

CONFORMED COPY

CREDIT NUMBER 2741 ET

Project Agreement

(Seed Systems Development Project)

between

INTERNATIONAL DEVELOPMENT ASSOCIATION

and

ETHIOPIAN SEED ENTERPRISE

Dated September 29, 1995

CREDIT NUMBER 2741 ET

PROJECT AGREEMENT

AGREEMENT, dated September 29, 1995, between INTERNATIONAL DEVELOPMENT ASSOCIATION (the Association) and ETHIOPIAN SEED ENTERPRISE (ESE).

WHEREAS (A) by the Development Credit Agreement of even date herewith between Ethiopia (the Borrower) and the Association, the Association has agreed to make available to the Borrower an amount in various currencies equivalent to fifteen million two hundred thousand Special Drawing Rights (SDR 15,200,000), on the terms and conditions set forth in the Development Credit Agreement, but only on condition that ESE agrees to undertake such obligations toward the Association as are set forth in this Agreement;

(B) by a subsidiary loan agreement to be entered into between the Borrower and ESE, a portion of the proceeds of the credit provided for under the Development Credit Agreement will be relented to ESE on the terms and conditions set forth in said Subsidiary Loan Agreement;

WHEREAS ESE, in consideration of the Association's entering into the Development Credit Agreement with the Borrower, has agreed to undertake the obligations set forth in this Agreement; and

NOW THEREFORE the parties hereto hereby agree as follows:

#### ARTICLE I

##### Definitions

Section 1.01. Unless the context otherwise requires, the several terms defined in the Development Credit Agreement, the Preamble to this Agreement and in the General Conditions (as so defined) have the respective meanings therein set forth.

#### ARTICLE II

##### Execution of the Project

Section 2.01. (a) ESE declares its commitment to the objectives of the Project as set forth in Schedule 2 to the Development Credit Agreement, and, to this end, shall carry out Parts A.3, A.4, A.5, A.6, A.7, B.6, and B.8 of the Project with due diligence and efficiency and in conformity with appropriate administrative, financial, agricultural, and environmental practices, and shall provide, or cause to be provided, promptly as needed, the funds, facilities, services and other resources required for Parts A.3, A.4, A.5, A.6, A.7, B.6 and B.8 of the Project; and

(b) Without limitation upon the provisions of paragraph (a) of this Section and except as the Association and ESE shall otherwise agree, ESE shall carry out Parts A.3, A.4, A.5, A.6, A.7, B.6 and B.8 of the Project in accordance with the Implementation Program set forth in Schedule 1 to this Agreement.

Section 2.02. Except as the Association shall otherwise agree, procurement of the goods, works and consultants' services required for Parts A.3, A.4, A.5, A.6, A.7, B.6 and B.8 of the Project and to be financed out of the proceeds of the Credit shall be governed by the provisions of Schedule 3 to the Development Credit Agreement.

Section 2.03. ESE shall carry out the obligations set forth in Sections 9.03, 9.04, 9.05, 9.06, 9.07 and 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 the Project Agreement and Parts A.3, A.4, A.5, A.6, A.7, B.6 and B.8 of the Project.

Section 2.04. ESE shall duly perform all its obligations under the Subsidiary Loan Agreement. Except as the Association shall otherwise agree, ESE shall not take or concur in any action which would have the effect of amending, abrogating, assigning or waiving the Subsidiary Loan Agreement or any provision thereof.

Section 2.05. (a) ESE shall, at the request of the Association, exchange views with the Association with regard to the progress of Parts A.3, A.4, A.5, A.6, A.7, B.6 and B.8 of the Project, the performance of its obligations under this Agreement and under the Subsidiary Loan Agreement, and other matters relating to the purposes of the Credit; and

(b) ESE shall promptly inform the Association of any condition which interferes or threatens to interfere with the progress of Parts A.3, A.4, A.5, A.6, A.7, B.6 and B.8 of the Project, the accomplishment of the purposes of the Credit, or the performance by ESE of its obligations under this Agreement and under the Subsidiary Loan Agreement.

Section 2.06. By the end of its 1995 fiscal year, ESE shall: (a) submit to the Borrower a plan for the settlement of

all its outstanding debts to the Borrower; and (b) furnish to the Association, audit reports of such scope and in such detail as the Association shall have reasonably requested, covering its 1993 and 1994 fiscal years.

### ARTICLE III

#### Management and Operations of ESE

Section 3.01. ESE shall carry on its operations and conduct its affairs in accordance with sound administrative, financial, agricultural and environmental practices under the supervision of qualified and experienced management assisted by competent staff in adequate numbers.

Section 3.02. ESE shall at all times operate and maintain its plant, machinery, equipment and other property, and from time to time, promptly as needed, make all necessary repairs and renewals thereof, all in accordance with sound engineering, financial and technical practices.

Section 3.03. ESE shall take out and maintain with responsible insurers, or make other provision satisfactory to the Association for, insurance against such risks and in such amounts as shall be consistent with appropriate practice.

### ARTICLE IV

#### Financial Covenants

Section 4.01. (a) ESE shall maintain records and accounts adequate to reflect in accordance with sound accounting practices its operations and financial condition; and

(b) ESE shall:

- (i) have its records, accounts and financial statements (balance sheets, statements of income and expenses and related statements) 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 copies of its financial statements for such year as so audited; and (B) 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 financial statements as well as the audit thereof, as the Association shall from time to time reasonably request.

Section 4.02. (a) Except as the Association shall otherwise agree, ESE shall maintain, for each of its fiscal years after its fiscal year ending on June 30, 1996, a ratio of total operating expenses to total operating revenues not higher than 1 (one);

(b) Before May 31, in each of its fiscal years, ESE shall, on the basis of forecasts prepared by ESE and satisfactory to the Association, review whether it would meet the requirements set forth in paragraph (a) in respect of such year and the next following fiscal year, and shall furnish to the Association the results of such review upon its completion;

(c) If any such review shows that ESE would not meet the requirements set forth in paragraph (a) for ESE's fiscal years covered by such review, ESE shall promptly take all necessary measures (including, without limitation, adjustments of the structure or levels of its prices) in order to meet such requirements; and

(d) For the purposes of this Section;

- (i) The term "total operating expenses" means all expenses related to operations, including administration, adequate maintenance, taxes and payments in lieu of taxes, and provision for depreciation on a straight-line basis at a rate of not less than 5% per annum of the average current gross value of ESE's fixed assets in operation, or other basis acceptable to the Association, but excluding interest and other charges on debt;
- (ii) The term "total operating revenues" means revenues from all sources related to operations; and
- (iii) The average current gross value of ESE's fixed assets in operation shall be calculated as one half of the sum of the gross value of ESE's fixed assets in operation at the beginning and at the end of the fiscal year, as valued from time to time in accordance with sound and consistently maintained methods of valuation satisfactory to the Association.

Section 4.03. (a) Except as the Association shall otherwise agree, ESE shall not incur any debt, if after the incurrence of such debt the ratio of debt to equity shall be greater than 2 (two);

(b) For purposes of this Section:

- (i) The term "debt" means any indebtedness of ESE maturing by its terms more than one year after the date on which it is originally incurred;
- (ii) Debt shall be deemed to be incurred: (A) under a loan contract or agreement or other instrument providing for such debt or for the modification of its terms of payment, on the date, and to the extent, the amount of such debt has become outstanding pursuant to such contract, agreement or instrument; and (B) under a guarantee agreement, on the date the agreement providing for such guarantee has been entered into but only to the extent that the guaranteed debt is outstanding;
- (iii) The term "equity" means the sum of the total unimpaired paid-up capital, retained earnings and reserves of ESE not allocated to cover specific liabilities; and
- (iv) Whenever for the purposes of this Section it shall be necessary to value, in terms of the currency of the Borrower, debt payable in another currency, such valuation shall be made on the basis of the prevailing lawful rate of exchange at which such other currency is, at the time of such valuation, obtainable for the purposes of servicing such debt, or, in the absence of such rate, on the basis of a rate of

exchange acceptable to the Association.

