

ANNEX I

PROGRAM DESCRIPTION

This Annex I to the Compact (the "*Program Annex*") generally describes the Program that MCC Funding will support in Madagascar during the Compact Term and the results to be achieved from the investment of MCC Funding. Prior to any MCC Disbursement or Re-Disbursement, including for the Projects described herein, the Parties shall enter into a Supplemental Agreement that (i) further specifies the terms and conditions of such MCC Disbursements and Re-Disbursements, (ii) is in a form and substance mutually satisfactory to the Parties, and (iii) is signed by the Principal Representative of each Party (the "*Disbursement Agreement*").

Except as specifically provided herein, the Parties may amend this Program Annex only by written agreement signed by the Principal Representative of each Party. Each capitalized term in this Program Annex shall have the same meaning given such term elsewhere in this Compact. Unless otherwise expressly stated, each Section reference herein is to the relevant Section of the main body of the Compact.

1. Background; Consultative Process.

The Madagascar national poverty reduction strategy paper ("*PRSP*") focuses on increasing rural incomes. Eighty percent of Madagascar's poor live in rural areas and the PRSP shows that the majority of these people did not benefit from the macroeconomic growth achieved during the 1997-2001 period when welfare gains failed to spread to rural areas. The latest Joint Staff Assessment of the Malagasy PRSP supports the three guiding principles that underpin the PRSP aimed at stimulating growth and investment: (i) a commitment to major investment in public transport infrastructure in order to integrate farmers into the market economy through a better road network, (ii) a commitment to public-private partnership in the management of key public enterprises, and (iii) a commitment to improving the environment for private investment through reforms in, *inter alia*, land titling and land security laws.

Given the predominantly rural basis of poverty in Madagascar, a rural-focused approach to economic growth will be of paramount importance to any successful effort to reduce poverty. The IMF/IDA endorse the poverty reduction strategy, which they conclude is "correctly built around raising agricultural productivity and attracting agro-business investments to high potential zones."

In developing the concepts for the Proposal, the Government engaged in a consultative process that reached out through workshops and subsequent sessions to the business community (banks, business associations, chambers of commerce, farmers associations, microfinance institutions, industrial enterprises), non-governmental organizations, civil society, and donors. The Government first organized an introductory national workshop (consisting of more than 350 participants and including the presence of President Ravalomanana) to describe the MCA and discuss obstacles to economic growth and poverty reduction. The feedback from this national consultation workshop served as the basis for the Government's first draft proposal. The Government subsequently organized six regional consultative workshops consisting of 50 to 150

participants each (in Antsiranana, Antsirabe, Mahajanga, Toliary, Fianarantsoa, and Toamasina) and one national workshop (in Antananarivo), during which participants offered their insights on obstacles to economic growth and poverty reduction in Madagascar. The Government also ran radio and TV broadcasts on the MCA, at times soliciting on-air input, and also published newspaper advertisements that announced meetings and called for submission of proposal ideas. Following this consultation period, the Government revised its first draft proposal into the Proposal. In order to solicit on-going feedback on the Proposal, the Government set up an "e-mail submission box" and posted the Proposal on the Ministry of Finance website.

The Proposal also reflects the ideas and strategies expressed in the PRSP. In that regard, the PRSP process is relevant to understanding the extent of national consultation on the issues underlying the Proposal. The PRSP consultative process was similar to the MCA consultative process in many respects, such as by including regional workshops and participation by representatives from the private sector, civil society, donors, and other groups. The PRSP process also incorporated consultations along sectoral or thematic lines, which were absent from the MCA process. Participation in the PRSP regional and sectoral/thematic workshops was (on average) as follows: private sector and civil society (46%); public sector (35%); donors (10%). Representatives of the business community, civil society, international non-governmental organizations and donors all received invitations to consultative process sessions and all groups participated. Farmers associations and microfinance institutions were also key participants, which helped highlight concerns of the rural poor (80% of Madagascar's population live in rural areas; 73% of rural inhabitants live under the poverty line).

Based on the PRSP and the consultations described above, the Government developed and submitted the Proposal to MCC. The Proposal focused, among other things, on raising agricultural productivity and increasing agro-investment in five targeted high potential zones. The three primary components of the Proposal – which focus on what are widely accepted as deep-rooted factors affecting economic growth and poverty reduction on a national level – enjoy broad support and enthusiasm from the business community, local and international non-governmental organizations, civil society, and other donors.

Following MCC's review of the Proposal and discussions and negotiations of the Parties, the Parties have identified certain mutually acceptable components of the Proposal and other components developed through the discussions of the Parties that together shall constitute the Program. The Program is fully consistent with, and directly supports, the following priority area identified by the Government in the PRSP: improving the environment for private sector investment through legal and policy reform as well as development of financial infrastructure, increasing land security and providing knowledge of market opportunities and requirements in rural areas. Furthermore, the proposed implementation framework for this Compact, as described in Section 3 of this Program Annex, is consistent with another priority area identified by the Government in the PRSP: a commitment to public-private partnership in the management of key public enterprises, as it will include representatives of the Government and the beneficiaries in the decision-making body and will recruit from both public and private sector for the key management positions.

