

**CONFORMED COPY**

**CREDIT NUMBER 4142-UG  
GRANT NUMBER H199-UG**

# **Development Financing Agreement**

**(Fifth Poverty Reduction Support Operation)**

**between**

**THE REPUBLIC OF UGANDA**

**and**

**INTERNATIONAL DEVELOPMENT ASSOCIATION**

**Dated March 21, 2006**

**CREDIT NUMBER 4142-UG  
GRANT NUMBER 199-UG**

**DEVELOPMENT FINANCING AGREEMENT**

AGREEMENT, dated March 21, 2006, between the REPUBLIC OF UGANDA (the Borrower) and INTERNATIONAL DEVELOPMENT ASSOCIATION (the Association).

WHEREAS (A) the Association has received from the Borrower a letter dated November 7, 2005, describing a program of actions, objectives and policies designed to promote growth and achieve sustainable reductions in poverty (hereinafter called the Program), declaring the Borrower's commitment to the execution of the Program, and requesting assistance from the Association in support of the Program during the execution thereof;

(B) the Borrower has carried out the measures and taken the actions described in Schedule 2 of this Agreement to the satisfaction of the Association and has maintained a macroeconomic policy framework satisfactory to the Association;

(C) the Borrower and the Association intend, to the extent practicable, that the proceeds of the Grant be disbursed on account of expenditures in support of the Program before disbursements of the proceeds of the Credit are made; and

(D) on the basis, *inter alia*, of the foregoing, the Association has decided in support of the Program to provide such assistance to the Borrower by making the Credit and the Grant 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 May 1, 2004), with the modifications set forth in Schedule 3 to this Agreement (the General Conditions), constitute an integral part of this Agreement.

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

(a) "BOU" means the Bank of Uganda, the Borrower's central bank;

(b) “FY” means the Borrower’s fiscal year commencing on July 1 and ending on June 30 of the following year;

(c) “Letter of Development Policy” means the Borrower’s letter referred to in paragraph (A) of the Preamble to this Agreement;

(d) “MoPS” means the Borrower’s Ministry of Public Service;

(e) “MoFPED” means the Borrower’s Ministry of Finance, Planning and Economic Development;

(f) “National Anticorruption Strategy” means the *National Strategy to Fight Corruption and Rebuild Ethics and Integrity in Public Office 2004 - 2007* launched by the Borrower on April 6, 2005.

## ARTICLE II

### The Financing

Section 2.01. The Association agrees to make available to the Borrower, on the terms and conditions set forth or referred to in this Agreement the Financing consisting of:

(a) an amount in various currencies equivalent to fifteen million five hundred thousand Special Drawing Rights (SDR 15,500,000) (the Credit); and

(b) an amount in various currencies equivalent to seventy seven million seven hundred thousand Special Drawing Rights (SDR 77,700,000) (the Grant).

Section 2.02. (a) Subject to the provisions of paragraphs (b) and (c) of this Section, the Borrower shall be entitled to withdraw the proceeds of the Financing from the Financing Accounts in support of the Program.

(b) Except as the Association may otherwise agree: (i) all withdrawals from the Financing Accounts shall be deposited by the Association into an account in dollars designated by the Borrower and acceptable to the Association; and (ii) the Borrower shall ensure that upon each deposit of an amount of the Financing into said account, an equivalent amount is accounted for in the Borrower’s budget management system, in a manner acceptable to the Association.

(c) The Borrower undertakes that the proceeds of the Financing shall not be used to finance expenditures excluded pursuant to the provisions of Schedule 1 to this Agreement. If the Association determines at any time that an amount of the Financing was used to make a payment for an expenditure so excluded, the Borrower shall, promptly upon notice from the Association,

refund an amount equal to the amount of said payment to the Association. Amounts refunded to the Association upon such request shall be cancelled.

Section 2.03. The Closing Date shall be November 30, 2006 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 Financing 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 Financing Accounts or cancelled; and (ii) at the rate set as of the June 30 immediately preceding the accrual date and at such other rates as may be set from time to time thereafter pursuant to paragraph (a) above. The rate set as of June 30 in each year shall be applied from the next date in that year specified in Section 2.05 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 shall be payable semiannually on March 15 and September 15 in each.

Section 2.07. (a) Subject to paragraphs (b), (c) and (d) below, the Borrower shall repay the principal amount of the Credit in semiannual installments payable on each March 15 and September 15 commencing on March 15, 2016 and ending September 15, 2045. Each installment to and including the installment payable on September 15, 2025 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 the Association 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.

