

CONFORMED COPY

CREDIT NUMBER 3520 UNI

Development Credit Agreement
(Privatization Support Project)

between

FEDERAL REPUBLIC OF NIGERIA

and

INTERNATIONAL DEVELOPMENT ASSOCIATION

Dated August 23, 2001

CREDIT NUMBER 3520 UNI

DEVELOPMENT CREDIT AGREEMENT

AGREEMENT, dated August 23, 2001, between FEDERAL REPUBLIC OF NIGERIA (the Borrower) and INTERNATIONAL DEVELOPMENT ASSOCIATION (the Association).

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

(B) Part D of the Project will be carried out by Lagos State Water Corporation (LSWC) with the Borrower's assistance and, as part of such assistance, the Borrower will relend to Lagos State a portion of the proceeds of the Credit as provided in this Agreement;

(C) Lagos State will in turn make the proceeds of the Credit relend to it by the Borrower available to LSWC under terms and conditions which shall have been approved by the Association;

(D) the Borrower has obtained or intends to obtain from various donors (hereinafter called the Cofinanciers) grants and loans in an amount equivalent to approximately \$25,000,000 to assist in financing the Project on the terms and conditions set forth or to be set forth in various agreements (hereinafter called the Cofinancing Agreements) entered into or to be entered into between the Borrower and

the Cofinanciers; and

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

NOW THEREFORE the parties hereto hereby agree as follows:

ARTICLE I

General Conditions; Definitions

Section 1.01. The "General Conditions Applicable to Development Credit Agreements" of the Association, dated January 1, 1985 (as amended through October 6, 1999), with the modifications set forth below (the General Conditions), constitute an integral part of this Agreement:

(a) A new paragraph (12) is added to Section 2.01 to read as set forth below, and the existing paragraphs (12) through (14) of said Section are accordingly renumbered as paragraphs (13) through (15):

"12. 'Participating Country' means any country that the Association determines meets the requirements set forth in Section 11 of Resolution No. 194 of the Board of Governors of the Association, adopted on April 8, 1999; and 'Participating Countries' means, collectively, all such countries."; and

(b) The second sentence of Section 5.01 is modified to read:

"Except as the Borrower and the Association shall otherwise agree, no withdrawals shall be made: (a) on account of expenditures in the territories of any country which is not a Participating Country or for goods produced in, or services supplied from, such territories; or (b) for the purpose of any payment to persons or entities, or for any import of goods, if such payment or import, to the knowledge of the Association, is prohibited by a decision of the United Nations Security Council taken under Chapter VII of the Charter of the United Nations."

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

(a) "BPE" means the Bureau of Public Enterprises of the Borrower established pursuant to Public Enterprises (Privatization and Commercialization) Act No. 28, 1999;

(b) "Eligible Categories" means Categories 3 (a), 4 (a) and 5 (a) and 6 set forth in the table in Part A.1 of Schedule 1 to this Agreement, in respect of the BPE Special Account; Categories 1 (a), 3 (b) and 4 (b) set forth in the table in Part A.1 of Schedule 1 to this Agreement, in respect of the NCC Special Account; Categories 2 (a), 3 (c) and 5 (b) set forth in the table in Part A.1 of Schedule 1 to this Agreement, in respect of the NERC Special Account; and Categories 1 (b), 2 (b) and 3 (d) set forth in the table in Part A.1 of Schedule 1 to this Agreement, in respect of the LSWC Special Account.

(c) "Eligible Expenditures" means, in respect of each Special Account, the expenditures for goods and services referred to in Section 2.02 (a) of this Agreement and to be financed out of the proceeds of the Credit allocated from time to time to said Special Account's respective Eligible Categories.

(d) "Emergency Power Program" means a program in which a power utility enters into agreements with private power producers to provide, transport, erect and connect generating units to the utility's power network within a short period, to operate and maintain these units and to sell power from these units to the utility for a specified period.

(e) "First Subsidiary Loan Agreement" means the agreement to be entered into between the Borrower and Lagos State pursuant to Section 3.01 (b) of this Agreement, as the same may be amended from time to time, and such term includes all schedules to the First Subsidiary Loan Agreement;

- (f) "FMF" means the Borrower's Federal Ministry of Finance;
- (g) "FMOC" means the Borrower's Federal Ministry of Communications;
- (h) "Independent Power Producer" means a private power producer who develops power plants, operates and maintains the plants and sells power from these plants to an existing power utility or directly to power distribution companies or large power users;
- (i) "M-Tel" means Nigerian Mobile Telecommunications Ltd. established and operating pursuant to Companies and Allied Matters Act No. 59, 1990;
- (j) "Naira" means the currency of the Borrower;
- (k) "National Electricity Policy Statement" means the statement dated June 1, 2000, of the Borrower, describing a program of actions, objectives, and policies designed to strengthen its power sector, including a short term action plan for 2001-02 to restore capacity and ensure minimal adequate service provision;
- (l) "NCC" means the Nigerian Communications Commission, established and operating pursuant to Act No. 75, 1992;
- (m) "NCP" means the National Council on Privatization of the Borrower, established pursuant to Act No. 28, 1999;
- (n) "NERC" means the regulatory commission to be established by the Borrower for the regulation of the power sector;
- (o) "NITEL" means Nigerian Telecommunication Ltd. established and operating pursuant to Companies and Allied Matters Act LFN CAP. 59, 1990;
- (p) "Privatization Processes and Procedures Manual" means the manual satisfactory to the Association setting out: (i) guidelines and procedures for preparation, bidding and divestiture of Public Enterprises in an efficient and transparent manner; (ii) authority of the Privatization Council; (iii) arrangements for sale of shares in privatized Public Enterprises; (iv) shareholding by strategic investors; and (v) authority of Sector Reform Implementation Committees;
- (q) "Privatization Program" means the program to be carried out by the Borrower under Public Enterprises (Privatization and Commercialization) Act No. 28 of 1999;
- (r) "Project Accounts" means the accounts referred to in Section 3.03 (a) of this Agreement;
- (s) "Project Agreement" means the agreement between the Association and LSWC of even date herewith, as the same may be amended from time to time, and such term includes all schedules and agreements supplemental to the Project Agreement;
- (t) "Project Implementation Manual" means the manual satisfactory to the Association setting out: (i) an implementation plan for the Project; (ii) operations procedures for BPE; (iii) details of all procurement and disbursement arrangements under the Project; (iv) performance indicators for the Project; (v) operations procedures for the NCP; and (vi) such other administrative, financial and organizational arrangements as shall be required, and such term includes any schedules to the Project Implementation Manual;
- (u) "Project Management Report" means each report prepared in accordance with Section 4.02 of this Agreement;
- (v) "Project Preparation Advance" means the project preparation advance granted by the Association to the Borrower pursuant to an exchange of letters dated November 18, 1999 and November 19, 1999 between the Borrower and the Association;
- (w) "Public Enterprise" means any enterprise in which the Borrower has an ownership interest and which has been selected for privatization under the Privatization Program;
- (x) "Rehabilitate-Operate-Transfer" means a concession in which a project company under private ownership, or a joint venture with minority public participation, enters into an agreement with a power utility to rehabilitate power

