

CONFORMED COPY

CREDIT NUMBER 3463-UG

Development Credit Agreement

(National Agricultural Advisory Services Project)

between

THE REPUBLIC OF UGANDA

and

INTERNATIONAL DEVELOPMENT ASSOCIATION

Dated May 7, 2001

CREDIT NUMBER 3463-UG

DEVELOPMENT CREDIT AGREEMENT

AGREEMENT, dated May 7, 2001, between THE REPUBLIC OF UGANDA (the Borrower) and INTERNATIONAL DEVELOPMENT ASSOCIATION (the Association).

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

(B) the Association has received a letter, dated November 8, 2000, from the Borrower describing a program of actions, objectives and policies for its agricultural services sector (the Program) and declaring the Borrower's commitment to the execution of the Program;

(C) the Borrower intends to contract from the International Fund for Agricultural Development (IFAD) a loan in an amount equivalent to SDR 13,700,000 (the IFAD Loan) to assist in financing parts of the Project on the terms and conditions set forth in an agreement to be entered into between the Borrower and IFAD; and

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

NOW THEREFORE the parties hereto hereby agree as follows:

ARTICLE I

General Conditions; Definitions

Section 1.01. The "General Conditions Applicable to Development Credit Agreements" of the Association, dated January 1, 1985 (as amended through October 6, 1999), 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 11 of Resolution No. 194 of the Board of Governors of the Association, adopted on April 8, 1999; and 'Participating Countries' means, collectively, all such countries."; and

(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) "AAS Grant" means a grant for agricultural advisory services made out of the proceeds of the Credit allocated to Category (2) of the table in paragraph 1 of Schedule 1 to this Agreement for financing a Sub-project, as hereinafter defined;

(b) "Advisory Services" means the provision of guidance to farmers or farmer groups with regard to the operation and management of their farming enterprises;

(c) "Beneficiary" means the recipient of an AAS Grant;

(d) "Consolidated Fund" means the fund referred to in Section 153 of the Borrower's Constitution;

(e) "DANIDA" means the Danish International Development Agency;

(f) "DFID" means the Department for International Development of the United Kingdom of Great Britain and Northern Ireland;

(g) "District NAADS Account" means an account to be opened by a Participating District pursuant to Section 3.01 (e) of this Agreement;

(h) "District" means a district established under the Borrower's Local Governments Act;

(i) "Eligible Categories" means categories (1), (2), (3), and (4) set forth in the table in Part A.1 of Schedule 1 to this Agreement;

(j) "Eligible Expenditures" means the expenditures for goods and services referred to in Section 2.02 of this Agreement;

(k) "Farm Advisor" means an agricultural and/or rural development technician

contracted to provide Advisory Services to farmers or farmer groups;

(l) "Farmer Group" means a group of individual farmers formed at the village and Parish levels, and to be established pursuant to the NAADS Act;

(m) "Farmers' Forum" means a forum, comprising farmer groups at the Sub-county, District or national level, to be established pursuant to the NAADS Act;

(n) "Financial Procedures Manual" means the manual referred to in paragraph 2 of Schedule 4 to this Agreement;

(o) "Financing Agreement" means the agreement referred to in paragraphs 9 and 10 of Schedule 4 to this Agreement;

(p) "IAPSO" means the Inter-Agency Procurement Services of the United Nations;

(q) "Local Government Regulations" means the Borrower's Local Government Financial and Accounting Regulations of 1998, issued under Section 79 of the Borrower's Local Governments Act;

(r) "Local Governments Act" means the Borrower's Local Governments Act No.1 of 1997;

(s) "MAAIF" means the Borrower's Ministry of Agriculture, Animal Industry and Fisheries;

(t) "Memorandum of Understanding" or "MOU" means the memorandum, referred to in Section 3.01 (f) of this Agreement, to be signed by the Borrower and Participating Financiers;

(u) "NAADS" means the Borrower's national agricultural advisory services program referred to in the Program;

(v) "NAADS ACT" means the law which the Borrower intends to enact for the purpose of establishing a NAADS Board and giving legal status to farmer groups at the village and Parish level and farmers fora at the Sub-county, District and national levels;

