

CONFORMED COPY

CREDIT NUMBER 3545-UG

## Development Credit Agreement

(Fourth Power Project)

between

THE REPUBLIC OF UGANDA

and

INTERNATIONAL DEVELOPMENT ASSOCIATION

Dated August 29, 2001

CREDIT NUMBER 3545-UG

## DEVELOPMENT CREDIT AGREEMENT

AGREEMENT, dated August 29, 2001, 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 (the Project), has requested the Association to assist in the financing of the Project;

(B) the Association has received a letter, dated March 19, 2001, from the Borrower describing a program of actions, objectives and policies for transforming the power sub-sector into an efficient and financially viable electricity industry through the reform and restructuring of the power sub-sector, including: (i) the unbundling of Uganda Electricity Board (UEB) into separate companies for power generation, transmission and distribution; (ii) the subsequent privatization of the generation and distribution businesses; (iii) the operation of the transmission company on a commercial basis; and (iv) attracting new private sector investments, (the Program) and declaring the Borrower's commitment to the execution of the Program;

(C) the Borrower has established: (i) Uganda Electricity Generation Company Limited (the Generation Company) to carry out UEB's power generation activities; (ii) Uganda Electricity Transmission Company Limited (the Transmission Company) to carry out UEB's power transmission activities; and (iii) Uganda Electricity Distribution Company Limited (the Distribution Company) to carry out UEB's electricity distribution activities;

(D) Parts A.1, A.3 (a), A.4, A.5, and Part B of the Project will be carried out by the Generation Company with the Borrower's assistance and, as part of such assistance, the Borrower will make available to the Generation Company part of the

proceeds of the credit provided for in Article II of this Agreement (the Credit), as set forth in this Agreement;

(E) the Borrower intends to contract from the Nordic Development Fund (NDF) a loan in an amount equivalent to eleven million three hundred thousand Dollars (the NDF Loan) to assist in financing Parts A.2 and A.3 (a) of the Project on the terms and conditions set forth in an agreement to be entered into between the Borrower and NDF (the NDF Loan Agreement); and

(F) the Borrower intends to contract from the Norwegian Agency for Development Cooperation (NORAD) a loan in an amount equivalent to six million seven hundred thousand Dollars (the NORAD Loan) to assist in financing Part A.3 (b) of the Project on the terms and conditions set forth in an agreement to be entered into between the Borrower and NORAD (the NORAD Loan Agreement);

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 agreement of even date herewith between the Association and the Generation Agreement (the Project 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 (as amended through October 6, 1999), with the modifications set forth below (the General Conditions), constitute an integral part of this Agreement:

(a) A new paragraph (12) is added to Section 2.01 to read as set forth below, and the existing paragraphs (12) through (14) of said Section are accordingly renumbered as paragraphs (13) through (15):

"12. 'Participating Country' means any country that the Association determines meets the requirements set forth in Section 11 of Resolution No. 194 of the Board of Governors of the Association, adopted on April 8, 1999; and 'Participating Countries means, collectively, all such countries.'" ; and

(b) The second sentence of Section 5.01 is modified to read:

"Except as the Borrower and the Association shall otherwise agree, no withdrawals shall be made: (a) on account of expenditures in the territories of any country which is not a Participating Country or for goods produced in, or services supplied from, such territories; or (b) for the purpose of any payment to persons or entities, or for any import of goods, if such payment or import, to the knowledge of the Association, is prohibited by a decision of the United Nations Security Council taken under Chapter VII of the Charter of the United Nations."

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) "EIA" means the environmental impact analysis for Part A of the Project commissioned by UEB (as hereinafter defined) dated August 31, 2000;

(b) "Eligible Categories" means: (i) categories (1), (2), and (4) (a) set forth in the table in Part A.1 of Schedule 1 to this Agreement, in respect of the Special Account for Parts A.1, A.3 (a), A.4, A.5, and Part B of the Project (Special Account "A"); and (ii) categories (3), (4) (b), (4) (c), and (5) set forth in the table in Part A.1 of Schedule 1 to this Agreement in respect of the Special Account for Parts C and D of the Project (Special Account "B");

(c) "Eligible Expenditures" means the expenditures for goods, works, and services referred to in Section 2.02 (a) of this Agreement;

(d) "Distribution Company" means Uganda Electricity Distribution Company Limited incorporated on March 26, 2001 under the Companies Act, Cap. 85 of the laws of

the Borrower and established by the Borrower to, inter alia, take over and operate the power distribution activities of UEB (as hereinafter defined);

(e) "ERA" means the Borrower's Electricity Regulatory Authority established pursuant to the Electricity Act of 1999;

(f) "Generation Company" means Uganda Electricity Generation Company Limited incorporated on March 26, 2001 under the Companies Act, Cap. 85 of the laws of the Borrower and established by the Borrower to, inter alia, take over and operate the power generation activities of UEB (as hereinafter defined);

