

CONFORMED COPY

CREDIT NUMBER 2609 UG

Development Credit Agreement  
(Cotton Subsector Development Project)

between

THE REPUBLIC OF UGANDA

and

INTERNATIONAL DEVELOPMENT ASSOCIATION

Dated June 22, 1994

CREDIT NUMBER 2609 UG

DEVELOPMENT CREDIT AGREEMENT

AGREEMENT, dated June 22, 1994, between THE REPUBLIC OF UGANDA (the Borrower) and INTERNATIONAL DEVELOPMENT ASSOCIATION (the Association).

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

(B) the Association has received letters dated November 23, 1990 and January 4, 1994 from the Borrower describing, inter alia, programs of actions, objectives and policies designed to achieve structural adjustment of the agricultural sector of the Borrower's economy (hereinafter called the Program) and declaring the Borrower's commitment to the execution of the Program;

(C) the Borrower intends to contract from International Fund for Agricultural Development (IFAD) a loan (the IFAD Loan) in an amount equivalent to SDR 8,950,000 to assist in financing the Project on the terms and conditions set forth in an agreement (the IFAD Loan Agreement) to be entered into between the Borrower and IFAD; and

WHEREAS the Association has agreed, on the basis, inter alia, of the

foregoing, to extend the Credit to the Borrower upon the terms and conditions set forth in this Agreement;

NOW THEREFORE the parties hereto hereby agree as follows:

#### ARTICLE I

##### General Conditions; Definitions

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

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

- (a) "PEC" means the Presidential Economic Council of the Borrower;
- (b) "APC" means the Borrower's Agricultural Policy Committee reporting to PEC;
- (c) "MFEP" means the Borrower's Ministry of Finance and Economic Planning;
- (d) "MAAIF" means the Borrower's Ministry of Agriculture, Animal Industry and Fisheries;
- (e) "MTI" means the Borrower's Ministry of Trade and Industry;
- (f) "BOU" means Bank of Uganda, the Borrower's Central Bank;
- (g) "UCB" means Uganda Commercial Bank;
- (h) "CDO" means Cotton Development Organisation to be established by the Borrower under Part A of the Project;
- (i) "Cotton Development Statute" means the Cotton Development Statute, 1994, inter alia, establishing CDO as amended by the Cotton Development (Amendment) Statute, 1994, of April 15, 1994;
- (j) "AS" means the Agricultural Secretariat of the Bank of Uganda;
- (k) "LMB" means Lint Marketing Board established under the Lint Marketing Board Act, Cap. 234 of the Laws of Uganda;
- (l) "NARO" means the National Agricultural Research Organization, established under the NARO Statute, 1992;
- (m) "Ginning industry restructuring program" means the restructuring program to be carried out by the Borrower under Part A.2 of the Project;
- (n) "SCRCP" means the Borrower's Smallholder Cotton Rehabilitation Project;
- (o) "Project Preparation Advance" means the project preparation advance granted by the Association to the Borrower pursuant to an exchange of letters dated July 6, 1992, July 24, 1992, April 14, 1993, April 19, 1993, September 17, 1993 and October 26, 1993 between the Borrower and the Association; and
- (p) "Special Account" means each of the accounts referred to in Section 2.02 (b) of this Agreement.

#### 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 ten million Special

Drawing Rights (SDR 10,000,000).

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, works and services required for the Project described in Schedule 2 to this Agreement and to be financed out of the proceeds of the Credit.

(b) The Borrower shall, for the purposes of the Project, open and maintain in U.S. Dollars four special deposit accounts (Special Account "A", "B", "C" and "D") in a commercial bank on terms and conditions satisfactory to the Association including appropriate protection against setoff, seizure or attachment. Deposits into, and payments out of, the Special Accounts shall be made in accordance with the provisions of Schedule 5 to this Agreement.

(c) Promptly after the Effective Date, the Association shall, on behalf of the Borrower, withdraw from the Credit Account and pay to itself the amount required to repay the principal amount of the Project Preparation Advance withdrawn and outstanding as of such date and to pay all unpaid charges thereon. The unwithdrawn balance of the authorized amount of the Project Preparation Advance shall thereupon be cancelled.

Section 2.03. The Closing Date shall be December 31, 1999 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 (60) days after the date of this Agreement (the accrual date) to the respective dates on which amounts shall be withdrawn by the Borrower from the Credit Account or cancelled; and (ii) at the rate set as of the June 30 immediately preceding the accrual date or at such other rates as may be set from time to time thereafter pursuant to paragraph (a) above. The rate set as of June 30 in each year shall be applied from the next payment date in that year specified in Section 2.06 of this Agreement.

