

CONFORMED COPY

CREDIT NUMBER 2418 UG

(Economic and Financial Management Project)

between

THE REPUBLIC OF UGANDA

and

INTERNATIONAL DEVELOPMENT ASSOCIATION

Dated September 22, 1992

CREDIT NUMBER 2418 UG

DEVELOPMENT CREDIT AGREEMENT

AGREEMENT, dated September 22, 1992, between THE REPUBLIC OF UGANDA (the Borrower) and INTERNATIONAL DEVELOPMENT ASSOCIATION (the Association).

WHEREAS 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; 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, with the last sentence of Section 3.02 deleted (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 have the respective meanings therein set forth and the following additional terms have the following meanings:

(a) "Special Account" means the account referred to in Section 2.02 (b) of this Agreement;

(b) "MFEP" means the Borrower's Ministry of Finance and Economic Planning;

(c) "MPS" means the Borrower's Ministry of Public Service;

(d) "BOU" means the Bank of Uganda, the Borrower's central bank;

(e) "URA" means Uganda Revenue Authority;

(f) "Project Account" means the account referred to in Section 3.01 (b) of this Agreement; and

(g) "Sub-Account" means each of the accounts referred to in Section 2.02 (c) of this Agreement.

## ARTICLE II

### The Credit

Section 2.01. The Association agrees to lend to the Borrower, on the terms and conditions set forth or referred to in this Agreement, an amount in various currencies equivalent to twenty-one million two hundred thousand Special Drawing Rights (SDR 21,200,000).

Section 2.02. (a) The amount of the Credit may be withdrawn from the Credit Account in accordance with the provisions of Schedule 1 to this Agreement for expenditures made (or, if the Association shall so agree, to be made) in respect of the reasonable cost of goods and services required for the Project described in Schedule 2 to this Agreement and to be financed out of the proceeds of the Credit.

(b) The Borrower shall, for the purposes of the Project, open and maintain in dollars a special deposit account in a commercial bank on terms and conditions satisfactory to the Association, including appropriate protection against set-off, seizure or attachment. Deposits into, and payments out of, the Special Account shall be made in accordance with the provisions of Schedule 5 to this Agreement.

(c) For the purposes of the Project, the Borrower may with the approval of the Association, open and maintain Sub-accounts in a commercial bank with authorized allocations to be withdrawn from time to time from the Special Account. The terms and conditions of the Sub-accounts, the authorized allocation for each Sub-account and the specific purpose thereof, shall be satisfactory to the Association and shall include appropriate protection against set-off, seizure or attachment. Deposits into, and payments out of, the Sub-accounts shall, mutatis mutandis, be made in accordance with the provisions of Schedule 5 to this Agreement.

Section 2.03. The Closing Date shall be June 30, 1999 or such later date as the Association shall establish. The Association shall promptly notify the Borrower of such later date.

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

(b) The commitment charge shall accrue: (i) from the date sixty days after the date of this Agreement (the accrual date) to the respective dates on which amounts shall be withdrawn by the Borrower from the Credit Account or cancelled; 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 April 1 and October 1 in each year.

Section 2.07. (a) Subject to paragraphs (b) and (c) below, the Borrower shall repay the principal amount of the Credit in semi-annual installments payable on each April 1 and October 1 commencing October 1, 2002 and ending April 1, 2032. Each installment to and including the installment payable on April 1, 2012 shall be one percent (1%) of such principal amount, and each installment thereafter shall be two percent (2%) of such principal amount.

(b) Whenever: (i) the Borrower's gross national product per capita, as determined by the Association, shall have exceeded \$790 in constant 1985 dollars for five consecutive years; 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 terms of repayment of installments under paragraph (a) above by 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. If so requested by the Borrower, the Association may revise such modification 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.

(c) 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 MFEP, MPS, BOU and URA with due diligence and efficiency and in conformity with appropriate administrative and financial practices, and shall provide, promptly as needed, the funds, facilities, services and other resources required for the Project.