(g) "Generation Company Project Implementation Manual" means the manual referred to in paragraph 1 of Schedule 1 to the Project Agreement;

(h) "IAPSO" means the Inter-Agency Procurement Services of the United Nations;

(i) "Letter of Policy" means the Borrower's letter referred to in Paragraph (B) of the preamble to this Agreement;

(j) "Management Services Agreement" means the agreement, in form and substance satisfactory to the Association, referred to in Section 6.01 (f) of this Agreement, to be entered by UEB (as hereinafter defined) and the Generation Company under which UEB will provide to the Generation Company procurement and financial management services for the implementation of Parts A.1, A.3 (a), A.4, A.5, and Part B of the Project;

(k) "MEMD" means the Borrower's Ministry of Energy and Mineral Development;

(l) "MEMD Project Implementation Manual" means the manual referred to in Paragraph 1 (a) (i) of Schedule 4 to this Agreement;

(m) "Petroleum Monitoring Unit" means the unit to be established within MEMD to monitor the operations of the petroleum sub-sector;

(n) "Transmission Company" means Uganda Electricity Transmission Company Limited incorporated on March 26, 2001 under the Companies Act Cap. 85 of the laws of the Borrower and established by the Borrower to, inter alia, take over and operate the power transmission activities of UEB (as hereinafter defined);

(o) "Program" means the program described in the Letter of Policy;

(p) "Project Agreement" means the agreement between the Association and the Generation Company, 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;

(q) "Project Management Report" means each report prepared in accordance with Section 4.02 of this Agreement and of the Project Agreement;

(r) "Project Preparation Advance" means the project preparation advance granted by the Association to the Borrower pursuant to an exchange of letters dated April 14, 1999 and May 21, 1999 between the Borrower and the Association;

(s) "SCADA" means a system for control and data acquisition, including telecommunication required for carrying out Part A.2 of the Project;

(t) "Special Account" means Special Account "A" and Special Account "B" referred to in Part B of Schedule 1 to this Agreement;

(u) "Subsidiary Loan Agreement" means the agreement to be entered into between the Borrower and the Generation Company 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; and

(v) "UEB" means Uganda Electricity Board established by the Borrower under Cap. 135 of the laws of the Borrower.

## 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 forty eight million Special Drawing Rights (SDR 48,000,000).

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) 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 canceled.

Section 2.03. The Closing Date shall be December 31, 2004 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 canceled; and (ii) at the rate set as of the June 30 immediately preceding the accrual date and at such other rates as may be set from time to time thereafter pursuant to paragraph (a) above. The rate set as of June 30 in each year shall be applied from the next date in that year specified in Section 2.06 of this Agreement.

(c) The commitment charge shall be paid: (i) at such places as the Association shall reasonably request; (ii) without restrictions of any kind imposed by, or in the territory of, the Borrower; and (iii) in the currency specified in this Agreement for the purposes of Section 4.02 of the General Conditions or in such other eligible currency or currencies as may from time to time be designated or selected pursuant to the provisions of that Section.

Section 2.05. The Borrower shall pay to the Association a service charge at the rate of three-fourths of one percent (3/4 of 1%) per annum on the principal amount of the Credit withdrawn and outstanding from time to time.

Section 2.06. Commitment charges and service charges shall be payable semiannually on April 15 and October 15 in each year.

Section 2.07. (a) Subject to paragraphs (b), (c) and (d) below, the Borrower shall repay the principal amount of the Credit in semiannual installments payable on each April 15 and October 15 commencing October 15, 2011 and ending April 15, 2041. Each installment to and including the installment payable on October 15, 2021, 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 per capita gross national product (GNP), as determined by the Association, shall have exceeded for three consecutive years the level established annually by the Association for determining eligibility to access the Association's resources; 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 repayment of installments under paragraph (a) above by: (A) 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; and (B) requiring the Borrower to commence repayment of the principal amount of the Credit as of the first semiannual payment

date referred to in paragraph (a) above falling six months or more after the date on which the Association notifies the Borrower that the events set out in this paragraph (b) have occurred, provided, however, that there shall be a grace period of a minimum of five years on such repayment of principal.

(c) If so requested by the Borrower, the Association may revise the modification referred to in paragraph (b) above 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.

(d) 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 and D of the Project through MEMD and ERA and cause Parts A.2 and A.3 (b) of the Project to be carried out by the Transmission Company with due diligence and efficiency and in conformity with appropriate administrative, financial and energy sector practices, and shall provide, promptly as needed, the funds, facilities, services and other resources required for such parts of the Project; and

(ii) without any limitation or restriction upon any of its other obligations under the Development Credit Agreement, shall cause the Generation Company to perform in accordance with the provisions of the Project Agreement all the obligations of the Generation Company 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 the Generation Company 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 relend the proceeds of the Credit allocated to Categories (1), (2) and (4) (a) in the table in paragraph 1 of Schedule 1 to this Agreement to the Generation Company under a subsidiary loan agreement to be entered into between the Borrower and the Generation Company, under terms and conditions which shall have been approved by the Association which shall include: (i) repayment of principal in 15 years, including a grace period of 3 years, payment of interest at the rate of 7.1 percent per annum; and (ii) the exchange risk to be borne by the Generation Company.

