

CONFORMED COPY

CREDIT NUMBER 2583 UG

Development Credit Agreement

(Small Towns Water and Sanitation Project)

between

THE REPUBLIC OF UGANDA

and

INTERNATIONAL DEVELOPMENT ASSOCIATION

Dated May 3, 1994

CREDIT NUMBER 2583 UG

DEVELOPMENT CREDIT AGREEMENT

AGREEMENT, dated May 3, 1994, between THE REPUBLIC OF UGANDA (the Borrower) and INTERNATIONAL DEVELOPMENT ASSOCIATION (the Association).

WHEREAS: (A) the Borrower, having satisfied itself as to the feasibility and priority of the Project described in Schedule 2 to this Agreement, has requested the Association to assist in the financing of the Project;

(B) Part B of the Project will be carried out by National Water and Sewerage Corporation (NWSC) with the Borrower's assistance and, as part of such assistance, the Borrower will make available to NWSC a portion of the proceeds of the Credit as provided in this Agreement; and

WHEREAS the Association has agreed, on the basis, inter alia, of the foregoing, to extend the Credit to the Borrower upon the terms and conditions set forth in this Agreement and in the Project Agreement of even date herewith between the Association and NWSC;

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 and in the Preamble to this Agreement have the respective meanings therein set forth and the following additional terms have the following meanings:

(a) "DWD" means the Borrower's Directorate of Water Development;

(b) "MOH" means the Borrower's Ministry of Health;

(c) "MOLG" means the Borrower's Ministry of Local Government;

(d) "NWSC" means National Water and Sewerage Corporation, a parastatal organization of the Borrower established in accordance with the National Water and Sewerage Corporation Decree, (Decree No. 34 of 1972) (NWSC Decree);

(e) "Project Agreement" means the agreement between the Association and National Water and Sewerage Corporation (NWSC), of even date herewith, as the same may be amended from time to time, and such term includes all schedules and agreements supplemental to the Project Agreement;

(f) "Project Preparation Advance" means the project preparation advance granted by the Association to the Borrower pursuant to an exchange of letters dated November 22, 1990, January 4, 1991, September 9, 1991, December 24, 1991, January 15, 1992, November 18, 1993 and December 28, 1993 between the Borrower and the Association;

(g) "Subsidiary Loan Agreement" means the agreement to be entered into between the Borrower and NWSC pursuant to Section 3.01 (c) of this Agreement, as the same may be amended from time to time, and such term includes any schedules to the Subsidiary Loan Agreement;

(h) "Special Account" means either of the accounts referred to in Section 2.02 (b) and (c) of this Agreement;

(i) "Ugandan Shilling" means the currency of the Borrower;

(j) "Water and Sanitation Committee" or "WSC" means a committee consisting of representatives/delegates of the WUG;

(k) "Water User Association" or "WUA" means an association formed by water user groups;

(l) "Water User Group" or "WUG" means a community of beneficiaries of one or more particular source of water and associated sanitation facilities; and

(m) "Implementation Manual" means the manual to be prepared by the Borrower to describe the mechanism and procedures to be followed in the implementation of the Project, including, inter alia, the specifications of the role of DWD, WSCs, WUAs, WUGs, district administrations, model-contracts, guidelines for the opening and maintenance of accounts by the WUAs, for tariff-setting, and specification on monitoring procedures and indicators.

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 thirty million four hundred thousand Special Drawing Rights (SDR 30,400,000).

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 and to be financed out of the proceeds of the Credit.

(b) The Borrower shall, for the purposes of Parts A and C of the Project, open and maintain in dollars a special deposit account (Special Account A) 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, Special Account A shall be made in accordance with the provisions of Schedule 5 to this Agreement.

(c) The Borrower shall, for the purposes of Part B of the Project, cause NWSC to open and maintain in dollars a special deposit account (Special Account B) 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, Special Account B shall be made in accordance with the provisions of Schedule 5 to this Agreement.

(d) 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 cancelled.

Section 2.03. The Closing Date shall be December 31, 2001 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 or 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 payment 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 June 1 and December 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 June 1 and December 1 commencing June 1, 2004 and ending December 1, 2033. Each installment to and including the installment payable on December 1, 2013 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.

Section 2.09. NWSC is designated as representative of the Borrower in respect of Part B of the Project for the purposes of taking any action required or permitted to be taken under the provisions of Section 2.02 of this Agreement and Article V 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:

- (i) shall carry out, through DWD, Parts A and C of the Project 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 such Parts of the Project; and
- (ii) without limitation or restriction upon any of its other obligations under the Development Credit Agreement, the Borrower shall cause NWSC to perform all its obligations set forth in the Project Agreement, shall take or cause to be taken all action, including the provision of funds, facilities, services and other resources, necessary or appropriate to enable NWSC to perform such obligations, and shall not take or permit to be taken any action which would prevent or interfere with such performance.

(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 Parts A and C of the Project in accordance with the Implementation Program set forth in Schedule 4 to this Agreement.

(c) The Borrower shall: (i) make available to NWSC the equivalent of 50% of SDR 15,800,000 from the proceeds of the Credit in the form of equity contribution to NWSC's capital; and (ii) relend the equivalent of 50% of SDR 15,800,000 from the proceeds of the Credit to NWSC under a subsidiary loan agreement to be entered into between the Borrower and NWSC, under terms and conditions which shall have been approved by the Association, and, which shall include, inter alia, repayment of principal in 25 years, including five years of grace, and interest at a rate equal to the prevailing minimum rate charged by commercial banks in Uganda for commercial loans to companies, plus three percent (3%).

(d) The Borrower shall bear the foreign exchange risk under the Subsidiary Loan Agreement.

(e) The Borrower shall exercise its rights under the Subsidiary Loan Agreement in such manner as to protect the interests of the Borrower and the Association and to accomplish the purposes of the Credit, and except as the Association shall otherwise agree, the Borrower shall not assign, amend, abrogate or waive the Subsidiary Loan Agreement or any provision thereof.

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. The Borrower and the Association hereby agree that the obligations set forth in Sections 9.03, 9.04, 9.05, 9.06, 9.07 and 9.08 of the General Conditions (relating to insurance, use of goods and services, plans and schedules, records and reports, maintenance and land acquisition, respectively) in respect of Part B of the Project shall be carried out by NWSC pursuant to Section 2.04 of the Project Agreement.

Section 3.04. The Borrower shall take all necessary measures to ensure that the Borrower's ministries and parastatal bodies pay NWSC for water charges promptly after the billing date and in any event to settle any arrears by the end of each fiscal year.

Section 3.05. The Borrower shall complete: (i) not later than March 31, 1995, a district organization assessment and planning study for one district ; and (ii) not later than September 30, 1995, a participatory organization assessment and strategic planning study of DWD.

Section 3.06. The Borrower shall cause DWD to carry out public hygiene education in consultation with MOH and the district administrations, and conduct two workshops to review progress, not later than November 30, 1995 and November 30, 1998 respectively. DWD shall prepare and furnish the Association a plan for the implementation of the first workshop not later than August 31, 1995.

Section 3.07. The Borrower shall (a) establish and maintain, in DWD, for the entire duration of the Project, adequate staffing for Project implementation consisting, inter alia, of a project coordinator, a procurement officer, a socio-economist/monitor and an accountant, and (b) employ a technical advisor for a minimum of two years from the Effective Date.

Section 3.08. The Borrower shall hold a Project launch workshop in cooperation with NWSC, not later than three months after the Effective Date.

Section 3.09. The Borrower shall take all necessary actions to enable prompt and adequate quarterly adjustments or, if required, more frequent adjustments of water tariffs as proposed by NWSC.

Section 3.10. The Borrower shall establish, by January 31, 1995, a system of spare parts distribution for handpumps and other water and sanitation technologies, including, inter alia, the procurement, storage, distribution through the private sector, logistics of retailing and pricing.