(b) The Borrower shall for the purposes of the Project, open and maintain in a bank satisfactory to the Association, until the completion of the Project, a Project account and maintain therein at the commencement of each quarter, (i) the Uganda Shillings equivalent to two hundred thousand dollars (\$200,000) for the first eight quarters, and (ii) thereafter for the subsequent eighteen quarters the Uganda Shillings equivalent of at least one hundred thirty-three thousand dollars (\$133,000) per quarter, for a total amount, in the aggregate during the period of the Project, of the Uganda Shillings equivalent to four million dollars (\$4,000,000).

(c) 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.

### ARTICLE IV

#### Financial Covenants

Section 4.01. (a) The Borrower shall maintain or cause to be maintained 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 the Borrower responsible for carrying out the Project or any part thereof.

(b) The Borrower shall:

- (i) have the records and accounts referred to in paragraph (a) of this Section including those for the Special Account, for each fiscal year audited, in accordance with appropriate auditing principles consistently applied, by independent auditors acceptable to the Association;
- (ii) furnish to the Association, as soon as available, but in any case not later than six months after the end of each such year, a certified copy of the report of such audit by said auditors, of such scope and in such detail as the Association shall have reasonably requested; and
- (iii) furnish to the Association such other information concerning said records, accounts and the audit thereof as the Association shall from time to time reasonably request.

(c) For all expenditures with respect to which withdrawals from the Credit Account were made on the basis of statements of

expenditure, the Borrower shall:

- (i) maintain or cause to be maintained, in accordance with paragraph (a) of this Section, records and accounts reflecting such expenditures;
- (ii) retain, until at least one year after the Association has received the audit for the fiscal year in which the last withdrawal from the Credit Account was made, all records (contracts, orders, invoices, bills, receipts and other documents) evidencing such expenditures;
- (iii) enable the Association's representatives to examine such records; and
- (iv) ensure that such records and accounts are included in the annual audit referred to in paragraph (b) of this Section and that the report of such audit contains a separate opinion by said auditors as to whether the 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 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 opened and established the Project Account and deposited therein the initial amount of the Uganda Shillings equivalent to \$200,000;
- (b) The Borrower has appointed the central information systems advisory committee, a services manager and a systems manager for Part A of the Project pursuant to paragraph 9 of Schedule 4 to this Agreement; and
- (c) the Borrower has appointed the Chairman and the members of the Project Coordination Committee and the Project Administrator pursuant to paragraphs 1 and 2 of Schedule 4 to this Agreement, respectively.

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

##### Representative of the Borrower; Addresses

Section 6.01. The Minister of Finance and Economic Planning of the Borrower is designated as representative of the Borrower for the purposes of Section 11.03 of the General Conditions.

Section 6.02. The following addresses are specified for the purposes of Section 11.01 of the General Conditions:

For the Borrower:

Ministry of Finance and Economic  
Planning  
P.O. Box 8147  
Kampala



furniture:

(a) (i)	under Part A 1, and A 3 through A 8 of the Project	1,690,000	
	(ii) under Part A 2 of the Project	180,000	
(b)	under Part B of the Project	620,000	
(c)	under Part C of the Project	440,000	
(d)	under Part D of the Project	90,000	
		Amount of the Credit Allocated (Expressed in SDR Equivalent)	% of Expenditures to be Financed
(3)	Consultants' services and training:		100%
(a) (i)	under Part A 1, and A 3 through A 8 of the Project	5,530,000	
	(ii) under Part A 2 of the Project	2,330,000	
(b)	under Part B of the Project	1,670,000	
(c)	under Part C of the Project	2,500,000	
(d)	under Part D of the Project	700,000	
(4)	Incremental Operating Costs:		30% of local expenditures
(a) (i)	under Part A 1, and A 3 through A 8 of the Project	860,000	
	(ii) under Part A 2 of the Project	10,000	
		Amount of the Credit Allocated (Expressed in SDR Equivalent)	% of Expenditures to be Financed
(b)	under Part B of the Project	160,000	
(c)	under Part C of the Project	10,000	
(d)	under Part D of the Project	130,000	
(5)	Unallocated	2,180,000	

TOTAL 21,200,000  
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2. For the purposes of this Schedule:

(a) 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

(b) the term "incremental operating costs" means expenditures in respect of fuel, repair and maintenance of vehicles financed under the Project, rentals of office/training space, telephone, fax, salary, travel and shipping allowances.

