

**FRAMEWORK FOR THE ESTABLISHMENT OF THE
AFRICA FERTILIZER FINANCING MECHANISM**

**Operations Policy and Compliance Department
Agriculture and Agro-Industry Department**

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EXECUTIVE SUMMARY

1. In June 2006, the Agricultural Ministers of the African Union Member States met at the Conference for an African Green Revolution in Abuja, Nigeria. One of the major agreements resulting from this multilateral Summit was the establishment of an Africa Fertilizer Development Financing Mechanism (AFFM), the main purpose of which is to enhance agricultural productivity by promoting the use of fertilizers. The Summit charged the African Development Bank with the responsibility of establishing the AFFM by 2007.
2. In proposing the establishment of an AFFM, the Abuja Summit recognized two critical facts. First was the stagnation of Africa's agricultural performance over the last 30 years; Africa's agriculture has remained the least performing in the developing world, with productivity increases quite below the population growth. Second, a principal cause of Africa's meager agricultural productivity is that African farmers apply only five to ten percent of the fertilizer amounts used by their counterparts in other developing regions, such as Asia. The Abuja Declaration represents the steadfast commitment of African states to work together in boosting the production and availability of fertilizers throughout the continent, and in enlarging the demand for fertilizers at the farm-gate. The specific target of the Declaration is to achieve at least a six-fold increase in average fertilizer utilization in Africa by 2015.
3. The AFFM is intended to serve as a vehicle for financing the various activities agreed upon at the Abuja Summit. Specifically, it will: i) help the African public and private sectors conduct feasibility assessments and secure financing for promising fertilizer production ventures; ii) improve the "economies-of-scale" of fertilizer production, procurement, and distribution, for example by creating "platforms" to help the private sector be more cost-effective in delivering key agricultural inputs to even the smallest, most remote farm-gates; iii) boost fertilizer demand at the wholesale and retail levels by disseminating information about fertilizer's impact on return on investment (ROI), and by extending credit guarantees to farmers and suppliers; and iv) exploit other potential "targets of opportunity" in the value-added chain, i.e. by helping to better align transnational customs policies, which currently make cross-border transactions inefficient and costly.
4. The AFFM will work multilaterally – in concert with African governments, regional institutions, the private sector, other development banks, and international donors – to study the fertilizer value-added chain in detail, focusing particular attention on the key transnational factors impeding fertilizer use in order to develop comprehensive strategies for jump-starting Africa's stagnant agricultural productivity.
5. The African Development Bank will host the AFFM as a special fund, similar to the African Water Facility, the NEPAD Infrastructure Project Preparation Facility, and other such funds. The AFFM will have a Governing Council, a Coordinator, and staff deemed necessary to carry out the activities of the Mechanism. To facilitate start-up actions, the Government of Nigeria has generously provided an initial contribution of U.S. \$10 million, and other donors have also expressed keen interest.

1. BACKGROUND

1.1 Context

1.1.1 Agriculture is the mainstay of most African economies and a source of employment and income for at least 65% of Africa's population. It is also an indirect source of income for many millions more, since it transcends the continent's entire economy via numerous linkages to the non-farm sector. Agricultural development is, therefore, vital to Africa's economic growth and it is particularly vital to alleviating poverty and to achieving food security. Yet African agriculture lags behind all developing regions and continues to witness declining productivity and the degradation of soils and the environment. This situation, if not addressed, threatens the sustainability of the continent's agriculture, as well as its economic prosperity, and prospects for meeting the MDGs.

1.1.2 One of the principal causes of Africa's stagnant agricultural productivity is the low use of fertilizer – African farmers apply only five to ten percent of the fertilizer amounts used in other developing regions, such as Asia. It is against this background that the June 2006 Summit of African Ministers of Agriculture adopted the Abuja Declaration on Fertilizer for an African Green Revolution (the "Abuja Declaration;" attached hereto as Annex 1), a commitment of African states to work together in boosting the production and availability of fertilizers throughout the continent, and in enlarging the demand for fertilizers at the farm-gate. The specific target is to achieve at least a six-fold increase in average fertilizer utilization in Africa by 2015.

1.2 The Abuja Declaration and Mandate

1.2.1 The Abuja Declaration recognized that fertilizer use is crucial for ensuring Africa's economic growth, food security, and environmental health, given the continent's rapidly rising population and concomitant deteriorating soil fertility. Because this challenge is inherently regional in nature, fertilizers from both inorganic and organic sources must be regarded as a commodity with strategic importance for the whole of Africa.

1.2.2 Most African farmers live in remote areas and have virtually no access to fertilizers. As such, there is an urgent need to develop and implement a strategic investment program to increase the availability and use of fertilizers, as well as other yield-enhancing agricultural inputs. At the Abuja Summit, African Union Member States resolved to increase Africa's average level of fertilizer use from 8 kilograms per hectare currently to at least 50 kilograms per hectare by 2015. Achieving this goal will require specific actions that both directly and indirectly improve farmers' access to fertilizers, such as (but not limited to) the following:

- (i) Reducing the cost of fertilizer procurement at national and regional levels by harmonizing policies and regulations to ensure duty and tax-free movement across regions. The Abuja Declaration called for participating states to eliminate taxes and tariffs on fertilizers and fertilizer raw materials by mid-2007;
- (ii) Developing quality-control standards for fertilizers;
- (iii) Developing and scaling-up both private and community-based fertilizer (and other input) purchasing and distribution networks across rural areas;

- (iv) Developing and strengthening the capacity of agricultural and civil society associations to promote fertilizer use through productivity/environmental education, as well as collective/group financing/purchasing;
- (v) Granting targeted subsidies to help the poorest farmers, especially women farmers, and/or to farmers lacking land title in order to increase fertilizer use among these groups;
- (vi) Accelerating investment in infrastructure, particularly transportation and distribution, to support and enhance the robustness of the value-added chain;
- (vii) Devising fiscal incentives that encourage farmers and suppliers to invest in productivity-enhancing procedures and technologies, such as quality seeds, irrigation systems, extension services, market information, and soil nutrient testing/mapping;
- (viii) Creating new output market opportunities – both within Africa and abroad – that encourage African farmers to boost their productivity;
- (ix) Establishing national and regional financing facilities to help suppliers of agricultural inputs receive credit, develop business plans, and make sustainable investments; and,
- (x) Promoting intra-continental fertilizer production and trade in order to both expand the continental market and improve economies-of-scale, e.g. by extending tax breaks that induce investments in production; feasibility studies; and/or brokering/underwriting specific fertilizer manufacturing projects and investment deals.

1.2.3 African Union Member States requested that the African Union Commission, as well as the New Partnership for Africa's Development (NEPAD), establish a mechanism to finance, monitor, and evaluate the implementation of the above activities, in collaboration with the Economic Commission for Africa and the African Development Bank. The African Union Commission is to provide a progress report to the African Heads of State at every semi-annual African Union Summit, starting in January 2007.

1.2.4 The Abuja Summit declarations and commitments were endorsed and reaffirmed by the African Union Summit held in Banjul on 1-2 July 2006, as indicated in the AU Decision Assembly Document/AU/Dec.117 (vii). The Abuja Declaration mandates the creation of an Africa Fertilizer Development Financing Mechanism, to be established and hosted by the African Development Bank.

2. BANK GROUP EFFORTS TO INCREASE FERTILIZER USE

2.1 During the past 30 years, the Bank has financed a number of agricultural sector projects, totalling an estimated U.S. \$10 billion. This figure represents about 30% of the Bank's total approvals, and 20% of its concessional resources.

2.2 Productivity improvement has been the essential focus of most Bank-funded agricultural projects. Efforts have generally promoted the use of mineral and organic fertilizers, modern agronomical techniques, and improved planting materials, among others. Specifically, the Bank has financed projects designed to:

- (i) promote the planting of nitrogen-fixing crops and trees;
- (ii) improve the production and use of manure;
- (iii) enhance the acquisition and use of mineral fertilizers;
- (iv) improve irrigation and water management practices;
- (v) repair and construct feeder roads; and,
- (vi) build the capacity of agricultural sector institutions.

2.3 The Bank Group has also promoted the availability and use of fertilizers indirectly, i.e. by extending lines-of-credit to independent development banks in Mali, Ghana, and Namibia, as well as to private banks via the credit components of several agricultural projects. In Ethiopia, the Bank financed a National Fertilizer Sector Project through two loans (a first phase of UA 28 million in 1997 and a second phase of UA 8.43 million) provided in partnership with other donors, to support the effort of the Government of Ethiopia to increase the availability and accessibility of fertilizers to agricultural producers on a sustainable basis.

