

CONFORMED

CREDIT NUMBER 3839 UNI

Development Credit Agreement

(Micro, Small and Medium Enterprise Project)

between

FEDERAL REPUBLIC OF NIGERIA

and

INTERNATIONAL DEVELOPMENT ASSOCIATION

Dated February 17, 2004

CONFORMED

CREDIT NUMBER 3839 UNI

DEVELOPMENT CREDIT AGREEMENT

AGREEMENT, dated February 17, 2004 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, the Association is desirous of assisting the Borrower in the financing of the Project;

(B) the Association has received a sector policy letter from the Borrower, dated November 14, 2003, describing a program designed to increase performance and employment levels of micro, small and medium enterprises (the Program) and declaring the Borrower's commitment to the execution of such program; and

(C) 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:

(a) "CAC" means the Corporate Affairs Commission established pursuant to Companies and Allied Matters Act Cap 59, Laws of the Federation of Nigeria 1990;

(b) "Eligible Categories" means Categories 1, 2, 3, 4 and 5 set forth in the table in Part A.1 of Schedule 1 to this Agreement;

(c) “Eligible Expenditures” means, in respect of the Special Account, the expenditures for Performance Grants (as hereinafter defined), 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 Eligible Categories;

(d) “FMF” means the Borrower’s Federal Ministry of Finance;

(e) “Naira” means the currency of the Borrower;

(f) “NIPC” means the Nigerian Investment Promotion Commission of the Borrower established pursuant to the Nigerian Investment Promotion Commission Act No. 16 of 1995;

(g) “Participating States” means Lagos State, Kaduna State, and Abia State;

(h) “Performance Grant” means a grant made or proposed to be made under Part A of the Project to qualifying providers of financial services and under Part B of the Project to qualifying providers of business development services out of the proceeds of the Credit under terms and conditions set forth in the Project Implementation Manual (as this term is hereinafter defined);

(i) “Project Accounts” means the accounts referred to in Section 3.03 (a) of this Agreement;

(j) “Project Implementation Manual” means the manual referred to in Section 5.01 (b) of this Agreement setting out: (i) an implementation plan for the Project; (ii) operations procedures for NIPC and for the firm appointed under the Management Services Agreement referred to in Section 5.01 (a) of this Agreement; (iii) details of all procurement and disbursement arrangements under the Project; (iv) performance indicators for the Project; (v) eligibility criteria and procedures for the selection, contracting, disbursement, and monitoring and evaluation of Performance Grants; and (vi) such other administrative, financial and organizational arrangements as shall be required, as the same may be amended from time to time with the agreement of the Association, and such term includes any schedules to the Project Implementation Manual;

(k) “Project Management Unit” or “PMU” means the firm appointed under the Management Services Agreement referred to in Section 5.01 (a) of this Agreement;

(l) Review Committee means the Committee chaired by the Chairman of NIPC or his or her representative, with composition and terms of reference satisfactory to the Association, to oversee the award of Performance Grants, and to provide other technical advice on and monitor implementation of the Project;

(m) “Project Preparation Advance” means the project preparation advance granted by the Association to the Borrower pursuant to the letter agreement signed on

behalf of the Association on November 14, 2003 and on behalf of the Borrower on November 18, 2003;

(n) "Report-based Disbursements" means the Borrower's option for withdrawal of funds from the Credit Account referred to in Part A.4 of Schedule 1 to this Agreement;

(o) "Special Account" means the account referred to in Part B of Schedule 1 to this Agreement; and

(p) "SMEDAN" means the Small and Medium Enterprise Development Agency of Nigeria, established and operating pursuant to the Small and Medium Enterprise Development Agency of Nigeria (establishment) Act 2003.

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 twenty-two million, three hundred thousand Special Drawing Rights (SDR 22,300,000).

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

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

Section 2.03. The Closing Date shall be 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.

(a) 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.

(b) 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 ($\frac{3}{4}$ 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 ($1\frac{1}{4}\%$) of such principal amount, and each installment thereafter shall be two and one-half percent ($2\frac{1}{2}\%$) 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 carry out the Project through NIPC 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.

