

CONFORMED COPY

CREDIT NUMBER 1956 ET

(First Peasant Agricultural Development Project)

between

PEOPLE'S DEMOCRATIC REPUBLIC OF ETHIOPIA

and

INTERNATIONAL DEVELOPMENT ASSOCIATION

Dated December 6, 1988

CREDIT NUMBER 1956 ET

DEVELOPMENT CREDIT AGREEMENT

AGREEMENT, dated December 6, 1988, between PEOPLE'S DEMOCRATIC REPUBLIC OF ETHIOPIA (the Borrower) and INTERNATIONAL DEVELOPMENT ASSOCIATION (the Association).

WHEREAS (A) the Borrower, having satisfied itself as to the feasibility and priority of the Project described in Schedule 2 to this Agreement, has requested the Association to assist in the financing of the Project;

(B) the Project will be carried out by the Borrower and, with the Borrower's assistance, AIDB and AISCO, and, as part of such assistance, the Borrower will make available to AIDB and AISCO a portion of the proceeds of the Credit as provided in this Agreement; and

WHEREAS the Association has agreed, on the basis, inter alia, of the foregoing, to extend the Credit to the Borrower upon the terms and conditions set forth in this Agreement and in the Project Agreement of even date herewith between the Association and AISCO and between the Association and AIDB;

NOW THEREFORE the parties hereto hereby agree as follows:

ARTICLE I

General Conditions; Definitions

Section 1.01. The "General Conditions Applicable to Development Credit Agreements" of the Association, dated January 1, 1985, with the last sentence of Section 3.02 deleted (the General Conditions) constitute an integral part of this Agreement.

Section 1.02. Unless the context otherwise requires, the several terms defined in the General Conditions and in the Preamble to this Agreement have the respective meanings therein set forth and the following additional terms have the following meanings:

- (1) "MOA" means the Ministry of Agriculture of the Borrower;
- (2) "AISCO" means the Agricultural Inputs Supply Corporation, established and operating pursuant to Proclamation No. 269 of 1984 of the Borrower;
- (3) "AIDB" means the Agricultural and Industrial Development Bank, established and operating pursuant to Proclamation No. 158 of 1979 of the Borrower;
- (4) "AMC" means the Agricultural Marketing Corporation, established and operating pursuant to Proclamation No. 105 of the Borrower;
- (5) "PSPI" means the Price Studies and Policy Institute, established and operating pursuant to Proclamation No. 8 of 1987 of the Borrower;
- (6) "PADEP", collectively, means the Peasant Agricultural Development Projects;
- (7) "PCC" means the PADEP Project Coordinating Committee established in MOA to coordinate the implementation of all PADEP projects;
- (8) "SC" means any service cooperative, established pursuant to the Borrower's Proclamation No. 138 of 1978;
- (9) "PA" means any peasant association established under the Borrower's Proclamation No. 71 of 1975;
- (10) "AIDB Project Agreement" means the agreement between the Association and AIDB of even date herewith, as the same may be amended from time to time, and such term includes all schedules and agreements supplemental to the AIDB Project Agreement;
- (11) "AISCO Project Agreement" means the agreement between the Association and AISCO of even date herewith, as the same may be amended from time to time, and such term includes all schedules and agreements supplemental to the AISCO Project Agreement;
- (12) "Subsidiary Loan Agreements" means the Agreements to be entered into between the Borrower and AIDB and the Borrower and AISCO pursuant to Section 3.02 (b) and (c) of this Agreement, as the same may be amended from time to time;
- (13) "Project Preparation Advance" means the project preparation advance granted by the Association to the Borrower pursuant to an exchange of letters dated October 8, 1986, and January 29, 1987, between the Borrower and the Association;
- (14) "Borrower's Special Account" means the account referred to in Section 2.02 (b) of this Agreement;
- (15) "AISCO Special Account" means the account referred to in

Section 2.02 (b) of this Agreement;

(16) "fiscal year" means the fiscal year of the Borrower starting on July 8 of each year and ending on July 7 of the following year;

(17) "Letter Agreement" means the agreement between the Borrower and the Association dated April 21, 1988, which provides, inter alia, that on-lending rates shall be positive in real terms and shall provide an adequate spread for the financial intermediaries; and

(18) "Financing Agreement" means the agreement to be entered into between AIDB and AISCO pursuant to Section 2.02 of the AIDB Project Agreement;

(19) "PCMED" means the Project Coordination and Monitoring and Evaluation Department of MOA.

## ARTICLE II

### The Credit

Section 2.01. The Association agrees to lend to the Borrower, on the terms and conditions set forth or referred to in this Agreement, an amount in various currencies equivalent to sixty-six million Special Drawing Rights (SDR 66,000,000).

Section 2.02. (a) The amount of the Credit may be withdrawn from the Credit Account in accordance with the provisions of Schedule 1 to this Agreement for expenditures made (or, if the Association shall so agree, to be made) in respect of the reasonable cost of goods and services required for the Project and to be financed out of the proceeds of the Credit.

(b) The Borrower shall open and maintain in dollars the following special accounts in the National Bank of Ethiopia on terms and conditions satisfactory to the Association: (i) the Borrower's Special Account for the purposes of Parts A, B, C, D (3) and E of the Project; and (ii) the AISCO Special Account for the purposes of Part D (2) of the Project. Deposits into, and payments out of, the Special Accounts shall be made in accordance with the provisions of Schedule 4 to this Agreement.

