

OFFICIAL DOCUMENTS

CREDIT NUMBER 5835-MG

Financing Agreement

(Public Sector Performance Project)

between

REPUBLIC OF MADAGASCAR

and

INTERNATIONAL DEVELOPMENT ASSOCIATION

Dated 28 OCT 2016, 2016

CREDIT NUMBER 5835-MG

FINANCING AGREEMENT

AGREEMENT dated 28 001, 2016, entered into between the REPUBLIC OF MADAGASCAR ("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 credit in an amount equivalent to twenty-eight million four hundred thousand Special Drawing Rights (SDR 28,400,000) (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 The Service Charge payable by the Recipient on the Withdrawn Credit Balance shall be equal to three-fourths of one percent (3/4 of 1%).
- 2.05. The Payment Dates are May 15 and November 15 in each year.
- 2.06. The principal amount of the Credit shall be repaid in accordance with the repayment schedule set forth in Schedule 3 to this Agreement.
- 2.07. The Payment Currency is the Dollar.

ARTICLE III — PROJECT

- 3.01 The Recipient declares its commitment to the objective of the Project. To this end, the Recipient shall carry out the Project through the Office of the President 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 — EFFECTIVENESS; TERMINATION

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

- (a) The Recipient has adopted the Project Manual, in form and substance satisfactory to the Association, including separate sections on: (1) procedures for DLI-based disbursements, the DLI verification process to be followed by the Independent Verifiers and the Recipient (the “Verification Protocol”) and eligibility criteria and procedures for EEPs; (2) role and responsibility of the key players, and the overall fiduciary arrangements of the Project; and (3) criteria and procedures for Grants eligibility;
- (b) The Recipient has adopted terms of reference for the DLI Verification Protocol satisfactory to the Association; and
- (c) The Recipient, through the CA, has recruited the Independent Verifiers pursuant to terms of reference acceptable to the Association and in accordance with the provisions of Section III of Schedule 2 to this Agreement, for the purpose of carrying out periodic assessments, verifications and validation of the performance of the Recipient towards achieving the DLIs.

- 4.02. The Effectiveness Deadline is the date one hundred and twenty (120) days after the date of this Agreement.

ARTICLE V — REPRESENTATIVE; ADDRESSES

- 5.01. The Recipient’s Representative is its minister responsible for finance.

- 5.02. The Recipient’s Address is:

Ministry of Finance and Budget
B.P. 61
Antananarivo 101
Madagascar

Cable address:

MFB

Facsimile:

(261) 20 22 34530

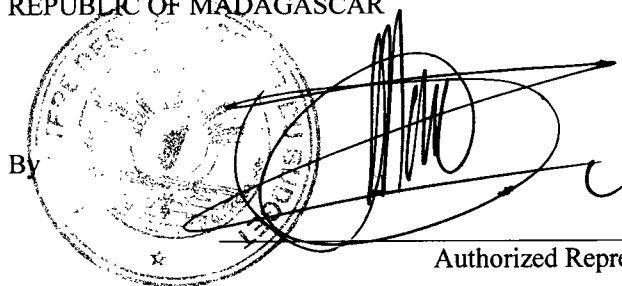
5.03. The Association's Address is:

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

Telex: Facsimile:
248423 (MCI) 1-202-477-6391

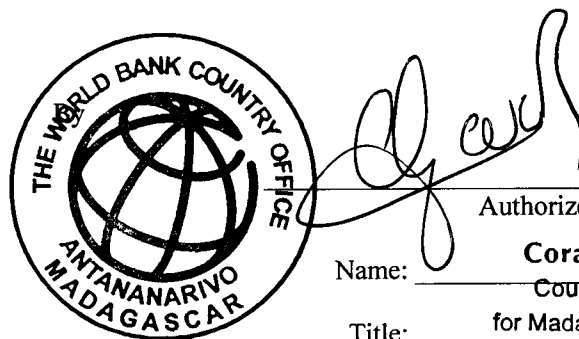
AGREED at Antananarivo, Republic of Madagascar, as of the day and year first above written.

REPUBLIC OF MADAGASCAR



Authorized Representative
Name: RAKOTOARIMANANA Francois M.M. Gervais
Title: LE MINISTRE DE L'INDUSTRIE ET DE L'ENERGIE

INTERNATIONAL DEVELOPMENT ASSOCIATION



Authorized Representative
Name: Coralie GEVERS
Country Manager
Title: for Madagascar, Comoros

SCHEDULE 1

Project Description

The objective of the Project is to improve revenue management and local service delivery nationwide and in the education sector in selected Regions.

The Project consists of the following parts:

Part 1: Improving Revenue Management

1. Strengthen the Recipient's capacity to mobilize revenues through the provision of technical assistance, capacity building, change management and equipment for:
 - (a) the improvement and consolidation of tax payers' registration and identification;
 - (b) the modernization of the Integrated Tax Administration System (ITAS) through the implementation of a tax administration ICT readiness diagnostic and a tax administration ICT modernization strategy, the development of ITAS bidding documents, the provisions of Training on ICT and use of ITAS for tax administration staff, the implementation of necessary legal and policy changes enabling the use of the new ITAS in tax collection, and the communication and awareness raising on ITAS for taxpayers;
 - (c) the strengthening of risk-based audit function and control through the provision of support to tax and customs administrations on analysis of taxpayers data for risk identification purposes, audit and control planning and monitoring, Training of auditors on risk analysis, the revision of audit procedural manuals and the implementation of monitoring and evaluation activities;
 - (d) the creation of an enabling environment for performance-based management at the tax and customs departments through the revision of internal incentive and sanctions structure; the establishment of global performance contracts for tax offices and individual performance contracts for customs inspectors; the development of performance management and monitoring systems; improvement of the customs HR management system;
 - (e) the improvement of revenue collection in the mining sector; and
 - (f) the improvement of accountability and transparency of revenue and customs agencies.