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

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

Section 2.06. Commitment charges and service charges shall be payable semiannually on February 1 and August 1 in each year.

Section 2.07. (a) Subject to paragraphs (b) and (c) below, the Borrower shall repay the principal amount of the Credit in semiannual installments payable on each February 1 and August 1 commencing August 1, 2004 and ending February 1, 2034. Each installment to and including the installment payable on February 1, 2014 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, shall carry out the Project through MAAIF, NARO, CDO, APC's Sub-Committee, BOU and AS, with due diligence and efficiency and in conformity with appropriate administrative, financial and agricultural practices, and shall provide, promptly as needed, the funds, facilities, services and other resources required for the Project.

(b) Without limitation upon the provisions of paragraph (a) of this Section and except as the Borrower and the Association shall otherwise agree, the Borrower shall carry out 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. The Borrower shall take, or cause to be taken, all measures necessary (including sale, lease, management or restructuring arrangements) to facilitate transfer to creditworthy and viable operators, by not later than March 31, 1995, ginneries with a total ginning capacity of at least 100,000 bales in accordance with paragraph 8 of Schedule 4 to this 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 the Project of the departments or agencies of the Borrower responsible for carrying out the Project or any part thereof.

(b) The Borrower shall:

- (i) have the records and accounts referred to in paragraph (a) of this Section including those for the Special Accounts for each fiscal year audited, in accordance with appropriate auditing principles consistently applied, by independent auditors acceptable to the Association;
- (ii) furnish to the Association, as soon as available, but in any case not later than six months after the end of each such year, a certified copy of the report of such audits

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 audits thereof as the Association shall from time to time reasonably request.

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

- (i) maintain or cause to be maintained, in accordance with paragraph (a) of this Section, records and accounts reflecting such expenditures;
- (ii) retain, until at least one year after the Association has received the audit reports for the fiscal year in which the last withdrawal from the Credit Account or payment out of the Special Account was made, all records (contracts, orders, invoices, bills, receipts and other documents) evidencing such expenditures;
- (iii) enable the Association's representatives to examine such records; and
- (iv) ensure that such records and accounts are included in the annual audits referred to in paragraph (b) of this Section and that the report of such audits contains a separate opinion by said auditors as to whether the statements of expenditure submitted during such fiscal year, together with the procedures and internal controls involved in their preparation, can be relied upon to support the related withdrawals.

#### ARTICLE V

##### Remedies of the Association

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

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

(b) The Cotton Development Statute shall have been amended, suspended, abrogated, repealed or waived so as to affect materially and adversely the ability of CDO to perform any of its obligations under this Agreement.

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

Section 5.02. Pursuant to Section 7.01 (d) of the General Conditions, the following additional event is specified, namely that the events specified in paragraphs (b) and (c) of Section 5.01 of this Agreement shall occur.

#### ARTICLE VI

##### Effective Date; Termination

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

(a) all conditions precedent to the effectiveness of the IFAD Loan Agreement have been fulfilled, other than those related to the effectiveness of this Agreement;

(b) MFEP has offered debt relief and notified unions pursuant to paragraph 8 (a) (iii) of Schedule 4 to this Agreement;

(c) the Managing Director of CDO has been appointed in accordance with the Cotton Development Statute; and

(d) the Project Implementation Manual has been finalized.

Section 6.02. 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 Minister responsible for 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 and Economic Planning  
P. O. Box 8147  
Kampala, Uganda

Cable address:	Telex:
FINSEC Kampala	61170

###### For the Association:

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

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

IN WITNESS WHEREOF, the parties hereto, acting through their duly authorized representatives, have caused this Agreement to be signed in their respective names in the District of Columbia, United States of America, as of the day and year first above written.