2.4 Through these experiences, the Bank Group has learnt three key lessons. First, private sector agents can play a key role in input supply, enabling government to exit the market. Second, government should focus not only on ensuring supply but also on boosting demand, i.e. by providing agronomic training in the more balanced use of inputs, disseminating training about those inputs, improving credit availability to enable procurement of inputs, and boosting the economies-of-scale of input acquisition by creating and/or supporting service and distribution cooperatives. And third, fertilizer production and distribution, in particular, are activities best led by the private sector; Bank support to this area has therefore appropriately been channelled through its private sector window.

2.5 Though not a major global producer of fertilizer, Africa is rich in phosphates, the principal component of inorganic fertilizers. Cognisant of this untapped potential, the Bank has actively promoted intra-continental production of fertilizers, for example by financing a feasibility study for establishing a fertilizer plant in Mauritania. Similar projects are currently in the pipeline for Tunisia, Algeria, the Congo, Madagascar, and Nigeria. The Bank is also an equity stakeholder in a fertilizer plant in Egypt. All of these efforts are supported by private investors.

2.6 The Bank is not alone in promoting Africa's fertilizer production. China, for example, is establishing fertilizer plants in Nigeria and Angola. Although abundant capital investments have recently begun to bolster intra-continental fertilizer production, many of these "conventional" projects have yet to come on-line. Moreover, even when they are finally implemented, these efforts alone will likely be insufficient to boost fertilizer use to the levels targeted by the Abuja Declaration. Obstacles impeding Africa's achievement of this goal are rather complex, and permeate the entire value-added supply chain. Thus, a more holistic and focused effort will be needed.

3. THE AFRICAN FERTILIZER FINANCING MECHANISM (AFFM)

3.1 Rationale for Establishing the AFFM

3.1.1 The Abuja Declaration committed African Union Member States to work together in achieving a very ambitious goal: boosting fertilizer use by a factor of nearly seven (minimally) within the next seven years. This commitment is soundly based on the undeniable fact that Africa's poor agricultural output – which threatens not only the continent's economic growth but also its food security and environmental health – cannot be reversed unless efficient and sustainable fertilizer use can be significantly elevated. Lessons imparted by the development experiences and “green revolutions” of Asia and Latin America, for example, demonstrate the key role that fertilizers can play in boosting agricultural productivity, improving food security, and increasing rural incomes at the household level.

3.1.2 But due in large part to Africa's higher degree of land fragmentation, African farmers face more serious impediments to expanded fertilizer access than do the farmers of other continents. These include extremely limited access to credit, markets, and information; decrepit or absent infrastructure and associated high costs of regional (and domestic) transportation; an unusually large quantity of land-locked countries; a higher incidence of conflict and associated population displacement; and a far more intense degree of existing environmental degradation. In addition, because Africa is so much more dependent on agriculture than any other continent, efforts to increase fertilizer use must take into account the multitude of complex linkages that exist between Africa's farm and non-farm sectors.

3.1.3 The Abuja Summit participants, in making such a commitment, acknowledged that “conventional” efforts currently being implemented to encourage fertilizer use in Africa (both by the Bank Group and others) constitute an important start, but are by no means a satisfactory solution, since individual project-by-project efforts are limited by their own scope and scale. Many barriers preventing the African agricultural sector from reaching its full potential are *international* and *regional* in nature. These include poor overland transportation infrastructure, lack of uniform customs and transnational trade policies regarding a commodity that is inherently continental in strategic importance, lack of international and inter-sectoral coordination in managing the myriad of resources and other factors necessary to promote fertilizer production, etc. Given these challenges, attaining the goal of the Abuja Declaration on fertilizer use, will require a more holistic and comprehensive approach. In calling for the creation of an AFFM, and in mandating that the Bank administer it, the Abuja Declaration recognized the need for a solution applied not just at the specific government or project level, but at the *continental* level, i.e. a solution that engages multiple stakeholders simultaneously in order to deliver services most efficiently and comprehensively on a regional basis.

3.1.4 Given the limited progress that has so far been achieved via a case-by-case approach, there is good reason to apply a holistic strategy towards increasing fertilizer usage. Establishing the AFFM, as opposed to merely increasing funding to individual fertilizer projects, will enable the Bank and its partners, who are concerned with not just increased but *sustained* agricultural productivity, to: (a) examine Africa's *entire* fertilizer demand and supply system; (b) gain a wider and deeper understanding of the underlying obstacles to fertilizer use; (c) develop a broader range of policy alternatives to address obstacles more effectively; and (d) prioritize activities for more efficient allocation of limited resources.

3.1.5 The severity and scope of the challenge also necessitates an integrated approach. The AU Food Security Report (2005), for example, warns that African agricultural production must increase by at least 4 to 6 percent per annum – and on a sustained basis – in order to meet the food requirements of an African population that is expected to grow from about 750 million to 1.26 billion by 2020. Meanwhile, climate change threatens to accelerate desertification, which is already proceeding at an alarming rate. Africa must begin to apply sound soil management practices – which means applying fertilizers at much higher levels – in order to combat this threat. Given these serious and unique challenges, Africa needs to rapidly reduce fertilizer distribution costs; create new fertilizer markets and improve access to existing ones; align land-tenure, customs, and economic policies and legislation; and otherwise facilitate free-market commerce. Doing all of this at the same time will require the kind of integrated approach that the AFFM promises to deliver.

3.1.6 Finally, the AFFM will also promote awareness about fertilizer use in a way that conventional efforts simply cannot. The Mechanism will not only enhance the Bank's visibility and standing as an African Regional development leader, it will also encourage the mobilization of further resources for a severe problem that currently receives far too little attention. The AFFM has already attracted both contributions and future pledges, and its official establishment should encourage other donors and organizations to follow suit.

3.2 Goals and Objectives of the AFFM

3.2.1 The AFFM has been established to satisfy one of the major decisions of the Abuja Summit, which called on the African Development Bank, with the support of the Economic Commission for Africa and the African Union Commission, to establish, by 2007, an instrument capable of financing the implementation of the various actions agreed upon by the Summit.

3.2.2 The AFFM will be a key instrument in the implementation of the NEPAD Comprehensive Africa Agriculture Development Program (CAADP). The overall objective of the AFFM is to assist RMCs in increasing agricultural productivity within the context of the Africa Food Security Vision and the MDGs. One of the AFFM's primary functions will be creating an enabling environment for mobilizing the investments needed to achieve the 50 kilogram per hectare target for fertilizer use mandated by the Abuja Summit. The AFFM will focus on two types of activities, namely facilitation and capital investments.

3.2.3 Facilitation activities will remove obstacles impeding investment in fertilizer manufacturing, distribution, and use. The AFFM will concentrate initial efforts on developing viable project pipelines, governance structures, communication strategies, and operations manuals. It will work closely with governments, regional economic communities, donors, NGOs, farmers' organizations, and the private sector in identifying suitable activities and interventions. Specific activities may include:

- (i) The development of an African fertilizer framework, an informational/knowledge network offering viable policy alternatives to African governments seeking to improve agricultural production by promoting fertilizer use.
- (ii) Technology transfer, promotional and informational activities, especially on a regional/multinational basis, designed to spread knowledge about the value-

added chain of fertilizer usage, such as support to regional NGOs and the development of case demonstrations designed to promote the fertilizer value chain.

- (iii) The provision of technical assistance to regional economic communities and countries in evaluating their policies and project alternatives vis-à-vis the promotion and distribution of fertilizers. This activity will include assisting countries in preparing strategies for bolstering agricultural output (as reflected, for example, in the PRSP, CSP, CAS, COSOP, RASP, and other documents).

3.2.4 The second type of activity centers on financing capital investments that promote fertilizer supply and use in partnership with the other donors. Specific actions will include:

- (i) Establishing and supporting regional fertilizer procurement and distribution ‘platforms,’ in concert with regional banks and other private and public sector partnerships;
- (ii) Promoting national/regional production and intra-regional fertilizer trade;
- (iii) Providing credit guarantees for fertilizer importers and distributors; and,
- (iv) Improving the access to fertilizer use of small-scale farmers, especially women.

3.3 Potential Activities to be financed by the AFFM

The Mechanism will support a number of priority activities, as outlined in the following sections:

- (i) Developing Africa’s fertilizer manufacturing capacity: The mechanism will support: (i) pre-investment and feasibility studies; (ii) provision of advisory services by governments, including tax incentives that promote sustainable fertilizer manufacturing; and, (iii) facilitate the formation of investor consortia. The AFFM will also support fertilizer manufacturing through public-private partnerships by undertaking: (i) economic and sector work to identify opportunities for competitive production and trade; (ii) technical feasibility studies to identify bankable projects; and (iii) re-habilitation of fertilizer production units to improve efficiency.
- (ii) Providing credit guarantees for fertilizer importers and distributors: In more sophisticated African markets, mechanisms already exist to offset some of the risks involved in purchasing and distributing fertilizers. Heeding lessons of previous efforts to provide credit guarantees, the AFFM will assist countries in reviewing, selecting, and transferring efficient market mechanisms, and in selecting suitable guarantee and support environments within which those markets can best function. Such support would include: (i) hedging (using futures contracts to avert currency fluctuation risk); (ii) credit guarantees for agro-dealers, large-scale fertilizer importers and distributors (i.e., through existing national or regional development banks); (iii) assisting private traders in obtaining lines-of-credit from local banks; and (iv) extending credit to wholesalers who are established customers. The focus would be promoting economies-of-scale, i.e. for cost-effective and efficient provision of services. Provision-of-credit guarantee schemes for the fertilizer sub-sector can complement efforts to develop distribution systems and to support agro dealers, i.e. by working with institutions such as the Afrexim Bank, BADEA, and various foundations and NGOs.