2. Support Eligible Expenditure Programs through result-based financing for:

- (a) the modernization of the Integrated Tax Administration System (ITAS) through: (i) the strengthening of fiscal governance: the provisioning of IT equipment for ITAS and ITAS software, the carrying out of workshops, the development of internal and external communication; and (ii) ensuring national coverage of tax administration and improve tax basis, improvement of work tools;
- (b) the strengthening of audit function and control through: (i) the strengthening of fiscal governance, the provisioning of IT equipment for ITAS and ITAS software, the carrying out of workshops, the development of internal and external communication; and (ii) provisioning of equipment at the level of the General Directorate of Customs;
- (c) the creation of an enabling environment for performance-based management at the Tax and Customs Departments through the payment of salaries for tax administration and for customs administration, and supreme audit institutions; and
- (d) development of leadership, change and knowledge management capacity.

Part 2: Improving Service Delivery Capacity of Local Governments

- 1. Improving the governance, capacity, and performance of local governments in delivering services, through the provision of technical assistance, capacity building, equipment for: (a) the strengthening of grant transfer and equalization mechanisms; (b) the development of a strategy and review of legal, institutional, and technical framework of revenue collection and developing pilots to secure revenue collection; and (c) the reinforcement of knowledge management for local governance, including selected impact evaluations.
- 2. Support Eligible Expenditure Programs through result-based financing for the provision of Communal Grants.

Part 3: Improving Governance Mechanisms in the Education Sector

- 1. Improving performance and governance in the education sector in Selected Regions, through the provision of technical assistance, capacity building, equipment for: (a) improving the budget planning and monitoring systems at the local and central levels, and the budget execution mechanisms for School Grants and subsidy transfers; and (b) supporting the implementation of the FEFFI and the development of PECs through a combination of technical assistance and incentive processes.

2. Support Eligible Expenditure Programs through result-based financing for School Grants.

Part 4: Improving Controls and Performance Monitoring

Improving performance in the management of revenue and expenditures through the provision of technical assistance, Operating Costs, capacity building, equipment for: (a) the strengthening controls and oversight mechanisms; (b) the promotion of transparency, accountability, participation, and media access to information; and (c) Project coordination and performance monitoring, including management of fiduciary, safeguards and monitoring activities and hiring of Independent Verifiers for DLIs and EEPs.

SCHEDULE 2

Project Execution

Section I. Implementation Arrangements

A. Institutional Arrangements

The unit for the *Programme pour l'efficacité de l'administration* ("PREA"), based within the Office of the President (the "PREA Coordination Unit") shall have the responsibility for overall coordination of the Project. The Recipient shall maintain the following institutional arrangements in accordance with the PREA Decree, further described in the Project Manual, throughout the implementation of the Project.

1. PREA Steering Committee

- (a) The Recipient shall maintain the PREA Steering Committee, with composition and mandate acceptable to the Association.
- (b) Without limitation to the generality of the foregoing provisions of paragraph (a) immediately above, the PREA Steering Committee shall be responsible for the provision of strategic guidance, ensure inter-ministerial coordination and overall oversight of the Project and support for its effective implementation, approving Annual Work Plans and Budget; and shall meet at least twice a year to review Project progress reports.

2. PREA Coordination Unit

- (a) The Recipient shall maintain the PREA Coordination Unit with mandate, composition and resources acceptable to the Association. In particular, the Recipient shall maintain at all times sufficient relevant staff, each with adequate terms of reference, qualifications and experience for the Project.
- (b) The PREA Coordination Unit shall be responsible for the procurement, financial flows, and environmental and social safeguards matters (in coordination with the FDL) for the Project, shall monitor ministries responsible for the achievement of DLIs and related technical assistance activities. The PREA Coordination Unit shall be responsible for consolidating information on the various project components and prepare and submit Project Reports to the Association and the PREA Steering Committee.

B. Eligible Expenditures Programs under Parts 1.2, 2.2 and 3.2 of the Project

1. No later than January 31, 2017, and on January 31 each year thereafter until the Closing Date, the Recipient shall provide documentary evidence to the

Association: (a) that a budget line (with the indication of the relevant budget codes) for each of the Eligible Expenditures Programs is included in the Recipient's Budget Law (and maintained in the successive modifications to Budget Laws); and (b) that there is no change in the EEPs included in Parts 1.2, 2.2 and 3.2 of the Project (as described in the Project Manual) and in the underlying activities to be supported by the Association under such EEPs.

2. Each year throughout the Project implementation, the Recipient shall record the planned expenditures for each EEP in a specific budget line in its annual Budget Law and monitor expenditures incurred for each EEP per budget line. The Recipient shall then reflect such expenditures in its annual Budget Execution Law.
3. The Recipient and the Association may jointly review, at the time of preparation of each Budget Law (and each succeeding modifying Budget Law), the amounts assigned per budget code to the EEPs included in Parts 1.2, 2.2 and 3.2 of the Project, and the Recipient shall adjust as needed the budget amounts of any EEP subject to the prior written agreement of the Association.
4. The Recipient shall ensure that the EEPs will comply with the eligibility criteria and procedures set forth in the Project Manual and the FDL Manual, as applicable.
5. The Recipient shall ensure that, other than for Communal Grants, the EEPs will not involve any activities that could have a negative impact on the environment and/or affected people or otherwise trigger the application of the Association's Environmental and Social Policies.