generating units at a power station, to operate and maintain the generating units for the term of the concession, to sell the output of these units to the power utility or directly to power distribution companies or large power users, and to return the station at the end of the concession term;

(y) "Second Subsidiary Loan Agreement" means the agreement to be entered into between Lagos State and LSWC, pursuant to the First Subsidiary Loan Agreement, as the same may be amended from time to time, and such term includes all schedules to the Second Subsidiary Loan Agreement; and

(z) "Special Accounts" means the accounts referred to in Part B of Schedule 1 to this Agreement.

ARTICLE II

The Credit

Section 2.01. The Association agrees to lend to the Borrower, on the terms and conditions set forth or referred to in the Development Credit Agreement, an amount in various currencies equivalent to ninety million two hundred thousand Special Drawing Rights (SDR 90,200,000).

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

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

Section 2.03. The Closing Date shall be December 31, 2006 or such later date as the Association shall establish. The Association shall promptly notify the Borrower of such later date.

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

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

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

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

Section 2.06. Commitment charges and service charges shall be payable semiannually on June 1 and December 1 in each year.

Section 2.07. (a) Subject to paragraphs (b), (c) and (d) below, the Borrower shall repay the principal amount of the Credit in semiannual installments payable on each June 1 and December 1 commencing December 1, 2011 and ending June 1, 2036. Each installment to and including the installment payable on June 1, 2021 shall be one and

one-fourth percent (1-1/4%) of such principal amount, and each installment thereafter shall be two and one-half percent (2-1/2%) of such principal amount.

(b) Whenever: (i) the Borrower's per capita gross national product (GNP), as determined by the Association, shall have exceeded for three consecutive years the level established annually by the Association for determining eligibility to access the Association's resources; and (ii) the Bank shall consider the Borrower creditworthy for Bank lending, the Association may, subsequent to the review and approval thereof by the Executive Directors of the Association and after due consideration by them of the development of the Borrower's economy, modify the repayment of installments under paragraph (a) above by: (A) requiring the Borrower to repay twice the amount of each such installment not yet due until the principal amount of the Credit shall have been repaid; and (B) requiring the Borrower to commence repayment of the principal amount of the Credit as of the first semiannual payment date referred to in paragraph (a) above falling six months or more after the date on which the Association notifies the Borrower that the events set out in this paragraph (b) have occurred, provided, however, that there shall be a grace period of a minimum of five years on such repayment of principal.

(c) If so requested by the Borrower, the Association may revise the modification referred to in paragraph (b) above to include, in lieu of some or all of the increase in the amounts of such installments, the payment of interest at an annual rate agreed with the Association on the principal amount of the Credit withdrawn and outstanding from time to time, provided that, in the judgment of the Association, such revision shall not change the grant element obtained under the above-mentioned repayment modification.

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

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

ARTICLE III

Execution of the Project

Section 3.01. (a) The Borrower declares its commitment to the objectives of the Project as set forth in Schedule 2 to this Agreement and, to this end: (i) shall carry out Parts A, B (1), B (2), B (4), C (1), and C (3) through (6) of the Project through BPE; Parts B (3), B (5) and B (6) of the Project through NCC, and Part C (2) of the Project through NERC; all with due diligence and efficiency and in conformity with appropriate administrative, financial, and management practices; and (ii) without any limitation or restriction upon any of its other obligations under the Credit Agreement, shall within the limits of its constitutional powers cause Lagos State and LSWC to carry out Part D of the Project and to perform in accordance with the provisions of the First Subsidiary Loan Agreement and the Project Agreement all the obligations of Lagos State and LSWC therein set forth, shall take or cause to be taken all actions, including the provision of funds, facilities, services and other resources, necessary or appropriate to enable Lagos State and LSWC to perform such obligations, and shall not take or permit to be taken any action which would prevent or interfere with such performance.

(b) The Borrower shall relend the proceeds of the Credit allocated to Categories 1 (b), 2 (b) and 3 (d) set forth in Part A.1 of Schedule 1 to this Agreement to Lagos State under a first subsidiary loan agreement to be entered into between the Borrower and Lagos State, under terms and conditions which shall have been approved by the Association and which shall include annual interest at the rate referred to in Section 2.05 of this Agreement and repayment of principal in thirty-five years (including a ten-year grace period) and the assumption of the foreign exchange risk by LSWC.

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

(d) Without limitation upon the provisions of paragraph (a) of this Section and except as the Borrower and the Association shall otherwise agree, the Borrower shall carry out the Project in accordance with the Implementation Program set forth in Schedule 4 to this Agreement.

Section 3.02. Except as the Association shall otherwise agree, procurement of the goods, works, and consultants' services required for the Project and to be financed out of the proceeds of the Credit shall be governed by the provisions of Schedule 3 to this Agreement.