- (iii) Establishing regional fertilizer procurement and distribution facilities: Leveraging recent improvements in selected African port and rail authorities can significantly reduce fertilizer prices, if such efforts are supplemented by large-scale purchasing that guarantees economies-of-scale, and by the provision of adequate warehousing space at inland transportation hubs. Formation of multi-country trading blocs capable of utilizing common ports and hubs could also boost fertilizer availability. Significant storage space is already being provided privately, but there are nodal points where public storage facilities could impart major efficiency improvements. Flexible public/private partnership schemes could also be very useful here – public institutions would provide fertilizer procurement and facilities for initial storage, leaving private wholesalers and retailers to then distribute it from central nodes. Such a platform for regional fertilizer procurement and distribution could foster greater economies-of-scale, assuming fertilizer inventories are matched to reliable supply and demand estimates.
- (iv) Developing policy instruments: Improving the efficiency of fertilizer distribution will require facilitating cross-border trade. This, in turn, will require that national macro-economic policies be better aligned. The AFFM will therefore encourage and coordinate government efforts to harmonize policies and improve regulatory capacities. As subsidies remain the prerogative of sovereign countries, the AFFM will not directly finance fertilizer procurement, and hence will not directly fund subsidies. Nevertheless, it was agreed that payouts *can* be used to finance studies and supports to policy reforms in the sector.
- (v) Institutional, research and capacity-building activities: Institutions that undertake research, develop and promote fertilizer utilization will receive priority support, as would national and regional institutions that provide similar services to member countries.

4. LINKAGES AND COORDINATION

4.1 The operational focus of the AFFM is to support fertilizer procurement and use by establishing manufacturing, procurement, and distribution platforms; credit guarantee programs; and other mechanisms. The AFFM will support, either directly or via other donors, strategic capital investments in projects and programs, including infrastructure, towards achieving these goals.

4.2 A secondary focus will be demonstrational and informational, with the AFFM supporting, either directly or indirectly: (i) government policy, legal, and institutional reforms at a multitude of levels; (ii) development and dissemination of knowledge about technologies and methodologies for improving agricultural output; (iii) capacity-building activities that establish and strengthen fertilizer quality assurance and regulatory measures; (iv) studies that monitor and evaluate the progress of fertilizer promotion, as well as the resulting impact on agricultural output; and (v) improved environmental management.

4.3 The aforementioned areas of intervention cover the wide range of activities needed for increasing the use of fertilizers. Some of these are already being supported by donors, including the African Development Bank. However, as a holistic mechanism capable of appropriately accommodating the positions of all relevant stakeholders, the AFFM will be able to more effectively apply selectivity and complementarity when choosing areas of support, thus avoiding duplication and sub-optimal use of donor resources.

Linkages with the Bank and Other Donors' Operations

4.4 The AFFM could become a significant source of funds to complement Bank and other donor support of infrastructure, social, and agricultural development. For example, the AFFM might act either as a co-financer and/or as an advisor in facilitating activities such as feasibility studies, capacity building, promotion of stakeholder participation, and cross-functional compliance, i.e. ensuring that gender and environmental concerns are properly integrated into assistance programs. The AFFM will concentrate its initial efforts on developing a viable project pipeline. While identifying projects suitable for support, the AFFM would work closely with governments, regional economic communities, donors, NGOs, and the private sector. This process of project identification would be conducted in concert with the Bank's and other donors' project identification programs in order to ensure synergy and efficiency in the utilization of resources

Linkages to Regional and Global Programs

4.5 The AFFM will contribute to the implementation of many of the regional and global initiatives for developing Africa's agricultural sector. In supporting fertilizer use, it will help increase agricultural productivity and rural infrastructure development, thus leading to improved implementation of the NEPAD-CAADP.

Coordination

4.6 The AU Commission and NEPAD are spearheading the initiative and will be strongly represented in the Governing Council, together with the Conference of African Ministers of Agriculture. This arrangement will help ensure appropriate ownership and coordination, such that activities supported by the AFFM are consistent with, and complement the development priorities and objectives of RMCs. In fact, one of the AU Commission's primary mandates is coordinating agricultural programs in Africa, including the CAADP.

4.7 Poverty Reduction Strategy Papers (PRSPs) would provide a framework for AFFM coordination at the national level. The process of developing PRSPs involves discussing the national strategies, policies, and programs of governments, and then ensuring that those of the relevant donors, NGOs, and other stakeholders contribute to development objectives in a consistent and constructive manner.

4.8 At the Bank and donor levels, coordination would be ensured through CSP and RASP processes, where Bank and donor commitments to national and regional programs are determined. In addition, partners such as AU, NEPAD, UNECA, and the International Fertilizer Development Center (IFDC) and the International Fertilizer Industry Association (IFA) among others, will be represented in the AFFM Governing Council, ensuring further coordination with the donor community.

5. COUNTRY ELIGIBILITY AND BENEFICIARY CONTRIBUTIONS

5.1 The AFFM is intended to benefit all African countries and to address a continent-wide concern. Furthermore, the Abuja Declaration called on all African Union countries to support, provide resources for, and participate in the activities of the AFFM. Thus, all African countries are eligible to participate both as contributors and as beneficiaries.

5.2 Countries' commitment to their own agricultural development will be one key factor in *prioritizing* eligibility. Thus, political commitment – as demonstrated by a country's progress towards meeting the 10 percent allocation of its national budget to the agriculture sector (as mandated by the Maputo Declaration) – will be an important determinant. The extent to which a country includes its agricultural sector in its PRSP will be another factor.

5.3 The most important factor in prioritizing benefits will be a country's potential for effective and sustainable implementation of programs and projects. Specific priority criteria anchored on this principle will be developed as part of the AFFM's Operational Guidelines.

5.4 To enhance beneficiary ownership, beneficiary governments, communities, and/or other entities will share AFFM project implementation costs via provision of facilities, services, staff, equipment, and/or expertise/information. Private sector beneficiaries will share implementation costs based on a formula to be defined in the AFFM's Operational Guidelines. Budgetary contributions by African states and other stakeholders will also be an important source of support. The extent of beneficiary contribution, weighted by their resources / capability, will also be an important consideration for prioritizing resource eligibility. The Operational Guidelines will address the issues of beneficiary contribution and cost recovery in greater detail as appropriate.

6. MOBILIZATION OF RESOURCES

6.1 Several organizations, agencies, and individual philanthropists pledged support during the African Fertilizer Summit Eminent Persons meeting held in New York in March 2006 (prior to the Abuja Summit). Similarly, a number of organizations made pledges during the Partners Meeting organised by the Bank in Tunis during May 2007. For example, the Gates Foundation, indicated that it could contribute up to U.S. \$10 million; the Rockefeller Foundation may contribute up to U.S. \$15 million within the context of their Alliance for a Green Revolution in Africa; IFAD indicated that it will consider making a contribution of up to U.S. \$0.2 million, despite budgetary restrictions that currently constrain its support to regional operations. IFDC will contribute technical assistance, information, and analytical services to help make the AFFM operational. IFDC will also facilitate discussions with emerging economic powers such as India and China, so as to secure their support. The Arab Bank for Economic Development (BADEA) is also poised to support specific investment opportunities. The AFFM will mobilize additional resources through advocacy activities. For their support for the AFFM, these key partners insist on the Mechanism's clarity of roles and objectives, sound indicators for evaluating impact, strength and appropriateness of strategic focus, and steadfast coordination of matching contributions from other donors.

6.2 In the Abuja Declaration, African states committed to support the establishment of AFFM, and to pledge resources for its immediate operation. Nigeria has since honored its pledge of U.S. \$10 million announced during the Abuja Summit. Other countries promised to make contributions upon the Mechanism's establishment. The May 2007 Meeting of Partners registered confirmation of initial pledges of support totaling U.S. \$25 million. The AUC/NEPAD Secretariat has already been invited to encourage African countries to commit financial resources, so as to make good on these promises.

