

CONFORMED COPY

CREDIT NUMBER 1869 UG

(Southwest Region Agricultural Rehabilitation Project)

between

THE REPUBLIC OF UGANDA

and

INTERNATIONAL DEVELOPMENT ASSOCIATION

Dated February 9, 1988

CREDIT NUMBER 1869 UG

DEVELOPMENT CREDIT AGREEMENT

AGREEMENT, dated February 9, 1988, between THE REPUBLIC OF UGANDA (the Borrower) and the INTERNATIONAL DEVELOPMENT ASSOCIATION (the Association).

WHEREAS: (A) the Borrower, being satisfied 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 Borrower has applied to the International Fund for Agricultural Development (hereinafter called the Fund) for a loan (hereinafter called the Fund Loan) in an amount equivalent to nine million one hundred thousand Special Drawing Rights (SDR 9,100,000) to assist in financing the Project on the terms and conditions set forth in an agreement to be entered into between the Borrower and the Fund (hereinafter called the Fund Loan Agreement);

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, with the last sentence of Section 3.02 deleted (the General Conditions), constitute an integral part of this Agreement.

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

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

(b) "MOA" means the Borrower's Ministry of Agriculture;

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

(d) "U Sh" means Uganda shillings, the currency of the Borrower;

(e) "Project Area" means the Southwest Region of Uganda, comprising the administrative districts of Mbarara, Bushenyi, Rukungiri and Kabale;

(f) "UCB" means the Uganda Commercial Bank;

(g) "PMU" means the Project Management Unit to be established pursuant to paragraph 2 of Schedule 4 to this Agreement; and

(h) "Southwest Development Revolving Fund Account" means the account referred to in paragraph 12 of Schedule 4 to this Agreement.

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 this Agreement, an amount in various currencies equivalent to seven million six hundred thousand Special Drawing Rights (SDR 7,600,000).

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 (a) The amount of the Credit may be withdrawn from the Credit Account, in accordance with the provisions of Schedule 1 to this Agreement, for expenditures made (or, if the Association shall so agree, to be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

(b) The Borrower shall, for the purposes of the Project, open and maintain in dollars a special account in a commercial bank on terms and conditions satisfactory to the Association. Deposits into, and payments out of, the Special Account shall be made in accordance with the provisions of Schedule 5 to this Agreement.

Section 2.03. The Closing Date shall be June 30, 1994, 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 at the rate of one-half of one percent (1/2 of 1%) per annum on the principal amount of the Credit not withdrawn from time to time. The commitment charge shall accrue from a date sixty (60) days after the date of this Agreement to the respective dates on which amounts shall be withdrawn by the Borrower from the Credit Account or shall be cancelled.

(b) 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 April 15 and October 15 in each year.

Section 2.07. (a) Subject to paragraphs (b) and (c) below, the Borrower shall repay the principal amount of the Credit in semiannual installments payable on each April 15 and October 15, commencing April 15, 1998, and ending October 15, 2027. Each installment to and including the installment payable on October 15, 2007, shall be one percent (1%) of such principal amount, and each installment thereafter shall be two percent (2%) of such principal amount.

(b) Whenever:

- (i) the Borrower's gross national product per capita, as determined by the Association, shall have exceeded \$790 in constant 1985-dollars for five (5) consecutive years; and
- (ii) the Bank shall consider the Borrower creditworthy for Bank lending, the Association may, subsequent to the review and approval thereof by the Executive Directors of the Association and, after due consideration by them of the development of the Borrower's economy, modify the terms of repayment of installments under paragraph (a) above by requiring the Borrower to repay twice the amount of each such installment not yet due until the principal amount of the Credit shall have been repaid. If so requested by the Borrower, the Association may revise such modification to include, in lieu of some or all of the increase in the amounts of such installments, the payment of interest at an annual rate agreed with the Association on the principal amount of the Credit withdrawn and outstanding from time to time, provided that, in the judgment of the Association, such revision shall not change the grant element obtained under the abovementioned repayment modification.

(c) If, at any time after a modification of terms pursuant

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

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

ARTICLE III

Execution of the Project

Section 3.01. (a) The Borrower declares its commitment to the objectives of the Project as set forth in Schedule 2 to this Agreement, and, to this end, shall carry out the Project through MOA and MOLG with due diligence and efficiency and in conformity with appropriate agricultural, engineering, administrative and financial practices, and shall provide, promptly as needed, the funds, facilities, services and other resources required for the Project.

