Africa Catalytic Growth Fund
Grant Agreement

(Financial Services Project)

between

REPUBLIC OF MADAGASCAR

and

INTERNATIONAL DEVELOPMENT ASSOCIATION

(acting as an administrator of the Africa Catalytic Growth Fund)

Dated July 15, 2008
AFRICA CATALYTIC GROWTH FUND

GRANT AGREEMENT

AGREEMENT dated July 15, 2008, entered into between: REPUBLIC OF MADAGASCAR ("Recipient"); and

INTERNATIONAL DEVELOPMENT ASSOCIATION ("World Bank"), acting as an administrator of the Africa Catalytic Growth Fund.

The Recipient and the World Bank hereby agree as follows:

Article I

Standard Conditions; Definitions

1.01. The Standard Conditions for Grants Made by the World Bank Out of Various Funds, dated July 20, 2006 ("Standard Conditions"), 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 Standard Conditions or in Appendix I to this Agreement.

Article II

The Project

2.01. The Recipient declares its commitment to the objectives of the project described in Schedule 1 to this Agreement ("Project"). To this end, the Recipient shall cause PCU to carry out Part 1(a) and Part 2 other than 2(a)(i) of the Project and BCM to carry out Part 1(b) of the Project, in accordance with the provisions of Article II of the Standard Conditions and the relevant Project Agreements.

2.02. The Recipient shall: (i) carry out Part 2(a)(i) of the Project through IFC in accordance with the Risk Sharing Framework Agreement and the Risk Sharing Facility Agreements, on terms and conditions acceptable to the World Bank; (ii) perform all its obligations and take all actions necessary on its part to enable IFC to perform all IFC’s obligations under said agreements; (iii) not take or permit to be taken any action which would prevent or interfere with such performance; and (iv) except as the World Bank shall otherwise agree,
not assign, amend, abrogate or waive, or permit to be assigned, amended, abrogated or, waived the said agreements or any provision thereof.

2.03. Without limitation upon the provisions of Sections 2.01 and 2.02 of this Agreement, and except as the Recipient and the World Bank 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 III

The Grant

3.01. The World Bank agrees to extend to the Recipient, on the terms and conditions set forth or referred to in this Agreement, a grant in an amount equal to fifteen million United States Dollars ($15,000,000) (“Grant”) to assist in financing the Project.

3.02. The Recipient may withdraw the proceeds of the Grant in accordance with Section IV of Schedule 2 to this Agreement, and, as regards Risk Sharing Facilities, in accordance with Appendix II to this Agreement.

Article IV

Additional Remedies

4.01. The Additional Events of Suspension referred to in Section 4.02 (i) of the Standard Conditions consist of the following:

(a) the Recipient has taken or permitted to be taken any action which would prevent or interfere with the performance by any Project Implementing Entity of any of its obligations under the relevant Project Agreement;

(b) any Project Implementing Entity has failed to perform any obligation under the relevant Project Agreement;

(c) IBRD or IDA has declared any Project Implementing Entity ineligible to be awarded a contract financed by IBRD or IDA;

(d) as a result of events which have occurred after the date of this Agreement, an extraordinary situation has arisen which makes it improbable that any of the Project Implementing Entities will be able to perform its obligations under the relevant Project Agreement;
(e) the legislation pertaining to PCU or BCM or any other entity involved in the implementation of the Project, or any text pertaining to their operation, shall have been amended, suspended, abrogated, repealed or waived so as to affect materially and adversely their ability to implement the Project or perform any of their obligations under this Agreement or the relevant Project Agreement;

(f) the Recipient or IFC shall have failed to perform any of their obligations under the Risk Sharing Framework Agreement;

(g) as a result of events which have occurred after the date of this Agreement, an extraordinary situation shall have arisen which shall make it improbable that the Recipient or IFC will be able to perform their obligations under the Risk Sharing Framework Agreement; and

(h) the World Bank has determined after the Effective Date referred to in Section 5.03 of this Agreement that prior to such date but after the date of this Agreement, an event has occurred which would have entitled the World Bank to suspend the Recipient’s right to make withdrawals from the Grant Account if this Agreement had been effective on the date such event occurred.

