrangements****A. Institutional Arrangements**

1. The Recipient shall establish, by not later than 30 days after the date of this Agreement, and thereafter maintain throughout Project implementation, a Steering Committee under terms of reference and conditions satisfactory to the Association, which shall be responsible for setting forth the strategic direction of the Project and approving the work plans prepared by the various Partner Institutions on an annual basis. The Steering Committee shall be composed of representatives of (a) the Partner Institutions; (b) the APBEF; (c) the Recipient's ministries in charge of social security institutions; (d) BCEAO; and (e) the private sector representative body (*Patronat*). The Steering Committee will meet at least twice a year.
2. The Recipient shall establish, by not later than 30 days after the date of this Agreement, and thereafter maintain throughout Project implementation, a Project Implementation Unit within the Ministry of Economy and Finance, in form and substance and with functions and resources satisfactory to the Association.
3. Without prejudice to its obligations under the provisions of Section II of this Schedule, the Recipient shall ensure that the Association receives throughout the implementation of the Project the following information in a timely manner:
 - (a) the annual work plans prepared by each Partner Institution and approved by the Steering Committee, not later than 30 days after the first meeting of the Steering Committee each year which, in any event, shall be held not later than December 31, 2009;
 - (b) the DEC 2000 (with selected annexes to be agreed upon by the Recipient and the Association) and the New NPL Ratio for BTCI, UTB, and BIA Togo, on a quarterly basis and until their privatization, starting by not later than December 31, 2009;
 - (c) the annual reports of all commercial banks active in Togo, not later than eight months after the end of each Fiscal Year; and

- (d) on each January 31 and July 31 during the implementation of the Project, a monitoring summary of the on-site and off-site supervision activities carried out by the Microfinance Supervision Unit.

B. Anti-Corruption

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

C. Manuals

Except as the Association shall otherwise agree, the Recipient shall: (i) carry out the Project in accordance with the Project Implementation Manual and the Accounting, Financial and Administrative Manual; and (ii) except as the Association shall otherwise agree, not amend, abrogate, or waive, or permit to be amended, abrogated, or waived, the aforementioned, or any provision thereof, without the prior written agreement of the Association. In the event of any inconsistency between this Agreement, on the one hand, and the Project Implementation Manual and the Accounting, Financial and Administrative Manual, on the other hand, the provisions of this Agreement shall prevail.

D. Training Activities

All Training activities shall be carried out on the basis of annual training programs and budgets prepared by the Project Implementation Unit and submitted annually to the Steering Committee for approval, throughout the implementation of the Project. Said annual programs and budgets shall be in form and substance satisfactory to the Association.

Section II. Project Monitoring, Reporting and Evaluation

A. Project Reports

- 1. 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 indicators agreed with the Association. Each Project Report shall cover the period of one calendar semester, and shall be furnished to the Association not later than one month after the end of the period covered by such report.

2. For purposes of Section 4.08 (c) of the General Conditions, the report on the execution of the Project and related plan required pursuant to that Section shall be furnished to the Association not later than six months after the Closing Date.

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 forty-five (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.
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, commencing with the fiscal year in which the first withdrawal was made under the Preparation Advance for the Project. 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) Selection based on Consultant’s Qualifications
(b) Least Cost Selection
(c) Single-Source selection
(d) 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 \$300,000 or more; (b) each contract for consultants' services provided by a firm estimated to cost the equivalent of \$200,000 or more; (c) each contract for individual consultants estimated to cost the equivalent of \$50,000 or more; (d) the first three contracts under each procurement or selection method; and (e) each Single Source selection contract. 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 SDR)	Percentage of Expenditures to be Financed (inclusive of Taxes)
(1) Goods and works	660,000	100%
(2) Consultants' services, including Training and auditing services	5,400,000	100%
(3) Operating Costs	860,000	100%

(4) Refund of Preparation Advance	650,000	Amount payable pursuant to Section 2.07 of the General Conditions
(5) Unallocated	430,000	
TOTAL AMOUNT	8,000,000	

B. Withdrawal Conditions; Withdrawal Period

1. Notwithstanding the provisions of Part A of this Section, no withdrawal shall be made for payments made prior to the date of this Agreement.
2. The Closing Date is December 31, 2014.