(b) Without limitation upon the provisions of paragraph (a) of this Section and, except as the Borrower and the Association shall otherwise agree, the Borrower shall carry out the Project in accordance with the Implementation Program set forth in Schedule 4 to this Agreement.

Section 3.02. (a) Except as the Association shall otherwise agree, procurement of the goods and works 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.

(b) In order to assist the Borrower in carrying out the Project, the Borrower shall employ consultants, referred to in Schedule 4 to this Agreement, whose qualifications, experience and terms and conditions of employment shall be satisfactory to the Association.

Section 3.03. The Borrower shall ensure that the execution and operation of the Project are carried out with due regard to environmental factors and the maintenance of appropriate agricultural pesticides selection and use practices, satisfactory to the Association.

Section 3.04. Without limitation upon the provisions of Section 3.01 (a) of this Agreement, the Borrower shall take such measures as shall be necessary to ensure that adequate budgetary allocations are made in the Borrower's recurrent cost budget to finance recurrent cost requirements of the Project.

ARTICLE IV

Financial Covenants

Section 4.01. (a) The Borrower shall maintain or cause to be maintained records and accounts adequate to reflect, in accordance with sound accounting practices, the operations, resources and expenditures, in respect of the Project, of the departments or agencies of the Borrower responsible for carrying out the Project or any part thereof.

(b) The Borrower shall:

- (i) have the records and accounts, referred to in paragraph (a) of this Section, including those for the Special Account, the Southwest Development Revolving Fund Account and the separate Project accounts to be established by MOA, MOLG and UCB for

each fiscal year, audited in accordance with appropriate auditing principles consistently applied by independent auditors acceptable to the Association;

- (ii) furnish to the Association, as soon as available, but in any case not later than six (6) months after the end of each such year, a certified copy of the report of such audit by said auditors of such scope and in such detail as the Association shall have reasonably requested; and
- (iii) furnish to the Association such other information concerning said records, accounts and the audit thereof as the Association shall from time to time reasonably request.

(c) For all expenditures with respect to which withdrawals from the Credit Account were made on the basis of statements of expenditure, the Borrower shall:

- (i) maintain or cause to be maintained, in accordance with paragraph (a) of this Section, records and accounts reflecting such expenditures;
- (ii) retain, until at least one year after the Association has received the audit 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) as evidence of such expenditures;
- (iii) enable the Association's representatives to examine such records; and
- (iv) ensure that such records and accounts are included in the annual audit referred to in paragraph (b) of this Section, and that the report of such audit contains a separate opinion by said auditors as to whether the statements of expenditure submitted during such fiscal year, together with the procedures and internal controls involved in their preparation, can be relied upon to support the related withdrawals.

ARTICLE V

Remedies of the Association

Section 5.01. Pursuant to Section 6.02 (h) of the General Conditions, the following additional event is specified, namely, that:

(a) Subject to paragraph (b) of this Section:

- (i) the right of the Borrower to withdraw the proceeds of the Fund Loan shall have been suspended, cancelled or terminated in whole or in part, pursuant to the terms of the Fund Loan Agreement; or
- (ii) the Fund Loan shall have become due and payable prior to the agreed maturity thereof.

(b) paragraph (a) of this Section shall not apply if the Borrower establishes, to the satisfaction of the Association, that:

- (i) such suspension, cancellation, termination or pre-maturing is not caused by the failure of the Borrower to perform any of its obligations under such agreement; and

- (ii) adequate funds for the Project are available to the Borrower from other sources on terms and conditions consistent with the obligations of the Borrower under this Agreement.

Section 5.02. Pursuant to Section 7.01 (d) of the General Conditions, the following additional event is specified, namely, that the event specified in paragraph (a) (ii) of Section 5.01 of this Agreement shall occur subject to the proviso of paragraph (b) 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 Special Account has been opened pursuant to Section 2.02 (b) of this Agreement;

(b) all conditions precedent to the effectiveness of the Fund Loan Agreement, other than the effectiveness of this Agreement, have been fulfilled;

(c) the Borrower has established the Interministerial Coordinating Committee and the Regional Coordinating Committee pursuant to paragraph 1 of Schedule 4 to this Agreement;

(d) the Borrower has appointed:

(i) the Project Liaison Officer;

(ii) the Project Coordinator; and

(iii) the Project Evaluation Officer with qualifications and experience and under terms and conditions, satisfactory to the Association, pursuant to paragraphs 1 and 2 of Schedule 4 to this Agreement; and

(e) the Borrower has furnished an annual work plan for the first year of the Project, satisfactory to the Association, pursuant to paragraph 15 of Schedule 4 to this Agreement.

