

Public Disclosure Authorized

CONFORMED COPY

CREDIT NUMBER 4543-ET
GRANT NUMBER H4420-ET

Financing Agreement

(Fertilizer Support Project)

between

FEDERAL DEMOCRATIC REPUBLIC OF ETHIOPIA

and

INTERNATIONAL DEVELOPMENT ASSOCIATION

Dated December 12, 2008

Public Disclosure Authorized

CREDIT NUMBER 4543-ET
GRANT NUMBER H4420-ET

FINANCING AGREEMENT

AGREEMENT dated December 12, 2008, entered into between FEDERAL DEMOCRATIC REPUBLIC OF ETHIOPIA (“Recipient”) and INTERNATIONAL DEVELOPMENT ASSOCIATION (“Association”). The Recipient and the Association hereby agree as follows:

WHEREAS (A) the Recipient and the Association entered into the Development Credit Agreement for the Cultural Heritage Project (Cr. 3632) on April 25, 2002, and during implementation, savings amounting to five hundred thousand United States Dollars (USD 500,000) equivalent have been achieved;

(B) the Recipient and the Association entered into the Development Credit Agreement for the Food Security Project (Cr. 3646) on June 24, 2002, and during implementation, savings amounting to thirty-five million United States Dollars (USD 35,000,000) equivalent have been achieved;

(C) the Recipient and the Association entered into the Development Credit Agreement for the Capacity Building for Decentralized Service Delivery Project (Cr. 3698) on September 12, 2002, and during implementation, savings amounting to two million United States Dollars (USD 2,000,000) equivalent have been achieved;

(D) the Recipient and the Association entered into the Development Credit Agreement for the Public Sector Capacity Building Program Support Project (Cr. 3899) on August 23, 2004, and during implementation, savings amounting to twenty million United States Dollars (USD 20,000,000) equivalent have been achieved;

(E) the Recipient and the Association entered into the Development Financing Agreement for the Water Supply and Sanitation Project (Cr. 3901) on August 23, 2004, and during implementation, savings amounting to eleven million United States Dollars (USD 11,000,000) equivalent have been achieved;

(F) the Recipient and the Association entered into the Development Credit Agreement for the Information and Communication Technologies Assisted Development Project (Cr. 3985) on January 4, 2005, and during implementation, savings amounting to ten million United States Dollars (USD 10,000,000) equivalent have been achieved;

(G) the Recipient and the Association entered into the Development Credit Agreement for the Post Secondary Education Project (Cr. 3984) on January 4, 2005, and during implementation, savings amounting to fifteen million United States Dollars (USD 15,000,000) equivalent have been achieved;

(H) the Recipient and the Association entered into the Development Financing Agreement for the Private Sector Capacity Building Project (Cr. 4027) on March 10, 2005, and during implementation, savings amounting to six million United States Dollars (USD 6,000,000) equivalent have been achieved;

(I) the Recipient and the Association entered into the Financing Agreement for the Rural Capacity Building Project (Cr. 4201) on August 7, 2006, and during implementation, savings amounting to thirteen million United States Dollars (13,000,000) equivalent have been achieved;

(J) the Recipient and the Association entered into the Financing Agreement for the Irrigation and Drainage Project (Cr. 4333) on July 13, 2007, and during implementation, savings amounting to ten million United States Dollars (USD 10,000,000) equivalent have been achieved;

WHEREAS the Recipient, having satisfied itself as to the feasibility and priority of the Project described in Schedule 1 to this Agreement, has requested the Association by way of a letter, dated October 17, 2008, to cancel the savings accrued during implementation of the above mentioned projects, which accrue to a total amount of one hundred twenty-two million five hundred thousand United States Dollars (USD 122,500,000) equivalent, and redeploy one hundred twelve million five hundred thousand United States Dollars (USD 112,500,000) equivalent of such credit in the framework of the Project described in Schedule 1 to this Agreement.

WHEREAS the Association has agreed, on the basis, *inter alia*, of the foregoing, to extend the Credit and Grant to the Recipient upon the terms and conditions set forth in this Agreement;

NOW THEREFORE the Recipient and the Association hereby agree as follows:

ARTICLE I — GENERAL CONDITIONS; DEFINITIONS

- 1.01. The General Conditions (as defined in the Appendix to this Agreement) constitute an integral part of this Agreement.
- 1.02. Unless the context requires otherwise, the capitalized terms used in this Agreement have the meanings ascribed to them in the General Conditions or in the Appendix to this Agreement.

