Ref: WB/CD/172/06/06/2011

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

Dear Ato Sufian,

Ethiopia Productive Safety Net Program Grant (APLII and APLIII)
(Multi Donor Trust Fund Grant No. TF099474)

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”) for the Ethiopia Productive Safety Net Program (“PSNP”) (“APLII and APLIII”), proposes to extend to the Recipient, a grant in an amount not to exceed twenty eight million seven hundred sixty nine United States Dollars and ninety two cents (US$28,742,069.92) (“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

/s/ Ahmed Shide
By________________________
Name ______________________
Title ____State Minister______
Date: ____June 8/2011_______

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


1.02. 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, the Financing Agreements, and the following additional terms have the following meanings:

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

   (c) “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;

   (d) “MoFED” means the Recipient’s Ministry of Finance and Economic Development;

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

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

   (g) “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;

   (h) “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

(g) “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 the second and third phase of the PSNP of the Recipient. The main objective of the PSNP 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 the second and third phase of the PSNP (APLII and APLIII) for which IDA has provided to the Recipient, an IDA: (i) grant through a Financing Agreement, dated January 11, 2007 (Grant No. H266 ET) (APLII); and (ii) credit and a grant through a Financing Agreement, dated October 30, 2009 (Credit No. 4666 ET and Grant No. H529 ET) (APLIII) (the “Financing Agreements”).

The Project consists of the following parts:

Part A: Safety Net Activities

1. Carrying out Public Works Program Subprojects, including identifying, designing, appraising, supervising and evaluating community-based labor intensive subprojects at the Kebele level for, inter alia: (a) environmental rehabilitation; (b) soil and water conservation; (c) construction and rehabilitation of rural feeder roads; and (d) rehabilitation of other critical community-level infrastructure that contributes to improving delivery of basic social services, as may be identified and prioritized in local planning processes.

2. Carrying out activities to support Labor-poor Households unable to participate in public works. Whenever possible, labor poor but able-bodied households may be involved in tasks to promote productive behavior including, inter alia, activities for community-based child care centers at the public works sites, community managed child care centers in villages, child nutrition and growth promotion activities, activities designed to encourage girl-child education, and adult literacy classes.

Part B: Institutional Support

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

(a) (i) building the capacity of the local communities to facilitate identification of Eligible Beneficiaries and undertake community participation in local planning and design of the Project activities, designing and updating appropriate handbooks and modular training programs; (ii) provision of technical training at Woreda and Regional levels, including production of detailed technical handbooks for use by Woreda line staff and development agents in new techniques and best practice technical standards for Project design and construction,
environmental management and rehabilitation; and (iii) building implementation capacity at the Woreda and Regional levels, including training Woreda line staff and development agents in financial management, procurement and project implementation;

(b) supporting the development of a monitoring and evaluation framework and a management information system for the Project; and

(c) building the institutional capacity at the Federal, Regional and Woreda levels for support and supervision of the Project, all through the acquisition of goods, provision of technical advisory services and training.

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) Section I of Schedule 2 to each of the Financing Agreements (to the extend applicable to Part A and B of the Project); (c) this Agreement; (d) Article II of the Standard Conditions; (e) 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 (f) this Article II.

2.03. **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.

2.04. **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 quarter of the EFY, and shall be furnished to the World Bank not later than sixty (60) days 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.

(c) Without limitation upon the provisions of Section 2.06 of the Standard Conditions, the Recipient shall carry out a joint review of the progress of the Project implementation at regular intervals with the donor partners financing the PSNP Program.

(d) The Recipient shall carry out a mid-term review of the progress achieved under the Project by June 30, 2012, and furnish to the World Bank: (i) evidence that the National Social Protection Strategy has been finalized; (ii) an independent assessment of the PSNP based on a representative household survey and community-level public works surveys; (iii) an assessment of the domestic and donor partner resources which shall have been made available to date for the PSNP Program, according to the overall PSNP financing plan, together with identification of any financing gaps that may have occurred to date, and any financing gaps projected to occur for the remaining period of the implementation of Program, and options proposed for responding to any such gaps.

(e) 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.

2.05. 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 (c) 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.

2.06. **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;

(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:
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 September 30, 2011.

### 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
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

Cable: INDEVAS  
Telex: 248423 (MCI) or 64145  
Facsimile: 1-202-477-6391 (MCI)