(w) "NAADS Board" means the Board to be established under the NAADS Act;

(x) "NAADS BS Account" means the Borrower's budget support account referred to in Section 3.01 (e) of this Agreement;

(y) "NAADS Secretariat" means the Secretariat referred to in paragraph 1 (b) of Schedule 4 to this Agreement;

(z) "Parish" means an administrative unit in rural areas established under the Borrower's Local Governments Act;

(aa) "Participating Financiers" means the entities which are expected to assist the Borrower in financing the Project, including but not limited to, IFAD, Ireland Aid, DANIDA, African Development Bank, the Netherlands International Assistance, DFID, the European Commission and the Norwegian Agency for Development;

(ab) "Participating District" means a District, which meets the eligibility criteria specified in paragraph 6 of Schedule 4 to this Agreement;

(ac) "Participating Sub-county" means a Sub-county which meets the eligibility criteria specified in Paragraph 7 of Schedule 4 to this Agreement;

(ad) "Participation Agreement" means each of the agreements to be entered into pursuant to Section 3.01 (c) of this Agreement between: (i) the Borrower and a

Participating District; or (ii) a Participating District and a Participating Sub-county in accordance with the provisions of the Project Implementation Manual, as the same may be amended from time to time, and such term includes all schedules to the Participation Agreement;

(ae) "PMA" means the Borrower's Plan for Modernization of Agriculture adopted on September 17, 2000;

(af) "Project Implementation Manual" means the manual referred to in paragraph 1 of Schedule 4 to this Agreement;

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

(ah) "Special Account" means the account referred to in Part B of Schedule 1 to this Agreement;

(ai) "Sub-county NAADS Account" means an account to be opened by a Participating Sub-county pursuant to Section 3.01 (e) of this Agreement;

(aj) "Sub-County" means a Sub-county established under the Borrower's Local Governments Act; and

(ak) "Sub-project" means the agricultural advisory services, provided under Parts A or B of the Project, by consultants selected pursuant to the provisions of Section II of Schedule 3 to this Agreement, to farmers or farmers groups directly or through a Participating District or Participating Sub-county, and financed through an AAS Grant.

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 thirty five million three hundred thousand Special Drawing Rights (SDR 35,300,000).

Section 2.02. The amount of the Credit may be withdrawn from the Credit Account in accordance with the provisions of Schedule 1 to this Agreement for: (i) amounts paid (or, if the Association shall so agree, amounts to be paid) on account of withdrawals made by a Beneficiary under a Sub-project to meet the reasonable cost of services required for the Sub-project in respect of which the withdrawal from the Credit Account is requested; and (ii) expenditures made (or, if the Association shall so agree, to be made) in respect of the reasonable cost of goods and services required for the Project and to be financed out of the proceeds of the Credit.

Section 2.03. The Closing Date shall be June 30, 2008 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 June 15 and December 15 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 June 15 and December 15 commencing June 15, 2011 and ending December 15, 2040. Each installment to and including the installment payable on December 15, 2020 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 MAAIF and the NAADS Secretariat with due diligence and efficiency and in conformity with appropriate agricultural research and extension, financial and administrative 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.

(c) The Borrower shall: (i) transfer as a grant to Participating Districts; and (ii) cause Participating Districts to transfer to Participating Sub-counties, the

proceeds of the Credit under Participation Agreements.

(d) The Borrower shall open an account in a commercial bank into which it shall deposit: (i) the contributions of all Participating Financiers; and (ii) all proceeds of the IFAD Loan and of the Credit withdrawn from the Special Account.

(e) In order to ensure timely release of funds for Project activities and for accountability purposes, the NAADS Secretariat and each Participating District and Sub-county shall open and maintain in commercial banks, accounts into which funds provided by the Borrower from the NAADS BS Account shall be deposited.

