H.E. Haja Nirina Razafinjatovo
Minster of Finance and Budget
Ministry of Finance and Budget
BP 121, Antananarivo 101
Republic of Madagascar

Re: Republic of Madagascar: PHRD Grant for the Preparation of the Madagascar Environmental SWAp Support Project
Grant No. TF093091

Excellency:

In response to the request for financial assistance made on behalf of the Republic of Madagascar (the Recipient), I am pleased to inform you that the International Development Association (“World Bank”), as administrator of grant funds provided by Japan, proposes to extend to the Recipient a grant in an amount not to exceed six hundred thousand United States Dollars (U.S.$600,000) (“Grant”) on the terms and conditions set forth or referred to in this letter agreement (“Agreement”), which includes the attached Annex, to assist in the financing of the activities described in the Annex (“Activities”).

The Recipient represents, by confirming its agreement below, that it is authorized to enter into this Agreement and to carry out the Activities in accordance with the terms and conditions set forth or referred to in this Agreement. The award of the Grant does not constitute or imply any commitment on the part of the World Bank to assist in the financing of any project which may result from the Activities financed by the Grant.

Please confirm the Recipient’s agreement with the foregoing, by having an authorized official of the Recipient sign and date the enclosed copy of this Agreement, and returning it to the World Bank. Upon receipt by the World Bank of this countersigned copy, this Agreement will become effective in accordance with Section 4.02 of the Annex to this Agreement (“Effective Date”).

Very truly yours,
INTERNATIONAL DEVELOPMENT ASSOCIATION

By/s/ Ruth Kagia
Country Director for Madagascar
Africa Region

AGREED:
REPUBLIC OF MADAGASCAR

By:
Name: Haja Nirina Razafinjatovo
Title: Minster of Finance and Budget
Date: February 6, 2009

Enclosures:

(2)  Disbursement Letter of even date herewith, together with World Bank Disbursement Guidelines for Projects, dated May 1, 2006
Article I

Standard Conditions; Definitions

1.01. **Standard Conditions.** (a) The Standard Conditions for Grants Made by the World Bank Out of Various Funds dated July 1, 2008 (the Standard Conditions) constitute an integral part of this Agreement.

1.02. **Definitions.** Unless the context requires otherwise, the capitalized terms used in this Agreement have the meanings ascribed to them in the Standard Conditions or in this Agreement; provided that for the purposes of this Agreement the term “Project”, whenever used in the Standard Conditions, shall mean the Activities referred to in Section 2.01 of this Annex.

Article II

Grant Execution

2.01. **Grant Objective and Activities.** The objective of the Grant is to support three areas of the proposed Environmental Sector Wide Approach (SWAp) Project, aiming at: (i) strengthening sustainable financing mechanisms for the environment; (ii) involving communities in natural resources management; and (iii) promoting environmental governance and adaptation to climate change in Madagascar. The activities (“Activities”) for which the Grant is given shall consist of such activities as may be required for the preparation of the Project and as shall have been approved by the World Bank from time to time. These activities may include preparation of feasibility studies, detailed designs, environmental, social, economic and other assessments, development of Project implementation plans, carrying out of stakeholder consultations, in-country training, studies and workshops, surveys, and provision of technical advisory services (including audits) and goods required for the carrying out of such activities.

2.02. **Grant Execution Generally.** The Recipient declares its commitment to the objectives of the Project and the Grant. To this end, the Recipient shall carry out the Activities, through the Ministry of Environment, Water, Forest, and Tourism (MEEFT), in accordance with (a) Article II of the Standard Conditions, (b) the “Guidelines on Preventing and Combating Fraud and Corruption in Projects Financed by IBRD Loans and IDA Credits and Grants”, dated October 15, 2006 (“Anti-Corruption Guidelines”), and (c) this Article II.

2.03. **Institutional and Other Arrangements.** Without limitations upon Section 2.02 above: (a) the Recipient shall ensure that the Project Coordination Unit of the Madagascar Third Environmental Program Support Project (IDA Grant H087 MAG) is maintained with functions and responsibilities acceptable to the Bank until the completion of the Project, with staff and experience, qualifications and expertise satisfactory to the World Bank; and

(b) Not later than two months after the Effective Date of the Grant, the Recipient shall have amended the contract with the external auditors of the Madagascar Third Environmental Program Support Project to include the audit of this Grant, with terms of reference satisfactory to the World Bank.
2.04. **Financial Management.** (a) The Recipient shall ensure that a financial management system is maintained in accordance with the provisions of Section 2.07 of the Standard Conditions.

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

(c) The Recipient shall have its Financial Statements audited in accordance with the provisions of Section 2.07(b) of the Standard Conditions. Each such audit of the Financial Statements shall cover the period of one fiscal year of the Recipient. The audited Financial Statements for each such period shall be furnished to the World Bank not later than six months after the end of such period.