6.3 While these expressions of support are encouraging, they must be converted into concrete contributions. To ensure that funding is actually mobilized, the Council of African Ministers of Agriculture must build-on already established contacts, and follow-up on commitments previously made. Once the AFFM has been approved by the Board of Governors, the AUC/NEPAD and ADB should collaborate with the Council of African Ministers to jointly organize a Partners Pledging Meeting. Also, once the AFFM has been established the AUC/NEPAD, AfDB and representatives of the Council of African Ministers of Agriculture should undertake joint missions to key countries to encourage them to contribute to the AFFM.

7. HOSTING ARRANGEMENTS

7.1 The following hosting arrangements reflect a careful consideration of the objectives of the AFFM, as well as the Bank's mission, capacity, and procedures. The intent is to create a dynamic mechanism flexible enough to meet the needs of both public and private sector operations, while also incorporating the fiduciary safeguards necessary for ensuring donor confidence, as well as compliance with the Bank's mission. These hosting arrangements also draw from lessons learned from the Bank's extensive experience in administering donor resources and similar dedicated funds.

7.2 The Abuja Declaration, as well as the African Union Decision Assembly/AU/Dec.117, expressly mandated that the Bank establish the AFFM to meet the financing requirements of various development activities designed to achieve Africa's Green Revolution. This task is consistent with the Bank's mandate and reflects the widespread confidence in the Bank's ability to effectively mobilize and administer resources.

7.3 Special Fund: It is proposed that the Bank establish a special fund, in accordance with Article 8 of the Agreement establishing the Bank (the "Bank Agreement"), into which the financial resources of the AFFM will be entrusted (the "Fertilizer Fund"). The Bank Agreement authorizes the Bank, in Article 8, to establish and administer special funds that are consistent with its development mission. Article 8 further authorizes the Bank to receive, hold, use, commit, and otherwise expend resources pertaining to such special funds. In accordance with Article 8, the Bank has established, and currently administers, special funds such as the African Water Facility and the NEPAD Infrastructure Project Preparation Facility. Donors or participants in the Fund will include the Bank as well as any of its member states, any country eligible to become a member of the Bank, and any organization or other entity deemed acceptable by the Bank

7.4 In the case of the AFFM, a special fund is proposed given:

- (i) the expected high level of resources mobilized (as indicated both from the type of operations envisaged and the amount of initial donor pledges);
- (ii) the high visibility of the activities to be supported;
- (iii) the 'independence' of the Mechanism's operations from mainstream programs;
- (iv) the need for broad multi-donor and stakeholder participation; and,
- (v) the need for the highest level of scrutiny, which is commensurate with the high level of exposure being accepted by the Bank.

7.5 The specific terms for the establishment and administration of the AFFM are contained in the Instrument for its establishment, attached hereto as Annex 4.

7.6 Resources: The AFFM's resources will consist of contributions from donors, as well as any investment income received from operations previously financed by the Mechanism. The Bank may consider in-kind contributions, as has been done in the case of other special funds hosted by the Bank. The proposed in-kind contribution may consist of:

- (i) The Bank's organization, services, expertise, officers and staff;
- (ii) The administrative costs of the AFFM Coordinator, as well as an operational and administrative team to support its activities; and,
- (iii) Adequate office facilities.

7.7 Costs: From the start up funds provided by Nigeria, about U.S. \$2.25 million will be used to cover the AFFM management costs during its first three years of operation. This estimate includes three staff, office space, furniture and equipment, and operational costs. In addition, the Bank will assist in developing an Operations Manual, and in identifying, preparing, appraising, supervising, and evaluating programs. These later costs would be absorbed under the administrative budget. The facilitation costs for meetings, conference and workshops as well as mission travel will also be covered from the funds provided by Nigeria. It should be noted that the Bank will maintain adequate records of the administrative costs of managing the AFFM, and will bear such costs until it notifies the Governing Council otherwise. Funding the AFFM's start-up costs from the U.S. \$10 million contribution provided by the Federal Republic of Nigeria is in-line with the Abuja Declaration.

7.8 Decision-Making: The decision to establish the AFFM will be made by the Bank's Board of Governors, in accordance with Article 29(2) (b) of the Bank Agreement, which grants that Board the exclusive power to establish special funds. The Bank's Board of Directors will oversee the general operations of the Mechanism, and will approve financing or other form of assistance to be provided by the Mechanism. The Board of Directors will also approve the Mechanism's annual budget and financial statements. The Board of Directors may delegate the power to make certain operational decisions concerning the Mechanism to the Bank's Management.

7.9 In order to ensure broad donor and stakeholder participation, the AFFM will have a Governing Council. The membership of the Governing Council will comprise representatives of donors and stakeholders, including representatives of the AU/NEPAD, African Ministers of Agriculture, regional and international development institutions, including Research and Extension organizations, the private sector and fertilizer development institutions. The Governing Council will be responsible for determining the Mechanism's strategic direction. It will review budget proposals to ensure consistency with the strategic direction, prior to consideration by the Board of Directors. The chairperson will always be a representative of the African Ministers of Agriculture.

7.10 Operations & Staffing: The operations of the mechanism would be led by a Coordinator appointed by the Bank who will be assisted by professional staff, some of whom will be assigned by the Bank. The exact staffing requirement of the AFFM will be determined upon its approval and the finalisation of its operational procedures and programme. Additional staff will be recruited as and when the need arises. As part of the hosting arrangements, Bank staff will be

expected to assist the Mechanism, particularly with regards to project cycle activities. The AFFM will be located in the Department of Agriculture and Agro-Industry under the supervision of the Director of Agriculture & Agro-Industry.

7.11 **Procurement:** Procurement of goods, works, and services using the resources of the AFFM shall be carried out in accordance with Bank rules and regulations. Procurement shall be limited to member states of the Bank, and to, where necessary, Donor states that are not members of the Bank Group.

7.12 **Duration:** It is recommended that the AFFM operates until the year 2015, with termination taking effect on the same day and month as its establishment, unless otherwise decided by the Board of Governors. In addition to corresponding to the Abuja target of increasing Africa's use of fertilizers six-fold by the year 2015, this date should provide ample time to accurately measure effectiveness. After the Sunset Date, only necessary winding-up activities, as well as any activities with prior approval, may be conducted.

8. ROAD MAP FOR IMPLEMENTATION

8.1 Following endorsement of the proposed hosting arrangement by stakeholders and the Board of Directors, all required documentation should be submitted for Board of Governor consideration and AU endorsement on lapse-of-time basis.

8.2 The Instrument establishing the AFFM shall become effective on the date that the Bank receives Instruments of Commitment from African Governments and donors pledging aggregate contributions totaling USD 10 million.

8.3 **Operational Modalities:** Following the AFFM's establishment, an Operations Manual will be developed to guide its operations. This Manual will provide details on project cycle activities, as well as processes for the operation of the Mechanism, which will be largely in-line with Bank procedures, except for particular modifications tailored to the specificities of the Mechanism, and the need to ensure rapid but transparent responses to requests. The Manual will, in particular, contain the following:

- The structure supporting the activities of the Mechanism;
- Approval process with respect to projects/programs, including procurement procedures;
- Procedures for monitoring and evaluating the Mechanism based on the results-based management approach;
- Country eligibility criteria;
- Project and program selection criteria;
- Criteria for financing multinational projects and programs;
- Possible thresholds on beneficiary contributions;
- Possible thresholds on percentage of AFFM contribution to projects/ programs;
- Coordination mechanisms;
- Procedures and guidelines for accessing funds; and
- Monitoring indicators and evaluation procedures.

Implementation Road Map

Item	Activities	Responsibility	Elapsed time (months)
1.	Endorsement of the hosting by the B O D	Bank	M – 1
2.	Approval of hosting by B O G	Bank	M
3.	Appointment of a Coordinator	Bank	M + 1
4.	Fund mobilization and effectiveness	Donors	M + 2
5.	Core FEM. Assignment/Recruitment	Bank	M + 4
6.	Provision of office equipment and facilities	Bank	M + 4
7.	Inaugural meeting of the Governing Council	Bank/AFFM	M + 5
8.	Operation manual and procedures	Bank/AFFM	M + 6

8.4 **Monitoring and Evaluation:** In accordance with the Abuja Declaration on Fertilizer for the African Green Revolution, the AFFM Secretariat, once established and with input from the AUC and NEPAD will develop monitoring and evaluation procedures, including developing benchmarks and targets which will be reflected in the results framework of the Mechanism. Key indicators of success of the initiative could include, inter alia, the amount of additional fertilizer used and marginal change in crop production/yields; number of beneficiary farmers; the number of participating RMCs and number of RMCs which have lifted related trade/tariff barriers, the level and sources of contribution to the Fertilizer Fund. The Annual Reports of the Mechanism will provide information on these and other indicators of success, or otherwise.