(f) The Borrower shall sign a Memorandum of Understanding with Participating Financiers, IFAD and the Association which shall specify, inter alia: (i) the level of funding and the time frame within which such funds will be made available; (ii) common procedures to be followed for annual approval of the budget and work plans; (iii) quarterly cash flow forecasts, commitments and disbursement triggers; (iv) common procurement procedures, consistent with the provisions of Schedule 3 to this Agreement; (v) reporting formats and timing; and (vi) the content of periodic reviews and evaluation, and arrangements for external audit.

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

Section 3.03. For the purposes of Section 9.06 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 a financial management system, including records and accounts, and prepare financial statements, all in accordance with accounting standards acceptable to the Association, consistently applied, adequate to reflect its operations and financial condition and to register separately the operations, resources and expenditures related to the Project.

(b) The Borrower shall:

(i) have its records, accounts and financial statements (balance sheets, statements of income and expenses and related statements) and the records and accounts for the Special Account, the NAADS BS Account, District NAADS Accounts and NAADS Sub-county Accounts, for each fiscal year audited, in accordance with auditing standards acceptable to the Association, consistently applied, by independent auditors acceptable to the Association;

(ii) furnish to the Association as soon as available, but in any case not later than six months after the end of each such year: (A) certified copies of the financial statements referred to in paragraph (a) of this Section, for such year as so audited; and (B) an opinion on such statements and 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 such records, accounts and financial statements, and the audit thereof, and concerning said auditors, as the Association may 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 Project Management Reports or statements of expenditures, 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 Project Management Reports 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) 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.

(b) Each Project Management Report shall:

- (i) (A) set 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) show 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) describe physical progress in Project implementation, both cumulatively and for the period covered by said report, and (B) explain variances between the actual and previously forecast implementation targets; and
- (iii) set 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.

ARTICLE V

Remedies of the Association

Section 5.01. Pursuant to Section 5.02 (1) 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) (i) Subject to subparagraph (ii) of this paragraph:

(A) the right of the Borrower to withdraw the proceeds of any

grant or loan made to the Borrower for the financing of the Project shall have been suspended, canceled or terminated in whole or in part, pursuant to the terms of the agreement providing therefor; 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 (h) of the General Conditions, the following additional events are specified:

(a) the event specified in paragraph (a) of Section 5.01 of this Agreement shall occur; and

(b) the event specified in paragraph (b) (i) (B) of Section 5.01 of this Agreement shall occur, subject to the proviso of paragraph (b) (ii) of that Section.

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 IFAD Loan Agreement has been executed and delivered and all conditions precedent to its effectiveness, except only the effectiveness of this Agreement, have been fulfilled;

(b) the Borrower has furnished to the Association evidence that the NAADS Secretariat has been established and has employed at least a director, a financial controller, an accountant and program supervisors, all with qualifications and terms of reference satisfactory to the Association;

(c) the Borrower has adopted and furnished to the Association the Project Implementation Manual and the Financial Procedures Manual;

(d) the Borrower has established a Financial Management and Procurement Committee within the NAADS Secretariat, with terms of reference satisfactory to the Association;

(e) the Borrower has, for the purposes of Section 4.01 (b) (i) of this Agreement, appointed a firm of auditors selected in accordance with the provisions of Section II of Schedule 3 to this Agreement;

(f) the Memorandum of Understanding has been signed by the Borrower, IFAD and at least one Participating Financier, and has come into full force and effect in accordance with the terms prescribed in the MOU;

(g) the Association has received evidence that: (i) the NAADS BS Account has been opened in a commercial bank; and (ii) at least one District NAADS Account and one Sub-county NAADS Account have been opened in a commercial bank; and

(h) Participation Agreements have been duly signed by at least one

Participating District and one Participating Sub-county.

Section 6.02. The date ninety (90) days after the date of this Agreement is hereby specified for the purposes of Section 12.04 of the General Conditions.

ARTICLE VII

Representative of the Borrower; Addresses

Section 7.01. The Minister of Finance, Planning and Economic Development of the Borrower is designated as representative of the Borrower for the purposes of Section 11.03 of the General Conditions.

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

For the Borrower:

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

Cable address:

FINSEC
Kampala

Facsimile:

230163

For the Association:

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

Cable address:

INDEVAS
Washington, D.C.

