

CONFORMED

CREDIT NUMBER 3838 UNI

Development Credit Agreement

(Second National Fadama Development Project)

between

FEDERAL REPUBLIC OF NIGERIA

and

INTERNATIONAL DEVELOPMENT ASSOCIATION

Dated February 17, 2004

CONFORMED

CREDIT NUMBER 3838 UNI

DEVELOPMENT CREDIT AGREEMENT

AGREEMENT, dated February 17, 2004, between the FEDERAL REPUBLIC OF NIGERIA (the Borrower) and the 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 Federal level by the Federal Ministry of Agriculture and Rural Development and at State and local levels by Participating States (as hereinafter defined), and the Borrower will make a portion of 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

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;

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. "Affected Person" means a person who on account of the acquisition of land, for purposes of carrying out a Subproject (as hereinafter defined) under Part A (d) of the Project had or would have his or her: (i) standard of living adversely affected; or (ii) right, title or interest in any house, or interest in or right to use any land (including premises, agricultural and grazing land) or right in annual or

perennial crops and trees or any other fixed or movable asset, acquired or possessed, temporarily or permanently; or (iii) business, occupation, work or place of residence or habitat adversely affected, temporarily or permanently, and “Affected Persons” means, collectively, all persons who qualify as an Affected Person;

ii. “Eligible Categories” means, in respect of the Federal Special Account as hereinafter defined, Categories 1, 2 (a), 3 (a), 4(a), and 6(a) set forth in the table in Part A.1 of Schedule 1 to this Agreement; and in respect of the States Joint Special Account, as hereinafter defined, Categories 2 (b), 3 (b), 4 (b), 5, and 6 (b);

iii. “Eligible Expenditures” means, in respect of a Special Account, as hereinafter defined, the expenditures for works, goods, training, Subprojects and consultants’ services referred to in Section 2.02 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

iv. “Environmental Management Plan” means the plan that includes the set of mitigation, enhancement, monitoring, and institutional measures dated July 29, 2003, to be taken during implementation of the Project to eliminate any adverse environmental and social impacts, offset them, reduce them to acceptable levels, or to enhance positive impacts;

v. “FCA” means a Fadama Community Association, directed by a management committee, governed by rules and regulations adopted pursuant to the participatory and socially inclusive procedures set forth in the Project Implementation Manual (as hereinafter defined), duly registered with the Cooperative Department of a Participating State, and consisting of farmers, pastoralists, fisher folks, hunters, gatherers, and service providers in the respective fadama;

vi. “FMARD” means the Borrower’s Federal Ministry of Agriculture and Rural Development;

vii. “FMOF” means the Borrower’s Federal Ministry of Finance;

viii. “FUG” means a Fadama User’s Group, such as a Farmers’ Association, Pastoralist Association, Water Users’ Association, and other economic interest groups in the Fadamas;

ix. “Federal Special Account” means the Special Account, as hereinafter defined, to be established for implementation of the Project at Federal level in accordance with paragraph B.1 of Schedule 1 to this Agreement;

x. “Financial Monitoring Report” or “FMR” means each report prepared in accordance with Section 4.02 of this Agreement;

xi. “Financial Procedures Manuals” means the manuals adopted by the Borrower and Participating States, as hereinafter defined, containing accounting, financial and auditing procedures for maintaining proper financial controls in the implementation of the Project;

xii. “LDP” means a Local Development Plan comprising an agreed list of priority public infrastructure Subprojects; opportunities for advisory services for Fadama enterprise production and marketing; operation and maintenance of Subproject investments; capacity building of the FCA; and systems for assigning fadama usufruct rights;

xiii. “LFD” means a Local Fadama Desk, consisting of persons who collect and screen Local Development Plans, and which serves as the secretariat to the LFDC, as hereinafter defined;

xiv. “LFDC” means a Local Fadama Development Committee, chaired by the chairperson of the local government council, with a traditional or community leader serving as the deputy chairperson, and including a secretary and treasurer, and responsible for Project activities in Fadama communities;

xv. “NFDO” means the National Fadama Development Office referred to in paragraph 2 of Schedule 4 to this Agreement;

xvi. “NFTC” means the National Fadama Technical Committee, chaired by the permanent secretary of FMARD or his or her representative, with composition and terms of reference satisfactory to the Association, to provide technical advice on and monitor implementation of the Project;

