

CONFORMED COPY

CREDIT NUMBER 3654 UNI

Development Credit Agreement

(Community Based Urban Development Project)

between

FEDERAL REPUBLIC OF NIGERIA

and

INTERNATIONAL DEVELOPMENT ASSOCIATION

Dated February 25, 2003

CONFORMED COPY

CREDIT NUMBER 3654 UNI

DEVELOPMENT CREDIT AGREEMENT

AGREEMENT, dated February 25, 2003, 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) the Project will be carried out at State and local levels by Participating States (as hereinafter defined), with the Borrower's assistance and, as part of such assistance, the Borrower will make the proceeds of the credit provided for in Article II of this Agreement (the Credit) available to the Participating States, as set forth in this Agreement; and

(C) 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;

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) (the General Conditions), constitute an integral part of this Agreement.

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

- i. "AIDS" means the Acquired Immune Deficiency Syndrome;
- ii. "CTC" means a Community Technical Committee to be established in each Participating State (hereinafter defined) as a representative group to disseminate information relating to the Project to the local communities;
- iii. "Eligible Categories" means, in respect of the Federal Special Account, Categories 1 (a), 2 (a), 3 (a) 4 (a) and 5 (a) set forth in the table in Part A.1 of Schedule 1 to this Agreement; in respect of the Akwa Ibom Special Account, Categories 1 (b), 2 (b), 3 (b) and 5 (b) set forth in said table; in respect of the Bauchi Special Account, Categories 1 (c), 2 (c), 3 (c) and 5 (c) set forth in said table; in respect of the Ebonyi Special Account, Categories 1 (d), 2

(d), 3 (d) and 5 (d) set forth in said table; in respect of the do Special Account, Categories 1 (e), 2 (e), 3 (e) and 5 (e), set forth in said table; in respect of the Jigawa Special Account, Categories 1 (f), 2 (f), 3 (f) and 5 (f) set forth in said table; in respect of the Nassarawa Special Account, Categories 1 (g), 2 (g), 3 (g) and 5 (g) set forth in said table; and in respect of the Ogun Special Account, Categories 1 (h), 2 (h), 3 (h) and 5 (h);

iv. "Eligible Expenditures" means, in respect of a Special Account, the expenditures for works, 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;

v. "Environmental Management Plans" means the set of mitigation, enhancement, monitoring, and institutional measures that have been identified in the environmental impact assessments dated January 14, 2002 to be taken during implementation of the Project to eliminate any adverse environmental and social impacts, offset them, or reduce them to acceptable levels, or to enhance positive impacts;

vi. "FMWH" means the Borrower's Federal Ministry of Works and Housing;

vii. "FPCU" means the Federal Project Coordination Unit referred to in paragraph 1 of Schedule 4 to this Agreement;

viii. "Federal Special Account" means the Special Account to be established pursuant to paragraph B.1 of Schedule 1 to this Agreement

ix. "Financial Monitoring Report" or "FMR" means each report prepared in accordance with Section 4.02 of this Agreement;

x. "Financial Management Manual" means the manual adopted by the Borrower, containing accounting, financial and auditing procedures for maintaining proper financial controls in the implementation of the Project;

xi. "HIV" means the Human Immuno-deficiency Virus;

xii. "LG" means the Local Government Administration or Area established and operating pursuant to the Borrower's Constitution dated May 29, 1999, in which the Project is to be carried out;

xiii. "Participating State" means any of the Borrower's States which has entered into a Subsidiary Agreement with the Borrower in accordance with the provisions set forth in Schedule 5 to this Agreement;

xiv. "Project Account" means the account referred to in Section 3.03 (a) of this Agreement;

xv. "Project Implementation Manual" or "PIM" means the manual to be adopted pursuant to Section 5.01 (b) of this Agreement for implementation of the Project, giving

details of procurement and disbursement arrangements, performance indicators, terms of reference of staff and other administrative, financial and organizational arrangements and setting forth the criteria for the subprojects (as hereinafter defined), as such manual may be amended from time to time with the prior agreement of the Association;

xvi. "PIU" means the Project Implementation Unit to be established and maintained by each Participating State with responsibility for oversight of project implementation in accordance with paragraph 2 (b) of Schedule 4 to this Agreement;

