

CONFORMED COPY

CREDIT NUMBER 2315 UG

(Enterprise Development Project)

between

THE REPUBLIC OF UGANDA

and

INTERNATIONAL DEVELOPMENT ASSOCIATION

Dated January 9, 1992

CREDIT NUMBER 2315 UG

DEVELOPMENT CREDIT AGREEMENT

AGREEMENT, dated January 9, 1992, between THE REPUBLIC OF UGANDA (the Borrower) and INTERNATIONAL DEVELOPMENT ASSOCIATION (the Association).

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

(B) Parts A and B of the Project will be carried out by the Bank of Uganda with the Borrower's assistance, and as part of such assistance, the Borrower will make available to the Bank of Uganda part of the proceeds of the Credit as provided in this Agreement; and

WHEREAS the Association has agreed, on the basis, inter alia, of the foregoing, to extend the Credit to the Borrower upon the terms and conditions set forth in this Agreement and in the Project

Agreements of even date herewith between the Association and the Bank of Uganda and between the Association and Uganda Development Bank;

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 modifications set forth in Schedule 6 to this Agreement (the General Conditions) constitute an integral part of this Agreement.

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

- (a) "BOU" means Bank of Uganda, the Borrower's Central Bank;
- (b) "UDB" means Uganda Development Bank;
- (c) "BOU Project Agreement" means the agreement between the Association and BOU, 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 BOU Project Agreement;
- (d) "UDB Project Agreement" means the Agreement between the Association and UDB 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 UDB Project Agreement;
- (e) "BOU Subsidiary Agreement" means the agreement to be entered into between the Borrower and BOU pursuant to Section 3.01 (c) of this Agreement, as the same may be amended from time to time, and such term includes all schedules supplemental to the BOU Agreement;
- (f) "BOU Act" means the Bank of Uganda Act No. 5 of 1966, as amended;
- (g) "UDB Decree" means the Uganda Development Bank Decree No. 23 of 1972, as amended;
- (h) "Participating Bank" means a bank or financial institution eligible to make sub-loans or investments from the proceeds of the Credit under Part A of the Project, as determined by BOU on the basis of criteria satisfactory to the Association;
- (i) "UDB Agreement" means the agreement to be entered into between the Borrower and UDB pursuant to Section 3.01 (d) of this Agreement;
- (j) "Sub-loan" means a loan or credit made or proposed to be made (i) under Part A of the Project by a Participating Bank or (ii) under Part C of the Project by UDB to an Investment Enterprise for an Investment Project out of the equivalent of the proceeds of the Credit;
- (k) "free-limit Sub-loan" means a Sub-loan, as so defined, which qualifies as a free-limit Sub-loan pursuant to the provisions of paragraph 2 (b) of Schedule 1 to the BOU Project Agreement;
- (l) "Investment" means an investment other than a Sub-loan, made or proposed to be made by a Participating Bank under Part A of the Project or by UDB under Part C of the Project in an Investment Enterprise for an Investment Project out of the equivalent of the proceeds of the Credit;

(m) "Investment Enterprise" means an enterprise to which a Participating Bank proposes to make or has made a Sub-loan or in which it proposes to make or has made an Investment;

(n) "Investment Project" means a specific development project to be carried out by an Investment Enterprise utilizing the proceeds of a Sub-loan or Investment;

(o) "Participating Bank Agreement" means each of the loan agreements to be entered into by BOU pursuant to Section 3.01 (c) of this Agreement, whereby BOU shall provide the Participating Bank with funds for Sub-loans and Investments;

(p) "Uganda Shillings" and "USh" mean the currency of the Borrower;

(q) "Special Account" means any of the accounts referred to in Section 2.02 (b), (c), (d) and (e) of this Agreement;

(r) "PE" means Public Enterprise;

(s) "PES" means Public Enterprises Secretariat;

(t) "PIES" means Public Industrial Enterprises Secretariat;

(u) "APPERD" means Action Plan for PE Reform and Divestiture;

(v) "Coordinator, PERD" means Coordinator, Public Enterprise Reform and Divestiture;

(w) "EDPIT" means the Enterprise Development Project Implementation Team;

(x) "PE Reform Policy" means the Borrower's Policy on PE Reform and Divestiture adopted on September 11, 1991;