2.05. **Procurement**

(a) **General.** All goods and services required for the Activities and to be financed out of the proceeds of the Grant shall be procured in accordance with the requirements set forth or referred to in:

(i) Section I of the “Guidelines for Procurement under IBRD Loans and IDA Credits” published by the World Bank in May 2004, as revised in October 2006 (“Procurement Guidelines”), in the case of goods; and


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

(b) **Definitions.** The capitalized terms used in the following paragraphs of this Section to describe particular procurement methods or methods of review by the World Bank of particular contracts, refer to the corresponding method described in the Procurement Guidelines, or the Consultant Guidelines, as the case may be.

(c) **Particular Methods of Procurement of Goods**

Except as the World Bank may otherwise agree, goods shall be procured under contracts awarded on the basis of Shopping.

(d) **Particular Methods of Procurement of Consultants’ Services**
(i) Except as otherwise provided in item (ii) below, consultants’ services shall be procured under contracts awarded on the basis of Quality and Cost-based Selection.

(ii) The following methods may be used for the procurement of consultants’ services for those assignments 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; and (F) Selection of Individual Consultants.

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

**Article III**
**Withdrawal of the Proceeds of the Grant**

3.01. *Eligible Expenditures.* The Recipient may withdraw the proceeds of the Grant in accordance with the provisions of (a) the Standard Conditions, (b) this Section, and (c) such additional instructions as the World Bank may specify by notice to the Recipient (including the “World Bank Disbursement Guidelines for Projects” dated May 2006, as revised from time to time by the World Bank and as made applicable to this Agreement pursuant to such instructions), to finance Eligible Expenditures as set forth in the following table. The table specifies the categories of Eligible Expenditures that may be financed out of the proceeds of the Grant (“Category”), the allocations of the amounts of the Grant to each Category, and the percentage of expenditures to be financed for Eligible Expenditures in each Category:

<table>
<thead>
<tr>
<th>Category</th>
<th>Amount of the Grant Allocated (Expressed in U.S. $)</th>
<th>Percentage of Expenditures to be Financed (Inclusive of Taxes)</th>
</tr>
</thead>
<tbody>
<tr>
<td>(1) Consultants’ Services,</td>
<td>540,000</td>
<td>100%</td>
</tr>
<tr>
<td>including audit</td>
<td></td>
<td></td>
</tr>
<tr>
<td>(2) Training</td>
<td>60,000</td>
<td>100%</td>
</tr>
<tr>
<td><strong>TOTAL AMOUNT</strong></td>
<td><strong>600,000</strong></td>
<td></td>
</tr>
</tbody>
</table>

For the purposes of this Section, the term “training” means training conducted in the territory of the Recipient, including purchase and publication of materials, rental of facilities, small goods required to carry out workshops, course fees, and travel and subsistence of trainees.

3.02. *Withdrawal Conditions.* Notwithstanding the provisions of Section 3.01 of this Agreement, no withdrawal shall be made for payments made prior to the date of countersignature of this Agreement by the Recipient.
3.03. **Withdrawal Period.** The Closing Date referred to in Section 3.06 (c) of the Standard Conditions is October 13, 2009.

**Article IV**  
**Effectiveness; Termination**

4.01. **Effectiveness Condition.** This Agreement shall not become effective until evidence satisfactory to the World Bank has been furnished to it that the Recipient has recruited an accountant with terms of reference, qualifications, and experience satisfactory to the World Bank.

4.02. **Effective Date.** Except as the Recipient and the World Bank shall otherwise agree, this Agreement shall enter into effect on the date upon which the World Bank dispatches to the Recipient notice of its acceptance of the evidence required pursuant to Section 4.01 (“Effective Date”). If, before the Effective Date, any event has occurred which would have entitled the World Bank to suspend the right of the Recipient to make withdrawals from the Grant Account if this Agreement had been effective, the World Bank may postpone the dispatch of the notice referred to in this Section until such event (or events) has (or have) ceased to exist.

4.03. **Termination for Failure to Become Effective.** This Agreement and all obligations of the parties under it shall terminate if it has not entered into effect by the date 90 days after the date of this Agreement, unless the World Bank, after consideration of the reasons for the delay, establishes a later date for the purpose of this Section. The World Bank shall promptly notify the Recipient of such later date.

**Article V**  
**Recipient’s Representative; Addresses**

5.01. **Recipient’s Representative.** The Recipient’s Representative referred to in Section 7.02 of the Standard Conditions is:

5.02. **Recipient’s Address.** The Recipient’s Address referred to in Section 7.01 of the Standard Conditions is the Minister responsible for finance.

    Ministry of Finance and Budget  
    BP 121  
    Antananarivo 101  
    Republic of Madagascar

    Facsimile: (261) 20 22 34530

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

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

    Cable:  
    Telex:  
    Facsimile: