

CONFIRMED COPY

CREDIT NUMBER 2206 UG

(First Urban Project)

between

THE REPUBLIC OF UGANDA

and

INTERNATIONAL DEVELOPMENT ASSOCIATION

Dated March 12, 1991

CREDIT NUMBER 2206 UG

DEVELOPMENT CREDIT AGREEMENT

AGREEMENT, dated \_\_\_\_\_, 1991, 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) Parts A, B, C.1 and D.1 of the Project will be carried out by Kampala City Council (KCC) with the Borrower's assistance and, as part of such assistance, the Borrower will make available to KCC part of the proceeds of the Credit as provided in this Agreement;

(C) the Borrower intends to obtain from the Gesellschaft Fuer Technische Zusammenarbeit of the Federal Republic of Germany

(GTZ) a grant (the GTZ Grant) in an amount approximately equivalent to six hundred thousand dollars (\$600,000) to assist in financing part of the Project on the terms and conditions set forth in an agreement (the GTZ Agreement) to be entered into between the Borrower and GTZ;

(D) the Borrower intends to obtain from the Nordic Development Fund (NDF) a loan (the NDF Loan) in an amount approximately equivalent to five million dollars (\$5,000,000) to assist in financing part of the Project on the terms and conditions set forth in an agreement (the NDF Loan Agreement) to be entered into between the Borrower and NDF; 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 and in the Preamble to this Agreement have the respective meanings therein set forth and the following additional terms have the following meanings:

(a) "Project Agreement" means the agreement between the Association and KCC 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;

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

(c) "PCU" means the Project Coordination Unit referred to in paragraph 1 of Schedule 4 to this Agreement;

(d) "MLG" means the Borrower's Ministry of Local Government;

(e) "MOHUD" means the Borrower's Ministry of Housing and Urban Development;

(f) "MWMD" means the Borrower's Ministry of Water and Mineral Development;

(g) "MLS" means the Borrower's Ministry of Lands and Surveys;

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

(i) "Project Preparation Advance" means the project preparation advance granted by the Association to the Borrower pursuant to an exchange of letters dated March 1, 1988, September 28, 1989, March 14, 1990, May 3, 1988, October 5, 1989 and April 19, 1990 between the Borrower and the Association.

#### ARTICLE II

##### The Credit

Section 2.01. The Association agrees to lend to the Borrower, on the terms and conditions set forth or referred to in the

Development Credit Agreement, an amount in various currencies equivalent to twenty million seven hundred thousand Special Drawing Rights (SDR 20,700,000).

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, through the Bank of Uganda 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) 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 June 30, 1998 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 semi-annually on April 15 and October 15 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 15 and October 15 commencing April 15, 2001 and ending October 15, 2030. Each installment to and including the installment payable on October 15, 2010 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: (i) shall carry out Parts C.2, D.2 and E of the Project through MLG, MOHUD and MWMD with due diligence and efficiency and in conformity with appropriate financial and administrative practices, and shall provide, promptly as needed, the funds, facilities, services and other resources required for the Project; and (ii) without any limitation or restriction upon any of its other obligations under the Development Credit Agreement, shall cause KCC to perform, in accordance with the provisions of the Project Agreement, all the obligations of KCC therein set forth, shall take and cause to be taken all action, including the provision of funds, facilities, services and other resources, necessary or appropriate to enable KCC 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 C.2, D.2 and E of the Project in accordance with the Implementation Program set forth in Schedule 4 to this Agreement.

(c) The Borrower shall for purposes of Parts A, B, C.1 and D.1 of the Project: (i) make available to KCC, as a grant, \$4,500,000 equivalent from the proceeds of the Credit; and (ii) relend to KCC \$21,200,000 equivalent from the proceeds of the Credit under a subsidiary loan agreement to be entered into between the Borrower and KCC under terms and conditions which shall have been approved by the Association and which shall include repayment of principal in 25 years, including five years of grace, interest at a rate of two percent per annum, and the exchange risk to be borne by the Borrower.

(d) 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, shall not assign, amend, abrogate or waive the Subsidiary Loan Agreement or any portion thereof.

(e) The Borrower shall for the purposes of Parts A, B, C.1 and D.1 of the Project: (i) cause KCC to open and maintain in a commercial bank until the completion of the Project an advance account; and (ii) deposit therein an initial amount of the Uganda Shillings equivalent to twenty-seven thousand dollars (\$27,000). Thereafter, the Borrower shall at the beginning of each quarter, deposit the amount estimated to be required to cover 50% of the expenditures for Parts A, B, C.1 and D.1 of the Project during such quarter which are not covered by withdrawals from the Credit Account, the GTZ Grant, or the NDF Loan, and which may not have been covered by the initial deposit made by the Borrower.

