June 14, 2011

His Excellency Ato Sufian Ahmed
Minister of Finance and Economic Development
Ministry of Finance and Economic Development
Addis Ababa, Federal Democratic Republic of Ethiopia

Re: Grant for the Ethiopia Productive Safety Net Program (APLIII)
(Multi Donor Trust Fund Grant No. TF099450)

Excellency:

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 Development Association (“IDA” or “World Bank”), acting as administrator of grant funds provided by various donors under the Multi Donor Trust Fund (“MDTF”) established for the co-financing of the Ethiopia Productive Safety Net Program (“PSNP” or “Program”), proposes to extend to the Recipient, a grant in an amount not to exceed fifty six million three hundred eighty four thousand nine hundred one United States Dollars (US$56,384,901) (“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 project described in the Annex (“Project”). This Grant is funded out of the abovementioned trust fund for which the World Bank receives periodic contributions. In accordance with Section 3.02 of the Standard Conditions (as defined in the Annex to this Agreement), the Recipient may withdraw the Grant proceeds subject to the availability of such funds.

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.

Very truly yours,

INTERNATIONAL DEVELOPMENT ASSOCIATION

By /s/ Kenichi Ohashi
Country Director for Ethiopia
Africa Region

AGREED:

Federal Democratic Republic of Ethiopia

By__________________________

Name /s/ Sufian Ahmed

Title _Minister_____________

Date: __June 15, 2011________

Enclosures:

(1) Standard Conditions for Grants Made by the World Bank Out of Various Funds, dated July 31, 2010
(2) Disbursement Letter of the same date as this Agreement, 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 or in this Agreement, Financing Agreement, and the following additional terms have the following meaning:

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

(b) “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, temporarily or permanently incapacitated to fully engage in manual labor, and engaging in minimal community activities, pursuant to criteria defined in the Program Implementation Manual;

(c) “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;

(d) “Public Works Program Subproject” means an activity under Part A of the Project;

(e) “Project Area” means the geographical area covered by the Woredas;

(f) “PSNP Program Implementation Manual” means the manual prepared by the Government of Ethiopia for the implementation of the PNSP, and consisting of different schedules setting forth, *inter alia*, the eligibility criteria, terms and conditions of Safety Net Grants and their procurement, accounting, evaluation and monitoring requirements, and other related procedures for processing annual work plans and activities under the Project, as the same may be amended from time to time;

(g) “Safety Net Grant” or “Safety Net Transfer” means a grant made, or proposed to be made, by a Woreda to an Eligible Beneficiary for: (i) a Public Works Program Subproject under Part A of the Project, or (ii) other activity identified for Labor-poor Households under Part A of the Project; and
“Region, Woreda, and Kebele” mean either an administrative area within the Recipient’s territory as defined in the Recipient’s Constitution, or different local government levels within the Recipient’s territory established and operating pursuant to the relevant Regional Constitutions.

Article II
Project Execution

2.01. **Project Objectives and Description.** The objective of the MDTF is to support third phase of the Productive Safety Net Program of the Recipient. The main objective of the Productive Safety Net Program is to reform the safety net transfer system to provide food security to the poorest, in a manner which will allow for a harmonized financing approach for the PSNP. The Grant will co-finance the selected activities related to phase three of the Productive Safety Net Program (APLIII) for which IDA has provided to the Recipient, an IDA credit and a grant through a Financing Agreement, dated October 30, 2009 (Credit No. 4666 ET and Grant No. H529 ET) (Financing Agreement).

The Project consists of the following parts:

**Part 1: 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.

**Part 2: Drought Risk Financing Facility**

Establishment of a contingent facility providing for the possibility of a scaling-up of the safety net activities provided for under Part 1 of the Project, based on the occurrence of a defined weather or price shock of sufficiently extreme severity, as linked to a rainfall-based index and/or other measures detailed in the Drought Risk Financing Manual, which *inter alia*, lays out the procedures for determining the severity of any shock as well as the appropriate scale of response.

**Part 3: Institutional Support**

Strengthening the institutional capacity for implementation of the Project and the Program, including:

(a) program management, at the Regional and federal government levels, to ensure effective management of the PSNP Program by the food security, early warning and response,
natural resources, and finance and economic development government offices, each in their respective functions;

(b) capacity building to fill identified gaps relevant to the PSNP Program in general, and those gaps particular to: (i) the Drought Risk Financing Facility established under Part 2 of the Project; (ii) the scale-up of PSNP to pastoral areas within the Recipient’s territory; and (iii) the Federal PWCU and Regional PWFUs;

(c) monitoring and evaluation to ensure regular monitoring data, with specific focus on upgrading the monitoring system for public works; establishment of Regional Information Centers; and ensuring effective functioning of the Federal and Regional Rapid Response Mechanism;

(d) implementing the ESMF; and

(e) transparency and accountability measures to further strengthen widespread understanding of the Program among key stakeholders and greater accountability of decision-makers, including ensuring Program-wide use of PASS and PSNP client cards.