Telex:

248423 (MCI) or
64145 (MCI)

Facsimile:

(202) 477-6391

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/ Edith Ssempala

Authorized Representative

INTERNATIONAL DEVELOPMENT ASSOCIATION

By /s/ Callisto Madavo

Regional Vice President
Africa

SCHEDULE 1

Withdrawal of the Proceeds of the Credit

A. General

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

Category	Amount of the Credit Allocated (Expressed in SDR Equivalent)	% of Expenditures to be Financed
(1) Goods		65%
(a)	320,000	
(b)	1,000,000	
(2) AAS Grants for Sub-projects under parts A and B of the Project:		72%
(a)	350,000	
(b)	18,510,000	
(3) Consultants' Services, Training and Audit Fees		72%
(a)	240,000	
(b)	9,500,000	
(4) Operating costs		65%
(a)	170,000	
(b)	2,860,000	
(5) Unallocated	2,350,000	
TOTAL	35,300,000	

2. For the purposes of this Schedule the term "Operating costs" means the incremental operating costs arising under the Project on account of maintenance of vehicles, fuel, equipment, office supplies, utilities, consumables, travel per diems and allowances, travel and accommodation, and office rental, but excluding salaries of officials of the Borrower's civil service.

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) expenditures under Category (2) unless the Sub-project was made in accordance with the procedures, guidelines and other provisions set out or referred to in the Project Implementation Manual and this Agreement; and

(c) Categories (1) (b), (2) (b), (3) (b) and (4) (b) unless:

(i) the NAADS Board has been established as a statutory organization;

(ii) the Borrower has established a legal framework for (A) the registration and legal existence of farmers fora at the national, District and Sub-county levels, with powers of the fora to receive funds for carrying out Sub-projects, and (B) the granting of powers to farmers fora and Sub-county authorities at the Sub-county level to carry out procurement of goods and services worth up to \$50,000 per contract under NAADS.

4. The Association may require withdrawals from the Credit Account to be made on the basis of statements of expenditure for: (a) goods under contracts costing less than \$100,000 equivalent each; (b) services under contracts costing less than: (i) \$100,000 equivalent each for consulting firms; and (ii) \$50,000 equivalent each for individual consultants; (c) (i) all Operating costs; and (ii) training costing less than \$50,000 equivalent each, all under such terms and conditions as the Association shall specify by notice to the Borrower.

B. Special Account

1. The Borrower shall 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. Except as the Association may otherwise specify by notice to the Borrower, all withdrawals from the Credit Account shall be deposited by the Association into the Special Account in accordance with the provisions of this Schedule. Payments out of the Special Account shall be made exclusively for Eligible Expenditures. 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.

2. Except as the Association shall otherwise agree, after the Association has received evidence satisfactory to it that the Special Account has been duly opened, withdrawals from the Credit Account of amounts to be deposited into the said Special Account shall be made as follows:

(a) Each application for withdrawal from the Credit Account shall be supported by a Project Management Report.

(b) Upon receipt of each application for withdrawal of an amount of the Credit, the Association shall, on behalf of the Borrower, withdraw from the Credit Account and deposit into the Special Account an amount equal to the lesser of: (i) the amount so requested; and (ii) the amount which the Association has determined, based on the Project Management Report accompanying said application, is required to be deposited in order to finance Eligible Expenditures during the six-month period following the date of such report; provided, however, that the amount so deposited, when added to the amount indicated by said report to be remaining in the Special Account, shall not exceed the equivalent of \$6,000,000. Each such deposit into the Special Account shall be withdrawn by the Association from the Credit Account under one or more of the Special Account's Eligible Categories.

3. Notwithstanding the provisions of Part B.2 of this Schedule, the Association shall not be required to make further deposits into the Special Account:

(a) if the Association determines at any time that any Project Management Report does not adequately provide the information required pursuant to Section 4.02 of this Agreement;

(b) if the Association determines at any time that all further withdrawals should be made by the Borrower directly from the Credit Account; or

(c) 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 (A) the records and accounts for the Special Account, or (B) the records and accounts reflecting expenditures with respect to which withdrawals were made on the basis of Project Management Reports.