2. Overview.

(a) **Program Objectives.** The Program involves a series of specific and complementary interventions that the Parties expect will achieve the Land Tenure Objective, the Finance Objective and the Agricultural Business Investment Objective and advance the progress of Madagascar towards the Compact Goal, particularly in five discrete geographic and high-potential pilot areas (each, a “Zone”).

(b) **Projects.** The Parties have identified, for each Objective, Projects that they intend for the Government to implement, or cause to be implemented, using MCC Funding, each of which is described in the Schedules to this Program Annex. The Schedules to this Program Annex identify the activities that will be undertaken in furtherance of each Project (each, a “Project Activity”). Notwithstanding anything to the contrary in this Compact, the Parties may agree to modify, amend, terminate or suspend these Projects or create a new project by written agreement signed by the Principal Representative of each Party without amending this Compact; *provided, however*, any such modification or amendment of a Project or creation of a new project is (i) consistent with the Objectives; (ii) does not cause the amount of MCC Funding to exceed the aggregate amount specified in Section 2.1(a) of this Compact; (iii) does not cause the Government’s responsibilities or contribution of resources to be less than specified in Section 2.2 of this Compact or elsewhere in this Compact; and (iv) does not extend the Compact Term. The Program will be conducted on two geographic levels: certain Project activities shall be implemented on a national basis and other Project activities shall be implemented solely within the five targeted Zones (three Zones shall be as identified through the Agricultural Business Investment Project and two Zones shall be selected by the Government in accordance with criteria mutually agreed upon by the Parties).

(c) **Beneficiaries.** The intended beneficiaries of each Project are described in the respective Schedule to this Program Annex to the extent identified as of the date hereof. Since all of the Zones will likely not be identified until after the entry into force of this Compact, the Parties are unable to state with more specificity as of the date hereof, or on a disaggregated basis, the intended beneficiaries of the Program or the Projects. As the Zones are identified, the Government shall provide to MCC information on the population of such Zones, disaggregated by gender, income level and age. After the Zones have been selected, the Parties shall agree upon the description of the intended beneficiaries and the Parties will make publicly available a more detailed description of the intended beneficiaries of the Program, including publishing such description on the website operated by MCA-Madagascar (the “MCA-Madagascar Website”). The Government shall ensure that MCA-Madagascar presents to the Advisory Council (described below) (i) a detailed description of the intended beneficiaries and (ii) the methodology used to determine the intended beneficiaries within thirty (30) days of the determination of Zones and completion of the analysis of the intended beneficiaries therein, disaggregated, to the maximum extent practicable, by income level, gender, and age.

(d) **Civil Society.** Civil society shall participate in overseeing the implementation of the Program through its representation on the Advisory Council, as provided in Section 3(e) of this Program Annex. In addition, the Work Plans or Procurement Plans (defined below) for each Project shall note the extent to which civil society will have a role in the implementation of a

particular Project Activity. Finally, members of civil society may be recipients of training or other public awareness programs that are integral to the Project Activities.

(e) **Monitoring and Evaluation ("M&E").** Annex III of this Compact generally describes the plan to measure and evaluate progress toward achievement of the Objectives of this Compact. (the "*M&E Plan*").

3. Implementation Framework.

The implementation framework and the plan for ensuring adequate governance, oversight, management, monitoring, evaluation and fiscal accountability for the use of MCC Funding is summarized below and in the Schedules attached to this Program Annex, or as may otherwise be agreed in writing by the Parties.

(a) **General.** The elements of the implementation framework will be further described in relevant Supplemental Agreements and in a detailed plan for the implementation of the Program and each Project (the "*Implementation Plan*"), which will be memorialized in one or more documents and shall consist of: a Financial Plan (defined below), Budget (defined below), Fiscal Accountability Plan (defined below), Procurement Plan (defined below), Program and Project Work Plans (defined below), and M&E Plan. MCA-Madagascar (defined below) shall adopt each component of the Implementation Plan in accordance with the requirements and timeframe as may be specified in this Program Annex, the Disbursement Agreement or as may otherwise be agreed by the Parties from time to time. MCA-Madagascar may modify, alter, or amend the Implementation Plan or any component thereof without amending this Compact, provided any material modification, alteration, or amendment of the Implementation Plan or any component thereof has been approved by MCC and is otherwise consistent with the requirements of this Compact and any relevant Supplemental Agreement between the Parties. By such time as may be specified in the Disbursement Agreement or as may otherwise be agreed by the Parties from time to time, MCA-Madagascar shall adopt one or more work plans for the overall administration of the Program and for each Project (collectively, the "*Work Plans*"): The Work Plan(s) shall set forth the details of each activity to be undertaken or financed by MCC Funding as well as the allocation of roles and responsibilities for specific Project activities, or other programmatic guidelines, performance requirements, targets, or other expectations for a Project.