C. Grants

1. For the implementation of Part 2.2 of the Project, the Recipient, through FDL, shall extend Communal Grants to Eligible Communes (each a "Beneficiary") pursuant to the terms of the Project Manual and the FDL Manual; and for the implementation of Part 3.2 of the Project, the Recipient shall extend School Grants to Eligible Schools within Selected Regions pursuant to the terms of the Project Manual.
2. Each Communal Grant shall be extended pursuant to an agreement (each a "Grant Agreement") to be entered into between the Recipient (through FDL) and the relevant Beneficiary, on the basis of the model form attached to the FDL Manual, as applicable, which shall, *inter alia*, include the following provisions:
 - (a) the Beneficiary shall carry out the Sub-Project with due diligence and efficiency in accordance with appropriate administrative, financial, technical, engineering and environmental standards, including local and national environmental requirements, acceptable to the Association, including, without limitation to the generality of the foregoing, in accordance with the provisions of the Anti-Corruption Guidelines

applicable to recipients of Financing proceeds other than the Recipient, the FDL Manual, as applicable, and the relevant Safeguard Documents;

- (b) the Beneficiary shall provide, promptly as needed, the resources required for the purpose, if any;
 - (c) the Beneficiary shall procure the goods, works and services to be financed out of the Grant in accordance with the provisions of this Agreement and use such goods, works and services exclusively for the carrying out of the Sub-Project concerned;
 - (d) the Beneficiary shall maintain policies and procedures, adequate to enable the Recipient to monitor and evaluate in accordance with indicators acceptable to the Association, the progress of the activities carried out under the Sub-Project and the achievement of its objectives;
 - (e) the Beneficiary shall: (i) maintain a financial management system and prepare financial statements in accordance with consistently applied accounting standards acceptable to the Association, both in a manner adequate to reflect the operations, resources and expenditures related to the activities carried out under the Project; and (ii) at the Recipient's or the Association's request, have such financial statements audited by independent auditors acceptable to the Association, in accordance with consistently applied auditing standards acceptable to the Association, and furnish promptly to the Recipient and the Association the financial statements as so audited;
 - (f) the Beneficiary shall enable the Recipient and the Association to inspect the activities carried out under the Sub-Project, its operation and any relevant records and documents and prepare and furnish to the Recipient and the Association all such information as they shall reasonably request relating to the foregoing; and
 - (g) the Recipient shall have the right to suspend or terminate the right of the Beneficiary to use the proceeds of the Grant, or obtain a refund of all or any part of the amount of the Grant then withdrawn, upon the Beneficiary's failure to perform any of its obligations under the Grant Agreement.
3. The Recipient shall exercise its rights and carry out its obligations under each Grant Agreement in such manner as to protect the interests of the Recipient and the Association and to accomplish the purposes of the Financing. Except as the Association shall otherwise agree, the Recipient shall not assign, amend, abrogate or waive any of the Grant Agreements or any of their provisions.

D. Verifications

1. The Recipient, via the CA, shall furnish to the Association interim, semi-annual results reports within sixty (60) days of each semester prepared in accordance with the provisions of the Project Manual and the Verification Protocol and containing, *inter alia*: (i) calculation and demonstration of expenditures under the EEPs which incurred for the period preceding the Withdrawal request with respect to a specific DLI; and (ii) an assessment of progress on achievement of the DLIs.
2. To facilitate the implementation of Parts 1.2, 2.2 or 3.2 of the Project, the Recipient shall appoint and thereafter maintain, in accordance with the provision of Section III of this Schedule, the Independent Verifiers with terms of reference, qualifications and experience acceptable to the Association, as further described in the Project Manual.
3. The Recipient shall cause the Independent Verifiers to furnish to the Association at least annually reports (the "EEP Spending and Results Reports") prepared in accordance with the provisions of the Project Manual and the Verification Protocol and containing, *inter alia*: (i) calculation and demonstration of expenditures eligible for financing by the Association under the EEPs; and (ii) an assessment of the completion of the DLI as well as a proposal for disbursement under each Withdrawal.

E. Anti-Corruption

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

F. Safeguards

1. The Recipient shall ensure that all terms of reference for any technical assistance or studies carried out under the Project are consistent with, and pay due attention to, the Association's Environmental and Social Policies, as well as the Recipient's own laws relating to environment and social aspects.
2. The Recipient shall ensure that the Communal Grants shall be implemented in accordance with the guidelines, procedures, timetables, eligibility criteria (positive list) and other specifications set forth in the Safeguard Documents. In particular, the Recipient shall ensure that:
 - (a) for each activity under the Project of a type for which the Environmental and Social Management Framework provides that an Environmental and Social Management Plan should be prepared, such Environmental and Social Management Plan, in form and substance satisfactory to the Association, is effectively prepared and locally disclosed, before the implementation of such activity, in accordance with the provisions of the

Environmental and Social Management Framework, and the relevant activity is implemented in accordance with its Environmental and Social Management Plan. Before the implementation of any such activity, local public consultation shall be conducted in accordance with the ESMF; and