(c) 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.

(d) Notwithstanding the provisions of paragraph (c) of this Section, when, in the implementation of the Program, the Borrower proceeds to privatize: the power generation and distribution functions of the Generation Company and the Distribution Company respectively, in accordance with the Letter of Policy, the Borrower shall keep the Association fully informed of such developments, and thereafter take all such measures as may be necessary or required, to ensure that all arrangements for such

privatization are satisfactory to the Association.

(e) The Borrower shall take all such measures as may be necessary or required, to ensure that the Transmission Company shall have adequate capacity, satisfactory to the Association, to: (i) carry on its operations and conduct its affairs in accordance with sound administrative, financial, electric utility and engineering practices under the supervision of qualified and experienced management assisted by competent staff in adequate numbers; and (ii) carry out the implementation of Parts A.2 and A.3 (b) of the Project.

(f) 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 and D of the Project in accordance with the Implementation Program set forth in Schedule 4 to this Agreement.

Section 3.02. Except as the Association shall otherwise agree, procurement of the goods, works and consultants' services required for the Project and to be financed out of the proceeds of the Credit shall be governed by the provisions of Schedule 3 to this Agreement.

Section 3.03. For the purposes of Section 9.06 of the General Conditions and without limitation thereto, the Borrower shall:

(a) with respect to Parts C and D of the Project, prepare, on the basis of guidelines acceptable to the Association, and furnish to the Association not later than six (6) months after the Closing Date or such later date as may be agreed for this purpose between the Borrower and the Association, a plan designed to ensure the continued achievement of the objectives of the Project; and

(b) afford the Association a reasonable opportunity to exchange views with the Borrower on said plan.

Section 3.04. 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 the Generation Company pursuant to Section 2.03 of the Project Agreement.

#### ARTICLE IV

##### Financial Covenants

Section 4.01. (a) The Borrower shall maintain a financial management system, including records and accounts, and prepare financial statements, all in accordance with accounting standards acceptable to the Association, consistently applied, adequate to reflect its operations and financial condition and to register separately the operations, resources and expenditures related to Parts C and D of the Project.

(b) The Borrower shall:

(i) have its records, accounts and financial statements (balance sheets, statements of income and expenses and related statements) and the records and accounts for the Special Accounts for each fiscal year audited, in accordance with auditing standards acceptable to the Association, consistently applied, by independent auditors acceptable to the Association;

(ii) furnish to the Association such other information concerning such records, accounts and financial statements, and the audit thereof, and concerning said auditors, as the Association may 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 Project Management Reports or 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 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 Project Management Reports or 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.

Section 4.02. (a) Without limitation upon the provisions of Section 4.01 of this Agreement, the Borrower shall carry out a time-bound action plan acceptable to the Association for the strengthening of its financial management system for Parts C and D of the Project in order to enable the Borrower, not later than December 31, 2001, or such later date as the Association shall agree, to prepare quarterly Project Management Reports, acceptable to the Association, each of which:

(i) (A) sets forth actual sources and applications of funds for the Project, both cumulatively and for the period covered by said report, and projected sources and applications of funds for the Project for the six-month period following the period covered by said report, and (B) shows separately expenditures financed out of the proceeds of the Credit during the period covered by said report and expenditures proposed to be financed out of the proceeds of the Credit during the six-month period following the period covered by said report;

(ii) (A) describes physical progress in Project implementation, both cumulatively and for the period covered by said report, and (B) explains variances between the actual and previously forecast implementation targets; and

(iii) sets forth the status of procurement under the Project and expenditures under contracts financed out of the proceeds of the Credit, as at the end of the period covered by said report.

(b) Upon the completion of the action plan referred to in paragraph (a) of this Section, the Borrower shall prepare, in accordance with guidelines acceptable to the Association, and furnish to the Association not later than 45 days after the end of each calendar quarter a Project Management Report for such period.

## ARTICLE V

### Remedies of the Association

Section 5.01. Pursuant to Section 6.02 (1) of the General Conditions, the following additional event are specified:

(a) A situation has arisen which shall make it improbable that the Program, or a significant part thereof, will be carried out.

(b) The Generation Company shall have failed to perform any of its obligations under the Project Agreement.

(c) 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 the Generation Company will be able to perform its obligations under the Project Agreement.