(b) **Government.** The Government shall promptly take all necessary and appropriate actions to carry out the Government Responsibilities and other obligations or responsibilities under this Compact and in furtherance of this Compact, including undertaking or pursuing such legal, legislative or regulatory actions or procedural changes as may be necessary or appropriate for the achievement of the Objectives and successful implementation of the Program. The Government shall establish, or cause to be established, a legal entity, in a form mutually agreeable to the Parties ("*MCA-Madagascar*"), which shall be a Permitted Designee and shall be responsible for the oversight and management of the implementation of this Compact on behalf of the Government. MCA-Madagascar shall be organized, and have such roles and responsibilities, as described in Section 3(d) of this Program Annex and as provided in the Governance Agreement; *provided, however*, the Government or other Permitted Designee may, subject to MCC approval, carry out any of the roles and responsibilities delegated to MCA-Madagascar and described in Section 3(d) of this Program Annex or elsewhere in this Program

Annex, the Governance Agreement, or any other Supplemental Agreement prior to and during the initial period of the establishment and staffing of MCA-Madagascar, but in no event longer than six months from the entry into force of this Compact, unless otherwise agreed by the Parties in writing. The Government shall promptly take all necessary and appropriate actions, including any necessary legal, legislative or regulatory actions, to ensure that MCA-Madagascar is duly authorized and sufficiently organized, staffed and empowered to carry out any Designated Rights and Responsibilities, entering into an appropriate agreement with MCA-Madagascar to designate MCA-Madagascar to implement and to exercise the Designated Rights and Responsibilities.

(c) **MCC.**

(i) Notwithstanding Section 3.1 of this Compact or any provision in this Program Annex to the contrary, and except as may be otherwise agreed upon by the Parties from time to time, MCC must approve in writing each of the following transactions, activities, agreements and documents prior to the execution or carrying out of such transaction, activity, agreement or document and prior to MCC Disbursements or Re-Disbursements in connection therewith:

- (1) MCC Disbursements;
- (2) Each Budget, and any amendments thereto;
- (3) The Financial Plan, Supplemental Financial Plan (defined in Annex II) and any amendments thereto;

(4) Agreements (i) between the Government and MCA-Madagascar, (ii) between the Government, a Government Affiliate, MCA-Madagascar or any other Permitted Designee on the one hand, and any Provider or Affiliate of a Provider, on the other hand, with an aggregate value of MCC Funding equal to or greater than USD \$500,000, or such other amount as may be agreed to by the Parties, or which, when added to the value of other agreements made or expected to be made between the Government, any Government Affiliate, MCA-Madagascar or any other Permitted Designee with the same Provider or any Affiliate of such Provider during the Compact Term would be equal to or greater than USD \$500,000, or such other amount as may be agreed to by the Parties, or (iii) in which the Government, a Government Affiliate, MCA-Madagascar or any other Permitted Designee appoints or engages any of the following in furtherance of this Compact with any of the following:

- (A) Auditor (defined below) or Reviewer (defined below);
- (B) Fiscal Agent (defined below);
- (C) Each Bank (defined below);
- (D) Procurement Agent (defined below);
- (E) Outside Project Manager (defined below);
- (F) Implementing Entity (as defined below); and

- (G) Director, officer, and other key employee of MCA-Madagascar, including the Manager of Administration and Finance (including any compensation for such person).

(Any agreement described in clause (i) through (iii) of this Section 3(c)(i)(4) and any amendments thereto, each, a "**Material Agreement**");

(5) Any modification, termination or suspension of a Material Agreement, or any action that would have the effect of such a modification, termination or suspension of a Material Agreement;

(6) Any agreements that are not at arm's length or with a party related to the Government or MCA-Madagascar or any of their respective Affiliates;

(7) Re-Disbursements (each, a "**Material Re-Disbursement**") equal to or greater than USD \$100,000, or such other amount as may be agreed to by the Parties, or which, when added to other Re-Disbursements made or expected to be made to the same Provider or any Affiliate during the Compact Term, or such other period as MCC may determine from time to time, would be equal to or greater than USD \$100,000, or such other amount as may be agreed to by the Parties;

(8) Terms of reference for the procurement of goods or services for which the value of the contract if entered into or the goods or services procured would be equal to or greater than USD \$250,000, or such other amount as may be agreed to by the Parties (each, a "**Material Terms of Reference**");

(9) The Implementation Plan, including each component plan thereto, and any material amendments to the Implementation Plan or any component thereto;

(10) Pledges of any MCC Funding or any Program Assets or any guarantee directly or indirectly of any indebtedness (each, a "**Pledge**");

(11) Any disposition (in whole or in part), liquidation, dissolution, winding up, reorganization or other change of (A) MCA-Madagascar, including any revocation or modification of any decree or charter document establishing MCA-Madagascar, or (B) any subsidiary or Affiliate of MCA-Madagascar;

(12) Any change in character or location of any Permitted Account (defined below);

(13) Formation or acquisition of any subsidiary (direct or indirect) or other Affiliate of MCA-Madagascar;

(14) Any change in the composition of the Steering Committee of MCA-Madagascar (defined below), including approval of the nominee for Chairman (defined below), and any filling of the vacancy of the Chairman's seat, and the representatives nominated by the Advisory Council (defined below) for the designated Advisory Council seats on the Steering Committee;

(15) The management information system to be developed and maintained by the Management of MCA-Madagascar (defined below), and any material modifications to such system;

(16) Any decision to amend, replace, terminate or otherwise change any of the foregoing; and

(17) Any other activity, agreement, document or transaction requiring the approval of MCC in this Compact, the Governance Agreement, the Disbursement Agreement, or any other Supplemental Agreement between the Parties.