Article V

Effectiveness; Termination

5.01. This Agreement shall not become effective until evidence satisfactory to the World Bank has been furnished to the World Bank that the conditions specified below have been satisfied:

(a) the texts pertaining to, and the bylaws of PCU shall have been updated in a manner satisfactory to the Association;

(b) the Recipient has adopted the Operational Manual in form and substance satisfactory to the Association;

(c) the execution and delivery of this Agreement on behalf of the Recipient and the Project Agreements on behalf of the relevant Project Implementing Entities have been duly authorized or ratified by all necessary governmental and corporate actions; and

(d) the Subsidiary Agreements referred to in Section 1.C of Schedule 2 to this Agreement have been duly executed and delivered on behalf of the Recipient and the relevant Project Implementing Entities.
5.02. As part of the evidence to be furnished pursuant to Section 5.01 (a), there shall be furnished to the World Bank an opinion or opinions satisfactory to the World Bank of counsel acceptable to the World Bank or, if the World Bank so requests, a certificate satisfactory to the World Bank of a competent official of the Recipient, showing the following matters:

(a) on behalf of the Recipient, that this Agreement has been duly authorized or ratified by, and executed and delivered on its behalf and is legally binding upon it in accordance with its terms;

(b) on behalf of each of the Project Implementing Entities, that the relevant Project Agreements have been duly authorized or ratified by, and executed and delivered on their behalf and are legally binding upon them in accordance with their terms; and

(c) the Subsidiary Agreements referred to in Section I.C of Schedule 2 to this Agreement have been duly authorized or ratified by, and executed and delivered on behalf of the Recipient and the relevant Project Implementing Entities and are legally binding upon each such party in accordance with their terms.

5.03. Except as the Recipient and the World Bank shall otherwise agree, this Agreement shall enter into effect on the date upon which the World Bank dispatches to the Recipient notice of its acceptance of the evidence required pursuant to Section 5.01 (“Effective Date”). If, before the Effective Date, any event has occurred which would have entitled the World Bank to suspend the right of the Recipient to make withdrawals from the Grant Account if this Agreement had been effective, the World Bank may postpone the dispatch of the notice referred to in this Section until such event (or events) has (or have) ceased to exist.

5.04. This Agreement and all obligations of the parties under it shall terminate if it has not entered into effect by the date ninety (90) days after the date of this Agreement, unless the World Bank, after consideration of the reasons for the delay, establishes a later date for the purpose of this Section. The World Bank shall promptly notify the Recipient of such later date.
Article VI

Recipient’s Representative; Addresses

6.01. The Recipient’s Representative referred to in Section 7.02 of the Standard Conditions is the Minister at the time in charge of finance.

6.02. The Recipient’s Address referred to in Section 7.01 of the Standard Conditions is:

Ministry of Finance and Budget
Antananarivo 101
Madagascar
BP 61

Cable address: MEFB
Telex: 22489
Facsimile: (261) 20 22 345 30

6.03. The World Bank’s Address referred to in Section 7.01 of the Standard Conditions is:

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

Cable: INDEVAS
Telex: 248423 (MCI) or 64145 (MCI)
Facsimile: 1-202-477-6391
AGREED at Antananarivo, Republic of Madagascar, as of the day and year first above written.

REPUBLIC OF MADAGASCAR

By: /s/ Robert R. Blake
    Authorized Representative

INTERNATIONAL DEVELOPMENT ASSOCIATION
acting as an administrator of the Africa Catalytic Growth Fund

By: /s/ Haja Nirina Razafinjatovo
    Authorized Representative
SCHEDULE 1

Project Description

The objective of the Project is to assist the Recipient in increasing access to sustainable financial services, particularly by micro, small and medium enterprises and households in Madagascar through the improvement of competition and diversification in the financial sector.

