

CONFORMED COPY

LOAN NUMBER 2988 UNI

(Second Multi-State Agricultural Development Project)

between

INTERNATIONAL BANK FOR RECONSTRUCTION
AND DEVELOPMENT

and

KWARA STATE OF NIGERIA

Dated February 27, 1989

LOAN NUMBER 2988 UNI

KWARA STATE PROJECT AGREEMENT

AGREEMENT, dated February 27, 1989, between INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT (the Bank) and KWARA STATE OF NIGERIA (Kwara State).

WHEREAS (A) by the Loan Agreement of even date herewith between Federal Republic of Nigeria (the Borrower) and the Bank, the Bank has agreed to make available to the Borrower an amount in various currencies equivalent to eighty five million two hundred thousand dollars (\$85,200,000), on the terms and conditions set forth in the Loan Agreement, but only on condition that Kwara State agrees to undertake such obligations toward the Bank as are set forth in this Agreement;

(B) by a subsidiary loan agreement (the Kwara State Subsidiary Loan Agreement) to be entered into between the Borrower and Kwara State, the proceeds of the loan allocated to Categories (1)(c), (2)(c), (3)(b), (4)(b), (5)(b), (6)(c), (7)(b), 9(b) and (10)(c) in Schedule 1 to the Loan Agreement will be made available to Kwara State on the terms and conditions set forth in the Kwara State Subsidiary Loan Agreement; and

WHEREAS Kwara State, in consideration of the Bank's entering

into the Loan Agreement with the Borrower, has agreed to undertake the obligations set forth in this Agreement;

NOW THEREFORE the parties hereto hereby agree as follows:

ARTICLE I

Definitions

Section 1.01. Unless the context otherwise requires, wherever used in this Agreement, the several terms defined in the Loan Agreement, the Preamble to this Agreement and the General Conditions (as so defined) have the respective meanings therein set forth and the following additional terms have the following meanings;

(a) "Kwara State Project Account" means the account referred to in Section 2.01 (b) of this Agreement;

(b) "Kwara State Special Account" means the account referred to in Section 2.01 (d) of this Agreement;

(c) "Kwara State Subsidiary Loan Agreement" means the agreement referred to in Recital B of this Agreement; and

(d) "KWADPEC" means the committee referred to in Section 2.02 of this Agreement.

ARTICLE II

Execution of the Project

Section 2.01. (a) Kwara State declares its commitment to the objective of the Project as set forth in Schedule 2 to the Loan Agreement, and to this end, shall carry out Parts A through E (except B (1) (e)) of the Project with due diligence and efficiency and in conformity with appropriate administrative, financial, engineering and agricultural practices, and shall provide, or cause to be provided promptly as needed, the funds, facilities, services and other resources required for the said Parts of the Project.

(b) Without any limitation or restriction upon Kwara State's obligations under paragraph (a) of this Section, Kwara State shall: (i) provide in its annual budget amounts sufficient to cover Kwara State's counterpart contribution to the costs of the Project; (ii) open and maintain an account at a commercial bank (the Kwara State Project Account) to be used exclusively for expenditures under the Project; (iii) pay into the Kwara State Project Account an initial amount equivalent to \$400,000, representing 25% of Kwara State's counterpart contribution to the first year's project costs; and (iv) thereafter pay each quarter into the Kwara State Project Account (commencing from the quarter immediately following the quarter in which the Loan becomes effective and no later than the first month of each quarter) the respective counterpart contribution of Kwara State to the costs of the Project, adjusted to take account of any payment by Kwara State of the initial amount specified above. The Borrower and Kwara State presently estimate the said counterpart contribution to amount in 1988 prices to Naira 18,715,000 over the project period.

(c) Kwara State: (i) undertakes to provide in its budget amounts sufficient to cover the salaries of all existing staff of Kwara State seconded to the Project, in addition to any other contributions of Kwara State to incremental project costs; and (ii) shall promptly pay the said salaries.

(d) Kwara State shall, for the purposes of the Project, open and maintain in dollars a special account (the Kwara State Special Account) in a commercial bank on terms and conditions satisfactory to the Bank. Deposits into, and payments out of, the Kwara State

Special Account shall be made in accordance with the provisions of Schedule 4 to this Agreement.

