

CONFORMED COPY

CREDIT NUMBER 2740 ET

Development Credit Agreement

(National Fertilizer Sector Project)

between

FEDERAL DEMOCRATIC REPUBLIC OF ETHIOPIA

and

INTERNATIONAL DEVELOPMENT ASSOCIATION

Dated September 29, 1995

CREDIT NUMBER 2740 ET

DEVELOPMENT CREDIT AGREEMENT

AGREEMENT, dated September 29, 1995, between FEDERAL DEMOCRATIC REPUBLIC OF ETHIOPIA (the Borrower) and INTERNATIONAL DEVELOPMENT ASSOCIATION (the Association).

WHEREAS (A) the Borrower's Council of Ministers having adopted on November 5, 1993 the Borrower's National Fertilizer Policy describing a program of actions, objectives and policies designed to develop a competitive and broad-based fertilizer sector;

(B) 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;

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

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:

(a) "Project Year" or "PY" means each period of twelve months, beginning from the Effective Date and ending twelve (12) months thereafter; provided, however, that for the purpose of paragraph 2 (e) of Schedule 1 to this Agreement, the first Project Year shall start on the date specified therein;

(b) "NFIA" means the National Fertilizer Industry Agency, established pursuant to the Borrower's Proclamation No.106/1994 of October 26, 1994;

(c) "MOA" means the Borrower's Ministry of Agriculture;

(d) "AED" means the MOA's Agricultural Extension Division;

(e) "ADD" means the MOA's Agricultural Development Division;

(f) "NSS" means the Borrower's National Soils Service;

(g) "AISCO" means the Agricultural Inputs Supply Enterprise established pursuant to the Borrower's Council of Ministers' Regulation No.177/94 of February 20, 1994;

(h) "DAP" means Di-ammonium Phosphate;

(i) "ESA" means the Ethiopian Standards Authority;

(j) "Project Implementation Plan" means the plan described in the Borrower's letter dated January 27, 1995;

(k) "Regional Bureaus" means the departments of agriculture established in each of the Borrower's Regional Governments;

(l) "CPD" means the Cooperative Promotion Department of MOA; and

(m) "Special Account" means the account referred to in Section 2.02 (b) of this Agreement.

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 the Development Credit Agreement, an amount in various currencies equivalent to eighty two million nine hundred thousand Special Drawing Rights (SDR 82,900,000).

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, works, and services required for the Project described in Schedule 2 to this Agreement and to be financed out of the proceeds of the Credit.

(b) The Borrower may, for the purposes of the Project, open and maintain in US Dollars a special deposit account in a

commercial bank acceptable to the Association and on terms and conditions satisfactory to the Association, including appropriate protection against setoff, seizure or attachment. Deposits into, and payments out of, the Special Account shall be made in accordance with the provisions of Schedule 5 to this Agreement.

Section 2.03. The Closing Date shall be December 31, 2000 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 the 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; and (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 from the next payment date in that year specified in Section 2.06 of this Agreement.

(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 percent (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 1 and August 1 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 1 and August 1 commencing August 1, 2005 and ending February 1, 2035. Each installment to and including the installment payable on February 1, 2015 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 the Project, through MOA, Regional Bureaus, NFIA, AISCO, ESA, NSS, and private sector fertilizer traders, all with due diligence and efficiency and in conformity with appropriate administrative, managerial, financial, agricultural, and environmental practices, and shall provide, promptly as needed, the funds, facilities, services and other resources required for such Parts of the Project; and

(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, or cause to be carried out, the Project, in accordance with the Implementation Program set forth in Schedule 4 to this Agreement.

Section 3.02. 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 3.03. The Borrower shall: (a) not later than September 30, 1998, or such later date as the Borrower and the Association shall agree upon, eliminate all its fertilizer price subsidies; (b) refrain from extending any direct or indirect subsidy to AISCO; (c) not later than December 31, 1996, deregulate retail prices; (d) not later than December 31, 1997, deregulate wholesale prices; and (e) not later than September 30, 1998, complete the process of deregulating fertilizer prices.