The Chairman of the Steering Committee (the "*Chairman*") and/or the Managing Director of MCA-Madagascar (the "*Managing Director*") or other designated officer, as provided in the Governance Agreement, shall certify any documents or reports delivered to MCC in satisfaction of the Government's reporting requirements under this Compact or any Supplemental Agreement between the Parties (the "*Compact Reports*").

(ii) MCC shall have the authority to exercise its approval rights set forth in this Section 3(c) in its sole discretion and independent of any participation or position taken by the MCC Representative at a meeting of the Steering Committee.

(d) MCA-Madagascar.

(i) General. Unless otherwise agreed by the Parties in writing, MCA-Madagascar shall, as a Permitted Designee, be responsible for the oversight and management of the implementation of this Compact. MCA-Madagascar shall be governed by the terms and conditions set forth in a governance agreement to be entered into by the Government and MCA-Madagascar, in a form and substance satisfactory to MCC, on or before the time specified in the Disbursement Agreement ("*Governance Agreement*") and on the following principles:

(1) The Government shall ensure that MCA-Madagascar shall not assign, delegate or contract any of the Designated Rights and Responsibilities without the prior written consent of the Government and MCC. MCA-Madagascar shall not establish any Affiliates or subsidiaries (direct or indirect) without the prior written consent of the Government and MCC.

(2) Unless otherwise agreed by the Parties in writing, MCA-Madagascar shall consist of (a) a special steering committee (the "*Steering Committee*") to oversee MCA-Madagascar's responsibilities and obligations under the this Compact (including any Designated Rights and Responsibilities) and (b) a management team ("*Management*") to have overall management responsibility for the implementation of this Compact.

(ii) Steering Committee.

(1) Formation. The Government shall ensure that the Steering Committee shall be formed, constituted, governed and operated in accordance with the terms and conditions set forth in the Governance Agreement.

(2) Composition. Unless otherwise agreed by the Parties in writing, the Steering Committee shall consist of seven voting members, one of whom shall be appointed the Chairman as provided in the Governance Agreement, and three non-voting observers.

(A) The voting members shall be as follows, provided that the Government members identified in subsections (i) – (v) below may be replaced by another government official, subject to approval by the Government and MCC:

- (i) Chief of Staff of the Presidency of the Republic of Madagascar;
- (ii) The Secretary General of the Ministry of Economy, Finance and Budget;
- (iii) The Secretary General of the Ministry of Industry, Commerce and Private Sector Development;
- (iv) The Secretary General of Agriculture, Livestock and Fisheries; and
- (v) Three (3) representatives of the Advisory Council (nominated to serve two year terms by the Advisory Council and any vacancy to be filled by nomination by the Advisory Council).

(B) The non-voting observers shall be:

- (i) A Representative designated by MCC (the “*MCC Representative*”); and
- (ii) Two Advisory Council representatives-elect who will be non-voting observers during the one-year period prior to the beginning of their respective terms.

(C) Each voting member position identified in Sections 3(d)(ii)(2)(A)(i) – (iv) of this Program Annex shall be filled by the individual then holding the office identified and such individuals shall serve in their capacity as the applicable Government official and not in their personal capacity.

(D) Subject to the Governance Agreement, the Parties contemplate that the Chief of Staff of the Presidency of the Republic of Madagascar shall initially fill the seat of Chairman.

(E) Each non-voting observer identified in Section 3(d)(ii)(2)(B) of this Program Annex shall have rights to attend all meetings of the Steering Committee, participate in the discussions of the Steering Committee, and receive all information and documents provided to the Steering Committee, together with any other rights of access to records, employees or facilities as would be granted to a member of the Steering Committee under the Governance Agreement.

(3) Role and Responsibilities.

(A) The Steering Committee shall oversee Management, the overall implementation of the Program, and the performance of the Designated Rights and Responsibilities.

(B) Certain actions, documents or agreements may only be taken or executed and delivered, as the case may be, by MCA-Madagascar upon the approval and authorization of the Steering Committee as set forth in the Governance Agreement, including each MCC Disbursement Request (defined below), selection or termination of certain Providers, any component of the Implementation Plan, certain Re-Disbursements and certain terms of reference.

(C) The Chairman shall certify the approval by the Steering Committee of all Compact Reports or any other documents or reports from time to time delivered to MCC by MCA-Madagascar (whether or not such documents or reports are required to be delivered to MCC), and that such documents or reports are true, accurate and complete.