ARTICLE II — FINANCING

- 2.01. The Association agrees to extend to the Recipient, on the terms and conditions set forth or referred to in this Agreement, a grant and a credit (collectively, “Financing”) in the following amounts to assist in financing the project described in Schedule 1 to this Agreement (“Project”):
 - (a) an amount equivalent to eighty-five million five hundred thousand Special Drawing Rights (SDR 85,500,000) (“Grant”); and
 - (b) an amount equivalent to eighty-two million one hundred thousand Special Drawing Rights (SDR 82,100,000) (“Credit”).
- 2.02. The Recipient may withdraw the proceeds of the Financing in accordance with Section IV of Schedule 2 to this Agreement.
- 2.03. The Maximum Commitment Charge Rate payable by the Recipient on the Unwithdrawn Financing Balance shall be one-half of one percent (1/2 of 1%) per annum.
- 2.04. The Service Charge payable by the Recipient on the Withdrawn Credit Balance shall be equal to three-fourths of one percent (3/4 of 1%) per annum.
- 2.05. The Payment Dates are June 15 and December 15.
- 2.06. The principal amount of the Credit shall be repaid in accordance with the repayment schedule set forth in Schedule 3 to this Agreement.
- 2.07. The Payment Currency is US Dollars.

ARTICLE III — PROJECT

- 3.01. The Recipient declares its commitment to the objective of the Project. To this end, the Recipient shall carry out the Project through MoARD, in accordance with the provisions of Article IV of the General Conditions.
- 3.02. Without limitation upon the provisions of Section 3.01 of this Agreement, and except as the Recipient and the Association shall otherwise agree, the Recipient shall ensure that the Project is carried out in accordance with the provisions of Schedule 2 to this Agreement.

ARTICLE IV —EFFECTIVENESS; TERMINATION

- 4.01. The Effectiveness Deadline is the date ninety (90) days after the date of this Agreement.

ARTICLE VI — REPRESENTATIVE; ADDRESSES

- 5.01. The Recipient's Representative is the Minister responsible for finance and economic development.
- 5.02. The Recipient's Address is:

Ministry of Finance and Economic Development
P. O. Box 1905
Addis Ababa
Ethiopia

Cable:	Telex:	Facsimile:
MINFIN	21147	(251-11) 1551355

- 5.03. The Association's Address is:

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

Cable:	Telex:	Facsimile:
INDEVAS Washington, D.C.	248423 (MCI)	1-202-477-6391

AGREED at Addis Ababa, Ethiopia, as of the day and year first above written.

FEDERAL DEMOCRATIC REPUBLIC OF ETHIOPIA

By /s/ Sufian Ahmed

Authorized Representative

INTERNATIONAL DEVELOPMENT ASSOCIATION

By /s/ Kenichi Ohashi

Authorized Representative

SCHEDULE 1

Project Description

The objective of the Project is to contribute to the Recipient's efforts to ensure an aggregate availability of supply of chemical fertilizers for the 2009-2010 production season adequate to meet smallholder farmers' priority demands.

The Project consists of the following parts:

1. Support for Fertilizer Imports

Carrying out, as an emergency intervention in response to an extraordinary deterioration of the prevailing conditions for agricultural importation trade, of a targeted program facilitating the continuity of supply of priority agricultural inputs in the Recipient's domestic economy, through allocation of adequate foreign exchange to eligible fertilizer suppliers, under conditions which ensure adequacy of supply and capability of timely delivery of the two uppermost (in terms of demand) chemical fertilizers (diammonium phosphate and urea) into the Recipient's domestic distribution system, for application primarily by smallholder farmers during the 2009-2010 growing season as necessary to secure a vital share of the overall estimated demand for such chemical fertilizers in the Recipient's economy, consisting of approximately 550,000 metric tons aggregate.

2. Monitoring and evaluation

- (i) Monitoring: strengthening of the existing monitoring and reporting systems within MoARD to provide timely information on the importation and distribution of fertilizers;
- (ii) Evaluation: conduct of a survey and analysis by an independent consultant with qualifications, experience and terms of reference satisfactory to the Association, to evaluate the impact of the Project on the farm households; and
- (iii) Environmental and Social Assessment: conduct of the environmental and social assessment and preparation of the Environmental and Social Management Plan.