Section 2.02. Kwara State shall establish and thereafter maintain in a form and with functions and staffing satisfactory to the Borrower and the Bank, a Kwara State Agricultural Development Project Executive Committee (KWADPEC) and an Agricultural Development Project Management Unit (ADPMU). Further provisions relating to KWADPEC and ADPMU are set out in Schedule 2 to this Agreement.

Section 2.03. Except as the Bank 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 Loan shall be governed by the provisions of Schedule 1 to this Agreement.

Section 2.04. Kwara State shall carry out the obligations set forth in Sections 9.04, 9.05, 9.06, 9.07, 9.08 and 9.09 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 this Agreement.

Section 2.05. Kwara State shall duly perform all its obligations under the Kwara State Subsidiary Loan Agreement. Except as the Bank shall otherwise agree, Kwara State shall not take or concur in any action which would have the effect of amending, abrogating, assigning or waiving the Kwara State Subsidiary Loan Agreement or any provision thereof.

Section 2.06. (a) Kwara State shall, at the request of the Borrower or the Bank, exchange views with the Borrower and the Bank with regard to the progress of the Project, the performance of its obligations under this Agreement and under the Kwara State Subsidiary Loan Agreement, and other matters relating to the purposes of the Loan.

(b) Kwara State shall promptly inform the Borrower and the Bank of any condition which interferes or threatens to interfere with the progress of the Project, the accomplishment of the purposes of the Loan, or the performance by Kwara State of its obligations under this Agreement and under the Kwara State Subsidiary Loan Agreement.

Section 2.07. Kwara State shall carry out the actions described in Schedule 3 to this Agreement to the satisfaction of the Bank, said Schedule being subject to modification from time to time by agreement between the Borrower, Kwara State and the Bank.

ARTICLE III

Financial Covenants

Section 3.01. (a) Kwara State shall maintain or cause to be maintained separate records and accounts adequate to reflect in accordance with sound accounting practices the operations, resources and expenditures in respect of the Project of the departments or agencies of Kwara State responsible for carrying out the Project or any part thereof.

(b) Kwara State shall:

- (i) have the accounts referred to in paragraph (a) of this Section (including the Kwara State Special Account) for each fiscal year audited, in accordance with appropriate auditing principles consistently applied, by independent auditors acceptable to the Bank;
- (ii) furnish to the Bank as soon as available, but in any case not later than six months after the end of each such year: (A) certified copies of its finan-

cial statements for such year as so audited, and (B) the report of such audit by said auditors of such scope and in such detail as the Bank shall have reasonably requested; and

- (iii) furnish to the Bank such other information concerning said records, accounts and financial statements as well as the audit thereof, as the Bank shall from time to time reasonably request.

(c) For all expenditures with respect to which withdrawals from the Loan Account were made on behalf of Kwara State under the Project on the basis of statements of expenditure, Kwara State shall:

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

ARTICLE IV

Effective Date; Termination;
Cancellation and Suspension

Section 4.01. This Agreement shall come into force and effect on the date upon which the Loan Agreement becomes effective.

Section 4.02. This Agreement and all obligations of the Bank and of Kwara State thereunder shall terminate on the date on which the Loan Agreement shall terminate in accordance with its terms, and the Bank shall promptly notify Kwara State thereof.

Section 4.03. All the provisions of this Agreement shall continue in full force and effect notwithstanding any cancellation or suspension under the General Conditions.

ARTICLE V

Miscellaneous Provisions

Section 5.01. Any notice or request required or permitted to be given or made under this Agreement and any agreement between the parties contemplated by this Agreement shall be in writing. Such notice or request shall be deemed to have been duly given or made when it shall be delivered by hand or by mail, telegram, cable, telex or radiogram to the party to which it is required or permitted to be given or made at such party's address hereinafter specified or at such other address as such party shall have designated by notice to the party giving such notice or making such request. The addresses so specified are:

For the Bank:

International Bank for
Reconstruction and Development
1818 H Street, N.W.
Washington, D.C. 20433
United States of America

Cable address:

INTBAFRAD
Washington, D.C.