(D) Without limiting the generality of the Designated Rights and Responsibilities that the Government may designate MCA-Madagascar as the implementer or exerciser of in accordance with this Compact, and subject to MCC's contractual rights of approval as set forth in Section 3(c) of this Program Annex or elsewhere in this Compact or any relevant Supplemental Agreement, the Steering Committee shall have the exclusive authority as between the Steering Committee and the Management for all actions defined for the Steering Committee in the Governance Agreement and which are expressly designated therein as responsibilities that cannot be delegated further.

(4) Indemnification of Non-Government Steering Committee Representatives. The Government shall ensure, at the Government's sole cost and expense, that appropriate insurance is obtained and appropriate indemnifications and other protections are

provided, to the fullest extent permitted under the laws of the Republic of Madagascar, to ensure that as voting members or non-voting observers the Advisory Council representatives serving on the Steering Committee shall not be held personally liable for the actions or omissions of the Steering Committee. Pursuant to Section 5.5 and Section 5.8 of this Compact, the Government and MCA-Madagascar shall hold harmless the MCC Representative for any liability or action arising out of the MCC Representative's role as a non-voting observer on the Steering Committee. MCA-Madagascar shall provide a written waiver and acknowledgement that no fiduciary duty to MCA-Madagascar is owed by the MCC Representative.

(iii) Management. Unless otherwise agreed in writing by the Parties, Management shall report, through the Managing Director or other Officer (defined below) as designated in the Governance Agreement, directly to the Steering Committee and shall have the composition, roles and responsibilities described below and set forth more particularly in the Governance Agreement.

(1) Appointment. The Officers that make up the Management of MCA-Madagascar shall be selected and appointed by the Steering Committee after a competitive selection process and subject to MCC approval.

(2) Composition. The Government shall ensure that the Management shall be composed of qualified experts from the public or private sectors, including such offices and staff as may be necessary to carry out effectively its responsibilities, each with such powers and responsibilities as set forth in the Governance Agreement and from time to time in any Supplemental Agreement, including without limitation the following: (i) Managing Director; (ii) Manager of Monitoring and Evaluation; (iii) Manager of Procurement; (iv) Manager of Administration and Finance; and (v) a Manager of Land Tenure Project, a Manager of Finance Project, and a Manager of Agricultural Business Investment Project (each a, "**Project Manager**") (the persons holding the positions in sub-clauses (i) through (v) shall be collectively referred to as "**Officers**"). The Parties contemplate that for purposes of the initial period of operations, and in no event longer than six months, MCA-Madagascar may appoint an acting Managing Director, subject to the approval of MCC; *provided*, during such period, the Steering Committee shall ratify the actions of such acting Managing Director and MCA-Madagascar shall select a permanent Managing Director through a competitive selection process and subject to MCC approval in accordance with this Annex I.

(3) Role and Responsibilities.

(A) Management shall assist the Steering Committee in overseeing the implementation of the Program and shall have principal responsibility (subject to the direction and oversight of the Steering Committee and subject to MCC's contractual rights of approval as set forth in Section 3(c) of this Program Annex or elsewhere in this Compact or any relevant Supplemental Agreement) for the overall management of the implementation of the Program.

(B) Without limiting the foregoing general responsibilities or the generality of Designated Rights and Responsibilities

that the Government may designate MCA-Madagascar as the implementer or exerciser of in accordance with this Compact, Management shall develop the components of the Implementation Plan, oversee the implementation of the Projects, manage and coordinate monitoring and evaluation, maintain internal accounting records, conduct and oversee certain procurements, and such other responsibilities as set out in the Governance Agreement or delegated to Management by the Steering Committee from time to time.

- (C) Management shall have the obligation and right to approve certain actions and documents or agreements, including certain Re-Disbursements, MCC Disbursement Requests, Compact Reports, certain human resources decisions, and certain procurement actions, as provided in the Governance Agreement.

(4) **Additional Resources.** Management shall have the authority to engage qualified entities to serve as outside project managers (each, an "**Outside Project Manager**") in the event that it is advisable to do so for the proper and efficient day-to-day management of a Project; *provided, however*, that the appointment or engagement of any Outside Project Manager after a competitive selection process shall be subject to approval by the Steering Committee and MCC prior to such appointment or engagement. Upon Steering Committee approval, Management may delegate, assign, or contract to the Outside Project Managers such duties and responsibilities as it deems appropriate with respect to the management of the Implementing Entities and the implementation of the specific Projects; and *provided, further*, that Management and the relevant Project Manager shall remain accountable for those duties and responsibilities and all reports delivered by the Outside Project Manager notwithstanding any such delegation, assignment or contract. The Steering Committee may, independent of any request from Management, determine that it is advisable to engage one or more Outside Project Managers and instruct Management or, where appropriate, a Procurement Agent to commence and conduct the competitive selection process for such Outside Project Manager.