The Project consists of the following parts:

Part 1: Creating an Enabling Environment for a Sound and Inclusive Financial Sector

(a) Improving the Recipient’s financial sector infrastructure and legal environment by: (i) assisting in the improvement of access to credit by providing a regulatory framework to implement the law on secured transactions; (ii) developing an appropriate legal framework for housing finance; (iii) providing technical and legal assistance to develop legislation on private pension plans and improving the insurance act; and (iv) improving the public credit information system and removing legal obstacles to the creation of a private credit bureau, all through the provision of goods and services.

(b) Provision of capacity building support and technical assistance to supervisory authorities to: (i) strengthen the monitoring and supervision of the Recipient’s financial sector, particularly banking and non banking institutions; and (ii) identify and support the most appropriate and efficient structure for regulating and supervising the insurance and private sector funds, all through the provision of goods and services.

Part 2: Improving Access to Finance and the Diversity of Financial Products

(a) Promoting the expansion of SME financed by commercial banks by: (i) Recipient providing first loss credit coverage on portfolios of SME loans originated and held by Participating Banks through Risk Sharing Facilities to be entered into between IFC and such Participating Banks pursuant to which IFC, as facility agent acting on behalf of both Recipient and IFC, will provide risk coverage on a pari passu basis with each Participating Bank; (ii) technical advisory services and training to personnel of Participating Banks; and (iii) the provision of Matching Grants in support of education and business development services to enterprises, especially the SMEs, to enhance their creditworthiness.

(b) Provision of assistance to the Recipient’s microfinance institutions to: (i) improve their service capacity and assist in their compliance with licensing requirements; and (ii) establish sustainable training program, all through the provision of goods, services and Matching Grants.

(c) Supporting the adoption of innovative financial products and instruments through the conduct of: (i) a feasibility study on the development of mobile banking and including proposals for an appropriate legal and regulatory framework; (ii) a diagnosis and demand survey to design
and disseminate agricultural loan and other rural finance products; (iii) a diagnosis of financing needs and instruments in selected priority sectors and supply chains (tourism, mining and agribusiness); (iv) a demand survey on access to financial services; and (v) identification of appropriate mechanisms and options for developing long term debt and equity market, all through the provision of services.

Part 3  Project Implementation and Coordination

Support to Project implementation, coordination, procurement and financial management, as well as monitoring and evaluation activities, all through the provision of technical advisory services and Operating Costs.
SCHEDULE 2

Project Execution

Section I. Institutional and Other Arrangements

A. Steering Committee

1. The Recipient shall, at all times during the execution of the Project:

   (a) ensure that SC is maintained with functions, staffing and resources satisfactory to the World Bank, composed of representatives from BCM, MFB, the Ministry of Economy, and the Ministry of Justice as well as professionals from banks, microfinance, other non-bank financial institutions, professional associations and other selected representatives of the private sector, for the purpose of:
      (i) approving annual work programs and budgets; (ii) reviewing project reports including the audit, mid-term review and implementation completion reports; and (iii) addressing any major problems affecting Project implementation; and

   (b) ensure that SC meets at least twice a year.

B. Implementing Agencies

1. The Recipient shall ensure that PCU is maintained at all times during the implementation of the Project with functions, staffing and resources satisfactory to the World Bank, including a minimum: a Project coordinator, an accounting and financial management specialist, a procurement specialist, a monitoring and evaluation specialist, two microfinance and banking specialists and support staff, for the purpose of ensuring, as regards under Parts 1(a) and 2 except for 2(a)(i) of the Project: (a) overall day-to-day management as well as overall coordination and implementation of activities; (b) consolidation of the work programs and budgets; (c) maintenance of records and accounts for all transactions; (d) timely preparation of quarterly financial statements reports, individual and consolidated financial statements and other reports; (e) cash management and replenishment applications for the Designated Account under its responsibility; (f) procurement; and (g) monitoring and evaluation of activities.