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

(A) the right of the Borrower to withdraw the proceeds of any loan made to the Borrower for the financing of the Project shall have

been suspended, canceled or terminated in whole or in part, pursuant to the terms of the agreement providing therefore, (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 (h) of the General Conditions, the following additional event are specified:

(a) the event specified in paragraph (a) of Section 6.01 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

(c) the event specified in paragraph (b) (i) (B) of Section 6.01 of this Agreement shall occur, subject to the proviso of paragraph (b) (ii) of that Section.

## 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 the Generation Company;

(b) the NDF Loan Agreement and the NORAD Loan Agreement have been executed and delivered and all conditions precedent to the effectiveness or to the right of the Borrower to make withdrawals under the NDF Loan Agreement and the NORAD Loan Agreement, respectively, (except for the effectiveness of the Development Credit Agreement), have been fulfilled;

(c) (i) MEMD has employed an accountant with qualifications and experience satisfactory to the Association, to assist in the implementation of Parts C and D of the Project; and

(ii) the Generation Company has employed an environment officer with qualifications and experience satisfactory to the Association;

(d) the Generation Company Project Implementation Manual and the MEMD Project Implementation Manual, in form and substance satisfactory to the Association, have been adopted and furnished to the Association;

(e) the Borrower has: (i) settled all overdue arrears payable to the Distribution Company as of June 30, 2001; and (ii) furnished to the Association an action plan to ensure that the Borrower's agencies shall remain current on their electricity bills;

(f) UEB and the Generation Company have executed the Management Services Agreement; and

(g) UEB and the Generation Company have adopted financial management arrangements, satisfactory to the Association, for the implementation of Parts A.1, A.3 (a), A.4, A.5, and Part B 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 the



Generation Company and is legally binding upon the Generation Company in accordance with its terms; and

(b) that the Subsidiary Loan Agreement has been duly authorized or ratified by the Borrower and the Generation Company and is legally binding upon the Borrower and the Generation Company 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.

#### ARTICLE VII

##### Representative of the Borrower; Addresses

Section 7.01. The Minister of Finance, Planning and Economic Development 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, Planning  
and Economic Development  
P.O Box 8147  
Kampala  
Uganda

Cable address:

FINSEC  
Kampala

Facsimile:

230163

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 (MCI) or  
64145 (MCI)

Facsimile

(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 Ssempala

Authorized Representative

INTERNATIONAL DEVELOPMENT ASSOCIATION

By /s/ Oey Astra Meesook

SCHEDULE 1

Withdrawal of the Proceeds of the Credit

Part A: General

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	2,020,000	100% of foreign expenditure and 85% of local expenditure
(2) Supply and Installation of:		100% of foreign expenditure and 90% of local expenditure
(a) Unit 14 under Part A.1 of the Project	18,390,000	
(b) Unit 15 under Part A.1 of the Project	14,910,000	
(3) Goods:		100% of foreign expenditure and 90% of local expenditure
(a) under Part C of the Project	50,000	
(b) under Part D of the Project	270,000	
(4) Consultants' services:		100% of foreign expenditures
(a) under Part A of the Project	2,540,000	
(b) under Part C of the Project	1,520,000	
(c) under Part D of the Project	230,000	
(5) Training	310,000	100%
(6) Refinancing of Project Preparation Advance	1,500,000	
(7) Unallocated	6,260,000	
TOTAL	48,000,000	

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; 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.

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

(a) prior to the date of this Agreement, except that withdrawals, in an aggregate amount not exceeding the equivalent of SDR 2,020,000 may be made in respect of Category (1) on Account of payments made for expenditures before that date but after August 1, 2000;

(b) under Category (2) unless the Borrower has issued a list of firms selected in accordance with a selection process, satisfactory to the Association, which have been pre-qualified to bid for a concession contract for the grid-connected distribution business in the Borrower's territory;

(c) under Category (2) (b) unless the Association is satisfied that the study carried out under Part A.5 (b) confirms that the installation of Unit 15 is economically viable; and

(d) under Category (3) (b) and (4) (c) unless the Borrower has submitted to its Parliament draft legislation on the supply of petroleum products in the Borrower's territory.

4. The Association may require withdrawals from the Credit Account to be made on the basis of statements of expenditure for expenditures for: (a) works costing less than \$200,000 equivalent each, (b) goods, and consultants' services provided by firms under contracts costing less than \$100,000 equivalent each; and (c) consultants' services provided by individual consultants under contracts costing less than \$50,000, under such terms and conditions as the Association shall specify by notice to the Borrower.

#### Part B: Special Account

1. The Borrower shall open and maintain in Dollars two separate special deposit accounts one for Parts A.1, A.3 (a), A.4, A.5, and Part B of the Project in the name of the Generation Company (Special Account "A") and another for Parts C and D of the Project in the name of MEMD (Special Account "B"), in a commercial bank, on terms and conditions satisfactory to the Association including appropriate protection against set-off, seizure and attachment. Except as the Association may otherwise specify by notice to the Borrower, all withdrawals from the Credit Account shall be deposited by the Association into the respective Special Account in accordance with the provisions of this Schedule. Payments out of each Special Account shall be made exclusively for Eligible Expenditures. For each payment made by the Borrower out of a 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.