(e) **Advisory Council.**

(i) **Formation and Composition.** The Government shall cause to be established an advisory council (the "**Advisory Council**") consisting of no more than twelve (12) members, unless otherwise agreed by the Parties, and comprised of: (A) one or more representatives of the private sector (*e.g.*, association of banks, microfinance association, farmers' association); (B) one or more representatives of civil society (*e.g.*, women's association, chambers of commerce, anti-corruption association, environmental organization); (C) one or more representatives of mayors within the Zones; and (D) one or more representatives of regional governments of the Zones. The composition of the Advisory Council shall be adjusted upon the final determination of all five Zones in order to adequately represent each Zone.

(ii) Role. The Advisory Council shall be a mechanism to provide representatives of the private sector, civil society and local and regional governments the opportunity to provide advice and input to MCA-Madagascar regarding the implementation of the Compact. During quarterly meetings of the Advisory Council, the Manager of Monitoring and Evaluation or other appropriate Management representative shall present an update on the implementation of this Compact and progress towards achievement of the Objectives. The Advisory Council will have an opportunity to regularly provide to Management and the Steering Committee its views or recommendations on the performance and progress on the Projects, components of the Implementation Plan, procurement, financial management or such other issues as may be presented from time to time to the Advisory Council or as otherwise raised by the Advisory Council.

(iii) Meetings. The Advisory Council shall hold quarterly meetings of the full Advisory Council as well as such other periodic meetings of the Advisory Council or subcommittees thereof designated along sectoral (e.g., banking, credit, agribusiness, environmental issues, gender issues), regional (by Zones), or other lines, as may be necessary or appropriate from time to time.

(iv) Steering Committee Representation. The Advisory Council shall nominate, by majority decision, three (3) representatives of the Advisory Council to the Steering Committee as voting members to each serve a two-year term, along with two representative-elect. A nominee to the Steering Committee shall become a member of the Steering Committee upon approval by MCC and the Government. The Advisory Council shall rotate its representative every two years. No Advisory Council representative may serve on the Steering Committee for more than a single two-year term during the Compact Term. Any vacancy of any Advisory Council seat on the Steering Committee shall be filled by the representative-elect designated for such seat; *provided*, that the elevation of any such representative-elect to the Steering Committee shall be subject to approval by MCC and the Government at the time of such proposed elevation and that, following such approval, the Advisory Council shall appoint a new representative-elect for such position; *provided, further*, that in the absence, or if MCC or the Government do not approve the elevation to the Steering Committee, of a representative-elect, the vacancy shall be filled by a nominee who shall be nominated by the Advisory Council and approved by MCC and the Government.

(v) Accessibility; Transparency. Advisory Council members will be accessible to the beneficiaries they represent to receive the beneficiaries' comments or suggestions regarding the Program. The minutes of all meetings of the Advisory Council and any subcommittee shall be made public on the MCA-Madagascar Website in a timely manner.

(f) Implementing Entities. Subject to the terms and conditions of this Compact and any other Supplemental Agreement between the Parties, MCA-Madagascar may provide MCC Funding to one or more Government agencies or to one or more nongovernmental or other public- or private-sector entities or persons to implement and carry out the Projects or any other activities to be carried out in furtherance of this Compact (each, an "**Implementing Entity**"). The Government shall ensure that MCA-Madagascar enters into an agreement with each Implementing Entity, in form and substance satisfactory to MCC, that sets forth the roles and responsibilities of such Implementing Entity and other appropriate terms and conditions, such as

payment of the Implementing Entity (the "*Implementing Entity Agreement*"). An Implementing Entity shall report directly to the relevant Project Manager or Outside Project Manager, as designated in the applicable Implementing Entity Agreement or as otherwise agreed by the Parties.

(g) **Fiscal Agent.** The Government shall ensure that MCA-Madagascar engages one or more fiscal agents (each, a "*Fiscal Agent*"), who shall be responsible for, among other things: (i) ensuring and certifying that Re-Disbursements are properly authorized and documented in accordance with established control procedures set forth in the Disbursement Agreement, the Fiscal Agent Agreement and other relevant Supplemental Agreements; (ii) instructing a Bank to make Re-Disbursements from a Permitted Account, following applicable certification by the Fiscal Agent; (iii) providing applicable certifications for MCC Disbursement Requests; and (iv) producing reports on MCC Disbursements and Re-Disbursements (including any requests therefore) in accordance with established procedures set forth in the Disbursement Agreement, the Fiscal Agent Agreement or any other relevant Supplemental Agreements. Upon the written request of MCC, the Government shall ensure that MCA-Madagascar terminates a Fiscal Agent, without any liability to MCC, and the Government shall ensure that MCA-Madagascar engages a new Fiscal Agent, subject to the approval by the Steering Committee and MCC. The Government shall ensure that MCA-Madagascar enters into an agreement with each Fiscal Agent, in form and substance satisfactory to MCC, that sets forth the roles and responsibilities of the Fiscal Agent and other appropriate terms and conditions, such as payment of the Fiscal Agent (each, a "*Fiscal Agent Agreement*"). During the Compact Term, subject to MCC's approval, certain Fiscal Agent duties and responsibilities may be transferred to the duties and responsibilities of the Manager of Administration and Finance, at which time the Fiscal Agent Agreement shall be amended accordingly.