SCHEDULE 2

Project Execution

Section I. Implementation Arrangements

A. Anti-Corruption

1. The Recipient shall ensure that the Project is carried out in accordance with the provisions of the Anti-Corruption Guidelines.
2. Without limitation upon the generality of the provisions of paragraph A.1 of this Section I, the Recipient shall take all necessary measures to ensure the inclusion, in contracts between eligible importers and suppliers for the supply and distribution of fertilizers under the Project, of relevant provisions, satisfactory to the Association, adequate to uphold the policies of the Association as set forth in the Anti-Corruption Guidelines, with respect to the prevention of corrupt, fraudulent, coercive, collusive and obstructive practices, including without limitation, as to securing rights to the Association with respect to permitting the Association to inspect accounts and records relating to the Project and to have any such accounts and records audited by, or on behalf of, the Association.

B. Safeguards

1. The Recipient shall carry out an environmental and social assessment and prepare and furnish to the Association, no later than two (2) months after the Effective Date, the Environmental and Social Management Plan, in form and substance satisfactory to the Association.
2. The Recipient shall ensure the implementation of the Project in accordance with the provisions of the Environmental and Social Management Plan, and except as the Association shall otherwise agree, the Recipient shall not amend or waive, or permit to be amended or waived, any provision of the aforementioned.
3. Without limitation upon the provisions of paragraph B.2 of this Section, the Recipient shall ensure adequacy of staff, resources, and facilities to enable MoARD, as the agency responsible for implementation of the Project, to carry out the measures referred to in the Environmental and Social Management Plan in a manner satisfactory to the Association.

Section II. Project Monitoring, Reporting and Evaluation

A. Project Reports

1. (a) The Recipient shall monitor and evaluate the progress of the Project and prepare Project Reports in accordance with the provisions of Section 4.08 of the General Conditions and on the basis of the indicators set forth below in sub-paragraph (b) of this paragraph. Project Reports shall be submitted on monthly basis, and shall be furnished to the Association each not later than one (1) month following the end of the period covered by such report.
- (b) The performance indicators referred to above in sub-paragraph (a) of this Section II.A.1 consist of the following: (a) the quantity of fertilizer imported and distributed to farmers; (b) the timeliness of import and distribution of fertilizer and complementary inputs to end users; (c) fertilizer application as share of total cultivated areas; and (d) estimates of the costs and contribution of the fertilizer to production and economic welfare.

B. Financial Management, Financial Reports and Audits

1. The Recipient shall maintain or cause to be maintained a financial management system in accordance with the provisions of Section 4.09 of the General Conditions.
2. Without limitation on the provisions of Part A of this Section, the Recipient shall prepare and furnish to the Association not later than forty-five (45) days after the end of each calendar quarter, interim unaudited financial reports for the Project covering the quarter, in form and substance satisfactory to the Association.
3. The Recipient shall have its Financial Statements audited in accordance with the provisions of Section 4.09 (b) of the General Conditions. Each audit of the Financial Statements shall cover the period of one fiscal year of the Recipient. The audited Financial Statements for each such period shall be furnished to the Association not later than six months after the end of such period.

Section III. Procurement

A. General

1. **Goods.** All goods required for the Project and to be financed out of the proceeds of the Financing shall be procured in accordance with the requirements set forth or referred to in Section I of the Procurement Guidelines, and with the provisions of this Section.

2. **Consultants' Services.** All consultants' services required for the Project and to be financed out of the proceeds of the Financing shall be procured in accordance with the requirements set forth or referred to in Sections I and IV of the Consultant Guidelines, and with the provisions of this Section.

3. **Definitions.** The capitalized terms used below in this Section to describe particular procurement methods or methods of review by the Association of particular contracts, refer to the corresponding method described in the Procurement Guidelines, or Consultant Guidelines, as the case may be.

B. Particular Methods of Procurement of Goods

1. Modified ICB for imports

Imports of DAP and urea required for the Project will be procured through commercial practices, by qualified importers having the required fertilizer trade license issued by the Recipient's Ministry of Trade and Industry, in accordance with the "General Guideline for the Purchase, Import and Distribution of Fertilizer" dated February 2006 and other procedures established by the Recipient for the purposes of the Project, which procedures and their subsequent modifications have been found acceptable to the Association, and pursuant to the provisions of paragraph 2.66 of the Procurement Guidelines.

2. Without limitation upon the provisions of paragraph 1 of this Section III.B. of this Schedule, the Recipient shall, not later than ten (10) days after each event as follows, submit to the Association:

- (a) a copy of the FFPC review of the evaluation report of the bids from foreign suppliers;
- (b) copies of the contracts signed between domestic importers and foreign suppliers; and
- (c) copies of the contracts signed between importers and importers/distributors on whose behalf the importers act.

C. Particular Methods of Procurement of Consultants' Services

1. **Quality- and Cost-based Selection.** Except as otherwise provided in paragraph 2 below, consultants' services shall be procured under contracts awarded on the basis of Quality and Cost-based Selection.