(c) Promptly after the Effective Date, the Association shall, on behalf of the Borrower, withdraw from the Credit Account and pay to itself the amount required to repay the principal amount of the Project Preparation Advance withdrawn and outstanding as of such date and to pay all unpaid charges thereon. The unwithdrawn balance of the authorized amount of the Project Preparation Advance shall thereupon be cancelled.

Section 2.03. The Closing Date shall be June 30, 1995 or such later date as the Association shall establish. The Association shall promptly notify the Borrower of such later date.

Section 2.04. (a) The Borrower shall pay to the Association a commitment charge on the principal amount of the Credit not withdrawn from time to time at a rate to be set by the Association as of June 30 of each year, but not to exceed the rate of one-half of one percent (1/2 of 1%) per annum.

(b) The commitment charge shall accrue: (i) from a date sixty days after the date of this Agreement (the accrual date) to the respective dates on which amounts shall be withdrawn by the Borrower from the Credit Account or cancelled; (ii) at the rate set as of the June 30 immediately preceding the accrual date or at such other rates as may be set from time to time thereafter pursuant to paragraph (a) above. The rate set as of June 30 in each year shall be applied as of the next payment date in that year specified in Section 2.06 of this Agreement, except that the rate set as of June 30, 1988, shall be applied as of July 1, 1988.

(c) The commitment charge shall be paid: (i) at such places as the Association shall reasonably request; (ii) without restrictions of any kind imposed by, or in the territory of, the Borrower; and (iii) in the currency specified in this Agreement for the purposes of Section 4.02 of the General Conditions or in such other eligible currency or currencies as may from time to time be designated or selected pursuant to the provisions of that Section.

Section 2.05. The Borrower shall pay to the Association a service charge at the rate of three-fourths of one per cent (3/4 of 1%) per annum on the principal amount of the Credit withdrawn and outstanding from time to time.

Section 2.06. Commitment charges and service charges shall be payable semiannually on February 15 and August 15 in each year.

Section 2.07. (a) Subject to paragraphs (b) and (c) below, the Borrower shall repay the principal amount of the Credit in semiannual installments payable on each February 15 and August 15 commencing February 15, 1999, and ending August 15, 2028. Each installment to and including the installment payable on August 15, 2008, shall be one percent (1%) of such principal amount, and each installment thereafter shall be two percent (2%) of such principal amount.

(b) Whenever: (i) the Borrower's gross national product per capita, as determined by the Association, shall have exceeded \$790 in constant 1985 dollars for five consecutive years; and (ii) the Bank shall consider the Borrower creditworthy for Bank lending, the Association may, subsequent to the review and approval thereof by the Executive Directors of the Association and after due consideration by them of the development of the Borrower's economy, modify the terms of repayment of installments under paragraph (a) above by requiring the Borrower to repay twice the amount of each such installment not yet due until the principal amount of the Credit shall have been repaid. If so requested by the Borrower, the Association may revise such modification to include, in lieu of some or all of the increase in the amounts of such installments, the payment of interest at an annual rate agreed with the Association on the principal amount of the Credit withdrawn and outstanding from time to time, provided that, in the judgment of the Association, such revision shall not change the grant element obtained under the above-mentioned repayment modification.

(c) If, at any time after a modification of terms pursuant to paragraph (b) above, the Association determines that the Borrower's economic condition has deteriorated significantly, the Association may, if so requested by the Borrower, further modify the terms of repayment to conform to the schedule of installments as provided in paragraph (a) above.

Section 2.08. The currency of the United States of America is hereby specified for the purposes of Section 4.02 of the General Conditions.

### ARTICLE III

#### Execution of the Project

Section 3.01. (a) The Borrower declares its commitment to the objectives of the Project as set forth in Schedule 2 to this Agreement and, to this end shall carry out Part E of the Project and, through MOA, carry out Parts A, B, and C of the Project, cause AISCO to carry out Parts D (1) and (2) of the Project and cause AIDB to carry out Part D (3) of the Project, with due diligence and efficiency and in conformity with appropriate administrative and financial practices, and shall provide, promptly as needed, the funds, facilities, services and other resources required for the Project.

(b) Without limitation upon the provisions of paragraph (a) of this Section and, except as the Borrower and the Association shall otherwise agree, the Borrower shall carry out Parts A, B, C and E of the Project in accordance with the Implementation Program set forth in Schedule 5 to this Agreement.

Section 3.02. (a) Without any limitation or restriction upon any of its other obligations under this Agreement, the Borrower shall cause AIDB and AISCO to perform in accordance with the provisions of the AIDB Project Agreement and the AISCO Project Agreement all the obligations of AIDB and AISCO therein set forth, shall take and cause to be taken all action, including the provision of funds, facilities, services and other resources, necessary or appropriate to enable AIDB and AISCO to perform such obligations, and shall not take or permit to be taken any action which would prevent or interfere with such performance.

(b) The Borrower shall relend out of the proceeds of the Credit, an amount not exceeding the equivalent of SDR 95,000 to AIDB under a subsidiary loan agreement to be entered into between the Borrower and AIDB under terms and conditions which shall have been approved by the Association and which shall include, inter alia, a repayment term of fifteen years, including a grace period not to exceed three years, the foreign exchange risk to be borne by the Borrower and an interest rate of two percent (2%) per annum.