xvii. “Participating State” means each of the following eleven States: Adamawa, Bauchi, Gombe, Imo, Kaduna, Kebbi, Lagos, Niger, Ogun, Oyo, Taraba, and the Federal Capital Territory;

xviii. “Project Account” means the account referred to in Paragraph 5 of Schedule 4 to this Agreement;

xix. “PCU” means the Projects Coordinating Unit in FMARD responsible for coordinating externally-funded projects, and charged with overseeing the activities of the NFDO under the Project;

xx. “Project Financial Management Unit” or “PFMU” means a Project Financial Management Unit established by a Participating State in the Office of the State Accountant General, satisfactory to the Association, with responsibility for financial management of Projects financed by the Association in such Participating State;

xxi. “Project Implementation Manual” or “PIM” means the manual to be adopted pursuant to Section 6.01 (a) of this Agreement for implementation

of the Project, giving disbursement arrangements, performance indicators, terms of reference of staff and other administrative, financial and organizational arrangements, including a chapter on procurement procedures, and setting forth the criteria for the Subprojects, as hereinafter defined, as such manual may be amended by the Borrower from time to time with the prior agreement of the Association;

xxii. "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 January 14, 2002 and on behalf of the Borrower on January 30, 2002 and on behalf of the Association on September 25, 2003 and on behalf of the Borrower on October 5, 2003;

xxiii. "Resettlement Policy Framework" means the Resettlement Policy Framework dated June 27, 2003, which sets out a framework of principles and procedures governing land acquisition, resettlement and compensation, as well as reporting and monitoring arrangements to ensure compliance with said framework, as said framework may be revised by the Borrower from time to time with the agreement of the Association;

xxiv. "SFDC" means the State Fadama Development Committee, a subcommittee of the Agricultural Development Project Executive Committee and referred to in paragraph 3 of Schedule 4 to this Agreement;

xxv. "SFDO" means the State Fadama Development Office to be established and maintained within the Agricultural Development Project of the State Ministry of Agriculture of each Participating State, responsible for coordination of Project implementation in such Participating State, and for any activities under its responsibility;

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

xxvii. "States Joint Special Account" means the Special Account established in the Projects Coordinating Unit of FMARD for implementation of the Project in Participating States that have not established a PFMU in the manner described in paragraph (r) of this Section 1.02 pursuant to paragraph B.1 of Schedule 1 to this Agreement.

xxviii. "State Special Account" means the Special Account to be established for implementation of the Project at State and local levels in a Participating State that has established a PFMU in the manner described in paragraph (r) of this Section 1.02 pursuant to paragraph B.1 of Schedule 1 to this Agreement;

xxix. “Subproject” means a subproject part of an approved LDP to be carried out by an FCA or FUG, that satisfies the eligibility criteria set out in the Project Implementation Manual;

xxx. “Subproject Agreement” means the agreement to be entered into between the Participating State and an FCA for implementation of a Subproject;

xxxi. “Subsidiary Credit 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 with the prior consent of the Association, and such term includes all schedules to each of the Subsidiary Credit 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 sixty-nine million six hundred thousand Special Drawing Rights (SDR 69,600,000).

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 A (d) 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 December 31, 2009 or such later date as the Association shall establish upon request by the Borrower. 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 March 15 and September 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 March 15 and September 15 commencing March 15, 2014 and ending September 15, 2038. Each installment to and including the installment payable on September 15, 2023 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 NFDO; and (ii) cause the Participating States to carry out the Project at State levels through the respective SFDOs and at local levels through the respective LFDCs, all with due diligence and efficiency and in conformity with appropriate agricultural, irrigation, administrative, financial, environmental and socially-inclusive 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 onlend a portion of the proceeds of the Credit to the Participating States under Subsidiary Credit 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 Credit 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 Credit 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. For the purposes of Section 9.06 of the General Conditions and without limitation thereto, the Borrower shall through MARD 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.