2. The Recipient shall ensure that BCM is maintained at all times during the implementation of the Project with in form and with functions and with staffing and resources allowing for the due implementation of the Project, including the SGCSBF, for the purpose of ensuring the prompt and efficient implementation of Part 1(b) of the Project, including:
   (a) overall management and implementation of activities; (b) maintaining records and accounts for all transactions; (c) managing disbursements from the Designated Account under its responsibility; (d) procurement; and (e) preparing its financial statements and other reports.
C. **Subsidiary Agreements**

1. To facilitate the carrying out of Part 1(a) and Part 2 other than 2(a)(i) of the Project, the Recipient shall make part of the proceeds of the Grant available to PCU under a subsidiary agreement between the Recipient and PCU, under terms and conditions approved by the World Bank.

2. To facilitate the carrying out of Part 1(b) of the Project, the Recipient shall make part of the proceeds of the Grant available to BCM under a subsidiary agreement between the Recipient and BCM, under terms and conditions approved by the World Bank.

3. Each Subsidiary Agreement shall include, *inter alia*, the following terms and conditions:

   (a) The obligation of the Recipient to transfer the proceeds of the Grant to the Project Implementing Entity on a 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 the Operational 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 the Operational Manual, and at all times to ensure that only activities that comply with the Subsidiary Agreement and the Operational Manual will be financed from the proceeds of the Grant.

   (e) The obligation of the Project Implementing Entity to promptly refund to the Recipient any proceeds from the Grant 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.

   (f) A provision stipulating that, in case of conflict between any of the provisions contained in the Subsidiary Agreement or the Operational Manual, on one hand, and those set forth in this Agreement and the Project Agreement, on the other hand,
the provisions of this Agreement and the Project Agreement shall at all times prevail.

4. The Recipient shall exercise its rights under the Subsidiary Agreements in such a manner as to protect the interests of the Recipient and the World Bank and to accomplish the purposes of the Grant. Except as the World Bank shall otherwise agree, the Recipient shall not assign, amend, abrogate or waive the Subsidiary Agreements or any of their provisions.

D. Operational Manual

The Recipient shall ensure that the Project is carried out in accordance with the arrangements and procedures set out in the Operational Manual (provided, however, that in case of any conflict between the arrangements and procedures set out in the Operational Manual and the provisions of this Agreement, the provisions of this Agreement shall prevail), and shall not amend, abrogate or waive the Operational Manual or any of its provisions without prior approval in writing by the World Bank.

E. Procedures and Eligibility Criteria for Matching Grants

1. Beneficiaries may submit Matching Grant proposals to PCU for approval based on rules set forth in the Operational Manual, giving details of: (a) activities to be financed by Matching Grants, Beneficiaries and eligibility criteria; (b) arrangements and procedures for preparation, appraisal, approval, implementation and supervision of activities to be financed by Matching Grants; (c) procurement, financial management and disbursement arrangements; (d) performance indicators; (e) standard formats for Matching Grant Agreements; and (f) such other legal, administrative, financial and organizational arrangements as shall be required for providing Matching Grants.

2. The selected Matching Grant Projects must meet the requirements set forth in the Operational Manual, including but not limited to the Beneficiary having the capacity to contract under the laws of the Recipient.

3. Following receipt of the approved Matching Grant Project proposal, and prior to the disbursement of any Matching Grant to the relevant Beneficiary, PCU shall enter into a Matching Grant Agreement with said Beneficiary under terms and conditions satisfactory to the World Bank, as set out in the Operational Manual, which, inter alia, shall include the following:

   (a) the obligation of the Beneficiary to carry out the Matching Grant Project in accordance with the Operational Manual with due diligence and efficiency and in accordance with sound technical, financial, environmental, and managerial standards, and to maintain adequate records to reflect, in accordance with sound
accounting practices, the operations, resources and expenditures in respect of the Matching Grant Project;

(b) the requirement that the goods and services to be financed from the proceeds of the Matching Grant shall be used exclusively in carrying out the Matching Grant Project;

(c) the right of PCU to inspect by itself, or jointly with the World Bank, if the World Bank shall so request, the goods, sites or plants included in the Matching Grant Project, the operations thereof and any relevant records and documents;

(d) the right of PCU to obtain all information as the World Bank shall reasonably request regarding the administration, operation and financial management of the Matching Grant Project;

(e) the right of PCU to suspend or terminate the right of the Beneficiary to use or benefit from the use of the proceeds of the Matching Grant upon failure by the Beneficiary to perform any of its obligations under the Matching Grant Agreement; and

(f) the right to receive from the Beneficiary quarterly (or any other period agreed upon by the World Bank) progress reports reflecting, inter alia, the Matching Grant Project performance indicators, and a final report upon completion of the Matching Grant Project.