2. Except as the Association shall otherwise agree, after the Association has received evidence satisfactory to it that a Special Account has been duly opened, withdrawals from the Credit Account of amounts to be deposited into the said Special Account shall be made as follows:

(a) until the Association shall have received: (i) the first Project Management Report referred to in Section 4.02 (b) of this Agreement; and (ii) a request from the Borrower for withdrawal on the basis of Project Management Reports, withdrawals shall be made in accordance with the provisions of Annex A to this Schedule 1; and

(b) upon receipt by the Association of a Project Management Report pursuant to Section 4.02 (b) of this Agreement, accompanied by a request from the Borrower for withdrawal on the basis of Project Management Reports, all further withdrawals shall be made in accordance with the provisions of Annex B to this Schedule 1.

3. Payments out of the Special Account shall be made exclusively for Eligible Expenditures. 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.

4. Notwithstanding the provisions of Part B.2 of this Schedule, the Association shall not be required to make further deposits into any Special Account:

(a) if the Association determines at any time that any Project Management Report does not adequately provide the information required pursuant to Section 4.02 of this Agreement;

(b) if the Association determines at any time that all further withdrawals

should be made by the Borrower directly from the Credit Account; or

(c) if the Borrower shall have failed to furnish to the Association, within the period of time specified in Section 4.01 (b) (ii) of this Agreement, any of the audit reports required to be furnished to the Association pursuant to said Section in respect of the audit of (A) the records and accounts for the Special Account or (B) the records and accounts reflecting expenditures with respect to which withdrawals were made on the basis of Project Management Reports.

4. The Association shall not be required to make further deposits into the Special Accounts in accordance with the provisions of Part B.2 of this Schedule if, at any time, the Association shall have notified the Borrower of its intention to suspend in whole or in part the right of the Borrower to make withdrawals from the Credit Account pursuant to Section 6.02 of the General Conditions. Upon such notification, the Association shall determine, in its sole discretion, whether further deposits into the Special Accounts may be made and what procedures should be followed for making such deposits, and shall notify the Borrower of its determination.

5. (a) If the Association determines at any time that any payment out of a Special Account was made for an expenditure which is not an Eligible Expenditure, or was not justified by the evidence furnished to the Association, the Borrower shall, promptly upon notice from the Association, provide such additional evidence as the Association may request, or deposit into the said Special Account (or, if the Association shall so request, refund to the Association) an amount equal to the amount of such payment.

(b) If the Association determines at any time that any amount outstanding in a Special Account will not be required to cover payments for Eligible Expenditures during the six-month period following such determination, 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 a Special Account.

(d) Refunds to the Association made pursuant to sub-paragraph (a), (b) or (c) of this paragraph 5 shall be credited to the Credit Account for subsequent withdrawal or for cancellation in accordance with the provisions of the Development Credit Agreement.

#### Annex A to SCHEDULE 1

##### Operation of Special Account When Withdrawals Are Not Made On the Basis of Project Management Reports

1. For the purposes of this Annex, the term "Authorized Allocation" means an amount equivalent to \$1,000,000 with respect to Special Account "A" and \$200,000 with respect to Special Account "B" to be withdrawn from the Credit Account and deposited into the Special Account pursuant to paragraph 2 of this Annex.

2. Withdrawals of the Special Account's Authorized Allocations and subsequent withdrawals to replenish the Special Account should be made as follows:

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

(b) For replenishment of the Special Account, the Borrower shall furnish to the Association requests for deposit into said Special Account at such intervals as the Association shall specify. 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 Part B.3 of Schedule 1 to this Agreement 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 said 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. Each such deposit into said Special Account shall be withdrawn by the Association from the Credit Account under one or

more of the Special Account's Eligible Categories.

3. The Association shall not be required to make further deposits into the Special Account, once the total unwithdrawn amount of the Credit minus the total amount of all outstanding special commitments entered into by the Association pursuant to Section 5.02 of the General Conditions, shall equal the equivalent of twice the amount of said Special Account's Authorized Allocations. Thereafter, withdrawal from the Credit Account of the remaining unwithdrawn amount of the Credit 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 said Special Account as of the date of such notice will be utilized in making payments for Eligible Expenditures.

#### Annex B to SCHEDULE 1

##### Operation of Special Account When Withdrawals Are Made On the Basis of Project Management Reports

1. Except as the Association may otherwise specify by notice to the Borrower, all withdrawals from the Credit Account shall be deposited by the Association into the respective Special Account in accordance with the provisions of Schedule 1 to this Agreement. Each such deposit into the Special Account shall be withdrawn by the Association from the Credit Account under one or more of the said Special Account's Eligible Categories.