Section 3.03. Without limitation to its obligations under Section 3.01 of this Agreement, the Borrower shall cause BPE, NCC and LSWC each to:

(a) open and maintain an account in Naira in a commercial bank acceptable to the Association on terms and conditions satisfactory to the Association;

(b) promptly thereafter, make an initial deposit into such account, in the respective amounts equivalent to \$3,900,000, \$600,000, and \$500,000, to finance the Borrower's contribution to the costs of the Project;

(c) thereafter deposit into the Project Account, on a quarterly basis, the amounts required to replenish the respective Project Accounts up to each of BPE's, NCC's and LSWC's contribution to the costs of the Project; and

(d) use the funds in the Project Accounts exclusively to finance expenditures under the Project and not otherwise financed out of the proceeds of the Credit.

Section 3.04. For the purposes of Section 9.07 of the General Conditions and without limitation thereto, the Borrower shall:

(a) prepare, on the basis of guidelines acceptable to the Association, and furnish to the Association not later than six (6) months after the Closing Date or such later date as may be agreed for this purpose between the Borrower and the Association, a plan for the future operation of the Project, and

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

ARTICLE IV

Financial Covenants

Section 4.01. (a) The Borrower shall maintain or cause to be maintained a financial management system, including records and accounts adequate to reflect in accordance with sound accounting practices the operations, resources and expenditures in respect of Parts A, B, and C of the Project of the departments or agencies of the Borrower responsible for carrying out such Part of the Project.

(b) The Borrower shall:

(i) have the records and accounts referred to in paragraph (a) of this Section including those for the Special Accounts for each fiscal year audited, in accordance with appropriate auditing principles consistently applied, by independent auditors acceptable to the Association;

(ii) furnish to the Association as soon as available, but in any case not later than six months after the end of each such year, the report of such audit by said auditors, of such scope and in such detail as the Association shall have reasonably requested; and

(iii) furnish to the Association such other information concerning said records and accounts and the audit thereof as the Association shall from time to time reasonably request.

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

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

Section 4.02. (a) Without limitation upon the provisions of Section 4.01 of this Agreement, the Borrower shall carry out a time-bound action plan acceptable to the Association for the strengthening of the financial management system referred to in paragraph (a) of said Section 4.01 in order to enable the Borrower, not later than December 31, 2002, or such later date as the Association shall agree, to prepare quarterly Project management reports, acceptable to the Association, each of which:

- (i) (A) sets forth actual sources and applications of funds for the Project, both cumulatively and for the period covered by said report, and projected sources and applications of funds for the Project for the six-month period following the period covered by said report, and
 - (B) shows separately expenditures financed out of the proceeds of the Credit during the period covered by said report and expenditures proposed to be financed out of the proceeds of the Credit during the six-month period following the period covered by said report;
- (ii) (A) describes physical progress in Project implementation, both cumulatively and for the period covered by said report, and
 - (B) explains variances between the actual and previously forecast implementation targets; and
- (iii) sets forth the status of procurement under the Project and expenditures under contracts financed out of the proceeds of the Credit, as at the end of the period covered by said report.

(b) Upon the completion of the action plan referred to in paragraph (a) of this Section, the Borrower shall prepare, in accordance with guidelines acceptable to the Association, and furnish to the Association not later than 45 days after the end of each calendar quarter a Project Management Report for such period.

ARTICLE V

Remedies of the Association

Section 5.01. Pursuant to Section 6.02 (1) of the General Conditions, the following additional events are specified:

- (a) LSWC and Lagos State shall have failed to perform any of their obligations under the Project Agreement and the First Subsidiary Loan Agreement, respectively.
- (b) As a result of events which have occurred after the date of the Credit Agreement, an extraordinary situation shall have arisen which shall make it improbable that LSWC and Lagos State will be able to perform their obligations under the Project Agreement and the First Subsidiary Loan Agreement, respectively.

(c) The Cofinanciers Agreements shall have failed to become effective by June 30, 2002 or such later date as the Association may agree; provided, however, that the provisions of this paragraph shall not apply if the Borrower establishes to the satisfaction of the Association that adequate funds for the Project are available to the Borrower from other sources on terms and conditions consistent with the obligations of the Borrower under this Agreement.

(d) (i) Subject to subparagraph (ii) of this paragraph:

(A) the right of the Borrower to withdraw the proceeds of any Cofinanciers Agreements made to the Borrower for the financing of the Project shall have been suspended, canceled or terminated in whole or in part, pursuant to the terms of the agreement providing therefor, or

(B) any such Cofinanciers Agreements shall have become due and payable prior to the agreed maturity thereof.

(ii) Subparagraph (i) of this paragraph shall not apply if the Borrower establishes to the satisfaction of the Association that:

(A) such suspension, cancellation, termination or prematuring is not caused by the failure of the Borrower to perform any of its obligations under such agreement; and

(B) adequate funds for the Project are available to the Borrower from other sources on terms and conditions consistent with the obligations of the Borrower under this Agreement.

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

(a) the events specified in paragraphs (a) and (b) of Section 5.01 of this Agreement shall occur and shall continue for a period of 30 days after notice thereof shall have been given by the Association to the Borrower; and

(b) the event specified in paragraph (d) (i) (B) of Section 5.01 of this Agreement shall occur, subject to the proviso of paragraph (d) (ii) of that Section.

ARTICLE VI

Effective Date; Termination

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

(a) the Borrower has caused BPE, NCC and LSWC to adopt the Financial Procedures Manual, satisfactory to the Association; and

(b) the Borrower has caused BPE, NCC and LSWC to establish Financial Management Systems acceptable to IDA, and to appoint external auditors for the Project in accordance with Section II of Schedule 3.

Section 6.02. The date ninety (90) days after the date of this Agreement is hereby specified for the purposes of Section 12.04 of the General Conditions.

