

CONFORMED COPY

CREDIT NUMBER 2587 UG

Development Credit Agreement
(Transport Rehabilitation Project)

between

THE REPUBLIC OF UGANDA

and

INTERNATIONAL DEVELOPMENT ASSOCIATION

Dated May 3, 1994

CREDIT NUMBER 2587 UG

DEVELOPMENT CREDIT AGREEMENT

AGREEMENT, dated May 3, 1994, between THE REPUBLIC OF UGANDA (the Borrower) and INTERNATIONAL DEVELOPMENT ASSOCIATION (the Association).

WHEREAS: (A) the Association has received a letter dated March 3, 1994, from the Borrower describing a program of actions, objectives and policies designed to strengthen the transport sector of its economy (hereinafter called the Program) and declaring the Borrower's commitment to the execution of the Program;

(B) the Borrower, having committed itself to the execution of the Program and, as part of the Program, having undertaken to carry out the Project described in Schedule 2 to this Agreement, has requested the Association to assist in the financing of the Project;

(C) the Borrower intends to contract from Nordic Development Fund (NDF) a loan (the NDF Loan) in an amount equivalent to about \$4,700,000 to assist in financing the Project on the terms and conditions set forth in an agreement (the NDF Loan Agreement) to be entered into between the Borrower and NDF; and

(D) Part C of the Project will be carried out by Uganda Railways Corporation (URC) with the Borrower's assistance and, as

part of such assistance, the Borrower will make available to URC a portion 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 Agreement of even date herewith between the Association and URC;

NOW THEREFORE the parties hereto hereby agree as follows:

ARTICLE I

General Conditions; Definitions

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

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

(a) "MOWTC" means the Borrower's Ministry of Works, Transport and Communications;

(b) "MOLG" means the Borrower's Ministry of Local Government;

(c) "Project Preparation Advance" means the project preparation advance granted by the Association to the Borrower pursuant to an exchange of letters dated August 31, 1991, September 7, 1992, December 23, 1992, January 28, 1993, September 27, 1993 and September 29, 1993, between the Borrower and the Association;

(d) "Special Account" means each of the accounts referred to in Section 2.02 (b) of this Agreement;

(e) "Subsidiary Loan Agreement" means the agreement to be entered into between the Borrower and URC pursuant to Section 3.01 (c) of this Agreement, as the same may be amended from time to time, and such term includes any schedules to the Subsidiary Loan Agreement;

(f) "URC Statute" means Uganda Railways Corporation Statute, Statute No. 13 of 1992 of the Borrower's laws;

(g) "URC" means Uganda Railways Corporation, established and existing under the URC Statute;

(h) "Project Agreement" means the agreement between the Association and Uganda Railways Corporation (URC), 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;

(i) "Implementation Manual" means a detailed work plan for the implementation of the Project, in form and substance satisfactory to the Association, to be prepared by the Borrower;

(j) "Performance Agreement" means the agreement dated January 28, 1994, between the Borrower and URC covering, inter alia, URC's capital structure, financial strategy, including tariffs, debt collection and marketing strategy and the Borrower's obligation to compensate URC for non-remunerative services to be rendered by URC;

(k) "FY" means, as appropriate, the financial or fiscal year of the Borrower, its District Administrations or URC;

(l) "TSIREP" means the Borrower's Transport Sector

Investment and Recurrent Expenditures Plan for FY95 through FY97, which forms an integral part of the Program referred to in the Preamble to this Agreement, and shall include subsequent rolling three-year plans through FY2000;

(m) "NPRM" means the Borrower's National Prioritized Main Roads Maintenance Program (FY95-FY98);

(n) "MRMP" means the Main Roads Maintenance Program to be carried out under Part A.1 of the Project; and

(o) "Credit 1803-UG" means the Credit made by the Association to the Borrower pursuant to a Development Credit Agreement entered into by the Borrower and the Association on May 29, 1987 to assist in financing the Borrower's Fourth Highway Project.