Section II. Project Monitoring, Reporting and Evaluation

A. Project Reports; Completion Report

1. (a) The Recipient shall monitor and evaluate the progress of the Project and prepare Project Reports in accordance with the provisions of Section 2.06 of the Standard 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 (1) calendar quarter, and shall be furnished to the World Bank 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) As of the Closing Date, credit extended to micro, small and medium enterprises by Participating Banks has increased.
(ii) As of the Closing Date, the number of accounts at licensed financial institutions (banks and microfinance institutions) has increased.

(iii) As of the Closing Date, the number of financially self-sufficient microfinance institutions has increased.

(iv) As of the Closing Date, the number of banks and non-bank financial institutions being regularly supervised has increased.

2. The Recipient shall prepare the Completion Report in accordance with the provisions of Section 2.06 of the Standard Conditions. The Completion Report shall be furnished to the World Bank not later than six (6) months after the Closing Date.

3. On or about twenty four (24) months after the Effective Date, the Recipient shall undertake in conjunction with the World Bank and the Project Implementing Entities a comprehensive mid-term review of the Project during which it shall exchange views generally on all matters relating to the progress of the Project, the performance by the Recipient of its obligations under this Agreement and the performance by the Project Implementing Entities of their respective obligations under the Project Agreements.

B. Financial Management; Financial Reports; Audits

1. The Recipient shall ensure that a financial management system is maintained in accordance with the provisions of Section 2.07 of the Standard Conditions.

2. The Recipient shall ensure that interim unaudited financial reports for the Project are prepared and furnished to the World Bank not later than 45 days after the end of each calendar quarter, covering the quarter, in form and substance satisfactory to the World Bank.

3. The Recipient shall have its Financial Statements for the Project audited in accordance with the provisions of Section 2.07 (b) of the Standard Conditions. Such audit of the Financial Statements shall cover the period of one (1) Fiscal Year. The audited Financial Statements for each such period shall be furnished to the World Bank not later than six (6) months after the end of such period.

Section III. Procurement

A. General

1. Procurement and Consultant Guidelines. All goods, and services required for the Project and to be financed out of the proceeds of the Grant shall be procured in accordance with the requirements set forth or referred to in:
(a) Section I of the “Guidelines: Procurement under IBRD Loans and IDA Credits” published by the World Bank in May 2004 (“Procurement Guidelines”), in the case of goods and Sections I and IV of the “Guidelines: Selection and Employment of Consultants by World Bank Borrowers” published by the World Bank in May 2004 (“Consultant Guidelines”) in the case of consultants’ services; and

(b) the provisions of this Section III, as the same shall be elaborated in the procurement plan prepared and updated from time to time by the Recipient for the Project in accordance with paragraph 1.16 of the Procurement Guidelines and paragraph 1.24 of the Consultant Guidelines (“Procurement Plan”).

2. **Definitions.** The capitalized terms used below in this Section to describe particular procurement methods or methods of review by the World Bank 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**

1. **International Competitive Bidding.** Except as otherwise provided in paragraph 2 below, goods shall be procured under contracts awarded on the basis of International Competitive Bidding.

2. **Other Methods of Procurement of Goods.** The following methods, other than International Competitive Bidding, may be used for procurement of goods for those contracts specified in the Procurement Plan which the Bank agrees meet the requirements set forth in the Procurement Guidelines for their use: (a) National Competitive Bidding; (b) Shopping; (c) Procurement from the United Nations Office for Project Services.

