

CONFORMED COPY

CREDIT NUMBER 3754-1-MAG

Financing Agreement

(Additional Financing For Mineral Resources Governance Project)

between

REPUBLIC OF MADAGASCAR

and

INTERNATIONAL DEVELOPMENT ASSOCIATION

Dated June 5, 2007

CREDIT NUMBER 3754-1-MAG

FINANCING AGREEMENT

Agreement dated June 5, 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 five million three hundred thousand Special Drawing Rights (SDR 5,300,000) (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 The Service Charge payable by the Recipient on the Withdrawn Credit Balance shall be equal to three-fourths of one percent (3/4 of 1%) per annum.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 June 1 and December 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 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 MPCU 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 Government of Norway Grant Agreement shall have failed to become effective by December 31, 2007 or the EITI TF Grant Agreement shall have failed to become effective by June 30, 2008; provided, however, that the provisions of this paragraph shall not apply if the Recipient establishes to the satisfaction of the Association that adequate funds for the Project are available to the Recipient from other sources on terms and conditions consistent with the obligations of the Recipient under this Agreement; and
- 4.02. The right of the Recipient to withdraw the proceeds under the Government of Norway Grant Agreement or EITI TF Grant Agreement shall have been suspended, canceled or terminated in whole or in part, pursuant to the terms of said agreements; provided, however, that the provisions of this paragraph shall not apply if the Recipient establishes to the satisfaction of the Association that:
 - (i) such suspension, cancellation or termination is not caused by the failure of the Recipient to perform any of its obligations under such agreement; and
 - (ii) adequate funds for the Project are available to the Recipient from other sources on terms and conditions consistent with the obligations of the Recipient under this Agreement.

ARTICLE IV — EFFECTIVENESS; TERMINATION

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

- (a) The Extractive Industries Coordination Unit has been established with form and functions satisfactory to the Association and the Extractive Industries Coordinator has been recruited under terms, conditions and terms of reference satisfactory to the Association, and in accordance with the provisions of Section III of Schedule 2 to this Agreement;
- (b) The Project Implementation Plan has been updated in form and substance acceptable to the Association; and
- (c) The Recipient has employed the independent auditors referred to in Section 4.09 (b) of the General Conditions, in accordance with the provisions of Section II of Schedule 3 to this Agreement.

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

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

REPUBLIC POF 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 Recipient in the further definition and implementation of a strategy designed to accelerate sustainable development and reduce poverty through the strengthening of governance and transparency in the management of mineral resources.

The Project consists of the following parts:

Part A: Strengthening Transparency and Governance in Mining

1. Support to the formulation of an updated extractive industries policy and strategy, based on the MAP, including regional and central-level authorities, through the provision of consultants' services.
2. Assistance in the modernization of the extractive industries sector regulatory framework, including: (a) a revision/reformulation of the hydrocarbons law and regulations; (b) adjustments to the mining legal and regulatory framework; and (c) the subsequent dissemination of information, all through the provision of technical assistance.
3. Support to improved transparency of the Recipient's extractive industries institutions, including but not limited to: (a) restructuring and strengthening OMNIS, better defining and separating the agency's present functions as a regulator and operator in the upstream hydrocarbons sector and by transferring upstream hydrocarbons regulatory functions to a regulatory agency/entity under the MdE; and (b) transferring the non-contracts related part of OMNIS mining, oil and gas-related geo-information data to the National Geological Survey; all through the provision of consultant services.
4. Support to the removal of barriers to investments by improving coordination among ministries, streamlining procedures and strengthening capacities, all through the provision of consultant services.

Part B: Key Institutional Reforms for Decentralized Management of Mineral Resources

Assistance to MdM in the implementation of the MAP, including:

1. Support to sustainable regional development in large-scale mining areas including: (a) in Anosy, supporting the establishment and operation of a Local Coordination Committee and of a Local Development Fund, as well as the monitoring and update of Local Development Plans; (b) in Ambatovy, Tulear and/or other regions: supporting the establishment of a Dynamic Natural Resources Management Platform, of a Local Coordination Committee, and of a Local Development Fund; capacity building at the municipal and regional levels; carrying out consultative and participatory processes and preparation of a Local Development Plan, all through the provision of works, goods and services.

2. Support to improved management of environmental and social issues in the mining sector and proper coordination with the management of protected areas, including by: (a) strengthening the capacity of the Inter-ministerial Mines-Forests Committee, of the Mining Environmental Units and of a Mining Inspectorate; (b) supporting the recommendations of the WWF/WB Alliance in the mapping and prioritization of areas to be protected from mining and areas that may pose potential land use conflicts, and in the development and implementation of remedial action plans; and (c) improving coordination among relevant mining and environmental agencies, including ONE and ANGAP, all through the provision of works, goods and services.