THE REPUBLIC OF UGANDA

By /s/ T. S. Mayanja Nkangi  
Authorized Representative

INTERNATIONAL DEVELOPMENT ASSOCIATION

By /s/ Edward V.K. Jaycox  
Regional Vice President

## 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:		75%
(a) under Parts A.3 and A.4 of the Project	105,000	
(b) under Part B.1 of the Project	290,000	
(c) under Parts B.2 and C.3 (a) of the Project	640,000	
(2) Vehicles, Equipment and Supplies under:		100% of foreign expenditures and 85% of local expenditures
(a) Parts A.3 and A.4 of the Project	760,000	
(b) Part B.1 of the Project	210,000	
(c) Parts B.2 and C.2(b) of the Project	1,130,000	
(d) Parts A.1 and A.5 of the Project	10,000	
(3) Technical Assistance and Training:		100%
(a) Under Parts A.3 and A.4 of the Project	490,000	
(b) Under Part B.1 of the Project	390,000	
(c) Under Parts B.2 and C.2(b) of the Project	250,000	
(d) Under Parts A.1, A.2 and A.5 of the Project	410,000	
(4) Operating Costs:		90% up to SDR 750,000 and 50% thereafter

(a) Under Parts A.3, A.4 and B.3 of the Project	1,450,000	
(b) Under Part B.1 of the Project	500,000	
(c) Under Parts B.2 and C.2(b) of the Project	1,190,000	
(d) Under Parts A.1, A.2 and A.5 of the Project	265,000	
(5) Refunding of Project Prepara- tion Advance	900,000	Amounts due pur- suant to Section 2.02 of this Agreement
(6) Unallocated	1,010,000	
TOTAL	10,000,000 =====	

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;

(b) the term "local expenditures" means expenditures in the currency of the Borrower or for goods or services supplied from the territory of the Borrower; and

(c) the term "operating costs" means the incremental recurrent expenditures incurred under the Project for staff salaries and allowances, vehicle operating costs, supplies and maintenance of equipment and buildings.

3. Notwithstanding the provisions of paragraph 1 above, no withdrawals shall be made in respect of: (a) payments made for expenditures prior to the date of this Agreement; (b) categories (1)(b), (2)(b), (3)(b) and (4)(b) unless NARO has prepared a satisfactory work program for the national cotton research, including terms of reference for a study to determine the Borrower's future cotton breeding policy; and (c) categories (1)(c), (2)(c), (3)(c) and (4)(c) unless MAAIF has prepared a satisfactory work program for agricultural extension, including support for seed multiplication, and training and rehabilitation of animal holding grounds.

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

SCHEDULE 2

Description of the Project

The objectives of the Project are to revive cotton production and exports through increased competition in cotton processing and marketing and improved supporting services.

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: Restructuring of Cotton Industry

Restructuring the cotton industry through:



- (1) technical assistance for the revision of the legal framework regulating the industry, liquidation of LMB, and the establishment of CDO;
- (2) implementation of the cotton ginning restructuring program to restore the creditworthiness of ginneries through technical assistance;
- (3) strengthening the management and technical skills of staff in the ginning industry through technical assistance, the rehabilitation and strengthening of the Ginnery Technical School, and training;
- (4) support to the operations of CDO in (a) promoting and monitoring cotton production and marketing, (b) setting quality standards for seed cotton and lint, (c) facilitating the provision of agricultural extension and research, (d) improvement of access to fiber analysis facilities through installation of equipment; and
- (5) support to APC's monitoring of the Program and the cotton subsector policy reforms.

Part B: Improved Support Services

- (1) Support for a national cotton research program including: (a) the rehabilitation of laboratories, office and staff quarters, (b) a review of cotton breeding policy, (c) a cotton breeding program, (d) agronomic research in various agro-ecological zones, (e) improvement in the integrated pest management application technology, and (f) adaptive research to develop appropriate technology, including animal traction.
- (2) (a) Provision of extension services in cotton growing districts within the overall framework of national integrated extension services, including support for seed multiplication in segregated areas, and construction of staff quarters, (b) rehabilitation of facilities and provision of equipment at Arapai, Busitema and Bukalasa agricultural colleges, and (c) training of extension staff and of farmers, including the carrying out of pilot activities to test and demonstrate new technologies.
- (3) Support for seed procurement, dressing and distribution.

Part C: Improved Delivery Mechanism and Availability of Credit

- (1) Provision of seasonal credit to farmers.
- (2) Provision of medium-term credit to farmers for acquisition of livestock, agricultural equipment and for pilot income generating activities.
- (3) (a) Support for rehabilitation of animal holding grounds, (b) studies, and (c) training.

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The Project is expected to be completed by June 30, 1999.