8.5 **Risks to Effective Implementation:** The main risks to be addressed, as well as measures taken to reduce their potential negative impact on the functionality and operational capacity of the AFFM, are as follows:

- Failure to mobilize sufficient financial resources caused by donor fatigue, inadequate contributions from African countries, and/or lack of prioritization of the agricultural sector in national programs and PRSPs. While the level of donor interest has been encouraging, actual financial contributions may not come through. The Council of African Ministers of Agriculture must articulate the important role that the AFFM will play, and must follow-up on donor commitments through NEPAD; and,
- Environmental degradation arising from the inappropriate application of fertilizers due to poor soil fertility management practices, ineffective extension services and/or mis-information. In addition to ensuring the provision of appropriate agronomy training for farmers, each program/project will be required to prepare an Environmental Action Plan verified and approved by the Environment Protection Agency of each country.

9. CONCLUSION AND RECOMMENDATION

9.1 At the 2006 Abuja Fertilizer Summit, African Agricultural Ministers came together to address the critical issue of Africa's stagnant agricultural performance. It is widely accepted that improving Africa's fertilizer use is *the* critical stepping-stone for reviving the continent's

agricultural productivity and for ensuring the future of its food supply. However, obstacles impeding efficient and sustainable fertilizer use in Africa are extremely complex and transcend national borders.

9.2 The Abuja Declaration called on the African Development Bank to leverage its experience and expertise in establishing an African Fertilizer Financing Mechanism (AFFM), the purpose of which is to fund activities that should significantly enhance Africa's use of fertilizers. Because it promises a holistic approach that integrates and coordinates the actions of all stakeholders, the proposed AFFM represents an innovative and unique solution that has a strong chance of achieving the needed results.

9.3 The AFFM and its primary objectives are consistent with the Bank's mission, and would complement, harmonize and further enhance the visibility of the Bank's current efforts to address agricultural output, food security, and soil management issues in Africa. Furthermore, the Bank has undertaken and successfully managed similar activities in the past, such as the African Water Facility, the NEPAD Infrastructure Project Preparation Facility, the Infrastructure Consortium for Africa, and other special funds.

9.4 On the basis of the foregoing, the Boards of Directors are invited to consider and endorse the proposal for the establishment of the AFFM to be hosted by the Bank Group.

ANNEXES

Abuja Declaration on Fertilizer for the African Green Revolution

The New Partnership for Africa's Development has declared that the vision of economic development in Africa must be based on raising and sustaining higher rates of economic growth (7 percent per year). To realize this vision, the African Heads of State and Government adopted the Comprehensive Africa Agricultural Development Programme, which calls for a 6% annual growth in agricultural production, as a framework for the restoration of agricultural growth, food security and rural development in Africa.

Africa's farmers face a variety of constraints including low productivity, limited access to new agricultural technologies and weak markets. Without adequate inputs, farmers often cannot meet the food needs of their own families, much less those of a rapidly growing population. To feed themselves and their countries, farmers will need to shift from low-yielding, extensive land practices to more intensive, higher-yielding practices, with increased use of improved seeds, fertilizers and irrigation.

A move toward reducing hunger on the continent must begin by addressing its severely depleted soils. Due to decades of soil nutrient mining, Africa's soils have become the poorest in the world. It is estimated that the continent loses the equivalent of over US \$4 billion worth of soil nutrients per year, severely eroding its ability to feed itself. Yet farmers have neither access to nor can they afford the fertilizers needed to add life to their soils. And no region of the world has been able to expand agricultural growth rates, and thus tackle hunger, without increasing fertilizer use.

In Africa, use of fertilizer averages only eight kilograms per hectare. In short, Africa is trapped in a fertilizer crisis; this is only 10% of the world average. Addressing Africa's fertilizer crisis therefore requires urgent and bold actions. Africa is ready for the Green Revolution. Today, African leaders have convened to show their strong and unanimous commitment to achieving the African Green Revolution by taking immediate actions to solve Africa's fertilizer crisis.

The African Union Ministers of Agriculture convened in Abuja on 12 June 2006 for the Africa Fertilizer Summit:

Recognizing that Africa needs a Green Revolution which is long overdue and yet constitutes the way of getting African farmers out of the poverty trap by achieving food security and other relevant the Millennium Development Goals;

Recognizing that fertilizer is crucial for achieving an African Green Revolution in the face of rapidly rising population and declining soil fertility;

Realizing that most farmers in Africa are poor, have virtually no access to fertilizer and that the poorest of them urgently need special attention;

Recognizing the urgent need for a strategic investment program to increase the availability and use of fertilizer alongside with other inputs to usher in the Green Revolution on the African continent;

Declare fertilizer, from both inorganic and organic sources, a strategic commodity without borders; and

Resolve that the African Union Member States will accelerate the timely access of farmers to fertilizers:

1. Given the strategic importance of fertilizer in achieving the African Green Revolution to end hunger, the African Union Member States resolve to increase the level of use of fertilizer from the current average of 8 kilograms per hectare to an average of at least 50 kilograms per hectare by 2015.
2. By mid-2007, the African Union Member States and the Regional Economic Communities should take appropriate measures to reduce the cost of fertilizer procurement at national and regional levels especially through the harmonization of policies and regulations to ensure duty- and tax-free movement across regions, and the development of capacity for quality control. As an immediate measure, we recommend the elimination of taxes and tariffs on fertilizer and on fertilizer raw materials.
3. By mid-2007, the African Governments must take concrete measures to improve farmers' access to fertilizers, by developing and scaling up input dealers' and community-based networks across rural areas. The Private Sector and Development Partners are hereby requested to support such actions.
4. By 2007, the African Union Member States must take concrete measures to specially address the fertilizer needs of farmers, especially women, and to develop and strengthen the capacity of youth, farmers' associations, civil society organizations, and the private sector.
5. With immediate effect, the African Union Member States must improve farmers' access to fertilizer, by granting, with the support of Africa's Development Partners, targeted subsidies in favor of the fertilizer sector, with special attention to poor farmers.
6. The African Union Member States should take immediate steps to accelerate investment in infrastructure, particularly transport, fiscal incentives, strengthening farmers' organizations, and other measures to improve output market incentives.
7. The African Union Member States should establish national financing facilities for input suppliers to accelerate access to credit at the local and national level, with specific attention to women.
8. The African Union Member States, hereby request the establishment of Regional Fertilizer Procurement and Distribution Facilities with the support of the African Development Bank, the Economic Commission for Africa, the Regional Economic Communities and the Regional Development Banks, through strategic public-private partnerships by the end of 2007.

9. Given the extensive fertilizer raw material resources in Africa and the fact that they are underutilized in many parts of the continent, the African Union Member States undertake to promote national/regional fertilizer production and intra-regional fertilizer trade to capture a bigger market and take advantage of economies of scale through appropriate measures such as tax incentives and infrastructure development. This should be supported by the African Development Bank, the Economic Commission for Africa, the Regional Development Banks, the Regional Economic Communities, other Development Partners, and the Private Sector.

10. The African Union Member States should take specific action to improve farmer access to quality seeds, irrigation facilities, extension services, market information, and soil nutrient testing and mapping to facilitate effective and efficient use of inorganic and organic fertilizers, while paying attention to the environment.

11. The African Development Bank, with the support of the Economic Commission for Africa and the African Union Commission, is called to establish, by 2007, an **Africa Fertilizer Development Financing Mechanism** that will meet the financing requirements of the various actions agreed upon by the Summit. We, the African Union Member States, undertake to support the establishment of this facility and will pledge resources for its immediate operation.

12. The African Union Member States request the African Union Commission and the New Partnership for Africa's Development to set up a mechanism to monitor and evaluate the implementation of this resolution. This should be done in collaboration with the Economic Commission for Africa and the African Development Bank. The African Union Commission should give progress report to the African Heads of State at every sixth-monthly African Union Summit, starting in January 2007.

