

CONFORMED COPY

CREDIT NUMBER 3227-UG

Development Credit Agreement

(Financial Markets Assistance Project)

between

THE REPUBLIC OF UGANDA

and

INTERNATIONAL DEVELOPMENT ASSOCIATION

Dated July 6, 1999

CREDIT NUMBER 3227-UG

DEVELOPMENT CREDIT AGREEMENT

AGREEMENT, dated July 6, 1999, between THE REPUBLIC OF UGANDA (Borrower) and INTERNATIONAL DEVELOPMENT ASSOCIATION (the Association).

WHEREAS 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;

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 (as amended through December 2, 1997), with the modifications set forth below (the General Conditions) constitute an integral part of this Agreement:

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

renumbered as paragraphs (13) through (15):

"12. "Participating Country" means any country that the Association determines meets the requirements set forth in Section 10 of Resolution No. 183 of the Board of Governors of the Association, adopted on June 26, 1996; and "Participating Countries" means, collectively, all such countries.

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

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

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

(a) "BOU" means the Bank of Uganda, the Borrower's central bank established pursuant to the Bank of Uganda Act of 1966;

(b) "CMA" means the Capital Markets Authority established pursuant to Statute No. 1 of 1996;

(c) "Fiscal Year" means the Borrower's fiscal year commencing on July 1 and ending on June 30 of the following year;

(d) "MFPED" means the Borrower's Ministry of Finance, Planning and Economic Development;

(e) "NPART" means the Non-Performing Assets Recovery Trust established pursuant to Statute No. 11 of 1994;

(f) "NSSF" means the National Social Security Fund established pursuant to The National Social Security Fund Act 8 1985;

(g) "PIP" means the Project Implementation Plan referred to in paragraph 3 of Schedule 4 to this Agreement and such term includes any schedules to the Project Implementation Plan;

(h) "Project Account" means the account referred to in section 3.02 of this Agreement;

(i) "Project Management Report" means each report prepared in accordance with Section 4.02. of this Agreement;

(j) "Project Preparation Advance" means the project preparation advance granted by the Association to the Borrower pursuant to exchanges of letters dated August 12, 1997, August 19, 1997, June 11, 1998 and June 24, 1998, respectively, between the Borrower and the Association;

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

(l) "UCB" means Uganda Commercial Bank established pursuant to Uganda Commercial Bank Act 1965;

(m) "UCBL" means Uganda Commercial Bank Limited established under the Companies Act of 1964 and licensed to operate as a bank under the Financial Institutions Statute of 1993; and

(n) "UDB" means Uganda Development Bank established pursuant to Uganda

Development Bank Act 1972.

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 nine million six hundred thousand Special Drawing Rights (SDR 9,600,000).

Section 2.02. (a) The amount of the Credit may be withdrawn from the Credit Account in accordance with the provisions of Schedule 1 to this Agreement for expenditures made (or, if the Association shall so agree, to be made) in respect of the reasonable cost of goods and services required for the Project described in Schedule 2 to this Agreement and to be financed out of the proceeds of the Credit.

(b) The Borrower may, for the purposes of the Project, open and maintain in dollars a special deposit account in a commercial bank on terms and conditions satisfactory to the Association including appropriate protection against set-off, seizure and attachment. Deposits into, and payments out of, the Special Account 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 Project Preparation Advance shall thereupon be canceled.

Section 2.03. The Closing Date shall be September 30, 2003, or such later date as the Association shall establish. The Association shall promptly notify the Borrower of such later date.

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

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

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

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

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

Section 2.07. (a) Subject to paragraphs (b), (c) and (d) below, the Borrower shall repay the principal amount of the Credit in semiannual installments payable on each March 1 and September 1, commencing September 1, 2009 and ending March 1, 2039. Each installment to and including the installment payable on March 1, 2019, shall be one percent (1%) of such principal amount, and each installment thereafter shall be two percent (2%) of such principal amount.

(b) Whenever: (i) the Borrower's per capita gross national product (GNP), as determined by the Association, shall have exceeded for three consecutive years the level established annually by the Association for determining eligibility to access the Association's resources; and (ii) the Bank shall consider the Borrower creditworthy for Bank lending, the Association may, subsequent to the review and approval thereof by the Executive Directors of the Association and after due consideration by them of the development of the Borrower's economy, modify the repayment of installments under paragraph (a) above by: (A) requiring the Borrower to repay twice the amount of each such installment not yet due until the principal amount of the Credit shall have been repaid; and (B) requiring the Borrower to commence repayment of the principal amount of the Credit as of the first semiannual payment date referred to in paragraph (a) above falling six months or more after the date on which the Association notifies the Borrower that the events set out in this paragraph (b) have occurred, provided, however, that there shall be a grace period of a minimum of five years on such repayment of principal.