(y) "Credit Guarantee Fund" means the fund to be established by BOU, with an initial contribution from the Borrower of the Uganda Shillings equivalent to \$1 million, in support of a credit guarantee scheme for loans of eligible banks and financial institutions to the small-scale enterprise sector;

(z) "Divestiture Account" means a separate account to be established in Uganda Shillings in the Divestiture Secretariat, under the direct control and supervision of the Coordinator PERD, to handle all proceeds from, and claims relating to, the implementation of the PE divestiture program, and to be supported by the Borrower with annual budgetary contributions, as required, determined on the basis of estimates of net liabilities expected to arise in each year;

(aa) "Redundancy Account" means the account to be established and maintained in Uganda Shillings in PES, under the control and supervision of the Coordinator, PERD, to cover severance pay and related costs to be incurred by the Borrower as compensation to PE staff who become redundant as a result of the PE reform program;

(bb) "Committee of Eminent Persons" means the Borrower's committee set up to select chief executive officers and members of boards of directors for PEs; and

(cc) "SCD" means the Statutory Corporations Division in the Borrower's Ministry of Finance.

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-nine million three hundred thousand Special Drawing Rights (SDR 49,300,000).

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: (i) amounts paid (or, if the Association shall so agree, amounts to be paid) respectively by the Borrower and BOU on account of withdrawals made by an Investment Enterprise under a Sub-Loan or Investment to meet the reasonable cost of goods and services required for the Investment Project in respect of which the withdrawal from the Credit Account is requested; and (ii) expenditures made (or if the Association shall so agree, to be made) in respect of the reasonable cost of goods and services required for Parts B and D of the Project and to be financed out of the proceeds of the Credit.

(b) The Borrower shall, for the purposes of Category (1) (a) of the table in paragraph 1 of Schedule 1 to this Agreement, open and maintain in dollars a special deposit account (hereinafter referred to as "Special Account A") through BOU in a commercial bank on terms and conditions satisfactory to the Association, including appropriate protection against set-off, seizure or attachment.

(c) The Borrower shall, for the purposes of Category (1) (b) of the table in paragraph 1 of Schedule 1 to this Agreement, open and maintain in dollars a special deposit account (hereinafter referred to as "Special Account B") through BOU in a commercial bank on terms and conditions satisfactory to the Association, including appropriate protection against set-off, seizure or attachment.

(d) The Borrower shall, for the purposes of Category (1) (c) of the table in paragraph 1 of Schedule 1 to this Agreement, open and maintain in dollars a special deposit account (hereinafter referred to as "Special Account C") through BOU in a commercial bank on terms and conditions satisfactory to the Association, including appropriate protection against set-off, seizure or attachment.

(e) The Borrower shall, for the purposes of Categories (2) through (5) of the table in paragraph 1 of Schedule 1 to this Agreement, open and maintain in dollars a special deposit account (hereinafter referred to as "Special Account D") through BOU in a commercial bank on terms and conditions satisfactory to the Association, including appropriate protection against set-off, seizure or attachment.

(f) Deposits into, and payments out of, the Special Account shall be made in accordance with the provisions of Schedule 5 to this Agreement.

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 and BOU and UDB of such later date.

Section 2.04. (a) The Borrower shall pay to the Association a commitment charge on the principal amount of the Credit not withdrawn from time to time at a rate to be set by the Association as of June 30 of each year, but not to exceed the rate of one-half of one percent (1/2 of 1%) per annum.

(b) The commitment charge shall accrue: (i) from the date sixty days after the date of this Agreement (the accrual date) to the respective dates on which amounts shall be withdrawn by the Borrower from the Credit Account or cancelled; and (ii) at the rate set as of the June 30 immediately preceding the accrual date and at such other rates as may be set from time to time thereafter pursuant to paragraph (a) above. The rate set as of June 30 in each year shall be applied from the next date in that year specified in Section 2.06 of this Agreement.

(c) The commitment charge shall be paid: (i) at such places as the Association shall reasonably request; (ii) without restric-

tions 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 March 15 and September 15 in each year.

Section 2.07. (a) Subject to paragraphs (b) and (c) below, the Borrower shall repay the principal amount of the Credit in semi-annual installments payable on each March 15 and September 15 commencing March 15, 2002 and ending September 15, 2031. Each installment to and including the installment payable on September 15, 2011 shall be one percent (1%) of such principal amount, and each installment thereafter shall be two percent (2%) of such principal amount.