Average Levels of Nutrients (NPK) Lost, 2002 to 04 (kg/ha/year)

Moderate / Low (< 30)		Medium (Between 30 & 60		High (> 60)	
Egypt	9	Libya	33	Tanzania	61
Mauritius	15	Swaziland	37	Mauritania	63
South Africa	23	Senegal	41	Congo republic	64
Zambia	25	Tunisia	42	Guinea	64
Morocco	27	Burkina Faso	43	Lesotho	65
Algeria	28	Benin	44	Madagascar	65
		Cameroon	44	Liberia	66
		Sierra Leone	46	Uganda	66
		Botswana	47	DR Congo	68
		Sudan	47	Kenya	68
		Togo	47	Central Africa Rep.	69
		Côte d'Ivoire	48	Gabon	69
		Ethiopia	49	Angola	70
		Mali	49	Gambia	71
		Djibouti	50	Malawi	72
		Mozambique	51	Guinea Bissau	73
		Zimbabwe	53	Namibia	73
		Niger	56	Burundi	77
		Chad	57	Rwanda	77
		Nigeria	57	Equatorial Guinea	83
		Eritrea	58	Somalia	88
		Ghana	58		

Source: IFDC, March 2006

Supply/Demand Constraints to be Addressed in Promoting Increased Use of Fertilizer in Africa

SUPPLY-SIDE CONSTRAINTS	DEMAND-SIDE CONSTRAINTS
<p><u>Risks Associated with Uncertain Policy Environment:</u></p> <ul style="list-style-type: none"> ▪ Repeated and unpredictable government interventions creating an uncertain environment for the private fertilizer sector. ▪ A stable policy environment reduces risks, which is an essential condition if private sector agribusiness is to assume fertilizer marketing functions and develop domestic fertilizer demand. 	<p><u>Profitability of Use :</u></p> <ul style="list-style-type: none"> ▪ Profitability of fertilizer use as reflected in high input/output ratios affects farmers' demand for fertilizer. Profitable use of fertilizer is a function of technical and economic factors. ▪ Use of fertilizer should be accompanied by improved seed varieties and suitable soils. In addition, cost of getting fertilizer to the farm-gate affects profitability.
<p><u>Institutional Risks:</u></p> <ul style="list-style-type: none"> ▪ Continuous procedural changes to laws and regulations of direct consequence for fertilizer marketing constitute a major impediment for market entry when risk aversion on the part of rural decision makers translates into high fertilizer prices (traders) and hence ensures low demand (farmers). 	<p><u>Commodity markets:</u></p> <ul style="list-style-type: none"> ▪ Demand for fertilizer is conditioned by farmers' access to output markets. ▪ Markets may be uncompetitive or even exploitative, or farmers may have to travel exceptionally long distances to access them.
<p><u>Insufficient Human Capital:</u></p> <ul style="list-style-type: none"> ▪ The fertilizer sector is characterized by insufficient and under-qualified human capital such as a limited number of fertilizer importers and wholesalers; ▪ poor spread of input dealer networks in rural areas; ▪ low business and technical capacity of dealers; ▪ long distances must be traveled by farmers to purchase fertilizer; ▪ small number of producer and trader associations; ▪ lack of marketing skills and qualified input dealers; ▪ Weak linkages between input dealers, importers, and wholesalers; and lack of proper knowledge about fertilizer capabilities and their profitable use. 	<p><u>Commodity Prices:</u></p> <ul style="list-style-type: none"> ▪ The ratio of output price to fertilizer price conditions fertilizer use. Fertilizer use is concentrated on the most profitable crops. Commodity prices are a function of the strength of demand for a crop commodity, government price policies, transport infrastructure, storage facilities, market information, and seasonal variability in demand and supply.
<p><u>Limited Access to Credit:</u></p> <ul style="list-style-type: none"> ▪ Lack of access to finance constrains the ability of fertilizer importers, wholesalers, and dealers to raise sufficient funds at the opportune time to purchase fertilizer and/or for business development. In addition, high interest rates and exhaustive collateral requirements are unattractive for fertilizer importers and input dealers. 	<p><u>Perception of Yield Responsiveness to Fertilizer:</u></p> <ul style="list-style-type: none"> ▪ Farmers' perception about the potential impact of fertilizers on yield also affects demand. Their understanding is influenced by the quantity and quality of information available on fertilizer and their access to that information.
<p><u>Lack of market information:</u></p> <ul style="list-style-type: none"> ▪ Information on fertilizer prices, imports and exports, and availability by market and product in Africa is inadequate. ▪ Availability of such information reduces transaction costs via increased transparency in market transactions. 	<p><u>Fertilizer Price:</u></p> <ul style="list-style-type: none"> ▪ African farmers pay the highest price for fertilizers in the world. For example, the ratio of farm-gate price to cost, insurance, and freight ranges from 1.42 for the USA to 2.04 and 2.56 for Nigeria and Angola respectively. ▪ Domestic marketing costs in many African countries account for more than 50% of the farm-gate price of fertilizer.
<p><u>Infrastructure:</u></p> <ul style="list-style-type: none"> ▪ Internal transport costs are high in African countries. ▪ Infrastructure development is critical for fertilizer distribution and for connecting farmers to markets, as each ton of fertilizer used could lead to transportation of 15 tons of grain. 	<ul style="list-style-type: none"> ▪ Prices and availability of substitutes and complements, capacity to invest, and the prices of different fertilizer nutrients, water, seeds, organic matter, and even farm labor can all impact the use of fertilizer. ▪ Demand is also a function of farmers' capacity to invest in and use fertilizer.

Source: Adopted from the Background Paper: Overview of the Fertilizer Situation in Africa – Abuja Fertilizer Summit, June 2006.

ANNEX 4

INSTRUMENT FOR THE ESTABLISHMENT OF THE AFFM

AFRICAN FERTILIZER FINANCING MECHANISM

INSTRUMENT

FOR THE ESTABLISHMENT

OF THE

AFRICAN FERTILIZER FINANCING MECHANISM

*(SPECIAL FUND ADMINISTERED BY
THE AFRICAN DEVELOPMENT BANK)*

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**INSTRUMENT FOR THE ESTABLISHMENT
OF THE AFRICAN FERTILIZER DEVELOPMENT MECHANISM
(SPECIAL FUND ADMINISTERED BY
THE AFRICAN DEVELOPMENT BANK)**

PREAMBLE

WHEREAS:

1. On June 13, 2006 the African Union Special Summit of the Heads of State and Government of African Countries following its meeting in Abuja, Nigeria, adopted the Abuja Declaration on Fertilizer for African Green Revolution (the "Abuja Declaration");
2. The Abuja Declaration was preceded by a meeting of the African Union Ministers of Agriculture which took place on June 12, 2006 to discuss constraints facing Africa's farmers as well as the urgent need for an African Green Revolution and, in this connection, recommended the establishment of mechanisms to resolve Africa's fertilizer crisis;
3. The Abuja Declaration recognized that a Green Revolution in Africa was long overdue and essential to alleviating poverty among African farmers by achieving food security, and prescribed the following actions:
 - Establishment of national financing facilities for input suppliers to accelerate access to credit at the local and national level, with specific attention to women;
 - Establishment of regional fertilizer procurement and distribution facilities;
 - Promotion of national/regional fertilizer production and intra-regional fertilizer trade;
 - Improvement of access by farmers to quality seeds, irrigation facilities, extension services, market information, and soil nutrient testing and mapping to facilitate effective and efficient use of inorganic and organic fertilizers, while paying attention to the environment; and
 - Establishment of an African Fertilizer Development Financing Mechanism (AFFM).
4. The Abuja Declaration further invited the African Development Bank (the "Bank"), with the support of the United Nations Economic Commission for Africa (UNECA) and the African Union Commission (AUC) to establish the AFFM;

5. The African Union Member States have undertaken to support the establishment of the AFFM and certain of the member states have pledged resources for its immediate operation;
6. The Bank, as the premier development finance institution in Africa committed to mobilizing resources for the development of the continent, has accepted the request of the African Heads of State and Governments to establish the AFFM;
7. In accordance with Article 8 of the Agreement establishing the Bank, the Bank may establish or be entrusted with the administration of Special Funds which are designed to serve the purpose of the Bank and come within its functions;
8. The Federal Government of Nigeria has pledged US\$10,000,000, in support of the establishment of the AFFM;
9. The Heads of State and Government of the African Union, the UNECA and the AUC have endorsed this Instrument.

The Board of Governors of the Bank hereby resolve as follows:

CHAPTER 1 PURPOSE AND OBJECTIVE

Section 1.1 Establishment. There is hereby established a Special Fund under Article 8 of the Agreement Establishing the Bank to be known as the African Fertilizer Development Financing Fund (hereinafter called the "Fertilizer Fund" or the "Fund"), which shall be constituted with resources mobilized from donors, to be administered in accordance with the provisions of this Instrument and, when applicable, the Agreement establishing the Bank.

Section 1.2 Purpose. The purpose of the Fertilizer Fund shall be to mobilize and pool resources to finance, in particular, fertilizer production, distribution, procurement and use in Africa.

Section 1.3 Areas of Intervention. The resources of the Fertilizer Fund shall be devoted primarily to:

- (a) facilitation activities including policy formulation, technical assistance, information dissemination, law reform, and project preparation;
- (b) the development of Africa's fertilizer manufacturing capacity;
- (c) providing credit guarantees for fertilizer importers and distributors;
- (d) support establishment of regional fertilizer procurement and distribution facilities; and
- (e) developing financing mechanisms in support of fertilizer production, distribution, and agriculture generally.