SCHEDULE 3

Procurement and Consultants' Services

Section I. Procurement of Goods and Works

Part A: International Competitive Bidding

1. Except as provided in Part D hereof, goods and works shall be procured under contracts awarded in accordance with procedures consistent with those set forth in Sections I and II of the "Guidelines for Procurement under IBRD Loans and IDA Credits" published by the Bank in May 1992 (the Guidelines).

(a) For fixed-price contracts, the invitation to bid referred to in paragraph 2.13 of the Guidelines shall provide that, when contract award is delayed beyond the original bid validity period, the successful bidder's bid price will be increased for each week of delay by two predisclosed correction factors acceptable to the Association, one to be applied to all foreign currency components and the other to the local currency component

of the bid price. Such an increase shall not be taken into account in the bid evaluation.

(b) In the procurement of goods and works in accordance with this Part A, the Borrower shall use the relevant standard bidding documents issued by the Bank, with such modifications thereto as the Association shall have agreed to be necessary for the purposes of the Project. Where no relevant standard bidding documents have been issued by the Bank, the Borrower shall use bidding documents based on other internationally recognized standard forms agreed with the Association.

2. To the extent practicable, contracts for vehicles, equipment and supplies shall be grouped into bid packages estimated to cost the equivalent of \$100,000 or more.

3. Goods to be procured through international competitive bidding shall be exempted from pre-shipment price verification by a third party inspection agency.

#### Part B: Preference for Domestic Manufacturers

In the procurement of goods in accordance with the procedures described in Part A.1 hereof, goods manufactured in Uganda may be granted a margin of preference in accordance with, and subject to, the provisions of paragraphs 2.55 and 2.56 of the Guidelines and paragraphs 1 through 4 of Appendix 2 thereto.

#### Part C: Preference for Domestic Contractors

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

#### Part D: Other Procurement Procedures

1. Items or groups of items for civil works estimated to cost the equivalent of \$500,000 or less per contract, up to an aggregate amount equivalent to \$1,200,000 may be procured under contracts awarded on the basis of competitive bidding, advertised locally, in accordance with procedures satisfactory to the Association.

2. Items or groups of items for supplies and equipment estimated to cost the equivalent of \$50,000 or less per contract, up to an aggregate amount equivalent to \$400,000, may be procured under contracts awarded on the basis of comparison of price quotations obtained from at least three suppliers eligible under the Guidelines, in accordance with procedures acceptable to the Association or through the Interagency Procurement Services Office (IAPSO) of the United Nations.

#### Part E: Review by the Association of Procurement Decisions

1. Review of invitations to bid and of proposed awards and final contracts:

(a) With respect to each contract for (i) civil works estimated to cost the equivalent of \$200,000 or more, and (ii) \$100,000 or more for goods, the procedures set forth in paragraphs 2 and 4 of Appendix 1 to the Guidelines shall apply. Where payments for such contract are to be made out of the Special Account, such procedures shall be modified to ensure that the two conformed copies of the contract required to be furnished to the Association pursuant to said paragraph 2 (d) shall be furnished to the Association prior to the making of the first payment out of the Special Account in respect of such contract.

(b) With respect to each contract not governed by the preceding paragraph, the procedures set forth in paragraphs 3 and 4 of Appendix 1 to the Guidelines shall apply. Where payments for such contract are to be made out of the Special Account, such procedures shall be modified to ensure that the two conformed copies of the contract together with the other information required to be furnished to the Association pursuant to said paragraph 3, shall be furnished to the Association as part of the evidence to be

furnished pursuant to paragraph 4 of Schedule 5 to this Agreement.

(c) The provisions of the preceding subparagraph (b) shall not apply to contracts on account of which withdrawals from the Credit Account are to be made on the basis of statements of expenditure.

2. The figure of 15% is hereby specified for purposes of paragraph 4 of Appendix 1 to the Guidelines.

## Section II. Employment of Consultants

1. In order to assist the Borrower in carrying out the Project, the Borrower shall employ consultants whose qualifications, experience and terms and conditions of employment shall be satisfactory to the Association. Such consultants shall be selected in accordance with principles and procedures satisfactory to the Association on the basis of the "Guidelines for the Use of Consultants by World Bank Borrowers and by the World Bank as Executing Agency" published by the Bank in August 1981. For complex, time-based assignments, the Borrower shall employ such consultants under contracts using the standard form of contract for consultants' services issued by the Bank, with such modifications as shall have been agreed upon by the Association. Where no relevant standard contract documents have been issued by the Bank, the Borrower shall use other standard forms agreed with the Association.