(c) If so requested by the Borrower, the Association may revise the modification referred to in paragraph (b) above to include, in lieu of some or all of the increase in the amounts of such installments, the payment of interest at an annual rate agreed with the Association on the principal amount of the Credit withdrawn and outstanding from time to time, provided that, in the judgment of the Association, such revision shall not change the grant element obtained under the above-mentioned repayment modification.

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

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

ARTICLE III

Execution of the Project

Section 3.01. (a) The Borrower declares its commitment to the objectives of the Project as set forth in Schedule 2 to this Agreement and, to this end, shall carry out the Project through BOU and MFPED 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.

(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. Without limitation to its obligations under Section 3.01 of this Agreement, the Borrower shall, for the purposes of the Project:

(a) open and maintain in Uganda Shillings an account (the Project Account) in a commercial bank acceptable to the Association on terms and conditions satisfactory to the Association;

(b) deposit into the Project Account an initial amount equivalent to \$100,000;

(c) thereafter deposit into the Project Account on a monthly basis in each year during the implementation of the Project, the amount necessary to replenish the Project Account to the amount of \$200,000 equivalent or such greater amount as may be required to meet expenditures for the Project; and

(d) ensure that amounts deposited into the Project Account pursuant to paragraphs (b) and (c) above shall be used only to make payments to meet expenditures made or to be made in respect of the reasonable cost of goods and services for the

Project not financed or to be financed out of the proceeds of the Credit.

Section 3.03. 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 3.04. For the purposes of Section 9.07 of the General Conditions and without limitation thereto, the Borrower shall:

(a) prepare, on the basis of guidelines acceptable to the Association and furnish to the Association not later than six (6) months after the Closing Date or such later date as may be agreed for this purpose between the Borrower and the Association, a plan for the future operation of the Project; and

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

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, including BOU and NPART.

(b) The Borrower shall:

(i) have the records and accounts referred to in paragraph (a) of this Section and 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, the report of such audit by said auditors, of such scope and in such detail as the Association shall have reasonably requested; and

(iii) furnish to the Association such other information concerning said records 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 Association has received the audit report for the fiscal year in which the last withdrawal from the Credit Account was made, all records (contracts, orders, invoices, bills, receipts and other documents) evidencing such expenditures;

(iii) enable the Association's representatives to examine such records; and

(iv) ensure that such records and accounts are included in the annual audit referred to in paragraph (b) of this Section and that the report of such audit contains a separate opinion by said auditors as to whether the statements of expenditure submitted during such fiscal year, together with the procedures and internal controls involved in their preparation, can be relied upon to support the related withdrawals.

Section 4.02. (a) Without limitation upon the provisions of Section 4.01 of this Agreement, the Borrower shall carry out a time-bound action plan acceptable to the Association for the strengthening of its financial management system for the Project in order to enable the Borrower, not later than October 1, 2000, or such later date as the Association shall agree, to prepare quarterly Project management reports, acceptable to the Association, each of which:

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

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

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

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

ARTICLE V

Effective Date; Termination

Section 5.01. 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 Borrower has opened the Project Account and deposited therein the Uganda Shillings equivalent of \$100,000;

(b) the Borrower has adopted the PIP, in form and substance satisfactory to the Association, and furnished a copy thereof to the Association;

(c) the Borrower has:

(i) established a financial management, control and reporting system for the Project which is satisfactory to the Association, and

(ii) employed an auditor with qualifications and terms of reference satisfactory to the Association; and

(d) the Borrower has furnished to the Association: (i) evidence of completion of the testing and installation of an integrated accounting system in BOU, and (ii) a list of staff designated to carry out the Project in the Project Implementation Unit, BOU, the Insurance Commission, MFPED, Uganda Institute of Bankers and the Capital Markets Authority.