Section 3.11. (a) The Borrower shall conduct, not later than March 31, 1997, jointly with the Association, a midterm review of the Project. Without limitation upon the generality of the foregoing, the review shall, inter alia, cover the implementation and management aspects of the Project, implementation procedures in each of the towns, establishment and functioning of the WUGs and WUAs, progress made by the Project, performance and use of technical assistance personnel, the role of national counterpart staff, the status and results of training, reporting, accounting and audit performance, disbursement procedures and the sustainability of the Project.

(b) Not later than one month prior to the mid-term review referred to in (a) above, the Borrower shall furnish to the Association, for its comments, a report in such detail as the Association shall reasonably request, including an evaluation of the progress achieved in complying with Project implementation.

(c) The Borrower shall, promptly thereafter, carry out the recommendations stemming from the aforementioned review.

Section 3.12. The Borrower shall prepare and implement resettlement programs, satisfactory to the Association, duly approved by the appropriate agencies of the Borrower, for the relocation, including compensation, of all families living on the sites selected for carrying out Part A of the Project.

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 Parts A and C 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 Accounts, 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 report for the fiscal year in which the last withdrawal from the Credit Account or payment out of the Special 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

Remedies of the Association

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

- (a) NWSC shall have failed to perform any of its obligations under the Project Agreement;
- (b) As a result of events which have occurred after the date of the Development Credit Agreement, an extraordinary situation shall have arisen which shall make it improbable that NWSC will be able to perform its obligations under the Project Agreement;
- (c) The NWSC Decree shall have been amended, suspended, abrogated, repealed or waived so as to affect materially and adversely the ability of NWSC to perform any of its obligations under the Project Agreement; and
- (d) The Borrower or any other authority having jurisdiction shall have taken any action for the dissolution or disestablishment of NWSC or for the suspension of its operations.

Section 5.02. Pursuant to Section 7.01 (d) of the General Conditions, the following additional event is specified namely that any event specified in paragraph (a) of Section 5.01 of this Agreement shall occur and shall continue for a period of sixty days after notice thereof shall have been given by the Association to the Borrower.

ARTICLE VI

Effective Date; Termination

Section 6.01. The following events are specified as additional conditions to the effectiveness of the Development Credit Agreement within the meaning of Section 12.01 (b) of the General Conditions:

- (a) the Borrower has prepared a draft Implementation Manual;
- (b) the Borrower has established a legal and regulatory framework for the functioning of WSCs and WUAs; and
- (c) the Borrower has settled all overdue debts to NWSC.

Section 6.02. The following is specified as an additional matter, within the meaning of Section 12.02 (b) of the General Conditions, to be included in the opinion or opinions to be

furnished to the Association, namely, that the Project Agreement has been duly authorized or ratified by NWSC, and is legally binding upon NWSC in accordance with its terms.

Section 6.03. The date ninety (90) days after the date of this Agreement is hereby specified for the purposes of Section 12.04 of the General Conditions.

Section 6.04. The obligations of the Borrower under Sections 3.04 through 3.09 of this Agreement and the provisions of Section 5.02 of this Agreement shall cease and determine on the date on which the Development Credit Agreement shall terminate or on the date fifteen (15) years after the date of this Agreement, whichever shall be the earlier.

ARTICLE VII

Representatives of the Borrower; Addresses

Section 7.01. Except as provided in Section 2.09 of this Agreement, the Borrower's Minister 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:

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

Cable address:	Telex:
FINSEC Kampala	61170

For the Association:

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

Cable address:	Telex:
INDEVAS Washington, D.C.	248423 (RCA) 82987 (FTCC) 64145 (WUI) or 197688 (TRT)

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.