ARTICLE VII

Representative of the Borrower; Addresses

Section 7.01. The minister of the Borrower responsible for finance is designated as representative of the Borrower for the purposes of Section 11.03 of the General Conditions.

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

For the Borrower:

The Honorable Minister
Federal Ministry of Finance
Ahmadu Bello Way
Abuja, Nigeria

Cable address:

FEDMINFIN
Abuja

For the Association:

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

Cable address:

Telex:

Facsimile:

INDEVAS
Washington, D.C.

248423 (MCI) or
64145 (MCI)

(202) 477-6391

IN WITNESS WHEREOF, the parties hereto, acting through their duly authorized representatives, have caused this Agreement to be signed in their respective names in the Abuja, Nigeria, as of the day and year first above written.

FEDERAL REPUBLIC OF NIGERIA

By /s/ Adamu Ciroma

Authorized Representative

INTERNATIONAL DEVELOPMENT ASSOCIATION

By /s/ Peter Lutz Woicke

Regional Vice President
Africa

SCHEDULE 1

Withdrawal of the Proceeds of the Credit

A. General

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

Category	Amount of the Credit Allocated (Expressed in SDR Equivalent)	% of Expenditures to be Financed
(1) Supply and Installation:		

	(a) Under Part B (6) of the Project	4,900,000	100% of foreign expenditures; 100% of local expenditures (ex-factory cost); and 40% of local expenditures for other items procured locally
	(b) Under Part D (2) of the Project	4,200,000	
(2)	Goods:		90%
	(a) Under Part C (2) of the Project	600,000	
	(b) Under Part D of the Project	1,800,000	
(3)	Consultants' services:		100%
	(a) Under Parts A, B (1), B (2), B (4), C (1), C (3)-(6) of the Project	54,000,000	
	(b) Under Parts B (3), B (5) and B(6) of the Project	3,500,000	
	(c) Under Part C (2) of the Project	800,000	
	(d) Under Part D of the Project	2,400,000	
(4)	Training and Study Tours:		100%
	(a) Under Parts A, B (1), B (2), B (4), C (1), C (3)-(6) of the Project	2,700,000	
	(b) Under Parts B (3), B (5) and B(6) of the Project	1,200,000	
(5)	Incremental Operating Costs		
	(a) Under Part A of the Project	2,800,000	80% in 2001 70% in 2002 60% in 2003 50% in 2004 40% in 2005 and thereafter
	(b) Under Part C (2) of the Project	1,200,000	90% in 2001-3 70% in 2004 and thereafter
(6)	Refunding of Project Preparation Advance	1,580,000	Amount due pursuant to Section 2.02 (b) of this Agreement
(7)	Unallocated	8,520,000	
	TOTAL	90,200,000	

2. For the purposes of this Schedule:

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

(b) the term "local expenditures" means expenditures in the currency of the Borrower or for goods or services supplied from the territory of the Borrower; and

(c) the term "Incremental Operating Costs" means the incremental operating costs arising under Parts A and C 2) of the Project on account of maintenance of equipment and vehicles, fuel, office supplies, utilities, consumables, travel per diem and allowances, travel and accommodation, office rental, but excluding salaries of civil servants.

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

(a) payments made for expenditures prior to the date of this Agreement, except that withdrawals, in an aggregate amount not exceeding the equivalent of SDR 9,020,000 may be made on account of payments made for expenditures before that date but after July 1, 2000;

(b) under Categories 3 (a), 4 (a) and 5 (a) until: (i) BPE has adopted its Project Implementation Manual in form and substance satisfactory to the Association; (ii) BPE has adopted the Privatization Process and Procedures Manual in form and substance satisfactory to the Association; (iii) BPE has furnished a work plan for Part A of the Project, satisfactory to the Association, covering the period June 30, 2001 through December 31, 2002; and (iv) BPE has opened its respective Project Account and deposited therein the initial deposit referred to in Section 3.03 (b) of this Agreement;

(c) under Categories 1 (a), 3 (b) and 4 (b) until: (i) NCC has adopted its Project Implementation Manual in form and substance satisfactory to the Association; (ii) NCC has furnished a work plan for Part B of the Project, satisfactory to the Association, covering the period June 30, 2001 through December 31, 2002; (iii) NCC has opened its respective Project Account and deposited therein the initial deposit referred to in Section 3.03 (b) of this Agreement;

(d) under Categories 2 (a), 3 (c) and 5 (b) until: (i) the NERC has been established with staffing and institutional structure satisfactory to the Association pursuant to Part C (2) of the Project, (ii) the NERC has adopted the Financial Procedures Manual and its respective Project Implementation Manual, each in form and substance satisfactory to the Association; and

(e) under Categories 1 (b), 2 (b) and 3 (d), until (i) the First Subsidiary Loan Agreement has been executed on behalf of the Borrower and Lagos State, (ii) the Second Subsidiary Loan Agreement has been executed on behalf of Lagos State and LSWC, (iii) the Association has received an opinion pursuant to Section 12.02(b) of the General Conditions: that the Project Agreement has been duly authorized or ratified by LSWC and is legally binding upon LSWC in accordance with its terms; that the First Subsidiary Loan Agreement has been duly authorized or ratified by the Borrower and Lagos State and is legally binding upon the Borrower and Lagos State in accordance with its terms; and that the Second Subsidiary Loan Agreement has been duly authorized or ratified by Lagos State and LSWC and is legally binding upon Lagos State and LSWC in accordance with its terms; (iv) LSWC has adopted its Project Implementation Manual in form and substance satisfactory to the Association; (v) LSWC has furnished a work plan for Part D of the Project, satisfactory to the Association, covering the period June 30, 2001 through December 31, 2002, and (vi) LSWC has opened its respective Project Account and deposited therein the initial deposit referred to in Section 3.03 (b) of this Agreement.