(b) Whenever: (i) the Borrower's gross national product per capita, as determined by the Association, shall have exceeded \$790 in constant 1985 dollars for five consecutive years; and (ii) the Bank shall consider the Borrower creditworthy for Bank lending, the Association may, subsequent to the review and approval thereof by the Executive Directors of the Association and after due consideration by them of the development of the Borrower's economy, modify the terms of repayment of installments under paragraph (a) above by requiring the Borrower to repay twice the amount of each such installment not yet due until the principal amount of the Credit shall have been repaid. If so requested by the Borrower, the Association may revise such modification to include, in lieu of some or all of the increase in the amounts of such installments, the payment of interest at an annual rate agreed with the Association on the principal amount of the Credit withdrawn and outstanding from time to time, provided that, in the judgment of the Association, such revision shall not change the grant element obtained under the above-mentioned repayment modification.

(c) If, at any time after a modification of terms pursuant to paragraph (b) above, the Association determines that the Borrower's economic condition has deteriorated significantly, the Association may, if so requested by the Borrower, further modify the terms of repayment to conform to the schedule of installments as provided in paragraph (a) above.

Section 2.08. The currency of the United States of America is hereby specified for the purposes of Section 4.02 of the General Conditions.

ARTICLE III

Execution of the Project; Use of Proceeds of the Credit

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 D.3, D.4 and D.5 of the Project, with due diligence and efficiency and in conformity with appropriate administrative and financial practices and shall provide promptly as needed the funds, facilities, services and other resources required for the Project; and (ii) without any limitation or restriction upon any of its other obligations under this Agreement, shall cause BOU and UDB to perform in accordance with the provisions of the BOU Project Agreement and UDB Project Agreement all the respective obligations of BOU and UDB 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 BOU and UDB to perform such

obligations, and shall not take or permit to be taken any action which would prevent or interfere with such performance.

(b) Without limitation upon the provisions of paragraph (a) of this Section, the Borrower, shall carry out the Project in accordance with the Implementation Program set forth in Schedule 4 to this Agreement.

(c) The Borrower shall make available the equivalent of twenty-five million dollars (\$25,000,000) from the proceeds of the Credit to BOU under the BOU Subsidiary Agreement to be entered into between the Borrower and BOU under terms and conditions which shall have been approved by the Association and which shall include, inter alia: (i) an undertaking by BOU to make loans to Participating Banks under Participating Bank Agreements to be entered into with each Participating Bank for financing Investment Projects under Part A of the Project, under the terms and conditions specified in the BOU Project Agreement; (ii) that the proceeds of the Credit shall be re-lent at an interest rate equal to sixty percent of the maximum lending rate for development loans prescribed by BOU from time to time or such other rate as may be determined by agreement of the Borrower and BOU, and satisfactory to the Association; (iii) an undertaking by BOU to collect from and transfer to the Borrower all payments of interest and repayments of principal from Participating Banks under Participating Bank Agreements after retaining, as a service charge, an amount not exceeding one-half of one percent of the outstanding principal from the interest paid by Participating Banks; and (iv) the Borrower's undertaking to bear the exchange risk.

(d) The Borrower shall: (i) establish the Restructuring Fund under Part C of the Project with (A) an amount not exceeding \$16,000,000 equivalent out of the proceeds of the Credit and (B) a supplemental amount equal to the Uganda Shillings equivalent of \$12,000,000 to be made available by the Borrower from time to time during the implementation of Part C of the Project under the terms and conditions specified in Schedule 2 to the UDB Project Agreement, and which shall have been approved by the Association; and (ii) enter into the UDB Agreement under which UDB will manage: (A) the Restructuring Fund to be established under Part C of the Project pursuant to (i) above; and (B) the Borrower's existing PE portfolio including: (1) regularizing and updating the present loan and credit portfolio administered by SCD; (2) administration and supervision of all new loan and credit transactions the Borrower may engage in with PEs; and (3) advising the Borrower in regard to consolidating, refinancing or otherwise dealing with problem items in the portfolio. The Borrower shall, not later than July 30 of each year, provide UDB with the amount budgeted for carrying out Part C of the Project.

(e) The Borrower shall exercise its rights under the BOU Subsidiary Agreement and the UDB 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 BOU Subsidiary Agreement, the UDB Agreement or any provision thereof.