xvii. "Project Preparation Advance" means the project preparation advance granted by the Association to the Borrower pursuant to the letter agreements signed on behalf of the Association on May 23, 2000 and on behalf of the Borrower on July 20, 2000 and on behalf of the Association on May 30, 2002 and on behalf of the Borrower on June 10, 2002;

xviii. "PSC" means a Project Steering Committee established by a Participating State, to catalyze, facilitate and coordinate the activities of the Project at the State level;

xix. "Special Accounts" means the accounts referred to in Part B of Schedule 1 to this Agreement;

xx. "Subproject" means a subproject to be carried out in a Participating State under Part C of the Project, which satisfies the eligibility criteria set out in paragraph 6 (b) of Schedule 4 to this Agreement, and in more detail in the provisions of the Project Implementation Manual; and

xxi. "Subsidiary Agreements" means the agreements to be entered into between the Borrower and each of the Participating States pursuant to Section 3.01 (c) and Schedule 5 of this Agreement, as the same may be amended from time to time, and such term includes all schedules to each of the Subsidiary Agreements.

ARTICLE II

The Credit

Section 2.01. The Association agrees to lend to the Borrower, on the terms and conditions set forth or referred to in the Development Credit Agreement, an amount in various currencies equivalent to eighty-eight million one hundred thousand Special Drawing Rights (SDR 88,100,000)

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: (i) expenditures made (or, if the Association shall so agree, to be made) in respect of the reasonable cost of works, goods and services required for the Project and to be financed out of the proceeds of the Credit; and (ii) amounts paid (or, if the Association shall so agree, amounts to be paid) by a Participating State under Part B of the Project to meet the reasonable cost of works, goods and services required for a Subproject in respect of which the withdrawal from the Credit Account is requested.

(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 June 30, 2009 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 May 15 and November 15 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 May 15 and November 15 commencing November 15, 2012 and ending May 15, 2037. Each installment to and including the installment payable on May 15, 2022 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, shall: (i) coordinate the Project at national level through the FPCU; and (ii) cause the Participating States to carry out the Project at State and local levels through their respective PIUs, all with due diligence and efficiency and in conformity with appropriate administrative, financial, engineering, technical and environmental practices, and shall provide, promptly as needed, the funds, facilities, services and other resources required for the Project.

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

(c) The Borrower shall relend the proceeds of the Credit to the Participating States under Subsidiary Agreements to be entered into between the Borrower and Participating States, under terms and conditions which shall have been approved by the Association, and which shall include the terms and conditions set forth in Schedule 5 to this Agreement.

(d) The Borrower shall exercise its rights under each Subsidiary Agreement in such a 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 any of the Subsidiary Agreements or any provision thereof.

Section 3.02. Except as the Association shall otherwise agree, procurement of the works, goods 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 each of the Participating States to:

(a) open and maintain accounts in Naira in a commercial bank acceptable to the Borrower and the Association on terms and conditions satisfactory to the Association (the "Project Accounts");

(b) promptly thereafter, cause each Participating State to make an initial deposit equivalent to \$100,000 into said Participating State's Project Account, to finance the Participating State's contribution to the costs of the Project;

(c) thereafter deposit into each such Project Account, on a quarterly basis, the amount required to replenish said Project Account up to the Participating State's contribution to the costs of the Project; and

(d) use the funds in said Project Account 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 cause each Participating State to:

(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.

3.05. The Borrower shall cause the Participating States to carry out the Environmental Management Plans in accordance with the implementation arrangements contained therein, and prior to commencing work on a Subproject under Part B of the Project, establish environmental impact assessment procedures satisfactory to the Association for the design, procurement and implementation of Subprojects.

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, and prepare financial statements in a format acceptable to the Association, adequate to reflect in accordance with sound accounting practices the operations, resources and expenditures in respect of the Project of the departments or agencies of the Borrower responsible for carrying out the Project or any part thereof.