REPUBLIC OF UGANDA

By /s/ Stephen K. Katenta Apuli
Authorized Representative

INTERNATIONAL DEVELOPMENT ASSOCIATION

By /s/ Francis X. Colaco
Acting Regional Vice President
Africa

SCHEDULE 1

Withdrawal of the Proceeds of the Credit

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:

Category	Amount of the Credit Allocated (Expressed in SDR Equivalent)	% of Expenditures to be Financed
Parts A and C of the Project		
(1) Civil Works	6,300,000	100% of foreign expenditures and 25% of local expenditures
(2) Equipment and Materials	1,600,000	100%
(3) Consultants' Services and Training	3,700,000	100%
(4) Operating Costs	500,000	100% of foreign expenditures and 80% of local expenditures
Part B of the Project		
(5) Civil Works	8,600,000	100% of foreign expenditures and 25% of local expenditures
(6) Equipment and Materials	1,100,000	100%
(7) Consultants' Services and Training	4,000,000	100%
Category	Amount of the Credit Allocated (Expressed in SDR Equivalent)	% of Expenditures to be Financed
(8) Operating Costs	100,000	100% of foreign expenditures and 80% of local expenditures
(9) Refunding of PPF:		Amount due pursuant to Section 2.02 (d) of this Agreement
(a) for Parts A and C of the Project	900,000	
(b) for Part B of the Project	200,000	
(10) Unallocated:		

(a) for Parts A and C of the Project	1,600,000
(b) for Part B of the Project	1,800,000
TOTAL	30,400,000
	=====

2. For the purposes of this Schedule:

(a) the term "foreign expenditures" means expenditures in the currency of any country other than that of the Borrower for 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 "operating costs" means expenditures for office supplies and office communications services, minor office equipment, utilities, fuel, maintenance and insurance of vehicles, including motorcycles, used for the Project, and Project staff performance and field allowances approved by the Association.

3. Notwithstanding the provisions of paragraph 1 above, no withdrawals shall be made in respect of payments made for:

- (a) expenditures prior to the date of this Agreement;
- (b) expenditures under Categories 5 through 8, unless:
 - (i) the Subsidiary Loan Agreement has been executed on behalf of the Borrower and NWSC;
 - (ii) NWSC has provided the Association with any overdue audit accounts; and
 - (iii) NWSC has submitted evidence of land rights for the sites required for the Project in Jinja and Njeru.

4. The Association may require withdrawals from the Credit Account to be made on the basis of statements of expenditure for expenditures under contracts not exceeding \$50,000 equivalent, under terms and conditions as the Association shall specify by notice to the Borrower.

SCHEDULE 2

Description of the Project

The objectives of the Project are to: (i) improve health conditions through better water supply, excreta disposal, waste water management, and public hygiene; (ii) reduce poverty and improve the lot of women; and (iii) reduce environmental degradation through better waste management.

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: Small towns

1. Rehabilitation of water supply and sanitation facilities in the Towns of Busia, Kalisizo, Kyotera, Lugazi, Luwero, Lyantonde, Malaba, Ntungamo, Rakai, Rukungiri, and Wobulenzi including:

- (i) Construction of water supply facilities; and
- (ii) Rehabilitation and/or construction of sanitation and drainage facilities.

2. Design of water supply and sanitation works, training, hygiene education, technical assistance, studies, acquisition of vehicles, equipment, spare parts, chemicals, and rehabilitation of office buildings.

Part B: Jinja - Njeru

1. Rehabilitation of water supply and sanitation facilities in Jinja and Njeru, inter alia, through:

(a) replacement of pipes, fittings, valves, hydrants, and related equipment;

(b) rehabilitation of water treatment works and rehabilitation and/or modification of the raw water intake structure; and

(c) upgrading or construction of pit latrines and upgrading or construction of septic tanks and public latrines.

2. Expansion of the water distribution network to serve parts of Jinja, parts of Njeru and other adjacent areas.

3. Construction, rehabilitation or expansion of sewers and waste water treatment works in Jinja and Njeru.

4. Hygiene education, training, technical assistance, computerization of billing, studies, including investment studies for Kampala, Entebbe and Gulu, and acquisition of vehicles, equipment, spare parts, and chemicals.