4. The Association shall not be required to make further deposits into the Special Account in accordance with the provisions of Part B.2 of this Schedule 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 Section 6.02 of the General Conditions. Upon such notification, the Association shall determine, in its sole discretion, whether further deposits into the Special Account may be made and what procedures should be followed for making such deposits, and shall notify the Borrower of its determination.

5. (a) If the Association determines at any time that any payment out of the Special Account was made for an expenditure which is not an Eligible Expenditure, or was not justified by the evidence furnished to the Association, the Borrower shall, promptly upon notice from the Association, provide such additional evidence as the Association may request, or 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.

(b) If the Association determines at any time that any amount outstanding in the Special Account will not be required to cover payments for Eligible Expenditures during the six-month period following such determination, 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 sub-paragraph (a), (b) or (c) of this paragraph 5 shall be credited to the Credit Account for subsequent withdrawal or for cancellation in accordance with the provisions of the Development Credit Agreement.

Annex A to SCHEDULE 1

Operation of Special Account When Withdrawals Are Not Made On the Basis of Project Management Reports

1. For the purposes of this Annex, the term "Authorized Allocation" means, an amount equivalent to \$1,500,000 (one million five hundred thousand dollars) to be withdrawn from the Credit Account and deposited into the Special Account pursuant to paragraph 2 of this Annex, provided, however, that unless the Association shall otherwise agree, the Authorized Allocation shall be limited to an amount equivalent to \$750,000 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 3,000,000.

2. Withdrawals of the Special Account's Authorized Allocations and subsequent withdrawals to replenish the Special Account should be made as follows:

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

(b) For replenishment of said Special Account, the Borrower shall furnish to the Association requests for deposit into said Special Account at such intervals as the Association shall specify. 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 Part B.3 of Schedule 1 to this Agreement 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 said Special Accounts 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 said Special Account for Eligible Expenditures. Each such deposit into said Special Account shall be withdrawn by the Association from the Credit Account under

one or more of said Special Account's Eligible Categories.

3. The Association shall not be required to make further deposits into the Special Account, once the total unwithdrawn amount of the Credit minus the total amount of all outstanding special commitments entered into by the Association pursuant to Section 5.02 of the General Conditions, shall equal the equivalent of twice the amount of said Special Account's Authorized Allocations. Thereafter, withdrawal from the Credit Account of the remaining unwithdrawn amount of the Credit 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 said Special Account as of the date of such notice will be utilized in making payments for Eligible Expenditures.

Annex B to SCHEDULE 1

Operation of Special Account When Withdrawals Are Made On the Basis of Project Management Reports

1. Except as the Association may otherwise specify by notice to the Borrower, all withdrawals from the Credit Account shall be deposited by the Association into the Special Account in accordance with the provisions of Schedule 1 to this Agreement. Each such deposit into the Special Account shall be withdrawn by the Association from the Credit Account under one or more of the Special Account's Eligible Categories.

2. Each application for withdrawal from the Credit Account for deposit into the Special Account shall be supported by a Project Management Report.

3. Upon receipt of each application for withdrawal of an amount of the Credit, the Association shall, on behalf of the Borrower, withdraw from the Credit Account and deposit into the Special Account an amount equal to the lesser of: (a) the amount so requested; and (b) the amount which the Association has determined, based on the Project Management Report accompanying said application, is required to be deposited in order to finance Eligible Expenditures during the six-month period following the date of such report; provided, however, that the amount so deposited, when added to the amount indicated by said Project Management Report to be remaining in the Special Account, shall not exceed the equivalent of \$6,000,000.

SCHEDULE 2

Description of the Project

The objective of the Project is to assist poor male and female farmers (in Participating Districts) to become aware of, and to be able to adopt, improved technology and management practices in their farming enterprises, to enhance their productive efficiency, their economic welfare, and the sustainability of their farming operations.