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; and (b) expenditures under (i) Category (1) (a) unless the Borrower has appointed an implementing agency, under terms and conditions satisfactory to the Association, pursuant to paragraph 11 of Schedule 4 to this Agreement; (ii) Categories (2) (a) (i), (3) (a) (i) and (4) (a) (i) unless MFEP has: (A) adopted a work plan, satisfactory to the Association, pursuant to paragraph 5 (c) of Schedule 4 to this Agreement, and (B) has hired a procurement expert and a project accountant for the office of the Project administrator pursuant to paragraph 2 of Schedule 4; (iii) Categories (2) (a) (ii), (3) (a) (ii) and (4) (a) (ii) unless the Permanent Secretary/Secretary to the Treasury MFEP has furnished the Association with a written request, including the rationale, for funding requirements pursuant to paragraph 5 (b) of Schedule 4 to this Agreement; (iv) Categories (1) (b), (2) (b), (3) (b), and (4) (b), unless URA has adopted an organizational structure satisfactory to the Association, pursuant to paragraph 16 of Schedule 4 to this Agreement; (v) Categories (2) (c), (3) (c) and (4) (c), unless BOU has adopted a work program pursuant to paragraph 17 of Schedule 4 to this Agreement; and (vi) Categories (2) (d), (3) (d) and (4) (d) unless MPS has appointed the chief technical advisor pursuant to paragraph 18 of Schedule 4 to this Agreement.

## SCHEDULE 2

### Description of the Project

The objectives of the Project are to: (a) assist the Borrower to further enhance institutional capacity building in key govern- mental ministries and agencies; (b) deepen and extend financial work in the financial and economic areas; and (c) support the Borrower to attain the key objectives of its structural adjustment efforts.

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: Ministry of Finance and Economic Planning

1. Improvement of the Statistics Department's survey and analytical work through training and the acquisition of vehicles and equipment.

2. Strengthening the Borrower's capability to conduct studies and undertake policy analysis and improve implementation capacity in support of the Borrower's economic recovery program.

3. Strengthening MFEP's financial information system through (a) acquisition, installation and maintenance of computers; (b) acquisition, implementation and maintenance of computer software packages; (c) training; and (d) acquisition of vehicles and office equipment; and (e) civil works and refurbishing of existing facilities;



4. Strengthening MFEP's central planning and budgeting capability through training and the acquisition of vehicles and office equipment.
5. Implementation of a pilot program for budget reform in selected local administrations through training and the acquisition of equipment and vehicles.
6. Strengthening the Treasury Department's accounting, inspectorate and internal audit functions through training and the acquisition of computer equipment, vehicles and office supplies.
7. Strengthening the capability of the Office of the Auditor General in audit-planning, documentation and techniques and improving its training program through training and the acquisition of computers and vehicles.
8. Strengthening MFEP's Project management capability.

Part B: Uganda Revenue Authority

Strengthening URA, including its revenue and trade monitoring system, through civil works, training and the acquisition of equipment.

Part C: Bank of Uganda

Strengthening BOU's: (i) management and information and accounting systems; (ii) debt monitoring and foreign exchange management systems; (iii) analytical capacity in its research department; and (iv) general management and human resources skills, through training and the acquisition of office equipment.

Part D: Ministry of Public Service

Strengthening MPS's capability to implement the Borrower's civil service reform program through training and the acquisition of equipment.

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The Project is expected to be completed by December 31, 1998.

### SCHEDULE 3

#### 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 and works 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. Goods to be procured through international competitive bidding shall be exempted from pre-shipment price inspection by a third party.

###### Part B: Preference for Domestic Manufacturers

In the procurement of goods in accordance with the procedures described in Part A hereof, goods manufactured in Uganda 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. (a) Civil works, and (b) furniture and equipment estimated to cost less than the equivalent of \$100,000 per contract, up to an aggregate amount not to exceed the equivalent of \$3,950,000, may be procured under contracts awarded on the basis of competitive bidding with public bid opening, advertised locally, in accordance with procedures satisfactory to the Association.