Section V. Other Undertakings

A. Mid-term Review

No later than thirty (30) months after the Effective Date, or such later date as may be agreed upon by the Recipient and the Association, the Recipient and the Association shall carry out a mid-term review of the Project, covering the progress achieved in the implementation of the Project. The Recipient shall prepare under terms of reference satisfactory to the Association, and furnish to the Association approximately one month prior to the beginning of such mid-term review of the Project, a report integrating the results of the monitoring and evaluation activities performed pursuant to this Agreement and the Project Implementation Manual, on the progress achieved in the carrying out of the Project during the period preceding the date of such report, and setting out the measures recommended to ensure the efficient carrying out of the Project and the achievement of the objectives of the Project during the period following such date.

B. Privatization Advisers

For the purposes of Part A.1 (b) of the Project, the Recipient shall recruit and sign under contract, by not later than December 31, 2009, privatization advisers for the four selected state-owned banks (BTCI, UTB, BIA Togo and BTB), each with terms of reference, qualifications and experience satisfactory to the Association.

C. Agency in Charge of Loan Recovery and Secondary Securities Market

For the purposes of Part A.3(b) of the Project, the Recipient shall prepare, if necessary, by no later than December 31, 2009 or such later date to be agreed upon by the Recipient and the Association, the necessary draft laws, regulations and procedures for the establishment of a mechanism in charge of loan recovery and/or a secondary market for securities issued in the context of banking restructuring, under terms and conditions satisfactory to the Association and based on the recommendations set forth in the study referred to in Part A.3(a) of the Project.

APPENDIX**Section I. Definitions**

1. “Accounting, Financial and Administrative Manual” means the manual to be adopted by the Recipient, outlining administrative, financial management, and accounting arrangements and procedures in accordance with Section 5.01 of this Agreement for purposes of Project implementation, as the same may be amended from time to time with the prior written consent of the Association.
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. “APIM” means *Association Professionnelle des Institutions de Microfinance*, a professional association representing Togolese microfinance institutions, registered on 30 January 2004 at the Ministry of Interior under the number: BE-00757/MIFD/SG/DAPFC/DFC.
4. “APBEF” means the *Association Professionnelle des Banques et Etablissements Financiers*, a professional association representing Togolese commercial banks established in accordance to the article 59 of the Banking Law N° 90-17, dated November 5, 1990.
5. “BCEAO” means the *Banque Centrale des Etats de l’Afrique de l’Ouest*, the common central bank of the eight member countries of the WAMU (as hereinafter defined).
6. “BIA Togo” means *Banque Internationale pour l’Afrique*, a Togolese commercial bank, incorporated on July 24, 1981 and registered under the WAMU Banking Law of 1990 as a limited company under the number T 0005 P.
7. “BPEC” means *Banque Populaire d’Epargne et de Crédit*, a Togolese commercial bank incorporated on January 2, 2008, following the restructuring of *Caisse d’Epargne du Togo* (CET) and registered under the WAMU Banking Law of 1990 as a limited company under the number T 0151 Y.
8. “BTCI” means *Banque Togolaise de Commerce et d’Investissement*, a Togolese commercial bank, incorporated on April 30, 1974 and registered under the WAMU Banking Law of 1990 as a limited company under the number T 0024 K.