Part C: Institution Strengthening

Strengthening of the financial and management capacity of the DWD, the user organizations, and the district and urban governmental institutions, through training, technical assistance, studies, workshops, preparation of training materials, acquisition of vehicles, office furniture and equipment, training equipment, and rehabilitation of office buildings.

* * *

The Project is expected to be completed by June 30, 2001.

SCHEDULE 3

Procurement and Consultants' Services

Section I. Procurement of Goods and Works

Part A: International Competitive Bidding

1. Except as provided in Part D 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 1992 (the Guidelines).

(a) For fixed priced contracts, the invitation to bid referred to in paragraph 2.13 of the Guidelines shall provide that, when contract award is delayed beyond the original bid validity period, the successful bidder's bid price will be increased for each week of delay by two predisclosed correction factors acceptable to the Association, one to be applied to all foreign currency components and the other to the local currency component of the bid price. Such an increase shall not be taken into account in the bid evaluation.

(b) In the procurement of goods and works in accordance with this Part A, the Borrower shall use the relevant standard bidding documents issued by the Bank, with such modifications thereto as the Association shall have agreed to be necessary for the purposes of

the Project. Where no relevant standard bidding documents have been issued by the Bank, the Borrower shall use bidding documents based on other internationally recognized standard forms agreed with the Association.

2. Goods shall be exempted from pre-shipment price inspection by a third party inspection firm.

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 the Republic of 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: Preference for Domestic Contractors

In the procurement of works in accordance with the procedures described in Part A.1 hereof, the Borrower may grant a margin of preference to domestic contractors in accordance with, and subject to, the provisions of paragraphs 2.55 and 2.56 of the Guidelines and paragraph 5 of Appendix 2 thereto.

Part D: Other Procurement Procedures

1. Contracts (a) for civil works estimated to cost the equivalent of \$200,000 or less per contract, up to an aggregate amount equivalent to \$5,500,000, (b) for latrine slabs estimated to cost \$20,000 or less per contract, up to an aggregate amount not to exceed \$200,000, and (c) for furniture, supplies, chemicals, teaching materials, equipment, spare parts and other minor equipment, estimated to cost \$100,000 or less per contract up to an aggregate amount equivalent to \$400,000, may be procured under contracts awarded on the basis of competitive bidding, advertised locally, in accordance with procedures satisfactory to the Association.

2. Civil works for spring protection, hand dug wells, installation and surround for handpumps, latrines, septic tanks and other minor civil works for individual contracts estimated to cost the equivalent of \$20,000 or less per contract, up to an aggregate amount equivalent to \$600,000, may be procured under contracts awarded on the basis of competitive bidding, advertised locally at the district level, in accordance with procedures acceptable to the Association.

3. Office furniture and supplies, chemicals, teaching materials, minor equipment and spare parts estimated to cost \$20,000 or less per contract, up to an aggregate amount not to exceed \$200,000 may be procured on the basis of comparison of price quotations obtained from at least three suppliers, in accordance with procedures acceptable to the Association.

4. Drilling of boreholes under Part A of the Project, may, with the approval of the Association, be procured on the basis of force account, in accordance with procedures satisfactory to the Association.

5. Handpumps of a standard design suitable for community maintenance, up to an aggregate amount equivalent to \$350,000, may be procured from the United Nations Children's Fund (UNICEF).

6. Desktop computers, software and peripheral equipment, and urgently required vehicles, up to an aggregate amount equivalent to \$650,000 may, with the prior approval of the Association, be procured through the services of the Inter-Agency Procurement Service Office of the United Nations Development Programme (UNDP).

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 \$200,000 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

1. In order to assist the Borrower in carrying out the Project, the Borrower shall employ experts and consultants whose qualifications, experience and terms and conditions of employment shall be satisfactory to the Association. Such consultants 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 (the Consultants' Guidelines). For complex, time-based assignments, the Borrower shall employ such consultants under contracts using the standard form of contract for consultants' services issued by the Bank, with such modifications as shall have been agreed by the Bank. Where no relevant standard contract documents have been issued by the Bank, the Borrower shall use other standard forms agreed with the Bank.