(c) The Borrower shall relend, out of the proceeds of the Credit, an amount not exceeding the equivalent of SDR 3,650,000 AISCO under a subsidiary loan agreement to be entered into between the Borrower and AISCO under terms and conditions which shall have been approved by the Association and which shall include, inter alia, a repayment term of ten years, including a grace period not to exceed three years, at an interest rate of four percent (4%) per annum and the foreign exchange risk to be borne by the Borrower.

(d) The on-lending terms to AIDB and AISCO referred to in subsections (b) and (c) of this Section shall at all times conform to the terms of the Letter Agreement, as such agreement may be amended from time to time.

(e) The Borrower shall exercise its rights under the Subsidiary Loan Agreements in such manner as to protect the interests of the Borrower and the Association and to accomplish the purposes of the Credit, and except as the Association shall otherwise agree, the Borrower shall not assign, amend, abrogate or waive the Subsidiary Loan Agreements or any provision thereof.

Section 3.03. Except as the Association shall otherwise agree, procurement of the goods, works and consultants' services required for the Project and to be financed out of the proceeds of the Credit shall be governed by the provisions of Schedule 3 to this Agreement.

Section 3.04. The Borrower and the Association hereby agree that the obligations set forth in Sections 9.03 through 9.08 of the General Conditions (relating to insurance, use of goods and services, plans and schedules, records and reports, maintenance and land acquisition, respectively) in respect of Part D of the Project shall be carried out by AIDB and AISCO pursuant to Section 2.03 of the AIDB Project Agreement and AISCO Project Agreement, respectively.

Section 3.05. The Borrower shall, following its review and approval of the fertilizer procurement schedule of AISCO referred to in Section 2.02 of the AISCO Project Agreement, furnish to the Association in a timely manner the approved schedule, together with the fertilizer procurement documents for the initial purchases in each calendar year.

Section 3.06. The Borrower shall take all measures necessary to ensure the availability of sufficient funds to meet the foreign exchange requirements to cover the cost of the availability of fertilizer which would not be financed out of the proceeds of the Credit.

Section 3.07. (a) The Borrower shall, not later than December 31, 1989, establish a Technical Assistance Coordination Committee (TACC) under terms and conditions satisfactory to the Association. The Chairman of TACC shall be the Head of PMECD and other members shall include representatives from MOA, AISCO, and other departments selected in consultation with the Association.

(b) The TACC shall be responsible for reviewing the status of recruitment of consultants and other technical assistance and supervise the performance of all technical assistance financed under the Credit.

#### ARTICLE IV

##### Financial and Other Covenants

Section 4.01. (a) The Borrower shall maintain or cause to be maintained records and accounts adequate to reflect in accordance with sound accounting practices the operations, resources and expenditures of the departments or agencies of the Borrower responsible for carrying out the Project or any part thereof.

(b) The Borrower shall:

- (i) have the records and accounts referred to in paragraph (a) of this Section for each fiscal year audited, in accordance with appropriate auditing principles consistently applied, by independent auditors acceptable to the Association;
- (ii) furnish to the Association, as soon as available, but in any case not later than six months after the end of each such year, a certified copy of the report of such audit by said auditors, of such scope and in such detail as the Association shall have reasonably requested; and
- (iii) furnish to the Association such other information concerning said records, accounts and the audit thereof as the Association shall from time to time reasonably request.

(c) For all expenditures with respect to which withdrawals from the Credit Account were made on the basis of statements of expenditure, the Borrower shall:

- (i) maintain or cause to be maintained, in accordance with paragraph (a) of this Section, records and accounts reflecting such expenditures;
- (ii) retain, until at least one year after the Association has received the audit for the fiscal year in which the last withdrawal from the Credit Account was made, all records (contracts, orders, invoices, bills, receipts and other documents) evidencing such expenditures;
- (iii) enable the Association's representatives to examine such records; and
- (iv) ensure that such records and accounts are included in the annual audit referred to in paragraph (b) of this Section and that the report of such audit contains a separate opinion by said auditors as to whether the statements of expenditure submitted during such fiscal year, together with the proce-

dures and internal controls involved in their preparation, can be relied upon to support the related withdrawals.

Section 4.02. Without limitation or restriction upon the provisions of Section 9.06 of the General Conditions, the Borrower shall:

(a) prepare, through MOA, and cause AIDB, AISCO and PSPI to prepare, semi-annually, in a format satisfactory to the Association, a report on the physical and financial progress under the Project;

(b) furnish, through MOA, to the Association, within two months of the end of each semi-annual period, such report for review and comment by the Association; and

(c) furnish, through MOA, to the Association, within six months of Project completion, a Project completion report on the physical and financial aspects of the Project, together with the trends and achievements in accordance with a set of indicators agreed with the Association.

#### ARTICLE V

##### Remedies of the Association

Section 5.01. Pursuant to Section 6.02 (h) of the General Conditions, the following additional events are specified:

(a) AIDB or AISCO shall have failed to perform any of its obligations under the AIDB Project Agreement or AISCO Project Agreement, respectively.

