

CONFORMED COPY

CREDIT NUMBER 4296-UG

Financing Agreement

(Sixth Poverty Reduction Support Development Policy Financing)

between

REPUBLIC OF UGANDA

and

INTERNATIONAL DEVELOPMENT ASSOCIATION

Dated May 28, 2007

FINANCING AGREEMENT

Agreement dated May 28, 2007, entered into between THE REPUBLIC OF UGANDA (“Recipient”) and INTERNATIONAL DEVELOPMENT ASSOCIATION (“Association”) for the purpose of providing financing in support of the Program (as defined in the Appendix to this Agreement). The Association has decided to provide this financing on the basis, inter alia, of: (a) the actions which the Recipient has already taken under the Program and which are described in Section I of Schedule 1 to this Agreement, and (b) the Recipient’s maintenance of an appropriate macro-economic policy framework. The Recipient and the Association therefore hereby agree as follows:

ARTICLE I — GENERAL CONDITIONS; DEFINITIONS

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

ARTICLE II — FINANCING

- 2.01. The Association agrees to extend to the Recipient, on the terms and conditions set forth or referred to in this Agreement, a credit in an amount equivalent to eighty three million three hundred thousand Special Drawing Rights (SDR 83,300,000).
- 2.02. The Recipient may withdraw the proceeds of the Financing in support of the Program in accordance with Section II of Schedule 1 to this Agreement.
- 2.03. The Maximum Commitment Charge Rate payable by the Recipient on the Unwithdrawn Financing Balance shall be one-half of one percent (1/2 of 1%) per annum.
- 2.04. The Service Charge payable by the Recipient on the Withdrawn Credit Balance shall be equal to three-fourths of one percent (3/4 of 1%) per annum.
- 2.05. The Payment Dates are March 1 and September 1 in each year.
- 2.06. The principal amount of the Credit shall be repaid in accordance with repayment schedule set forth in Schedule 2 to this Agreement.

2.07. The Payment Currency is Dollars.

ARTICLE III — PROGRAM

3.01 The Recipient declares its commitment to the Program and its implementation. To this end:

- (a) the Recipient 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 Recipient 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; and
- (c) without limitation upon the provisions of paragraphs (a) and (b) of this Section, the Recipient 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 Section I of Schedule 1 to this Agreement.

ARTICLE IV — REMEDIES OF THE ASSOCIATION

4.01. The Additional Event of Suspension shall be that a situation has arisen which shall make it improbable that the Program, or a significant part of it, will be carried out.

ARTICLE V — EFFECTIVENESS

5.01. The Effectiveness Deadline is the date ninety (90) days after the date of this Agreement.

ARTICLE VI — REPRESENTATIVE; ADDRESSES

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

6.02. The Recipient's Address is:

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

Cable:	Telex:	Facsimile:
FINSEC	61170	230163

6.03. The Association's Address is:

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

Cable address:	Telex:	Facsimile:
INDEVAS Washington, D.C.	248423(MCI) or 64145(MCI)	1-202-477-6391

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

REPUBLIC OF UGANDA

By: */s/ Ezra Suruma*
Authorized Representative

INTERNATIONAL DEVELOPMENT ASSOCIATION

By: */s/ Grace M. Yabrudy*
Authorized Representative

SCHEDULE 1**Program Actions; Availability of Financing Proceeds****Section I. Actions Taken Under the Program**

The actions taken by the Recipient under the Program include the following:

1. Public Expenditure Review: The Recipient has in accordance with paragraph 11.1 of the Letter of Development Policy: (a) submitted to the Association a Medium Term Expenditure Framework for 2006/07-2008/09; (b) executed the FY2005/06 budget consistent with the budget allocation as appropriated and adjusted with the approval of the Legislative Assembly; and (c) taken remedial action on any identified major deviations in FY2006/07 budget.
2. Investment Climate: The Recipient has in accordance with paragraph 11.2(i) of the Letter of Development Policy, strengthened the coordinated approach to improve the investment climate, and made satisfactory progress on agreed key investment climate undertakings identified in the PEAP, including necessary institutional reforms to facilitate access of businesses and potential investors, registration, land titles, and courts.
3. The Recipient has in accordance with paragraph 11.2(ii) of the Letter of Development Policy, submitted to the Association evidence of satisfactory implementation of undertakings to improve agricultural production in accordance with its commitment during the October 2004 Joint PMA Annual Review, and its subsequent confirmation during the October 2005 review.
4. Public Finance and Accountability: In accordance with paragraph 11.3(i) of the Letter of Development Policy, the Recipient has: (a) caused its Ministry of Public Service to approve a revised organizational structure for the Office of the Accountant General; and (b) strengthened the implementation of the Public Finance and Accountability Act, to facilitate financial management reforms including implementation of the Integrated Financial Management System.
5. The Recipient has, in accordance with paragraph 11.3(ii) of the Letter of Development Policy, submitted the draft Audit Bill for consideration by the Cabinet.
6. Public Procurement: In accordance with paragraph 11.3(iii) of the Letter of Development Policy, the Recipient has made progress satisfactory to the Association in implementation of measures to improve the effectiveness of the public procurement system.
7. In accordance with paragraphs 11.3(iv) and 12.3(v) of the Letter of Development Policy, the Recipient has: (a) submitted to the Association satisfactory information relating to implementation of the National Anti-Corruption Action Plan as the framework to assess progress in the fight against corruption; and (b) the IGG has adopted and committed to implement the activities indicated for reducing the incidence and experience of corruption measured by the

national integrity survey; introducing special anti-corruption courts to expeditiously deal with cases of corrupt nature, clearing the backlog of cases under IGG, and other activities specified in the results matrix.