- (b) The Borrower shall, and shall cause the Participating States to:
 - (i) have the records and accounts referred to in paragraph (a) of this Section including those for the Federal Special Account and the Special Accounts for Participating States 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 Financial Monitoring 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 or cause to be retained, 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 Financial Monitoring 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 Borrower's progress reporting obligations set out in paragraph 6 of Schedule 4, the Borrower, shall prepare or cause the Participating States to prepare and furnish to the Association a Financial Monitoring Report, in form and substance satisfactory to the Association, which:

1. sets forth sources and uses of funds for the Project, both cumulatively and for the period covered by said report, showing separately funds provided under the Credit, and explains variances between the actual and planned uses of such funds;
 2. describes physical progress in Project implementation, both cumulatively and for the period covered by said report, and explains variances between the actual and planned Project implementation; and
 3. sets forth the status of procurement under the Project, as at the end of the period covered by said report.
- (b) The first FMR shall be furnished to the Association not later than 60 days after the end of the first calendar quarter after the Effective Date, and shall cover the period from the incurrence of the first expenditure under the Project through the end of such first calendar quarter; thereafter, except as provided for in paragraphs (c) and (d) below, each FMR shall be furnished to the Association not later than 60 days after each subsequent calendar quarter, and shall cover such calendar quarter.
- (c) The Borrower may, at any time during Project implementation, submit a request to the Association on behalf of itself or a Participating State for withdrawals from the Credit Account to be made on the basis of amplified FMRs in accordance with the provisions of paragraph 2 (b) of Schedule 1 to this Credit Agreement, together with an amplified financial monitoring report for the preceding calendar quarter, in form and substance satisfactory to the Association, 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 uses 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.
- (d) if the Bank agrees to the Borrower's request referred to in paragraph (c) above, the Borrower shall thereafter prepare and furnish to the Bank within 45 days after the end of each calendar quarter an Amplified FMR in respect of such quarter.

ARTICLE V

Effective Date; Termination

Section 5.01. 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) Subsidiary Agreements have been executed between the Borrower and at least three Participating States;
- (c) the Borrower has adopted the Project Implementation Manual in form and substance satisfactory to the Association, including a procurement plan for the first year of the Project;
- (c) the Borrower has caused the FPCU and the Participating States referred to in subparagraph (a) above to open Special Accounts with a commercial bank acceptable to the Borrower and the Association on terms and conditions satisfactory to the Association;
- (d) the Borrower has adopted the Financial Management Manual and established a computerized management information system integrated with a financial management system in form and substance satisfactory to the Association;
- (e) the Borrower has caused the Participating States referred to in subparagraph (a) above to appoint independent auditors on terms and conditions, including terms of reference, satisfactory to the Association in accordance with the provisions of Section II of Schedule 3 to this Agreement;
- (f) LG's that have prepared revenue improvement action plans, in consultation with the relevant PIU and Participating State referred to in subparagraph (a) above, have appointed teams to implement such plans; and
- (g) the Borrower has established the FPCU in accordance with Paragraph 1 of Schedule 4 to this Agreement.

Section 5.02. The following is specified as an additional matter, within the meaning of Section 12.02 (b) of the General Conditions, to be included in the opinion or opinions to be furnished to the Association, namely, that the Subsidiary Agreements with the three Participating States referred to in subparagraph (a) of Section 5.01 have been duly authorized or ratified by the Borrower and such Participating States and that they are legally binding upon the Borrower and such Participating State in accordance with their terms.

Section 5.03. 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 VI

Representative of the Borrower; Addresses

Section 6.01. 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 6.02. 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:

INDEVAS

Washington, D.C.

Telex:

248423 (MCI) or

64145 (MCI)

Facsimile:

(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 Washington, District of Columbia, United States of America, as of the day and year first above written.

FEDERAL REPUBLIC OF NIGERIA

By /s/ Mallam Adamu Ciroma

Authorized Representative

INTERNATIONAL DEVELOPMENT ASSOCIATION

By /s/ Mark D. Tomlinson

Acting 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:

<u>Category</u>	<u>Amount of the Credit Allocated (Expressed in SDR Equivalent)</u>	<u>% of Expenditures to be Financed</u>
(1) Civil works:		100% of foreign expenditures and 80% of local expenditures
(a) Federal	0	
(b) Akwa Ibom	3,320,000	
(c) Bauchi	3,510,000	
(d) Ebonyi	3,520,000	
(e) Edo	3,060,000	
(f) Jigawa	1,960,000	
(g) Nassarawa	2,730,000	
(h) Ogun	2,850,000	
(2) Goods:		100% of foreign expenditures 90% of local expenditures
(a) Federal	50,000	
(b) Akwa Ibom	30,000	
(c) Bauchi	30,000	
(d) Ebonyi	30,000	
(e) Edo	150,000	
(f) Jigawa	160,000	
(g) Nassarawa	750,000	
(h) Ogun	330,000	
(i) Other Participating States	2,440,000	
(3) Training and Consultant Services:		90%
(a) Federal	320,000	
(b) Akwa Ibom	690,000	
(c) Bauchi	690,000	
(d) Ebonyi	690,000	
(e) Edo	640,000	
(f) Jigawa	610,000	
(g) Nassarawa	710,000	
(h) Ogun	680,000	
(i) Other Participating States	7,810,000	

<u>Category</u>	<u>Amount of the Credit Allocated (Expressed in SDR Equivalent)</u>	<u>% of Expenditures to be Financed</u>
(4) Subprojects	40,600,000	100% of foreign expenditures and 80% of local expenditures
(5) Incremental Operating Costs		90%
(a) Federal	0	
(b) Akwa Ibom	130,000	
(c) Bauchi	130,000	
(d) Ebonyi	130,000	
(e) Edo	130,000	
(f) Jigawa	130,000	
(g) Nassarawa	130,000	
(h) Ogun	130,000	
(i) Other Participating States	940,000	
(6) Refunding of Project Preparation Advance	1,600,000	Amount due pursuant to Section 2.02 (b) of this Agreement
(7) Unallocated	6,300,000	

TOTAL	88,100,000	
	=====	

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 works, 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 the Project on account of maintenance of vehicles, fuel, equipment, office supplies, utilities, consumables, travel per diem and allowances, travel and accommodation, 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; (b) payments under Categories (1) (b) through (h); (2) (b) through (h); (3) (b) through (h); and (4) (b) through (h), with respect to any Participating State until: (i) a Subsidiary Agreement between the Borrower and such Participating State has been executed, is binding and has become effective;

(ii) the Association has received an opinion pursuant to Section 12.02 (b) of the General Conditions that the Subsidiary Agreement has been duly authorized or ratified by the Borrower and such Participating State and is legally binding upon the Borrower and such Participating State in accordance with its terms; (iii) LG's that have prepared revenue improvement action plans, in consultation with the relevant Participating State and PIU, have appointed teams to implement such plans; (iv) such Participating State has deposited into its Project Account an initial contribution equivalent to \$100,000; and (v) the respective PSC, PIU and CTC's for such Participating State have been established in accordance with Paragraph 2 of Schedule 4 to 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: (i) works under contracts not exceeding \$150,000 equivalent; (ii) goods under contracts not exceeding \$100,000 equivalent; (iii) services of consulting firms under contracts not exceeding \$100,000 equivalent; (iv) services of individual consultants under contracts not exceeding \$50,000 equivalent; (v) training and study tours; and (vi) 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 open or shall cause to be opened and maintain in dollars eight separate special deposit accounts (the Federal Special Account, and a Special Account for each Participating State) in commercial banks, 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 the Special Accounts have been opened, withdrawals from the Credit Account of amounts to be deposited into said Special Accounts shall be made as follows:

(a) until the Association shall have received: (i) the first Financial Monitoring Report referred to in Section 4.02 (b) of this Agreement; and (ii) a request from the Borrower for withdrawal on the basis of Financial Monitoring 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 Financial Monitoring Report pursuant to Section 4.02 (b) of this Agreement, accompanied by a request from the Borrower for withdrawal on the basis of Financial 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 Financial Monitoring 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 or the Participating States 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 Financial Monitoring 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 Accounts

When Withdrawals Are Not Made
On the Basis of Financial Monitoring Reports

1. For the purposes of this Annex:
 - (a) the term “Authorized Allocation” means:
 - (i) in respect of the Federal Special Account, an amount equivalent to \$20,000, to be withdrawn from the Credit Account and deposited into said Special Account pursuant to paragraph 2 of this Annex.
 - (ii) in respect of a Participating State Special Account, an amount equivalent to \$500,000, to be withdrawn from the Credit Account and deposited into said 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 Financial Monitoring 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 Special Account in accordance with the provisions of Schedule 1 to this Agreement. Each such deposit into the Special Account shall be withdrawn by the Association from the Credit Account under one or more of the Special Account's Eligible Categories.
2. Each application for withdrawal from the Credit Account for deposit into the Special Account shall be supported by a Financial Monitoring 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 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 Financial Monitoring 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 Financial Monitoring Report to be remaining in each Participating State Special Account, shall not exceed the equivalent of \$1,000,000.