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

Section 3.03. The Borrower and the Association hereby agree that the obligations set forth in Sections 9.03, 9.04, 9.05, 9.06, and 9.07 of the General Conditions (relating to insurance, use of goods and services, plans and schedules, records and reports, maintenance and land acquisition, respectively) in respect of Parts A, B and C of the Project shall be carried out by BOU and UDB, respectively pursuant to Section 2.04 of the BOU Project Agreement and the UDB Project Agreement.

Section 3.04. The Borrower shall ensure that financing under Part C of the Project in a PE expected to be privatized in the medium term shall not include any major rehabilitation or restructuring, and will be limited to investments needed to preserve the enterprise's viability.

Section 3.05. The Borrower shall ensure that BOU shall continue to take such measures as shall be necessary to maintain positive interest rates.

ARTICLE IV

Financial Covenants

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

- (i) maintain or cause to be maintained in accordance with sound accounting practices, records and accounts reflecting such expenditures;
- (ii) ensure that all records (contracts, orders, invoices, bills, receipts and other documents) evidencing such expenditures are retained until at least one year after the Association has received the audit report for the fiscal year in which the last withdrawal from the Credit Account was made; and
- (iii) enable the Association's representatives to examine such records.

(b) The Borrower shall:

- (i) have the records and accounts referred to in paragraph (a) (i) of this Section and those for the Special Account for each fiscal year audited, in accordance with appropriate auditing principles consistently applied, by independent auditors acceptable to the Association; and
- (ii) furnish to the Association as soon as available, but in any case not later than six months after the end of each such year the report of such audit by said auditors, of such scope and in such detail as the Association shall have reasonably requested, including a separate opinion by said auditors as to whether the statements of expenditure submitted during such fiscal year, together with the procedures and internal controls involved in their preparation, can be relied upon to support the related withdrawals; and
- (iii) furnish to the Association such other information concerning said records and accounts and the audit thereof as the Association shall from time to time reasonably request.

(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 Bank has received the audit report 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 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 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) BOU or UDB shall have failed to perform any of their obligations under the BOU Project Agreement or UDB Project Agreement, respectively.
- (b) As a result of events which have occurred after the date of the Development Credit Agreement, an extraordinary situation shall have arisen which shall make it improbable that BOU or UDB will be able to perform its obligations under the BOU Project Agreement or the UDB Project Agreement, respectively.
- (c) The BOU Act or the UDB Decree shall have been amended, suspended, abrogated, repealed or waived so as to affect materially and adversely the operations or financial condition of BOU or UDB, respectively, or their ability to carry out the Project or to perform any of their obligations under the BOU Project Agreement or UDB Project Agreement, respectively.
- (d) The Borrower or any other authority having jurisdiction shall have taken any action for the dissolution or disestablishment of BOU or UDB or for the suspension of their operations.
- (e) An event has occurred which shall make it improbable that the reforms in the PE Reform Policy or a significant part thereof, will be carried out.

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

- (a) the event specified in paragraph (a) of Section 5.01 of this Agreement shall occur and shall continue for a period of sixty days after notice thereof shall have been given by the Association to the Borrower, BOU or UDB; and
- (b) any event specified in paragraphs (c), (d) or (e) of Section 5.01 of this Agreement shall occur.

ARTICLE VI

Effective Date; Termination

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

- (a) The PE Reform Policy has been published in the Borrower's official gazette.
- (b) (i) The Technology and Management Fund and the Credit Guarantee Fund have been established in BOU; and (ii) the Divesti-

ture Account and the Redundancy Account have been opened by the Secretary to the Treasury.

- (c) (i) A statement satisfactory to the Association specifying the role and responsibilities of EDPIIT has been furnished to the Association;
- (ii) the Project Manager has been appointed; and
- (iii) the Borrower has approved a five-year APPERD.

Section 6.02. The following is specified as an additional matter, 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, namely, that the BOU Project Agreement and the UDB Project Agreement have been duly authorized or ratified by BOU and UDB, respectively, and are legally binding upon BOU and UDB in accordance with their terms.

Section 6.03. The date ninety (90) days after the date of this Agreement is hereby specified for the purposes of Section 12.04 of the General Conditions.

Section 6.04. The obligations of the Borrower under Sections 3.01, 3.02, 3.03 and 3.04 of this Agreement shall cease and determine on the date on which the Development Credit Agreement shall terminate or on the date twenty years after the date of this Agreement, whichever shall be the earlier.