2. Notwithstanding the provisions of paragraph 1 of this Section, the provisions of the Consultant Guidelines requiring prior Association review or approval of budgets, short lists, selection procedures, letters of invitation, proposals, evaluation reports and contracts, shall not apply to: (a) contracts for the employment of consulting firms estimated to cost less than \$100,000 equivalent each or (b) contracts for the employment of individuals estimated to cost less than \$50,000 equivalent each. However, said exceptions to prior Association review shall not apply to: (a) the terms of reference for such contracts; (b) single-source selection of consulting firms; (c) assignments of a critical nature, as reasonably determined by the Association; (d) amendments to contracts for the employment of consulting firms raising the contract value to \$100,000 equivalent or above; or (e) amendments to contracts for the employment of individual consultants raising the contract value to \$50,000 equivalent or above.

## SCHEDULE 4

### Implementation Program

1. APC, chaired by the Permanent Secretary/Secretary to the Treasury, Ministry of Finance and Economic Planning (MOFEP), shall be responsible for monitoring the implementation of the Program. The Agricultural Secretariat (AS) of the Bank of Uganda, shall continue to serve as the secretariat of APC. APC shall meet semiannually to review progress in Project implementation.

2. The Borrower shall submit to the Association, for its review and comments, the draft annual work program and budget, no later than three months before the commencement of each fiscal year of the Borrower. The Borrower shall consider the comments of the Association on the said work program and budget prior to its finalization.

3. APC shall cause comprehensive quarterly reports on progress in the implementation of the Program and the Project to be (a) prepared by the Ministries and agencies responsible for the implementation of the various components of the Project and (b) furnished to the Association within thirty days after the end of the quarter under review.

4. AS shall promptly coordinate the preparation of a comprehensive Project implementation manual, satisfactory to the Association, which shall, inter alia, include guidelines for planning, budgeting and financial management.

5. (a) The Borrower shall, no later than June 30, 1997, conduct jointly with the Association, a mid-term review of the Project to assess progress in the implementation of the Project, including achievements towards opening cotton processing and marketing to competition and the impact of such

measures on cotton production and export.

(b) No later than thirty days prior to the mid-term review referred to in (a) above, AS shall furnish to the Association, for its comments, a report in such detail as the Association shall reasonably request, including an evaluation of the progress achieved in the implementation of the Project.

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

Parts A and B of the Project

6. Parts A.1 and A.5 of the Project shall be carried out by AS.

7. APC's Sub-Committee, chaired by the Permanent Secretary, MTI, and comprising the Secretary General, Uganda Cooperative Alliance and representatives of MFEP, the Attorney General, the Auditor General, BOU, UCB and the Cooperative Bank, shall be responsible for implementing Part A (2) of the Project. AS shall provide secretariat services to APC's Sub-Committee.

8. (a) In carrying out Section 3.03 of this Agreement, the Borrower shall adopt the following procedures:

- (i) engage consultants to: (a) determine the book value and the fair value of Cooperative Unions' debt to the Government, UCB, and the Cooperative Bank in respect of rehabilitation of ginneries, the fair value being the value, on a going concern basis, of the ginneries secured against such debt; (b) determine the book value and the fair value of the LMB or its liquidator's loans in respect of crop finance, the fair value being the book value after adjustments, as appropriate, including for interest that accrued when LMB delayed collecting the lint and making payment against export proceeds; and (c) recommend the terms and conditions on which debt relief will be offered to each Union (the relief being the difference between the book value and the fair value);
- (ii) on the basis of the consultant's recommendations referred to in (i) (c) above, the Minister of MFEP shall, after consultation with the Association, seek the necessary authorization of the National Resistance Council (NRC) for the debt relief to be offered to each Union, the terms and conditions for such debt relief to be satisfactory to the Association;
- (iii) upon NRC's authorization under (ii) above, the Minister of MFEP shall make an offer of relief from the debt referred to in (i) above to the Unions, the execution of which would be conditional upon the Unions concerned preparing a business plan acceptable to financial institutions as a basis for extending credit, or satisfactory to the Minister of MFEP in respect of those Unions which do not require credit facilities;
- (iv) APC would recommend to the Minister of MFEP the granting of the debt relief to the Unions which have provided satisfactory business plans and satisfactory evidence to confirm compliance with the terms and conditions under which the debt relief was offered;
- (v) in granting the debt relief, the Minister of MFEP shall enter into a debt relief agreement with each qualifying Union. Terms and conditions for such debt relief shall include, inter alia, that (a) in consideration of debt relief, the Union shall secure credit facilities from commercial banks on the basis of business plans referred to in (iv) above; (b) those unions which do not require credit facilities will have presented their business plans to the Minister of MFEP for approval; and (c) failure by the Union to carry out the business plan, including, where required,

entering into agreement with commercial banks and accessing credit facilities, will lead to withdrawal of debt relief by the Borrower;