(b) As a result of events which have occurred after the date of this Agreement, an extraordinary situation shall have arisen which shall make it improbable that AIDB or AISCO will be able to perform its obligations under the AIDB Project Agreement or AISCO Project Agreement, respectively.

(c) Proclamation No. 269 of 1984 of the Borrower shall have been amended, suspended, abrogated, repealed or waived so as to affect materially and adversely the ability of AISCO to perform any of its obligations under the AISCO Project Agreement.

(d) Proclamation No. 158 of 1979 of the Borrower shall have been amended and suspended, abrogated, repealed or waived so as to affect materially and adversely the ability of AIDB to perform any of its obligations under the AIDB Project Agreement.

(e) The Borrower or any other authority having jurisdiction shall have taken any action for the dissolution or disestablishment of AIDB or AISCO or for the suspension of their operations.

Section 5.02. Pursuant to Section 7.01 (d) of the General Conditions, the following additional events are specified:

(a) the event specified in paragraph (a) of Section 5.01 of this Agreement shall occur and shall continue for a period of sixty days after notice thereof shall have been given by the Association to the Borrower; and

(b) the events specified in paragraphs (c), (d) and (e) of Section 5.01 of this Agreement shall occur.

#### ARTICLE VI

##### Effective Date; Termination

Section 6.01. The following events are specified as additional conditions to the effectiveness of the Development Credit Agreement within the meaning of Section 12.01 (b) of the General

Conditions, namely that the Subsidiary Loan Agreements have been executed on behalf of the Borrower and AIDB, and the Borrower and AISCO, respectively.

Section 6.02. The following are specified as additional matters, within the meaning of Section 12.02 (b) of the General Conditions, to be included in the opinion or opinions to be furnished to the Association:

(a) that the AIDB Project Agreement has been duly authorized or ratified by AIDB, and is legally binding upon AIDB in accordance with its terms;

(b) that the AISCO Project Agreement has been duly authorized or ratified by AISCO, and is legally binding upon AISCO in accordance with its terms; and

(c) that the Subsidiary Loan Agreements has been duly authorized or ratified by the Borrower, AIDB and AISCO, and are legally binding upon the Borrower, AIDB and AISCO in accordance with their terms.

Section 6.03. The date ninety (90) days after the date of this Agreement is hereby specified for the purposes of Section 12.04 of the General Conditions.

Section 6.04. The obligations of the Borrower under Sections 3.04, 3.05 and 4.02 of this Agreement shall cease and determine on the date on which the Development Credit Agreement shall terminate or on the date twenty (20) years after the date of this Agreement, whichever shall be the earlier.

#### ARTICLE VII

##### Representatives of the Borrower; Addresses

Section 7.01. The Minister of the Borrower responsible for the Office of the National Committee for Foreign Economic Relations is designated as representative of the Borrower for the purposes of Section 11.03 of the General Conditions.

Section 7.02. The following addresses are specified for the purposes of Section 11.01 of the General Conditions:

For the Borrower:

Office of the National Committee for  
Foreign Economic Relations  
P.O. Box 2428  
Addis Ababa  
Ethiopia

Cable address:

Telex:

ONCCP ET  
Addis Ababa

21531

For the Association:

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

Cable address:

Telex:

INDEVAS  
Washington, D.C.

440098 (ITT)  
248423 (RCA) or  
64145 (WUI)

IN WITNESS WHEREOF, the parties hereto, acting through their duly authorized representatives, have caused this Agreement to be



signed in their respective names in the District of Columbia, United States of America, as of the day and year first above written.

PEOPLE'S DEMOCRATIC REPUBLIC OF ETHIOPIA

By /s/ Girma Amare  
Authorized Representative

INTERNATIONAL DEVELOPMENT ASSOCIATION

By /s/ Edward V. K. Jaycox  
Regional Vice President  
Africa

SCHEDULE 1

Withdrawal of the Proceeds of the Credit

1. The table below sets forth the Categories of items to be financed out of the proceeds of the Credit, the allocation of the amounts of the Credit to each Category and the percentage of expenditures for items so to be financed in each Category:

Category	Amount of the Credit Allocated (Expressed in SDR Equivalent)	% of Expenditures to be Financed
(1) Works:		
(a) the Borrower	80,000	100% of foreign expenditures and
(b) AISCO	780,000	45% of local expenditures
(2) Vehicles, equip- ment, spare parts, office furniture and plant material:		
(a) the Borrower	2,870,000	100% of foreign expenditures and
(b) AISCO	2,640,000	75% of local expenditures
(3) Consultants' services and studies:		
(a) the Borrower	860,000	100%
(b) AISCO	80,000	100%

Category	Amount of the Credit Allocated (Expressed in SDR Equivalent)	% of Expenditures to be Financed
(4) Training:		

(a) the Borrower	540,000	100% of foreign expenditures and
(b) AISCO	80,000	20% of local expenditures
(5) Fertilizers	48,400,000	100% of foreign expenditures
(6) Conservation activities	620,000	100% of foreign expenditures and 50% of local expenditures
(7) Operating costs under Parts A, B, C and E of the Project	1,710,000	80% until December 31, 1990, 60% from January 1, 1991, through December 31, 1992, and 40% thereafter
(8) Refunding of Project Preparation Advance	1,020,000	Amount due pursuant to Section 2.02 (c) of this Agreement
(9) Unallocated	6,320,000	
	66,000,000	
TOTAL	66,000,000	

2. For the purposes of this Schedule:

(a) the term "foreign expenditures" means expenditures in the currency of any country other than that of the Borrower for goods or services supplied from the territory of any country other than that of the Borrower;

(b) the term "local expenditures" means expenditures in the currency of the Borrower or for goods or services supplied from the territory of the Borrower; provided, however, that if the currency of the Borrower is also that of another country from the territory of which goods or services are supplied, expenditures in such currency for such goods or services shall be deemed to be "foreign expenditures"; and

(c) the term "operating costs" means vehicle operating costs, including spare parts and fuel, and building and equipment maintenance costs, and such other items as may be agreed from time to time between the Borrower and the Association.