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 fifty-four million five hundred thousand Special Drawing Rights (SDR 54,500,000).

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

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

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

Section 2.03. The Closing Date shall be December 31, 2000 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 cancelled; and (ii) at the rate set as of the June 30 immediately preceding the accrual date or at such other rates as may be set from time to time thereafter pursuant to paragraph (a) above. The rate set as of June 30 in each year shall be applied from the next payment date in that year specified in Section 2.06 of this Agreement.

(c) The commitment charge shall be paid: (i) at such places

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

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

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

Section 2.07. (a) Subject to paragraphs (b) and (c) below, the Borrower shall repay the principal amount of the Credit in semi-annual installments payable on each February 1 and August 1 commencing August 1, 2004 and ending February 1, 2034. Each installment to and including the installment payable on February 1, 2014 shall be one percent (1%) of such principal amount, and each installment thereafter shall be two percent (2%) of such principal amount.

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

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

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

ARTICLE III

Execution of the Project

Section 3.01. (a) The Borrower declares its commitment to the objectives of the Project as set forth in Schedule 2 to this Agreement, and, to this end:

- (i) shall carry out Parts A, B and D of the Project through MOWTC, MOLG and District Administrations 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 such Parts of the Project; and
- (ii) without limitation or restriction upon any of its other obligations under the Development

Credit Agreement, the Borrower shall cause URC to perform all its obligations set forth in the Project Agreement, shall take or cause to be taken all action, including the provision of funds, facilities, services and other resources, necessary or appropriate to enable URC 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, and except as the Borrower and the Association shall otherwise agree, the Borrower shall carry out Parts A, B and D of the Project in accordance with the Implementation Program set forth in Schedule 4 to this Agreement.

(c) The Borrower shall for the purposes of Part C of the Project: (i) make available to URC a portion of the proceeds of the Credit as an equity contribution to URC's capital, and (ii) relend a portion of the proceeds of the Credit to URC under a subsidiary loan agreement to be entered into between the Borrower and URC, under terms and conditions which shall have been approved by the Association which shall include repayment in 15 years, including 5 years of grace, the payment of interest at the rate of 7% per annum, and the exchange risk to be borne by URC.

(d) The Borrower shall exercise its rights under the Subsidiary Loan Agreement in such manner as to protect the interests of the Borrower and the Association and to accomplish the purposes of the Credit, and except as the Association shall otherwise agree, the Borrower shall not assign, amend, abrogate or waive the Subsidiary Loan Agreement or any provision thereof.

Section 3.02. Except as the Association shall otherwise agree, procurement of the goods, works and consultants' services required for Parts A, B and D of 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, 9.07 and 9.08 of the General Conditions (relating to insurance, use of goods and services, plans and schedules, records and reports, maintenance and land acquisition, respectively) in respect of Part C of the Project shall be carried out by URC pursuant to Section 2.03 of the Project Agreement.

Section 3.04. The Borrower shall by not later than July 1, 1995 commence to compensate URC for all Borrower-directed, non-remunerative services provided by URC.

Section 3.05. The Borrower shall, no later than January 31 in each year of Project implementation, with effect from January 31, 1995, review with the Association the size and composition of TSIREP.

Section 3.06. (a) In order to ensure a meaningful implementation of the Program the Borrower shall not make, or cause any investments to be made, in the transport sector, which were not included in the TSIREP, which exceed the equivalent of \$5 million in any one year without prior consultation with, and the consent of the Association. The Association's consent shall not be unreasonably withheld.

(b) The Borrower shall further ensure that any investment outside TSIREP which exceeds the equivalent of \$1 million shall only be carried out if its economic rate of return is not less than twelve percent.