3. Support to: (a) the establishment of mechanisms to monitor and evaluate small-scale mining practices; (b) carrying out sensitization and education campaigns to familiarize small-scale miners with applicable legal and regulatory texts and procedures; (c) provision of technical assistance and capacity building to decentralized MM entities, regional and local authorities and CBOs, on management and integration to local development of artisanal and small-scale mining activities and resources; (d) supporting increased formalization and legalization of the small-scale mining sector, as well as registration services and capacity building for rapid responses to mining rush situations; (e) supporting capacity building and institutional strengthening of IGM and the development of regional training facilities; all through the provision of works, goods and services.

4. Support to the set-up of regulatory and financial mechanisms to ensure the long-term sustainability of extractive industries institutions and of their functions, all through the provision of works, goods and services.

Part C: Promoting Private Investment and Value-Added in the Sector

1. Support to the development of a National Geological Survey, responsible to generate and collect, store and maintain, process and disseminate geo-scientific information for multi-sector use and promotion of mining, hydrocarbons and societal development as well as environmental and social protection, through the provision of works, goods and services.

2. Support to carry out synthesis studies and to the broad dissemination of geo-scientific information, through the provision of services.

Part D: Project Coordination and Management

Provision of advisory services and other material support to maintain MPCU to be responsible for the management, monitoring and evaluation, of the Project, as well as to the Extractive Industries Coordination Unit.

* * *

The Project is expected to be completed by June 30, 2010.

SCHEDULE 2

Project Execution

Section I. Implementation Arrangements

A. Institutional Arrangements

1. The Recipient shall ensure full compliance with the provision of Schedule 4.1 of the Original Agreement with respect to the proper operating and staffing of MPCU and the Extractive Industries Coordination Unit.
2. The recipient shall carry out the Project in accordance with procedures set out in the Project Implementation Plan, and, except as the Association shall otherwise agree, shall not amend or waive any provision thereof.
3. The Recipient shall ensure proper cooperation among all entities involved in the extractive industries sector as well as with donors, in particular ensure proper coordination with parallel initiatives such as the assistance provided by the Government of Norway, the EITI TF and others as regards Part A.2 of the Project and with the assistance provided by the Government of Norway as regards Part A.3 of the Project.

B. Anti-Corruption

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

C. Safeguards

1. The Recipient shall ensure that the Project is implemented in accordance with the provisions of the EMP, and except as the Association shall otherwise agree, shall not amend or waive any provision of the EMP.
2. The Recipient shall, no later than December 31 2007, prepare environmental guidelines satisfactory to the Association, setting forth guidelines for environmental management of the mining sector and shall thereafter implement such guidelines in the management of the mining sector.

3. The Recipient shall, no later than September 2009, carry out an audit under terms of reference satisfactory to the Association to review sector environmental management capacity and achievements.

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 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) The performance indicators referred to above in sub-paragraph (a) consist of the following:
 - (i) No later than 18 months after the date of effectiveness, updated hydrocarbons law and regulations, also addressing environmental concerns have been prepared in line with of international practice, and a draft law has been submitted to the Parliament.
 - (ii) No later than 18 months after the date of effectiveness, the fiscal framework for mining, including large scale investments, has been reviewed to include adjustments to optimize fiscal revenues, while maintaining a competitive edge to investments, and a draft law has been submitted to the Parliament.
 - (iii) No later than 18 months after the date of effectiveness, methodologies to control artisanal and small scale mining rushes and to manage conflicts between artisanal and small scale mining activities and protected areas have been developed and are ready for implementation at central and decentralized level.
 - (iv) Within 24 months from the date of effectiveness, the National Geological Survey and the integrated sector data bank and information systems have been established and are operative.

- (v) No later than by December 2009, financial mechanisms for long-term sustainability of mining institutions have been established and are operative.

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 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. 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

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 Consultants' Qualifications
(b) Single Source Selection
(c) 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 works estimated to cost the equivalent of \$500,000 or more;
- (b) each contract for goods estimated to cost the equivalent of \$250,000 or more;
- (c) each contract for consultants' services provided by a firm estimated to cost the equivalent of \$100,000 or more;
- (d) each contract for individual consultants' estimated to cost the equivalent of \$50,000 or more; and
- (e) all contracts

procured on a single source basis. 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 exclusive of Taxes)
(1) Goods, works, audits and consultants’ services for the Project	5,300,000	100% of Foreign Expenditures and 85% of Local Expenditures
TOTAL AMOUNT	5,300,000	

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, 2010.

Section V. Other Undertakings

- A. No later than December 31, 2008, the Borrower shall have adopted a plan with specific time based measures for the restructuring of OMNIS.

- B. The Recipient shall deposit into the Project Account (as such term is defined in the Original Financing Agreement) sufficient resources to provide counterpart funding in connection with the Financing.