- (b) for each activity under the Project of a type for which the Resettlement Policy Framework provides that a Resettlement Action Plan should be prepared, such Resettlement Action Plan, in form and substance satisfactory to the Association, is effectively prepared and locally disclosed, before the implementation of such activity, in accordance with the provisions of the Resettlement Policy Framework, and the relevant activity is implemented in accordance with its Resettlement Action Plan.
- 3. Except as the Association shall otherwise agree in writing and subject to compliance with applicable consultation and public disclosure requirements of the Association, the Recipient shall not abrogate, amend, repeal, suspend or waive any provisions of any of the Safeguard Documents, nor shall it permit any other entity participating in the implementation of the Project to do so.
- 4. Without limitation upon its other reporting obligations under this Agreement, the Recipient shall regularly collect, compile and submit to the Association, on a semi-annual basis, reports on the status of compliance with the Safeguard Documents, giving details of: (a) measures taken in furtherance of the Safeguard Documents; (b) conditions, if any, which interfere or threaten to interfere with the smooth implementation of the Safeguard Documents; and (c) remedial measures taken or required to be taken to address such conditions.
- 5. In the event that any provision of the Safeguard Documents shall conflict with any provision under this Agreement, the terms of this Agreement shall prevail.

G. Annual Work Plans and Budgets

- 1. Each year the Recipient shall prepare:
 - (a) a draft annual work plan and budget for the Project (including Training and Operating Costs) for each subsequent year of Project implementation, of such scope and detail as the Association shall have reasonably requested; and
 - (b) the evidence, in form and substance satisfactory to the Association, that all Safeguard Documents required prior to the implementation of the activities included in the draft annual work plan and budget have been prepared or are in the process of being prepared so as to be available in form and substance acceptable to the Association and disclosed in accordance with the Association's Environmental and Social Policies

before approval by the Association of the bidding documents for each activity.

2. The Recipient shall furnish to the Association, as soon as available, but in any case not later than November 30 of each year, the annual work plans and budgets approved by the Steering Committee and the evidences referred to in subparagraph 1(b) above, for the Association's review and approval; except for the annual work plan and budget for the Project for the first year of Project implementation, and the evidence which may be required for the implementation of the activities included in the draft annual work plan and budget for such period which shall be furnished no later than one (1) month after the Effective Date. Only the activities included in an annual work plan and budget expressly approved by the Association (each an "Annual Work Plan and Budget") are eligible to a financing from the proceeds of the Financing.
3. Training shall be carried out on the basis of Annual Work Plans and Budgets, which shall, *inter alia*, identify: (a) particulars of the training envisaged; (b) the personnel to be trained; (c) the selection method of the institution or individuals conducting such training; (d) the institution conducting such training if identified; (e) the purpose and justification for such training; (f) the location and duration of the proposed training; and (g) the estimate of the cost of such training.
4. The Recipient shall ensure that the Project is carried out in accordance with the Annual Work Plans and Budgets.
5. Annual Work Plans and Budgets may be revised as needed during Project implementation subject to the Association's prior approval.

H. Manuals

1. (a) The Recipient shall ensure that the Project is carried out in accordance with the Project Manual and the FDL Manual.
(b) Except as the Association shall otherwise agree, the Recipient shall not assign, amend, abrogate, or waive the Manuals, or any provision thereof.
2. In the event of any conflict between the provisions of any of the Manuals and those of this Agreement, the provisions of this Agreement shall prevail.

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 acceptable to the Association. Each

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

B. Financial Management, Financial Reports and Audits

1. The Recipient shall maintain or cause to be maintained a financial management system in accordance with the provisions of Section 4.09 of the General Conditions.
2. 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 (1) 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 (6) months after the end of such period.

Section III. Procurement

A. General

1. **Goods, Works and Non-consulting Services.** All goods, works and non-consulting 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 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 Sections II and III of the Procurement Guidelines, or Sections II, III, IV and V of the Consultant Guidelines, as the case may be.

B. Particular Methods of Procurement of Goods, Works and Non-consulting Services

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

2. **Other Methods of Procurement of Goods, Works and Non-consulting Services.** The following methods, other than International Competitive Bidding, may be used for procurement of goods, works and non-consulting services for those contracts specified in the Procurement Plan:

(a) National Competitive Bidding: procurement may be carried out in accordance with the "Open Competitive Bidding" method (*Appel d'offres ouvert*) set forth in the Recipient's law no. 2004-009 of July 2004 on the Public Procurement Code, subject to the following additional provisions listed in (i) through (xv) below to conform to the provisions of the Procurement Guidelines:

(i) No bidder or potential bidder shall be declared ineligible for contracts financed by the Association for reasons other than: (i) its capability and resources to successfully perform the contract; (ii) a conflict of interest situation, or (iii) an accepted prohibition.

(A) Firms of a country or goods manufactured in a country may be excluded if: (AA) as a matter of law or official regulation, the Recipient's country prohibits commercial relations with that country, provided that the Association is satisfied that such exclusion does not preclude effective competition for the supply of goods, works, and non-consulting services required, or (BB) by an act of compliance with a decision of the United Nations Security Council taken under Chapter VII of the Charter of the United Nations, the Recipient's country prohibits any import of goods from, or payments to, a particular country, person, or entity. Where the Recipient's country prohibits payments to a particular firm or for particular goods by such an act of compliance, that firm may be excluded.

(B) Government-owned enterprises or institutions of the Recipient shall be eligible to participate in the bidding process in their country, only if they can establish that they are legally and financially autonomous, operate under commercial law, and are not dependent agencies of the Recipient or the Project Implementing Agency.