2. Items estimated to cost less than the equivalent of \$50,000 per contract, may be procured under contracts awarded on the basis of comparison of price quotations from a list of at least three suppliers eligible under the Guidelines, in accordance with procedures acceptable to the Association. The aggregate price of contracts so awarded shall not exceed the equivalent of \$250,000.

#### Part E: Review by the Association of Procurement Decisions

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

(a) With respect to each contract estimated to cost the equivalent of \$50,000 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 Special Account, such procedures shall be modified to ensure that the two conformed copies of the contract required to be furnished to the Association pursuant to said paragraph 2 (d) shall be furnished to the Association prior to the making of the first payment out of the 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 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 Association pursuant to said paragraph 3 shall be furnished to the Association as part of the evidence to be furnished pursuant to paragraph 4 of Schedule 5 to this Agreement.

(c) The provisions of the preceding subparagraph (b) shall not apply to contracts on account of which withdrawals from the Credit Account are to be made on the basis of statements of expenditure.

2. The figure of 15% is hereby specified for purposes of paragraph 4 of Appendix 1 to the Guidelines.

#### Section II. Employment of Consultants

In order to assist MFED, MPS, URA and BOU in carrying out the Project pursuant to Schedule 4 to this Agreement, the Borrower shall employ consultants and experts whose qualifications, experience and terms and conditions of employment shall be satisfactory to the Association. Such consultants and experts shall be selected in accordance with principles and procedures satisfactory to the Association 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 4

##### Implementation Program

##### Project Coordination

1. A Project coordination committee (PCC), which shall be chaired by a representative of MFED, and comprise representatives of BOU, MPS, URA, and such other officials as the Chairman may designate from time to time, shall be responsible to coordinate

the implementation of all components of the Project.

PCC shall meet: (a) at least once in each year of Project implementation to approve the work program of each Project component; and (b) on a quarterly basis, to review, coordinate and take appropriate corrective measures, as required, for the proper implementation of the Project.

2. A Project administrator, with the assistance of support staff, will provide administrative support for Project activities including the administrative aspects of: (i) recruitment and employment of experts who are residents of Uganda and short-term consultants; (ii) procurement of goods and services; (iii) preparation and pre-sentation of withdrawal applications from the Credit; (iv) the operation and management of the Special Account and the Project Account; (v) preparation of accounts and audits thereof; (vi) furnishing periodic reports to the Association pursuant to paragraph 3 of this Schedule; (vii) assisting managers of Project components in the preparation of yearly work plans; and (viii) providing secretariat assistance to PCC. MFEP will appoint a procurement specialist and a financial specialist to assist the Project Administrator in the operations of the Project.

3. The ministry or agency responsible for implementing each component of the Project shall prepare and submit to the Chairman, PCC, quarterly and annual reports on Project implementation, summarizing progress achieved, difficulties encountered and recommended remedial action. A consolidated Project implementation report shall be furnished to the Association by the Project Administrator.

4. The Borrower and the Association shall, not later than two years after the Effective Date of the Development Credit Agreement, carry out a comprehensive review of Project implementation. The Borrower, shall implement such corrective measures, satisfactory to the Association, as may be recommended as a result of the review.

#### Part A of the Project

5. (a) While the Permanent Secretary/Secretary to the Treasury, MFEP shall have overall responsibility for the implementation of Part A of the Project, the heads of the various units of MFEP and other agencies shall be responsible for implementing the various sub-components of Part A of the Project.

(b) The Permanent Secretary/Secretary to the Treasury, MFEP, will furnish the Association with written requests for use of funds from the proceeds of the Credit to assist the Borrower to implement its economic recovery program pursuant to paragraph 7 of this Schedule. Such requests should identify whether assistance is required for equipment, technical assistance for studies or implementation activities, and training, in-country or abroad.