Section 3.04. The Borrower shall ensure that: (a) public and private sector importers shall have, at all times, equal access to: (i) any foreign exchange made available by the Borrower for fertilizer imports, and (ii) any credit for fertilizer importation and domestic marketing; and (b) the private sector shall be represented, in a manner acceptable to the Association, in all committees to be established for the implementation and coordination of the Project.

Section 3.05. The Borrower shall cause NFIA to: (a) by December 31, 1995, establish a financial management and accounting system, acceptable to the Association, for the implementation of the Project; (b) immediately following the midterm review referred to in Section 3.08. of this Agreement, finalize commercial arrangements, acceptable to the Association, for the sale of rhizobium packets to farmers; (c) by the end of the third Project Year, start implementing cost recovery mechanisms, acceptable to the Association, for soil

testing services; and (d) not later than December 31, 1996, establish a system, acceptable to the Association, for the compilation and maintenance of a data base on the impact of fertilizer on the environment, including monitoring and testing activities at strategic locations for the purpose of environmental protection.

Section 3.06. The Borrower shall take all measures necessary on its part to facilitate the licensing of private clearing and forwarding agents at the ports through which fertilizers are imported.

Section 3.07. the Borrower shall cause AISCO to implement the action plan referred to in Section 6.01 (a) (iii) of this Agreement, with due diligence and efficiency.

Section 3.08. (a) Not later than six (6) months after the end of the second Project Year, the Borrower shall conduct, jointly with the Association, a comprehensive review of the Project. Without limitation upon the generality of the foregoing, the review shall, inter alia, cover the implementation and management aspects of the Project, including procedures, progress made in the carrying out of the Project including policy reforms, the privatization of AISCO's wholesale and retail operations, the performance and use of technical assistance personnel, the role of national counterpart staff, the status and results of training, reporting, accounting and audit performance, disbursement and procurement procedures and the overall sustainability of the Project.

(b) Not later than thirty days prior to the review referred to in (a) above, the Borrower shall, through NFIA, furnish to the Association, for its comments, a report in such detail as the Association shall reasonably request, including an evaluation of the progress achieved in implementing the various components of the Project, and a draft action plan containing proposals for remedying any identified deficiencies.

(c) The Borrower shall, promptly thereafter, cause NFIA to: (i) prepare an action plan satisfactory to the Association based on the recommendation stemming from the aforementioned review, and (ii) adopt and implement said action plan for the remainder of the Project period.

Section 3.09. Without limitation upon the provisions of Article IX of the General Conditions, the Borrower shall:

(a) prepare and furnish to the Association not later than six (6) months after the Closing Date or such later date as may be agreed for this purpose between the Borrower and the Association, a plan, of such scope and in such detail as the Association shall reasonably request, designed to ensure the continued achievement of the objectives of the Project;

(b) afford the Association a reasonable opportunity to exchange views with the Borrower on said plan; and

(c) thereafter, carry out said plan with due diligence and efficiency and in accordance with appropriate practices, taking into account the Association's comments thereon.

ARTICLE IV

Financial 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 in respect of the Project of the departments, agencies and Regional Bureaus 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 including those for the Special Account 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 report for the fiscal year in which the last withdrawal from the Credit Account or payment out of the Special 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 procedures and internal controls involved in their preparation, can be relied upon to support the related withdrawals.

ARTICLE V

Remedies of the Association

Section 5.01. Pursuant to Section 6.02 (h) of the General Conditions, the following additional event is specified, namely that a situation has arisen which shall make it improbable that the Program, or a significant part thereof, will be carried out.

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:

(a) AISCO has furnished to the Association: (i) a business plan for 1995, acceptable to the Association; (ii) guidelines on fertilizer pricing, acceptable to the Association, for distributors, wholesalers, and retailers; and (iii) an action plan, satisfactory to the Association, designed to achieve the privatization of AISCO's retail and wholesale marketing operations by December 31, 1997;

(b) NFIA has: (i) furnished to the Association its annual work program for 1995-96, acceptable to the Association; and (ii) recruited, in accordance with Section II of Schedule 3 to this Agreement, the Project Implementation Adviser and the two specialists referred to in paragraph 5 (b) of Schedule 4 to this Agreement, with qualifications, experience and terms and conditions of employment satisfactory to the Association;

(c) The Association has received evidence, satisfactory to the Association, showing that the Project Coordination and Monitoring Office has been made fully operational; and

(d) Fertilizers/inputs units have been established in each of the Borrower's Regional Bureaus of agriculture to coordinate and monitor the implementation of the Project at the regional level.

