

CONFORMED COPY

CREDIT NUMBER 2268 UG

(Third Power Project)

between

THE REPUBLIC OF UGANDA

and

INTERNATIONAL DEVELOPMENT ASSOCIATION

Dated January 9, 1992

CREDIT NUMBER 2268 UG

DEVELOPMENT CREDIT AGREEMENT

AGREEMENT, dated January 9, 1992, 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) the Borrower intends to obtain from the African Development Fund (AfDF) a loan (the AfDF Loan) in an amount equivalent to \$37,500,000 to assist in financing the Project on the terms and conditions set forth in an agreement (the AfDF Loan Agreement) to be entered into between the Borrower and AfDF;

(C) the Borrower intends to obtain from the Swedish Agency for International Technical and Economic Cooperation (BITS) a loan (the BITS Loan) in an amount equivalent to \$10,000,000 to assist in financing the Project under terms and conditions set forth in an agreement (the BITS Loan Agreement) to be entered into between the

Borrower and BITS;

(D) the Borrower intends to obtain from the Kingdom of Norway (Norway) a loan (the Norwegian Loan) in an amount equivalent to \$25,300,000 to assist in financing the Project on the terms and conditions set forth in an agreement (the Norwegian Loan Agreement) to be entered into between the Borrower and Norway; and

(E) the Project will be carried out by Uganda Electricity Board (UEB) with the Borrower's assistance and, as part of such assistance, the Borrower will make available to UEB 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 UEB;

NOW THEREFORE the parties hereto hereby agree as follows:

ARTICLE I

General Conditions; Definitions

Section 1.01. The "General Conditions Applicable to Development Credit Agreements" of the Association, dated January 1, 1985, with the last sentence of Section 3.02 deleted (the General Conditions) constitute an integral part of this Agreement.

Section 1.02. Unless the context otherwise requires, the several terms defined in the General Conditions have the respective meanings therein set forth and the following additional terms have the following meanings:

(a) "MOE" means the Borrower's Ministry of Energy;

(b) "Project Preparation Advance" means the project preparation advance granted by the Association to the Borrower pursuant to an exchange of letters dated January 3, 1990, April 18, 1990 and January 4, 1991 between the Borrower and the Association;

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

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

(e) "UEB" means Uganda Electricity Board;

(f) "Project Agreement" means the agreement between the Association and Uganda Electricity Board (UEB), 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; and

(g) "The Electricity Act" means the Borrower's Electricity Act of 1964 (Cap. 135) establishing UEB.

ARTICLE II

The Credit

Section 2.01. The Association agrees to lend to the Borrower, on the terms and conditions set forth or referred to in this Agreement, an amount in various currencies equivalent to eighty-six million nine hundred thousand Special Drawing Rights (SDR 86,900,000).

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 the Project, open and maintain in dollars a special deposit account in a commercial bank through the Central 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 3 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, 1997 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 per cent (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 February 15 and August 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 February 15 and August 15 commencing August 15, 2001 and ending February 15, 2031. Each installment to and including the installment payable on February 15, 2011 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 Part 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 UEB 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 UEB to perform such obligations, and shall not take or permit to be taken any action which would prevent or interfere with such performance.

(b) The Borrower shall: (i) make available to UEB the equivalent of SDR 20,800,000 from the proceeds of the Credit as equity contribution to UEB's capital; and (ii) relend the equivalent of SDR 65,600,000 from the proceeds of the Credit to UEB under a subsidiary loan agreement to be entered into between the Borrower and UEB, under terms and conditions which shall have been approved by the Association which shall include: (i) repayment of principal in 20 years including a grace period of five years; (ii) the payment of interest at the rate of 7-1/2% per annum; and (iii) UEB to bear the foreign exchange risk.

(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, the Borrower shall not assign, amend, abrogate or waive the Subsidiary Loan Agreement or any provision thereof.

Section 3.02. In order to carry out Part C of the Project the Borrower shall employ consultants and experts whose qualifications,

experience and terms and conditions of employment shall be satisfactory to the Association. Such consultants and experts shall be selected in accordance with principles and procedures satisfactory to the Association on the basis of the "Guidelines for the Use of Consultants by World Bank Borrowers and by the World Bank as Executing Agency" published by the Bank in August 1981.

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 and B of the Project shall be carried out by UEB pursuant to Section 2.03 of the Project Agreement.

ARTICLE IV

Financial Covenants

Section 4.01. (a) The Borrower shall maintain or cause to be maintained records and accounts adequate to reflect in accordance with sound accounting practices the operations, resources and expenditures in respect of Part C of the Project of the departments or agencies of the Borrower responsible for carrying out Part C of the Project or any part thereof.

(b) The Borrower shall:

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

Section 4.02. The Borrower shall take appropriate measures to enable UEB to collect promptly payments for electricity supplies from Government ministries or departments and parastatal organizations and ensure that the annual budget reflects anticipated electricity charges of its ministries and parastatals.

Section 4.03. The Borrower shall: (a) take all measures necessary to enable UEB to earn a rate of return as provided in Section 4.04 of the Project Agreement; and

(b) approve tariff increases sufficient to enable UEB to achieve said objective.

Section 4.05. The Borrower shall promptly take all remedial measures necessary to ensure the safety of the dam at the Owen Falls hydroelectric power station.

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

(c) The Electricity Act shall have been amended, suspended, abrogated, repealed or waived so as to affect materially and adversely the ability of UEB 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 UEB or for the suspension of its operations.

(e) The BITS Loan Agreement shall have failed to become effective by April 30, 1992, or such later date as the Association may agree.