2. Each application for withdrawal from the Credit Account for deposit into a Special Account shall be supported by a Project Management Report.

3. Upon receipt of each application for withdrawal of an amount of the Credit, the Association shall, on behalf of the Borrower, withdraw from the Credit Account and deposit into the respective Special Account an amount equal to the lesser of: (a) the amount so requested; and (b) the amount which the Association has determined, based on the Project Management Report accompanying said application, is required to be deposited in order to finance Eligible Expenditures during the six-month period following the date of such report; provided, however, that the amount so deposited, when added to the amount indicated by said Project Management Report to be remaining in the said Special Account, shall not exceed the equivalent of \$10,000,000 in respect of the Special Account "A" for Parts A.1, A.3 (a), A.4, A.5, and Part B of the Project and \$500,000 in respect of Special Account "B" for Parts C and D of the Project.

#### SCHEDULE 2

##### Description of the Project

The objectives of the Project are: (a) to improve power supply to meet demand in the Borrower's territory by supporting critical investments in the power sub-sector; and (b) to strengthen the Borrower's capacity to manage reforms to, and development of, the power and petroleum sub-sectors.

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: Power System Expansion and Rehabilitation

1. Expansion of the Kiira power plant through: (a) the acquisition and installation of two 40 MW power generation units (Units 14 and 15), including water turbines, generators and related equipment and civil works; and (b) completion of the installation of one 40 MW unit (Unit 13), including the acquisition of related equipment and civil works.

2. Upgrading of the Transmission Company's supervisory control and data acquisition and telecommunications systems through: (a) the acquisition and installation of hardware and software; (b) installation of remote and terminal units and data collecting equipment in 132 kV and 33 kV substations; and (c) extension of telecommunications systems.

3. Rehabilitation of the power system to improve safety and reliability of substations at: (a) Nalubaale; and (b) Nkenda, Nkonge, and Opuyo through the

acquisition and installation of circuit breakers and transformers associated civil works.

4. Design and supervision of activities under Parts A.1, A.2 and A.3 of the Project through the provision of technical advisory services to the Generation Company.

5. (a) Strengthening the financial and overall management of the Project through the provision of technical advisory services; and

(b) the carrying out of a technical and economic evaluation to determine the viability of Unit 15 under Part A.1 of the Project.

Part B: Environmental Monitoring

Implementation by the Generation Company of an environmental monitoring plan through the acquisition of equipment and provision of technical advisory services to the Generation Company including:

1. monitoring: (a) the quantity of surface water at points downstream of the Kiira dam and downstream at the outlet of Lake Kyoga; (b) the biology and ecology of the fish population upstream of the Nalubale Dam and downstream of the Kiira Dam as well as in the [new] canal; (c) the stability of the shoreline immediately downstream of the Kiira dam at the tail race area on the Eastern Bank; and (d) water quality in the area upstream of the Nalubale dam and downstream of the Kiira Dam and the new canal;

2. silt removal from storm water drains by installing silt interceptors in drains and through regular cleaning;

3. limnological sampling of: (a) micro-flora; (b) aquatic weeds and benthic organisms; and (c) vegetation changes in the upper watershed; and

4. removal of temporary construction infrastructure at the completion of the Project.

Part C: Power Sector Development and Reform

Strengthening the Borrower's capacity for the reform and development of the energy sector through the acquisition of equipment, training of staff and the provision of technical advisory services to MEMD and ERA including:

(a) a study on water management of Lake Victoria;

(b) development of an energy end-use efficiency and consumer awareness program;

(c) the carrying out of annual consumer satisfaction surveys;

(d) the carrying out of sector studies and the preparation of future projects in the sub-sector; and

(e) training of staff in project management, power sector regulation, licensing, tariff setting, energy policy, energy efficiency and procurement and other power sub-sector issues.

Part D: Petroleum Sub-Sector Development and Reform

Strengthening MEMD's capacity to develop and implement reforms in the petroleum sub-sector including capacity to develop and implement an adequate legal framework through: (a) the acquisition of equipment and vehicles; (b) the provision of technical advisory services; (c) training of staff; and (d) the carrying out of studies.

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The Project is expected to be completed by June 30, 2004.

SCHEDULE 3

Procurement and Consultants' Services

Section I. Procurement of Goods and Works

Part A: General

1. Goods and works shall be procured in accordance with (a) the provisions of Section I of the "Guidelines for Procurement under IBRD Loans and IDA Credits" published by the Bank in January 1995 and revised in January and August 1996, September 1997 and January 1999 (the Guidelines); and (b) the provisions of the following Parts of this Section I.

2. In paragraphs 1.6 and 1.8 of the Guidelines, the references to "Bank member countries" and "member country" shall be deemed to be references, respectively, to "Participating Countries" and "Participating Country".