- (C) A firm sanctioned by the Association in accordance with paragraph 1.16(d) of the Procurement Guidelines, or the Anti-Corruption Guidelines, shall be ineligible to be awarded or to benefit from an Association or Bank-financed contract, financially or in any other manner, during the period of time determined by the Association.
 - (D) The requirement of producing a registration number (*Numéro d'Immatriculation*) for any bidder to participate in the bidding process shall not be interpreted as a prior requirement to any sort of local registration, license or authorization.
- (ii) Standard bidding documents acceptable to the Association shall be used so as to ensure economy, efficiency, transparency and consistency with the provisions of Section I of the Procurement Guidelines.
 - (iii) Participation from joint ventures shall be allowed on condition that such joint venture partners will be jointly and severally liable for their obligations under the awarded contract. Therefore, the "*Groupement Conjoint*", described under the Recipient's law no. 2004-009 of July 2004 on the Public Procurement Code, shall not be allowed under National Competitive Bidding.
 - (iv) No domestic/regional preference, or any other kind of preferential treatment, shall be given for domestic/regional bidders, and/or for domestically/regionally manufactured goods, and/or for domestically/regionally originated related services.
 - (v) The qualification criteria shall be clearly specified in the bidding documents, and all criteria so specified, and only such criteria so specified shall be used to determine whether a bidder is qualified. Qualification criteria shall be assessed on a "pass or fail" basis, and merit points shall not be used. Bidders' qualifications shall be assessed by post-qualification.
 - (vi) In case a fee is charged for the bidding documents, it shall be reasonable and reflect only the cost of their typing, printing or publishing, and delivery to prospective bidders, and it shall not be so high as to discourage bidders' participation in the bidding process. Bids may be submitted by electronic means only provided that the Association is satisfied with the adequacy of the system, including, *inter-alia*, that the system is secure, maintains the integrity, confidentiality, and authenticity of the bids

submitted, and uses an electronic signature system or equivalent to keep bidders bound to their bids.

- (vii) The bid validity period required by the bidding documents shall be sufficient to complete the evaluation of bids and obtain any approval that may be required (at least four (4) weeks). If justified by exceptional circumstances, an extension of the bid validity may be requested in writing from all bidders before the original bid validity expiration date, and it shall cover only the minimum period required to complete the evaluation and award of the contract. The extension of the bid validity requires the Association's no objection for those contracts subject to prior review, if it is longer than four (4) weeks, and for all subsequent requests for extension, irrespective of the period.
- (viii) Bid Evaluation:
 - (A) Evaluation of bids shall be made in strict adherence to the evaluation criteria declared in the bidding documents.
 - (B) Evaluation criteria other than price shall be quantified in monetary terms and the manner in which they will be applied for the purpose of determining the lowest evaluated bid shall be established in the bidding documents. A weighting/scoring system shall not be used.
 - (C) A contract shall be awarded to the qualified bidder offering the lowest-evaluated and substantially responsive bid. No negotiations shall be permitted.
 - (D) Bidders shall not be eliminated on the basis of minor, non-substantial deviations.
 - (E) In case of requests for clarifications, bidders shall not be asked or permitted to alter or complete their bids.
- (ix) All bids shall not be rejected, the procurement process shall not be cancelled, and new bids shall not be solicited without the Association's prior concurrence.
- (x) Securities shall be in the format included in the bidding documents. No advance payment shall be made without a suitable advance payment security.
- (xi) Information on contract award shall be published at least in a national newspaper of wide circulation within two (2) weeks of

receiving the Association's no objection to the award recommendation for contracts subject to prior review, and within two (2) weeks from the award decision for contracts subject to post review. Publication shall include the following information: (A) the name of each bidder which submitted a bid; (B) bid prices as read out at bid opening; (C) evaluated prices of each bid that was evaluated; (D) the names of bidders whose bids were rejected and the reasons for their rejection; and (E) the name of the winning bidder, the final total contract price, and the duration and summary scope of the contract.

- (xii) In the case of contracts subject to prior review, the Association's no objection shall be obtained before agreeing to: (A) a material extension of the stipulated time for performance of a contract; (B) any substantial modification of the scope of services or other significant changes to the terms and conditions of the contract; (C) any variation order or amendment (except in cases of extreme urgency) which, singly or combined with all variation orders or amendments previously issued, increases the original contract amount by more than 15 percent; or (D) the proposed termination of the contract. A copy of all contract amendments shall be furnished to the Association for its record.
- (xiii) In accordance with the Procurement Guidelines, each bidding document and contract financed from the proceeds of the Financing shall provide that bidders, suppliers, and contractors, and their subcontractors, agents, personnel, consultants, service providers or suppliers, shall permit the Association, at its request, to inspect their accounts, records and other documents relating to the submission of bids and contract performance, and to have them audited by auditors appointed by the Association. Acts intended to materially impede the exercise of the Association's inspection and audit rights constitute an obstructive practice as defined in the Procurement Guidelines.
- (xiv) Each bidding document and contract financed from the proceeds of the Financing, and as deemed acceptable by the Association, shall include provisions stating the Association's policy to sanction firms or individuals found to have engaged in fraud and corruption as defined in the Procurement Guidelines.
- (xv) The Association may recognize, if requested by the Recipient, exclusion from participation as a result of debarment under the national system, provided that the debarment is for offenses involving fraud, corruption or similar misconduct, and further provided that the Association confirms that the particular

debarment process afforded due process and the debarment decision is final.

- (h) Shopping.
- (i) Direct contracting.
- (j) Procurement from a UN Agency (UNOPS).
- (k) Procurement under Framework Agreement in accordance with procedures which have been found acceptable by the Association.