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 Parts A, B, C.1 and D.1 of the Project shall be carried out by KCC pursuant to Section 2.03 of the Project Agreement.

Section 3.04. The Borrower shall give KCC all necessary governmental approvals to enable KCC to recover costs of providing municipal services through increases, in a timely manner, of user charges and fees for such services.

Section 3.05. The Borrower shall ensure that the Uganda Land Commission within MLS and all parastatal bodies, shall settle all arrears on property charges due to KCC, in accordance with a schedule of payments satisfactory to the Association which shall include the collection by KCC of: (a) at least Uganda Shillings five hundred million (Ug. Sh.500,000,000) by June 30, 1991; and (b) an additional amount of one billion Uganda Shillings (Ug. Sh. 1,000,000,000) by June 30, 1992.

Section 3.06. The Borrower shall cause PCU to assist KCC in the carrying out of Parts A, B, C.1 and D.1 of the Project.

#### ARTICLE IV

##### Financial Covenants

Section 4.01. (a) For all expenditures with respect to which withdrawals from the Credit Account were made on the basis of statements of expenditures, the Borrower shall:

- (i) maintain or cause to be maintained in accordance with sound accounting practices, records and accounts reflecting such expenditures;
  - (ii) ensure that all records (contracts, orders, invoices, bills, receipts and other documents) evidencing such expenditures are retained 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 was made; and
  - (iii) enable the Association's representatives to examine such records.
- (b) The Borrower shall:
- (i) have the records and accounts referred to in

paragraph (a) (i) of this Section and 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 the report of such audit by said auditors, of such scope and in such detail as the Association shall have reasonably requested, including 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; and
- (iii) furnish to the Association such other information concerning said records and accounts and the audit thereof as the Association shall from time to time reasonably request.

Section 4.02. (a) The Borrower shall take appropriate measures to ensure that, unless otherwise agreed with the Association, the lines of credit available to KCC for recurrent expenditure from the banking system shall not exceed an amount in Uganda Shillings equal to the average of two months revenue collected by KCC in the preceding fiscal year.

(b) For the purposes of this Section the average of one month's revenue collected shall be determined by dividing the aggregate amount of revenue collected by KCC during such year by twelve.

#### 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) KCC 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 KCC will be able to perform its obligations under the Project Agreement.

(c) The law establishing KCC shall have been amended, suspended, abrogated, repealed or waived so as to affect materially and adversely the ability of KCC to perform any of its obligations under the Project Agreement.

(d) The Borrower or any other authority having jurisdiction shall have taken any action for the dissolution or disestablishment of KCC or for the suspension of its operations.

(e) (i) Subject to subparagraph (ii) of this paragraph:

- (A) the right of the Borrower to withdraw the proceeds of any grant or loan made to the Borrower for the financing of the Project shall have been suspended, cancelled or terminated in whole or in part, pursuant to the terms of the agreement providing therefor; or
- (B) any such loan shall have become due and payable prior to the agreed maturity

thereof.

- (ii) The provisions of sub-paragraph (i) above shall not apply if the Borrower establishes to the satisfaction of the Association that: (i) such suspension, cancellation, termination or premature ending is not caused by the failure of the Borrower to perform any of its obligations under such agreement; and (ii) adequate funds for the Project are available to the Borrower from other sources on terms and conditions consistent with the obligations of the Borrower under this Agreement.

Section 5.02. Pursuant to Section 7.01 (d) of the General Conditions, the following additional events are specified:

(a) the 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; and

(b) the events specified in paragraphs (c) and (d) of Section 5.01 of this Agreement shall occur.

#### 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 Subsidiary Loan Agreement has been executed on behalf of the Borrower and KCC.

(b) All conditions precedent to the effectiveness of the GTZ Grant Agreement and the NDF Loan Agreement have been fulfilled.

(c) (i) The Borrower has employed a municipal engineer to serve in PCU, and (ii) KCC has employed a municipal financial management specialist.

Section 6.02. The following are specified as additional matters, 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:

(a) that the Project Agreement has been duly authorized or ratified by KCC, and is legally binding upon KCC in accordance with its terms; and

(b) that the Subsidiary Loan Agreement has been duly authorized or ratified by the Borrower and KCC and is legally binding upon the Borrower and KCC 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 Section 3.04 of this Agreement shall cease and determine on the date on which the Development Credit Agreement shall terminate or on the date twenty-five years after the date of this Agreement, whichever shall be the earlier.