(h) **Auditors and Reviewers.** The Government shall ensure that MCA-Madagascar engages one or more auditors, reviewers or evaluators to audit, review or evaluate all or any portion of the activities carried out in furtherance of this Compact or audit, review or evaluate such other matters as MCC may reasonably request from time to time. There shall be at a minimum an auditor with the capacity to conduct audits of financial information (the "*Auditor*") in accordance with Section 3.8(e) of this Compact. As requested by MCC in writing from time to time, MCA-Madagascar shall also engage an independent reviewer to conduct reviews of performance and compliance under this Compact, an independent reviewer with the capacity to conduct data quality assessments in accordance with the M&E Plan, as described more fully in Annex III, and/or an independent evaluator to assess performance as required under the M&E Plan (each, a "*Reviewer*"). MCA-Madagascar shall select the Auditor(s) or Reviewers in accordance with the Governance Agreement or other relevant Supplemental Agreement. The Government shall ensure that MCA-Madagascar enters into an agreement with each Auditor or Reviewer, in form and substance satisfactory to MCC, that sets forth the roles and responsibilities of the Auditor or Reviewer with respect to the audit, review or evaluation, including access rights, required form and content of the applicable audit, review or evaluation and other appropriate terms and conditions such as payment of the Auditor or Reviewer (the "*Auditor/Reviewer Agreement*"). In the case of the financial audit, such Auditor/Reviewer Agreement shall be effective no later than 120 days prior to the end of the relevant fiscal year or other period to be audited.

(i) **Procurement Agent.** If requested by MCC, the Government shall ensure that MCA-Madagascar engages one or more procurement agents (each, a "**Procurement Agent**") to carry out and/or certify specified procurement activities in furtherance of this Compact on behalf of the Government, MCA-Madagascar, any Outside Project Manager or Implementing Entity. The role and responsibilities of such Procurement Agent and the criteria for selection of a Procurement Agent shall be as set forth in the applicable Implementation Letter or Supplemental Agreement. The Government shall ensure that MCA-Madagascar enters into an agreement with the Procurement Agent, in form and substance satisfactory to MCC, that sets forth the roles and responsibilities of the Procurement Agent with respect to the conduct, monitoring and review of procurements and other appropriate terms and conditions, such as payment of the Procurement Agent (the "**Procurement Agent Agreement**"). Any Procurement Agent shall adhere to the procurement standards set forth in the Procurement Guidelines and ensure procurements are consistent with the procurement plan (the "**Procurement Plan**") adopted by MCA-Madagascar, which plan shall forecast the upcoming six month procurement activities and be updated every six months.

4. **Finances and Fiscal Accountability.**

(a) **Financial Plan and Budget.**

(i) **Financial Plan.** The multi-year financial plan for the Program and for each Project (the "**Financial Plan**") is summarized in Annex II to this Compact.

(ii) **Budget.** During the Compact Term, the Government shall ensure that MCA-Madagascar delivers to MCC a report of annual and quarterly budget requirements for the Program and each Project, projected both on a commitment and cash requirement basis (each a "**Budget**"). Each Budget shall be delivered by such time as specified in the Disbursement Agreement or as may otherwise be agreed by the Parties.

(iii) **Modifications to Financial Plan or Budget.** Notwithstanding anything to the contrary in this Compact, MCA-Madagascar may modify, alter, or amend the Financial Plan, or any Supplemental Financial Plan, or any Budget without amending this Compact, provided such modification, alteration, or amendment has been approved by MCC and is otherwise consistent with the requirements of this Compact and any relevant Supplemental Agreement between the Parties.

(b) **Disbursement and Re-Disbursement.** The Disbursement Agreement (and disbursement schedules thereto), as amended from time to time, shall specify the terms, conditions and procedures on which MCC Disbursements and Re-Disbursements shall be made. The obligation of MCC to make MCC Disbursements or approve Re-Disbursements is subject to the fulfillment or waiver of any such terms and conditions. The Government and MCA-Madagascar shall jointly submit the applicable request for an MCC Disbursement (the "**MCC Disbursement Request**"), certified by the Fiscal Agent, as may be specified in the Disbursement Agreement. MCC will make MCC Disbursements in tranches to a Permitted Account from time to time as provided in the Disbursement Agreement or as may otherwise be agreed by the Parties, subject to Program requirements and performance by the Government, MCA-Madagascar and other relevant parties in furtherance of this Compact. Re-Disbursements will be made from time to time based on requests by an authorized representative of the appropriate

party designated for the size and type of Re-Disbursement in accordance with the Governance Agreement and Disbursement Agreement; *provided, however*, unless otherwise agreed by the Parties in writing, no Re-Disbursement shall be made unless and until the written approvals specified herein or in the Governance Agreement and Disbursement Agreement for such Re-Disbursement have been obtained and delivered to the Fiscal Agent.