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

Section 3.03. Without limitation to its obligations under Section 3.01 of this Agreement, the Borrower shall cause NIPC to:

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

(b) promptly thereafter, make an initial deposit into such account, an amount equivalent to \$250,000 to finance the Borrower's contribution to the costs of the Project;

(c) thereafter deposit into the Project Account, on a quarterly basis, the amounts required to replenish the Project Account up to the Borrower's contribution to the costs of the Project; and

(d) use the funds in the 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 through NIPC shall:

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

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

ARTICLE IV

Financial Covenants

Section 4.01. (a) The Borrower shall cause NIPC to establish and maintain 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 its operations and financial condition and to register separately the operations, resources and expenditures related to the Project.

(b) The Borrower shall, and shall cause NIPC to:

(i) have the financial statements referred to in paragraph (a) of this Section 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) 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 such 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) furnish to the Association such other information concerning such records, 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:

(d) 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;

(e) enable the Association's representatives to examine such records; and

(f) 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) The Borrower shall cause NIPC to prepare and furnish to the Association a financial monitoring report, in form and substance satisfactory to the Association, which:

- (i) 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;
- (ii) 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

- (iii) 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

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) the Borrower has caused NIPC to enter into a Management Services Agreement with the firm appointed for project execution services, satisfactory to the Association, and procurement and financial management assessments of such firm's capacities are satisfactory;

(b) the Borrower has caused NIPC to: (i) adopt the PIM and the Financial Procedures Manual, both satisfactory to the Association in form and substance; (ii) establish Financial Management Systems acceptable to the Association, and (iii) adopt a procurement plan, satisfactory to the Association for the first year of Project implementation; and

(c) the Borrower has opened the Project Account and deposited in the Project Account the initial deposit referred to in Section 3.03 of this Agreement.

Section 5.02. The date ninety (90) days after the date of this Agreement is hereby specified for the purposes of Section 12.04 of the General Conditions.

ARTICLE VI

Remedies of the Association

Section 6.01. Pursuant to Section 6.02 (l) of the General Conditions, the following additional event is specified, namely, that 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 the Borrower will be able to perform its obligations under the Program.

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
Federal Ministry of Finance
Ahmadu Bello Way
Abuja, Nigeria

Cable address:

FEDMINFIN
Abuja

For the Association:

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

Cable address:	Telex:	Facsimile:
INDEVAS	248423 (MCI) or	(202) 477 6391
Washington, D.C.	64145 (MCI)	

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)	Goods	1,260,000	100% of foreign expenditures; 100% of local expenditures (ex-factory cost); and 90% of local expenditures for other items procured locally
(2)	Consultant Services	8,090,000	90%
(3)	Training and Workshops	1,930,000	100%
(4)	Incremental Operating Costs	420,000	80%
(5)	Performance Grants Under Parts A and B of the Project	9,040,000	100% of amounts disbursed
(6)	Refunding of Project Preparation Advance	420,000	Amount due pursuant to Section 2.02 (b) of this Agreement
(7)	Unallocated	<u>1,140,000</u>	
	TOTAL	<u>22,300,000</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 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 equipment and vehicles, fuel, office supplies, utilities, consumables, travel per diem and allowances, travel and accommodation, office rental, but excluding salaries of public servants.

3. Notwithstanding the provisions of paragraph 1 above, no withdrawals shall be made in respect of payments made for expenditures prior to the date of this Agreement, except that withdrawals, in an aggregate amount not exceeding the equivalent of SDR 22,300,000 may be made on account of payments made for expenditures before that date but after March 31, 2003.

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

B. Special Account

1. The Borrower through NIPC may open and maintain in Dollars a special deposit account in a commercial bank acceptable to the Association 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 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 through NIPC 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 through NIPC 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 the Special Account shall be made exclusively for Eligible Expenditures. For each payment made by the Borrower through NIPC out of the Special Account, the Borrower through NIPC 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 the 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 for payment of Eligible Expenditures should be made by the Borrower directly from the Credit Account; or

(c) if the Borrower through NIPC 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 the 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 Account 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 the 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 through NIPC shall, promptly upon notice from the Association, provide such additional evidence as the Association may request, or deposit into the 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 the 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 the Special Account will not be required to cover payments for Eligible Expenditures during the six-month period following such determination, the Borrower through NIPC shall, promptly upon notice from the Association, refund to the Association such outstanding amount.