Section 1.4 Priorities and Cost Effectiveness of Activities. Priority will be given to those projects or activities which are based on identifiable national/regional priorities.

CHAPTER II ADMINISTRATION

Section 2.1 Administration. The Bank shall be the Trustee for the Fertilizer Fund, and in this capacity shall, as legal owner, hold in trust the funds, assets and receipts which constitute the resources of the Fertilizer Fund, and manage and apply them for the purpose of, and in accordance with, the provisions of this Instrument. The Bank shall keep the resources of the Fertilizer Fund separate and apart from all other accounts and assets of, or administered by, the Bank.

Section 2.2 Use of the Bank's Facilities. Except as otherwise provided herein, the Bank shall administer the Fertilizer Fund through its own organisation, services, facilities, officers, staff and such other experts and consultants as may be necessary. The Bank shall in no event delegate responsibility for the administration of the Fertilizer Fund.

Section 2.3 Expenses of Administering the Fertilizer Fund. The Bank shall keep an account of the expenses incurred in the administration of the Fertilizer Fund, as follows:

- (i) Direct costs incurred by the Bank for the Fertilizer Fund;
- (ii) Indirect costs incurred by the Bank in the administration of the Fertilizer Fund.

Section 2.4 Payment of Administrative Costs. The Bank shall bear a portion of the reasonable costs of the establishment of the Fertilizer Fund and, until it notifies the Governing Council otherwise, shall administer the Fertilizer Fund free of charge as its contribution to the Fund. Such notification shall be given in writing to the Governing Council at least six (6) months prior to the effective date thereof.

Section 2.5 Financial Administration/Commitments. The Bank shall adopt measures to avoid commitments in excess of the available resources of the Fertilizer Fund, and shall seek to keep administrative costs of the Fertilizer Fund at a minimum. Furthermore, the Bank shall institute mechanisms to administer the Fund as a revolving fund.

Section 2.6 Privileges and Immunities. The privileges and immunities accorded to the Bank under the Bank Agreement shall apply to the property, assets, archives, income, operations and transactions of the Fertilizer Fund.

Section 2.7 Reporting. (a) The Bank shall present to the Governing Council an Annual Report on the activities of the Fertilizer Fund. The Annual Report shall contain a brief description of the activities of the Fertilizer Fund during the preceding financial year, including all the operations financed with the resources of the Fertilizer Fund, and the status and outcomes of such operations. The Annual Report shall also include a statement of assets and liabilities of the Fertilizer Fund, a statement of cumulative receipts and expenditure, and a statement of the use of resources of the Fertilizer Fund, with such explanatory notes as may be pertinent.

(b) The comments which the members of the Governing Council may consider appropriate to make in respect of the statements and information referred to in paragraph (a) of this Section, shall be presented as soon as possible and in any case within thirty (30) days following the receipt of the respective reports. Thereafter, the Annual Report will be submitted for the consideration of the Board of Directors. Following the approval of the Board of Directors, the Bank shall distribute the Annual Report to all of the Donors and participants in the Fertilizer Fund.

Section 2.8 Audit. The Fertilizer Fund shall be subject to the internal and external audit procedures of the Bank, including an annual audit to be conducted by the external auditors of the Bank. Upon the written request of the Governing Council, the Bank shall cause the accounts and records of any specific activity financed with the resources of the Fertilizer Fund to be audited by the Bank's external auditors. Notwithstanding Section 2.4 of this Agreement, the costs of such special audit shall be charged to the resources of the Fertilizer Fund.

CHAPTER III STRUCTURE AND GOVERNANCE

Section 3.1 Structure. The Fertilizer Fund shall have a Governing Council, and other staff considered necessary to carry out the objectives of the Fund. The Board of Directors of the Bank also shall take certain decisions, as provided in this Instrument, concerning the Fertilizer Fund.

Section 3.2 Participation. Any member country of the Bank, any country which is generally eligible to become a member of the Bank, and any organization acceptable to the Bank, may become a participant in the Fertilizer Fund by contributing resources to the Fertilizer Fund. Participation in the Fertilizer Fund shall be effected by submitting an Instrument of Participation and by acceding to the terms of this Instrument. Participation in the Fertilizer Fund shall be a prerequisite for representation on the Governing Council of the Fund. A participant in the Fund need not be a donor or other contributor to the Fund.

Section 3.3 Governing Council: Composition. The Governing Council shall include representatives of Donors and stakeholders. The Coordinator of the Fertilizer Fund shall be an *ex-officio* member. Membership of the Governing Council should reflect regional and geographical groupings, and due weight to funding efforts of all Donors.

Section 3.4 Governing Council: Functions. The Governing Council shall be responsible for determining the general policy direction of the Fertilizer Fund. In this regard, the Governing Council shall approve the strategic direction of the Fund and the proposed areas of intervention, and review the annual report of activities financed from the resources of the Fertilizer Fund. The Bank shall consult regularly with the Governing Council.

Section 3.5 Governing Council: Chairperson. The Governing Council shall appoint a Chairperson who shall serve for a term of one (1) year. The Chairperson shall be a national of a regional member country of the Bank. The Chairperson shall be a person of international repute and of the highest competence. The Governing Council shall appoint the first Chairperson at its inaugural meeting.

Section 3.6 Governing Council: Procedure. The Governing Council shall adopt its Rules of Procedure at its inaugural meeting. The Bank shall also appoint a Secretary for the Governing Council.

Section 3.7 Governing Council: Meetings. The Chairperson of the Governing Council, in close consultation with the members of the Council, and the Bank, may convene meetings at such places and at such times as may be required.

Section 3.8 Decision-Making. Subject to the provisions of this Instrument, all matters before the Governing Council shall be determined at meetings or by correspondence in accordance with the Rules of Procedure to be adopted by the Governing Council under Section 3.6 above, and unless otherwise agreed by the Governing, each member of the Governing Council shall have one (1) vote.

Section 3.9 Operations/Administrative Functions. The President of the Bank shall appoint/assign a person to serve as Coordinator for the Fertilizer Fund. The Coordinator shall have oversight responsibility for the operations and administrative functions of the Fertilizer Fund and will be assisted by an operations and administrative team. The Bank shall also provide adequate office facilities in support of these functions.

CHAPTER IV FINANCIAL ARRANGEMENTS

Section 4.1 Resources (a) The resources of the Fertilizer Fund shall consist of contributions obtained from donor countries or organizations (the "Donor(s)"). Contributions may be made in kind, to the extent acceptable by the Bank, taking into consideration the relevance and ease of valuation of the contribution.

(b) All sums received: (i) in the form of additional resources from Donors, (ii) in connection with the operations financed out of the resources of the Fertilizer Fund, or (iii) which accrue to the Fertilizer Fund by way of interest, dividends, fees, sale of assets or from other sources, shall be added to the *corpus* of the Fertilizer Fund for use by the Bank as part of the Fertilizer Fund.

Section 4.2 Contributions. A member country of the Bank, or another country as well as an organization acceptable to the Bank, may make contributions to the Fertilizer Fund to be utilized for achieving its purpose. The Bank will receive contributions for use in accordance with the terms of this Instrument. Contributions will be effected by a deposit of an Instrument of Commitment, stating the specific amount of the contribution, and the payment schedule agreed with the Bank. Payment of the first instalment of the amount of the commitment made by each participant in the Fertilizer Fund shall, however, not be later than a date which is three (3) months from the date of submission of its Instrument of Participation.

Section 4.3 Denomination and Payment. (a) Contributions shall be paid in any one of the lending currencies of the Bank.

(b) The financial statements and accounts of the Fertilizer Fund shall be denominated in one of the lending currencies of the Bank, as determined by the Governing Council.

Section 4.4 Separation of Resources. (a) The Bank shall at all times hold, utilize, commit, invest or in any other manner dispose of the resources of the Fertilizer Fund, independently of the resources of the Bank itself, or of any other resources entrusted to the Bank for administration.

(b) The Bank shall keep separate accounts and records of the resources and operations of the Fertilizer Fund in such a way as to permit the identification of the assets, liabilities, income, costs and expenses pertaining to the Fertilizer Fund.

Section 4.5 Replenishment. The resources of the Fertilizer Fund may be replenished from time to time. The Bank, after having considered the commitment capacity and rate of utilization of the resources of the Fund, shall advise the Governing Council, accordingly.

CHAPTER V OPERATIONS

Section 5.1 Recipients. Regional member countries of the Bank, political subdivisions or agencies thereof as well as regional agencies or institutions concerned with agricultural resources development or development in general in Africa or a region thereof or private sector entities shall be eligible to receive financing or other assistance from the resources of the Fertilizer Fund.