4. The Association may require withdrawals from the Credit Account to be made on the basis of statements of expenditure for expenditures for: (a) goods under contracts not exceeding \$100,000 equivalent, (b) services of consulting firms under contracts not exceeding \$100,000 equivalent, (c) services of individual consultants under contracts not exceeding \$50,000 equivalent, (d) training and study tours; and (e) Incremental Operating Costs, all under such terms and conditions as the Association shall specify by notice to the Borrower.

B. Special Accounts

1. The Borrower shall cause four separate special deposit accounts to be opened and maintained in US Dollars: the BPE Special Account, the NCC Special Account, the NERC Special Account, and the LSWC Special Account in a commercial bank on terms and conditions satisfactory to the Association, including appropriate protection against set-off, seizure and attachment.

2. After the Association has received evidence satisfactory to it that a Special Account has been opened, withdrawals from the Credit Account of amounts to be

deposited into said Special Account shall be made as follows:

(a) until the Association shall have received (i) the first Project Management Report referred to in Section 4.02 (b) of this Agreement and (ii) a request from the Borrower for withdrawal on the basis of Project Management Reports, withdrawals shall be made in accordance with the provisions of Annex A to this Schedule 1; and

(b) upon receipt by the Association of a Project Management Report pursuant to Section 4.02 (b) of this Agreement, accompanied by a request from the Borrower for withdrawal on the basis of Project Management Reports, all further withdrawals shall be made in accordance with the provisions of Annex B to this Schedule 1.

3. Payments out of each Special Account shall be made exclusively for Eligible Expenditures. For each payment made by the Borrower out of a Special Account, the Borrower shall, at such time as the Association shall reasonably request, furnish to the Association such documents and other evidence showing that such payment was made exclusively for Eligible Expenditures.

4. Notwithstanding the provisions of Part B.2 of this Schedule, the Association shall not be required to make further deposits into any Special Account:

(a) if the Association determines at any time that any Project Management Report does not adequately provide the information required pursuant to Section 4.02 of this Agreement;

(b) if the Association determines at any time that all further withdrawals should be made by the Borrower directly from the Credit Account; or

(c) if the Borrower shall have failed to furnish to the Association within the period of time specified in Section 4.01 (b) (ii) of this Agreement, any of the audit reports required to be furnished to the Association pursuant to said Section in respect of the audit of (A) the records and accounts for any Special Account or (B) the records and accounts reflecting expenditures with respect to which withdrawals were made on the basis of Project Management Reports.

5. The Association shall not be required to make further deposits into any Special Account in accordance with the provisions of Part B.2 of this Schedule if, at any time, the Association shall have notified the Borrower of its intention to suspend in whole or in part the right of the Borrower to make withdrawals from the Credit Account pursuant to Section 6.02 of the General Conditions. Upon such notification, the Association shall determine, in its sole discretion, whether further deposits into the Special Accounts may be made and what procedures should be followed for making such deposits, and shall notify the Borrower of its determination.

6. (a) If the Association determines at any time that any payment out of any Special Account was made for an expenditure which is not an Eligible Expenditure, or was not justified by the evidence furnished to the Association, the Borrower shall, promptly upon notice from the Association, provide such additional evidence as the Association may request, or deposit into said Special Account (or, if the Association shall so request, refund to the Association) an amount equal to the amount of such payment. Unless the Association shall otherwise agree, no further deposit by the Association into any Special Account shall be made until the Borrower has provided such evidence or made such deposit or refund, as the case may be.

(b) If the Association determines at any time that any amount outstanding in any Special Account will not be required to cover payments for Eligible Expenditures during the six-month period following such determination, the Borrower shall, promptly upon notice from the Association, refund to the Association such outstanding amount.

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

(d) Refunds to the Association made pursuant to sub-paragraph (a), (b) or (c) of this paragraph 6 shall be credited to the Credit Account for subsequent withdrawal or for cancellation in accordance with the provisions of the Development Credit Agreement.

Annex A to SCHEDULE 1

Operation of Special Account

When Withdrawals Are Not Made
On the Basis of Project Management Reports

1. For the purposes of this Annex:

(a) the term "Authorized Allocation" means:

- (i) in respect of the BPE Special Account, an amount equivalent to \$2,500,000 to be withdrawn from the Credit Account and deposited into the Special Account pursuant to paragraph 2 of this Annex; provided, however, that, unless the Association shall otherwise agree, said Authorized Allocation shall be limited to an amount equivalent to \$1,000,000, until the aggregate amount of withdrawals from the Credit Account of amounts allocated to said Special Account's Eligible Categories, plus the total amount of all outstanding special commitments entered into by the Association pursuant to Section 5.02 of the General Conditions in respect of amounts allocated to said Categories, shall equal or exceed the equivalent of SDR 5,000,000.
- (ii) in respect of the NCC Special Account, an amount equivalent to \$1,000,000 to be withdrawn from the Credit Account and deposited into the Special Account pursuant to paragraph 2 of this Annex; provided, however, that, unless the Association shall otherwise agree, said Authorized Allocation shall be limited to an amount equivalent to \$500,000, until the aggregate amount of withdrawals from the Credit Account of amounts allocated to said Special Account's Eligible Categories, plus the total amount of all outstanding special commitments entered into by the Association pursuant to Section 5.02 of the General Conditions in respect of amounts allocated to said Categories, shall equal or exceed the equivalent of SDR 1,200,000.
- (iii) in respect of the NERC Special Account, an amount equivalent to \$250,000 to be withdrawn from the Credit Account and deposited into the Special Account pursuant to paragraph 2 of this Annex; provided, however, that, unless the Association shall otherwise agree, said Authorized Allocation shall be limited to an amount equivalent to \$125,000, until the aggregate amount of withdrawals from the Credit Account of amounts allocated to said Special Account's Eligible Categories, plus the total amount of all outstanding special commitments entered into by the Association pursuant to Section 5.02 of the General Conditions in respect of amounts allocated to said Categories, shall equal or exceed the equivalent of SDR 400,000; and
- (iv) in respect of the LSWC Special Account, an amount equivalent to \$1,000,000 to be withdrawn from the Credit Account and deposited into the Special Account pursuant to paragraph 2 of this Annex.