3. Notwithstanding the provisions of paragraph 1 above, no withdrawals shall be made in respect of:

(a) payments made for expenditures prior to the date of this Agreement; and

(b) payments made or to be made in respect of Category 6 of the table in paragraph 1 of this Schedule unless the Association shall have approved the specific activities proposed in the annual work program prepared pursuant to paragraph A(7)(b) of Schedule 5 to this Agreement.

SCHEDULE 2

Description of the Project

The objectives of the Project are to increase peasant sector grain production, productivity and incomes by: (a) improving

efficiency in the management and delivery of agricultural services; (b) improving the technology available in the agricultural sector; and (c) supporting further incentives for producers while minimizing the impact on consumers.

The Project consists of the following parts, subject to such modifications thereof as the Borrower and the Association may agree upon from time to time to achieve such objectives:

Part A: Management of Agricultural Sector Services

(1) Strengthening of the Project Coordination and Monitoring and Evaluation Department of MOA.

(2) Improvement in financial control and administration in MOA.

(3) Improvement in the printing and editorial services of MOA.

(4) Strengthening of the agricultural extension services of MOA.

(5) Carrying out of a fertilizer sub-sector study.

Part B: Technology Development

(1) Strengthening of the National Field Trials Program through the development of about 65 field trial sites in conjunction with about 200 intermediate trials, about 560 on-farm trials and about 1,100 farmer demonstrations in seven main Agro Ecological Zones; and establishment of about 24 alley cropping trials and about 18 irrigated crop trials.

(2) Improvement in peasant farm implements and establishment of about 15 small farmer technical service stations at selected SCs.

(3) Preparation of a national conservation project.

Part C: Northwest Zone Support Services

(1) Strengthening and expansion of extension services in the regions of Gojam and Gonder.

(2) Strengthening of cooperative development and soil conservation services.

(3) Strengthening of Bure-Silala soil conservation and watershed management and possible extension to other watersheds.

Part D: Agricultural Inputs Supply and Distribution

(1) Provision of fertilizer by AISCO through SCs to individual farmers.

(2) Strengthening of AISCO's administration and management efficiency, including stock control and procurement procedures, for the timely supply of farm inputs (fertilizer and improved seeds) and pesticide sprayers to the peasant sector at reasonable cost through, inter alia, the construction of the first phase of a network of about three zonal input supply stores.

(3) Strengthening of agricultural credit services of AIDB.

Part E: Price Policy Analysis and Grain Marketing and Pricing

(1) Strengthening of the PSPI in order to provide regular advice on prices and price policies in all sectors of the economy, including, inter alia, agriculture.

(2) Strengthening of the grain marketing and pricing capa-

bility of the Borrower.

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The Project is expected to be completed by June 30, 1994.

### SCHEDULE 3

#### Procurement and Consultants' Services

##### Section I: Procurement of Goods and Works

##### Part A: International Competitive Bidding

1. Except as provided in Part C hereof, goods shall be procured under contracts awarded in accordance with procedures consistent with those set forth in Sections I and II of the "Guidelines for Procurement under IBRD Loans and IDA Credits" published by the Bank in May 1985 (the Guidelines).

2. To the extent practicable, contracts for vehicles, office and workshop equipment, spare parts, tools and fertilizer shall be grouped in bid packages estimated to cost the equivalent of \$400,000 or more each.

##### Part B: Preference for Domestic Manufacturers

In the procurement of goods in accordance with the procedures described in Part A 1 hereof, goods manufactured in Ethiopia may be granted a margin of preference in accordance with, and subject to, the provisions of paragraphs 2.55 and 2.56 of the Guidelines and paragraphs 1 through 4 of Appendix 2 thereto.

##### Part C: Other Procurement Procedures

1. Goods estimated to cost the equivalent of \$400,000 or less and works may be procured under contracts awarded on the basis of competitive bidding, advertised locally, in accordance with procedures satisfactory to the Association.

2. Spare parts estimated to cost the equivalent of \$1,000,000 or less may be procured under contracts awarded through limited international bidding procedures on the basis of evaluation and comparison of bids invited from a list of at least three qualified suppliers eligible under the Guidelines and in accordance with the procedures set forth in Sections I and II of the Guidelines (excluding paragraphs 2.8, 2.9, 2.55 and 2.56 thereof) or, with the prior approval of the Association, by direct purchase from the supplier.

3. Goods estimated to cost the equivalent of \$50,000 or less may be procured under contracts awarded on the basis of comparison of price quotations solicited from a list of at least three suppliers eligible under the Guidelines, in accordance with procedures satisfactory to the Association.