Part B: International Competitive Bidding

1. Except as otherwise provided in Part C of this Section, goods and works shall be procured under contracts awarded in accordance with the provisions of Section II of the Guidelines and paragraph 5 of Appendix 1 thereto.

2. The following provisions shall apply to goods and works to be procured under contracts awarded in accordance with the provisions of paragraph 1 of this Part B.

(a) Prequalification

Bidders for Parts A.1 and A.2 of the Project shall be prequalified in accordance with the provisions of paragraphs 2.9 and 2.10 of the Guidelines.

(b) Grouping of contracts

To the extent practicable, contracts for goods shall be grouped in bid packages estimated to cost \$100,000 equivalent or more each.

(c) Preference for domestically manufactured goods and domestic contractors

The provisions of paragraphs 2.54 and 2.55 of the Guidelines and Appendix 2 thereto shall apply to goods manufactured in the territory of the Borrower and works to be carried out by domestic contractors.

(d) Notification and Advertising

The invitation to prequalify or bid for each contract estimated to cost \$100,000 equivalent or more shall be advertised in accordance with the procedures applicable to large contracts under paragraphs 2.7 and 2.8 of the Guidelines.

Part C: Other Procurement

1. National Competitive Bidding

Goods estimated to cost less than \$100,000 equivalent per contract, up to an aggregate amount not to exceed \$40,000 equivalent may be procured under contracts awarded in accordance with the provisions of paragraphs 3.3 and 3.4 of the Guidelines.

2. International or National Shopping

Goods estimated to cost less than \$30,000 equivalent per contract, up to an aggregate amount not to exceed \$160,000 equivalent, may be procured under contracts awarded on the basis of international or national shopping procedures in accordance with the provisions of paragraphs 3.5 and 3.6 of the Guidelines.

3. Procurement from UN Agencies

Computers and office equipment estimated to cost up to an aggregate amount not exceeding \$30,000 equivalent, may be procured from IAPSO in accordance with the provisions of paragraph 3.9 of the guidelines.

Part D: Review by the Association of Procurement Decisions

1. Procurement Planning

Prior to the issuance of any invitations to prequalify for bidding or to bid for contracts, the proposed procurement plan for the Project shall be furnished to the Association for its review and approval, in accordance with the provisions of paragraph 1 of Appendix 1 to the Guidelines. Procurement of all goods and works shall

be undertaken in accordance with such procurement plan as shall have been approved by the Association, and with the provisions of said paragraph 1.

2. Prior Review

With respect to each contract estimated to cost the equivalent of: (i) \$100,000 or more for goods; and (ii) the equivalent of \$200,000 for works, the procedures set forth in paragraphs 2 and 3 of Appendix 1 to the Guidelines shall apply.

3. Post Review

With respect to each contract not governed by paragraph 2 of this Part, the procedures set forth in paragraph 4 of Appendix 1 to the Guidelines shall apply.

Section II. Employment of Consultants

Part A: General

1. Consultants' services shall be procured in accordance with: (a) the provisions of the Introduction and Section IV of the "Guidelines: Selection and Employment of Consultants by World Bank Borrowers" published by the Association in January 1997 and revised in September 1997 and January 1999, subject to the modifications thereto set forth in paragraph 2 of this Part A (the Consultant Guidelines); and (b) the provisions of the following Parts of this Section II.

2. In paragraph 1.10 of the Consultant Guidelines, the references to "Bank member countries" and "member country" shall be deemed to be references, respectively, to "Participating Countries" and "Participating Country".

Part B: Quality- and Cost-Based Selection

1. Except as otherwise provided in Part C of this Section, consultants' services shall be procured under contracts awarded in accordance with the provisions of Section II of the Consultant Guidelines, paragraph 3 of Appendix 1 thereto, Appendix 2 thereto, and the provisions of paragraphs 3.13 through 3.18 thereof applicable to quality- and cost-based selection of consultants.

2. The following provisions shall apply to consultants' services to be procured under contracts awarded in accordance with the provisions of the preceding paragraph. The shortlist of consultants for services estimated to cost less than \$100,000 equivalent per contract, may comprise entirely national consultants in accordance with the provisions of paragraph 2.7 of the Consultant Guidelines.

Part C: Other Procedures for the selection of Consultants

1. Selection Based on Consultants' Qualifications

Services for strengthening of the petroleum sector management and technical assistance and training for the regulatory agency estimated to cost less than \$100,000 equivalent per contract, may be procured under contracts awarded in accordance with the provisions of paragraphs 3.1 and 3.7 of the Consultant Guidelines.

2. Individual Consultants

Services for tasks that meet the requirements set forth in paragraph 5.1 of the Consultant Guidelines shall be procured under contracts awarded to individual consultants in accordance with the provisions of paragraphs 5.1 through 5.3 of the Consultant Guidelines.