Section 6.02. 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.

ARTICLE VII

Representatives of the Borrower; Addresses

Section 7.01. The Minister of Finance of the Borrower 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:

Ministry of Finance
P.O. Box 1905
Addis Ababa
Ethiopia

Telex:

21147

For the Association:

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

Cable address:

Telex:

INDEVAS	248423 (RCA)
Washington, D.C.	82987 (FTCC)
	64145 (WUI) or
	197688 (TRT)

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.

FEDERAL DEMOCRATIC REPUBLIC OF ETHIOPIA

By /s/ Berhane Gebre-Christos
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) Civil Works	500,000	60%
(2) Goods:		
(a) Fertilizers Imports	65,600,000	100% of foreign expenditures
(b) Vehicles	830,000	100% of foreign expenditures and 85% of local expenditures
(c) Equipment and Machinery	2,830,000	100% of foreign expenditures and 85% of local expenditures
(d) Fertilizer Mini-kits	70,000	80%
(3) Consultants' Services:		100%
(a) Technical Assistance	1,600,000	
(b) Training	1,200,000	
(c) Workshops	200,000	

(4) Operating Costs	690,000	90% for payments made in PY1 and PY2 and 50% for payments made in PY3, PY4 and PY5
(5) Unallocated	9,380,000	

TOTAL	82,900,000	
	=====	

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 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, expenditure in such currency for such goods or services shall be deemed to be "foreign expenditures";

(c) the term "operating costs" means incremental recurrent expenditures incurred for the implementation of the Project for staff salaries and allowances, office supplies, office communications services, minor office equipment, utilities, fuel, maintenance and insurance of vehicles used for the Project;

(d) the terms "PY1", "PY2", "PY3", "PY4" and "PY5" mean the first Project Year, the second Project Year, the third Project Year, the fourth Project Year and the fifth Project Year, respectively; and

(e) notwithstanding the provisions of paragraph 1 above, no withdrawals shall be made in respect of payments made for expenditures prior to the date of this Agreement, except that withdrawals, in an aggregate amount not exceeding the equivalent of SDR 8,300,000, may be made on account of payments made for expenditures before that date but after September 29, 1994.

3. The Association may require withdrawals from the Credit Account to be made on the basis of statements of expenditure for expenditures under contracts for goods, works and services not exceeding \$100,000 equivalent, under such terms and conditions as the Association shall specify by notice to the Borrower.

SCHEDULE 2

Description of the Project

The objective of the Project is to achieve accelerated and sustainable growth in agricultural production with a view to improving food security and reducing poverty, through: (a) support to policy reforms aimed at creating an enabling environment for a competitive fertilizer sector; (b) assistance to institutional strengthening and human resource development; (c) promotion of efficient and environmentally safe use of fertilizers; (d) removal of main fertilizer supply constraints; and (e) promotion of initiatives aiming at the improvement of long-term fertility of the Borrower's soil and environmental conservation.

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: Capacity Building

1. Strengthening of the Borrower's departments, agencies and institutions involved in the fertilizer sector, including MOA, ESA, NFIA, and the NSS's microbiological laboratory through: (a) provision of technical expertise, equipment, machinery, and vehicles; (b) organization of workshops; and (c) establishment of soil testing facilities.
2. Human resource development through provision of short-term technical assistance, and study tours and fellowships to strengthen the Borrower's capacity in: (a) project implementation, and (b) fertilizer-related disciplines, and management information systems.
3. In-country training in areas including fertilizer importation and domestic marketing, port handling and logistics, integrated plant nutrient supply systems, quality control, soil testing, inventory control and warehouse management, environmentally safe storage, transportation and fertilizer application techniques, cooperative management, biogas technology, and biofertilizers production, storage and transportation.