(c) MFEP shall promptly furnish to the Association a work plan for the implementation of Part A of the Project including: (i) terms of services for computer specialists and adequate provision for participation of Ugandan consulting firms in the training programs pursuant to paragraph 8 of this Schedule; and (ii) the appointment of (A) the technical experts for Central Budgeting pursuant to paragraph 12 of this Schedule, (B) the experts and the preparation of a detailed work program for the pilot program pursuant to paragraph 13 of this Schedule, (C) two training experts for the Treasury Department pursuant to paragraph 14 of this Schedule, (D) two audit specialists/trainers for the Office of the Auditor General, pursuant to paragraph 15 of this Schedule, and (E) appointment of a suitable implementing agency for the Statistics Department pursuant to paragraph 6 of this Schedule.

Statistics Department

6. MFEP shall prepare the Statistics Department's detailed work program on the consumer price index, national accounts, external trade, immigration and tourism, statistical data base and business surveys with the assistance of an implementing agency, satisfactory to the Association.

#### Assistance to Economic Recovery Program

7. In order to strengthen the Borrower's capability to plan and implement its economic recovery program, MFEP shall carry out a program of studies, policy analysis, and technical assistance, satisfactory to the Association and shall undertake to fund the return of qualified Ugandans currently working overseas.

#### Government Computing and the Uganda Computer Services

8. In order to strengthen the Borrower's overall financial information systems in MFEP, URA, MPS and BOU, MFEP shall manage a comprehensive program to strengthen the capability of the Uganda Computer Services (UCS) and to ensure the Borrower's ability to respond to the various strategic, planning, training, systems development and support needs. As part of this program, MFEP shall develop a work plan, satisfactory to the Association, to (a) increase the number of computer specialists needed at UCS, (b) develop an in-house training course for new and current staff, (c) introduce competitive terms of service designed to attract and retain staff, (d) develop and modify computer software in Uganda for use by UCS, and (e) provide Ugandan consulting firms access to training for an appropriate fee, if necessary, thereby enhancing local skills.

#### Organizational Structure

9. The responsibility for the Borrower's overall approach to computerization and guidance and review of financial information systems, shall be vested in a central information systems advisory committee (CISAC). The terms of reference for CISAC as well as the composition of CISAC shall be satisfactory to the Association. In order to strengthen UCS's organizational structure, UCS will appoint a systems manager and a services manager whose qualifications shall be satisfactory to the Association.

10. Implementation of the various systems/organizational areas for: (a) revenue department operations; (b) Government accounts; payroll/personnel systems; and (c) budgeting systems will be led by separate teams under the direct responsibility of the appropriate management at URA, UCS and the Budget Department of MFEP, respectively.

11. In order to: (a) implement the refurbishment of the MFEP and Treasury buildings; (b) increase staff productivity; and (c) enhance computer usage in accordance with an implementation plan satisfactory to the Association, the Borrower shall appoint a duly qualified managing agency to supervise assessment of physical infrastructure and furnishing needs, and implementation of civil works and furnishings needs. The terms and conditions of employment of this organization shall be satisfactory to the Association.

#### Central Budgeting

12. In order to strengthen MFEP's central budgeting functions, MFEP shall carry out a pilot program to introduce conceptual reforms, in five ministries of the Borrower, including policy orientation, budget cycle and linkages, computerization and training, with the assistance of a macroeconomic advisor and budget specialist, short-term consultants specialized in program analysis, systems analysis, expenditure monitoring and control and costing.

The Deputy Secretary to the Treasury (Budget) shall be responsible for the implementation of the pilot program.

#### Local Administrations Budget Reform.

13. In order to assist local administrations to realize appropriate prioritization in local expenditures consistent with the Borrower's national development policy and to establish a system of expenditure monitoring and control, the Borrower will carry out a pilot program in six local authorities including Jinja Municipal Council, Masaka Municipal Council and Mbarara Municipal Council and three other local authorities selected by the Borrower in accordance with criteria satisfactory to the Association. The pilot program will be based on a detailed work program, developed from a preliminary study, satisfactory to the Association. The Permanent Secretary/Secretary to the Treasury, MFEP together with the Permanent Secretary, Ministry of Local Government, will be responsible for implementing the pilot program.

