

CONFORMED COPY

CREDIT NUMBER 4367-UG

Financing Agreement

(Kampala Institutional and Infrastructure Development Project)

between

THE REPUBLIC OF UGANDA

and

INTERNATIONAL DEVELOPMENT ASSOCIATION

Dated February 20, 2008

CREDIT NUMBER 4367-UG

FINANCING AGREEMENT

AGREEMENT dated February 20, 2008, entered into between THE REPUBLIC OF UGANDA (“Recipient”) and INTERNATIONAL DEVELOPMENT ASSOCIATION (“Association”). The Recipient and the Association hereby agree as follows:

ARTICLE I — GENERAL CONDITIONS; DEFINITIONS

- 1.01. The General Conditions (as defined in the Appendix to this Agreement) constitute an integral part of this Agreement.
- 1.02. Unless the context requires otherwise, the capitalized terms used in this Agreement have the meanings ascribed to them in the General Conditions or in the Appendix to this Agreement.

ARTICLE II — FINANCING

- 2.01. The Association agrees to extend to the Recipient, on the terms and conditions set forth or referred to in this Agreement, a credit in an amount equivalent to twenty two million Special Drawing Rights (SDR 22,000,000) (variously, “Credit” and “Financing”) to assist in financing the project described in Schedule 1 to this Agreement (“Project”).
- 2.02. The Recipient may withdraw the proceeds of the Financing in accordance with Section IV of Schedule 2 to this Agreement.
- 2.03. The Maximum Commitment Charge Rate payable by the Recipient on the Unwithdrawn Financing Balance shall be one-half of one percent (1/2 of 1%) per annum.
- 2.04. The Service Charge payable by the Recipient on the Withdrawn Credit Balance shall be equal to three-fourths of one percent (3/4 of 1%) per annum.
- 2.05. The Payment Dates are February 15 and August 15 in each year.
- 2.06. The principal amount of the Credit shall be repaid in accordance with the repayment schedule set forth in Schedule 3 to this Agreement.

- 2.07. The Payment Currency is Dollars.

ARTICLE III — PROJECT

- 3.01. The Recipient declares its commitment to the objectives of the Project and the Program. To this end, the Recipient shall carry out the Project through the Project Implementing Entity in accordance with the provisions of Article IV of the General Conditions and the Project Agreement.
- 3.02. Without limitation upon the provisions of Section 3.01 of this Agreement, and except as the Recipient and the Association shall otherwise agree, the Recipient shall ensure that the Project is carried out in accordance with the provisions of Schedule 2 to this Agreement.

ARTICLE IV — REMEDIES OF THE ASSOCIATION

- 4.01. The Additional Events of Suspension consist of the following:
- (a) A situation has arisen which shall make it improbable that the Program, or a significant part thereof, will be carried out; and
 - (b) without limitation upon the provisions of Section I.A.3 of Schedule 2 to this Agreement, the Project Implementing Entity's Legislation has been amended, suspended, abrogated, repealed or waived so as to affect materially and adversely the ability of the Project Implementing Entity to perform any of its obligations under the Project Agreement.

ARTICLE V — EFFECTIVENESS; TERMINATION

- 5.01. The Additional Conditions of Effectiveness consist of the following:
- (a) the Subsidiary Agreement has been executed on behalf of the Recipient and the Project Implementing Entity; and
 - (b) the Project Implementing Entity has established a Procurement and Disposal Unit with functions, staffing and resources satisfactory to the Association.
- 5.02. The Additional Legal Matter shall be that the Subsidiary Agreement has been duly authorized or ratified by the Recipient and the Project Implementing Entity

and is legally binding upon the Recipient and the Project Implementing Entity in accordance with its terms.

- 5.03. The Effectiveness Deadline is the date ninety (90) days after the date of this Agreement.
- 5.04. For purposes of Section 8.05 (b) of the General Conditions, the date on which the obligations of the Recipient under this Agreement (other than those providing for payment obligations) shall terminate is twenty (20) years after the date of this Agreement.