Telex:

440098 (ITT)
248423 (RCA) or
64145 (WUI)

For Kwara State:

Permanent Secretary
Ministry of Agriculture and
Natural Resources
PMP 1383
Ilorin, Kwara State

Section 5.02. Any action required or permitted to be taken, and any document required or permitted to be executed, under this Agreement on behalf of Kwara State, or by Kwara State on behalf of the Borrower under the Loan Agreement, may be taken or executed by Kwara State's Commissioner for Agriculture and Natural Resources or such other person or persons as Kwara State shall designate in writing, and Kwara State shall furnish to the Bank sufficient evidence of the authority and the authenticated specimen signature of each such person.

Section 5.03. This Agreement may be executed in several counterparts, each of which shall be an original, and all collectively but one instrument.

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

INTERNATIONAL BANK FOR
RECONSTRUCTION AND DEVELOPMENT

By /s/ Callisto Madavo
Acting Regional Vice President
Africa

KWARA STATE OF NIGERIA

By /s/ Hamzat Ahmadu
Authorized Representative

SCHEDULE 1

Procurement and Consultants' Services

Section I: Procurement of Goods and Works

Part A: International Competitive Bidding

1. Except as provided in Part C hereof, goods shall be procured under contracts awarded in accordance with procedures consistent

with those set forth in Sections I and II of the "Guidelines for Procurement under IBRD Loans and IDA Credits" published by the Bank in May 1985 (the Guidelines).

2. (i) Bidders for works included in Parts B and F of the Project shall be prequalified as described in paragraph 2.10 of the Guidelines.
- (ii) To the extent practicable, contracts for goods shall be grouped in bid packages estimated to cost an amount equivalent to \$500,000 or more each.

Part B: Preference for Domestic Manufacturers

In the procurement of goods in accordance with the procedures described in Part A.1 hereof, goods manufactured in Nigeria may be granted a margin of preference in accordance with, and subject to, the provisions of paragraphs 2.55 and 2.56 of the Guidelines and paragraphs 1 through 4 of Appendix 2 thereto.

Part C: Other Procurement Procedures

1. All goods estimated to cost an amount equivalent to \$60,000 or more but less than \$500,000 per contract and all works may be procured under contracts awarded on the basis of competitive bidding, advertised locally, in accordance with procedures satisfactory to the Bank.
2. All goods estimated to cost an amount equivalent to less than \$60,000 may be procured under contracts awarded on the basis of comparison of price quotations solicited from a list of at least three suppliers eligible under the Guidelines, in accordance with procedures acceptable to the Bank.

Part D: Review by the Bank of Procurement Decisions

1. Review of prequalification:

With respect to the prequalification of bidders as provided in Part A.2 (i) hereof, the procedures set forth in paragraph 1 of Appendix 1 to the Guidelines shall apply.

2. Review of invitations to bid and of proposed awards and final contracts:

(a) With respect to each contract for goods and works estimated to cost the equivalent of \$ 500,000 or more, the procedures set forth in paragraphs 2 and 4 of Appendix 1 to the Guidelines shall apply. Where payments for such contract are to be made out of the Kwara State Special Account, such procedures shall be modified to ensure that the two conformed copies of the contract required to be furnished to the Bank pursuant to paragraph 2 (d) of said Appendix shall be furnished to the Bank prior to the making of the first payment out of the Kwara State Special Account in respect of such contract.

(b) With respect to each contract not governed by the preceding paragraph, the procedures set forth in paragraphs 3 and 4 of Appendix 1 to the Guidelines shall apply. Where payments for such contract are to be made out of the Kwara State Special Account, such procedures shall be modified to ensure that the two conformed copies of the contract, together with the other information required to be furnished to the Bank pursuant to paragraph 3 of said Appendix, shall be furnished to the Bank as part of the evidence to be furnished pursuant to paragraph 4 of Schedule 4 to this Agreement.

(c) The provisions of the preceding subparagraphs (a) and (b) shall not apply to contracts on account of which the Bank has authorized withdrawals from the Loan Account on the basis of statements of expenditure. Such contracts shall be retained in accordance with Section 3.01 (c) (ii) of this Agreement.

3. The figure of 10% is hereby specified for purposes of paragraph 4 of Appendix 1 to the Guidelines.

Section II: Employment of Consultants

In order to assist Kwara State in carrying out the Project, Kwara State shall employ consultants whose qualifications, experience and terms and conditions of employment shall be satisfactory to the Borrower and the Bank. Such consultants shall be selected in accordance with principles and procedures satisfactory to the Bank on the basis of the "Guidelines for the Use of Consultants by World Bank Borrowers and by the World Bank as Executing Agency" published by the Bank in August 1981.

