

Public Disclosure Authorized

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GRANT NUMBER H121 UG

Development Grant Agreement

(Fourth Poverty Reduction Support Operation)

between

THE REPUBLIC OF UGANDA

and

INTERNATIONAL DEVELOPMENT ASSOCIATION

Dated December 1, 2004

Public Disclosure Authorized

DEVELOPMENT GRANT AGREEMENT

AGREEMENT, dated December 1, 2004, between THE REPUBLIC OF UGANDA (the Recipient) and INTERNATIONAL DEVELOPMENT ASSOCIATION (the Association).

WHEREAS (A) the Association has received a letter dated July 28, 2004, (the Letter of Development Policy) from the Recipient describing a program of actions, objectives and policies designed to eradicate poverty from the Recipient's territory (hereinafter called the Program), declaring the Recipient's commitment to the execution of the Program, and requesting assistance from the Association in support of the Program during the execution thereof;

(B) the Recipient has carried out the measures and taken the actions described in Schedule 2 to this Agreement to the satisfaction of the Association; and

(C) on the basis, *inter alia*, of the foregoing, the Association has decided to, in support of the Program, provide such assistance to the Recipient by making the Grant as hereinafter provided;

NOW THEREFORE the parties hereto hereby agree as follows:

ARTICLE I

General Conditions; Definitions

Section 1.01. The "General Conditions Applicable to Development Credit Agreements" of the Association, dated January 1, 1985, (as amended through May 1, 2004), with the modifications set forth in Schedule 3 to this Agreement (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) "BOU" means the Bank of Uganda, the Recipient's central bank;
- (b) "Deposit Account" means the account referred to in Section 2.02 (b) of this Agreement;
- (c) "Local Government" means a local government established under the Recipient's Local Government Act of 1997;
- (d) "MoPS" means the Recipient's Ministry of Public Service;
- (e) "MoFPED" means the Recipient's Ministry of Finance, Planning and Economic Development;

(d) "FY" means the Recipient's fiscal year commencing on July 1 and ending on June 30 of the following year;

(e) "Letter of Development Policy" means the Recipient's letter referred to in paragraph (A) of the Preamble to this Agreement; and

(f) "Social Sector Ministries" means the Recipient's ministries responsible for: (i) health, (ii) education and sports, (iii) water, lands and environment, and (iv) gender, labor and social development.

ARTICLE II

The Grant

Section 2.01. The Association agrees to make available to the Recipient, on the terms and conditions set forth or referred to in the Development Grant Agreement, an amount in various currencies equivalent to one hundred two million and six hundred thousand Special Drawing Rights (SDR 102,600,000).

Section 2.02. (a) Subject to the provisions of paragraphs (b) and (c) of this Section, the Recipient shall be entitled to withdraw the proceeds of the Grant from the Grant Account in support of the Program.

(b) The Recipient shall open, prior to furnishing to the Association the first request for withdrawal from the Grant Account, and thereafter maintain in BOU, a deposit account in Dollars on terms and conditions satisfactory to the Association. All withdrawals from the Grant Account shall be deposited by the Association into the Deposit Account.

(c) The Recipient undertakes that the proceeds of the Grant shall not be used to finance expenditures excluded pursuant to the provisions of Schedule 1 to this Agreement. If the Association shall have determined at any time that any proceeds of the Grant shall have been used to make a payment for an expenditure so excluded, the Recipient shall, promptly upon notice from the Association: (i) deposit into the Deposit Account an amount equal to the amount of said payment; or (ii) if the Association shall so request, refund such amount to the Association. Amounts refunded to the Association upon such request shall be credited to the Grant Account for cancellation.

Section 2.03. The Closing Date shall be September 30, 2005 or such later date as the Association shall establish. The Association shall promptly notify the Recipient of such later date.

Section 2.04. (a) The Recipient shall pay to the Association a commitment charge on the principal amount of the Grant 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 (60) days after the date of this Agreement (the accrual date) to the respective dates on which amounts shall be withdrawn by the Recipient from the Grant 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 Recipient; 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. Commitment charges shall be payable semiannually on February 15 and August 15 in each year.

Section 2.06. The currency of the United States of America is hereby specified for the purposes of Section 4.02 of the General Conditions.

Section 2.07. BOU is designated as representative of the Recipient 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

Particular Covenants

Section 3.01. (a) The Recipient undertakes to implement the Program with due diligence to ensure that actions and policies adopted under the Program are put into effect.

(b) The Recipient and the Association shall from time to time, at the request of either party, exchange views on the progress achieved in carrying out the Program.

(c) Prior to each such exchange of views, the Recipient shall furnish to the Association for its review and comment a report on the progress achieved in carrying out the Program, in such detail as the Association shall reasonably request.