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

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

Annex A

to

SCHEDULE 1

**Operation of Special Account
When Withdrawals Are Not Report-based Disbursements**

1. For the purposes of this Annex, the term “Authorized Allocation” means an amount equivalent to \$2,000,000 to be withdrawn from the Credit Account and deposited into the Special Account pursuant to paragraph 2 of this Annex; provided, however, that, unless the Association shall otherwise agree, said Authorized Allocation shall be limited to an amount equivalent to \$1,000,000, until the aggregate amount of withdrawals from the Credit Account of amounts allocated to the 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.

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

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

(b) For replenishment of the Special Account, the Borrower through NIPC shall furnish to the Association requests for deposit into the Special Account at such intervals, as the Association shall specify. Prior to or at the time of each such request, the Borrower through NIPC 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 the Special Account such amount as the Borrower through NIPC shall have requested and as shall have been shown by said documents and other evidence to have been paid out of the Special Account for Eligible Expenditures. 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.

3. The Association shall not be required to make further deposits into the Special Account, once the total unwithdrawn amount of the Credit allocated to the 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 the 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 the 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 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. 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 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 reports.

SCHEDULE 2

Description of the Project

The objectives of the Project are to increase the performance and employment levels of micro, small and medium enterprises in selected non-oil industry sub-sectors and in Participating States through: (i) strengthening the capacity of intermediaries to deliver financial and non-financial services to micro, small and medium enterprises; (ii) supporting improvements in the investment climate and removing constraints to growth of micro, small and medium enterprises; and (iii) increasing investment in micro, small and medium enterprises and intermediaries.

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: **Access to Finance**

Developing the institutional capacity of financial institutions to provide financial products responsive to micro, small and medium enterprises.

Part B: **Business Development Services**

1. Carrying out industry analysis, feasibility studies, and programs to assist micro, small and medium enterprises within selected industry supply chains to enhance their value added in respective business segments focused on Participating States, or any other business that might be admitted outside the Participating States for such industries;
2. Improving the institutional capacity of business services providers in Participating States to reach larger numbers of micro, small and medium enterprises with higher quality services.

Part C: **Investment Climate**

1. Streamlining the business registration process in CAC's zonal offices in Lagos and Kaduna States, including expansion of information technology, and integrating Stamp Duty payments, Federal Inland Revenue Service Tax, Value Added Tax and Foreign Direct Investment registration processes.
2. Develop a program in Participating States for the adjudication of commercial disputes involving MSMEs, including mediation and arbitration as alternative means to resolve those disputes outside of the formal justice system.

3. Provision of technical assistance for the establishment of a conducive environment for and a credit bureau capable of credit reporting on micro, small and medium enterprises.
4. Provision of technical assistance for the establishment of secured transaction systems in Participating States.
5. Provision of technical assistance for the establishment of a conducive environment for leasing.

Part D: Public Private Sector Partnership

1. Improving the capacity and responsiveness of the Borrower's public sector institutions targeted to micro, small and medium enterprise development.
2. Facilitation of the dialogue between the public sector and micro, small and medium enterprises led by SMEDAN, NIPC and other public sector bodies at the State and Federal levels responsible for policy dialogue with MSMEs.

Part E: Project Management, Monitoring and Evaluation

- (a) Carrying out periodic "Cost of Doing Business" surveys at State levels in Lagos, Kaduna, and Abia States to quantify and benchmark business constraints and measure the effects of assistance received by micro, small and medium enterprises.
- (b) Provision of assistance for execution, reporting, review, and monitoring of the Project.
- (c) The carrying out of a public awareness and stakeholder communication program in collaboration with NIPC, SMEDAN and other stakeholders to improve the general public's understanding of the benefits to micro, small and medium enterprises of increased access to finance, business development, registration of companies, and alternative dispute resolution systems.

* * *

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

SCHEDULE 3

Procurement

Section I. Procurement of Good and Works

Part A: General

1. Goods and works shall be procured in accordance with (a) the provisions of Section I of the “Guidelines for Procurement under IBRD Loans and IDA Credits” published by the Bank in January 1995 and revised in January and August 1996, September 1997 and January 1999 (the Guidelines) and the 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 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 \$500,000 equivalent, 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 estimated to cost less than \$30,000 equivalent per contract, up to an aggregate amount not to exceed \$2,000,000 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 invitations to bid for contracts, the proposed procurement plan for the Project shall be furnished to the Association for its review and approval, in accordance with the provisions of paragraph 1 of Appendix 1 to the Guidelines. Procurement of all goods and works shall be undertaken in accordance with such procurement plan as shall have been approved by the Association, and with the provisions of said paragraph 1.