2. Withdrawals of a Special Account's Authorized Allocation and subsequent withdrawals to replenish said Special Account shall be made as follows:

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

(b) For replenishment of said Special Account, the Borrower shall furnish to the Association requests for deposit into said Special Account at such intervals as the Association shall specify. Prior to or at the time of each such request, the Borrower shall furnish to the Association the documents and other evidence required pursuant to Part B.3 of Schedule 1 to this Agreement for the payment or payments in respect of which replenishment is requested. On the basis of each such request, the Association shall, on behalf of the Borrower, withdraw from the Credit Account and deposit into said Special Account such amount as the Borrower shall have requested and as shall have been shown by said documents and other evidence to have been paid out of said Special Account for Eligible Expenditures. Each such deposit into said Special

Account shall be withdrawn by the Association from the Credit Account under one or more of said Special Account's Eligible Categories.

3. The Association shall not be required to make further deposits into a Special Account, once the total unwithdrawn amount of the Credit allocated to said Special Account's Eligible Categories minus the total amount of all outstanding special commitments entered into by the Association pursuant to Section 5.02 of the General Conditions in respect of expenditures to be financed out of the proceeds of the Credit allocated to said Categories, shall equal the equivalent of twice the amount of said Special Account's Authorized Allocation. Thereafter, withdrawal from the Credit Account of the remaining unwithdrawn amount of the Credit allocated to said Categories shall follow such procedures as the Association shall specify by notice to the Borrower. Such further withdrawals shall be made only after and to the extent that the Association shall have been satisfied that all such amounts remaining on deposit in said Special Account as of the date of such notice will be utilized in making payments for Eligible Expenditures.

Annex B to SCHEDULE 1

Operation of Special Account When Withdrawals Are Made On the Basis of Project Management Reports

1. Except as the Association may otherwise specify by notice to the Borrower, all withdrawals from the Credit Account shall be deposited by the Association into the respective Special Account in accordance with the provisions of Schedule 1 to this Agreement. Each such deposit into a Special Account shall be withdrawn by the Association from the Credit Account under one or more of said Special Account's Eligible Categories.

2. Each application for withdrawal from the Credit Account for deposit into a Special Account shall be supported by a Project Management Report.

3. Upon receipt of each application for withdrawal of an amount of the Credit, the Association shall, on behalf of the Borrower, withdraw from the Credit Account and deposit into the respective Special Account an amount equal to the lesser of: (a) the amount so requested; and (b) the amount which the Association has determined, based on the Project Management Report accompanying said application, is required to be deposited in order to finance Eligible Expenditures during the six-month period following the date of such report; provided, however, that the amount so deposited, when added to the amount indicated by said Project Management Report to be remaining in said Special Account, shall not exceed the equivalent of \$5,000,000 in respect of the BPE Special Account; \$1,500,000 in respect of the NCC Special Account, \$500,000 in respect of the NERC Special Account, and \$2,000,000 in respect of the LSWC Special Account.

SCHEDULE 2

Description of the Project

The objectives of the Project are to: (i) reduce the Borrower's role in commercial activities through assisting the Borrower to carry out its Privatization Program; (ii) reduce the public deficit caused by the Borrower's support for Public Enterprises; and (iii) improve the supply and quality of telecommunications and other infrastructure, through creating an enabling regulatory environment for private sector participation and competition.

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

Part A: Privatization Program

1. The carrying out of the Privatization Program through the preparation and execution of divestiture transactions for about one hundred Public Enterprises.

2. The carrying out of studies to prepare evaluations, design compensation and severance policies, analyze business environments, and establish coherent policies to ensure effective implementation of the Privatization Program.

3. Strengthening of the Borrower's capacity to carry out the Privatization Program through provision of technical advisory services, training and study tours for NCP, BPE and to other staff of the Borrower involved in the Privatization Program.

4. The carrying out of a public awareness and stakeholder communication program to develop consensus for reform among the Borrower's policymakers and civil society, and improve the general public's understanding and acceptance of the objectives and benefits of the Privatization Program.

5. The carrying out of a review of the options for the establishment of a legal and institutional framework for competition policy in the Borrower's economy, including in private sector markets for the provision of infrastructure and utilities services.

6. Preparation of drafts of the laws and regulations required to give effect to recommendations of the review carried out under Part A.5 of the Project.

Part B: Telecommunications Sector Reform

1. Preparation and adoption of a new national policy on telecommunications for privatization, competition, licensing of new entry and regulation of the telecommunications sector, through provision of advisory and consulting services.

2. Review, development and implementation of legislation to establish a detailed regulatory framework for the telecommunications sector, preparation of implementing rules and regulations, and preparation of licenses.

3. Institutional strengthening of NCC, including design of an organizational structure, reorganization of NCC, development of business plans, work plans and budgets, development of a financing plan and establishment of financial controls, installation of a management information system, preparation of a human resources development and training plan, and design of dispute resolution, interconnection, tariff regulation, licensing and other systems for NCC's operations.

4. Privatization of NITEL and M-Tel, through provision of advisory and consulting services.

5. Development of a rural telecommunication strategy and design and implementation of a rural demonstration project

6. Carrying out of a radio-spectrum management study, and acquisition, installation and putting into operation of new radio-spectrum monitoring equipment systems.

Part C: Power Sector Reform

1. Establishment of a new policy and regulatory framework for the power sector.

2. Establishment of the NERC as an autonomous regulatory agency, preparation of implementing rules and regulations, and support for commencement of operation by NERC.

3. Restructuring of NEPA to establish separate generation, transmission, distribution, and system control entities, and design of wholesale market operations, through the provision of advisory and consulting services.

4. Privatization of power generation and distribution entities, including promulgation of service quality standards for transmission and distribution, review of compliance with environmental standards, and drafting of concession contracts and share purchase agreements, through provision of advisory and consulting services.