Section 5.02. 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 VI

Representative of the Borrower; Addresses

Category	(Expressed in SDR Equivalent)	Expenditures to be Financed
(1) Civil works	110,000	100% of foreign expenditures and 90% of local expenditures
(2) Equipment and vehicles	390,000	100% of foreign expenditures and 90% of local expenditures
(3) Consultants' services:		
(a) for NPART	960,000	80%
(b) for UCBL	2,220,000	80%
(c) other	1,690,000	100%
(4) Training:		
(a) Local	370,000	100% of expenditures
(b) Foreign	140,000	50% of expenditures
(c) Twinning Arrangements	110,000	100% of expenditures
(5) Severance payments	1,850,000	100%
(6) Refunding of Project Preparation Advance	780,000	Amount due pursuant to Section 2.02 (c) of this Agreement
(7) Unallocated	980,000	
TOTAL	9,600,000	

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;

(c) the term "twinning arrangements" means attachment of counterpart staff of institutions involved in the carrying out of the Project to foreign institutions for purposes of personnel development and training; and

(d) the term "severance payments" means payments made by UCBL to employees who have been retrenched under Part B of the Project.

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

(a) expenditures prior to the date of this Agreement except that withdrawals, in an aggregate amount not exceeding the equivalent of SDR 300,000, may be made in respect of Category (3) (a) on account of payments made for expenditures before that date but after January 1, 1999; and

(b) expenditures under Category (5) unless the Borrower furnishes to the Association UCBL's retrenchment program, including the methodology and the legal and contractual basis for determining the amounts of such payments.

4. The Association may require withdrawals from the Credit Account to be made on the basis of statements of expenditure:

(a) for expenditures for goods and works under contracts not exceeding \$100,000 equivalent;

(b) for expenditures for consultants' services under contracts not exceeding, (i) \$100,000 equivalent for consulting firms, and (ii) \$50,000 equivalent for individuals, under such terms and conditions as the Association shall specify by notice to the Borrower; and

(c) for all expenditures for severance payments under Part B of the Project.

SCHEDULE 2

Description of the Project

The objective of the Project is to assist the Borrower in its efforts to improve the soundness, performance and competitiveness of the financial system through: (i) strengthening the regulation, supervision and operations of deposit-taking institutions; including the resolution and work out of problem banks; (ii) improving monetary management and payment systems; (iii) developing insurance and contractual savings institutions, as well as their oversight; and (iv) restructuring and privatization of UCBL.

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: Strengthening the Regulation of Deposit-taking institutions

1. Commercial Bank Supervision

(a) Development and implementation of a training program for BOU's bank examiners in different areas including: (i) loan evaluation and provisioning, investigation and evaluation of lending concentration, foreign exchange risk evaluation, liquidity risk evaluation and management and contingent risk management; and (ii) focused external training and twinning arrangements;

(b) carrying out specialized audits, (with audit firms), to support BOU in its supervision efforts, by conducting a customized analysis of a few targeted banks;

(c) provision of technical advisory services for the resolution and work-out of problem banks; and

(d) the acquisition of computers and other equipment, to improve the efficiency of on-site examiners.

2. Non-bank Deposit-taking Institutions

Provision of technical advisory services:

(a) for drafting legislation to define the roles and responsibilities of BOU in regulating non-bank deposit-taking institutions, including merchant banks, large micro-finance institutions and the Post Office Savings Bank; and

(b) for training examiners in BOU's non-bank examination unit and the review of regulations for the monitoring of non-bank deposit-taking institutions.

3. Assistance to the Non-Performing Assets Trust

Provision of management services for the operation of NPART and to assist NPART to continue its process of recovering loans of UCB and UDB.

4. Assistance to the Uganda Institute of Bankers

Support for UIB's role in facilitating training programs for staff of commercial banks and to reinforce prudential regulations and supervision by BOU, through the partial refurbishing of UIB's training center, and the acquisition of equipment and training materials.

Part B: Restructuring and Privatization of UCBL

1. Provision of technical advisory services to carry out all due diligence required for the sale of UCBL.
2. Provision of management services during the period of restructuring and preparation for sale of UCBL.
3. Provision of severance payments for redundant staff.
4. Provision of technical advisory services for the implementation of the sales transaction.
5. Provision of (a) technical advisory services required for the completion of UCBL's restructuring, and (b) computers and associated software.

Part C: Improvement of the Monetary Management and Payment Systems

1. Strengthening BOU's Monetary Management
Provision of technical advisory services to BOU for:
 - (a) hands-on training in money management and development of appropriate techniques necessary to facilitate trading of treasury bills on the secondary market;
 - (b) capital account improvements; and
 - (c) strengthening reserves management.
2. Strengthening Payments Systems
 - (a) Development and implementation of: (i) a multistage program of investments and training to reduce the processing time and the settlement risks for checks in Kampala and in rural check-clearing systems; and (ii) other elements of the payments system, including interbank clearance vehicles; and
 - (b) the carrying out of studies for incorporating the views of market participants.
3. Strengthening Monetary Programming in MFEPD
Support for MFEPD's efforts to further harmonize monetary and fiscal policy management through: (a) the provision of training in the area of policy formulation, short-term workshops in macro-economic policy, budgeting, financial programming and balance of payments; (b) study tours for staff involved in policy formulation; and (c) the acquisition of equipment to support the staff of the Macro-economic Policy Department.