2. Notwithstanding the provisions of paragraph 1 of this Section, the provisions of the Consultants' Guidelines requiring prior Association review or approval of budgets, short lists, selection procedures, letters of invitation, proposals, evaluation reports and contracts shall not apply to contracts estimated to cost less than \$100,000 equivalent each. However, this exception to prior Association review shall not apply to the terms of reference for such contracts nor to the employment of individuals, to single source selection firm, to assignments of a critical nature as reasonably determined by the Association and to amendments of contracts raising the contract value to \$100,000 equivalent or above.

SCHEDULE 4

Implementation Program

General

1. DWD, in consultation with NWSC, shall prepare and furnish to the Association semi-annual progress reports of the Project not later than February 15 and August 15 in each year.

2. The Borrower shall hold, not later than March 15 in each year, an annual implementation workshop to review the operational, financial and institutional performance of the Project.

3. In order to facilitate procurement of works and goods required under the Project, the Borrower shall, not later than one month after the Effective Date, establish a procurement committee comprising representatives of DWD, NWSC, the Central Tender Board and other relevant organizations.

4. The Borrower shall ensure that MOH, through their personnel stationed in the districts, shall assist DWD, in sanitation and hygiene education.

Part A of the Project

5. Water User Groups (WUGs) and Water User Associations (WUAs) shall have the main responsibility for the operation, maintenance and replacement of the water and sanitation facilities provided under the Project. WUGs shall be represented by an elected committee referred to as Water and Sanitation Committee (WSC), which shall be responsible for revenue collection, hiring of personnel, collection of tariffs, establishment and monitoring of bank accounts, operation and maintenance, and ensuring the overall sustainability of the system.

6. DWD shall be the primary source of technical support to WUGs and WUAs for operation, maintenance and replacement (OMR) and shall remain accountable for OMR of the water and sanitation facilities in cases where WUGs and WUAs should cease to function satisfactorily, until responsibility for operating the water supply system shall be passed on to the district level. DWD shall also be responsible for monitoring the performance of WUGs and WUAs and for determining the quality and standards of construction.

7. The Borrower shall, prior to the execution of any civil works contract, furnish the Association with satisfactory evidence that (a) an agreement between DWD and the WSC in the town concerned has been concluded and (b) land rights for the site of the Project have been secured.

8. The Borrower shall, in consultation with MOLG, ensure that the district administrations and urban authorities of the Borrower shall (a) assist in the establishment of WUGs and WUAs, (b) carry out hygiene education activities, and (c) in case of internal disputes in WUGs and WUAs, constitute the appropriate authority for appeals by WUGs and WUAs.

Part B of the Project

9. In the implementation of Part B of the Project, the Borrower (a) shall ensure that NWSC is fully responsible for providing OMR functions for water supply and sewerage through revenue collected from tariffs; and (b) shall cause NWSC, MOLG, MOH, and Jinja Municipal Council to collaborate in upgrading or construction of pit latrines, septic tanks and public latrines and for hygiene education.

SCHEDULE 5

Special Accounts

1. For the purposes of this Schedule:

(a) the term "eligible Categories" means Categories 1 through 4, for Special Account A and Categories 5 through 8, for Special Account B, 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 equivalent to \$1,500,000 for Special Account A and \$1,000,000 for

Special Account B respectively to be withdrawn from the Credit Account and deposited in the Special Account concerned pursuant to paragraph 3 (a) of this Schedule.

2. Payments out of the Special Accounts 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 Accounts have been duly opened, withdrawals of the Authorized Allocation and subsequent withdrawals to replenish the Special Accounts 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 in the Special Accounts such amount or amounts as the Borrower shall have requested.

- (b) (i) For replenishment of the Special Accounts, the Borrower shall furnish to the Association requests for deposits into the Special Accounts 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 Accounts 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 Accounts 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 Accounts, 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 Accounts:

(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 Accounts 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 Accounts: (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 Accounts (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 Accounts 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 Accounts 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 Accounts.

(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.