Section 3.04. The Borrower shall through FMARD cause the NFDO and each SFDO to:

(a) carry out the Environmental Management Plan, and prior to construction and rehabilitation of buildings, roads, and other infrastructure, establish environmental impact assessment procedures satisfactory to the Association for the design and procurement of such works; and

(b) prior to carrying out any Subproject under Part B of the Project, which would displace any Affected Persons or adversely affect their standards of living, or their rights, usufructs or customary rights to land or other resources under the Project, ensure that:

(i) all rights to land, rights, usufructs or customary rights and other property are allocated or acquired, compensation therefore is paid, and resettlement is carried out in accordance with the principles and institutional procedures established in the Resettlement Policy Framework;

- (ii) ensure that Affected Persons shall be compensated, resettled and rehabilitated in accordance with the Resettlement Policy Framework;
- (iii) prepare and furnish to the Association, for each Subproject where there are Affected Persons, a detailed resettlement action plan acceptable to the Association;
- (iv) document the implementation arrangements for resettlement, including compensation, relocation and rehabilitation of Affected Persons; and
- (v) complete the implementation of such resettlement action plan in a manner satisfactory to the Association.

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 accordance with consistently applied accounting standards acceptable to the Association, adequate to reflect the operations, resources and expenditures related to the project of the Participating States, departments or agencies of the Borrower responsible for carrying out the Project or any part thereof.

- (b) The Borrower shall cause FMARD and the Participating States:
 - (i) to have the financial statements referred to in paragraph (a) of this Section including those for the Federal Special Account and the State Special Account for each fiscal year (or other period agreed to by the Association), commencing with the fiscal year in which the first withdrawal under the Project Preparation Advance was made, audited, in accordance with consistently applied auditing standards acceptable to the Association, by independent auditors acceptable to the Association;
 - (ii) to furnish to the Association as soon as available, but in any case not later than six months after the end of each such year (or such other period agreed to by the Association), (A) certified copies of the financial statements referred to in paragraph (a) of this Section for such year (or other period agreed to by the Association), as so audited, and (B) an opinion on such statements by said auditors, in scope and detail satisfactory to the Association; and

- (iii) to furnish to the Association such other information concerning said records and accounts, and the audit of such financial statements, and concerning said auditors, as the Association may 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 reports referred to in Part A.4 of Schedule 1 to this Agreement (Report-based Disbursements) or on the basis of statements of expenditure, the Borrower shall cause the FMARD and Participating States to:

- (i) retain, until at least one year after the Association has received the audit report for, or covering, 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 reports and statements of expenditure are included in the audit for each fiscal year (or other period agreed to by the Association), referred to in paragraph (b) of this Section.

Section 4.02. (a) Without limitation upon the Borrower's progress reporting obligations set out in paragraph 10 of Schedule 4 to this Agreement, the Borrower shall cause FMARD and 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, each FMR shall be furnished to the Association not later than 45 days after each subsequent calendar quarter, and shall cover such calendar quarter.

ARTICLE V

Remedies of the Association

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

(a) A Participating State shall have failed to perform any of its obligations under the respective Subsidiary Credit Agreement.

(b) As a result of events, which have occurred after the date of the Development Credit Agreement, an extraordinary situation shall have arisen which, shall make it improbable that a Participating State will be able to perform its obligations under the respective Subsidiary Credit Agreement.

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) Subsidiary Credit Agreements have been executed between the Borrower and three Participating States who: (i) have adopted the Financial Procedures Manual and Project Implementation Manual, (ii) have prepared procurement plans for the first year of Project implementation satisfactory to the Association, and (iii) satisfied all of the conditions listed in this Section 6.01; provided however that if conditions for disbursement for FMARD set forth in paragraph 3(b) of Schedule 1 have been satisfied, only two Participating States shall be required to fulfill this effectiveness condition;

(b) The Participating States referred to in paragraph (a) above have established their respective SFDOs with a project coordinator, a finance officer, and a procurement officer, with qualifications and experience satisfactory to the Association, and financial management arrangements for such Participating States are satisfactory to the Association;

- (c) an independent auditor has been appointed for audit of the Federal and States Joint Special Account, 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;
- (d) The Participating States referred to in paragraph (a) above have opened Project Accounts and deposited therein the initial deposit referred to in Paragraph 6 of Schedule 4 to this Agreement.

Section 6.02. 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 a Subsidiary Credit Agreement has been duly authorized or ratified by the Borrower and the Participating States referred to in subparagraph (a) of Section 6.01 and is legally binding upon the Borrower and such Participating States in accordance with its terms.

Section 6.03. The date one hundred twenty (120) 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 Honourable Minister of Finance
Federal Ministry of Finance Headquarters
Central Business District
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 Abuja, Federal Republic of Nigeria, as of the day and year first above written.