SCHEDULE 2

Description of the Project

The objectives of the Project are to assist the Borrower to: (i) deliver basic urban services in poor dense urban settlements; (ii) establish an effective partnership between Participating States, LGs and local communities; and (iii) demonstrate viable approaches for sustainable delivery of basic municipal services.

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: Upgrading and Delivery of Basic Municipal Infrastructure

Construction of basic municipal infrastructure based on consultations among LGs and communities, including: (a) water supply and access roads for Uyo Capital City in Akwa Ibom State; (b) access roads, footpaths, trunk drains, clinics, schools and security lighting for Bauchi City in Bauchi State; (c) water supply, access roads, footpaths, solid waste management facilities, trunk drains, public toilets, clinics, schools, bus stops, recreation facilities, markets and security lighting for Abakaliki City in Ebonyi State; (d) water supply, access roads, footpaths, solid waste management facilities, public toilets, clinics, schools and security lighting for Benin City in Edo State; (e) water supply, reclamation of ponds, flood control, footpaths, solid waste management facilities, public toilets, clinics, market, abattoir, schools and security lighting for Hadejia City in Jigawa State; (f) water supply, access roads, solid waste management facilities, public toilets, and abattoir, and land fill for Karu LG in Nassarawa State; and (g) water supply, access roads, trunk drains, footpaths, solid waste management facilities, public toilets, clinics, schools and security lighting for Abeokuta City in Ogun State.

Part B: Subprojects

1. Carrying out an information communication campaign to inform communities in which the Project is to be carried out of the eligibility criteria for infrastructure improvements.
2. Implementation of priority subprojects for infrastructure improvement in Participating States that meet the technical and eligibility criteria set forth in the Project Implementation Manual, including water supply, roads, footpaths, drainage, power reticulation, sanitation facilities, solid waste management, street lighting, slaughterhouses, markets, recreational facilities, schools and clinics.

Part C: Training and Capacity Building

1. Provision of training to the staff of LGs, Participating States, PIU and CTC members, and selected members of the community in procurement, financial management, administration, contract management, organizational management, technical capacity and participatory and community based development, and monitoring and evaluation.

2. Carrying out quantitative and qualitative analytic work and stakeholder consultations for preparation of a city development strategy for Karu in Nassarawa State.
3. Establishment and maintenance of a knowledge-sharing network for Participating States to: (i) exchange and disseminate learning and experiences with urban upgrading and city development strategies; and (ii) share progress among Participating States in designing and implementing Subprojects.

Part D: Implementation Support, Monitoring and Evaluation

Provision of assistance to: (i) the Participating States for the establishment of PIUs; and (ii) the Federal Ministry of Finance and the FMWH for coordination and monitoring of the Project, consolidating reports of Participating States and facilitating an external impact evaluation under the Project.

Part E: HIV/AIDS Awareness Campaign

Development and execution of appropriate HIV/AIDS education, information and communication campaigns in the Participating States.

* * *

The Project is expected to be completed by December 31, 2008.

SCHEDULE 3

Procurement and Consultants' Services

Section I. Procurement of Good and Works

Part A: General

Goods and works shall be procured in accordance with 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).

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 works shall be grouped in bid packages estimated to cost \$500,000 equivalent or more each, and contracts for goods and equipment 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. National Competitive Bidding

Goods estimated to cost less than \$100,000 equivalent per contract, up to an aggregate amount not to exceed \$2,000,000 equivalent, and works estimated to cost less than \$500,000 per contract, up to an aggregate amount not to exceed \$69,300,000 may be procured under contracts awarded in accordance with the provisions of paragraphs 3.3 and 3.4 of the Guidelines.

2. International or National Shopping

Goods and equipment estimated to cost less than \$30,000 equivalent per contract, up to an aggregate amount not to exceed \$5,700,000 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.