8. The Recipient has, in accordance with paragraph 11.3(vi) of the Letter of Development Policy, made satisfactory progress in implementing the new phase of Public Service Reform Program as shall be evidenced in the accomplishment of its undertakings to the joint government and development partners review process.

9. In accordance with paragraph 11.3(vii) of the Letter of Development Policy, the Recipient has submitted an inception report for a study to assess the feasibility of control of the size of the public service and integrating staffing and wage bill issues into the budget process.

10. In accordance with paragraph 11.3(viii) of the Letter of Development Policy, the Recipient has made progress satisfactory to the Association in the following undertakings made by JARD 2004 and JARD 2005: (a) the MoPS has reviewed the mandate and structure of the MoLG, or in the interim has provided appropriate additional staff to the MoLG as a stop gap measure to address low capacity in MoLG to deliver on its mandate; (b) MoLG has identified alternative sources of revenue for local governments, to be approved by the government during FY2006/7; (c) MoFPED has provided compensation to local governments for revenue losses related to the abolition of graduated tax; and (d) the Recipient has submitted to its Legislative Assembly, a bill to promote organized urban development and human settlement.

11. In accordance with paragraph 11.4(i) of the Letter of Development Policy, the Recipient has provided evidence satisfactory to the Association as to the implementation of: (a) the undertakings made in the education sector review during November 2004, and subsequent confirmation 2005 review; and (b) the undertakings made during the 2005 review, and subsequent confirmation during October 2006 review.

12. In accordance with paragraph 11.4(ii) of the Letter of Development Policy, the Recipient has provided evidence satisfactory to the Association as to the implementation of: (a) the undertakings made in the health sector review during November 2004, and subsequent confirmation during the 2005 review; and (b) the undertakings made during the 2005 review, and subsequent confirmation during October 2006 review.

13. In accordance with paragraph 11.4(iii) of the Letter of Development Policy, the Recipient has provided evidence satisfactory to the Association as to the implementation of: (a) the undertakings made in the water sector review during September 2004, and subsequent confirmation during the 2005 review; and (b) the undertakings made during the 2005 review, and subsequent confirmation during September 2006 review.

Section II. Availability of Financing Proceeds

A. General

The Recipient may withdraw the proceeds of the Financing in accordance with the provisions of this Section and such additional instructions as the Association may specify by notice to the Recipient.

B. Allocation of Financing Amounts

The Financing shall be withdrawn in a single tranche. The allocation of the amounts of the Financing to this end is set out in the table below:

Allocation	Amount of the Financing Allocated (expressed in SDR)
Single Tranche	83,300,000
TOTAL AMOUNT	<u>83,300,000</u>

C. Deposits of Financing Amounts

Except as the Association may otherwise agree:

1. the withdrawal from the Financing Account shall be deposited by the Association into an account designated by the Recipient and acceptable to the Association; and
2. the Recipient shall ensure that upon deposit of the amount of the Financing into this account, an equivalent amount is accounted for in the Recipient's budget management system, in a manner acceptable to the Association.

D. Excluded Expenditures

The Recipient undertakes that the proceeds of the Financing shall not be used to finance Excluded Expenditures. If the Association determines at any time that an amount of the Financing was used to make a payment for an Excluded Expenditure, the Recipient shall, promptly upon notice from the Association, refund an amount equal to the amount of such payment to the Association. Amounts refunded to the Association upon such request shall be cancelled.

E. Closing Date

The Closing Date is November 30, 2008.

SCHEDULE 2**Repayment Schedule**

Date Payment Due	Principal Amount of the Credit repayable (expressed as a percentage)*
On each March 1 and September 1:	
commencing September 1, 2017 to and including March 1, 2027	1%
commencing September 1, 2027 to and including March 1, 2047	2%

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

APPENDIX

Section I. Definitions

1. “Excluded Expenditure” means any expenditure:
- (a) for goods or services supplied under a contract which any national or international financing institution or agency other than the Association or the Bank has financed or agreed to finance, or which the Association or the Bank has financed or agreed to finance under another Financing, credit, grant or loan;
 - (b) for goods included in the following groups or sub-groups 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 Recipient:

Group	Sub-group	Description of Item
112		Alcoholic beverages
121		Tobacco, un-manufactured, 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)