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: Advisory and Information Services to Farmers

Provision of agricultural advisory and information services, including: (a) program orientation and group mobilization for farmers, (b) participatory planning between farmers and farm advisors: (i) on the terms of reference and annual work programs for future activities of farm advisors; and (ii) on on-going field activities of farm advisors; (c) carrying out of farm advisory services; and (d) information and communications services, to farmers' groups in Participating Districts and Participating Sub-counties.

Part B: Technology Development and Linkages with Markets

Provision of technical advisory services to farmers or farm advisors for on-farm

adaptation and testing of agricultural technologies, development of on-farm technology, development of linkages between farmers and input and output markets, the implementation of technical support programs for issues of public importance as identified by the NAADS Secretariat and District NAADS offices and carrying out training events for farmers, farm advisors and District and Sub-county officials.

Part C: Quality Assurance, Regulation and Technical Auditing of Service Providers

Provision of technical advisory services to assist the NAADS Secretariat to: (a) develop and adopt minimum standards for regulating agricultural service providers, including setting standards for their qualification and performance; (b) develop model contracts of services to be entered into with farmers' groups; and (c) carry out technical audits of the activities of agricultural service providers.

Part D: Private Sector Institutional Development

Provision of technical advisory services to assist the NAADS Secretariat develop and establish a program to assist firms and other institutions to become farm advisors under the NAADS program, including provision of training to public sector extension workers to acquire skills for employment in the private sector.

Part E: Project Management and Monitoring

Carrying out the management and monitoring of the NAADS program through the provision of goods, equipment, technical advisory services and training for the establishment and operation of the NAADS Secretariat at the national level and of the NAADS coordinators at the District and Sub-county levels to enable them to carry out their activities of facilitation, coordination, financial management and reporting, financial auditing of financial flows and oversight of service contracts, and establishment of a management information system and carrying out of baseline surveys and data gathering procedures for impact evaluation.

* * *

The Project is expected to be completed by December 31, 2007.

SCHEDULE 3

Procurement and Consultants' Services

Section I. Procurement of Goods

Part A: General

1. Goods 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, September 1997 and January 1999 (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 shall be procured under contracts awarded in accordance with the provisions of Section II of the Guidelines and paragraph 5 of Appendix 1 thereto.

2. The following provisions shall apply to goods to be procured under contracts

awarded in accordance with the provisions of paragraph 1 of this Part B.

(a) Grouping of contracts

To the extent practicable, contracts for vehicles, equipment and office furniture shall be grouped in bid packages estimated to cost \$100,000 equivalent or more each.

(b) Preference for domestically manufactured goods

The provisions of paragraphs 2.54 and 2.55 of the Guidelines and Appendix 2 thereto shall apply to goods manufactured in the territory of the Borrower.

Part C: Other Procurement Procedures

1. National Competitive Bidding

Goods estimated to cost less than \$100,000 equivalent per contract, up to an aggregate amount not to exceed \$500,000 equivalent, may be procured under contracts awarded in accordance with the provisions of paragraphs 3.3 and 3.4 of the Guidelines.

2. International or National Shopping

Goods estimated to cost less than \$30,000 equivalent per contract, up to an aggregate amount not to exceed \$2,000,000 equivalent, may be procured under contracts awarded on the basis of international or national shopping procedures in accordance with the provisions of paragraphs 3.5 and 3.6 of the Guidelines.

3. Procurement from UN Agencies

Goods may be procured from IAPSO in accordance with the provisions of paragraph 3.9 of the Guidelines.

Part D: Review by the Association of Procurement Decisions

1. Procurement Planning

Prior to the issuance of any invitations 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 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 for goods 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 Association 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 shortlist of consultants for services estimated to cost less than \$200,000 equivalent per contract, may comprise entirely of 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. Least-Cost Selection

Services of a routine nature estimated to cost less than \$100,000 equivalent per contract and where the Association is satisfied that well established practices and standards exist, such as financial audits, may be procured under contracts awarded in accordance with the provisions of paragraphs 3.1 and 3.6 of the Consultant Guidelines.

2.. Selection Based on Consultants' Qualifications

Services to be procured from firms which are estimated to cost less than \$100,000 equivalent per contract may be procured under contracts awarded in accordance with the provisions of paragraphs 3.1 and 3.7 of the Consultant Guidelines.