- (vi) in cases where the Unions fail to qualify for debt relief within 280 days from the date on which the Minister of MFEP made the conditional offer of debt relief to the Unions referred to in (iv) above, the Borrower shall cause the credit institutions to demand full and immediate repayment of outstanding loans, and foreclose on defaulting Unions.

(b) Granting of debt relief to Unions which have complied with the conditions of the offer of debt relief and the formal instructions by the Minister of MFEP for foreclosure proceedings by the creditors against the Unions which have failed to qualify for debt relief within the stipulated period, will signify completion of actions by Government to facilitate the transfer of ginneries into the hands of creditworthy operators.

9. CDO shall be responsible for implementing Parts A.3, A.4 and B.3 of the Project.

Parts B and C of the Project

10. NARO shall be responsible for implementing Part B.1 of the Project. In order to implement the research program, NARO shall prepare a work program, including terms of reference satisfactory to the Association, for a study to determine the future cotton breeding policy.

11. The Permanent Secretary, MAAIF, shall be responsible for implementing Part B(2) and Part C(3)(a) of the Project.

12. (a) Parts C.1 and C.2 of the Project shall be carried out by the Development Finance Department of BOU.

(b) Studies under Part C.3 (b) of the Project shall be carried out by AS.

(c) Training under Part C.3 (c) of the Project shall be carried out by BOU.

#### SCHEDULE 5

##### Special Accounts

1. For the purposes of this Schedule:

(a) the term "eligible Categories" means Categories (1)(a), (2)(a), (3)(a) and (4)(a) set forth in the table in paragraph 1 of Schedule 1 to this Agreement with respect to Special Account "A" and Categories (1)(b), (2)(b), (3)(b) and (4)(b) in the table in paragraph 1 of Schedule 1 to this Agreement, with respect to Special Account "B"; (c) Categories (1)(c), (2)(c), (3)(c) and (4)(c) set forth in the table in paragraph 1 of Schedule 1 to this Agreement with respect to Special Account "C"; and (d) Categories (2)(d), (3)(d) and (4)(d) set forth in the table in paragraph 1 of Schedule 1 to this Agreement with respect to Special Account "D".

(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 \$100,000 for Special Account "A" and an amount equivalent to \$200,000 for Special Account "B", and an amount equivalent to \$300,000 for Special Account "C" and an amount equivalent to \$75,000 for Special Account "D" to be withdrawn from the Credit Account and deposited in the Special Account pursuant to paragraph 3 (a) of this Schedule.

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

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

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

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

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

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

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

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

(a) if, at any time, the Association shall have determined that all further withdrawals should be made by the Borrower directly from the Credit Account in accordance with the provisions of Article V of the General Conditions and paragraph (a) of Section 2.02 of this Agreement; or

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

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

6. (a) If the Association shall have determined at any time that any payment out of the Special Account: (i) was made for an expenditure or in an amount not eligible pursuant to paragraph 2 of this Schedule; or (ii) was not justified by the evidence furnished to the Association, the Borrower shall, promptly upon notice from the Association: (A) provide such additional evidence as the Association may request; or (B) deposit into the Special Account (or, if the Association shall so request, refund to the Association) an amount equal to the amount of such payment or the portion thereof not so eligible or justified. Unless the Association shall otherwise agree, no further deposit by the Association into the Special Account shall be made until the Borrower has provided such evidence or made such deposit or refund, as the case may be.

(b) If the Association shall have determined at any time that any amount outstanding in the Special Account will not be required to cover further payments for eligible expenditures, the Borrower shall, promptly upon notice from the Association, refund to the Association such outstanding amount.

(c) The Borrower may, upon notice to the Association, refund to the Association all or any portion of the funds on deposit in the Special Account.

(d) Refunds to the Association made pursuant to paragraphs 6 (a), (b) and (c) of this Schedule shall be credited to the Credit Account for subsequent withdrawal or for cancellation in accordance with the relevant provisions of this Agreement, including the General Conditions.