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: (a) the PSNP Program Implementation Manual; (b) the following provisions of Schedule 2 to the Financing Agreement (to the extent applicable to Part 1, 2, and 3 of the Project): (i) Section I. B (Implementation Arrangement); Section I. C (Anti-corruption Guidelines); Section I. D (Procedures and Eligibility Criteria for Safety Net Grants Project Implementation Manual); Section I. E. (Environmental and Social Management Framework); (c) 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”); and (c) this Article II.

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 Donors’ 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, enable the representatives of the Donors 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 below in paragraph (b) of this Section. Each Project Report shall cover the period of one calendar semester, and shall be furnished to the World Bank not later than one month after the end of the period covered by such report.

(b) The performance indicators referred to above in paragraph (a) consist of the following:

(i) the average number of months in a year that PSNP Program households report being food insecure;
(ii) % of beneficiary households receiving PSNP Program resources reporting no distress sales of assets to meet food needs;

(iii) % of public works assessed to be satisfactory (using public works review performance criteria for eligibility, appropriateness, effectiveness, quality and sustainability satisfactory to the Association);

(iv) % of PSNP Kebeles with established and operational Kebele appeals committees;

(v) % of households reporting direct benefit from community assets; and

(vi) % of PSNP Program beneficiaries receiving support from other food security program interventions.

(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.

2.04. **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 have its Financial Statements audited in accordance with the provisions of Section 2.07 (b) of the Standard Conditions. 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 nine months after the end of such period.

(c) The Recipient shall prepare and furnish to the Association, in form and substance satisfactory to the Association, and not later than sixty (60) days after the end of each quarter, interim un-audited financial reports for each of the respective parts of the Project covering the period.
2.05. **Procurement**

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

(i) Section I of the “Guidelines for Procurement under IBRD Loans and IDA Credits” published by the World Bank in January 2011 (“Procurement Guidelines”), in the case of goods and works; and

(ii) Sections I and IV of the “Guidelines: Selection and Employment of Consultants by World Bank Borrowers” published by the World Bank in 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 the Procurement Guidelines, or the Consultant Guidelines, as the case may be.

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

(i) Except as otherwise provided in sub-paragraph (ii) below, goods and works 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 and works for those contracts specified in the Procurement Plan: (A) National Competitive Bidding; (B) Shopping; (C) Procurement from UN Agencies; (D) Direct Contracting; (E) Established Private or Commercial Practices which have been found acceptable to the World Bank; and (F) Community Participation procedures which have been found acceptable to the World Bank.

(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; and (E) Selection of Individual Consultants.

(e) **Review by the World Bank of Procurement Decisions.** Terms of reference for all contracts shall be subject to the World Bank’s Prior Review. 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 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 USD)</th>
<th>Percentage of Expenditures to be Financed (inclusive of Taxes)</th>
</tr>
</thead>
<tbody>
<tr>
<td>(1) Safety Net Grants</td>
<td>53,000,000</td>
<td>Such percentage of expenditures IDA may determine each fiscal year</td>
</tr>
<tr>
<td>(2) Goods</td>
<td>2,000,000</td>
<td>Such percentage of expenditures IDA may determine each fiscal year</td>
</tr>
<tr>
<td>(3) Consultant Services</td>
<td>341,620</td>
<td>Such percentage of expenditures IDA may determine each fiscal year</td>
</tr>
<tr>
<td>(4) Operating Costs</td>
<td>1,043,281</td>
<td>Such percentage of expenditures IDA may determine each fiscal year</td>
</tr>
<tr>
<td><strong>TOTAL AMOUNT</strong></td>
<td><strong>56,384,901</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: (a) prior to the date of countersignature of this Agreement by the Recipient; and (b) for payments under Category (1) until the first two Safety Net Grants shall have been awarded to the two Eligible Beneficiaries in accordance with the eligibility criteria set forth in the
Program Implementation Manual, and the corresponding Safety Net Grant shall have been awarded on the terms and conditions acceptable to the World Bank.

3.03. **Withdrawal Period.** The Closing Date referred to in Section 3.06 (c) of the Standard Conditions is December 31, 2014.

**Article IV**

**Recipient’s Representative; Addresses**

4.01. **Recipient’s Representative.** The Recipient’s Representative referred to in Section 7.02 of the Standard Conditions is the Minister of Finance and Economic Planning, Federal Democratic Republic of Ethiopia.

4.02. **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  
Addis Ababa,  
Federal Democratic Republic of Ethiopia

4.03. **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

<table>
<thead>
<tr>
<th>Cable</th>
<th>Telex:</th>
<th>Facsimile:</th>
</tr>
</thead>
<tbody>
<tr>
<td>INDEyas</td>
<td>248423 (MCI) or</td>
<td>1-202-477-6391</td>
</tr>
<tr>
<td>Washington, D.C.</td>
<td>64145 (MCI)</td>
<td></td>
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</tbody>
</table>