**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 methods, other than Quality- and Cost-based Selection, may be used for procurement of consultants’ services for those assignments which are specified in the Procurement Plan which the Bank agrees meet the requirements set forth in the Consultant Guidelines for their use: (a) Quality-Based Selection; (b) Least Cost Selection; (c) Selection based on Consultants’ Qualifications; (d) Single-source Selection; (e) Selection of Individual Consultants; and (f) Sole Source Procedures for the Selection of Individual Consultants.
D. Review by the World Bank of Procurement Decisions

1. The Procurement Plan shall set forth those contracts which shall be subject to the World Bank’s Prior Review. All other contracts shall be subject to Post Review by the World Bank.

2. Except as the World Bank shall otherwise determine by notice to the Recipient, the following contracts shall be subject to Prior Review by the World Bank: (a) each contract for consultants’ services provided by a firm estimated to cost the equivalent of $100,000 or more; (b) each contract for consultant’s services provided by individual consultant estimated to cost the equivalent of $50,000 or more; and all contracts for consultant’s services to be awarded on sole source basis. All other contracts shall be subject to Post Review by the World Bank.

Section IV. Withdrawal of Grant Proceeds

A. General

1. The Recipient may withdraw the proceeds of the Grant in accordance with the provisions of: (a) Article III of the Standard Conditions; (b) this Section; (c) the provisions of Appendix 2 to this Agreement as regards Risk Sharing Facilities; and (d) such additional instructions as the World Bank may 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 World Bank 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 Grant (“Category”), the allocations of the amounts of the Grant to each Category, and the percentage of expenditures to be financed for Eligible Expenditures in each Category:

<table>
<thead>
<tr>
<th>Category</th>
<th>Amount of the Grant Allocated (expressed in USD)</th>
<th>Percentage of Expenditures to be Financed (inclusive of Taxes)</th>
</tr>
</thead>
<tbody>
<tr>
<td>(1) Goods, consultants’ services and training, under Part 1 (b) of the Project</td>
<td>1,000,000</td>
<td>100%</td>
</tr>
<tr>
<td>(2) Goods, consultants’ services and training under the Project</td>
<td>5,650,000</td>
<td>100%</td>
</tr>
<tr>
<td>Category</td>
<td>Amount of the Grant Allocated (expressed in USD)</td>
<td>Percentage of Expenditures to be Financed (inclusive of Taxes)</td>
</tr>
<tr>
<td>----------------------------------------------</td>
<td>-----------------------------------------------</td>
<td>---------------------------------------------------------------</td>
</tr>
<tr>
<td>other than under Part 1 (b)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>(3) Goods and Services under Matching Grants</td>
<td>3,850,000</td>
<td>100%</td>
</tr>
<tr>
<td>(4) Operating Cost</td>
<td>800,000</td>
<td>100%</td>
</tr>
<tr>
<td>(5) Risk Sharing Facility</td>
<td>2,500,000</td>
<td>100% of amounts disbursed</td>
</tr>
<tr>
<td>(6) Unallocated</td>
<td>1,200,000</td>
<td>100%</td>
</tr>
<tr>
<td>TOTAL AMOUNT</td>
<td>15,000,000</td>
<td>100%</td>
</tr>
</tbody>
</table>

**B. Withdrawal Conditions; Withdrawal Period**

1. Notwithstanding the provisions of Part A of this Section no withdrawal shall be made for:

   (a) payments made prior to the date of this Agreement; or

   (b) any Risk Sharing Facility under Category (5) unless: (i) the Risk Sharing Account has been opened on terms and conditions acceptable to the World Bank; and (ii) the Risk Sharing Framework Agreement and the Risk Sharing Facility Agreement for such Risk Sharing Facility, on terms and conditions acceptable to the World Bank, have been duly authorized, executed and ratified by and are legally binding upon the parties thereto, and all conditions precedent to their effectiveness, except only the disbursement of the proceeds of the Grant for such Risk Sharing Facility pursuant to Appendix II of this Agreement, have been fulfilled; and

   (c) a Matching Grant under Category (3) unless the Matching Grant has been made in accordance with the criteria and on terms and conditions set forth or referred to in the Operational Manual and the provisions of Section I.E of Schedule 2 to this Agreement.