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 contracts which are specified in the Procurement Plan: (a) Quality-based Selection; (b) Selection under a Fixed Budget; (c) Least-Cost Selection; (d) Selection based on Consultants' Qualifications; (e) Single-source Selection of consulting firms; (f) Procedures set forth in paragraphs 5.2 and 5.3 of the Consultant Guidelines for the Selection of Individual Consultants; and (g) Single-source procedures for the Selection of Individual Consultants.

D. Review by the Association of Procurement Decisions

The Procurement Plan shall set forth those contracts which shall be subject to the Association's Prior Review. All other contracts shall be subject to Post Review by the Association.

E. Establishment of a Procurement complaint handling mechanism

No later than three (3) months after Effective Date, the Recipient shall have established a procurement complaint handling mechanism acceptable to 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 Credit Allocated (expressed in SDR) | Percentage of Expenditures to be Financed (inclusive of Taxes) |
|--|--|---|
| (1) Eligible Expenditure Programs under Parts 1.2, 2.2 and 3.2 of the Project | 20,300,000 | 100% of amounts spent in compliance with DLI amounts set out in Schedule 4 of this Agreement as reported under the EEP Spending and Results Reports for each Withdrawal |
| (2) Goods, works, Training, Operating Costs non-consulting services, and consultants' services for the Project other than under Parts 1.2, 2.2, 3.2 of the Project | 6,000,000 | 100% |
| (3) Unallocated | 700,000 | 100% |
| (4) Refund of Preparation Advance | 1,400,000 | Amount payable pursuant to Section 2.07 of the General Conditions |
| TOTAL AMOUNT | 28,400,000 | |

B. Withdrawal Conditions; Withdrawal Period

1. Notwithstanding the provisions of Part A of this Section, no withdrawal shall be made:
 - (a) for payments made prior to the date of this Agreement, except that withdrawals up to an aggregate amount not to exceed SDR 2,500,000 equivalent may be made for payments made prior to this date but on or after January 1, 2016, for Eligible Expenditures included in Category (1); and
 - (b) for payments made under Category (1) unless: (i) the relevant EEP Spending and Results Report has been submitted to, and found satisfactory by the Association; and (ii) any applicable DLI set out in Schedule 4 of this Agreement has been met by the Recipient in a manner satisfactory to the Association as reported under the relevant EEP Spending and Results Report in accordance with the terms of the Verification Protocol.
2. If, at any time, the Association determines that either: (i) any portion of the financing under the Project was used for items improperly procured in violation of Section III to this Schedule; (ii) was not used for Eligible Expenditures; or (iii) in case of the Eligible Expenditure Programs of Parts 1.2, 2.2 or 3.2 of the Project, was not supported by evidence of actual spending by the Recipient under said Eligible Expenditure Programs and/or by evidence of satisfaction of other criteria set forth in this Agreement or in the Project Manual, the Recipient shall refund any such portion to the Association as the Association shall specify by notice to the Recipient.
3. If the Association is not satisfied that any of the DLRs have been achieved by the date by which the said DLR is set to be achieved, the Association may, at any time, by notice to the Recipient, decide, in its sole discretion, to reallocate all or a portion of the proceeds of the Loan then allocated to said DLR to any other DLR, or vice versa.
4. If, at any time, the Association determines that any portion of the Financing under the Project was not supported by evidence of actual spending by the Recipient under the respective EEPs and/or by evidence of satisfaction of other criteria set forth in this Agreement or in the Project Manual, the Recipient shall refund any such portion to the Association as the Association shall specify by notice to the Recipient. The Association may, at its own discretion, cancel such refunded amount.
5. The Closing Date is June 30, 2020.

Section V. Other Undertakings

1. By no later than six (6) months after the Effective Date, the Recipient shall recruit an external auditor pursuant to terms of reference satisfactory to the Association.
2. By no later than three (3) months after the Effective Date, the Recipient shall recruit a qualified accountant and a procurement assistant at the PREA Coordination Unit pursuant to terms of reference satisfactory to the Association.
3. By no later than three (3) months after the Effective Date, the Recipient shall have installed an accounting information management system satisfactory to the Association.

SCHEDULE 3

Repayment Schedule

| Date Payment Due | Principal Amount of the Credit repayable (expressed as a percentage)* |
|--|--|
| On each May 15 and November 15, commencing November 15, 2022 to and including May 15, 2054 | 1.5625% |

* 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.

SCHEDULE 4

Disbursement Linked Indicators

| Parts of the Project | DLI | DLR | Amount Allocated (SDR) |
|---|--|--|-------------------------------|
| Part 1.2: Improving Revenue Management | DLI 1. Modernization of the integrated Tax Administration System (ITAS) | DLR 1.1: Availability of the technical terms of reference for the ITAS (by July 2017) | 700,000 |
| | | DLR 1.2: Launch of a call for tenders for the ITAS system (by January 2018) | 1,400,000 |
| | | DLR 1.3: Acquisition of hardware for the ITAS system (by January 2019) | 1,400,000 |
| | | DLR 1.4: ITAS system is operational (by January 2020) | 700,000 |
| | DLI 2. Increased rate of confirmed suspicious customs transactions related to home use at Toamasina customs office (in case of physical examination) (percentage) | DLR 2.1: In excess of 5% (by July 2017) | 400,000 |
| | | DLR 2.2: In excess of 10% (by January 2018) | 700,000 |
| | | DLR 2.3: In excess of 12.5% (by January 2019) | 700,000 |
| | | DLR 2.4: In excess of 15% (by January 2020) | 400,000 |
| | DLI 3. Number of revenue offices that have been subject to an external evaluation of their performance contracts/program | DLR 3.1: Availability of contract model type (by July 2017) | 700,000 |
| | | DLR 3.2: 2 (by January 2018) | 700,000 |
| | | DLR 3.3: 4 (by January 2019) | 400,000 |
| | | DLR 3.4: 6-8 (by January 2020) | 400,000 |