#### ARTICLE V

##### Effective Date; Termination; Cancellation and Suspension

Section 5.01. This Agreement shall come into force and effect on the date upon which the Development Credit Agreement becomes effective.

Section 5.02. (a) This Agreement and all obligations of the Association and of ESE thereunder shall terminate on the earlier of the following two dates:

- (i) the date on which the Development Credit Agreement shall terminate in accordance with its terms; or
- (ii) the date twenty years after the date of this Agreement; and

(b) If the Development Credit Agreement terminates in accordance with its terms before the date specified in paragraph (a) (ii) of this Section, the Association shall promptly notify ESE of this event.

Section 5.03. All the provisions of this Agreement shall continue in full force and effect notwithstanding any cancellation or suspension under the General Conditions.

#### ARTICLE VI

##### Miscellaneous Provisions

Section 6.01. Any notice or request required or permitted to be given or made under this Agreement and any agreement between the parties contemplated by this Agreement shall be in writing. Such notice or request shall be deemed to have been duly given or made when it shall be delivered by hand or by mail, telegram, cable, telex or radiogram to the party to which it is required or permitted to be given or made at such party's address hereinafter specified or at such other address as such party shall have designated by notice to the party giving such notice or making such request. The addresses so specified are:

For the Association:

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

Cable address:

INDEVAS  
Washington, D.C.

Telex:

248423 (RCA)  
82987 (FTCC)  
64145 (WUI) or  
197688 (TRT)

For ESE:

Ethiopian Seed Enterprise  
P.O. Box 2453  
Addis Ababa  
Ethiopia

Telex:

21699 ETSeed Et

Section 6.02. Any action required or permitted to be taken, and any document required or permitted to be executed, under this Agreement on behalf of ESE, or by ESE on behalf of the Borrower under the Development Credit Agreement, may be taken or executed by General Manager or such other person or persons as General Manager shall designate in writing, and ESE shall furnish to the Association sufficient evidence of the authority and the authenticated specimen signature of each such person.

Section 6.03. This Agreement may be executed in several counterparts, each of which shall be an original, and all collectively but one instrument.

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.

INTERNATIONAL DEVELOPMENT ASSOCIATION

By /s/ Edward V.K. Jaycox

Regional Vice President  
Africa

ETHIOPIAN SEED ENTERPRISE

By /s/ Berhane Gebre-Christos

Authorized Representative

SCHEDULE 1

Implementation Program

1. ESE shall: (a) implement the restructuring plan referred to in Section 6.01 (c) of the Development Credit Agreement, with due diligence and efficiency; (b) not later than three months prior to beginning of each of its fiscal years, prepare and furnish to the Association, through NSIA, a work plan including: (i) a review of progress achieved in the implementation of the Project during the previous fiscal year, and (ii) financial and physical targets for the subsequent fiscal year; (c) thereafter, implement said work plan with due diligence and efficiency, taking into account the Association's comments thereon; and (d) furnish to the Association semiannual progress reports on the implementation of its commercial strategy, of such scope and in such detail as the Association may reasonably request.

2. ESE shall: (a) establish and implement cost control mechanisms and a management information system, all acceptable to the Association; (b) upgrade the operational and management capacity of its regional units through training of staff; (c) take all measures necessary on its part to diversify its activities to include production and marketing of hybrid and vegetable seeds; (d) take all necessary measures to minimize at all times its transportation costs through, inter alia, development of its production and marketing activities in the proximity of its processing plants; and (e) engage in custom

processing and seeds testing activities against payment of fees.

3. ESE shall take all measures necessary on its part to participate in: (a) the Project launching workshop referred to in paragraph 4 of the Schedule 4 of the Development Credit Agreement; and (b) the midterm review referred to in Section 3.08 of the Development Credit Agreement.

4. ESE shall take all measures necessary on its part to carry out Parts A.3, A.4, A.5, A.6, A.7, B.6 and B.8 of the Project in accordance with the Project Implementation Plan.