(d) Without limitation upon the provisions of paragraph (a) of this Section, the Recipient shall exchange views with the Association on any proposed action to be taken after the disbursement of the Grant which would have the effect of materially reversing the objectives of the Program, or any action taken under the Program.

Section 3.02. Upon the Association's request, the Recipient shall:

(a) have the Deposit Account audited in accordance with appropriate auditing principles consistently applied, by independent auditors acceptable to the Association;

(b) furnish to the Association as soon as available, but in any case not later than six months after the date of the Association's request for such audit, 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

(c) furnish to the Association such other information concerning the Deposit Account and the audit thereof as the Association shall have reasonably requested.

ARTICLE IV

Additional Event of Suspension

Section 4.01. Pursuant to Section 6.02 (1) of the General Conditions, the following additional event is specified, namely, that a situation has arisen which shall make it improbable that the Program, or a significant part thereof, will be carried out.

ARTICLE V

Termination

Section 5.01. 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 Recipient; Addresses

Section 6.01. Except as provided in Section 2.09 of this Agreement, the Minister of Finance, Planning and Economic Development of the Recipient is designated as the representative of the Recipient 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 Recipient:

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

Cable address:	Facsimile:
FINSEC Kampala	230163

For the Association:

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

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

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.

THE REPUBLIC OF UGANDA

By /s/ Edith Sempala

Authorized Representative

INTERNATIONAL DEVELOPMENT ASSOCIATION

By /s/ Judy O'Connor

Authorized Representative

SCHEDULE 1

Excluded Expenditures

For purposes of Section 2.02 (c) of this Agreement, the proceeds of the Grant shall not be used to finance any of the following expenditures:

1. expenditures in the currency of the Recipient or for goods or services supplied from the territory of the Recipient;
2. expenditures for goods or services supplied under a contract which any national or international financing institution or agency other than the Bank or the Association shall have financed or agreed to finance, or which the Bank or the Association shall have financed or agreed to finance under another Grant or a loan;
3. expenditures for goods included in the following groups or subgroups of the Standard International Trade Classification, Revision 3 (SITC, Rev.3), published by the United Nations in Statistical Papers, Series M, No. 34/Rev.3 (1986) (the SITC), or any successor groups or subgroups under future revisions to the SITC, as designated by the Association by notice to the Recipient:

<u>Group</u>	<u>Subgroup</u>	<u>Description of Items</u>
112	-	Alcoholic beverages
121	-	Tobacco, unmanufactured, tobacco refuse
122	-	Tobacco, manufactured (whether or not containing tobacco substitutes)
525	-	Radioactive and associated materials
667	-	Pearls, precious and semiprecious stones, unworked or worked
718	718.7	Nuclear reactors, and parts thereof; fuel elements (cartridges),

<u>Group</u>	<u>Subgroup</u>	<u>Description of Items</u>
		non-irradiated, for nuclear reactors
728	728.43	Tobacco processing machinery
897	897.3	Jewelry of gold, silver or platinum group metals (except watches and watch cases) and goldsmiths' or silversmiths' wares (including set gems)
971	-	Gold, non-monetary (excluding gold ores and concentrates)

4. expenditures for goods intended for a military or paramilitary purpose or for luxury consumption;
5. expenditures for environmentally hazardous goods (for purposes of this paragraph the term "environmentally hazardous goods" means goods, the manufacture, use or import of which is prohibited under the laws of the Recipient or international agreements to which the Recipient is a party, and any other goods designated as environmentally hazardous by agreement between the Recipient and the Association);
6. expenditures: (a) in the territories of any country which is not a member of the Bank or for goods procured in, or services supplied from, such territories; or (b) on account of any payment to persons or entities, or any import of goods, if such payment or import is prohibited by a decision of the United Nations Security Council taken under Chapter VII of the Charter of the United Nations; and
7. expenditures under a contract in respect of which the Association determines that corrupt or fraudulent practices were engaged in by representatives of the Recipient or of a beneficiary of the Grant during the procurement or execution of such contract, without the Recipient having taken timely and appropriate action satisfactory to the Association to remedy the situation.