ARTICLE VI — REPRESENTATIVE; ADDRESSES

6.01. The Recipient's Representative is the Minister responsible for finance.

6.02. The Recipient's Address is:

Ministry of Finance, Planning
and Economic Development
Plot # 2 – 12, Appolo Kaggwa Road
P.O. Box 8147
Kampala, Uganda

Cable:	Fascimile:
FINSEC	256 41 230163

6.03. The Association's Address is:

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

Cable:	Telex:	Facsimile:
INDEVAS Washington, D.C.	248423 (MCI)	1-202-477-6391

AGREED at Kampala, Uganda, as of the day and year first above written.

THE REPUBLIC OF UGANDA

By: */s/ Fred Jachan Omach*
Authorized Representative

INTERNATIONAL DEVELOPMENT ASSOCIATION

By: */s/ John Murray McIntire*
Authorized Representative

SCHEDULE 1

Project Description

The objective of the Project is to support the Recipient's efforts to improve the institutional efficiency of KCC, through the implementation of the Strategic Framework for Reform of the KCC.

The Project constitutes the first phase of the Program, and consists of the following parts:

Part 1. Institutional Development

1. Expansion and revision of the Strategic Framework for Reform, through, *inter alia*:

(a) support to organizational development and governance including: (i) human resource management and training; (ii) general administration; (iii) an education information system; (iv) welfare and community service; (v) communication strategy; and (vi) environmental management;

(b) support to KCC financial recovery including: (i) enhancing revenue management capacity; (ii) enhancing expenditure management capacity; and (iii) establishing a framework for reduction and control of expenditures;

(c) strengthening service delivery, including strengthening the capacity for delivery of services in the following areas: (i) public health and environment; (ii) quality assurance for infrastructure; (iii) urban planning; and (iv) information and communication technology.

Part 2. Kampala City Infrastructure and Services Improvement

1. Supporting improvement of delivery of services, and the following infrastructure development: (a) drainage system; (b) traffic management; (c) maintenance of approximately 26 kilometers of tarmac roads, and upgrading of approximately 11 kilometers of gravel road to bitumen standard; and (d) solid waste management including, expansion of the existing landfill, provision for supply and installation of the landfill gas collection system, and preparation of designs for the development of a new landfill; and (e) reconstruction, rehabilitation and upgrading of selected markets, and preparation of a detailed design and construction of selected markets.

2. Implementing the Resettlement Action Plan.

Part 3: Project Implementation, Monitoring and Evaluation

Strengthening the capacity for management and implementation of the Project, and establishment of a comprehensive monitoring and evaluation system, including: (a) project implementation support; (b) monitoring and evaluation, including environmental monitoring; (c) developing and conducting an annual citizen's report card; and (d) conducting a survey to ascertain the level of effectiveness of staff and councilors of the Kampala City Council.

SCHEDULE 2

Project Execution

Section I. Implementation Arrangements

A. Institutional and Implementation Arrangements:

1. The Recipient shall ensure that MoLG is maintained at all times during the implementation of the Project with functions, staffing and resources satisfactory to the Association, for the purpose of ensuring the prompt and efficient oversight of the Project.
2. Without limitation to paragraph 1 of this Section, KCC shall be responsible for the overall planning, coordination, financial management, procurement, monitoring, environmental and social issues, evaluation, reporting and communication of the Project in accordance with the provisions of the Project Agreement.
3. **Project Implementation Plan.** The Recipient shall ensure that the Project is carried out in accordance with the Project Implementation Plan, and shall ensure that the Project Implementing Entity shall not, except as the Association shall otherwise agree, amend, abrogate or waive any provision of the Project Implementation Plan, if such amendment, abrogation or waiver may, in the opinion of the Recipient, and the Association, materially or adversely affect the implementation of the Project.
4. **Transition of KCC:**
 - (a) Upon implementation of the Constitution Amendment, the Recipient shall: (i) notify the Association; (ii) in consultation with the Association designate Kampala City, or such administrative entity as shall be established, to carry out the responsibilities of KCC set forth in this Agreement, the Project Agreement, and the Subsidiary Agreement.
 - (b) without limitation upon the provisions of sub-paragraph (a), the Recipient shall: (i) take all necessary measures to implement the Constitution Amendment; and (ii) cause Kampala City, or such administrative entity as shall be established, to assume all obligations and responsibilities of KCC under this Agreement, the Project Agreement and the Subsidiary Agreement.