Part B: Fertilizer Demand and Supply

1. Promotion of fertilizer use through support to initiatives to promote efficient, balanced and greater nutrient use by farmers, including: (a) training of extension staff, farmers and fertilizer traders in fertilizer use; and (b) implementation of annual mini-kit programs to initiate farmers into fertilizer and balanced nutrient use.
2. Strengthening of regional extension and farm advisory services in fertilizer use promotion and use technology, through provision of equipment, technical assistance and training.
3. Development of integrated plant nutrient supply systems through, inter alia: (a) promotion of biogas technologies, recycling of organic wastes, and use of biofertilizers, and (b) implementation of a trial/demonstration program on biofertilizer.
4. Strengthening fertilizer retail network to improve the farmers' access to fertilizers through training and provision of technical expertise.
5. Production and commercialization by AISCO and the private sector, of 25 and 10 kilogram fertilizer bags.
6. Strengthening NFIA's capacity to monitor the availability of input loans to farmers and traders to enhance the demand for fertilizers.
7. Strengthening CPD's capacity to accelerate formation and registration procedures for agricultural cooperatives, through training and provision of technical advisory services.
8. Incremental fertilizer imports.

Part C: Soil Fertility Management and Environment Conservation

1. Development of indigenous nutrient resources, both organic and inorganic, to sustain and improve soil fertility and reduce the Borrower's dependence on fertilizer imports.
2. Promotion of biogas technology in rural areas, through provision of extension services and training.

3. Production of biofertilizers in the NSS's microbiological laboratory.
4. Carrying out of pilot initiatives and studies to develop indigenous resources for supply of nutrients.
5. Establishment and operation of eight regional soil testing field laboratories to test soil samples and to advise farmers on crop and fertilizer use as a first step towards the establishment of a countrywide soil testing service.
6. Training of: (a) farmers and extension personnel in the efficient and balanced use of nutrients to minimize losses of nutrients and other polluting elements into the environment, and (b) fertilizer traders in safe storage and handling techniques.

* * *

The Project is expected to be completed by June 30, 2000.

SCHEDULE 3

Procurement and Consultants' Services

Section I. Procurement of Goods and Works

Part A: International Competitive Bidding

Except as provided in Part C hereof, goods and works 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 1992 (the Guidelines).

(a) When contract award is delayed beyond the original bid validity period, such period may be extended once, subject to and in accordance with the provisions of paragraph 2.59 of the Guidelines, by the minimum amount of time required to complete the evaluation, obtain necessary approvals and clearances and award the contract. The bid validity period may be extended a second time only if the bidding documents or the request for extension shall provide for appropriate adjustment of the bid price to reflect changes in the cost of inputs for the contract over the period of extension. Such an increase in the bid price shall not be taken into account in the bid evaluation. With respect to each contract made subject to the Association's prior review in accordance with the provisions of Part D.1 (a) of this Section, the Association's prior approval will be required for: (i) a first extension of the bid validity period if the period of extension shall exceed sixty days, and (ii) any subsequent extension of the bid validity period.

(b) In the procurement of goods in accordance with this Part A, the Borrower shall use the relevant standard bidding documents issued by the Bank, with such modifications thereto as the Association shall have agreed to be necessary for the purposes of the Project. Where no relevant standard bidding documents have been issued by the Bank, the Borrower shall use bidding documents based on other internationally recognized standard forms agreed with the Association.

Part B: Preference for Domestic Manufacturers

In the procurement of goods in accordance with the procedures described in Part A 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. Fertilizer imports under Part B.8 of the Project estimated to cost the equivalent of \$200,000 or less per contract, up to an aggregate amount equivalent to \$1,600,000, and specialized equipment estimated to cost the equivalent of \$100,000 per contract, up to an aggregate amount equivalent to \$3,200,000, may be procured under contracts awarded through limited international bidding procedures on the basis of evaluation and comparison of bids obtained from a list of qualified suppliers eligible under the Guidelines and acceptable to the Association, and in accordance with procedures set forth in Sections I and II of the Guidelines (excluding paragraphs 2.8, 2.9, 2.55 and 2.56 thereof).