#### ARTICLE VII

##### Representative of the Borrower; Addresses

Section 7.01. The Minister of Finance of the Borrower is designated as representative of the Borrower for the purposes of





(a) under Part A.1 of the Project	3,300,000	
(b) under Part B.2 (a) of the Project	2,250,000	
(c) other	3,600,000	
(2) Vehicles, equipment, tools, materials and training aids	5,700,000	100%
(3) Consultants' Services	2,780,000	100%
(4) Refunding of Project Preparation Advance	1,070,000	Amount due pursuant to Section 2.02 (c) of this Agreement
	Amount of the Credit Allocated (Expressed in SDR Equivalent)	% of Expenditures to be Financed
(5) Unallocated	2,000,000	
	<hr/>	
TOTAL	20,700,000 =====	

2. Notwithstanding the provisions of paragraph 1 above, no withdrawals shall be made in respect of: (a) payments made for expenditures prior to the date of this Agreement;

(b) payments made for expenditures under Category (1) (a) unless KCC submits evidence, satisfactory to the Association, of: (i) KCC's leasehold title to land required for carrying out Part A.1 of the Project; and (ii) a resettlement and compensation program, satisfactory to the Association, duly approved by the Borrower's appropriate agencies; and

(c) payments made for expenditures under Category (1) (b) unless KCC submits evidence satisfactory to the Association, of: (i) KCC's leasehold title to land required for carrying out Part B.2 of the Project; and (ii) a resettlement and compensation program, satisfactory to the Association, duly approved by the Borrower's appropriate agencies.

#### SCHEDULE 2

##### Description of the Project

The objectives of the Project are to: (a) improve living conditions and alleviate poverty in Kampala by restoring key infrastructure services and related maintenance activities; (b) improve urban financial management by (i) strengthening the revenue base of KCC, and (ii) promoting sound urban cost recovery policies; and (c) strengthen institutional capacity by (i) supporting decentralized local urban management; (ii) increasing MLG's capacity to assist local authorities to increase their revenue base and strengthen financial management; and (iii) increasing KCC's capacity to manage urban land development.

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: Rehabilitation of Infrastructure in Kampala

1. (a) Rehabilitation of services and buildings of urban markets at Owino (Musupali), Nateete and Bugolobi.  
(b) Preparation of site plans for six other priority urban markets.  
(c) Acquisition of vehicles, equipment and tools for urban markets.
2. (a) Rehabilitation of existing refuse tips at Lugogo By-Pass, Wakaliga and Port Bell to sanitary landfill standards.  
(b) Acquisition of refuse collection and disposal vehicles and equipment, including a hospital waste incinerator at Mulago Hospital.  
(c) Technical assistance and studies.
3. Routine and periodic maintenance of Kampala's streets and drains, including acquisition of materials, equipment, tools and vehicles.

Part B: Urban Land Management

1. Preparation of:
  - (a) up-to-date topographical maps of Kampala; and
  - (b) urban development plans for Kampala and one other town, including the acquisition of vehicles and equipment.
2. (a) Preparation of about 1,000 plots with infrastructure services at Kawaala in Kampala, construction of temporary office accommodation for KCC, and one primary school.  
(b) Acquisition of: (i) building materials for self-help construction of dwellings at Kawaala; and (ii) vehicles and equipment.

Part C: Rehabilitation of Office Accommodation

1. KCC  
Rehabilitation of Kampala's central mechanical workshop, selected municipal depots and offices.
2. MLG
  - (a) Rehabilitation of selected MLG office accommodation for training management unit; and
  - (b) refurbishment of the annex at the Institute of Public Administration.

Part D: Technical Assistance and Training

1. KCC  
Strengthening of KCC's financial and personnel management systems through, inter alia:
  - (a) the establishment and support of a training unit within KCC;
  - (b) linking arrangements with other local authorities; and
  - (c) the acquisition of vehicles, equipment, tools and training aids.
2. MLG and IPA

(a) establishment of a training management unit within the Local Government Inspectorate;

(b) establishment of a Local Government Resource Center to provide comprehensive support services to local authorities in Uganda; and

(c) acquisition of vehicles, equipment, tools and training aids.

Part E: Studies

Studies for the preparation of a small towns water supply and sanitation project including the acquisition of vehicles and equipment.