5. Development of a strategy to extend the national power grid to towns and rural communities, and development of a rural electrification policy for non-grid electricity supply.

6. Strengthening power generation by contracting out existing and new plants to private operators under "Rehabilitate-Operate-Transfer", emergency power program and similar arrangements, based upon competitive bidding, through the provision of advisory and consulting services.

Part D: Lagos Water Private Sector Participation

1. Private sector participation in the operation of LSWC, including strategic review of the policies and regulatory framework for the urban water sector, due diligence, financial and legal restructuring, asset valuation of LSWC, and carrying

out a labor program, through provision of advisory and consulting services.

2. Acquisition, installation and operation of equipment for repair of essential plant, and provision of essential services, to enable continued production of potable water, including improvement of the customer database, billing and collections.

* * *

The Project is expected to be completed by June 30, 2006.

SCHEDULE 3

Procurement and Consultants' Services

Section I. Procurement of Good and Works

Part A: General

1. Goods and works shall be procured in accordance with (a) the provisions of Section I of the "Guidelines for Procurement under IBRD Loans and IDA Credits" published by the Bank in January 1995 and revised in January and August 1996, September 1997 and January 1999 (the Guidelines) and the provisions of the following Parts of this Section I.

2. In paragraphs 1.6 and 1.8 of the Guidelines, the references to "Bank member countries" and "member country" shall be deemed to be references, respectively, to "Participating Countries" and "Participating Country".

Part B: International Competitive Bidding

1. Except as otherwise provided in Part C of this Section, goods and works shall be procured under contracts awarded in accordance with the provisions of Section II of the Guidelines and paragraph 5 of Appendix 1 thereto.

2. The following provisions shall apply to goods and works to be procured under contracts awarded in accordance with the provisions of paragraph 1 of this Part B.

(a) Grouping of contracts

To the extent practicable, contracts for goods shall be grouped in bid packages estimated to cost \$100,000 equivalent or more each.

(b) Preference for domestically manufactured goods

The provisions of paragraphs 2.54 and 2.55 of the Guidelines and Appendix 2 thereto shall apply to goods manufactured in the territory of the Borrower.

Part C: Other Procurement Procedures

1. Limited International Bidding

Goods which the Association agrees can only be purchased from a limited number of suppliers, regardless of the cost thereof, may be procured under contracts awarded in accordance with the provisions of paragraph 3.2 of the Guidelines.

2. National Competitive Bidding

Goods estimated to cost less than \$100,000 equivalent per contract, up to an aggregate amount not to exceed 1,000,000 equivalent, may be procured under contracts awarded in accordance with the provisions of paragraphs 3.3 and 3.4 of the Guidelines.

3. International or National Shopping

Goods estimated to cost less than \$30,000 equivalent per contract, up to an aggregate amount not to exceed \$300,000 equivalent, may be procured under contracts awarded on the basis of international or national shopping procedures in accordance with the provisions of paragraphs 3.5 and 3.6 of the Guidelines.

4. Direct Contracting

Contracts for spare parts and accessories under Part D of the Project which are

of a proprietary nature and costing \$6,500,000 equivalent or less in the aggregate, may, with the Association's prior agreement, be procured in accordance with the provisions of paragraph 3.7 of the Guidelines.

Part D: Review by the Association of Procurement Decisions

1. Procurement Planning

Prior to the issuance of any invitations to bid for contracts, the proposed procurement plan for the Project shall be furnished to the Association for its review and approval, in accordance with the provisions of paragraph 1 of Appendix 1 to the Guidelines. Procurement of all goods and works shall be undertaken in accordance with such procurement plan as shall have been approved by the Association, and with the provisions of said paragraph 1.

2. Prior Review

(a) With respect to each contract for goods estimated to cost the equivalent of \$100,000 or more, the procedures set forth in paragraphs 2 and 3 of Appendix 1 to the Guidelines shall apply.

3. Post Review

With respect to each contract not governed by paragraph 2 of this Part, the procedures set forth in paragraph 4 of Appendix 1 to the Guidelines shall apply.

Section II. Employment of Consultants

Part A: General

1. Consultants' services shall be procured in accordance with (a) the provisions of the Introduction and Section IV of the "Guidelines: Selection and Employment of Consultants by World Bank Borrowers" published by the Association in January 1997 and revised in September 1997 and January 1999, subject to the modifications thereto set forth in paragraph 2 of this Part A (the Consultant Guidelines), and (b) the provisions of the following Parts of this Section II.

2. In paragraph 1.10 of the Consultant Guidelines, the references to "Bank member countries" and "member country" shall be deemed to be references, respectively, to "Participating Countries" and "Participating Country".

Part B: Quality- and Cost-based Selection

1. Except as otherwise provided in Part C of this Section, consultants' services shall be procured under contracts awarded in accordance with the provisions of Section II of the Consultant Guidelines, paragraph 3 of Appendix 1 thereto, Appendix 2 thereto, and the provisions of paragraphs 3.13 through 3.18 thereof applicable to quality- and cost-based selection of consultants.

2. The following provisions shall apply to consultants' services to be procured under contracts awarded in accordance with the provisions of the preceding paragraph. The short list of consultants for services estimated to cost less than \$150,000 equivalent per contract, may comprise entirely national consultants in accordance with the provisions of paragraph 2.7 of the Consultant Guidelines.

Part C: Other Procedures for the Selection of Consultants

1. Quality-based Selection

Services meeting the requirements of paragraphs 3.1 through 3.4 of the Consultant Guidelines may be procured using the quality based selection method.

2. Selection Based on Consultants' Qualifications

Services meeting the requirements of paragraphs 3.1 and 3.7 of the Consultant Guidelines may be procured through consultants' qualification selection method.

3. Single Source Selection

Services may, with the Association's prior agreement, be procured in accordance

with the provisions of paragraphs 3.8 through 3.11 of the Consultant Guidelines.