Section 3.07. (a) The Borrower shall conduct, not later than March 31, 1996, jointly with the Association, a midterm review of the Project. Without limitation upon the generality of the foregoing, the review shall, inter alia, cover the implementation

and management aspects of the Project, implementation procedures, progress made by the Project including transfer of responsibility to local staff, revision of the strategy paper for rural feeder roads maintenance and rehabilitation, evaluation of the financing mechanism for main roads maintenance, review of MOWTC's mandate with respect to road maintenance, environmental measures taken, performance and use of technical assistance personnel, the role of national counterpart staff, the status and results of training, reporting, accounting and audit performance, disbursement procedures and the overall sustainability of the Project.

(b) Not later than ninety (90) days prior to the midterm review referred to in (a) above, the Borrower shall furnish to the Association, for its comments, a report in such detail as the Association shall reasonably request, including an evaluation of the progress achieved in implementing the Project.

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

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 Parts A, B and D of the Project of the departments or agencies of the Borrower responsible for carrying out the Project or any part thereof.

(b) The Borrower shall:

- (i) have the records and accounts referred to in paragraph (a) of this Section including those for the Special Account "A" and Special Account "B" for each fiscal year audited, in accordance with appropriate auditing principles consistently applied, by independent auditors acceptable to the Association;
- (ii) furnish to the Association, as soon as available, but in any case not later than nine months after the end of each such year, a certified copy of 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, 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 or payment out of the Special Accounts 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) A situation has arisen which shall make it improbable that the Program or a significant part thereof, will be carried out.

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

(c) As a result of events which have occurred after the date of the Development Credit Agreement, an extraordinary situation shall have arisen which shall make it improbable that URC will be able to perform its obligations under the Project Agreement.

(d) The URC Statute shall have been amended, suspended, abrogated, repealed or waived so as to affect materially and adversely the ability of URC to perform any of its obligations under the Project Agreement.

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

(f) The Borrower shall have: (i) failed to make adequate allocations, consistent with the Program, for main-roads related recurrent expenditures in its budgets for FY95, FY96, FY97, FY98 and subsequent years; (ii) failed to make timely and adequate releases of such funds from the budgetary allocations made for the maintenance of main-roads in FY95, FY96 or FY97 and subsequent years; or (iii) failed to carry out adequate routine and periodic road maintenance work on the main roads network.

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

- (A) The right of the Borrower to withdraw the proceeds of any loan or grant made to the Borrower for the financing of the Project shall have been suspended, cancelled or terminated in whole or in part, pursuant to the terms thereof, or
- (B) any such loan shall have become due and payable prior to the agreed maturity thereof.

(ii) Subparagraph (i) of this paragraph shall not apply if the Borrower establishes to the satisfaction of the Association that: (A) such suspension, cancellation, termination or prematuring is not caused by the failure of the Borrower to perform any of its obligations under such agreement; and (B) adequate funds for the Project are available to the Borrower from other sources on terms and conditions consistent with the obligations of the Borrower under this Agreement.

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

(a) any event specified in paragraphs (a), (b), (c) and (f) 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; and

(b) any event specified in paragraphs (d) and (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 Borrower has furnished to the Association with: (i) a Transport Sector Investment and Recurrent Expenditures Plan for FY95 through FY97; and (ii) an Implementation Manual, all satisfactory to the Association.

(b) MOWTC and MOLG have appointed key personnel, with qualifications satisfactory to the Association, pursuant to paragraphs 1 (a) and 6 (b) of Schedule 4 to this Agreement.

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 Project Agreement has been duly authorized or ratified by URC, and is legally binding upon URC in accordance with its terms.

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

ARTICLE VII

Representatives of the Borrower; Addresses

Section 7.01. The Borrower's Minister responsible for finance is designated as representative of the Borrower for the purposes of Section 11.03 of the General Conditions.

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

For the Borrower:

Ministry of Finance and Economic Planning
P.O.Box 8147
Kampala, Uganda

Cable address:	Telex:
FINSEC Kampala	61170

For the Association:

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

Telex:
248423 (RCA)
82987 (FTCC)
64145 (WUI) or
197688 (TRT)

INDEVAS
Washington, D.C.