9. “BTD” means *Banque Togolaise de Développement*, a Togolese commercial Bank incorporated on December 12, 1966 and registered under the WAMU Banking Law of 1990, as a limited company under the number T 0014 Z.
10. “Category” means a category set forth in the table in Section IV of Schedule 2 to this Agreement.
11. “CNSS” means the *Caisse Nationale de Sécurité Sociale*, the social security entity established by the Recipient’s law 39/72, dated November 12, 1973 (as revised by law 2001/016, dated November 29, 2001), covering private-sector employees and public-sector employees without the status of civil servants.
12. “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.
13. “CRT” means the *Caisse des Retraites du Togo*, the social security entity for Togolese civil servants, created as a public institution, by Law 91/11 dated May 23, 1991.
14. “DEC 2000” means the monthly financial statements that Togolese commercial banks are required to submit to BCEAO.
15. “Economy Directorate” means a division within the Recipient’s Ministry of Economy and Finance.
16. “Fiscal Year” means the period from January 1 to December 31.
17. “General Conditions” means the “International Development Association General Conditions for Credits and Grants”, dated July 1, 2005 (as amended through October 15, 2006).
18. “Letter of Sector Policy” means the *Lettre de Politique Sectorielle* dated February 27, 2009 and signed by the Recipient’s Minister of Finance.
19. “Microfinance Supervision Unit” means the *Cellule d’Appui et de Suivi des Institutions Mutualistes ou Coopératives d’Epargne et de Crédit* (CAS-IMEC), the body of the Recipient’s Ministry of Economy and Finance created by Decree N°/088/MEF/DE dated June 17, 1996, and responsible for the supervision of the microfinance sector in Togo.

20. “New NPL Ratio” means the ratio calculated as follows: outstanding new bad loans, as defined by the BCEAO prudential regulations (Section 5.2 of the BCEAO’s “*Dispositif Prudentiel applicable aux banques et aux établissements financiers de l’Union monétaire Ouest Africaine (UMOA) à compter du 1er Janvier 2000*”) incurred for loans issued since January 1, 2009 divided by the total outstanding new loans issued since January 1, 2009.
21. “Operating Costs” means the incremental expenses, based on annual budgets approved by the Association, incurred by the Recipient on account of Project implementation, management, and monitoring, including for office space rental, utilities, and supplies, bank charges, communications, vehicle operation, maintenance, and insurance, building and equipment maintenance, advertising expenses, travel and supervision (including supervision activities in connection with Part B.1 of the Project), salaries and statutory contributions of contractual and temporary staff (including microfinance inspectors), but excluding salaries, fees, honoraria, and bonuses of members of the Recipient’s civil service.
22. “Partner Institutions” means, collectively, BTCL, BIA Togo, UTB (as hereinafter defined), BPEC, BTCL, CRT, CNSS, the Microfinance Supervision Unit, APIM, the Reform Secretariat (as hereinafter defined), and the Economy Directorate.
23. “Preparation Advance” means the advance referred to in Section 2.07 of the General Conditions, granted by the Association to the Recipient pursuant to the letter agreement signed on behalf of the Association on October 23, 2008 and on behalf of the Recipient on December 5, 2008.
24. “Procurement Guidelines” means the “Guidelines: Procurement under IBRD Loans and IDA Credits” published by the Bank in May 2004 and revised in October, 2006.
25. “Procurement Plan” means the Recipient’s procurement plan for the Project, dated February 9, 2009 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.
26. “Project Implementation Manual” means the manual to be adopted by the Recipient in accordance with Section 5.01 of this Agreement, outlining implementation, organizational, disbursement, and procurement rules and procedures for the purposes of Project implementation, as the same may be amended from time to time with the prior written consent of the Association.

27. “Project Implementation Unit” means the unit to be established by the Recipient pursuant to Section I.A.2 of Schedule 2 to this Agreement.
28. “Reform Secretariat” means the *Sécretariat Permanent pour le Suivi des Politiques de Réformes et des Programmes Financiers*, a body established within the Recipient’s Ministry of Economy and Finance.
29. “Training” means the training and training-related activities under the Project, including seminars, workshops and study tours, travel and subsistence allowances for training participants, trainers’ fees, rental of training facilities, preparation and reproduction of training materials and other activities incidental to the preparation and implementation of training activities.
30. “UTB” means *Union Togolaise de Banque*, a Togolese commercial bank fully owned by the Togolese Government, incorporated on June 30, 1964 and registered under the WAMU Banking Law of 1990, as a limited company under the number T 0009 T.
31. “WAMU” means the West African Monetary Union.