2. Prior Review

With respect to each contract for goods estimated to cost the equivalent of \$150,000 or more, the procedures set forth in paragraphs 2 and 3 of Appendix 1 to the Guidelines shall apply.

3. Post Review

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

Section II. Employment of Consultants

Part A: General

1. Consultants' services shall be procured in accordance with 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), paragraph 1 of Appendix 1 thereto, Appendix 2 thereto 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 of the Consultant Guidelines.

Part C: Other Procedures for the Selection of Consultants

1. Quality-based Selection

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

2. Selection Based on Consultants' Qualifications

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

3. Least-cost Selection

Services of a routine nature such as audits 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.

4. Individual Consultants

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

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

1. Selection Planning

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. Selection of all consultants' services shall be undertaken in accordance with such selection plan 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 the employment of individual consultants estimated to cost the equivalent of \$50,000 or more, single-source selection, and training, the qualifications, experience, terms of reference and terms of employment of the consultants shall be furnished to the Association for its prior review and approval. The contract shall be awarded only after the said approval shall have been given. 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. The Borrower shall carry out the Project through NIPC in accordance with the procedures set out in the Project Implementation Manual, and shall not, except as the Association may otherwise agree, amend or waive any provision thereof.
2. The procedures governing the selection of recipients of Performance Grants, the eligibility criteria, provisions required to be included in the Performance Grant Agreements, responsibilities for monitoring compliance with Performance Grant Agreements, and consequences for non-performance under such Performance Grant Agreements are set forth in Schedule 5 to this Agreement.
3. The Borrower through NIPC 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 as specified in more detail in the monitoring and evaluation component of the Implementation Manual;
 - (b) prepare, under terms of reference satisfactory to the Association, and furnish to the Association, on or about June 3, 2006, a report integrating the results of the monitoring and evaluation activities performed pursuant to paragraph (a) of this Section, on the progress achieved in the carrying out of the Project during the period preceding the date of said report and setting out the measures recommended to ensure the efficient carrying out of the Project and the achievement of the objectives thereof during the period following such date; and
 - (c) review with the Association, by July 31, 2006, 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

Performance Grants

The Borrower shall, through NIPC and the Project Management Unit, follow the procedures set forth in the Project Implementation Manual for the selection of recipients and monitoring of Performance Grants under Parts A and B of the Project.

(a) Eligibility criteria for selection of recipients of the Performance Grants under Parts A and B of the Project will be: performance to date, absorptive, financial and technical capacity, and cost sharing.

(b) Performance criteria for monitoring implementation of the Performance Grants under Parts A and B of the Project will be measurable and realistic indices measuring outreach and sustainability.

(c) Disbursements under the Performance Grants will be based on measurable triggers set out in Performance Grant Agreements with recipients of such Performance Grants.

(d) The thresholds for review of proposals for Performance Grants under Parts A and B of the Project may be revised by agreement between the Association and the Borrower. Current thresholds are:

- (i) PMU shall approve the selection of recipients for Performance Grants below \$100,000;
- (ii) NIPC shall approve the selection of recipients for Performance Grants over \$100,000 but less than \$150,000; and
- (iii) the Review Committee shall approve the selection of recipients for Performance Grants over \$150,000 upon recommendation of NIPC.

(e) Except as the Association shall otherwise agree, Performance Grants to any single recipient under Part A of the Project shall not exceed \$2,000,000 in the aggregate, and Performance Grants to any single recipient under Part B of the Project shall not exceed \$250,000 in the aggregate.

The Review Committee will carry out semi-annual reviews of the portfolio of Performance Grants. Technical and operational audits of the Performance Grant portfolio will be carried out under supervision of the Review Committee, based upon terms of reference agreed by the Executing Agency and the Association, providing for an ongoing assessment of the performance of grant operations and the PMU management of

Performance Grants in order to ensure their efficiency and effectiveness, taking into account program objectives, market conditions and results obtained.