SCHEDULE 2

Project Executing Agencies

A. Kwara State Agricultural Development Project Executive Committee (KWADPEC)

1. KWADPEC's membership shall include the following:

- | | |
|---|------------------|
| (a) State Governor | Chairman |
| (b) Commissioner for Agriculture and Natural Resources (MANR) | Deputy Chairman |
| (c) Commissioner for Local Government and Chieftaincy Affairs | Member |
| (d) Commissioner for Finance and Economic Development | Member |
| (e) Commissioner for Works | Member |
| (f) Commissioner for Commerce and Industry | Member |
| (g) Secretary to the State Government and Head of Service | Member |
| (h) Permanent Secretary (MANR) | Member |
| (i) Director, Federal Department of Rural Development (FDRD) | Member |
| (j) Head of FACU | Member |
| (k) Director (ARMTI) | Member |
| (l) State Director, Directorate of Food, Roads and Rural Infrastructure | Member |
| (m) Chief Executive (ADPMU) | Member/Secretary |

2. KWADPEC shall meet at least once every two months during the first two years of the Project and thereafter at such times as it shall determine. Its functions shall, in addition to policy, finance and coordination of Project activities, include: (i) approval of the annual Project budget and work plan; (ii) appointment of principal staff; and (iii) ensuring availability of adequate Project funds.

3. KWADPEC shall approve all contracts estimated to cost an

amount above \$100,000, authorize the establishment in ADPMU of a tender committee to be responsible for the approval of all contracts estimated to cost an amount equivalent to \$100,000 or less, being contracts awarded on the basis of local or international competitive bidding; provided that all contracts estimated to cost more than \$25,000 equivalent shall be cleared by the Commissioner for Agriculture and Natural Resources. The tender committee shall be chaired by the Chief Executive (ADPMU) and shall include the other members of ADPMU. The Chief Administrative Officer (ADPMU) shall serve as secretary to the tender committee.

4. KWADPEC shall have two subcommittees, namely, an agricultural services subcommittee to be responsible for coordinating services to farmers and an infrastructure development subcommittee to be responsible for coordinating infrastructure programs. The chairman of the agricultural services sub-committee shall be the Permanent Secretary (MANR) and the other members of the subcommittee shall include the Chief Planning Officer (MANR), the Chief Agricultural Officer (MANR), the Chief Executive (ADPMU), the Chief Technical Officer (ADPMU), the Commercial Services Manager (ADPMU), and two representatives of the State's Farmers Council. The infrastructure development subcommittee shall also be chaired by the Permanent Secretary (MANR) and its other members shall include the Chief Planning Officer (MANR), the Chief Executive (ADPMU), the Chief Community Development Inspector (Ministry of Local Government and Chieftaincy Affairs), the Chief Civil Engineer (Ministry of Works) and the Chief Engineer (ADPMU).

B. Agricultural Development Project Management Unit (ADPMU)

1. ADPMU shall, under the policy guidelines and direction of KWADPEC, be responsible for the carrying out of the Project in accordance with this Agreement and the Kwara State Subsidiary Loan Agreement. ADPMU shall be headed by the Chief Executive with responsibility for overseeing the following three operational divisions of ADPMU, namely, the agricultural and technical services division, the infrastructural services division and the commercial services division. ADPMU shall also have five support units, namely, the administration unit, the finance unit, the planning unit, the monitoring and evaluation unit and the manpower development unit.

2. (a) ADPMU shall have an executive management committee, the membership of which shall include the Chief Executive, ADPMU (Chairman), the heads of Departments of ADPMU and each Zonal Manager of ADPMU. The executive management committee shall meet at least once every month.

(b) No later than June 30, 1989, the following senior staff shall be employed and assigned to ADPMU, namely, a Management Accountant, an Internal Auditor, a Stores Controller and a Chief Maintenance Engineer, all with qualifications and experience satisfactory to the Borrower and the Bank. The Stores Controller and the Internal Auditor shall report directly to the Chief Executive (ADPMU).

3. ADPMU shall establish five zones to be responsible for the day to day carrying out of project activities. Each zone shall be headed by a zonal manager. A zone shall have appropriate technical and support staff and shall look to ADPMU for technical advice and overall program guidance.