3. Single Source Selection

Services procured at the District level under work plans satisfactory to the Association, which are estimated to cost less than \$5,000 equivalent per contract up to an aggregate amount not to exceed \$500,000 equivalent, 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 5.1 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 1.

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 the said approval shall have been given.

(d) With respect to each contract for the employment of consultants on the basis of single source selection estimated to cost the equivalent of \$5,000 or more, shall be awarded only after prior review of the Association.

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 Consultant Guidelines shall apply.

SCHEDULE 4

Implementation Program

1. Project Implementation Manual

(a) (i) The Borrower shall prepare and furnish to the Association a Project Implementation Manual, in form and substance satisfactory to the Association, setting out details of all procedures, guidelines, processes, timetables and criteria for the Project.

(ii) Except as the Association shall otherwise agree, the Borrower shall not amend or waive any provision of the Project Implementation Manual if, in the opinion of the Association, such amendment or waiver may materially and adversely affect the carrying out of the Project or the achievement of the objectives thereof.

(b) (i) The Borrower shall establish a NAADS Secretariat, which shall comprise a director, a financial controller, an agriculture and extension manager, program supervisors, procurement specialists, an administrator, a community development manager, and an accountant.

(ii) The NAADS Secretariat shall be responsible for carrying out the Project in accordance with the Project Implementation Manual.

2. Financial Procedures Manual

The Borrower shall carry out the financial management of the Project in accordance with a Financial Procedures Manual, in form and substance satisfactory to the Association, which shall cover, inter alia, the accounting system (both manual and computerized), the flow of funds to beneficiaries of the Project, including the timing and triggers for the flow of funds, the chart of accounts, quarterly reporting formats of financial activities and contract management, records management, internal controls and eligibility criteria for participation by Districts and Sub-counties.

3. The Borrower shall:

(a) maintain policies and procedures adequate to enable it to monitor and evaluate on an ongoing basis, in accordance with the indicators set forth in Schedule 5 to this Agreement, 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 of each year, a report integrating the results of the monitoring and evaluation activities performed pursuant to paragraph 3 (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 October 31 of each year, or such later date as the Association shall request, the report referred to in paragraph 3 (b) of this Section, 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.

4. (a) The Borrower shall: (i) no later than March 15, 2004 furnish to the Association a comprehensive report, prepared by an independent entity satisfactory to the Association, on progress made in the implementation of the Project since the Effective Date, and (ii) no later than April 30, 2004 carry out jointly with the Association, a midterm review of the progress made in carrying out the Project. The midterm review shall cover, among other things, the progress made in meeting the objectives of the Project, and the overall performance by the Borrower of the Project.

(b) The Borrower shall carry out, no later than one month after the completion of the Midterm Review referred to in paragraph 4 (a), the recommendations of the Midterm Review as agreed with the Association and set out in an action plan for the Project satisfactory to the Association.

Parts A and B of the Project

5. No District or Sub-county shall be eligible to obtain AAS Grants for financing Sub-projects under Parts A and B of the Project unless the District or Sub-county fulfills the eligibility criteria specified in paragraphs 6 and 7, respectively, of this Schedule.

6. Districts

The District concerned:

(a) meets the conditions prescribed in the Local Government Regulations with respect to the presence of qualified staff in adequate numbers in the Finance and Production Departments, the Planning Unit and the Internal Audit Section, (or that a clear commitment, satisfactory to the Association is made to out-source, through private contract or hiring arrangements, the skills to undertake the technical audit of service providers and supervision of contracts);

(b) has adopted a formula for implementing a District PMA plan;

(c) has a 3-year rolling development and investment plan which includes adequate funds for NAADS District counterpart contribution;

(d) has taken measures to transfer the provision of existing advisory services to the private sector, including, as appropriate, the retraining, reassigning or retrenching of extension workers;

(e) has signed a Participation Agreement; and

(f) has had its annual work program reviewed and agreed with the NAADS Secretariat.