Part D: Reforming Insurance and Contractual Savings Institutions and Oversight

1. Assistance to the Commissioner of Insurance
Strengthening the capacity of the Commissioner of Insurance to improve compliance with capital adequacy and solvency requirements through:
 - (a) technical advisory services in the area of regulatory issues and the development of supervision procedures and manuals; and
 - (b) the acquisition of equipment and the provision of training.
2. Developing and Strengthening Pension Regulation
The carrying out of studies to assess the status and reform of the existing pension system including:
 - (a) carrying out a financial and managerial review of NSSF;

(b) carrying out a sector survey to determine the contribution requirements, benefit entitlements, age and income distribution of all pension fund members and beneficiaries;

(c) carrying out a review of NSSF investment policy and procedures, including real estate investments; and

(d) drafting legislation for a pension oversight authority.

3. Assistance to Capital Markets Authority

Strengthening the capacity of the Capital Markets' Authority to develop rules, regulations and policies including: (i) fiscal environment and incentives; (ii) an investor-compensation fund; (iii) a central depository system; (iv) accounting and financial reporting standards; and (v) collective investment schemes through the provision of technical advisory services and staff training and development.

* * *

The Project is expected to be completed by March 31, 2003.

SCHEDULE 3

Procurement

Section I: Procurement of Good and Works

Part A: General

1. Goods and works shall be procured in accordance with: (a) the provisions of Section I of the "Guidelines for Procurement under IBRD Loans and IDA Credits" published by the Bank in January 1995 and revised in January and August 1996, in September 1997 and January 1999, subject to the modifications thereto set forth in paragraph 2 of this Part A (the Guidelines); and (b) the provisions of the following Parts of this Section I.

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

Part B: International Competitive Bidding

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

Part C: Other Procurement Procedures

1. National Competitive Bidding

Works up to an aggregate amount not to exceed \$170,000 may be procured under contracts awarded in accordance with the provisions of paragraphs 3.3 and 3.4 of the Guidelines.

2. National Shopping

Goods estimated to cost less than \$50,000 equivalent per contract, up to an aggregate amount not to exceed \$176,000 equivalent, may be procured under contracts awarded on the basis of national shopping procedures in accordance with the provisions of paragraphs 3.5 and 3.6 of the Guidelines.

Part D: Review by the Association of Procurement Decisions

1. Procurement Planning

Prior to the issuance of any invitations to prequalify for bidding or to bid for

contracts, the proposed procurement plan for the Project shall be furnished to the Association for its review and approval, in accordance with the provisions of paragraph 1 of Appendix 1 to the Guidelines. Procurement of all goods and works shall be undertaken in accordance with such procurement plan as shall have been approved by the Association, and with the provisions of said paragraph 1.

2. Prior Review

With respect to each contract estimated to cost the equivalent of \$100,000 or more, the procedures set forth in paragraphs 2 and 3 of Appendix 1 to the Guidelines shall apply.

3. Post Review

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

Section II: Employment of Consultants

Part A: General

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

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

Part B: Quality- and Cost-based Selection

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

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

Part C: Other Procedures for the Selection of Consultants

1. Selection Based on Consultants' Qualifications

Services for the provision of consultant services estimated to cost less than \$50,000 equivalent per contract up to an aggregate amount not to exceed \$725,000 equivalent may be procured under contracts awarded in accordance with the provisions of paragraphs 3.1 and 3.7 of the Consultant Guidelines.

2. Selection based on Least Cost Selection

Services for the provision of auditing services estimated to cost up to an aggregate amount not to exceed \$84,000 equivalent may be procured under contracts awarded in accordance with the provisions of paragraphs 3.1 and 3.6 of the Consultant Guidelines.

3. Single Source Selection

Services may, with the Association's prior agreement, be procured in accordance with the provisions of paragraphs 3.8 through 3.11 of the Consultant Guidelines.

4. Individual Consultants

Services for tasks that meet the requirements set forth in paragraph 5.01 of the Consultant Guidelines shall be procured under contracts awarded to individual consultants in accordance with the provisions of paragraphs 5.1 through 5.3 of the Consultant Guidelines.