4. Individual Consultants

Services for tasks that meet the requirements set forth in paragraph 5.1 of the Consultant Guidelines, shall be procured under contracts awarded to individual consultants in accordance with the provisions of paragraphs 5.1 through 5.3 of the Consultant Guidelines.

Part D: Review by the Association of the Selection of Consultants

1. Selection Planning

Prior to the issuance to consultants of any requests for proposals, the proposed plan for the selection of consultants under the Project shall be furnished to the Association for its review and approval, in accordance with the provisions of paragraph 1 of Appendix 1 to the Consultant Guidelines. Selection of all consultants' services shall be undertaken in accordance with such selection plan as shall have been approved by the Association, and with the provisions of said paragraph 1.

2. Prior Review

(a) With respect to each contract for the employment of consulting firms estimated to cost the equivalent of \$200,000 or more, the procedures set forth in paragraphs 1, 2 (other than the third subparagraph of paragraph 2(a)) and 5 of Appendix 1 to the Consultant Guidelines shall apply.

(b) With respect to each contract for the employment of consulting firms estimated to cost the equivalent of \$100,000 or more, but less than the equivalent of \$200,000, the procedures set forth in paragraphs 1, 2 (other than the second subparagraph of paragraph 2(a)) and 5 of Appendix 1 to the Consultant Guidelines shall apply.

(c) With respect to each contract for the employment of individual consultants estimated to cost the equivalent of \$50,000 or more, single-source selection, and training, the qualifications, experience, terms of reference and terms of employment of the consultants shall be furnished to the Association for its prior review and approval. The contract shall be awarded only after the said approval shall have been given.

3. Post Review

With respect to each contract not governed by paragraph 2 of this Part, the procedures set forth in paragraph 4 of Appendix 1 to the Consultant Guidelines shall apply.

SCHEDULE 4

Implementation Program

1. The Borrower shall cause BPE to furnish to the Association by December 31, 2001, guidelines for the preparation of environmental management plans, satisfactory to the Association, which shall provide for measures to mitigate, enhance, and monitor any adverse environmental and social impacts during divestiture of Public Enterprises, and institutional measures to be taken to eliminate, offset them, or reduce them to acceptable levels, in accordance with the report dated January, 2001 concerning existing conditions at and around certain sites of Public Enterprises.

2. The Borrower shall carry out the Project in accordance with the procedures set out in the Project Implementation Manual, and shall not, except as the Association may otherwise agree, amend or waive any provision thereof.

3. (a) The Borrower shall cause BPE to carry out each divestiture of a Public Enterprise in accordance with the Privatization Process and Procedures Manual, the guidelines for the compensation and severance of public enterprise employees, and the guidelines for the preparation of environmental management plans.

(b) The Borrower shall continue to maintain:

(i) its privatization proceeds account in a form acceptable to the

Association; and

(ii) BPE as the administrator of said account.

(c) The Borrower shall cause BPE to:

(i) have the account referred to in subparagraph (b) of this paragraph audited each fiscal year, in accordance with appropriate auditing principles consistently applied, by independent auditors acceptable to the Association;

(ii) furnish to the Association as soon as available, but in any case not later than six months after the end of each such year, the report of such audit by said auditors, of such scope and in such detail as the Association shall have reasonably requested; and

(iii) furnish to the Association such other information concerning said records and accounts and the audit thereof as the Association shall from time to time reasonably request.

4. (a) For the purposes of Part B of the Project, the Borrower shall by September 30, 2001, present to the National Assembly, a draft telecommunications law, taking the Association's comments into account.

(b) by December 31, 2001, the Borrower shall cause BPE to: (i) complete the valuation of the assets and liabilities, and evaluation of NITEL and M-TEL, (ii) prepare the strategy for privatization and determined the modality for sale, (iii) invite firms to prequalify, (iv) carry out the prequalification exercise and announced the prequalified bidders, (v) invite the prequalified bidders to submit proposals, (vi) announce in the press the results of financial proposals submitted by bidders, and (vii) select the winning bid, all in accordance with the Privatization Process and Procedures Manual;

(c) by June 30, 2002 the Borrower shall cause NCC to award the contract for installation of a new radio spectrum management system pursuant to Section II of Schedule 3 to this Agreement.

(d) by May 31, 2002, the Borrower shall facilitate NCC's award of the contract for implementation of the rural demonstration project pursuant to Section II of Schedule 3 to this Agreement.

5. For the purposes of Part C of the Project, the Borrower shall:

(a) present to the National Assembly for approval, a draft electricity law, taking the Association's comments into account.

(b) within three months after enactment of the electricity law, establish a Special Purpose Entity inter alia to assume NEPA's power purchase obligations to private producers, and provide adequate financing therefor.

(c) without prejudice to existing written agreements, cause NEPA to refrain from entering into escrow arrangements for the new purchase of power from private operators.

(d) without prejudice to existing written agreements, refrain from providing new guarantees for the payment obligations of state-owned entities under agreements to purchase power from privately owned or operated power generators or suppliers unless such payment obligations are adequately funded.

6. The Borrower shall:

(a) maintain policies and procedures adequate to enable it to monitor and evaluate on an ongoing basis, in accordance with indicators satisfactory to the Association, the carrying out of the Project and the achievement of the objectives thereof;

(b) prepare, under terms of reference satisfactory to the Association, and furnish to the Association, on or about December 31, 2003, a report integrating the results of the monitoring and evaluation activities performed pursuant to paragraph (a) of this Section, on the progress achieved in the carrying out of the Project during the period preceding the date of said report and setting out the measures recommended to ensure the efficient carrying out of the Project and the achievement of

the objectives thereof during the period following such date; and

(c) review with the Association, by July 31, 2003, or such later date as the Association shall request, the report referred to in paragraph (b) of this Section, and, thereafter, take all measures required to ensure the efficient completion of the Project and the achievement of the objectives thereof, based on the conclusions and recommendations of the said report and the Association's views on the matter.