| | | | |
|--|---|---|-------------------|
| Part 2.2: Improving Service Delivery Capacity of Local Governments | DLI 4. Improved timeliness of service delivery fiscal transfers to local governments (process indicator) | DLR 4.1: Stocktaking of transfers (mechanisms and delays) available to local governments (by January 2017) | 3,500,000 |
| | | DLR 4.2: Availability of annual harmonized transfer program and operationalization of a common decentralization fund (by January 2018) | 1,400,000 |
| | | DLR 4.3: Completion of a transfer program with tolerance threshold of sixty (60) days on average (by January 2019) | 1,400,000 |
| | | DLR 4.4: Completion of a transfer program with tolerance threshold of thirty (30) days on average (by January 2020) | 1,400,000 |
| Part 3.2: Improving Governance Mechanisms in Education Sector | DLI 5. Share of schools targeted by the component with an operational FEFFI, planning and implementing PECs (citizens' engagement DLI) (percentage) | DLR 5.1: 25% (by July 2017) | 700,000 |
| | | DLR 5.2: 40% (by January 2018) | 1,100,000 |
| | | DLR 5.3: 60% (by January 2019) | 1,100,000 |
| | | DLR 5.4: 75% (by January 2020) | 1,100,000 |
| TOTAL | | | 20,300,000 |

APPENDIX

Section I. Definitions

1. “Affected Person” means a person who, on account of the execution of an activity under the Project, has experienced or would experience direct economic and social impacts caused by: (a) the involuntary taking of land, resulting in: (i) relocation or loss of shelter; (ii) loss of assets or access to assets, or (iii) loss of income sources or means of livelihood, whether or not such person must move to another location; or (b) the involuntary restriction of access to legally designated parks and protected areas, resulting in adverse impacts on the livelihood of such person “Affected Persons” means all such persons.
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, and revised in January 2011.
3. “Annual Work Plans and Budgets” means the annual work plans and budgets for the implementation of the Project approved by the Association, referred to in Section I.G.2 of Schedule 2 to this Agreement.
4. “Association’s Environmental and Social Policies” means the operational environmental and social requirements of the Association.
5. “Beneficiary” has the meaning set forth in Section I.C.1 of Schedule 2 to this Agreement.
6. “Budget Law” means the annual budget law of the Recipient which details how public funds will be allocated during a specific budget year.
7. “Budget Execution Law” the annual budget execution law of the Recipient which details public expenditures during the past budget year.
8. “CA” means the Court of Accounts of the Recipient.
9. “Category” means a category set forth in the table in Section IV of Schedule 2 to this Agreement.
10. “Consultant Guidelines” means the “Guidelines: Selection and Employment of Consultants under IBRD Loans and IDA Credits and Grants by World Bank Borrowers” dated January 2011 (revised July 2014).
11. “Communal Grant” means a grant extended by the Recipient, acting through FDL, to an Eligible Commune for carrying out a Sub-project, in accordance with Section I.B 4 and 5 and Section I.C of Schedule 2 to this Agreement.

12. “DLIs” means “Disbursement-Linked Indicators”, a set of indicators as specified in Schedule 4 to this Agreement.
13. “DLRs” means “Disbursement-Linked Results”, a set of quantitative results associated with each DLI as specified in Schedule 4 to this Agreement.
14. “EEP” or “Eligible Expenditures Program” means: (i) under Part 1.2 of the Project a set of defined expenditures incurred by the Recipient with respect to goods, equipment, consultant services, non-consulting services, operating costs, salaries and training, and financed through relevant budget lines in accordance with the Recipient’s Budget Law and as further described in the Project Manual; (ii) under Part 2.2 of the Project – financing of Communal Grants in accordance with the budget lines set forth in the Recipient’s Budget Law and as further described in the project Manual; and (iii) under Part 3.3. of the Project – financing of School Grants in accordance with the budget lines set forth in the Recipient’s Budget Law and as further described in the Project Manual.
15. “EEP Spending and Results Report” means the report prepared by the Recipient for EEP made under Parts 1.2, 2.2 and 3.2 of the Project, as verified by the Independent Verifiers and approved by the CA in accordance with the details provided in the Project Manual and referred to in Section I.D of Schedule 2 to this Agreement to make disbursement recommendation for each Withdrawal based on the spending status of the EEPs under Parts 1.1, 2.1 and 3.1 of the Project in compliance with the Disbursement-Linked Indicators.
16. “Eligible Communes” means those Communes in the territory of the Recipient eligible to receive Communal Grants in accordance with the criteria set forth in the Project Manual and the FDL Manual.
17. “Eligible Schools” means those schools in the territory of the Recipient eligible to receive School Grants in accordance with the criteria set forth in the Project Manual and the FEFFI Decree.
18. “Environmental and Social Management Framework” means the Recipient’s document entitled “*Cadre de Gestion Environnementale et Sociale (CGES)*” disclosed at the Association’s *Infoshop* on March 14, 2016, and in the country of the Recipient on March 14, 2016, detailing: (i) the measures to be taken during the implementation and operation of the Project to eliminate or offset adverse environmental and social impacts, or to reduce them to acceptable levels; and (ii) the actions needed to implement these measures, including monitoring and institution strengthening.
19. “Environmental and Social Management Plan” means the Recipient’s document reflecting the mitigation measures set forth in the Environmental and Social Management Framework with respect to an activity included under an Annual Work Program and Budget, that details: (i) the measures to be taken during the

implementation and operation of such activity to eliminate or offset adverse environmental or social impacts, or to reduce them to acceptable levels; and (ii) the actions needed to implement these measures.