##### Part D: Review by the Association of Procurement Decisions

1. Review of invitations to bid and of proposed awards and final contracts:

(a) With respect to each contract estimated to cost the equivalent of \$400,000 or more, the procedures set forth in paragraphs 2 and 4 of Appendix 1 to the Guidelines shall apply. Where payments for such contract are to be made out of the Special Account, such procedures shall be modified to ensure that the conformed copy of the contract required to be furnished to the Association pursuant to said paragraph 2 (d) shall be furnished to the Association prior to the making of the first payment out of the Special Account in respect of such contract.

(b) With respect to each contract not governed by the preceding paragraph, the procedures set forth in paragraphs 3 and 4 of Appendix 1 to the Guidelines shall apply. Where payments for such contract are to be made out of the Special Account, such procedures shall be modified to ensure that the conformed copy of the contract together with the other information required to be furnished to the Association pursuant to said paragraph 3 shall be furnished to the Association as part of the evidence to be furnished pursuant to paragraph 4 of Schedule 3 to this Agreement.

(c) The provisions of the preceding subparagraphs (a) and (b) shall not apply to contracts on account of which the Association has authorized withdrawals from the Credit Account on the basis of statements of expenditure. Such contracts shall be retained in accordance with Section 4.01 (a) (ii) of the Development Credit Agreement.

2. The figure of 15% is hereby specified for purposes of paragraph 4 of Appendix 1 to the Guidelines.

#### Section II: Employment of Consultants

In order to assist the Borrower in carrying out the Project, the Borrower shall employ consultants whose qualifications, experience and terms and conditions of employment shall be satisfactory to the Association. Such consultants shall be selected in accordance with principles and procedures satisfactory to the Association on the basis of the "Guidelines for the Use of Consultants by World Bank Borrowers and by the World Bank as Executing Agency" published by the Bank in August 1981.

#### SCHEDULE 4

##### Special Accounts

1. For the purposes of this Schedule:

(a) the term "eligible Categories" means:

- (i) in respect of the Borrower's Special Account, Categories (1)(a), (2)(a), (3)(a), (4)(a), (6) and (7) set forth in the table in paragraph 1 of Schedule 1 to this Agreement; and
- (ii) in respect of the AISCO Special Account, Categories (1)(b), (2)(b), (3)(b) and (4)(b) set forth in the table in paragraph 1 of Schedule 1 to this Agreement;

(b) the term "eligible expenditures" means expenditures in respect of the reasonable cost of goods and services required for the Project and to be financed out of the proceeds of the Credit allocated from time to time to the eligible Categories in accordance with the provisions of Schedule 1 to this Agreement; and

(c) the term "Authorized Allocation" means:

- (i) in respect of the Borrower's Special Account, an amount equivalent to \$2,000,000; and
- (ii) in respect of the AISCO Special Account, an amount equivalent to \$1,000,000;

to be withdrawn from the Credit Account and deposited into the Special Account pursuant to paragraph 3 (a) of this Schedule.

2. Payments out of the Special Account shall be made exclusively for eligible expenditures in accordance with the provisions of this Schedule.

3. After the Association has received evidence satisfactory to it that the Special Account has been duly opened, withdrawals of the Authorized Allocation and subsequent withdrawals to replenish the Special Account shall be made as follows:

(a) For withdrawals of the Authorized Allocation, the Borrower shall furnish to the Association a request or requests for a deposit or deposits which do not exceed the aggregate amount of the Authorized Allocation. On the basis of such request or requests, the Association shall, on behalf of the Borrower, withdraw from the Credit Account and deposit into the Special Account such amount or amounts as the Borrower shall have requested.

(b) (i) For replenishment of the Special Account, the Borrower shall furnish to the Association requests for deposits into the Special Account at such intervals as the Association shall specify.

(ii) Prior to or at the time of each such request, the Borrower shall furnish to the Association the documents and other evidence required pursuant to paragraph 4 of this Schedule for the payment or payments in respect of which replenishment is requested. On the basis of each such request, the Association shall, on behalf of the Borrower, withdraw from the Credit Account and deposit into the Special Account such amount as the Borrower shall have requested and as shall have been shown by said documents and other evidence to have been made out of the Special Account for eligible expenditures. All such deposits shall be withdrawn by the Association from the Credit Account under the respective eligible Categories, and in the respective equivalent amounts, as shall have been justified by said documents and other evidence.

4. For each payment made by the Borrower out of the Special Account, the Borrower shall, at such time as the Association shall reasonably request, furnish to the Association such documents and other evidence showing that such payment was made exclusively for eligible expenditures.

5. Notwithstanding the provisions of paragraph 3 of this Schedule, the Association shall not be required to make further deposits into the Special Account:

(a) if, at any time, the Association shall have determined that all further withdrawals should be made by the Borrower directly from the Credit Account in accordance with the provisions of Article V of the General Conditions and paragraph (a) of Section 2.02 of this Agreement; or

(b) once the total unwithdrawn amount of the Credit allocated to the eligible Categories for the Project, less the amount of any outstanding special commitment entered into by the Association pursuant to Section 5.02 of the General Conditions with respect to the Project, shall equal the equivalent of twice the amount of the Authorized Allocation. Thereafter, withdrawal from the Credit Account of the remaining unwithdrawn amount of the Credit allocated to the eligible Categories for the Project shall follow such procedures as the Association shall specify by notice to the Borrower. Such further withdrawals shall be made only after and to the extent that the Association shall have been satisfied that all such amounts remaining on deposit in the Special Account as of the date of such notice will be utilized in making payments for eligible expenditures.