SCHEDULE 3

Repayment Schedule

Date Payment Due	Principal Amount of the Credit repayable (expressed as a percentage)*
On each June 1 and December 1	
commencing June 1, 2017 to and including December 1, 2026;	1%
commencing June 1, 2027 to and including December 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. “ANGAP” means *Agence Nationale de Gestion des Aires Protégées*, the Recipient’s agency in charge of the management of protected areas.
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. “CBO” means a community based organization established and operating pursuant to the laws of the Recipient.
5. “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, as may be amended from time to time by the Association.
6. “Dynamic Natural Resources Management Platform” means a methodology and a tool integrating multi-sectoral information in a geographic information system for the purpose of planning, coordinating and monitoring local economic development activities, including Local Development Plans, to be established at the local level in large scale mining regions.
7. “EMP” means the environmental management plan, dated March 31 2007, giving details of measures appropriate or required to manage potential environmental risks and mitigate adverse impacts associated with the Project, together with adequate institutional, monitoring and reporting arrangements capable of ensuring proper implementation of, and regular feedback on compliance with, the EMP.
8. “EITI TF Grant Agreement” means the agreement to be entered into by the Recipient for the purpose of a \$300,000 grant in support of activities in the extractive industries in Madagascar.
9. “Extractive Industries Coordination Unit” means *Unité de Coordination des Industries Extractives*, the unit responsible for the coordination of various

donors funded activities in the extractive industries sector, to be established pursuant to Section 5.01 (a) of this Agreement.

10. “General Conditions” means the “International Development Association General Conditions for Credits and Grants”, dated July 1, 2005 (as amended through October 15, 2006).
11. “Government of Norway Grant Agreement” means the agreement to be entered by the Recipient for the purpose of a \$5,000,000 grant in support of activities in the extractive industries in Madagascar.
12. “IGM” means *Institut de Gemmologie de Madagascar*, the Recipient’s gemological institute attached to MdM.
13. “Inter-ministerial Mines-Forests Committee” means the Committee established pursuant to *arrêté interministériel 3740/2004 du 16 avril 2004*.
14. “Local Coordination Committee” means a committee to be established at the local level in large scale mining regions.
15. “Local Development Fund” means a fund to be established under the Project in large scale mining regions, for the purpose of collecting fiscal revenues generated by mining activities, as defined under the 2005 mining law, or other funds to be transferred to local authorities and to be applied to local economic development.
16. “Local Development Plans” means a plan prepared in a participative manner for the purpose of integrating, coordinating and promoting/facilitating local economic development activities in large scale mining regions.
17. “MAP” means Madagascar Action Plan, the Recipient’s strategy for poverty reduction adopted in 2006.
18. “MdE” means *Ministère de l’Energie* the Recipient’s Ministry of Energy.
19. “MdM” means *Ministère des Mines*, the Recipient’s Ministry of Mines.
20. “Mining Environmental Units” (*Cellules Environnementales Minières*) means the units within MdM in charge of monitoring and addressing environmental issues as established.

21. “Mining Inspectorate” means the inspectorate to be legally established, in form and with functions satisfactory to the Association, to be responsible for monitoring the environmental, social and technical performance of mining operators *vis-à-vis* the regulations.
22. “MPCU” means the mining project coordination unit, established under the initial Project under conditions set forth in the Project Implementation Plan.
23. “National Geological Survey” means an entity to provide regional and reliable geo-scientific information needed to facilitate private sector promotion in the mining sector and support socio-economic development planning.
24. “OMNIS” means *Office des Mines Nationales et des Industries Stratégiques*, the Recipient’s bureau established and operating pursuant to Décret 99/697 of October 26 1999, “*portant statuts de l’OMNIS*”, Law 99/003 of March 25 1999, “*portant changement de dénomination de l’OMNIS*”, and Decree 2004/273 of January 18, 2004 “*plaçant OMNIS sous tutelle du Ministère de l’Energie et des Mines*”.
25. “ONE” means *Office National de l’Environnement*, the Recipient’s National Environmental Agency.
26. “Original Financing Agreement” means the development credit agreement for a Mineral Resources Governance Project between the Recipient and the Association, dated June 23, 2003, as amended to the date of this Agreement (Credit No 3754).
27. “Original Project” means the Project described in the Original Financing Agreement.
28. “Procurement Guidelines” means the “Guidelines: Procurement under IBRD Loans and IDA Credits” published by the Bank in May 2004 and revised in October, 2006, as the same may be amended from time to time by the Association.
29. “Project Implementation Plan” means the Project Implementation Plan referred to in paragraph 3 (a) of Schedule 4 to the Original Financing Agreement.

30. "Procurement Plan" means the Recipient's procurement plan for the Project, dated April 2, 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.