Ref: WB/CD/360/12/039/2011

H.E Ato Sufian Ahmed
Minister
Ministry of Finance and Economic Development
Addis Ababa

Dear Ato Sufian,

European Union Food Crisis Rapid Response Facility Trust Fund
Grant for the Co-financing of the Productive Safety Net Program APL III Project
Grant No TF010672

In response to the request for financial assistance made on behalf of the Federal Democratic Republic of Ethiopia ("Recipient"), I am pleased to inform you that the International Bank for Reconstruction and Development ("IBRD") and the International Development Association ("IDA") (IDA and IBRD are hereinafter collectively called the "World Bank"), acting as administrator of grant funds provided by the European Union (the "Donor") under the European Union Food Crisis Rapid Response Facility Trust Fund (the "EU FCRR Trust Fund"), pursuant to the Administration Agreement entered into between the World Bank and the Donor dated August 31, 2009 (TF071341), as the same such Administration Agreement has been amended to the date hereof (the "Administration Agreement"), proposes to extend to the Recipient, a grant in an amount not to exceed two million nine hundred seventy thousand Euros (€ 2,970,000) ("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 a project ("Project") as described in the Annex.

The Project described herein is designed to be implemented in conjunction with, and as a constituent part of, the Recipient’s Productive Safety Net Program (the “PSNP” or the “Program”), which Program has been supported by the World Bank since 2004, and by the EU FCRR Trust Fund since October 21, 2009, and which is currently in the third phase (“PSNP3”) of its implementation, being co-financed by the World Bank and other donors (the “Co-financing Partners”) through commitments made, inter alia, under financing agreements entered into between the Recipient and the World Bank, either on its own account or as administrator of grant funds provided by the Co-financing Partners. Pursuant to a financing
agreement (the "IDA Financing Agreement"), entered into between the Recipient and the World Bank on October 30, 2009, an amount of SDR 306.6 million (equivalent to approximately US$ 480 million), and consisting of: (a) a credit in an amount of eighty-three million one hundred thousand Special Drawing Rights ("SDR 83,100,000") ("IDA Credit No. 4666-ET"); and (b) a grant in an amount of two hundred twenty-three million five hundred thousand Special Drawing Rights ("SDR 223,500,000") ("IDA Grant No. H529-ET"), has been made available to the Recipient as financial support for a specific project designed to coincide with the implementation of the third phase of the PSNP ("the Productive Safety Net APL III Project," as the same such project is defined in Schedule 1 to the IDA Financing Agreement, a project which has been designed to cover the period of PSNP3 implementation from approximately 2010 to approximately 2014). Co-financing from various other Co-financing Partners is intended to be committed to PSNP3, for a similar period of time, in significant amounts through other instruments not yet concluded. The financial support to be received by the Recipient under: (i) the IDA Financing Agreement for the said IDA Credit No. 4666-ET and IDA Grant No. H529-ET; and (ii) the financing agreements made with Co-financing Partners in amounts not yet determined, may be targeted to co-financing of the Project, together with this Grant, in specific shares to be determined by consultation between the Donor, the World Bank, and other Co-financing Partners, pursuant to the Memorandum of Understanding (the "MOU") entered into between the same dated 24 February 2010. The provisions of the MOU are hereby incorporated by reference, as applicable to the Project, to the extent not inconsistent with the terms of this Agreement.

This Grant is funded out of the abovementioned trust fund for which the World Bank receives periodic contributions from the Donors. In accordance with Section 3.02 of the Standard Conditions (as defined in the Annex to this Agreement), the World Bank’s payment obligations in connection with this Agreement are limited to the amount of funds made available to it by the Donor under the abovementioned trust fund, and the Recipient’s right to withdraw the Grant proceeds is subject to the availability of such funds. Accordingly, in the event that the donor cancels or fails to pay any of the said contributions under the trust fund to the World Bank for any reason, or that as a result of currency exchange variations the amount of funds available in the trust fund is insufficient for the purposes of the Grant, the World Bank undertakes to notify the Recipient in a timely fashion and in due manner, in order that the parties, might thereafter engage in discussions with respect to alternative possibilities for ensuring the provision of the necessary financial resources for the completion of the activities contemplated under this Agreement. In any event, should such a financial shortfall arise, the Recipient shall nevertheless complete said contemplated activities with other resources, taking into account the World Bank’s views on the matter.