4. A zonal development committee shall be constituted for each of ADPMU's zones. Each such committee shall be concerned with the planning and review of the zone's programs and the facilitation of coordination and cooperation among agencies and farmers' organizations operating in the zone. The membership of the zonal development committee shall include representatives of ADPMU, local government councils, the State's Farmers Council, the CFA and other recognized farmers' groups in the zone.

5. (a) ADPMU shall enter into arrangements satisfactory to the

Bank for local government councils to undertake routine maintenance of roads rehabilitated under the Project. Each such local government council must have a road maintenance unit with adequate staff headed by an engineer or technician experienced in road maintenance. ADPMU shall assist the local government councils in setting up the road maintenance units.

(b) ADPMU shall, no later than August 31 each year, furnish to the Bank and to the Federal Agricultural Coordinating Unit (FACU) the road rehabilitation program and the periodic, recurrent and routine road maintenance work programs (including procurement arrangements) proposed by ADPMU for the next following year, all to the satisfaction of the Bank and FACU.

6. ADPMU shall submit quarterly reports and management accounts to FDRD and the Bank showing by each Project component actual and budgeted expenditures, statements of progress achieved and objectives for the next following quarter. The quarterly reports shall contain summaries of expenditures and use of funds to date. The management accounts shall contain key operating ratios, particularly on inventories, down-time and in the case of the commercial services department of ADPMU, profitability and turnover.

SCHEDULE 3

Actions Referred to in Section 2.07.

1. (a) Kwara State shall no later than June 30, 1989 establish an agricultural institutions review team in a form and with functions and staffing satisfactory to the Bank. The membership of said team shall include a public administration specialist who shall be the team leader, a public finances specialist, a financial analyst and an agricultural services specialist.

(b) Kwara State shall: (i) no later than December 31, 1989 (A) review the operations and management of Kwara State's institutions responsible for providing agricultural services in Kwara State; and (B) using the result of the review, prepare an action program for the carrying out of any needed reforms in said institutions including the determination of overall staffing levels and a time-table for introducing institutional changes, and proposals for such additional assistance as may be needed in introducing the reforms; and (ii) promptly thereafter furnish said action program to the Borrower and the Bank for their review and comments.

2. Kwara State shall no later than June 30, 1989, with the assistance of FACU enter into arrangements satisfactory to the Bank with research institutions for the provision to Kwara State of the scientific services required under Part A of the Project.

3. (a) Kwara State undertakes that the seed purchase price to be paid to contract outgrowers under the Project shall be the prevailing market price for seeds. Seed produced under the Project shall be certified in accordance with seed certification standards established by the National Seed Service.

(b) Kwara State undertakes to buy from contract outgrowers at least 75% of its seed production requirements under the Project.

4. Kwara State shall: (i) as of January 1, 1989 require MANR's Veterinary Department to sell all drugs and vaccines at prices that will allow the Veterinary Department to recover the full costs of the drugs and vaccines; and (ii) no later than December 31, 1989, make arrangements and establish procedures satisfactory to the Borrower and the Bank for the licensing of private rural veterinary practitioners.

5. Kwara State shall with the assistance of FACU: (i) monitor

the costs and products of its force account road maintenance unit during the first two years of Project execution; (ii) compare said costs and products with those resulting from the use of private contractors on road maintenance; and (iii) no later than December 31, 1990 review the results of such comparison with the Borrower and the Bank.

6. Kwara State shall furnish to the Borrower and the Bank the detailed terms of reference, qualifications and experience of all consultants and other technical assistance staff which Kwara State proposes to employ for the Project before concluding any agreements for the employment of such consultants and technical assistance staff.

7. Kwara State shall furnish, and cause the Commercial Services Department of ADPMU and CFA to furnish, to FDRD and the Bank for their review and comments the respective survey results, annual reports or accounts, annual work plans and quarterly reports on the status of their respective actions under the Project showing, among other things, statements of progress achieved, objectives for the quarter next following and summaries of expenditures and use of funds.

8. Kwara State shall: (i) no later than December 31, 1990 (A) with the assistance of FACU and the Bank, carry out a mid-term review of the Project; and (B) promptly thereafter discuss with FDRD and the Bank the findings of the mid-term review, including any proposed changes in the Project; and (ii) assist APMEPU to prepare the project completion report required under the General Conditions.