B. Subsidiary Agreement

1. To facilitate the carrying out of the Project, the Recipient shall make the proceeds of the Financing available to the Project Implementing Entity under a subsidiary loan agreement between the Recipient and the Project Implementing Entity, under terms and conditions approved by the Association (“Subsidiary Agreement”), which shall, *inter alia*, include the following:
 - (a) the requirement that the Project Implementing Entity carry out the Project with due diligence and efficiency, in conformity with appropriate administrative, financial, engineering, technical, environmental and social safeguard practices and in accordance with the Project Implementation Plan, and provide, or cause to be provided, promptly as needed, the facilities, services and other resources required for the Project;
 - (b) the obligation of the Project Implementing Entity to comply with the procedures for procurement of works, goods, and consultants’ services set forth in the Procurement Plan and this Agreement;
 - (c) the requirement that the Project Implementing Entity comply with record keeping, auditing and reporting requirements set forth in Section II of this Schedule with respect to the Project, including the annual auditing of its records and accounts in respect of the Project (operations, resources and expenditure in respect of the Project);
 - (d) the obligation of Project Implementing Entity to exchange views with the Recipient and the Association with regard to the progress of the Project and the performance of its obligations under the Subsidiary Agreement; and
 - (e) the requirement that the Project Implementing Entity promptly informs the Recipient and the Association of any condition which interferes or threatens to interfere with the progress of the Project, or the performance of its obligations under the Subsidiary Agreement.
2. The Recipient shall exercise its rights under the Subsidiary Agreement in such manner as to protect the interests of the Recipient and the Association and to accomplish the purposes of the Financing. Except as the Association shall otherwise agree, the Recipient shall not assign, amend, abrogate or waive the Subsidiary Agreement or any of its provisions.

C. Anti-Corruption

The Recipient shall ensure that the Project is carried out in accordance with the provisions of the Anti-Corruption Guidelines.

D. Environmental and Social Safeguards

1. The Recipient shall ensure that:

(a) the Project is carried out by the Project Implementing Entity in accordance with the Environmental Analysis, the Environmental Management Plan, and the Resettlement Action Plan; and

(b) prior to carrying out activities which involve displacement of Affected Persons, take all measures satisfactory to the Association, for implementing the recommendations of the Resettlement Action Plan in a timely manner. To this end, the Recipient shall ensure that:

(i) all rights to land, usufructs or customary rights and other property are allocated or acquired, equitable compensation thereof is paid and resettlement is carried out in accordance with the principles and institutional procedures established in the Resettlement Action Plan;

(ii) Affected Persons shall be equitably compensated, resettled and rehabilitated in accordance with the Resettlement Action Plan;

(iii) the implementation arrangements for resettlement, including compensation, relocation and rehabilitation of Affected Persons are documented; and

(iv) the implementation of such Resettlement Action Plan is completed in a manner satisfactory to the Association.

2. The Recipient shall: (a) cause the Project Implementation Entity to open and maintain the Escrow Account in the Bank of Uganda on terms and conditions satisfactory to the Association; and (b) ensure that the amounts deposited into the Escrow Account shall be used exclusively to make payments to meet the expenditures made, or to be made in respect of compensation to the affected Persons.

3. The Recipient shall ensure that the Project Reports referred to in Section II.A of this Schedule shall include adequate information on monitoring the measures defined in the Environmental Analysis, Environmental Management Plan, and the Resettlement Action Plan.

Section II. Project Monitoring, Reporting and Evaluation

A. Project Reports

1. (a) The Recipient shall cause the Project Implementing Entity to monitor and evaluate the progress of the Project and prepare Project Reports in accordance with the provisions of Section 4.08 of the General Conditions and on the basis of the indicators set forth below in sub-paragraph (b) of this paragraph. Each Project Report shall cover the period of six months, and shall be furnished to the Association not later than one month after the end of the period covered by such report.
- (b) The performance indicators referred to above in sub-paragraph (a) consist of the following:
 - (i) reduction of overdue liabilities from UgShs 8 billion to UgShs 3 billion;
 - (ii) the share of KCC's own source revenue spent on service delivery increases from 10% to 30%;
 - (iii) increase in KCC own source revenue from US\$ 22 billion to US\$ 30 billion; and
 - (iv) increase in public satisfaction in service delivery in the following areas: (A) roads from 18% to 50%; (B) drainage from 22% to 31%; and (C) Solid Waste from 44% to 60%.
2. For purposes of Section 4.08 (c) of the General Conditions, the report on the execution of the Project and related plan required pursuant to that Section shall be furnished to the Association not later than April 30, 2009.