FEDERAL REPUBLIC OF NIGERIA

By /s/ Ngozi Okonjo-Iweala

Authorized Representative

INTERNATIONAL DEVELOPMENT ASSOCIATION

By /s/ Mark D. Tomlinson

Authorized Representative

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:	100,000	100% of foreign expenditures and 80% of local expenditures
(2) Goods:		
(a) Federal	1,120,000	
(b) States	1,420,000	
		100% of foreign expenditures, 100% of local expenditures (ex-factory cost) and 90% of local expenditures for other items procured locally
(3) Training, Workshops and Study Tours		100%
(a) Federal	910,000	
(b) States	11,130,000	
(4) Consultant Services		90%
(a) Federal	1,330,000	
(b) States	1,760,000	
(5) Subprojects	40,340,000	100% of amounts disbursed

(6)	Incremental Operating Costs		80%
	(a) Federal	270,000	
	(b) States	3,970,000	
(7)	Refunding of Project Preparation Advance	910,000	Amount due pursuant to Section 2.02(b) of this Agreement
(8)	Unallocated	6,340,000	
	TOTAL	<u>69,600,000</u>	

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, accommodation, excluding salaries, honoraria or fees 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 2 (a), 3 (a), 4 (a), and 6 (a) with respect to FMARD until FMARD has opened a Project Account and deposited therein the initial deposit referred to in Paragraph 6 of Schedule 4 to this Agreement; (c) payments under Categories 1, 2 (b), 3 (b), 4 (b), 5 and 6 (b) with respect to any Participating State until: (i) a Subsidiary Credit 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 Credit Agreement has been duly authorized or ratified by the Borrower and such Participating State and is legally binding upon the Borrower such Participating State in accordance with its terms; and (c) payments under Category 5 with respect to any Subproject until a Subproject Agreement between the Participating State and the FCA satisfactory to the Association has been executed, is binding and has become effective.

4. The Association may require withdrawals from the Credit Account to be made on the basis of statements of expenditure for expenditures for: (a) works under contracts not exceeding \$300,000 equivalent; (b) goods under contracts not exceeding \$150,000 equivalent; (c) services of consulting firms under contracts not exceeding \$100,000 equivalent; (d) services of individual consultants under contracts not exceeding \$50,000 equivalent; (e) Subprojects; (f) training under contracts not exceeding \$15,000 equivalent, workshops and study tours; and (g) Incremental Operating Costs; all under such terms and conditions as the Association shall specify by notice to the Borrower.

5. The Borrower may request withdrawals from the Credit Account to be made on the basis of reports to be submitted to the Association in form and substance satisfactory to the Association, such reports to include the FMR and any other information as the Association shall specify by notice to the Borrower (Report-based Disbursements). In the case of the first such request submitted to the Association before any withdrawal has been made from the Credit Account, the Borrower shall submit to the Association only a statement with the projected sources and applications of funds for the Project for the [six-month period] following the date of such request.

6. The initial allocation of the Credit to Participating States is indicated in Schedule 5 to this Agreement.

B. Special Accounts

1. The Borrower shall open or caused to be opened and maintained in dollars two separate special deposit accounts (the Federal Special Account, and the States Joint Special Account) in commercial banks, on terms and conditions satisfactory to the Association, including appropriate protection against set-off, seizure and attachment. When the conditions set forth in Paragraph 4 of Schedule 5 have been met for a Participating State, such Participating State may open and maintain in dollars its own Special Account in a commercial bank, on terms and conditions satisfactory to the Association, including appropriate protection against set-off, seizure and attachment. A Participating State, which has opened its own Special Account, shall not be entitled to further withdrawals from the States Special Account.
2. After the Association has received evidence satisfactory to it that the Special Account has been opened, withdrawals from the Credit Account of amounts to be deposited into the Special Account shall be made as follows:
 - (a) if the Borrower is not making Report-based Disbursements, withdrawals shall be made in accordance with the provisions of Annex A to this Schedule 1; and
 - (b) if the Borrower is making Report-based Disbursements, 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, at any time, is not satisfied that the reports referred to in Part A.4 of this Schedule 1 adequately provide the information required for Report-based Disbursements;

(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 the Special Account; or (B) the records and accounts reflecting expenditures with respect to which withdrawals were Report-based Disbursements or were made on the basis of statements of expenditure, as the case may be.