3. Single Source Selection

Services under Part B of the Project which are estimated to cost less than \$50,000 equivalent per contract, may, with the Association's prior agreement, be procured in accordance with the provisions of paragraphs 3.8 through 3.11 of the Consultant Guidelines.

Part D: Review by the Association of the Selection of Consultants

1. Selection Planning

Prior to the issuance to consultants of any requests for proposals, the proposed plan for the selection of consultants under the Project shall be furnished to the



Association for its review and approval, in accordance with the provisions of paragraph 1 of Appendix 1 to the Consultant Guidelines. Selection of all consultants' services shall be undertaken in accordance with such selection plan as shall have been approved by the Association, and with the provisions of said paragraph 1.

2. Prior Review

(a) With respect to each estimated to cost the equivalent of \$100,000 or more, the procedures set forth in paragraphs 1, 2 (other than the third subparagraph of paragraph 2 (a)) and 5 of Appendix 1 to the Consultant Guidelines shall apply.

(b) With respect to each contract for the employment of individual consultants estimated to cost the equivalent of \$50,000 or more, the qualifications, experience, terms of reference and terms of employment of the consultants shall be furnished to the Association for its prior review and approval. The contract shall be awarded only after the said approval shall have been given.

3. Post Review

With respect to each contract not governed by paragraph 2 of this Part, the procedures set forth in paragraph 4 of Appendix 1 to the Consultant Guidelines shall apply.

SCHEDULE 4

Implementation Program

1. Project Implementation Manual

(a) (i) The Borrower shall prepare and furnish to the Association a Project Implementation Manual in form and substance satisfactory to the Association setting out details of all procedures, guidelines, processes, timetables and criteria for carrying out Parts C and D of the Project.

(ii) Except as the Association shall otherwise agree, the Borrower shall not amend or waive any provision of the Project Implementation Manual if, in the opinion of the Association, such amendment or waiver may materially and adversely affect the carrying out of Parts C and D of the Project or the achievement of the objectives thereof.

(b) The Borrower shall maintain policies and procedures adequate to enable it to monitor and evaluate on an ongoing basis, in accordance with the indicators set forth in Schedule 5 to this Agreement, the carrying out of Parts C and D of the Project and the achievement of the objectives thereof.

(c) The Borrower shall prepare, under terms of reference satisfactory to the Association, and furnish to the Association, on or about July 30, 2002, a report integrating the results of the monitoring and evaluation activities performed pursuant to paragraph (a) of this Section, on the progress achieved in the carrying out of the Project during the period preceding the date of said report and setting out the measures recommended to ensure the efficient carrying out of the Project and the achievement of the objectives thereof during the period following such date.

(d) The Borrower shall review with the Association, by December 31, 2002, or such later date as the Association shall request, the report referred to in paragraph (b) of this Section, and, thereafter, take all measures required to ensure the efficient completion of the Project and the achievement of the objectives thereof, based on the conclusions and recommendations of the said report and the Association's views on the matter.

(e) Once the Borrower and the Generation Company agree to award a concession agreement of the Generation Company's responsibilities to a private operator, the Borrower shall agree on necessary revisions to the Subsidiary Loan Agreement in a manner satisfactory to the Association and containing adequate provisions to protect the interest of the Association and the Borrower.

(f) The Borrower shall take all such measures as may be necessary or required, satisfactory to the Association, for the purpose of ensuring that the entities operating in the power sub-sector achieve technical standards and financial targets of efficiently run power sector entities.

(g) The Borrower and the Association shall, from time to time, at the request of either party, exchange views with regard to the Borrower's electricity and petroleum pricing policies and its plans in respect of the overall development of the power and petroleum sub-sectors.

#### SCHEDULE 5

##### Performance Indicators.

###### Part C of the Project

###### Output indicators:

1. 3 and 10 computers procured for MEMD and ERA respectively by end-2002.
2. Training provided for 10 MEMD and 5 ERA staff by end-2003.
3. Consultants employed by end-2003 to carry out technical advisory services for the reform and development of the power and petroleum sub-sectors.
4. Consultants have prepared a Water Management Plan by end-2003.

###### Outcome indicators:

1. ERA office is operational by end-2002.
2. Key energy staff in MEMD and ERA have access to modern technology.
3. By end-2003, Government has taken action consistent with 3 consultancy reports prepared under the Project.
4. A Water Management Plan is used to pursue improvement in the operation of hydropower plants on the Victoria Nile.

###### Part D of the Project

###### Output indicators:

1. Experts hired to assist in setting-up a monitoring system and developing guidelines by mid-2002.
3. Training provided for staff in the Petroleum Monitoring Unit.
2. Petroleum quality monitoring and office equipment procured.

###### Outcome indicators:

1. Guidelines established for petroleum industry monitoring with regard to quality, safety, and pricing by end-2002.
  2. Petroleum Monitoring Unit is competently staffed by end-2002.
  3. Staff effectively using quality monitoring equipment by end-2003.
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