- (c) for goods intended for a military or paramilitary purpose or for luxury consumption;
 - (d) for environmentally hazardous goods, the manufacture, use or import of which is prohibited under the laws of the Recipient or international agreements to which the Recipient is a party, and any other goods designated as environmentally hazardous by agreement between the Recipient and the Association;
 - (e) on account of any payment prohibited by a decision of the United Nations Security Council taken under Chapter VII of the Charter of the United Nations; and
 - (f) under a contract with respect to which the Association determines that corrupt, fraudulent, collusive or coercive practices were engaged in by representatives of the Recipient or other recipient of the Financing proceeds during the procurement or execution of such contract, without the Recipient (or other such recipient) having taken timely and appropriate action satisfactory to the Association to remedy the situation.
2. "Fiscal Year" and "FY" means the Recipient's fiscal year commencing on July 1 and ending on June 30 of the following year.
 3. "General Conditions" means the "International Development Association General Conditions for Credits and Grants", dated July 1, 2005 with the modifications set forth in Section II of this Appendix.
 4. "IGG" means Inspector General of Government, established and operating pursuant to the Inspectorate of Government Act, 2002, of the laws of the Recipient.
 5. "JARD" means Joint Annual Review of Decentralization among the Recipient, the Association and other development partners.
 6. "Letter of Development Policy" means the letter dated March 23, 2007, received by the Association from the Recipient, describing the Program (as hereinafter defined), and declaring the Recipient's commitment to the execution of the Program, and requesting assistance from the Association in support of the Program during the execution thereof.
 7. "Legislative Assembly" means the parliament or legislative assembly of the Recipient established under the Constitution of the Recipient.

8. “MoFPED” means the Recipient’s Ministry of Finance, Planning and Economic Development;
9. “MoPS” means the Recipient’s Ministry of Public Service.
10. “MoLG” means the Recipient’s Ministry of Local Government.
11. “National Anticorruption Action Plan” means the Recipients National Strategy to Fight Corruption and Rebuild Ethics and Integrity in Public Office (2004 – 2007).
12. “Office of the Accountant General” means the office held by the Accountant General pursuant to the Public Finance and Accountability Act, 2003, of the laws of the Recipient.
13. “PEAP” means the Recipient’s third Poverty Eradication Action Plan dated November 2004.
14. “PMA Annual Review” means the Recipient’s Plan for Modernization of Agriculture Review, 2005.
15. “Public Finance and Accountability Act” means the Public Finance and Accountability Act, 2003, of the laws of the Recipient.
16. “Public Service Reform Program” means
17. “Single Tranche” means the amount of the Financing allocated to the category entitled “Single Tranche” in the table set forth in Part B of Section II of Schedule 1 to this Agreement.

Section II. Modifications to the General Conditions

The modifications to the “International Development Association General Conditions for Credits and Grants”, dated July 1, 2005 are as follows:

1. The last sentence of paragraph (a) of Section 2.03 (relating to Applications for Withdrawal) is deleted in its entirety.
2. Sections 2.04 (*Designated Accounts*) and 2.05 (*Eligible Expenditures*) are deleted in their entirety, and the remaining Sections in Article II are renumbered accordingly.

3. Sections 4.01 (*Project Execution Generally*), and 4.09 (*Financial Management; Financial Statements; Audits*) are deleted in their entirety, and the remaining Sections in Article IV are renumbered accordingly.
4. Paragraph (a) of Section 4.05 (renumbered as such pursuant to paragraph 3 above and relating to *Use of Goods, Works and Services*) is deleted in its entirety.
5. Paragraph (c) of Section 4.06 (renumbered as such pursuant to paragraph 3 above) is modified to read as follows:

“Section 4.06. *Plans; Documents; Records*

... (c) The Recipient shall retain all records (contracts, orders, invoices, bills, receipts and other documents) evidencing expenditures under the Financing until two years after the Closing Date. The Recipient shall enable the Association’s representatives to examine such records.”

6. Section 4.07 (renumbered as such pursuant to paragraph 3 above) is modified to read as follows:

“Section 4.07. *Program Monitoring and Evaluation*

... (c) The Recipient shall prepare, or cause to be prepared, and furnish to the Association not later than six months after the Closing Date, a report of such scope and in such detail as the Association shall reasonably request, on the execution of the Program, the performance by the Recipient and the Association of their respective obligations under the Legal Agreements and the accomplishment of the purposes of the Financing.”

7. The following terms and definitions set forth in the Appendix are modified or deleted as follows, and the following new terms and definitions are added in alphabetical order to the Appendix as follows, with the terms being renumbered accordingly:

- (a) The definition of the term “Eligible Expenditure” is modified to read as follows:

“‘Eligible Expenditure’ means any use to which the Financing is put in support of the Program, other than to finance expenditures excluded pursuant to the Financing Agreement.”

- (b) The term “Financial Statements” and its definition as set forth in the Appendix are deleted in their entirety.

- (c) The term “Project” is modified to read “Program” and its definition is modified to read as follows:

“‘Program’ means the program referred to in the Financing Agreement in support of which the Financing is made.” All references to “Project” throughout these General Conditions are deemed to be references to “Program”.