Part D: Review by the Association of Procurement Decisions

1. Procurement Planning

Prior to the issuance of any invitation 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: (i) the first two contracts of the Federal Government and each Participating State and each contract for civil works estimated to cost the equivalent of \$150,000 or more; and (ii) the first two contracts of the Federal Government and each Participating State and 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.

(b) With respect to the first contract of the Federal Government and each Participating State to be procured following shopping procedures, the following procedures shall apply:

- (i) prior to the selection of any supplier under shopping procedures, the Borrower or the Participating State shall provide to the Association a report on the comparison and evaluation of quotations received;
- (ii) prior to the execution of any contract procured under shopping procedures, the Borrower or the Participating State shall provide to the Association a copy of the specifications and the draft contract; and
- (iii) the procedures set forth in paragraphs 2 (f), 2 (g) 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

Consultants' services shall be procured in accordance with 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(the Consultant Guidelines).

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 shortlist of consultants for services estimated to cost less than \$100,000 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. Least-cost Selection

Services of a routine nature, including audits and engineering design of simple works, estimated to cost less than \$200,000 equivalent per contract may be procured under contracts awarded in accordance with the provisions of paragraphs 3.1 and 3.6 of the Consultant Guidelines.

2. Selection Based on Consultants' Qualifications

Services estimated to cost less than \$100,000 equivalent per contract may be procured under contracts awarded in accordance with the provisions of paragraphs 3.1 and 3.7 of the Consultant Guidelines.

3. 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

With respect to: (i) each contract for the employment of consulting firms estimated to cost the equivalent of \$100,000 or more; (ii) single-source selection of consultants; (iii) terms of reference for consulting services; and (iv) any training outside the territory of the Borrower, 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.

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 maintain the FPCU in FMWH, consisting of four core representatives from the FMWH and two core representatives from the Federal Ministry of Finance. The representatives shall be assigned to the Project Coordination Unit for the duration of Project implementation and shall not be reassigned without the Association's prior notice. Additional staff may be assigned to the FPCU as the need may arise.

2. For the purpose of ensuring the proper execution of the Project, the Borrower shall cause each Participating State to establish prior to disbursements with respect to such Participating State in accordance with paragraph A.3 (b) of Schedule 1 and thereafter to maintain:

(a) a PSC, with composition and terms of reference satisfactory to the Association, comprising the Participating State's Commissioner of Works or the Governor's designate as Chairman, Head of the PIU, representatives from the Participating State's Ministry of Finance, Planning/Budget/Statistics, Attorney General, Department of Local Government, relevant sectoral and line ministries, representatives of civil society, participating LGs and the head of the CTC;

(b) a PIU to serve as technical secretariat of the PSC, headed by a Project coordinator with qualifications and experience satisfactory to the Association, assisted by a project accountant, an internal auditor, an engineer, a procurement officer, a community development officer from the participating LG, and a human resources development officer, all with qualifications and terms of reference satisfactory to the Association. Additional staff may be assigned to the PIU from time to time as the need may arise.

(c) for each city or settlement in which an infrastructure upgrading is located, a CTC consisting of not less than three members, at least one of whom shall be a woman, to help identify investments, disseminate information relating to the Project to the local community, and monitor progress.

3. The Borrower shall implement the Project or cause the Project to be implemented in accordance with the Project Implementation Manual and the Financial Management Manual, and, except as the Association shall otherwise agree, the Borrower shall not amend, abrogate or waive any provision thereof which, in the opinion of the Association, may materially and adversely affect the implementation of the Project or the achievement of the objectives of the Project.

4. The Borrower shall:

(a) not later than October 31 in each year, furnish to the Association for review and comments a draft annual work program and training program and supporting budget for the succeeding calendar year for the Federal Government and each Participating State;

(b) not later than November 30 in each year: (i) review with the Association the documents referred to in paragraph (a) above; (ii) identify implementation issues and propose appropriate solutions; and (iii) update Project timetables and performance indicators;

(c) not later than December 31 in each year, furnish to the Association for its comments and final approval the work program and budgets referred to in paragraph (a) hereof, as such programs and budgets shall have been revised to the satisfaction of the Association in the course of the review referred to in paragraph (b) hereof ;

(d) not later than June 30 in each year, deposit into each Project Account the amounts required for the Borrower's and Participating States' annual contribution to the costs of the Project; and

(e) except as the Association shall otherwise agree, carry out the Project in the year in question on the basis of the said work program and budget as so revised.