The Recipient represents, by confirming its agreement below, that it is authorized to enter into this Agreement and to carry out the Project in accordance with the terms and conditions set forth or referred to in this Agreement.
Please confirm the Recipient’s agreement to 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 shall become effective as of the date of the countersignature.

Sincerely,

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT/INTERNATIONAL DEVELOPMENT ASSOCIATION

/s/ Gregory Toulmin
Country Director for Ethiopia a.i.
Africa Region

AGREED:
ON BEHALF OF THE FEDERAL DEMOCRATIC REPUBLIC OF ETHIOPIA

By: /s/ Ahmed Shide
Authorized Representative

AHMED SHIDE
State Minister

Date: December 13, 2011

Enclosures:

(1) Standard Conditions for Grants Made by the World Bank Out of Various Funds, dated July 31, 2010
(2) Disbursement Letter dated November 23, together with World Bank Disbursement Guidelines for Projects, dated May 1, 2006
Article I
Standard Conditions; Definitions

1.01. **Standard Conditions.** The Standard Conditions for Grants Made by the World Bank out of Various Funds dated July 31, 2010 (“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, this Agreement, or in the IDA Financing Agreement, and the following additional terms have the following meanings:

(a) “Eligible Beneficiaries” means individuals participating in Public Works Program Subprojects (as hereinafter defined), or living in Labor-poor Households (as hereinafter defined), and who are members of a particular community within the Project Area (as hereinafter defined), on account of whom a Safety Net Grant (as hereinafter defined) is made, or proposed to be made, under the Project;

(b) “EFY” means the Recipient’s fiscal year beginning July 8 and ending July 7 of the next calendar year;

(c) “Kebele” means the lowest tier of government in the Recipient’s administrative system, as established according to the relevant regional legislation;

(d) “Labor-poor Households” means people living in the Project Area (as hereinafter defined) and determined to be the most vulnerable in terms of poverty and food insecurity, and who are temporarily or permanently incapacitated to fully engage in manual labor, and who may be engaged in minimal community activities, pursuant to the applicable PSNP criteria defined in the Program Implementation Manual;

(e) “Operating Costs” means the incremental operating costs arising under the Project on account of Project coordination, implementation and monitoring activities undertaken by the implementing agencies of the Recipient, including office supplies, vehicle operation and maintenance costs, utilities, communication charges, per diems and travel allowances, but excluding the salaries of the Recipient’s civil service and sitting allowances;

(f) “Program Implementation Manual” means the manual, as referred to in Section 5.01 (c) of the Financing Agreement, setting forth or incorporating by reference, *inter alia*, the policies, institutional arrangements, procedures, and technical guidelines applicable to the PSNP, and the eligibility criteria, procedures, and terms and conditions for Safety Net Grants and provisions for procurement, accounting, evaluation and monitoring of Public Works Program Subprojects; and such term includes all annexes and guidelines supplemental to the PSNP Implementation Manual, and other related procedures for implementation of the Project; as the same such manual may be amended from time to time with the agreement of the World Bank.

(g) “Procurement Plan” means the Recipient’s procurement plan for the Project, dated dated 03 November 2011, and referred to in paragraph 1.16 of the Procurement Guidelines and
paragraph 1.24 of the Consultant Guidelines, as the same shall be updated from time to time in accordance with the provisions of said paragraphs;

(h) "Project Area" means the geographical area covered by the Participating Woredas;

(i) "PSNP" means the Recipient’s Productive Safety Net Program, as referred to in the Letters of Sector Development Policy referred to in Recitals (A), (D) and (F) of the Preamble to the IDA Financing Agreement;

(j) "Participating Woredas" means Woredas identified by the Recipient as being located in a chronically food insecure area within the territory of the Recipient, as such Woredas shall have been constituted in the list of Participating Woredas as set forth or referred to in the Program Implementation Manual, as such list may be updated in the annual PSNP work plan;

(k) "Public Works Program" means a program of planned public works to be undertaken for a Woreda under the PSNP, approved by a Woreda Council pursuant to the procedures set forth or referred to in the Program Implementation Manual, on the basis of which Safety Net Grants have been made, or are proposed to be made, to Eligible Beneficiaries;

(l) "Public Works Program Subproject" means an activity under Part 1 of the Project, approved in accordance with the criteria, procedures and guidelines set forth or referred to in the Program Implementation Manual;

(m) "Regional Information Centers" means centers established by the Recipient at the Regional level for the purpose of collecting and analyzing data to inform management decisions;

(n) "Region" means a defined tier of government in the Recipient’s administrative system as established under the Recipient’s Federal Constitution of 1995;

(o) "Safety Net Grant" means a grant made, or proposed to be made, to a Woreda on account of: (i) Eligible Beneficiaries for Public Works Program Subprojects, under Part 1 of the Project; or (ii) Eligible Beneficiaries who are living in Labor-poor Households, under Part 1(B) of the Project, utilizing proceeds of the Grant made available by the Recipient to the Regions for the purposes of the PSNP.