6. (a) If the Association shall have determined at any time that any payment out of the Special Account: (i) was made for an expenditure or in an amount not eligible pursuant to paragraph 2 of this Schedule; and (ii) was not justified by the evidence furnished to the Association, the Borrower shall, promptly upon

notice from the Association: (A) provide such additional evidence as the Association may request; or (B) deposit into the Special Account (or, if the Association shall so request, refund to the Association) an amount equal to the amount of such payment or the portion thereof not so eligible or justified. Unless the Association shall otherwise agree, no further deposit by the Association into the Special Account shall be made until the Borrower has provided such evidence or made such deposit or refund, as the case may be.

(b) If the Association shall have determined at any time that any amount outstanding in the Special Account will not be required to cover further payments for eligible expenditures, the Borrower shall, promptly upon notice from the Association, refund to the Association such outstanding amount.

(c) The Borrower may, upon notice to the Association, refund to the Association all or any portion of the funds on deposit in the Special Account.

(d) Refunds to the Association made pursuant to paragraphs 6 (a), (b) and (c) of this Schedule shall be credited to the Credit Account for subsequent withdrawal or for cancellation in accordance with the relevant provisions of this Agreement, including the General Conditions.

## SCHEDULE 5

### Implementation Program

#### A. Management of Agricultural Sector Services

(1) The Borrower shall, during Project execution, maintain the PCC with terms of reference and membership satisfactory to the Association.

(2) The Borrower shall cause, through the PCC, each department and agency participating in Project implementation to: (a) by April 30 of each year, prepare an action program setting forth, inter alia, staff training, procurement activities and other Project activities and physical and financial targets to be achieved under the Project for the ensuing fiscal year; and (b) by June 30 of each year, furnish the consolidated action program to the Association for information.

(3) The Borrower shall: (a) by June 30, 1989, agree with the Association on terms of reference for a fertilizer sub-sector study; (b) by June 30, 1990, carry out such study under terms of reference satisfactory to the Association; (c) by August 31, 1990, exchange views with the Association on the main findings and recommendations of the study; and (d) promptly thereafter adopt an action program, satisfactory to the Association, for putting into effect the approved recommendations.

(4) Following completion of the study on the introduction of a management information system, the Borrower shall: (a) by January 31, 1989, exchange views with the Association on the main findings and recommendations of the study; and (b) thereafter, prepare an action program, satisfactory to the Association, for implementing and operating the management information system, which action plan shall include staff training schedules, details of manuals to be prepared, revised operating procedures, equipment required and the estimated cost of implementing such system.

(5) Following completion of the study on the proposed printing and editorial service, the Borrower shall: (a) by January 31, 1989, exchange views with the Association on the main findings and recommendations of the study; (b) promptly thereafter, prepare an action program, satisfactory to the Association, for implementing and operating such printing and editorial service; and (c) furnish

to the Association, by August 31, 1990, and by each August 31 thereafter during Project execution, an annual report on the operations and financial performance of the printing and editorial service according to a set of indicators agreed with the Association.

(6) Following completion of the study on a rural technology promotion program, the Borrower shall: (a) by January 31, 1989, exchange views with the Association on the main findings and recommendations of the study; and (b) promptly thereafter, prepare an action program, satisfactory to the Association, which action program shall include the detailed costs and implementation arrangements of such program.

(7) Following completion of the study on Bure-Silala soil conservation and watershed management, the Borrower shall: (a) by March 31, 1989, exchange views with the Association on the main findings and recommendations of the study; (b) promptly thereafter, prepare an action program, satisfactory to the Association, which action program shall include the proposed expenditures for the Project; and (c) by June 30, 1989, employ consultants, whose terms and conditions of employment shall be satisfactory to the Association, to assist the Borrower in the preparation of the proposed natural conservation project.

(8) (a) The Borrower shall carry out, during the first two years of Project execution, semi-annual Project implementation reviews, such reviews to be completed not later than: (i) June 1989; (ii) December 1989; (iii) June 1990; and (iv) December 1990. Thereafter the Project implementation reviews shall be carried out annually, to be completed not later than December of each year. In carrying out the reviews, the Borrower shall cause MOA, AIDB and AISCO to prepare brief reports containing, inter alia, explanation of constraints to successful Project implementation and possible solutions. The reports shall then be submitted to PCC.

(b) PCC shall: (i) not later than one month before the date for carrying out the implementation review, furnish to the Association for comments the consolidated report; and (ii) thereafter implement the recommendations taking into account the views of the Association.

#### B. Technology Development:

The Borrower shall:

(a) cause the National Research Extension Liaison Committee to: (i) review, not later than January 31, 1989, the available scientific and trial evidence and recommend the most cost-efficient fertilizer to be imported under the Project; and (ii) review with the National Crop Improvement Committee the annual trial activities of the Institute of Agricultural Research, the National Field Trials Program and the National Fertilizer and Inputs Unit prior to the implementation of such trial activities; and

(b) cause the Zonal Research Extension Liaison Committee to: (i) carry out, not later than March 31, 1989, a study to determine more precisely the technology, including fertilizer application rates, improved seed varieties and appropriate agronomical practices, which can be used by the extension service in the main Agro Ecological Zones for the main crops in high potential Woredas of the Northwestern Zone; and (ii) annually review the technology recommendations arising from the trial activities prior to having such recommendations furnished to the extension services.