SCHEDULE 2

Actions Taken By the Recipient

(a) (i) The Recipient has: adopted a medium term expenditure framework, satisfactory to the Association, for FY2003/04-2005/06, in accordance with the provisions of paragraph 23 of the Letter of Development Policy; and (ii) executed its budget in FY 2003/04 consistent with the allocations made pursuant to subparagraph (i) above;

(b) in accordance with the provisions of paragraph 40 of the Letter of Development Policy, MoPS and MoFPED have put into effect salary adjustments in line with the pay reform strategy reflected in the Recipient's medium term expenditure framework;

(c) the Inspectorate of Government, has: (i) completed the analysis of declared assets and information obtained from various categories of Leaders; (ii) initiated the verification of assets; (iii) investigated all complaints received from the public up to November 2003; and (iv) prepared a time-bound action plan for implementing the Leadership Code;

(d) in accordance with the provisions of paragraph 37 of the Letter of Development Policy, MoPS and MoFPED have completed a comprehensive draft policy paper on issues, measures and modalities for: (i) controlling the size of public administration; and (ii) ensuring the cost efficiency and effectiveness in human resource deployment of the social sectors establishment and discussed the policy paper with the Social Sector Ministries; and

(e) the Recipient's Ministry of Local Government has submitted to Cabinet drafts of Local Government Procurement and Disposal of Assets Regulations and proposals to amend its Local Government Act of 1997, particularly on issues relating to the appointment and removal of tender boards members in Local Governments;

(f) the Recipient has implemented the undertakings agreed and confirmed in the education sector review held in November 2003, in a manner satisfactory to the Association, and in accordance with the provisions of paragraph 103 of the Letter of Development Policy;

(g) the Recipient has implemented the undertakings agreed and confirmed by the health sector review held in November 2003, in a manner satisfactory to the Association, and consistent with the provisions of paragraph 105 of the Letter of Development Policy; and

(h) the Recipient implemented the undertakings agreed and confirmed by the water and sanitation sector review held in March 2004, in a manner satisfactory to the Association, and consistent with the provisions of paragraph 128 of the Letter of Development Policy.

SCHEDULE 3

Modifications to the General Conditions

For the purpose of this Agreement, the provisions of the General Conditions are modified as follows:

1. Sections 3.02, 3.03, 3.04(a), 3.04(b), 6.05 and Article VII are deleted in their entirety.
2. Wherever used in the General Conditions, the following terms are modified to read as follows:

(a) The term “Borrower” is modified to read “Recipient”.

(b) The term “Credit” is modified to read “Grant”.

(c) The term “Credit Account” is modified to read “Grant Account”.

(d) The term “Development Credit Agreement” is modified to read “Development Grant Agreement”.

3. Section 1.01 is modified to read as follows:

“Section 1.01. *Application of General Conditions*

These General Conditions set forth the terms and conditions generally applicable to the Development Grant Agreement to the extent and subject to any modifications set forth in such agreement.”

4. Paragraph 3 of Section 2.01 is modified to read as follows:

“3. “Recipient” means the party to the Development Grant Agreement to which the Grant is made.”

5. Article III is modified as follows:

(a) The heading of Article III is modified to read “Grant Account; Partial Payment”, and the heading of Section 3.04 is modified to read “Partial Payment”.

(b) The words “The principal of, and service charges on, the Credit” in Section 3.05 are modified to read “All amounts required to be paid under the Development Grant Agreement”.

6. Article IV is modified as follows:

(a) Section 4.02(a) is modified to read as follows:

“Section 4.02. *Currencies in which Payments are to be Made*

(a) The Recipient shall pay all amounts required to be paid by it under the Development Grant Agreement in the currency specified in such agreement or in such other eligible currency or currencies as may from time to time be designated or selected pursuant to paragraph (c) or (e) of this Section.”

(b) Wherever used in Section 4.02(c) and (e) of the General Conditions, the words “principal and service charges” are modified to read “amounts”.

(c) Section 4.03 is modified to read as follows:

“Section 4.03. *Amount of the Grant*

The amount of the Grant withdrawn from time to time shall be the equivalent in terms of SDR (determined as of the date or respective dates of withdrawal from the Grant Account) of the value of the currency or currencies so withdrawn.”

(d) Section 4.06(b) is modified to read as follows:

“(b) All amounts which the Recipient shall be required to pay under the Development Grant Agreement shall be paid without restrictions of any kind imposed by, or in the territory of, the Recipient.”

7. Section 6.02 is modified as follows:

(a) The phrase “any other development credit agreement” in Section 6.02 (a) (ii) is modified to read: “any other development grant agreement or any development credit agreement or development financing agreement”.

(b) The phrase “any development credit agreement” in Section 6.02 (c) (i) is modified to read: “any development grant agreement, development credit agreement or development financing agreement”.

8. Section 8.01(a) is modified to read as follows:

“(a) All amounts which the Recipient shall be required to pay under the Development Grant Agreement shall be paid without deduction for, and free from, any taxes levied by, or in the territory of, the Recipient.”

9. Section 12.05 and its heading are modified to read as follows:

“Section 12.05. *Termination of Development Grant Agreement.*

The obligations of the Recipient under the Development Grant Agreement shall terminate on the date 20 years after the date of the Development Grant Agreement.”