(p) "Training" means Project-related expenses incurred by the executing agencies of the Recipient for the purposes of undertaking training of the staff involved in the implementation and supervision of activities being financed under the Project, based on annual PSNP work plan and budgets approved by the World Bank, for per diem, travel, purchase of Training materials and rental of facilities, and such term includes workshops and seminars;

(q) "Woreda" means one of the tiers of government in the Recipient’s administrative system, as established pursuant to the relevant regional legislation; and

(r) "Woreda Council" means the council established pursuant to the relevant Regional legislation and responsible for the approval of eligible Public Works Program Subprojects.
Article II
Project Execution

2.01. Project Objectives and Description. The objective of the Project is improved effectiveness and efficiency of the Productive Safety Net Program (PSNP) and related Household Asset Building Program (HABP) for chronically food insecure households in rural Ethiopia. The EU co-financing grant will allow the PSNP to cover an estimated 237,000 Eligible Beneficiaries for three months. The Project consists of the following parts:

Safety Net Grants:

(a) Carrying out, in identified food insecure areas of the Recipient’s territory, Public Works Program Subprojects, providing for grants to households having adequate labor capacity, together with the financing at the Kebele level, of associated capital, materials, and administration costs (including costs in connection with identifying, designing, appraising, supervising and evaluating Subprojects) for community asset development, consisting of, inter alia, Subprojects relevant to: (a) environmental rehabilitation; (b) soil and water conservation; and (c) construction and rehabilitation of other critical community-level infrastructure that contributes to improving delivery of basic social services, as the same such Subprojects may be identified and prioritized in the applicable local planning process.

(b) Provision of grants to support Labor-poor Households in food insecure areas.

2.02. Project Execution Generally. The Recipient declares its commitment to the objectives of the Project. To this end, the Recipient shall carry out the Project in accordance with the provisions of: (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 and revised in January 2011 (“Anti-Corruption Guidelines”), with the modifications set forth in Section I of the Appendix to this Agreement; (c) this Article II; and (d) the IDA Financing Agreement.

2.03. Institutional and Other Arrangements. The provisions of Section A through E of Schedule 2 of the IDA Financing Agreement shall apply to this Agreement, mutatis mutandis. In case of inconsistency between the provisions of such parts of the IDA Financing Agreement and the provisions of this Annex, this Annex shall prevail.

2.04. Donor Visibility and Visit. (a) The Recipient shall take or cause to be taken all such measures as the World Bank may reasonably request to identify publicly the European Union’s support for the Project.

(b) For the purposes of Section 2.09 of the Standard Conditions, the Recipient shall, upon the World Bank’s request, take all measures required on its part to enable the representatives of the European Union to visit any part of the Recipient’s territory for purposes related to the Project.

2.05. Project Monitoring, Reporting and Evaluation. (a) The Recipient shall monitor and evaluate the progress of the Project and prepare Project Reports in accordance with the provisions of Section 2.06 of the Standard Conditions and on the basis of the indicators set forth in Schedule 4 of the IDA Financing Agreement. Each Project Report shall cover the period of one calendar quarter, and shall be furnished to the World Bank not later than 60 days after the end of the period covered by such report.
(b) The Recipient shall prepare the Completion Report in accordance with the provisions of Section 2.06 of the Standard Conditions. The Completion Report shall be furnished to the World Bank not later than six months after the Closing Date.

2.06. **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, through MoFED, prepare and furnish to the World Bank, in form and substance satisfactory to the World Bank, and not later than sixty (60) days after the end of each quarter of the EFY, interim un-audited financial reports for each of the respective parts of the Project covering the period.

(c) The Recipient shall, through MoFED, have the Financial Statements for the Project audited in accordance with the provisions of Section 2.07 (b) of the Standard Conditions. The first audit shall cover the period up to the end of the EFY 2002 (period ending July 7, 2010). Thereafter, each audit of the Financial Statements shall cover the period of one fiscal year of the Recipient. The audited Financial Statements for each such period shall be furnished to the World Bank not later than six (6) months after the end of such period. In addition, the Recipient shall, through MoFED, cause the program auditor to audit, on a continuous basis, samples of Woredas that have received funds; and moreover, through MoFED, cause the auditor to provide the World Bank with quarterly interim audit reports, within sixty (60) days of the end of each quarter of the EFY.