Section 2.09. BOU, and any person whom the Governor of BOU shall designate in writing, is designated as representative of the Borrower for the purposes of taking any action required or permitted to be taken under the provisions of Section 2.02 of this Agreement and Article V of the General Conditions.

### **ARTICLE III**

#### **Particular Covenants**

Section 3.01. (a) The Borrower and the Association shall from time to time, at the request of either party, exchange views on the progress achieved in carrying out the Program.

(b) Prior to each such exchange of views, the Borrower shall furnish to the Association for its review and comment a report on the progress achieved in carrying out the Program, in such detail as the Association shall reasonably request.

(c) Without limitation upon the provisions of paragraph (a) of this Section, the Borrower shall exchange views with the Association on any proposed action to be taken after the disbursement of the Financing which would have the effect of materially reversing the objectives of the Program, or any action taken under the Program, including any action specified in Schedule 2 to this Agreement.

Section 3.02. Without limitation upon the provisions of Section 9.01(a) of the General Conditions, the Borrower shall promptly furnish to the Association such information relating to the provisions of Article II of this Agreement as the Association may, from time to time, reasonably request.

#### **ARTICLE IV**

##### **Additional Event of Suspension**

Section 4.01. Pursuant to Section 6.02 (l) of the General Conditions, the following additional event is specified, namely, that a situation has arisen which shall make it improbable that the Program, or a significant part thereof, will be carried out.

#### **ARTICLE V**

##### **Termination**

Section 5.01. The date ninety (90) days after the date of this Agreement is hereby specified for the purposes of Section 12.04 of the General Conditions.

## ARTICLE VI

### Representative of the Borrower; Addresses

Section 6.01. Except as provided in Section 2.09 of this Agreement, the Minister of Finance, Planning and Economic Development of the Borrower is designated as the representative of the Borrower for the purposes of Section 11.03 of the General Conditions.

Section 6.02. 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:

Facsimile:

FINSEC  
Kampala

230163

For the Association:

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

Cable address:

Telex:

Facsimile:

INDEVAS  
Washington, D.C.

248423 (MCI) or  
64145 (MCI)

(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 Kampala, the Republic of Uganda, as of the day and year first above written.

THE REPUBLIC OF UGANDA

By:

/s/ Ezra Suruma  
Authorized Representative

INTERNATIONAL DEVELOPMENT ASSOCIATION

By:

/s/ Grace Yabrudy  
Authorized Representative



## **SCHEDULE 1**

### **Excluded Expenditures**

For purposes of Section 2.02 (c) of this Agreement, the proceeds of the Financing shall not be used to finance any of the following expenditures:

1. expenditures for goods or services supplied under a contract which any national or international financing institution or agency other than the Bank or the Association shall have financed or agreed to finance, or which the Association or the Bank shall have financed or agreed to finance under another credit, loan, or grant;
  
2. expenditures for goods included in the following groups or subgroups of the Standard International Trade Classification, Revision 3 (SITC, Rev.3), published by the United Nations in Statistical Papers, Series M, No. 34/Rev.3 (1986) (the SITC), or any successor groups or subgroups under future revisions to the SITC, as designated by the Association by notice to the Borrower:

<u>Group</u>	<u>Subgroup</u>	<u>Description of Items</u>
112	-	Alcoholic beverages
121	-	Tobacco, unmanufactured, tobacco refuse
122	-	Tobacco, manufactured (whether or not containing tobacco substitutes)
525	-	Radioactive and associated materials
667	-	Pearls, precious and semiprecious stones, unworked or worked
718	718.7	Nuclear reactors, and parts thereof; fuel elements (cartridges), non-irradiated, for nuclear reactors
728	728.43	Tobacco processing machinery
897	897.3	Jewelry of gold, silver or platinum group metals (except watches and watch cases) and goldsmiths' or silversmiths' wares (including set gems)
971	-	Gold, non-monetary

(excluding gold  
ores and concentrates)

3. expenditures for goods intended for a military or paramilitary purpose or for luxury consumption;
4. expenditures for environmentally hazardous goods (for purposes of this paragraph the term “environmentally hazardous goods” means goods, the manufacture, use or import of which is prohibited under the laws of the Borrower or international agreements to which the Borrower is a party);
5. expenditures on account of any payment to persons or entities, or any import of goods, if such payment or import is prohibited by a decision of the United Nations Security Council taken under Chapter VII of the Charter of the United Nations; and
6. expenditures under a contract in respect of which the Association determines that corrupt, fraudulent, collusive, or coercive practices were engaged in by representatives of the Borrower or of a beneficiary of the Financing during the procurement or execution of such contract, without the Borrower having taken timely and appropriate action satisfactory to the Association to remedy the situation.