(c) **Fiscal Accountability Plan.** By such time as specified in the Disbursement Agreement or as otherwise agreed by the Parties, MCA-Madagascar shall adopt as part of the Implementation Plan a fiscal accountability plan that identifies the principles and mechanisms to ensure appropriate fiscal accountability for the use of MCC Funding provided under this Compact, including the process to ensure that open, fair, and competitive procedures will be used in a transparent manner in the administration of grants or cooperative agreements and the procurement of goods and services for the accomplishment of the Objectives (the "**Fiscal Accountability Plan**"). The Fiscal Accountability Plan shall set forth, among other things, requirements with respect to the following matters: (i) funds control and documentation; (ii) separation of duties and internal controls; (iii) accounting standards and systems; (iv) content and timing of reports; (v) policies concerning public availability of all financial information; (vi) cash management practices; (vii) procurement and contracting practices, including timely payment to vendors; (viii) the role of independent auditors; and (ix) the roles of fiscal agents and procurement agents.

(d) **Permitted Accounts.** The Government shall establish, or cause to be established, such accounts (each, a "**Permitted Account**", and collectively "**Permitted Accounts**") as may be agreed by the Parties in writing from time to time, including:

(i) A single, completely separate U.S. Dollar interest-bearing account (the "**Special Account**") at the Central Bank of Madagascar ("**Central Bank**") to receive MCC Disbursements.

(ii) An interest-bearing local currency of Madagascar account (the "**Local Account**") at a commercial bank (the "**Commercial Bank**") to which the Fiscal Agent may authorize transfer from any U.S. Dollar Permitted Account of an amount equal to the upcoming month's local currency cash needs of MCA-Madagascar as reflected in the monthly request from MCA-Madagascar. The Commercial Bank shall be selected by MCA-Madagascar following a competitive tender process and subject to MCC approval.

(iii) Such other interest-bearing accounts to receive MCC Disbursements in such bank as the Parties mutually agree upon in writing.

No other funds shall be commingled in a Permitted Account other than MCC Funding and Accrued Interest thereon. All MCC Funding held in a Permitted Account shall earn interest at a rate of no less than such amount as the Parties may agree in the respective Bank Agreement or otherwise. MCC shall have the right, among other things, to view any Permitted Account statements and activity directly on-line or at such other frequency as the Parties may otherwise agree. By such time as shall be specified in the Disbursement Agreement or as otherwise agreed by the Parties, the Government shall ensure that MCA-Madagascar enters into an agreement with each Bank, respectively, satisfactory to MCC, that sets forth the signatory authority, access rights, anti-money laundering and anti-terrorist financing provisions, and other terms related to

the Permitted Account, respectively (each, a "*Bank Agreement*"). For purposes of this Compact, the Central Bank, the Commercial Bank, and any bank holding an account referenced in Section 4(d)(iii) of this Program Annex are each a "*Bank*" and are collectively referred to as the "*Banks*."

(e) **Currency Exchange.** MCC Funding shall be converted to the currency of Madagascar either (i) at the Central Bank prior to the transfer to the Local Account or (ii) at the Commercial Bank upon the transfer to the Local Account; *provided*, currency conversion occurs at the institution offering the more competitive exchange rate and fee structure at the time of the exchange. For this purpose, the Central Bank will use as a standard the mid-point of the trading range on the day prior to the proposed transfer as published by the Central Bank or as otherwise may be agreed to by the Parties in writing. The Fiscal Agent shall instruct the banks at the time of the monthly transfer request whether the Central Bank or the Commercial Bank shall exchange the currency.

5. Transparency; Accountability. Transparency and accountability to MCC and to the beneficiaries are important aspects of the Program and Projects. Without limiting the generality of the foregoing, in an effort to achieve the goals of transparency and accountability, the Government shall ensure that MCA-Madagascar:

(a) Establishes an e-mail suggestion box that interested persons may use to communicate ideas, suggestions or feedback to MCA-Madagascar.

(b) Considers as a factor in its decision-making the recommendations of the Advisory Council, particularly in MCA-Madagascar's deliberations over pending key Management decisions and key Steering Committee decisions as shall be specified in the Governance Agreement;

(c) Develops and maintains the MCA-Madagascar Website in a timely, accurate and appropriately comprehensive manner, such MCA-Madagascar Website to include postings of information and documents in English and French, with a summary in Malagasy;

(d) Posts on the MCA-Madagascar Website and otherwise makes publicly available the following documents or information, including by posting on the MCA-Madagascar Website from time to time:

(i) All minutes of the meetings of the Advisory Council and the meetings of the Steering Committee;

(ii) The M&E Plan, as amended from time to time, along with periodic reports on Program performance;

(iii) Such financial information as may be required by this Compact or as may otherwise be agreed from time to time by the Parties;

(iv) All Compact Reports;

(v) All audit reports by an Auditor and any periodic reports or evaluations by a Reviewer; and

(vi) A copy of any formation documents that established MCA-Madagascar and any amendments thereto and the Governance Agreement and any amendments thereto.