(d) Without limitation upon the provisions of paragraph (e) of this Section, the Recipient, through MoARD, shall, as part of the audit of the Financial Statements have the commodity flow and status reports (statements) for the Project audited in form and substance satisfactory to the World Bank. The first such audit shall cover the period up to the end of the fiscal year 2002 (period ending July 7, 2010). Thereafter, each audit of the commodity flow and status reports (statements) shall cover the period of one fiscal year of the Recipient. The audited commodity flow and status reports (statements) for each such period shall be furnished to the World Bank not later than six months after the end of such period.

2.07. **Procurement**

(a) **General.** All goods, works, non-consulting services and consultants' services required for the Project and to be financed out of the proceeds of the Grant shall be procured in accordance with the requirements set forth or referred to in:

(i) Section I of 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 (“Procurement Guidelines”), in the case of goods, works and non-consulting services;

(ii) Sections I and IV of the “Guidelines: Selection and Employment of Consultants under IBRD Loans and IDA Credits and Grants by World Bank Borrowers” dated January 2011 (“Consultant Guidelines”) in the case of consultants’ services; 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 1.18 of the Procurement Guidelines and paragraph 1.25 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 Sections II and III of the Procurement Guidelines, or Sections II, III, IV and V of the Consultant Guidelines, as the case may be.

(c) Particular Methods of Procurement of Goods, Works, and Non-consulting Services

(i) Except as otherwise provided in sub-paragraph (ii) below, goods, works, and non-consulting services shall be procured under contracts awarded on the basis of International Competitive Bidding.

(ii) 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; (B) Shopping; (C) Direct Contracting; (D) Procurement from United Nations Agencies; and (E) Community Participation procedures which have been found acceptable to the World Bank.

(iii) National Competitive Bidding shall follow the Recipient's procurement procedures, subject to the following additional procedures: (a) the Recipient's standard bid documents for procurement of goods and works shall be used; (b) if prequalification is used, the World Bank's standard prequalification document shall be used; (c) margin of preference shall not be applicable; (d) bidders shall be given a minimum of 30 days to submit bids from the date of availability of the bidding documents; (e) use of merit points for evaluation of bids shall not be allowed; (f) foreign bidders shall not be excluded from participation; and (g) the results of evaluation and award of contract shall be made public.

(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 which are specified in the Procurement Plan: (A) Quality-based Selection; (B) Least Cost Selection; (C) Selection based on Consultants' Qualifications; (D) Single-source Selection; (E) 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. The Recipient shall, each year during the implementation of the Project, through consultants with qualifications and experience acceptable to the World Bank, and selected in conformity with the procedures set forth or referred to in this Section, carry out an annual independent procurement review of the procurement under the Project, under terms of reference satisfactory to the World Bank.
Article III
Withdrawal of Grant Proceeds

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 Euros)</th>
<th>Percentage of Expenditures to be Financed</th>
</tr>
</thead>
<tbody>
<tr>
<td>(1) Safety Net Grants</td>
<td>€ 2,970,000</td>
<td>Such percentage of Eligible Expenditures as the World Bank may determine for each EFY.</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>€ 2,970,000</strong></td>
<td></td>
</tr>
</tbody>
</table>

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 December 31, 2011.

Article IV
Additional Remedies

4.01. **Additional Event of Suspension.** The Additional Event of Suspension referred to in Section 4.02 (k) of the Standard Conditions consist of the following:

A situation shall have arisen which shall make it improbable that the PSNP or a significant part thereof will be carried out.

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 the minister at the time responsible for finance and economic development.
5.02. **Recipient’s Address.** The Recipient’s Address referred to in Section 7.01 of the Standard Conditions is:

Minister of Finance and Economic Development  
Ministry of Finance and Economic Development  
P.O. Box 1905  
Addis Ababa  
Federal Democratic Republic of Ethiopia

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

International Bank for Reconstruction and Development/International Development Association  
1818 H Street, N.W.  
Washington, D.C. 20433  
United States of America

Cable: INTBAFRAD  
Telex: INDEVAS  
Facsimile: 248423 (MCI) or 1-202-477-6391  
Washington, D.C.  
64145 (MCI)