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

THE REPUBLIC OF UGANDA

By /s/ 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) Civil works:		95%
(a) under Part A(2) and (3) of the Project	22,000,000	
(b) under Part B of the Project	3,400,000	
(2) Road Maintenance:		FY95-60% FY96-60% FY97-40% FY98-40%
(a) under Part A (1) of the Project	9,340,000	
(b) under Part B (1) of the Project	270,000	FY95-10% FY96-10% FY97-45% FY98-45%
(3) Vehicles, equipment, tools, office machines and training tools:		100% of foreign expenditures
(a) under Part A of the Project	230,000	
(b) under Part B of the Project	1,900,000	
	Amount of the	

Category	Credit Allocated (Expressed in SDR Equivalent)	% of Expenditures to be Financed
(c) under Part C of the Project	112,200	
(4) Consultants' Services and training:		95%
(a) under Part A of the Project	3,100,000	
(b) under Part B of the Project	350,000	
(c) under Part C of the Project	1,250,000	
(d) under Part D of the Project	550,000	
(5) Operating Costs under Part B of the Project	145,000	60%
(6) Refunding of Project Preparation Advance	1,100,000	Amounts due pursuant to Section 2.02 (c) of this Agreement
(7) Unallocated	10,752,800	
TOTAL	54,500,000 =====	

2. For the purposes of this Schedule:

(a) the term "foreign expenditures" means expenditures in the currency of any country other than that of the Borrower for goods or services supplied from the territory of any country other than that of the Borrower; and

(b) the term "operating costs" means incremental expenditures incurred for the operation and maintenance of vehicles.

3. Notwithstanding the provisions of paragraph 1 above, no withdrawals shall be made in respect of: (a) payments made for expenditures prior to the date of this Agreement; (b) Categories (1) (a), (2) (a), (3) (a) and (4) (a), unless the Borrower has made an allocation of not less than 16.2 billion Uganda Shillings for main-roads maintenance related expenditures in its FY95 budget; (c) Categories (1) (b), (2) (b), (3) (b), (4) (b) and (5), unless: (i) MOLG has employed a team of consultants pursuant to paragraph 6 (a) of Schedule 4 to this Agreement, and (ii) all conditions precedent to the effectiveness of the NDF Loan Agreement have been fulfilled; and (d) Categories (3) (c), and (4) (c) unless: (i) the Subsidiary Loan Agreement shall have been executed by the Borrower and URC, (ii) URC has appointed three key personnel pursuant to Section 4.04 of the Project Agreement, and (iii) the Borrower and URC have established URC's capital structure pursuant to Section 5.5 of the Performance Agreement.

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

Description of the Project

The objectives of the Project are to assist the Borrower in: (1) providing the basic road infrastructure to the economy and ensuring that road and rail infrastructure are well maintained and effectively managed on a sustainable level, (2) promoting the private domestic contracting industry, and (3) reorienting URC's management towards commercial operation and promotion of its financial autonomy.

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: Main Roads

1. (a) Routine maintenance of about 1,746 km of roads, and (b) Periodic maintenance of about 720 km of selected main roads as part of the Borrower's four year (FY95-FY98) road maintenance program.
2. Strengthening and improvement of the Kampala-Entebbe road.
3. (a) Upgrading the Mbarara-Ibanda and Gayaza-Bugema-Zirobwe roads from gravel to paved standards.

(b) Regravelling and rehabilitation of the Zirobwe-Wobulenzi and Villa Maria-Sembabule roads.
4. Institutional strengthening of MOWTC through technical assistance and training.

Part B: Feeder Roads

1. Implementation of a rehabilitation and maintenance program in the Districts of Mbale, Kapchorwa, Tororo and Pallisa including: (a) rehabilitation of about 680 km of feeder roads, (b) implementation of a four-year (FY95-FY98) feeder road maintenance program, and (c) establishment of a feeder roads rehabilitation and maintenance capacity in the private and public sectors.
2. Institutional strengthening of the engineering department of MOLG and district works departments through training and technical assistance.