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

1. Selection Planning

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

2. Prior Review

(a) With respect to each contract for the employment of consulting firms estimated to cost the equivalent of \$200,000 or more, the procedures set forth in paragraphs 1, 2 (other than the third subparagraph of paragraph 2(a)) and 5 of Appendix 1 to the Consultant Guidelines shall apply.

(b) With respect to each contract for the employment of consulting firms estimated to cost the equivalent of \$100,000 or more, but less than the equivalent of \$200,000, the procedures set forth in paragraphs 1, 2 (other than the second subparagraph of paragraph 2(a)) and 5 of Appendix 1 to the Consultant Guidelines shall apply.

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

3. Post Review

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

(b) With respect to each contract referred to in subparagraph (a) of this paragraph 3, the terms of reference shall be furnished to the Association for its prior review and approval. The contract shall be awarded only after said approval shall have been given.

SCHEDULE 4

Implementation Program

1. The Borrower shall carry out the Project under the overall supervision of the Governor of BOU who shall be assisted by its Project Implementation Unit (PIU) whose composition and terms of reference shall continue to be satisfactory to the Association and shall include a representative of MFPED. The PIU shall be responsible for:

(a) coordinating the implementation of the various components of the Project in accordance with sound financial management practices, including, procurement, disbursement, accounting and auditing of accounts; and

(b) monitoring the implementation of the Project and furnishing reports to MFPED and the Association on progress made in Project implementation. BOU shall ensure that each Project entity will appoint a coordinator who shall be responsible for the execution of Project activities.

2. BOU shall appoint a Project Manager who shall head the PIU and, inter alia :` (i) prepare and update the procurement plan for the Project; (ii) monitor procurement; and (iii) assist the implementing agencies in the preparation of bidding documents and advertisements for goods and works contracts, requests for proposals for consultants' services, bid opening and evaluation.

3. The Borrower shall:

(a) prepare and furnish to the Association, a PIP satisfactory to the Association setting out: (i) the details of all procurement and disbursement arrangements for the Project; (ii) the performance indicators; and (iii) such other administrative, financial and organizational arrangements as shall be required for the Project; and

(b) carry out the Project in accordance with the provisions of this Schedule 4 and the procedures set out in the PIP, and shall not, except as the Association may otherwise agree, amend or waive any provision thereof which, in the opinion of the Association, may adversely and materially affect the implementation of the Project.

4. The Borrower shall:

(a) maintain policies and procedures adequate to enable it to monitor and evaluate on an ongoing basis, in accordance with indicators satisfactory to the Association, the carrying out of the Project and the achievement of the objectives thereof;

(b) prepare, under terms of reference satisfactory to the Association and furnish to the Association on or about September 30, 2000, a report integrating the results of the monitoring and evaluation activities performed pursuant to paragraph (a) of this Section, on the progress achieved in the carrying out of the Project during the period preceding the date of said report and setting out the measures recommended to ensure the efficient carrying out of the Project and the achievement of the objectives thereof during the period following such date; and

(c) review with the Association, by March 30, 2001, or such later date as the Association shall request, the report referred to in subparagraph (b) of this paragraph, and, thereafter, take all measures required to ensure the efficient completion of the Project and the achievement of the objectives thereof, based on the conclusions and recommendations of the said report and the Association's views on the matter.

SCHEDULE 5

Special Account

1. For the purposes of this Schedule:

(a) the term "eligible Categories" means Categories (1) through (6) set forth in the table in paragraph 1 of Schedule 1 to this Agreement;

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

(c) the term "Authorized Allocation" means an amount equivalent to \$800,000 to be withdrawn from the Credit Account and deposited into the Special Account pursuant to paragraph 3 (a) of this Schedule, provided, however, that unless the Association shall otherwise agree, the Authorized Allocation shall be limited to an amount equivalent to \$400,000 until the aggregate amount of withdrawals from the Credit Account plus the total amount of all outstanding special commitments entered into by the Association pursuant to Section 5.02 of the General Conditions shall be equal to or exceed the equivalent of SDR 1,500,000.

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 deposit into the Special Account of an amount or amounts 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;

(b) if the Borrower shall have failed to furnish to the Association, within the period of time specified in Section 4.01 (b) (ii) of this Agreement, any of the audit reports required to be furnished to the Association pursuant to said Section in respect of the audit of the records and accounts for the Special Account;

(c) if, at any time, the Association shall have notified the Borrower of its intention to suspend in whole or in part the right of the Borrower to make withdrawals from the Credit Account pursuant to the provisions of Section 6.02 of the General Conditions; or

(d) once the total unwithdrawn amount of the Credit allocated to the eligible Categories, minus the total amount of all outstanding special commitments 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.