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
Report-based Disbursements**

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 \$700,000 to be withdrawn from the Credit Account and deposited into said 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 \$350,000, 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.
 - (ii) in respect of the States Joint Special Account, an amount equivalent to \$3,600,000 to be withdrawn from the Credit Account and deposited into said 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 \$1,800,000, 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.
 - (iii) in respect of the Special Account of a Participating State, an amount equivalent to \$1,200,000 to be withdrawn from the Credit Account and deposited into said 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 \$600,000 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 such Participating State for said Categories, shall equal or exceed the equivalent of SDR 1,600, 000.

(b) Notwithstanding subparagraph (a) (ii) of this paragraph, the Authorized Allocation for the States Joint Special Account shall be based on the number of Participating States and shall be reduced by any amount allocated to the Special Account of a Participating State opened under subparagraph (iii) above.

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
Report-based Disbursements**

1. Withdrawals from the Credit Account shall be deposited by the Association into a 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 the Special Account's Eligible Categories.

2. 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 reports referred to in Part A.4 of this Schedule 1 applicable to such withdrawal 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 report to be remaining in the Special Account, shall not exceed the equivalent of \$10,000,000.

SCHEDULE 2

DESCRIPTION OF THE PROJECT

The objectives of the Project are: (a) to increase the incomes of fadama users in a sustainable manner; (b) to empower communities to take charge of their own development agenda; and (c) to reduce conflict between fadama user groups through the financing of investments in human and physical capital, building the capacity of community organizations and government at all levels to deliver services, improving the capacity of the economically-active rural poor to raise their incomes through targeted activities, and promoting socially-harmonious and environmentally-sustainable management of natural resources.

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: Capacity Building

Provision of support to Participating States and FCAs, to: (a) strengthen the organizational, managerial and operational capacity of LFDCs and FCAs, to identify and use appropriate technologies, (b) apply organizational principles to improve operational capacity of LFDCs and FCAs, (c) apply appropriate techniques for participatory planning and conflict management, (d) strengthen capacities in financial management, procurement and contracting, project management, and methods of monitoring and evaluation; and (e) provide assistance for the establishment of LFDCs and FCAs, and for Project management and monitoring of implementation.

Part B: Rural Infrastructure Investment

Provision of support to FCAs and their constituent FUGs for the implementation of eligible Subprojects in (a) water resources infrastructure, including drainage systems, irrigation systems, water distribution systems, boreholes, water pumping machines, overhead tanks, water troughs, small earth and rock-filled dams; (b) marketing infrastructure, including village market facilities, milk collection facilities, storage infrastructure, agro-processing facilities, rehabilitation of small feeder roads and other eligible small-scale infrastructure; (c) other rural infrastructure shared by FCAs which mitigate conflict or reinforce other infrastructure Subprojects, including fadama road improvement and rehabilitation, and market infrastructure.

Part C: Pilot Asset Acquisition Support

Provision of support to Fadama user groups within participating FCAs for the acquisition of eligible productive equipment, tools and installations that are supportive of local smallholder agriculture, livestock, forestry and fishery sectors, including input

supply, marketing and processing to enhance the productive, economic and social empowerment of the fadama communities.

Part D: Advisory Services

Provision of advisory services to assist Fadama users in obtaining skills and knowledge to accompany new investments in infrastructure and the acquisition of assets, including productivity-enhancing techniques, and appropriate storage, processing, and marketing practices, in order to increase productivity of fadama enterprises, increase income and access to markets.

Part E: Project Management

Providing support for Project management, coordination and supervision, including support for the NFDO, SFDOs, Local Fadama Desks, and the PCU of FMARD, which is responsible for the overall coordination of the Project at the Federal Level, including provision of assistance to Participating States, consolidation of annual work programs, reports, and accounts, establishment and operation of a rural data bank, monitoring progress in Project implementation, and providing information to the NFTC; (b) establishment and operation of M&E systems at the NFDO and SFDO levels to monitor and evaluate the implementation of the Project and (c) establishment and operation of a rural data bank at the FMARD and the associated training and technical assistance support to strengthen national capacity in rural strategy formulation and implementation.

* * *

The Project is expected to be completed by June 30, 2009.

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) and the following provisions of Section I of this Schedule.

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 and equipment shall be grouped in bid packages estimated to cost \$150,000 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 \$150,000 equivalent per contract, up to an aggregate amount not to exceed \$2,520,000 equivalent, and works estimated to cost less than \$50,000 per contract, up to an aggregate amount not to exceed \$0.16 million 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 \$230,000 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.