## SCHEDULE 2

### **Actions Referred to in Recital (B) of the Preamble to this Agreement**

- (a) The Borrower has: (i) adopted a medium term expenditure framework, satisfactory to the Association, for FY2004/05-2006/07, in accordance with the provisions of paragraph 10(a) of the Letter of Development Policy; and (ii) executed its budget in FY 2004/05 consistent with the allocations made pursuant to subparagraph (i) above;
- (b) The Borrower, through MoPS and MoFPED and in accordance with the provisions of paragraph 10(b) of the Letter of Development Policy, has submitted to IDA an action plan for the implementation of measures, encapsulated in a cabinet memorandum for pay policy for: (i) controlling the size of public administration; and (ii) enhancing cost efficiency and effectiveness in the public sector targeting health, education, agriculture, water and sanitation and community development;
- (c) The Borrower, through MoPS and MoFPED, has prepared an updated pay reform strategy including options for targeting salary enhancements and their budgeting implications for the medium term, in accordance with the provisions of paragraph 10(c) of the Letter of Development Policy;
- (d) The Borrower has implemented the undertakings agreed and confirmed in the National Anticorruption Strategy in accordance with the provisions of paragraph 10(d) of the Letter of Development Policy; and in a manner satisfactory to the Association;
- (e) The Inspector General of the Government has, in accordance with paragraph 10(e) of the letter of the Development Policy verified assets declarations by ministers and has identified measures to strengthen the verification process in accordance with the law;
- (f) The Borrower has submitted to Parliament a bill to enhance the independence of the Auditor General's Office, in accordance with the provisions of paragraph 10(f) of the Letter of Development Policy;
- (g) The Borrower has submitted to Parliament a bill harmonizing the local government procurement systems and practices with those of the central government, in accordance with the provisions of paragraph 10(g) of the Letter of Development Policy;
- (h) The Borrower has implemented, in a manner satisfactory to the Association and consistent with the provisions of paragraph 10(h) of the Letter of Development Policy,

the undertakings agreed and confirmed in the joint annual review of the plan for modernization of agriculture held in October 2004.

(i) The Borrower has implemented the undertakings agreed and confirmed by the education sector review held in November 2004, in a manner satisfactory to the Association, and consistent with the provisions of paragraph 10(i) of the Letter of Development Policy;

(j) The Borrower has implemented the undertakings agreed in the health sector review held in November 2003 and confirmed by the health sector review held in November 2004, in a manner satisfactory to the Association, and consistent with the provisions of paragraph 10(j) of the Letter of Development Policy; and

(k) The Borrower has implemented the undertakings agreed and confirmed by the water and sanitation sector review held in September 2003 and confirmed in September 2004, in a manner satisfactory to the Association, and consistent with the provisions of paragraph 10(k) of the Letter of Development Policy.

### SCHEDULE 3

#### Modifications to the General Conditions

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

1. Section 1.01 is modified to read:

*“Section 1.01. Application of General Conditions*

These General Conditions set forth the terms and conditions generally applicable to the Development Financing Agreement to the extent and subject to any modifications set forth in such agreement.”

2. Section 2.01 is modified to read as follows:

- (a) Paragraph 3 of Section 2.01 is modified to read as follows:

“3. “Borrower” means the party to the Development Financing Agreement to which the Financing is made.”

- (b) Paragraph 8 of Section 2.01 is modified to read as follows:

“8. “Development Financing Agreement” means the particular Development Financing Agreement to which these General Conditions apply as such agreement may be amended from time to time. Development Financing Agreement includes these General Conditions as applied thereto, and all schedules and agreements supplemental to the Development Financing Agreement.”

- (c) The following new paragraphs are added after paragraph 11 of Section 2.01, and paragraphs 12 through 14 are renumbered as paragraphs 16 through 18 accordingly:

“12. “Grant” means the development grant provided for in the Development Financing Agreement.”

“13. “Grant Account” means the account opened by the Association on its books in the name of the Borrower to which the amount of the Grant is credited.”

“14. “Financing” means, collectively, the Credit and the Grant.”