B. Financial Management, Financial Reports and Audits

1. The Recipient shall cause the Project Implementing Entity to maintain a financial management system in accordance with the provisions of Section 4.09 of the General Conditions.
2. Without limitation on the provisions of Part A of this Section, the Recipient shall cause the Project Implementing Entity to prepare and furnish to the Association as part of the Project Report, interim unaudited financial reports for the Project covering three months, in form and substance satisfactory to the Association.
3. The Recipient shall cause the Project Implementing Entity to have its Financial Statements audited in accordance with the provisions of Section 4.09 (b) of the General Conditions. Each audit of the Financial Statements shall cover the period of one fiscal year of the Recipient, commencing with the fiscal year in which the first withdrawal under the Project Preparation Advance was made. The audited Financial Statements for each such period shall be furnished to the Association not later than six months after the end of such period.

Section III. Procurement

A. General

1. **Goods and Works.** All goods and works required for the Project and to be financed out of the proceeds of the Financing shall be procured in accordance with the requirements set forth or referred to in Section I of the Procurement Guidelines, and with the provisions of this Section.
2. **Consultants' Services.** All consultants' services required for the Project and to be financed out of the proceeds of the Financing shall be procured in accordance with the requirements set forth or referred to in Sections I and IV of the Consultant Guidelines, and with the provisions of this Section.
3. **Definitions.** The capitalized terms used below in this Section to describe particular procurement methods or methods of review by the Association of particular contracts, refer to the corresponding method described in the Procurement Guidelines, or Consultant Guidelines, as the case may be.

B. Particular Methods of Procurement of Goods and Works

1. **International Competitive Bidding.** Except as otherwise provided in paragraph 2 below, goods and works shall be procured under contracts awarded on the basis of International Competitive Bidding.
2. **Other Methods of Procurement of Goods and Works.** The following methods of procurement, other than International Competitive Bidding, may be used for goods and works under the circumstances specified in the Procurement Plan for each such method: (a) National Competitive Bidding; (b) Direct Contracting; and (c) Shopping.

C. Particular Methods of Procurement of Consultants' Services

1. **Quality- and Cost-based Selection.** Except as otherwise provided in paragraph 2 below, consultants' services shall be procured under contracts awarded on the basis of Quality- and Cost-based Selection.
2. **Other Methods of Procurement of Consultants' Services.** The following methods of procurement, other than Quality- and Cost-based Selection, may be used for consultants' services under the circumstances specified in the Procurement Plan for each such method: (a) Least Cost Selection; (b) Selection Based on Consultants' Qualifications; (c) Single-source Selection; (d) Procedures set forth in paragraphs 5.2 and 5.3 of the Consultant Guidelines for the Selection of Individual Consultants; and (e) Sole Source Procedures for the Selection of Individual Consultants.

D. Review by the Association of Procurement Decisions

1. Except as the Association shall otherwise determine by notice to the Recipient, the following contracts shall be subject to Prior Review by the Association: (a) each contract for works estimated to cost the equivalent of \$350,000 or more; (b) each contract or goods estimated to cost the equivalent of \$150,000 or more; (c) each contract for goods, works, or services (other than consultants' services) procured on the basis of Direct Contracting; and (d) each contract for consultants' services provided by a firm estimated to cost the equivalent of \$100,000 or more.
2. In addition, the following prior review procedures shall apply to each contract for the employment of individual consultants (other than consultants to be selected on a sole source basis) estimated to cost the equivalent of \$50,000 or more: (i) the report on the comparison of the qualifications and experience of candidates,

terms of reference and conditions of employment of the consultant shall be furnished to the Association for its prior review and approval; (ii) the contract shall be awarded only after the Association's approval shall have been given; and (iii) the provisions of paragraph 3 and 5 of Appendix 1 to the Consultant Guidelines shall apply to the contract. The following prior review procedures shall apply to each contract for the employment of individual consultants to be selected on a sole source basis: (i) the qualifications, experience, terms of reference and conditions of employment of the consultants shall be furnished to the Association for its prior review and approval; (ii) the contract shall be awarded only after the Association's approval shall have been given; and (iii) the provisions of paragraph 3 of Appendix 1 to the Consultant Guidelines shall apply to the contract.