2. Items, or groups of items, for works estimated to cost the equivalent of \$200,000 or less per contract, up to an aggregate amount equivalent to \$1,500,000, and equipment estimated to cost the equivalent of \$100,000 per contract, up to an aggregate amount equivalent to \$1,900,000, may be procured under contracts awarded on the basis of competitive bidding, advertised locally, in accordance with procedures satisfactory to the Association.

3. Fertilizer mini-kits required under Part B.1 of the Project, estimated to cost the equivalent of \$100,000 or less per contract, up to an aggregate amount equivalent to \$200,000, may be procured under contracts awarded on the basis of competitive bidding, advertised locally, in accordance with procedures satisfactory to the Association.

4. Items, or groups of items, for equipment estimated to cost the equivalent of \$50,000 or less per contract, up to an aggregate amount equivalent to \$250,000, and for vehicles estimated to cost the equivalent of \$100,000 per contract, up to an aggregate amount equivalent to \$200,000, may be procured under contracts awarded on the basis of comparison of price quotations obtained from at least three suppliers eligible under the Guidelines, in accordance with procedures acceptable 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 for goods and works estimated to cost the equivalent of \$100,000 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 two conformed copies 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 two conformed copies 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 5 to this Agreement.

(c) The provisions of the preceding subparagraph (b) shall not apply to contracts on account of which withdrawals from the Credit Account are to be made on the basis of statements of expenditure.

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

Section II. Employment of Consultants

1. 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 (the Consultant Guidelines). For complex, time-based assignments, the Borrower shall employ such consultants under contracts using the standard form of contract for consultants' services issued by the Bank, with such modifications as shall have been agreed by the Association. Where no relevant standard contract documents have been issued by the Bank, the Borrower shall use other standard forms agreed with the Association.

2. Notwithstanding the provisions of paragraph 1 of this Section, the provisions of the Consultant Guidelines requiring prior Association review or approval of budgets, short lists, selection procedures, letters of invitation, proposals, evaluation reports and contracts shall not apply to: (a) contracts for the employment of consulting firms estimated to cost less than \$100,000 equivalent each, or (b) contracts for the employment of individuals estimated to cost less than \$50,000 equivalent each. However, this exception to prior Association review shall not apply to: (a) the terms of reference for such contracts; (b) single source selection of consulting firms; (c) assignments of a critical nature, as reasonably determined by the Association; (d) amendments of contracts raising the contract value to \$100,000 equivalent or above; or (e) amendments to contracts for the employment of individual consultants raising the contract value to \$50,000 equivalent or above.

SCHEDULE 4

Implementation Program

1. Under the supervision of the National Fertilizer Industry Board (NFIB), the National Fertilizer Industry Agency (NFIA) will be in charge of the overall implementation and coordination of the Project implementation. NFIA will establish and maintain for the duration of the Project implementation, a Project Coordination and Monitoring Office (PCMO) which shall be headed by a Project Coordinator, whose qualifications and experience shall be at all times satisfactory to the Association.

2. (a) NFIA shall, in addition to its coordination responsibilities, be responsible for the implementation of Parts A, and B.6 of the Project; (b) MOA shall be responsible for the implementation of Parts B.2, B.3, and B.7 of the Project, with the assistance of regional bureaus of agriculture; (c) AISCO shall be responsible for the implementation of Parts B.4, B.5 and B.8 of the Project, in cooperation with the private sector under arrangements acceptable to the Association; and (d) MOA, NFIA and AISCO will be jointly responsible for the implementation of Part B.1 of the Project.