“15. “Financing Accounts” means, collectively, the Credit Account and the Grant Account (or, where the context so requires, either of the Credit Account or the Grant Account).”

3. The term “Credit”, wherever used in the following Articles and Sections of the General Conditions, is modified to read “Financing”: Sections 2.01(3), 2.01(12), 4.01, Article V, Article VI (excluding Section 6.05), Section 7.01(d), Article VIII, and Article IX.

4. The term “Credit Account”, wherever used in the following Articles and Sections of the General Conditions, is modified to read “Financing Accounts”: Section 2.01(6), the heading of Article III, 4.01, Article V, Article VI, and Section 12.03.

5. The term “Development Credit Agreement”, wherever used in the General Conditions, is modified to read “Development Financing Agreement”.

6. Article III is modified as follows:

(a) Section 3.01 is modified to read as follows:

“Section 3.01. *Financing Accounts*

The amount of the Credit shall be credited to the Credit Account and may be withdrawn from the Credit Account by the Borrower as provided in the Development Financing Agreement and in these General Conditions. The amount of the Grant shall be credited to the Grant Account and may be withdrawn from the Grant Account by the Borrower as provided in the Development Financing Agreement and in these General Conditions.”

(b) The words “The principal of, and service charges on, the Credit” in Section 3.05 are modified to read “All amounts required to be paid under the Development Financing Agreement”.

7. Article IV is modified as follows:

(a) Section 4.02(a) and the heading of Section 4.02 are modified to read as follows:

“Section 4.02. *Currencies in which Payments are to be Made*

(a) The Borrower shall pay all amounts required to be paid by it under the Development Financing Agreement in the currency specified in such agreement or in such other eligible currency or currencies as may from time to time be designated or selected pursuant to paragraph (c) or (e) of this Section.”

(b) Wherever used in Section 4.02(c) and (e) of the General Conditions, the words “principal and service charges” are modified to read “amounts”.

(c) Section 4.06(b) is modified to read as follows:

“(b) All amounts which the Borrower shall be required to pay under the Development Financing Agreement shall be paid without restrictions of any kind imposed by, or in the territory of, the Borrower.”

8. Section 5.08 of the General Conditions is amended to read as follows:

“Section 5.08. *Treatment of Taxes*

Except as otherwise provided in the Development Financing Agreement, the proceeds of the Financing may be withdrawn to pay for taxes levied by, or in the territory of, the Borrower on the goods or services to be financed under the Financing, or on their importation, manufacture, procurement or supply. The financing of such taxes is subject to the Association’s policy of requiring economy and efficiency in the use of the proceeds of its credits and grants. To that end, if the Association shall at any time determine that the amount of any taxes levied on or in respect of any item to be financed out of the proceeds of the Financing is excessive or otherwise unreasonable, the Association may, by notice to the Borrower, adjust the percentage for withdrawal set forth or referred to in respect of such item in the Development Financing Agreement as required to be consistent with such policy of the Association.”

9. Article VI is modified as follows:

(a) The word “credit” in paragraphs (a)(ii) and (c)(i) of Section 6.02 is replaced with the words “credit, grant or financing”.



(b) Section 6.03 (c) is modified by replacing the words “corrupt or fraudulent” with the words “corrupt, fraudulent, collusive or coercive”.

(c) Section 6.05 is modified to read as follows:

“Except as the Borrower and the Association shall otherwise agree, any cancellation of any amount of the Credit shall be applied *pro rata* to the several installments of the principal amount of the Credit maturing after the date of such cancellation.”

10. Section 7.01 is modified to read as follows:

(a) The words “principal or interest or any other amount” in paragraph (b) are modified to read “any amount”.

(b) The word “credit” in paragraph (b)(i) is replaced with the words “credit, grant or financing”.

11. Section 8.01(a) is modified to read as follows:

“(a) All amounts which the Borrower shall be required to pay under the Development Financing Agreement shall be paid without deduction for, and free from, any taxes levied by, or in the territory of, the Borrower.”

12. Paragraph (c) of Section 9.06 is modified to read as follows:

“(c) Not later than six months before the Closing Date or such later date as may be agreed for this purpose between the Borrower and the Association, the Borrower shall prepare and furnish to the Association a report, of such scope and in such detail as the Association shall reasonably request, on the execution of the Project, its cost and the benefits derived and to be derived from it, the performance by the Borrower and the Association of their respective obligations under the Development Financing Agreement and the accomplishment of the purposes of the Financing.”