7. Sub-counties

The Sub-county concerned:

- (a) is part of a Participating District;
- (b) has demonstrated capacity to carry out the financial management and implementation of Sub-projects;
- (c) has committed funds for NAADS Sub-county counterpart contribution within annual work plan and budget, included in the overall District workplan and budget;
- (d) has signed a Participation Agreement with the District; and
- (e) has had its annual work program reviewed and its eligibility for funding verified with the District NAADS coordinator in the first year of Project implementation, and in the second and subsequent years, with the relevant NAADS District farmers' fora.

8. For the participation of any Sub-county in NAADS in each year beyond its first year of participation, Sub-county farmers' fora shall have been: (a) legally established; and (b) certified as able to directly contract advisory services and to procure and account for NAADS funds.

9. Under Part B of the Project, Participating Districts shall provide funds to District and/or Sub-county farmers' fora within the respective District with which to finance Sub-projects. The provision of such funding shall be governed by Financing Agreements, satisfactory to the Association, to be signed between the respective District and farmers' fora. Similarly, under Parts A and B of the Project, Participating Sub-counties shall provide funds to Sub-county farmers' fora within the respective Sub-county with which to finance Sub-projects. The provision of such funding shall be governed by Financing Agreements, satisfactory to the Association, to be signed between the respective Sub-County and farmers' fora pursuant to the provisions of paragraph 10 of this Schedule 4.

10. Participating Districts or Participating Sub-counties shall enter into financing agreements satisfactory to the Association for the making of AAS Grants for Sub-projects. The terms and conditions of each Financing Agreement shall, inter alia, provide that:

- (a) the Beneficiary: (i) carries out the Sub-project with due diligence and efficiency and in accordance with sound technical, financial, environmental and managerial standards; (ii) makes a contribution to the cost of the Sub-Project as stipulated in the Project Implementation Manual; and (iii) maintains adequate records to reflect, in accordance with sound accounting practices, the operations, resources and expenditures relating to the Sub-project;

- (b) the agricultural advisory services to be financed from the proceeds of the Grant shall: (i) be procured in accordance with procedures ensuring efficiency and economy and in accordance with the provisions of Schedule 3 to this Agreement; and (ii) be used exclusively in the carrying out of the Sub-project; and

- (c) the Borrower reserves the right to: (i) inspect by itself, or jointly with the Association, if the Association shall so request, activities included in the Sub-project, the operations thereof and any relevant records and documents; (ii) obtain all information as the Borrower or the Association shall reasonably request regarding the administration, operation and financial conditions of the Beneficiary; and (iii) suspend or terminate the right of the Beneficiary to use the proceeds of the AAS Grant upon the failure by the Beneficiary to perform any of its obligations under the AAS Grant.

NAADS BS Account

11. The Borrower shall take all measures necessary to ensure that all funds deposited in the NAADS BS Account are subsequently transferred to the Consolidated Fund.

SCHEDULE 5

Performance Indicators

Part A: Outcome Indicators

1. Productivity:

The productivity of the farm enterprises of NAADS participants exceed that of comparable non-participants.

2. Income:

On average, measures of household well being improve over time for participating farm families and the incidence of poverty among these participating families, as measured by standard poverty indexes for Uganda, declines over time.

3. Farmer Self Assessment:

Participating men and women farmers express satisfaction with service provision under NAADS and with its impact on productive and economic progress on their farms.

Part B: Output Indicators

1. Participation by Districts:

The number of Districts which have signed Participation Agreements with NAADS Secretariat and are implementing NAADS activities grows each year and reaches over eighty percent of all Districts by the end of Year 7 of the Program.

2. Participation by Sub-counties:

The number of Sub-counties which have signed Participation Agreements with their respective Districts and in which agricultural advisory services are being provided on a contracted-out basis under NAADS grows each year and reaches sixty percent of all Sub-counties by the end of Year 7 of the Program.

3. Participation by Farmers:

A farmers' forum is formally established, and is participating in planning and management of the activities of contracted agricultural advisors in each Participating Sub-county within one year of each Sub-county's initial entry into participation in the NAADS program.

4. Participation by Women Farmers:

At least one third of farmers served by NAADS' supported agricultural advisors are women.