3. Community Participation

Goods and works required for Part B of the Project shall be procured in accordance with procedures set forth in the Procurement Chapter of the Project Implementation Manual acceptable to the Association.

4. Procurement of Small Works

Works estimated to cost less than \$50,000 equivalent per contract, up to an aggregate amount not to exceed \$160,000 equivalent, may be procured under lump-sum, fixed-price contracts awarded on the basis of quotations obtained from three (3) qualified domestic contractors in response to a written invitation. The invitation shall include a detailed description of the works, including basic specifications, the required completion date, a basic form of agreement acceptable to the Association, and relevant drawings, where applicable. The award shall be made to the contractor who offers the lowest price quotation for the required work, and who has the experience and resources to complete the contract successfully.

5. Force Account

Works which meet the requirements of paragraph 3.8 of the Guidelines, estimated to cost less than \$5,000 equivalent per contract up to an aggregate amount not to exceed \$150,000, may, with the Association's prior agreement, be carried out by force account in accordance with the provisions of said paragraph 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

With respect to: (i) the first contracts of FMARD, the first contracts of each Participating State, and the first contract for two FCAs under each Participating State for works estimated to cost less than the equivalent of \$50,000, each contract for works estimated to cost the equivalent of \$300,000 or more, and (ii) the first contracts of FMARD and each Participating State for goods estimated to cost less than the equivalent of \$150,000, each contract for goods estimated to cost the equivalent of \$150,000 or more, and the first contract for two FCAs under each Participating State, 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

Consultants' services shall be procured in accordance with the provisions of Sections I and IV of the "Guidelines: Selection and Employment of Consultants by World Bank Borrowers" published by the Bank in January 1997 and revised in September 1997, January 1999 and May 2002 (the Consultant Guidelines and the following provisions of Section II of this Section.

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, 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 and footnote 8 of the Consultant Guidelines.

Part C: Other Procedures for the Selection of Consultants

1. Least-cost Selection

Services for assignments of a standard routine nature such as audits and engineering design of simple works 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 of individual consultants for tasks that meet the requirements set forth in paragraph 5.1 of the Consultant Guidelines shall be procured under contracts awarded in accordance with the provisions of paragraphs 5.1 through 5.3 of the Consultant Guidelines, and may be selected on a sole-source basis in accordance with the provisions of paragraphs 5.3 and 5.4 of the Consultant Guidelines, subject to prior approval of the Association.

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

1. Selection Planning

A plan for the selection of consultants, which shall include contract cost estimates, contract packaging, and applicable selection criteria and procedures, shall be furnished to the Association, for its review and approval, prior to the issuance to consultants of any requests for proposals. Such plan shall be updated annually during the execution of the Project, and each such updating shall be furnished to the Association for its review and approval. Selection of all consultants' services shall be undertaken in accordance with such selection plan (as updated from time to time) as shall have been approved by the Association.

2. Prior Review

(a) With respect to each contract for the employment of consulting firms estimated to cost the equivalent of \$100,000 or more, the procedures set forth in paragraphs 2, 3 and 5 of Appendix 1 to the Consultant Guidelines shall apply.

(b) With respect to each contract for training estimated to cost the equivalent of \$15,000 or more, or for the employment of individual consultants to be selected on a sole source basis, or estimated to cost the equivalent of \$50,000 or more, the report on the qualifications and experience of candidates, and the 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. The provisions of paragraph 3 of Appendix 1 to the Consultant Guidelines shall also apply to such contracts.

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. Federal Level Coordination and Implementation

(a) The Borrower shall cause FMARD to establish and thereafter maintain, until the completion date of the Project, a National Fadama Technical Committee, in form and with functions, membership, staffing and resources satisfactory to the Association.

(b) Without limitation upon the provisions of Paragraph 1(a) of this Section, the National Fadama Technical Committee shall be responsible for, *inter alia*: (i) reviewing and approving the annual work plans and budgets prepared by the NFDO; (ii) reviewing the progress made towards achieving the Project's objectives; (iii) facilitating the coordination of Project activities among the entities represented in the National Fadama Technical Committee, and making recommendations for removal of any barriers to the achievement of the Project's objectives; and (iv) providing comments on reports and reviews prepared by the NFDO for the benefit of the Association.