3. The Borrower shall: (a) promptly after the Effective Date, cause NFIA to take all measures necessary on its part to organize a Project Launch Workshop with the participation of all departments and agencies responsible for the implementation of the Project, to finalize: (i) Project start-up arrangements, and (ii) adopt a work program for the first Project Year; (b)

by the end of each annual fertilizer consumption season, cause NFIA to: (i) carry out, in close consultation with all institutions, departments and operators involved in the fertilizer sector, a review of the past season's experience in fertilizer use by farmers, (ii) based on the findings of said review, prepare an action plan designed to expand fertilizer use during the following consumption season, and (iii) by September of each year, organize a national fertilizer workshop, including representatives of all institutions, departments, entities, and private sector operators involved in the fertilizer sector, to review and adopt the said action plan; (c) during the months of December and January of each year, cause NFIA to implement training programs in fertilizer use promotion for its extension staff; (d) not later than December 31, 1996, cause ESA to: (i) update and develop quality standards for fertilizer products and packaging, and (ii) in accordance with the Program, establish enforcement mechanisms for fertilizer quality control; and (e) for the implementation of Part B.1 (b), cause MOA to initiate, in each Project Year, at least: (i) 5,000 subsistence farmers into DAP and urea use, and (ii) 10,000 DAP-using farmers into balanced nutrient use through the additional application of urea as top dressing.

4. The Borrower shall cause NFIA and AISCO to carry on their operations and conduct their affairs in accordance with sound administrative, financial, agricultural, commercial and environmental practices under the supervision of qualified and experienced management assisted by competent staff in adequate numbers.

5. The Borrower shall cause NFIA to: (a) ensure that PMCO's positions of disbursement officer, operations officers, and management information system officer are at all times filled with staff whose qualifications, experience, and terms and conditions of employment shall be acceptable to the Association; and (b) recruit and maintain: (i) for not less than one Project Year, a Project Implementation Adviser to assist NFIA's General Manager, and (ii) for not less than six months, a specialist in fertilizer management information systems and a specialist in fertilizer marketing, to assist NFIA in the implementation of the Project.

6. The Borrower shall cause NFIA to: (a) establish and maintain a Fertilizer Logistics Committee which shall be chaired by NFIA's General Manager, and shall comprise representatives from: (i) the Borrower's ministries in charge of transport, finance, and agriculture, and (ii) the fertilizer private sector; (b) establish and maintain a Fertilizer Credit Committee which shall be chaired by NFIA's General Manager, and shall comprise representatives from the banking sector, agricultural extension services, and fertilizers traders from the public and private sector; (c) implement, each Project Year, training programs, acceptable to the Association, to: (i) improve the management of fertilizer importation and distribution, (ii) enhance involvement of private entrepreneurs in the sector, (iii) increase knowledge and skills related to the development and application of domestic nutrient resources, and (iv) improve farmers' knowledge and skills in fertilizer use; (d) at the beginning of each Project Year, prepare and furnish to the Association, for review and comments, a program for production and distribution of rhizobium packets to be carried out under the Project during the concerned year, and thereafter, implement said program taking into account the Association's comments thereon; (e) for each Project Year, prepare and implement an action plan, acceptable to the Association, designed to ensure the adequate and timely importation of fertilizers by the private and public sectors; (f) implement annual training programs in quality control enforcement, safe handling and transportation of fertilizer products for fertilizer inspectors and traders; and (g) by June 30 of each year, prepare and furnish to the Association, for review and comments, a Project impact evaluation survey report,

for the previous year, which shall cover, inter alia, fertilizer use and impact on production.

7. The Borrower shall cause AISCO to: (a) implement a restructuring plan, acceptable to the Association, including the action plan referred to in Section 6.01 (a) of this Agreement; (b) by March of each year, prepare and furnish to the Association, for review and comments, its business plan for its following fiscal year; and (c) thereafter, implement said business plan, taking into account the Association's comments thereon.

8. The Borrower shall ensure that the Project is carried out in accordance with the Project Implementation Plan, subject to such modifications as may be agreed upon between the Borrower and the Association from time to time.

SCHEDULE 5

Special Account

1. For the purposes of this Schedule:

(a) the term "eligible Categories" means Categories (1) to (4) 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 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, provided, however, that unless the Association shall otherwise agree, the Authorized Allocation shall be limited to an amount equivalent to \$500,000 until the aggregate amount of withdrawals from the Credit Account plus the total amount of all outstanding special commitments entered into by the Association pursuant to Section 5.02 of the General Conditions shall be equal to or exceed the equivalent of SDR 10,000,000.

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 paid 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, 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 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; or (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.