Section 5.2 Approval. Financing or other form of assistance provided from the resources of the Fertilizer Fund shall be subject to the approval of the Board of Directors of the Bank. Such approval shall be in accordance with the applicable procedures of the Board of Directors set forth in the Agreement establishing the Bank, and may be granted individually or as part of a group of projects. The Board of Directors of the Bank, in consultation with the Governing Council, shall adopt operational procedures, for operations financed with the resources of the Fertilizer Fund, which shall in particular be designed to ensure a fast-track process for the consideration, approval and implementation of operations financed with the resources of the Fertilizer Fund. In this connection, the Board of Directors may delegate to Management of the Bank, the approval of activities below a specified amount.

Section 5.3 Operational Principles. Except as otherwise provided herein, or in operational procedures adopted by the Board of Directors of the Bank for purposes of the Fertilizer Fund, the Bank, in its administration of the Fertilizer Fund, shall apply the same principles and criteria that are applicable to financing provided from its own ordinary resources, particularly those contained in Article 17 of the Agreement establishing the Bank.

Section 5.4 Recipient's Contribution. In considering applications for financing from the resources of the Fertilizer Fund, the Bank shall give due regard to the relevant self-help measures being taken by the recipient and, where the recipient is not a member country of the Bank, by both the recipient and the member or members intended to benefit from the proposed financing.

Section 5.5 Procurement. Procurement of goods, works and services using the resources of the Fertilizer Fund shall be carried out in accordance with the Rules of the Bank.

Section 5.6 Supervision. Supervision of the operations carried out with the resources of the Fertilizer Fund shall be the exclusive responsibility of the Bank.

Section 5.7 Currencies. Financing out of the resources of the Fertilizer Fund shall be denominated and disbursed in the lending currency of the Bank in which the account(s) of the Fertilizer Fund is denominated. Any reimbursements or related charges, whenever applicable, shall be made in the currency of disbursement.

Section 5.8 Financing Agreements. Financing agreements concluded by the Bank obligating the resources of the Fertilizer Fund shall indicate clearly that the financing has been provided by the Fertilizer Fund.

Section 5.9 Non-obligation of the Bank. Financing approved by the Bank pursuant to this Instrument shall not involve any financial obligation on the part of the Bank, and except as otherwise provided for in this Instrument, the Bank shall not derive any financial benefits from the Fertilizer Fund. Co-financing of projects shall, however, not be interpreted as a financial benefit to the Bank under this Instrument.

CHAPTER VI GENERAL PROVISIONS

Section 6.1 Establishment and Effectiveness. (a) The Fertilizer Fund shall be established as of the date of adoption of this Instrument by the Board of Governors of the Bank, in accordance with Article 8 of the Agreement establishing the Bank.

(b) This Instrument shall become effective and the Fertilizer Fund operational on the date when the Bank shall have received Instruments of Commitment from African Governments and other donors pledging contributions in an aggregate amount equivalent to at least Ten million United States Dollars (US\$ 10,000,000); provided, however, that such date shall not be later than [] months after the date of establishment of the Fertilizer Fund or such later date as may be determined by the Bank.

Section 6.2 Consultation and Information. Participants in the Fertilizer Fund shall co-operate fully to assure that the purposes of the Fund are accomplished.

Section 6.3 Financial Year. The financial year of the Fertilizer Fund shall be the calendar year.

Section 6.4 Notices and Requests. (a) Notices or requests to the Fertilizer Fund shall be in writing and shall be delivered at the address below, or such other address as may be notified by the Bank:

The African Fertilizer Financing Mechanism
*(a Special Fund Administered by the
African Development Bank)*
01 B.P. 1387
Abidjan 01
Ivory Coast
Telephone: (+225) 20 20 44 44
Telefax: (+225) 20 20 49 29
E-mail: africanfertilizermechanism@afdb.org
Telex AFDEV Abidjan
Attention: The Coordinator

During the period of the Temporary
Relocation of Operations of the Bank:

The African Fertilizer Financing Mechanism
(*a Special Fund Administered by the
African Development Bank*)
Agence Temporaire de Relocalisation
15 Avenue du Ghana, Angle Rues Hedi Nouira
& Pierre de Coubertin
B.P. 323 Tunis
1002 Tunis Belvedere, Tunisia
Telephone: (+216) 71 10 20 []
Telefax: (+216) 71 83 []
E-mail: africanfertilizermechanism@afdb.org
Attention: The Coordinator

(b) Notices and requests to the Bank or any other participants in the Fertilizer Fund shall be in writing and shall be delivered to the address provided in the respective Instruments of Participation or any other address as shall be notified in writing by such participant.

Section 6.5 Settlement of Disputes. (a) Disputes related to the interpretation and implementation of this Instrument shall be settled amicably by the parties.

(b) In the event that a dispute, which is not settled amicably, relates solely to a matter of interpretation of the Instrument, a request for interpretation shall be submitted for the consideration of the Board of Directors of the Bank. Such interpretation shall be final.

(c) In all other cases, and upon the failure of earnest attempts for an amicable settlement, such dispute shall be submitted by notification in writing to arbitration by a tribunal of three arbitrators. One of the arbitrators shall be appointed by the Bank, another by the other disputing party, and the two (2) parties shall appoint the third arbitrator, who shall be the Chairperson. If, within forty-five (45) days of receipt of the request for arbitration, either party has not appointed an arbitrator, or if, within thirty (30) days of the appointment of the two (2) arbitrators, the third arbitrator has not been appointed, either party may request the President of the African Court of Justice, if he is not a national of a party to the dispute, to appoint the arbitrator not yet appointed. In case the President of the African Court of Justice is a national of any of the parties to the dispute, the arbitrator not yet appointed shall be appointed by the Chairperson of the African Union Commission. The procedure of arbitration shall be fixed by the arbitrators, but the third arbitrator shall have full power to settle all questions of procedure in any case of disagreement with respect thereto.

(d) The arbitral tribunal shall afford to all parties a fair hearing and shall render its award in writing. Such award may be rendered by default. An award signed by a majority of the arbitral tribunal shall constitute the award of such tribunal. A signed counterpart of the award shall be transmitted to each of the disputing parties. Any such award rendered in accordance with the provisions of this Section shall be final and binding upon such parties, and the participants, Donors and recipients. Each of the disputing parties shall abide by and comply with any such award rendered by the tribunal in accordance with the provisions of this Section.

(e) The parties shall fix the amount of the remuneration of the arbitrators and such other persons as shall be required for the conduct of the arbitration proceedings. If the parties shall not agree on such amount before the tribunal shall convene, the tribunal shall fix such amount as shall be reasonable under the circumstances. Each of the disputing parties shall defray its own expenses in the arbitration proceedings. The cost of the tribunal shall be divided between, and borne equally by the parties. Any question concerning the division of the expenses of the tribunal or the procedure for payment of such expenses shall be determined by the tribunal.

Section 6.6 Withdrawal from Participation. Any participant may, however, withdraw from participation in the Fertilizer Fund by written notice to the Bank. The withdrawal shall become effective six (6) months after the communicated date of receipt of the notice. The participant shall, however, remain liable for the payment of any portion of the amount of its commitment, on the basis of which the Fertilizer Fund has made commitments to recipients.

Section 6.7 Amendments and Termination. (a) Amendments or additions may be made to this Instrument by a decision of the Board of Directors and the Governing Council. Such amendments or additions shall however be reported to the Board of Governors at the next Annual Meeting.

(b) This Instrument shall be in effect until the anniversary date of its adoption by the Board of Governors, in the year 2015; provided however that this period may be extended or shortened by a decision of the Board of Governors of the Bank, upon the recommendation of the Board of Directors acting in consultation with the Governing Council. The effectiveness of this Instrument will also terminate upon the occurrence of the event contemplated in Article 47, Section 1 of the Agreement establishing the Bank.

- (c) On the date of expiration or the date of termination (each hereinafter referred to as the "Termination Date"), the Bank shall cease all activities relating to the resources of the Fertilizer Fund, except those incidental to the orderly realization, conservation and preservation and settlement of the direct or contingent obligations to which the Fertilizer Fund or the Bank, on behalf of the Fertilizer Fund, may be subject.
- (d) The Bank shall also present to the Governing Council a list of all operations in progress and outstanding obligations, as of the Termination Date, and such operations shall continue to be processed until the respective processing is concluded.
- (e) The Bank shall within a reasonable period after the termination of the Fertilizer Fund transfer to the Donors such of the resources of the Fertilizer Fund as are in the possession of the Bank and are not required for the purpose of settlement of any outstanding obligations, and shall thereafter, transfer the balance of such resources as and when received by the Bank.
- (f) In the event of termination, the Bank shall, prior to transferring funds in its control to the relevant Donors, withhold such portion of the funds as shall correspond to the administrative fee, if any, and an amount to cover contingent liabilities, as agreed by the Governing Council to be paid to the Bank.

State/Organization: _____

Signature: _____

Name: _____

Title: _____