(c) Without limitation upon the provisions of Paragraph 1(a) of this Section, the National Fadama Technical Committee shall be headed by the Permanent Secretary of FMARD or their representative, and be composed of members duly representing the relevant technical departments or agencies of FMARD, the Ministry of Water Resources, Ministry of the Environment, Ministry of Women Affairs; representatives of complementary rural sector projects and participating microfinance institutions, and such other entities as the Association and the Borrower may agree upon from time to time.

2. (a) The Borrower shall: (i) cause the NFDO to prepare and furnish to the Association the Project Implementation Manual, in form and substance satisfactory to the Association, for the carrying out of Project activities; (ii) cause the NFDO and each SFDO to carry out the Project activities in accordance with the said Project Implementation Manual; and (iii) except as the Association shall otherwise agree, ensure that the NFDO and each SFDO shall not amend, abrogate or waive any provision of the Project Implementation Manual which, in the opinion of the Association, may materially and adversely affect the implementation of the Project or the achievement of the objectives thereof.

(b) Without limitation upon the provisions of Paragraph 2 (a) of this Section, the Project Implementation Manual shall comprise: (i) Project implementation arrangements; (ii) procurement arrangements; (iii) financial management arrangements; and (iv) such other administrative, financial, technical and organizational arrangements as shall be required for the Project;

3. (a) The Borrower shall cause FMARD to maintain the NFDO, headed by a National Project Coordinator, and include an accountant, internal auditor, a procurement officer, and technical staff, all with qualifications and experience satisfactory to the Association.

(b) The NDFO, through the PCU, shall be responsible for overall coordination of Project implementation at the Federal level. Staff shall be appointed to the NFDO for three 2-year terms renewable subject to satisfactory performance and shall not be replaced without informing the Association.

(c) The NFDO shall: (i) prepare for the Project, monthly and quarterly financial reports in form and substance satisfactory to the Association; and (ii) promptly thereafter furnish said reports to the Association.

4. State and Local-Level Coordination and Implementation

For the purpose of ensuring the proper execution of the Project, the Borrower shall cause each Participating State to establish and thereafter maintain:

(a) a State Fadama Development Committee, headed by the Permanent Secretary of the State Ministry of Agriculture or their representative, and be composed of other members duly representing the relevant technical departments or agencies of the State Ministries of the Environment and Water Resources, and such other entities as the Association, the Borrower and the Participating State may agree upon from time to time.

(b) an SFDO to coordinate Project implementation in the respective Participating State, headed by a Project coordinator with qualifications and experience satisfactory to the Association, assisted by a project finance officer, technical specialists for implementation, a procurement officer, all with qualifications and terms of reference satisfactory to the Association;

(c) at local levels, an LFDC, headed by the chairperson of the local government council, with a traditional or community leader as the deputy chairperson. Fadama Community Associations consisting of all stakeholder groups in the Fadamas, including farmers, herders, fisher folk, hunters, input/output market agents and other economic interest groups will prepare LDPs. The Local Fadama Desk at the local government will serve as secretariat to the LFDC and will screen LDPs, and comprise two civil servants of the local government. LFDCs will review and approve LDPs, pursuant to criteria specified in the Project Implementation Manual.

(d) Each FCA will appoint a management committee, consisting of a chairperson, secretary, and treasurer, who will be transparently elected. The management committee will be responsible, through a participatory process, for managing the Subproject cycle, including priority-setting, developing Local Development Plans, maintaining appropriate documentation for all financial transactions, preparing and

forwarding appropriate returns to the LFDC and SFDO, and regularly rendering to community members the accounts of funds received and expenditures incurred.

5. 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.

6. Without limitation to its obligations under Section 3.01 of this Agreement, the Borrower shall cause FMARD and each of the Participating States to:

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

(b) promptly thereafter, make an initial deposit equivalent to \$60,000 into the Federal Project Account, and 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 for the first year;

(c) thereafter deposit into each such Project Account, on an annual basis, the amount required to replenish said Project Account up to the Borrower's and 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.

7. The Borrower shall:

(a) not later than October 30 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 FMARD 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 March 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; and

(d) 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.

8. (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 responsible SFDO in a Participating State, through the NFDO, shall submit summaries of all Subprojects to the Association, including data on any resettlement. Subprojects shall be implemented 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:

- (i) Subprojects must be included in the FCA's LDP in order to be eligible for project financing;
- (ii) call for proposals for Subprojects to enable FCAs to present within a specified time-frame assessable project proposals;
- (iii) the collection, collation, and appraisal of proposals for Subprojects at the State and local levels;
- (iv) training and familiarization of the FCAs on the procedures and other contents of the PIM; and
- (v) compensation for any resettlement in accordance with the Resettlement Policy Framework.