Part C: Railways

Institutional strengthening of URC through technical assistance, training, maintenance of wagon ferries and acquisition of oil containment equipment.

Part D: Transport Sector Planning

Strengthening MOWTC's planning capacity through technical assistance and training.

* * *

The Project is expected to be completed by June 30, 2000.

SCHEDULE 3

Procurement and Consultants' Services

Section I. Procurement of Goods and Works

Part A: International Competitive Bidding

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

(a) For fixed-price contracts, the invitation to bid referred to in paragraph 2.13 of the Guidelines shall provide that, when contract award is delayed beyond the original bid validity period, the successful bidder's bid price will be increased for each week of delay by two predisclosed correction factors acceptable to the Association, one to be applied to all foreign currency components and the other to the local currency component of the bid price. Such an increase shall not be taken into account in the bid evaluation.

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

2. Bidders for the works included in Part (A) (1)(b), (2) and (3) of the Project shall be prequalified as described in paragraph 2.10 of the Guidelines.

3. Goods procured under ICB will not be subject to price verification under preshipment inspection.

Part B: Preference for Domestic Manufacturers

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

Part C: Preference for Domestic Contractors

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

Part D: Other Procurement Procedures

1. Items, or groups of items, for civil works for: (a) mechanized routine road maintenance under Part A (1)(a) of the Project estimated to cost the equivalent of \$250,000 or less per contract, up to an aggregate amount equivalent to \$12,100,000, (b) periodic road maintenance under Part A (1)(b) of the Project estimated to cost the equivalent of \$400,000 or less per contract, up to an aggregate amount equivalent to \$3,000,000, and (c) for road rehabilitation and periodic road maintenance works under Part B.1 of the Project, estimated to cost the equivalent of \$250,000 or less per contract, up to an aggregate amount equivalent to \$6,600,000, may be procured under contracts awarded on the basis of competitive bidding, advertised locally, in accordance with procedures satisfactory to the Association.

2. (a) Training equipment under Part A of the Project estimated to cost the equivalent of \$10,000 or less per contract, up to an aggregate amount equivalent to \$200,000, and (b) hand tools under Part B of the Project estimated to cost the equivalent of \$10,000 or less per contract up to an aggregate amount equivalent to \$250,000, may be procured under contracts awarded on the basis of comparison of price quotations obtained from at least three suppliers from at least two different countries eligible under the Guidelines, in accordance with procedures acceptable to the Association.

3. (a) Manual routine road maintenance under Part A (1)(a) of the Project estimated to cost the equivalent of \$5,000 or less per contract, up to an aggregate amount equivalent to \$1,800,000, (b) manual road maintenance under Part B of the Project estimated to

cost the equivalent of \$5,000 or less per contract, up to an aggregate amount equivalent to \$700,000, may be procured on unit price basis, through contract lengthman's system in accordance with procedures acceptable to the Association.

Part E: Review by the Association of Procurement Decisions

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

(a) With respect to each contract estimated to cost the equivalent of \$100,000 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 A, B and D of the Project, the Borrower shall employ consultants whose qualifications, experience and terms and conditions of employment shall be satisfactory to the Association. Such consultants shall be selected in accordance with principles and procedures satisfactory to the Association on the basis of the "Guidelines for the Use of Consultants by World Bank Borrowers and by the World Bank as Executing Agency" published by the Bank in August 1981 (the Consultant Guidelines). For complex, time-based assignments, the Borrower shall employ such consultants under contracts using the standard form of contract for consultants' services issued by the Bank, with such modifications as shall have been agreed by the Association. Where no relevant standard contract documents have been issued by the Bank, the Borrower shall use other standard forms agreed with the Association.