ARTICLE VII

Representatives of the Borrower; Addresses

Section 7.01. Except as provided in Section 2.09 of this Agreement, the Minister of Finance of the Borrower is designated as representative of the Borrower for the purposes of Section 11.03 of the General Conditions.

Section 7.02. The following addresses are specified for the purposes of Section 11.01 of the General Conditions:

For the Borrower:

Ministry of Finance
P.O. Box 8147
Kampala
Uganda

Cable address:

FINSEC
Kampala

Telex:

61170

For the Association:

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

Cable address:

INDEVAS
Washington, D.C.

Telex:

197688 (TRT),
248423 (RCA),
64145 (WUI) or
82987 (FTCC)

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.

REPUBLIC OF UGANDA

By /s/ Stephen K. Katenta-Apuli
Authorized Representative

INTERNATIONAL DEVELOPMENT ASSOCIATION

By /s/ Francis X. Colaco
Acting Regional Vice President
Africa

SCHEDULE 1

Withdrawal of the Proceeds of the Credit

1. The table below sets forth the Categories of items to be financed out of the proceeds of the Credit, the allocation of the amounts of the Credit to each Category and the percentage of expenditures for items so to be financed in each Category:

Category	Amount of the Credit Allocated (Expressed in SDR Equivalent)	% of Expenditures to be Financed
(1) Goods and Services for:		
(a) Investment Projects under Part A of the Project	18,800,000	100% of foreign expenditures and 90% of local expenditures
(b) Technology and manage- ment contracts under Part B of the Project	8,250,000	100% of foreign expenditures and 90% of local expenditures
(c) Public enterprises under Part C of the Project	12,000,000	100% of foreign expenditures and 90% of local expenditures
(2) Vehicles and equipment under Part D of the Project	230,000	100% of foreign expenditures and 80% of local expenditures
	Amount of the Credit Allocated (Expressed in SDR Equivalent)	% of Expenditures to be Financed
(3) Consultants' Services under Part D of the Project, including travel expenses under Parts D.4 and D.5 of the	5,300,000	100%

Project			
(4)	Training	1,280,000	100%
(5)	Incremental Operating Expenses	1,880,000	80%
(6)	Unallocated	1,560,000	
TOTAL		49,300,000	=====

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) "Incremental Operating Expenses" means incremental expenses incurred by PES and PIES for (i) office rental, improvements and maintenance, (ii) office supplies and utilities, and (iii) subsistence and sitting fees for member of the Committee of Eminent Persons.

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) a Sub-loan or Investment in respect of Category (1) (a) unless: (i) the Sub-loan or Investment has been made in accordance with the procedures and on the terms and conditions set forth or referred to in Schedule 1 to the BOU Project Agreement; (ii) the BOU Subsidiary Agreement has been executed by the Borrower and BOU; (iii) BOU has issued lending policy statements, satisfactory to the Association, on the terms and conditions governing use of the line of credit under Part A of the Project, and the operation of the Credit Guarantee Fund within BOU; and (iv) BOU has signed at least one Participating Bank Agreement, satisfactory to the Association; (c) expenditures under Category (1) (b), unless the operating instructions governing technology and management contracts under Part B of the Project have been issued; and (d) expenditures in respect of Category (1) (c) unless: (i) the Borrower and UDB have executed the UDB Agreement; (ii) the Directors of PES and the Divestiture Secretariat have been appointed; (iii) the Borrower has entrusted responsibility for control of subsidiary enterprises of Uganda Development Corporation to its Ministry of Industry and Technology; (iv) the Borrower has adopted legislation on the reform of PEs; and (v) UDB has appointed experts in financial restructuring and industrial engineering.

SCHEDULE 2

Description of the Project

The objectives of the Project are to: (a) improve the operating environment for all enterprises, public or private; (b) generate a supply response from all enterprises; and (c) contribute to reducing the budgetary deficits, by reducing the size of the public enterprise sector and improving the performance and the financial discipline of the remaining public enterprises.

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: Line of Credit

A line of credit to be made available, through BOU, to Participating Banks for provision of medium- and long-term financing for Investment Projects.

Part B: Technology and Management Fund

Establishment and operation of a fund to finance the provision of selected technology and management services to strengthen enterprises in the public and private sectors.

Part C: Restructuring Fund

Establishment of a fund to provide Sub-loans and Investments to finance the restructuring of viable public enterprises.