#### C. Northwest Zone Support Services

(1) The Borrower shall implement the agricultural extension activities using three basic principles: (a) a direct line of technical command from the regional extension coordinator to the



development agents; (b) extension staff to be progressively relieved of all non-extension activities; and (c) all staff to participate in a regular training program and structured visiting of farmers.

(2) The Borrower shall review with the Association, by May 31, 1989, and at least once annually thereafter, the rate of expansion of Project activities across Woredas in the Northwest Zone in accordance with the criteria agreed with the Association.

(3) The Borrower shall: (a) by January 31, 1989, implement a program of regular supervision and auditing of SCs in the Northwest Zone; and (b) by June 30, 1990, complete the appointment of the required cooperative accounting and auditing staff.

#### D. Inputs Supply and Distribution

(1) The Borrower shall, by December 31, 1989, and by December 31 of each year thereafter during Project execution, review with the Association the performance of AISCO under the Project in accordance with performance criteria agreed with the Association and the annual action program for the Project, which review shall cover, inter alia: (a) actual performance of implementing AISCO's annual action plan; (b) the timing, accuracy and flow of stock control data from the field to AISCO; (c) the performance and operational cost of transport operations and management; (d) the timing and cost of farm inputs distribution, including an analysis of timing delays; (e) the pricing of farm inputs, including the proportion of AISCO's overhead and operations cost in the selling price; (f) AISCO's financial performance and staffing patterns; and (g) projections of future annual input demand by type of input.

#### E. Price Policy Analysis and Grain Marketing and Pricing

The Borrower shall maintain, as a minimum, its existing arrangements for establishing the quotas for AMC purchases from the peasant sector and for licensed trader activities. These existing arrangements include, inter alia:

(a) the setting of the annual quota of AMC's purchases from farmers on the basis of three major principles: (i) an assessment of the overall marketable surplus; (ii) AMC's capacity to efficiently manage, transport, store and market the purchased grain; and (iii) the regular requirements of low income urban consumers served by the kebeles (urban associations) and the requirements to maintain a strategic stock of foodgrains which would be used to selectively intervene in the market when large price fluctuations are caused by temporary and abnormal imbalances in supply;

(b) the determination of individual quotas within the PAs and SCs based on: (i) the per hectare productive capacity of the land; and (ii) the family consumption requirements;

(c) farmers may sell any grain in excess of their quota on the open market in any region of the country without restriction;

(d) after selling 50% of their annual purchases to AMC, licensed grain traders may sell grain in the open markets throughout the country without restrictions; and

(e) grain traders are licensed in accordance with the criteria set forth in the Crop Purchase Quotation, Execution and the 1988 Budgetary Year Pricing Policy adopted by the Borrower in January, 1988.

(2) The Borrower shall, by September 30 of each year of Project execution, furnish to the Association information on: (a) its grain trading activities of the previous year; and (b) its grain trading arrangements for the following year.

(3) In the event that the quantity of foodgrains required by AMC in accordance with the principles set forth in paragraph (1)(a) above exceed the quantity of foodgrains available for procurement consistent with such principles, the Borrower shall, by April 30 of each year of Project execution, inform the Association on ways and means of meeting the deficit.

(4) The Borrower shall, by September 30 of each year of Project execution, inform the Association of the AMC quota fixed for each region for the following annual harvests.

(5) In order to provide producers with adequate incentives to upgrade their technology and improve productivity, the Borrower shall: (a) review, on an annual basis, producer prices for all quota grains purchased by AMC and for all inputs sold by AISCO; and (b) as the analytical capacity of the PSPI develops, expand its analytical framework for determining the relative price levels of foodgrains in accordance with the following: (i) border prices; (ii) trends in demand and production; (iii) development of improved technology; (iv) comparative advantages in the efficiency of resource use across agro-ecological zones and for the country as a whole; and (v) the Borrower's budgetary impact of grain prices.

(6) The Borrower shall, by December 31 of each year, inform the Association of: (a) the official producer prices to be applied for the following annual harvests for all the major grains to be purchased by AMC under the quota system; and (b) the prices to be charged by AISCO for all farm inputs.

(7) The Borrower shall, by January 31, 1989, inform the Association of the main conclusions and recommendations arising from the study on food security, including urban grain supply management.

(8) In order to conduct its annual pricing analysis, manage its grain marketing operations and evaluate the impact of the grain marketing and pricing reforms, the Borrower shall: (a) during Project execution, monitor and analyze, on a regular basis, the impact of the grain marketing and pricing reforms on movements of the set of indicators agreed with the Association; (b) by June 30 of each year furnish to the Association for its information a report on these movements; (c) by June 30, 1989, and semi-annually thereafter, furnish to the Association for its information a report on grain flows, stocks and price trends; and (d) by January 1, 1989, inform the Association of the final arrangements for conducting the monitoring and analysis of the set of indicators agreed with the Association.