20. “FDL” means the *Fonds de Développement Local* of the Recipient established by Decree No. 2007-530 dated June 11, 2007, revised by Decree 2009-814 dated June 9, 2009, and Decree 2010-746 dated July 27, 2010.
21. “FDL Manual” means the manual setting forth the procedures and criteria applicable to the selection and implementation of Communal Grants and set forth as an Annex to the Project Manual.
22. “FEFFI” means the *Farimbon’Ezaka ho Fahombiazan’ny Fanabeazana eny Ifotony*, the new school committees created to improve school management and accountability as defined by the FEFFI Decree.
23. “FEFFI Decree” means Decree No. 2015/707, dated April 21, 2015.
24. “General Conditions” means the “International Development Association General Conditions for Credits and Grants”, dated July 31, 2010, with the modifications set forth in Section II of this Appendix.
25. “Grant Agreement” has the meaning set forth in Section I.C of Schedule 2 to this Agreement.
26. “Grants” refers collectively to Communal Grants.
27. “ICT” means Information and Communications Technology.
28. “IT” means Information Technology.
29. “ITAS” means the Recipient’s Integrated Tax Administration System.
30. “Independent Verifiers” means the independent verification agents hired pursuant to Section 4.01(c) of this Agreement.
31. “Office of the President” means the Office of the President of the Recipient.
32. “Operating Costs” means the reasonable incremental operating expenses, based on Annual Work Programs and Budgets approved by the Association, incurred by the PREA Coordination Unit or its regional offices on account of the Project implementation, management and monitoring, including operation and maintenance costs of office, vehicles and office equipment; water and electricity utilities, telephone, office supplies, bank charges, public awareness-related media expenditures, travel and supervision costs, per diem, additional staff costs, but

excluding the salaries of officials and public servants of the Recipient's civil service.

33. "PEC" means the *Projet d'Établissement Contractualisé*, the school plan to be provided to improve school based management as set out in the FEFFI Decree.
34. "PREA Coordination Unit" means the coordination unit referenced in Section I.A of Schedule 2 to this Agreement.
35. "PREA Decree" means the Decree No. 3612 dated April 6, 2015.
36. "PREA Steering Committee" or "SC" means the committee referenced in Section I.A of Schedule 2 to this Agreement.
37. "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 December 29, 2015, and on behalf of the Recipient on January 11, 2016.
38. "Procurement Guidelines" means the "Guidelines: Procurement of Goods, Works and Non-consulting Services under IBRD Loans and IDA Credits and Grants by World Bank Borrowers" dated January 2011 (revised July 2014).
39. "Procurement Plan" means the Recipient's procurement plan for the Project, dated April 8, 2016, and referred to in paragraph 1.18 of the Procurement Guidelines and paragraph 1.25 of the Consultant Guidelines, as the same shall be updated from time to time in accordance with the provisions of said paragraphs.
40. "Project Manual" means the Manual to be adopted pursuant to Section 4.01(a) of this Agreement.
41. "Resettlement Action Plan" means the Recipient's document prepared and disclosed in accordance with the Resettlement Policy Framework with respect to an activity included under an Annual Work Program and Budget, which, *inter alia*: (i) contains a census survey of Affected Persons and valuation of their assets; (ii) describes compensation and other resettlement assistance to be provided, consultation to be conducted with Affected Persons about acceptable alternatives, institutional responsibilities for the implementation and procedures for grievance redress, and arrangements for monitoring and evaluation; and (iii) contains a timetable and budget for the implementation of such measures.
42. "Resettlement Policy Framework" means the Recipient's document entitled "*Cadre de Politique de Réinstallation Involontaire (CPRI)*" disclosed at the Association's *Infoshop* on March 14, 2016, and in the country of the Recipient on March 14, 2016, containing guidelines, procedures, timetables and other

specifications for the provision of compensation, rehabilitation and resettlement assistance to Displaced Persons.

43. "Safeguard Documents" means, collectively, the Environmental and Social Management Framework, the Environmental and Social Management Plans prepared in accordance with the Environmental and Social Management Framework, if any, the Resettlement Policy Framework, and the Resettlement Action Plans prepared in accordance with the Resettlement Policy Framework, if any.
44. "School Grant" means a grant extended by the Recipient to an Eligible School for financing recurrent costs and school material in accordance with Section I.B.4 and 5 and Section I.C of Schedule 2 to this Agreement.
45. "Sub-Project" means a set of activities financed or to be financed through a Communal Grant in accordance with Section I.B.4 and 5 and Section I.C of Schedule 2 to this Agreement and the FDL Manual.
46. "Selected Regions" means, collectively, Alaotra Mangoro, Sofia and Analamanga.
47. "Training" means the reasonable cost of training under the Project, based on Annual Work Plans and Budgets, including costs associated with seminars, workshops, conference and study tours, travel and subsistence costs for training participants, services of trainers, rental of training facilities, preparation and reproduction of training materials and other activities directly related to course preparation and implementation.
48. "Verification Protocol" means the DLR verification process adopted pursuant to Section 4.01(c) of this Agreement.