Part D: Technical Assistance

1. BOU

Consultants' services and the acquisition of computers, vehicles, office equipment and supplies to strengthen BOU's capability to manage: (a) the Line of Credit under Part A of the Project; (b) the Technology and Management Fund under Part B of the Project; and (c) the Credit Guarantee Fund.

2. UDB

Strengthening UDB's capability to manage the Restructuring Fund, through consultants' services and the acquisition of vehicles, office equipment and supplies.

3. PES and PIES

Strengthening PES' and PIES' capability to manage APPERD through consultants' services and the acquisition of office equipment and vehicles.

4. Ministry of Commerce, Cooperative and Marketing

The carrying out of studies to formulate an export development strategy.

5. Public Enterprises

Assistance to individual public enterprises through consultants' services, training of managers and the preparation of corporate restructuring plans.

* * *

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

Except as provided in Part B hereof, goods and works shall be procured under contracts awarded in accordance with procedures consistent with those set forth in Sections I and II of the "Guidelines for Procurement under IBRD Loans and IDA Credits" published by the Bank in May 1985 (the Guidelines).

Part B: Other Procurement Procedures

1. Items or groups of items required under Parts A and C of the Project, estimated to cost the equivalent of \$1,000,000 or less per contract, up to an aggregate amount equivalent to \$5,000,000 may be

procured under contracts awarded on the basis of procurement procedures of UDB, which shall be consistent with commercial practice, satisfactory to the Association.

2. Machinery required under Parts A and C of the Project which is available only from a limited number of suppliers may be procured: (a) under contracts awarded through limited international bidding procedures on the basis of evaluation and comparison of bids invited from a list of at least three qualified suppliers eligible under the Guidelines and in accordance with the procedures set forth in Sections I and II of the Guidelines (excluding paragraphs 2.8, 2.9, 2.55 and 2.56 thereof) or (b) where the value of such machinery is estimated to cost less than the equivalent of \$1 million per contract, up to an aggregate amount not to exceed the equivalent of \$2,000,000, these items may be procured under contracts awarded on the basis of comparison of price quotations solicited from a list of at least three suppliers eligible under the Guidelines, in accordance with procedures acceptable to the Association.

3. Proprietary equipment, or standardized equipment required for compatibility with existing equipment, may be procured on the basis of negotiated contracts, in accordance with procedures acceptable to the Association.

Part C: 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 estimated to cost the equivalent of \$500,000 or more, the procedures set forth in paragraphs 2 and 4 of Appendix 1 to the Guidelines shall apply. Where payments for such contract are to be made out of the Special Account, such procedures shall be modified to ensure that the two conformed copies of the contract required to be furnished to the Association pursuant to said paragraph 2 (d) shall be furnished to the Association prior to the making of the first payment out of the Special Account in respect of such contract.

(b) With respect to each contract not governed by the preceding paragraph, the procedures set forth in paragraphs 3 and 4 of Appendix 1 to the Guidelines shall apply. Where payments for such contract are to be made out of the Special Account, such procedures shall be modified to ensure that the two conformed copies of the contract together with the other information required to be furnished to the Association pursuant to said paragraph 3 shall be furnished to the Association as part of the evidence to be furnished pursuant to paragraph 4 of Schedule 5 to this Agreement.

(c) The provisions of the preceding subparagraph (b) shall not apply to contracts on account of which 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 Parts B and D of the Project, the Borrower shall employ experts and consultants whose qualifications, experience and terms and conditions of employment shall be satisfactory to the Association. Such experts and consultants shall be selected in accordance with principles and procedures satisfactory to the Association on the basis of the "Guidelines for the Use of Consultants by World Bank Borrowers and by the World Bank as Executing Agency" published by the Bank in August 1981.

2. The award of Contracts for technology and management services under Part B of the Project shall be carried out in accordance with the procedures referred to in Schedule 2 of the BOU Project

Agreement.

SCHEDULE 4

Implementation Program

Project Coordination

1. The Borrower shall establish EDPIT headed by the Coordinator, PERD, who, under the supervision of the Chairman of the Divestiture Implementation Committee within the Ministry of Finance, shall be responsible to coordinate the implementation of the various components of the Project.

2. (a) The Governor, BOU, shall be responsible for implementing: (i) the line of credit under Part A of the Project; (ii) the Technology and Management Fund under Part B of the Project, as well as the Credit Guarantee Fund to be established within BOU.