3. All other contracts shall be subject to Post Review by the Association.

Section IV. Withdrawal of the Proceeds of the Financing

A. General

1. The Recipient may withdraw the proceeds of the Financing in accordance with the provisions of Article II of the General Conditions, this Section, and such additional instructions as the Association shall specify by notice to the Recipient (including the "World Bank Disbursement Guidelines for Projects" dated May 2006, as revised from time to time by the Association and as made applicable to this Agreement pursuant to such instructions), to finance Eligible Expenditures as set forth in the table in paragraph 2 below.
2. The following table specifies the categories of Eligible Expenditures that may be financed out of the proceeds of the Financing ("Category"), the allocations of the amounts of the Credit to each Category, and the percentage of expenditures to be financed for Eligible Expenditures in each Category:

Category	Amount of the Credit Allocated (expressed in SDR)	Percentage of Expenditures to be Financed (inclusive of Taxes)
(1) Works	14,000,000	100%
(2) Goods	800,000	100%
(3) Consultants' Services	4,400,000	90%

including audits, Training, and Workshops		
(4) Operating Costs	530,000	80%
(5) Refund of Project Preparation Advance	650,000	Amount payable pursuant to Section 2.07 of the General Conditions
(6) Unallocated	1,620,000	
TOTAL AMOUNT	22,000,000	

B. Withdrawal Conditions; Withdrawal Period

1. Notwithstanding the provisions of Part A of this Section, no withdrawal shall be made for payments made prior to the date of this Agreement.
2. The Closing Date is December 31, 2010.

SCHEDULE 3

Repayment Schedule

Date Payment Due	Principal Amount of the Credit repayable (expressed as a percentage)*
On each February 15 and August 15:	
commencing February 15, 2018 to and including August 15, 2027	1
commencing February 15, 2028 to and including August 15, 2047	2

* The percentages represent the percentage of the principal amount of the Credit to be repaid, except as the Association may otherwise specify pursuant to Section 3.03 (b) of the General Conditions.

APPENDIX

Definitions

1. “Affected Persons” means persons who, on account of the execution of the Project had or would have their: (i) standard of living adversely affected; or (ii) right, title, interest in any house, land (including premises, agricultural and grazing land) or any other fixed or movable asset acquired or possessed, temporarily or permanently; (iii) access to productive assets adversely affected, temporarily or permanently; or (iv) business, occupation, work or place of residence or habitat adversely affected.
2. “Anti-Corruption Guidelines” means the “Guidelines on Preventing and Combating Fraud and Corruption in Projects Financed by IBRD Loans and IDA Credits and Grants”, dated October 15, 2006.
3. “Bank of Uganda” means the Recipient’s central bank.
4. “Category” means a category set forth in the table in Section IV of Schedule 2 to this Agreement.
5. “Consultant Guidelines” means the “Guidelines: Selection and Employment of Consultants by World Bank Borrowers” published by the Bank in May 2004 and revised in October 2006.
6. “Constitution Amendment” means Amendment Act No 11/2005 of the laws of the Recipient to amend the Constitution of the Recipient.
7. “Core Team Coordinator” means the coordinator referred to in Section 1(A) of the Schedule to the Project Agreement.
8. “Environmental Analysis” means a document of the Recipient dated November, 2006, as the said document may be amended and/or supplemented from time to time with the prior concurrence of the Association, setting forth the procedures for preparation and implementation of environmental assessments and management plans under the Project pursuant to Section I.D.3 of Schedule 2 to this Agreement.
9. “Environmental Management Plan” or “EMP” means an annex to the Environmental Analysis describing mitigation, enhancement, monitoring, and institutional measures to be taken during implementation of infrastructure activities under Part 2 of the Project to mitigate adverse environmental and social

impacts, offset them, or reduce them to acceptable levels, or to enhance positive impacts, as the said annex may be amended and/or supplemented from time to time with the prior concurrence of the Association.