2. **Other Methods of Procurement of Consultants' Services.** The following table specifies methods of procurement, which may be used for consultants' services.

The Procurement Plan shall specify the circumstances under which such methods may be used.

Procurement Method
(a) Selection Based on Consultants Qualifications
(b) Selection of Individual Consultants
(c) Least-Cost Selection

D. Review by the Association of Procurement Decisions

The Procurement Plan shall set forth those contracts which shall be subject to the Association's Prior Review. All other contracts shall be subject to Post Review by the Association.

Section IV. Withdrawal of the Proceeds of the Financing

A. General

1. The Recipient may withdraw the proceeds of the Financing in accordance with the provisions of Article II of the General Conditions, this Section, and such additional instructions as the Association shall specify by notice to the Recipient (including the "World Bank Disbursement Guidelines for Projects" dated May 2006, as revised from time to time by the Association and as made applicable to this Agreement pursuant to such instructions), to finance Eligible Expenditures as set forth in the table in paragraph 2 below.
2. The following table specifies the categories of Eligible Expenditures that may be financed out of the proceeds of the Financing ("Category"), the allocations of the amounts of the Credit and of the Grant to each Category, and the percentage of expenditures to be financed for Eligible Expenditures in each Category:

Category	Amount of the Credit Allocated (expressed in SDR)	Amount of the Grant Allocated (expressed in SDR)	Percentage of Expenditures to be Financed (inclusive of Taxes)
(1) Eligible imports (fertilizers)	82,100,000	85,200,000	100%
(2) Consultants' services		300,000	100%
TOTAL AMOUNT	82,100,000	85,500,000	

B. Withdrawal Conditions; Withdrawal Period

1. Notwithstanding the provisions of Part A of this Section, no withdrawal shall be made for payments made prior to the date of this Agreement.
2. The Closing Date is June 30, 2010.

Section V. Other Covenants

1. Confirmation on the transfer of domestic currency: Not later than ten (10) days from the date of each foreign exchange transaction effected by a commercial bank with the National Bank of Ethiopia on account of activities under the Project, the Recipient shall submit to the Association a written confirmation, in format acceptable to the Association, detailing the manner in which the domestic currency proceeds have been transferred into the government's treasury account.

SCHEDULE 3

Repayment Schedule

Date Payment Due	Principal Amount of the Credit repayable (expressed as a percentage)*
On each June 15 and December 15:	
commencing December 15, 2018, to and including June 15, 2028	1%
commencing December 15, 2028, to and including June 15, 2048	2%

* The percentages represent the percentage of the principal amount of the Credit to be repaid, except as the Association may otherwise specify pursuant to Section 3.03 (b) of the General Conditions.

APPENDIX

Section I Definitions

1. “Anti-Corruption Guidelines” means the “Guidelines on Preventing and Combating Fraud and Corruption in Projects Financed by IBRD Loans and IDA Credits and Grants”, dated October 15, 2006.
2. “Category” means a category set forth in the table in Section IV of Schedule 2 to this Agreement.
3. “Consultant Guidelines” means the “Guidelines: Selection and Employment of Consultants by World Bank Borrowers” published by the Bank in May 2004 and revised in October 2006.
4. “DAP” means Diammonium Phosphate.
5. “Environmental and Social Management Plan” means the Recipient’s plan, in form and substance satisfactory to the Association, describing measures for the mitigation of the potential adverse environmental and social impact of the Project, as the same may be updated from time to time with the concurrence of the Association, to be prepared and applied in accordance with the provisions of Section I.B.1 of Schedule 2 to this Agreement.
6. “FFPC” means Fertilizer Foreign Procurement Committee, as defined in the Recipient’s “General Guideline for the Purchase, Import and Distribution of Fertilizer” dated February 2006.
7. “General Conditions” means the “International Development Association General Conditions for Credits and Grants”, dated July 1, 2005 (as amended through October 15, 2006).
8. “MoARD” means the Recipient’s Ministry of Agriculture and Rural Development, or any successor thereto.
9. “MoFED” means the Recipient’s Ministry of Finance and Economic Development, or any successor thereto.
10. “Procurement Guidelines” means the “Guidelines: Procurement under IBRD Loans and IDA Credits” published by the Bank in May 2004 and revised October 2006.

11. "Procurement Plan" means the Recipient's procurement plan for the Project, dated November 19, 2008 and referred to in paragraph 1.16 of the Procurement Guidelines and paragraph 1.24 of the Consultant Guidelines, as the same shall be updated from time to time in accordance with the provisions of said paragraphs.