2. The Closing Date referred to in Section 3.06 (c) of the Standard Conditions is December 31, 2012.
Section V  Other Undertakings

A. No later than three (3) months after the Effective Date, the Recipient shall have caused the external auditors referred to in Article 2.07 of the Standard Conditions to be employed.
APPENDIX I

Definitions


2. “BCM” means the Central Bank of Madagascar established and operating pursuant to Law No. 94-004 of the Recipient, dated June 10, 1994, as amended to the date of this Agreement.

3. “Beneficiary” means any enterprise established and operating pursuant to the laws of the Recipient for which a Matching Grant (as hereinafter defined) is financed or proposed to be financed out of the proceeds of the Grant pursuant to a Matching Grant Agreement (as hereinafter defined) under the conditions set forth in the Operational Manual (as hereinafter defined) and in Section I.E of Schedule 2 to this Agreement.


5. “Financial Management Procedures Manual” means the Recipient’s manual satisfactory to the World Bank, outlining the administrative, financial management and accounting and auditing arrangements for the implementation of the Project, including as regards Matching Grants (as hereinafter defined) to be adopted by the Recipient pursuant to Section 5.01 (b) of this Agreement, as the same may be amended in agreement with the World Bank from time to time, and such terms include any schedules to the Financial Management Procedures Manual.

6. “Fiscal Year” means the Recipient’s fiscal year commencing January 1 and ending December 31 of each year.


8. “Matching Grant” means a grant made, or to be made, out of the proceeds of the Grant, to finance a Matching Grant Project (as hereinafter defined).

9. “Matching Grant Agreement” means the agreement to be entered into between PCU (as hereinafter defined) and a Beneficiary for the purpose of extending a Matching Grant to the said Beneficiary.

10. “Matching Grant Project” means specific activities financed or to be financed through a Matching Grant made under Part 2(b) of the Project.
11. “MFB” means the Recipient’s Ministry of Finance and Budget.

12. “Operating Costs” means the operating costs incurred by PCU (as hereinafter defined) on account of the implementation of the Project, including office supplies, operation and maintenance of vehicles and equipment, staff salaries, but excluding civil servant salaries, and travel and other costs incurred for supervising the Project.


14. “Participating Bank” means, individually, a commercial bank, established and operating pursuant to the laws of the Recipient, which has met the eligibility criteria specified in the Risk Sharing Framework Agreement (as hereinafter defined) and as a result has received a Risk Sharing Facility (as hereinafter defined) under Part 2(a)(i) of the Project; and “Participating Banks” means, collectively, more than one Participating Bank.

15. “PCU” means the Project Coordination Unit, established and operating pursuant to the Recipient’s, decree n° 99-249 dated April 7, 1999 and its bylaws, all to be updated as per Section 5.01 of this Agreement.

16. “Procurement Plan” means the Recipient’s procurement plan for the Project, dated March 7, 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.

17. “Project Agreement” means the Project Agreement dated the same date as this Agreement between the World Bank and each of the Project Implementing Entities, (as hereinafter defined) respectively, as such agreement may be amended from time to time; and “Project Agreements” means, collectively, all such agreements.

18. “Project Implementing Entity” means PCU or BCM, as the case may be; and “Project Implementation Entities” means, collectively, all such entities.

19. “Project Implementation Plan” means the Recipient’s plan satisfactory to the World Bank, outlining, inter alia, the coordination, disbursement, monitoring and evaluation arrangements for the implementation of the Project, including performance indicators, and criteria and procedures for Matching Grants and other provisions related to the institutional organization for the Project, to be adopted by the Recipient pursuant to Section 5.01 (b) of this Agreement, as the same may be amended in agreement with the World Bank from time to time, and such terms include any schedules to the Project Implementation Plan.