(c) The Participating State and a FCA shall enter into a Subproject Agreement, in form and substance satisfactory to the Association, which shall require the FCA to carry out the Subproject with due diligence and efficiency and in conformity with the following administrative and financial practices:

- 1. adequate records for the Subproject concerned shall be maintained;
- (ii) all goods, works and services required for a Subproject shall be procured in accordance with the provisions of Schedule 3 to this Agreement;
- (iii) the goods, works and services so procured shall be used exclusively in the carrying out of the Subproject;
- (iv) the Subproject shall be carried out by direct labor under the day to day supervision, at the community level, of the respective FCA or under contract; and

- (v) the SFDO 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 its respective Subproject, the operation thereof, and any relevant records and documents.

9. The Borrower through the FMARD shall cause the NFDO to establish by October 1, 2004 or such later date as the Association may agree, and thereafter maintain an effective monitoring and evaluation system, utilizing technical advisory services when necessary to assist it in the generation of information and analysis, and its functions shall include: (i) the development of a data collection system, including social impact monitoring, to be used to establish the performance criteria and impact for each component of the Project; (ii) the compilation and consolidation of monitoring information including data related to performance, impact, expenditure and disbursements; and (iii) the preparation of consolidated quarterly implementation reports for the overall Project.

10. The Borrower through the FMARD shall cause the NFDO:

- (a) by February 15 of each year to furnish the National Fadama Technical Committee with progress reports on the discharge of its functions under the Project, the Financial Monitoring Reports for the preceding four quarters, and other documents relating to the progress of each Participating State; and

- (b) by March 15 of each year to furnish to the Association information referred to in paragraph (a) above, together with the comments of the National Fadama Technical Committee thereon.

11. The Borrower shall cause FMARD:

- (a) to 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) to prepare, under terms of reference satisfactory to the Association, and furnish to the Association, on or about May 30, in each year, 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) to review with the Association, by June 30, 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 Credit Agreements With Participating States Required Pursuant to Section 3.01 (c) of this Agreement

1. The terms and conditions of each Subsidiary Credit 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, including the chapter on procurement, 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 Credit 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 Credit 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 Credit Agreement or any provision thereof.

2. The Subsidiary Credit Agreements shall provide for the following initial allocations: \$7,000,000. The Subsidiary Credit Agreements shall also provide that a Participating State may be reallocated additional amounts from unutilized funds when it has utilized the amount that was initially allocated to it without further amendments, and

the Borrower shall request the Association to make a reallocation under the Credit to such Participating State.

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

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

(a) a Subsidiary Credit Agreement has been executed on behalf of the Borrower and said Participating State;

(b) it has accepted the application of the Project Implementation Manual and Financial Management Manuals to Project activities in its jurisdiction;

(c) a SFDO has been established in said Participating State with a duly qualified and experienced Project coordinator, a project finance officer, technical staff, a procurement officer, with qualifications and experience and employed on terms and conditions (including terms of reference) satisfactory to the Association, and has adequate procurement capacity;

(d) there is a satisfactory plan for the activities under the Project in said Participating State and proposal for financing by the Association;

(e) the Project Account has been opened and the initial deposit referred to in Paragraph 5 of Schedule 4 to this Agreement has been made.

5. The Subsidiary Credit Agreement shall provide that a Participating State may open and maintain a special deposit account under its name in a commercial bank, on terms and conditions satisfactory to the Borrower and the Association, including appropriate protection against set-off, seizure and attachment, if such Participating State has:

(a) established with the assistance of the Association a PFMU and adopted a financial management system for the Project satisfactory to the Association;

(b) appointed independent auditors on terms and conditions, including terms of reference, satisfactory to the Association and the Borrower in accordance with the provisions of Section II of Schedule 3 to this Agreement;

(c) established a computerized financial management system in form and substance satisfactory to the Association in the State PFMU, trained staff to operate such system, and adopted the Financial Management Manual;

(d) deployed appropriately qualified internal auditors, duly trained in financial management procedures for the Project; and

(e) provided the Association with a replenishment application in respect of its withdrawals under the States Joint Special Account.