5. (a) Subprojects shall be selected in accordance with the procedures, guidelines, eligibility criteria and other provisions set forth in detail in the Project Implementation Manual and outlined hereunder. The Borrower shall submit all proposed Subprojects to the Association for its approval; no Subproject shall be approved for financing under the Credit if it would involve involuntary resettlement or land acquisition issues. Subprojects shall be implemented in accordance with due diligence and efficiency and in accordance with sound administrative, financial, technical and environmental standards;

(b) Subprojects shall be carried out in accordance with the following:

1. in accordance with the provisions of Schedule 3 to this Agreement; adequate records for the Subproject concerned shall be maintained;
2. all goods, works and services required for a Subproject shall be procured
3. the goods, works and services so procured shall be used exclusively in the carrying out of the Subproject;
4. the PIU shall inspect, by itself or jointly with representatives of the Association, if the Association shall so request, any goods, works, plants and construction included in the Subproject, the operation thereof, and any relevant records and documents; and
5. the PIU shall prepare a maintenance program for the works to be carried out under the Subproject in accordance with terms acceptable to the Association, which shall include assignment of maintenance responsibilities in a Participating State, the preparation of training programs to strengthen the maintenance capabilities of the Participating State, and the identification of available sources of financing to carry out such programs.

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 August 31, 2005, 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 September 30, 2005, 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.

Schedule 5

Terms and Conditions of Subsidiary Agreements With Participating States Required Pursuant to Section 3.01 (c) of this Agreement

1. The terms and conditions of each Subsidiary Agreement shall include the following obligations of each Participating State to:

(a) carry out the Project with due diligence and efficiency, in conformity with appropriate administrative, financial, engineering, technical and environmental practices and in accordance with the Project Implementation Manual, the Financial Management Manual and the Implementation Program in Schedule 4 of this Agreement; and provide, or cause to be provided, promptly as needed, the facilities, services and other resources required for the Project;

(b) comply with the procedures for procurement of goods, works and consultant services set forth in Schedule 3 to this Agreement;

(c) comply with record keeping, auditing and report requirements set forth in Section 4.01 of this Agreement with respect to the Project, including the annual auditing of its records and accounts in respect of the Project (operations, resources and expenditures in respect of the Project);

(d) carry out the obligations set forth in Sections 9.03, 9.04, 9.05, 9.06, 9.07 and 9.08 of the General Conditions (relating to insurance, use of goods and services, plans and schedules, records and reports, maintenance and land acquisition, respectively) in respect of the Project;

(e) at the request of the Borrower or the Association, exchange views with the Borrower and the Association with regard to the progress of the Project and the performance of its obligations under the Subsidiary Agreement;

(f) promptly inform the Borrower and the Association of any condition which interferes or threatens to interfere with the progress of the Project, or the performance by said Participating State of its obligations under the Subsidiary Agreement; and

(g) except as the Borrower and the Association shall otherwise agree, neither take nor concur in any action which would have the effect of amending, abrogating, assigning or waiving the Subsidiary Agreement or any provision thereof.

2. The Subsidiary Agreements shall include a provision stipulating that in case of conflict between a Subsidiary Agreement and this Agreement, the latter shall apply.

3. A Subsidiary Agreement shall not become effective until evidence satisfactory to the Association shall have been furnished to the Association establishing that:

- (i) a Subsidiary Agreement has been executed on behalf of the Borrower and said Participating State;
- (ii) a PSC has been established in said Participating State;
- (iii) a PIU has been established in said Participating State with a duly qualified and experienced Project coordinator, a project accountant, an internal auditor, an engineer, a procurement officer, a community development officer from the participating LG, and a human resources development officer, with qualifications and experience and employed on terms and conditions (including terms of reference) satisfactory to the Association;
- (iv) said Participating State has appointed, in accordance with the provisions of Section II of Schedule 3 to this Agreement, an independent auditor; and
- (v) said Participating State has established a financial management system acceptable to the Association and has adopted an action plan to enhance the effectiveness of such financial management system.

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