20. “Risk Sharing Account” means the account referred to in Paragraph 1 of Appendix II to this Agreement.
21. “Risk Sharing Facility” means, individually, a risk sharing facility in respect of SME (as hereinafter defined) loans originated and held by a Participating Bank financed or to be financed out of the proceeds of the Grant under Part 2(a)(i) of the Project; and “Risk Sharing Facilities” means, collectively, more than one Risk Sharing Facility.

22. “Risk Sharing Facility Agreement” means an agreement entered or to be entered between IFC and a Participating Bank in relation to the sharing of credit risk over a portfolio of SME (as hereafter defined) loans to be originated and held by such Participating Bank; and “Risk Sharing Facility Agreements” means, collectively, more than one Risk Sharing Facility Agreement.

23. “Risk Sharing Framework Agreement” means the agreement to be entered into between the World Bank, IFC and the Recipient pursuant to Section IV.B.1.(b) of Schedule 2 to this Agreement, as the same may be modified from time to time by written agreement among the parties thereto.

24. “SC” means the Project Steering Committee, referred to in Section I. A of Schedule 2 to this Agreement, consisting of PCU’s general assembly and operating pursuant to PCU’s bylaws.

25. “SGCSBF” means Sénatariat General de la Commission de Supervision Bancaire et Financière, the technical secretariat within BCM to be in charge of the implementation of the project and to be maintained at all times during Project implementation with form and function and staffing satisfactory to the World Bank.

26. “SME” means small and medium enterprise.


28. “Subsidiary Agreement” means the subsidiary agreement referred to in Section I.C of Schedule 2 to this Agreement pursuant to which the Recipient shall make the proceeds of the Grant available to the respective Project Implementing Entity; and “Subsidiary Agreements” means, collectively, all such agreements.

29. “Training” means the costs associated with the training and workshop participation of personnel involved in Project supported activities, including travel and subsistence costs for training and workshop participants, costs associated with securing the services of trainers and workshop speakers, rental of training and workshop facilities, preparation and reproduction of training and workshop materials, and other costs directly related to training course and workshop preparation and implementation.
APPENDIX II

Risk Sharing Facility

1. The Recipient shall, for the purposes of Part 2(a)(i) of the Project, entrust IFC to open and maintain, on behalf of the Recipient, an account on terms and conditions satisfactory to the World Bank (“Risk Sharing Account”). Deposits into, and payments out of, the Risk Sharing Account shall be made in accordance with the terms and conditions set forth in this Agreement and the Risk Sharing Framework Agreement.

2. The proceeds of the Grant deposited in the Risk Sharing Account shall be used exclusively for eligible expenditures in accordance with the terms of the Risk Sharing Framework Agreement.

3. The Recipient may, through IFC, refund to the World Bank any amount on deposit in the Risk Sharing Account which IFC shall have determined will not be required to cover payments due under or in connection with the Risk Sharing Facility Agreements.

4. The Recipient shall, through IFC, promptly refund to the World Bank any balance in the Risk Sharing Account remaining after the commitments under each Risk Sharing Facility Agreement have expired or said agreement has otherwise terminated in accordance with its terms.

5. Refunds to the World Bank made pursuant to Paragraphs 3 and 4 of this Appendix II or otherwise pursuant to the provisions of the Risk Sharing Framework Agreement shall be credited to the Grant Account for subsequent withdrawal or for cancellation in accordance with the relevant provisions of this Agreement, including the Standard Conditions; provided, however, that amounts refunded to the World Bank pursuant to Paragraph 4 of this Appendix II after the Closing Date may be used for such purposes as may have been agreed between the Recipient and the World Bank.

6. The Executive Vice President of IFC or any person whom he or she shall designate in writing, is designated as representative of the Recipient for the purposes of taking any action required or permitted to be taken under the provisions of Section 3.02 of this Agreement with regards to the Risk Sharing Facility and Article III of the Standard Conditions.

7. Without limitation or restriction to the foregoing, the Recipient hereby entrusts IFC with responsibility for preparing and delivering withdrawal applications in respect of Category (4) in the table in Paragraph 2 of Section IV.A of Schedule 2 to this Agreement, and for collecting documents and other evidence to be furnished to the Recipient in support of such applications.