9. Kwara State shall annually agree with the Bank upon the staffing levels appropriate to the Project and shall not exceed said levels without the prior agreement of the Bank and the Borrower.

10. Kwara State shall no later than December 31, 1990 complete and furnish to the Bank and the Borrower the results of a review of the responsiveness of the private sector to measures taken under the Project for the appointment of licensed buyers of fertilizers and other farm inputs.

11. Kwara State shall: (i) jointly review with FACU and the Bank each year the operations of the force account units of Kwara State carrying out road maintenance activities under the Project with a view to determining the economic viability of such activities; and (ii) disband and auction off the road building equipment of any of said units the operations of which can be shown to have become uneconomic.

12. (a) Kwara State shall cause its CFA to include in the membership of its Board of Directors a General Manager to be responsible for the day to day management of the CFA and two other members one of whom shall be a qualified banker with private sector experience in rural credit, and the other shall be a person with experience in business, law or accounting.

(b) Kwara State shall cause its CFA to prepare and submit to the Bank and Kwara State every six months semi-annual reports and management accounts showing actual and budgeted expenditures, statements of progress achieved and objectives for the next following period of six months. The semi-annual reports shall contain summaries of expenditures and use of funds to date. The management accounts shall contain key operating ratios.

13. (a) Kwara State shall: (i) no later than June 30, 1989 prepare and furnish to the Bank and the Borrower for their review and comments a plan for the carrying out of the rural water supply program included in Part B (2) of the Project specifying, among other things, (A) the criteria to be used in selecting villages to participate in the program, and (B) the capital contribution each such village will be required to make to the cost of the wells and

handpumps and the period over which such contribution is to be made; and (ii) no later than June 30, 1990 prepare and furnish to the Bank and the Borrower for their review and comments a maintenance plan showing how wells and handpumps provided under the Project are to be maintained on a self-sustaining basis.

(b) Kwara State shall require each community for which a borehole is to be sited under the Project to contribute (in cash or kind) at least 10% of the capital costs of the borehole as a condition for the siting of the borehole.

14. (a) Kwara State shall, before any irrigation works are undertaken under the Project, furnish to the Bank and the Borrower for their review and comments the results of the small scale irrigation development studies being undertaken in Kwara State.

(b) Kwara State shall: (i) establish and thereafter maintain at least five pilot water users associations for irrigation development; and (ii) develop and furnish to the Bank no later than June 30, 1989 for its review and comments Kwara State's proposals for the structure and operating procedures of said associations.

15. Kwara State shall: (i) in accordance with existing regulations make suitable arrangements with graziers to exclude cattle from areas to be forested under the Project; and (ii) set out details of said arrangements in the annual work plans to be furnished to the Bank.

16. Kwara State undertakes that: (i) the Commercial Services Department of ADPMU shall, as from December 31, 1990, (A) limit its farm inputs trading operations to wholesale activities, (B) retail its supplies of such inputs through private distributors, agencies and cooperative stores; and (ii) said Commercial Services Department shall be free to earn a margin of profit consistent with the objectives of promoting private sector retailing of farm inputs.

17. Kwara State undertakes that its CFA shall no later than June 30, 1989, prepare and furnish to the Borrower and the Bank a financial operating and staff development plan showing the specific measures which the CFA proposes to take to attain financial and operational viability during the Project period. Until the CFA attains financial and operational viability, Kwara State shall cause the CFA to refrain from lending amounts exceeding 60% of the total costs of a project, or \$10,000 equivalent (whichever is lower) unless: (i) there is cofinancing participation of other lenders, or (ii) the beneficiary of the loan contributes at least 50% of the financing requirements of the Project. Kwara State: (A) shall cause the CFA to maintain competitive interest rates in all its lending operations; and (B) shall require the CFA not to make loans with repayment periods exceeding three years.

18. Kwara State shall with the prior approval of the Bank appoint external auditors for ADPMU no later than June 30, 1989.

19. Kwara State shall no later than June 30, 1989 prepare and furnish to the Borrower and the Bank for their review and comments a monitorable plan for strengthening Kwara State's agricultural sector development planning capacity.

20. Kwara State shall take all action necessary to:

(a) strengthen MANR's sector policy formulation and planning and procedures; and

(b) strengthen its agricultural sector expenditure programming and implementation capacity and procedures.