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The Project is expected to be completed by December 31, 1997.

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 1985 (the Guidelines).

2. Bidders for the rehabilitation of urban markets and preparation of serviced plots included in Parts A.1 and B.2 of the Project shall be prequalified as described in paragraph 2.10 of the Guidelines.

3. To the extent practicable, contracts for the procurement of vehicles and equipment shall be grouped in bid packages estimated to cost the equivalent of \$300,000 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 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. The rehabilitation works for KCC's training facility, four road maintenance depots, the municipal mechanical workshop, IPA's Annex and MLG's training office may be procured under contracts awarded on the basis of competitive bidding, advertised locally, in accordance with procedures satisfactory to the Association.

2. Road maintenance and building materials and professional equipment, tools, vehicles and training aids estimated to cost less than the equivalent of \$90,000 per contract, up to an aggregate amount not to exceed the equivalent of \$900,000 may be procured

under contracts awarded on the basis of comparison of price quotations solicited from a list of at least three suppliers from at least two different countries eligible under the Guidelines, in accordance with procedures acceptable to the Association.

Part E: Review by the Association of Procurement Decisions

1. Review of prequalification:

With respect to the prequalification of bidders as provided in Part A.2 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 estimated to cost the equivalent of \$300,000 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 the Association has authorized withdrawals on the basis of statements of expenditure.

3. 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 PCU, MLG and KCC in carrying out the Project, the Borrower shall: (a) employ the experts and consultants referred to in Schedule 4 to this Agreement; and (b) cause KCC to employ the experts referred to in the Schedule to the Project Agreement, whose qualifications, experience and terms and conditions of employment shall be satisfactory to the Association. Such experts and 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.

SCHEDULE 4

Implementation Program

PCU

1. The Borrower shall continue to maintain PCU under its Ministry of Planning and Economic Development (MPED), with duly qualified and experienced staff, including a coordinator, as head of PCU, two water engineers, one urban planner, one municipal engineer, an accountant and support staff.

2. (a) PCU shall be accountable to a Steering Committee to be chaired by the Permanent Secretary, MPED and whose members shall include representatives of KCC, MLG, MOHUD, MLS, MWMD, the Ministry

of Finance and National Water and Sewerage Corporation. The Project Coordinator shall serve as secretary to the Steering Committee.

(b) The Chairman shall convene periodic meetings of the Steering Committee at least on a bi-monthly basis.

3. PCU shall be responsible for overall monitoring and coordination of the Project including, procurement of civil works, goods and consultants' services, evaluation of bids, review of studies, preparation of disbursement applications, monitoring Project funds, and the timely preparation and auditing of accounts.

4. Based on periodic reports to be submitted to PCU by KCC and the various ministries and departments of the Borrower responsible for the implementation of the Project, PCU shall prepare and submit to the Association quarterly project progress reports, the format and contents of which shall be satisfactory to the Association. PCU shall also: (a) convene semi-annual Project review meetings to monitor compliance with a Project implementation schedule satisfactory to the Association; and (b) carry out a comprehensive review to evaluate Project implementation by December 31, 1993.

Parts C.2 and D.2 of the Project

5. In order to help local authorities to increase their revenue base and improve their financial and administrative systems MLG shall, with the assistance of a training and organizational specialist, establish a training management unit with responsibility for establishing training and institution development policies for local governments, assessing needs, setting training priorities, and monitoring and evaluating the impact of such policies on local government performance.

6. The Local Government Resource Center shall be set up on the campus of the Institute of Public Administration, and shall be responsible for the development of a full range of decentralized support services to local authorities including training trainers, developing and printing training materials and operational manuals; carrying out action research and consulting assignments in local authorities; acting as a secretariat to the Association of Urban Authorities; offering a full range of decentralized short courses and seminars for local officers; publishing a variety of news bulletins and other documents to keep local authorities informed; and acting as a facilitator for linking programs between Uganda's local authorities and local authorities in other countries. MLG shall employ a coordinator and a media/design specialist to assist in the establishment and operation of the Local Government Resource Center.

Part E of the Project

7. The Water Development Department of MWMD shall be responsible for the preparation of a water supply and sanitation project focusing on the rehabilitation, expansion and new construction of water supplies and sanitation facilities in towns which are smaller than the seven towns already covered in earlier projects financed by the Association.

#### SCHEDULE 5

#### Special Account

1. For the purposes of this Schedule:

(a) the term "eligible Categories" means Categories (1) through (3) 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 \$300,000 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 in 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; (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.