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

SCHEDULE 4

Implementation Program

Part A of the Project

1. MOWTC shall be responsible for the implementation of Part A of the Project. To this end MOWTC shall: (a) assign at least three principal executive engineers to its road maintenance section, and (b) employ consultants for construction supervision of road strengthening and improvement; road upgrading, regravelling and rehabilitation; and institutional strengthening.
2. The Borrower shall: (a) adopt NPRM and MRMP the size and composition of which shall be satisfactory to the Association; and (b) implement NPRM and MRMP in a manner satisfactory to the Association, for FY95 through FY98.
3. Not later than four months before the beginning of each FY, with effect from FY95, the Borrower shall review with the Association the proposed NPRM, including MRMP for that fiscal year, with budget requirements and allocations.
4. MOWTC shall, by not later than November 30, 1994, prepare and furnish to the Association for its review a training program for MOWTC staff, and thereafter implement the program taking due account of the Association's views and comments.
5. The Borrower shall, by not later than March 31, 1996, review:
(a) its financing mechanism to determine the adequacy of local counterpart funding, including the timeliness, reliability and transparency of budgetary allocations and releases, with a view of adopting an effective mechanism, satisfactory to the Association, with effect from FY97, and (b) the performance of MOWTC in executing its mandate with respect to road maintenance, and introduce revisions to such mandate, as appropriate.

Part B of the Project

6. (a) Part B of the Project shall be carried out by the four districts referred to in Part B.1 of the Project (the Participating Districts), with the assistance of the Engineering Department of MOLG and a team of consultants.
(b) MOLG shall also assign adequate staff to assist in the implementation of Part B of the Project including a project manager to be stationed in Mbale, two district engineers to be stationed in Mbale and Tororo, respectively, and an economist and a planner in its Engineering Department.
7. The Borrower shall adopt four-year rehabilitation and maintenance programs (FY95-FY98), the size and composition of which shall be satisfactory to the Association, for feeder roads in the participating districts.
8. Each district and MOLG shall review with the Association the size and composition of its feeder roads rehabilitation and maintenance program for the ensuing FY, as well as physical, financial and staff inputs and work outputs in the preceding FY at least four months before the beginning of each FY.
9. The Borrower shall take all measures necessary to ensure: (a) that the local costs of the agreed routine maintenance program for feeder roads in the participating districts shall be shared equally by the Borrower and each district, and (b) that the Borrower shall bear at least five percent of all periodic maintenance costs.
10. In order to strengthen domestic contractors' capacity to carry out road rehabilitation works, MOLG shall, by not later than July 1, 1995, adopt a scheme, satisfactory to the Association, under which MOLG-owned equipment procured under the Credit and Credit No. 1803-UG would be leased to contractors under the supervision of consultants.
11. MOLG shall employ a transport planner to implement a suitable feeder roads planning and monitoring system, and to train a team of

MOLG staff in transport planning and management.

12. (a) In order to assess the impact of the feeder roads program in the four participating districts and the comparative advantages of labor-based and equipment-based methods, MOLG's Engineering Department shall carry out a baseline study to be completed by not later than November 30, 1994.

(b) MOLG shall not later than June 30, 1995: (i) establish and implement a monitoring system, covering feeder roads activities and the impact of the feeder roads program on the rural economy, and (ii) complete a road inventory data base covering the participating districts.

13. MOLG shall, by not later than June 30, 1996, revise its strategy paper and action plan on feeder roads rehabilitation and maintenance and adopt financing methods and techniques which have proven to be most effective in light of experience during the implementation of Part B of the Project.

SCHEDULE 5

Special Account

1. For the purposes of this Schedule:

(a) the term "eligible Categories" means Categories (1) (a), (2) (a), (3) (a), (4) (a) and (4) (d) in the table set forth in paragraph 1 of Schedule 1 to this Agreement, with respect to Special Account "A", Categories (1) (b), (2) (b), (3) (b), (4) (b) and (5) in the table set forth in paragraph 1 of Schedule 1 to this Agreement, with respect to Special Account "B";

(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 not exceeding \$1,000,000 for Special Account "A", and an amount not exceeding \$250,000 of Special Account "B", to be withdrawn from the Credit Account and deposited in each of the Special Accounts 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.