Kwara State Special Account

1. For the purposes of this Schedule:

(a) the term "eligible Categories" means Categories (1)(c), (2)(c), (3)(b), (4)(b), (5)(b), (6)(c), (7)(b) and (9)(b) set forth in the table in paragraph 1 of Schedule 1 to the Loan Agreement;

(b) the term "eligible expenditures" means expenditures in respect of the reasonable cost of goods and services required for the Project and to be financed out of the proceeds of the Loan allocated from time to time to the eligible Categories in accordance with the provisions of Schedule 1 to the Loan Agreement; and

(c) the term "Authorized Allocation" means an amount equivalent to \$500,000 to be withdrawn from the Loan Account and deposited in the Kwara State Special Account pursuant to paragraph 3 (a) of this Schedule.

2. Except as the Bank shall otherwise agree, payments out of the Kwara State Special Account shall be made exclusively for eligible expenditures in accordance with the provisions of this Schedule.

3. After the Bank has received evidence satisfactory to it that the Kwara State Special Account has been duly opened, withdrawals of the Authorized Allocation and subsequent withdrawals to replenish the Kwara State Special Account may be made as follows:

(a) On the basis of a request or requests by the Borrower for a deposit or deposits which add up to the aggregate amount of the Authorized Allocation, the Bank shall, on behalf of the Borrower, withdraw from the Loan Account and deposit in the Kwara State Special Account such amount or amounts as the Borrower shall have requested.

(b) The Borrower shall furnish to the Bank requests for replenishment of the Kwara State Special Account at such intervals as the Bank shall specify. On the basis of such requests, the Bank shall withdraw from the Loan Account and deposit into the Kwara State Special Account such amounts as shall be required to replenish the Kwara State Special Account with amounts not exceeding the amount of payments made out of the Kwara State Special Account for eligible expenditures. All such deposits shall be withdrawn by the Bank from the Loan Account in the respective eligible Categories and in the respective equivalent amounts as shall have been justified by the evidence supporting the request for such deposit furnished pursuant to paragraph 4 of this Schedule.

4. For each payment made by the Borrower out of the Kwara State Special Account for which the Borrower requests replenishment pursuant to paragraph 3 (b) of this Schedule, the Borrower shall furnish to the Bank, prior to or at the time of such request, such documents and other evidence as the Bank shall reasonably request, showing that such payment was made for eligible expenditures.

5. (a) Notwithstanding the provisions of paragraph 3 of this Schedule, no further deposit into the Kwara State Special Account shall be made by the Bank when either of the following situations first arises:

(i) the Bank shall have determined that all further withdrawals should be made by the Borrower directly from the Loan Account in accordance with the provisions of paragraph (a) of Section 2.02 of this Agreement; or

(ii) the total unwithdrawn amount of the Loan allocated to the eligible Categories, less the amount of any outstanding special commitment entered into by the

Bank pursuant to Section 5.02 of the General Conditions with respect to the Project, shall be equal to an amount equivalent to twice the amount of the Authorized Allocation.

(b) Thereafter, withdrawal from the Loan Account of the remaining unwithdrawn amount of the Loan allocated to the eligible Categories shall follow such procedures as the Bank shall specify by notice to the Borrower. Such further withdrawals shall be made only after and to the extent that the Bank shall have been satisfied that all such amounts remaining on deposit in the Kwara State Special Account as of the date of such notice will be utilized in making payments for eligible expenditures.

6. (a) If the Bank shall have determined at any time that any payment out of the Kwara State Special Account: (i) was made for any expenditure or in any amount not eligible pursuant to paragraph 2 of this Schedule, or (ii) was not justified by the evidence furnished to the Bank, the Borrower shall, promptly upon notice from the Bank, deposit into the Kwara State Special Account (or, if the Bank shall so request, refund to the Bank) an amount equal to the amount of such payment or the portion thereof not so eligible or justified. No further deposit by the Bank into the Kwara State Special Account shall be made until the Borrower has made such deposit or refund.

(b) If the Bank shall have determined at any time that any amount outstanding in the Kwara State Special Account will not be required to cover further payments for eligible expenditures, the Borrower shall, promptly upon notice from the Bank, refund to the Bank such outstanding amount for crediting to the Loan Account.