(b) The Secretary to the Treasury shall be responsible for implementing the Restructuring Fund under Part C of the Project.

(c) The Permanent Secretary, Ministry of Industry and Technology shall be responsible for implementing the activities of PIES under Part D of the Project.

(d) In addition to his responsibility for overall Project coordination, the Coordinator, PERD, shall be responsible for: (i) procurement under Part D of the Project; (ii) implementation of technical assistance required by PES under Parts D.3 and D.5 of the Project; and (iii) the management of the Divestiture Account and the Redundancy Account.

3. (a) The Coordinator, PERD, shall submit to the Association for review and approval, by May 31 of each year, commencing in 1992, an annual program, including: (i) the work programs of PES and PIES for the following year; (ii) the work program of the Divestiture Secretariat for the following year, including PEs to be divested or liquidated; (iii) the work program for completion of corporate restructuring plans and their implementation in the following year; (iv) the work plans for all remaining activities under the Project; and (v) the provisions in the Borrower's budget to support the Project.

(b) The Coordinator, PERD, shall not later than April 30, 1992, issue the Borrower's new policy for selection and appointment of chief executive officers and members of boards of directors of PEs.

Progress Report

4. The Coordinator, PERD, shall furnish the Association with quarterly reports on the implementation of the various components of the Project, and an annual report by October 1 of each year.

5. The Coordinator, PERD, shall prepare and coordinate a comprehensive mid-term review of activities carried out under the Project by not later than December 31, 1996, including an assessment of prospects for extending the Credit Guarantee Fund under BOU, to other sectors. The Borrower and the Association shall after the review, determine any modifications to the Project resulting from such review.

SCHEDULE 5

Special Account

1. For the purposes of this Schedule:

(a) the term "eligible Categories" means: (i) in respect of Special Account A, Category (1) (a) set forth in the table in paragraph 1 of Schedule 1 to this Agreement; (ii) in respect of Special Account B, Category (1) (b) of said table; (iii) in respect

of Special Account C, Category (1) (c) of said table; and (iv) in respect of Special Account D, Categories (2) through (5) of said table;

(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, provided, however, that notwithstanding the provisions of paragraph 2 (b) of Schedule 1 to the BOU Project Agreement, payments for expenditures to be financed out of the proceeds of free-limit Sub-loans may be made out of the Special Account before the Association shall have authorized withdrawals from the Credit Account in respect thereof. Such expenditures, however, shall qualify as eligible expenditures only if the Association shall subsequently authorize such withdrawals; and

(c) the term "Authorized Allocation" means: (i) an amount equivalent to \$1,500,000 to be withdrawn from the Credit Account and deposited into Special Account A; (ii) an amount equivalent to \$500,000, to be withdrawn from the Credit Account and deposited into Special Account B; (iii) an amount equivalent to \$750,000, to be withdrawn and deposited into Special Account C; and (iv) an amount equivalent to \$500,000, to be withdrawn from the Credit Account and deposited into Special Account D, all pursuant to paragraph 3 (a) of this Schedule.

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

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

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

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

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

4. For each payment made by the Borrower out of the Special Account, the Borrower shall, at such time as the Association shall reasonably request, furnish to the Association such documents and

other evidence showing that such payment was made exclusively for eligible expenditures.

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

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

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

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

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

SCHEDULE 6

Modifications of the General Conditions

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

- (1) The last sentence of Section 3.02 is deleted.
- (2) The following subparagraph is added to Section 2.01:

"15. The term 'Project Agreements' has the meaning set forth in paragraphs (c) and (d) of Section 1.02 of the

Development Credit Agreement."

(3) The words "the Association may, by notice to the Borrower, terminate the right of the Borrower to make withdrawals with respect to such amount. Upon the giving of such notice, such amount of the Credit shall be cancelled" set forth at the end of Section 6.03 are deleted and the following is substituted therefor:

"or (e) by the date specified in sub-paragraph 3 (c) of Schedule 1 to the Project Agreements, the Association shall, in respect of any portion of the Credit: (i) have received no applications or requests permitted under sub-paragraphs (a) or (b) of said paragraph; or (ii) have denied any such applications or requests, the Association may, by notice to the Borrower, terminate the right to submit such applications or approvals or to make withdrawals from the Credit Account, as the case may be, with respect to such amount or portion of the Credit. Upon the giving of such notice, such amount or portion of the Credit shall be cancelled."