#### Treasury Department

14. In order to strengthen the Treasury Department's capability to introduce new accounting systems and procedures and provide timely and accurate accounts, the Borrower will carry out a program to improve the overall performance of the accounting staff through in-service training including strengthening of the Treasury's Inspectorate and Internal Audit functions. This program will be implemented under the supervision of the Commissioner/Treasury Officer of Accounts, with the assistance of two training experts supported by short-term consultants specializing in internal audit and public debt.

#### Office of the Auditor General

15. In order to strengthen the Office of the Auditor General's capability to introduce appropriate audit techniques and provide effective service to the Borrower and its various ministries and agencies, the Office of the Auditor General will carry out a comprehensive training and reform program, including improvement of its audit documentation and organization structure, computer auditing, value-for-money auditing and its regional offices.

#### Part B of the Project

16. The Borrower shall take such measures as shall be necessary to appoint a duly qualified head and other department heads for URA in accordance with an organizational structure and financial plan satisfactory to the Association.

#### Part C of the Project

17. In order to improve its accounting system and the provision of data needs for macroeconomic management, including balance of payments, external debt and general management information, BOU shall develop a work program which shall be satisfactory to the Association.

The Deputy Governor, BOU, with the assistance of a management implementation team shall be responsible for implementation of the work program.

#### Part D of the Project

18. The Permanent Secretary, MPS, shall be responsible to implement Part D of the Project with the assistance of: (a) an implementation committee, whose experience, qualifications and terms of reference shall be satisfactory to the Association; and (b) a technical assistance team which shall be headed by a chief technical advisor and include short- and long-term experts whose terms of reference shall be satisfactory to the Association and the Implementation Committee to be established under (a) above.

## Special Account

1. For the purposes of this Schedule:

(a) the term "eligible Categories" means Categories 1 through 4 set forth in the table in paragraph 1 of Schedule 1 to this 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 Credit allocated from time to time to the eligible Categories in accordance with the provisions of Schedule 1 to this Agreement; and

(c) the term "Authorized Allocation" means an amount of \$2,500,000 to be withdrawn from the Credit Account and deposited into the Special Account pursuant to paragraph 3 (a) of this Schedule.

2. Payments out of the Special Account shall be made exclusively for eligible expenditures in accordance with the provisions of this Schedule.

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

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

(b) (i) For replenishment of the Special Account, the Borrower shall furnish to the Association requests for deposits into the Special Account at such intervals as the Association shall specify.

(ii) 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 paragraph 4 of this Schedule 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 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.

All such deposits shall be withdrawn by the Association from the Credit Account under the respective eligible Categories, and in the respective equivalent amounts, as shall have been justified by said documents and other evidence.

4. For each payment made by the Borrower out of the 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.

5. Notwithstanding the provisions of paragraph 3 of this Schedule, the Association shall not be required to make further deposits into the Special Account:

(a) if, at any time, the Association shall have determined that all further withdrawals should be made by the Borrower directly from the Credit Account in accordance with the provisions of Article V of the General Conditions and paragraph (a) of Section 2.02 of this Agreement; or

(b) once the total unwithdrawn amount of the Credit allocated to the eligible Categories, less the amount of any outstanding special commitment entered into by the Association pursuant to Section 5.02 of the General Conditions with respect to the Project, shall equal the equivalent of twice the amount of the Authorized Allocation.

Thereafter, withdrawal from the Credit Account of the remaining unwithdrawn amount of the Credit allocated to the eligible 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.

6. (a) If the Association shall have determined at any time that any payment out of the Special Account: (i) was made for an expenditure or in an amount not eligible pursuant to paragraph 2 of this Schedule, or (ii) was not justified by the evidence furnished to the Association, the Borrower shall, promptly upon notice from the Association: (A) provide such additional evidence as the Association may request, or (B) 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 or the portion thereof not so eligible or justified. 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 shall have determined at any time that any amount outstanding in the Special Account will not be required to cover further payments for eligible expenditures, 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 the Special Account.

(d) Refunds to the Association made pursuant to paragraphs 6 (a), (b) and (c) of this Schedule shall be credited to the Credit Account for subsequent withdrawal or for cancellation in accordance with the relevant provisions of this Agreement, including the General Conditions.