10. “Escrow Account” means the account referred to in Section I.D.2 of Schedule 2 to this Agreement.
11. “General Conditions” means the “International Development Association General Conditions for Credits and Grants”, dated July 1, 2005 (as amended through October 15, 2006).
12. “Kampala City” means the territorial boundary of the capital city of the Recipient established pursuant to the Constitution of the Recipient.
13. “Kampala City Council” or “KCC” means the local government established and operating pursuant to the Local Governments Act.
14. “Local Governments Act” means the Local Governments Act (CAP 243), of the laws of the Recipient, regulating the establishment, management, administration, powers, functions and responsibilities of city councils, municipal councils, district councils, county councils and other local government bodies within the territory of the Recipient.
15. “MoLG” means the Recipient’s Ministry of Local Government.
16. “Operating Costs” means incremental costs incurred on account implementation of the Project including: fuel, maintenance of vehicles, office supplies, utilities, consumables, bank charges, communication expenses, allowances, travel per diems, accommodation and subsistence allowances for authorized travel, but excluding salaries of the Recipient’s civil servants.
17. “Procurement Guidelines” means the “Guidelines: Procurement under IBRD Loans and IDA Credits” published by the Bank in May 2004 and revised in October, 2006.
18. “Procurement Plan” means the Recipient’s procurement plan for the Project, dated August 7, 2007, and referred to in paragraph 1.16 of the Procurement Guidelines and paragraph 1.24 of the Consultant Guidelines, as the same shall be updated from time to time in accordance with the provisions of said paragraphs.

19. “Program” means the program set out in the letter from the Recipient to the Association dated September 24, 2007, describing a set of objectives, policies and actions designed to improve the institutional and infrastructure development of Kampala City Council, and to ensure enhanced accountability and transparency in the delivery of public services within Kampala City, and declaring the Recipient’s commitment to the execution of the Program.
20. “Project Agreement” means the agreement between the Association and KCC 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.
21. “Project Implementing Entity” means Kampala City Council.
22. “Project Implementing Entity’s Legislation” means the Recipient’s Local Governments Act.
23. “Project Implementation Plan” means the Project Implementing Plan dated July 2007, prepared by KCC in form and substance satisfactory to the Association, containing or referring to detailed arrangements and procedures for the Project, including: (i) institutional coordination and day-to-day execution of the Project; (ii) disbursement and financial management; (iii) procurement; (iv) environmental management; (v) monitoring, evaluation and reporting, including environmental and social issues; and (vi) such other administrative, financial, technical and organizational arrangements and procedures as shall be required for the Project, as the said Project Implementation Plan may be amended and/or supplemented from time to time with the prior concurrence of the Association.
24. “Project Preparation Advance” means the advance referred to in Section 2.07 of the General Conditions, granted by the Association to the Recipient pursuant to: (a) the letter agreement signed on behalf of the Association on November 17, 2004, and on behalf of the Recipient on November 29, 2004; and (b) the letter agreement signed on behalf of the Association on June 21, 2006, and on behalf of the Recipient on June 30, 2006.
25. “Resettlement Action Plan” or “RAP” means the plan dated October 2006, and referred to in Section I.D.1 (b) of Schedule 2 to this Agreement, setting out the principles, procedures, the time schedule governing acquisition of rights to land, resettlement and compensation, as well as reporting and monitoring arrangements to ensure compliance with the said plan.

26. “SFR Core Team” means the team referred to in Section 1(A) of the Schedule to the Project Agreement, and responsible for overseeing the implementation of the SFR.
27. “Strategic Framework for Reform” or “SFR” means the Recipient’s framework dated January 1997, as updated and adopted by KCC in November 2004, setting out the Recipient’s strategy and plan for development of the Kampala City Council, including institutional, financial and fiscal reforms, and liberalization of service delivery.
28. “Subsidiary Agreement” means the agreement referred to in Section I.B of Schedule 2 to this Agreement pursuant to which the Recipient shall make the proceeds of the Financing available to the Project Implementing Entity.
29. “Training and Workshops” means costs associated with approved workshops, and training of KCC and MoLG personnel (including members of the contracts committee) involved in implementation of the Project, including study tours, travel and subsistence costs for training participants, costs associated with securing the services of trainers, rental of training facilities, preparation and reproduction of training materials, and other costs directly related to course preparation and implementation.
30. “UgSh.” means Uganda Shilling, currency of the Recipient, and “UgShs.” means Uganda Shillings.