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

(A) The right of the Borrower to withdraw the proceeds of any loan or grant 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 thereof; or

(B) any such loan shall have become due and payable prior to the agreed maturity thereof.

(ii) Subparagraph (i) of this paragraph shall not apply if the Borrower establishes to the satisfaction of the Association that: (A) such suspension, cancellation, termination or prematuring is not caused by the failure of the Borrower to perform any of its obligations under such agreement; and (B) 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) 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; and

(b) any event 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 this 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 UEB;

(b) the Borrower has completed the conversion of at least \$40,000,000 of UEB debt as equity contribution to UEB's share capital;

(c) UEB has increased its tariffs by a rate which will result in the average tariff being equal to the Uganda Shillings

equivalent of 4.8 cents of a United States Dollar per Kw/hr;

(d) UEB's net fixed assets have been revalued and appropriate adjustments made to its accounts;

(e) consultants to be employed by UEB, in accordance with terms of reference satisfactory to the Association, have investigated and advised on any necessary dam measures and produced a work program and associated bidding documents required to ensure the safety of the Owen Falls Dam, and a panel of experts, with a composition and terms of reference satisfactory to the Association, has been appointed by UEB and has reviewed the consultants' proposals for dam safety measures, and has also reviewed and advised on the technical and safety aspects of the Project structure; and

(f) UEB has furnished the Association with satisfactory evidence that financing of at least \$20,000,000 has been made available to UEB for civil works under Part A of the Project.

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 UEB, and is legally binding upon UEB in accordance with its terms; and

(b) that the Subsidiary Loan Agreement has been duly authorized or ratified by the Borrower and UEB and is legally binding upon the Borrower and UEB in accordance with its terms; and

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.

ARTICLE VII

Representatives of the Borrower; Addresses

Section 7.01. The The Minister Of Finance of the Borrower 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
P.O. Box 8147
Kampala, Uganda

Cable address:

FINSEC
Kampala

Telex:

61170

For the Association:

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

Cable address:

INDEVAS
Washington, D.C.

Telex:

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.

THE 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
(1) Civil Works	33,600,000	100% of foreign expenditures and 10% of local expenditures
(2) Electrical and Mechanical Equip- ment, Including Equipment for Dam Strengthening	29,300,000	100% of foreign expenditures
(3) Consultants' Services	10,450,000	100%
(4) Technical Assistance	400,000	100%
(5) Refunding of Project Preparation Advance	550,000	Amounts due pursuant to Section 2.02 (c) of this Agreement
(6) Unallocated	12,600,000	
TOTAL	<u>86,900,000</u> =====	

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; and

(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.

(c) Notwithstanding the provisions of paragraph 1 above, no withdrawals shall be made in respect of: (i) payments made for expenditures prior to the date of this Agreement; and (ii) Category (1) in the table set forth in paragraph 1 above unless (1) the Borrower has implemented a plan, satisfactory to the Association, for the resettlement of families from the site required for the carrying out of Part A of the Project, (2) UEB has furnished the Association with satisfactory evidence that supplemental financing, including the Norwegian Loan and the AfDF Loan, for the Project of at least \$130,000,000 has been made available to the Borrower or UEB, and (3) progress satisfactory to the Association has been made with regard to the identification of about \$45,000,000 to finance the transmission and distribution components of UEB's development program to ensure that these components will be constructed prior to the commissions of the first generator of the Owen Falls Power Station Extension.

SCHEDULE 2

Description of the Project

The objectives of the Project are to: (a) assist the Borrower with the continued rehabilitation of the power system in Uganda; and (b) develop its hydroresources and expand the transmission and distribution system, to provide reliable, least-cost energy to Uganda's growing population.

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: Owen Falls

Dam strengthening, construction of a spillaway, plant capacity expansion by at least 102 MW, and civil works to accommodate a plant capacity of 170 MW.

Part B: Transmission and Distribution and Technical Assistance

(1) Rehabilitation and expansion of transmission and distribution on the national grid.

(2) Technical Assistance to UEB.

Part C: Ministry of Energy

Strengthening MOE's energy sector management capability through:

(a) studies on alternatives sources of energy, including environmental aspects of sector planning;

(b) the employment of a panel of dam experts;

(c) studies of Uganda's hydroelectric potential; and

(d) a study on petroleum procurement, including pipelines, storage and distribution.

* * *

The Project is expected to be completed by December 31, 1996.

SCHEDULE 3

Special Account

1. For the purposes of this Schedule:

(a) the term "eligible Categories" means Categories (1) through (4) set forth in the table in paragraph 1 of Schedule 1 to this Agreement;

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

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

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

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

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

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

(ii) Prior to or at the time of each such request, the Borrower shall furnish to the Association the documents and other evidence required pursuant to paragraph 4 of this Schedule for the payment or payments in respect of which replenishment is requested. On the basis of each such request, the Association shall, on behalf of the Borrower, withdraw from the Credit Account and deposit into the Special Account such amount as the Borrower shall have requested and as shall have been shown by said documents and other evidence to have been paid out of the Special Account for eligible expenditures.

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

4. For each payment made by the Borrower out of the Special Account, the Borrower shall, at such time as the Association shall reasonably request, furnish to the Association such documents and other evidence showing that such payment was made exclusively for eligible expenditures.

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

(a) if, at any time, the Association shall have determined that all further withdrawals should be made by the Borrower directly

from the Credit Account in accordance with the provisions of Article V of the General Conditions and paragraph (a) of Section 2.02 of this Agreement; or

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

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

6. (a) If the Association shall have determined at any time that any payment out of the Special Account: (i) was made for an expenditure or in an amount not eligible pursuant to paragraph 2 of this Schedule; (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 paragraph 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.