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 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
P.O. Box 8147
Kampala
Uganda

Cable address:

Telex:

FINSEC
Kampala

61170

For the Association:

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

Cable address:

INDEVAS
Washington, D.C.

Telex:

440098 (ITT)
248423 (RCA) or
64145 (WUI)

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/ Elizabeth Bagaaya-Nyabongo
Authorized Representative

INTERNATIONAL DEVELOPMENT ASSOCIATION

By /s/ Callisto Madavo
Acting Regional Vice President
Africa

SCHEDULE 1

Withdrawal of the Proceeds of the Credit

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

Category	Amount of the Credit Allocated (Expressed in SDR Equivalent)	% of Expenditures to be Financed
(1) Civil Works:		
(a) Road rehabili- tation	3,850,000	80%
(b) Other civil works	580,000	60%
(2) Vehicles and equipment	2,120,000	100% of foreign expenditures and 50% of local expenditures

(3) Unallocated	1,050,000
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TOTAL	7,600,000

2. For the purposes of this Schedule:

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

(b) the term "local expenditures" means expenditures in the currency of the Borrower or for goods or services supplied from the territory of the Borrower.

3. Notwithstanding the provisions of paragraph 1 above, no withdrawals shall be made in respect of payments made for expenditures prior to the date of this Agreement.

SCHEDULE 2

Description of the Project

The objectives of the Project are to increase food production and income, and raise living standards of small-scale farmers in the Project Area.

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: Agricultural Services

Establishment of an adaptive research program and improvement of an extension service through the construction and rehabilitation of housing, office and storage facilities, the acquisition of vehicles and equipment, the financing of operating costs and allowances, and the provision of training and consultants' services.

Part B: Agricultural Inputs

Improvement of the supply of agricultural inputs through the acquisition and resale of production inputs, acquisition of materials, vehicles and equipment to facilitate marketing and trade in agricultural inputs in the Project Area, construction of a warehouse, financing of operating costs and allowances, and provision of training and consultants' services.

Part C: Rural Access Roads

1. Rehabilitation of the rural access roads network of Class II and Class III roads in the Project Area.

2. Improvement of MOLG's road maintenance capability through the acquisition of machinery, vehicles and equipment, operating funds and allowances, and provision of training and consultants' services.

Part D: Project Management

1. Establishment and operation of a Project Management Unit through the acquisition of vehicles, furniture and equipment, renovation of housing and office facilities, financing of operating costs and allowances, and provision of consultants' services.

2. Establishment of a Project Monitoring and Evaluation Unit.
3. Administration of a community development fund.

* * *

The Project is expected to be completed by December 31, 1993.

SCHEDULE 3

Procurement

Procurement of Goods and Works

Part A: International Competitive Bidding

1. Except as provided in Part D hereof, goods and works shall be procured under contracts awarded in accordance with procedures consistent with those set forth in Sections I and II of the "Guidelines for Procurement under IBRD Loans and IDA Credits", published by the Bank in May 1985 (the Guidelines).
2. Equipment and vehicles shall be bulked together in bidding packages to the maximum extent practicable.

Part B: Preference for Domestic Manufacturers

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

Part C: Preference for Domestic Contractors

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

Part D: Other Procurement Procedures

1. Civil works under Parts A, B and D of the Project may be procured under contracts awarded on the basis of competitive bidding, advertised locally, in accordance with procedures satisfactory to the Association.
2. Items or groups of items estimated to cost less than the equivalent of \$200,000, may be procured under contracts awarded on the basis of competitive bidding, advertised locally, in accordance with procedures satisfactory to the Association.
3. Items or groups of items estimated to cost less than the equivalent of \$50,000, up to an aggregate amount not to exceed the equivalent of \$1,000,000, may be procured under contracts awarded on the basis of comparison of price quotations solicited from a list of at least three suppliers eligible under the Guidelines, in accordance with procedures acceptable to the Association.

Part E: Review by the Association of Procurement Decisions

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

(a) With respect to each contract estimated to cost the equivalent of:

- (i) \$50,000 or more for civil works and items or groups of items to be procured pursuant to paragraphs 1

and 2 of Part D above; and

- (ii) \$200,000 or more, for all other items, the procedures set forth in paragraphs 2 and 4 of Appendix 1 to the Guidelines shall apply.

Where payments for such contracts are to be made out of the Special Account, such procedures shall be modified to ensure that the two conformed copies of each contract, required to be furnished to the Association pursuant to paragraph (d) of Appendix 1 to the Guidelines, shall be furnished to the Association prior to the making of the first payment out of the Special Account in respect of such contract.

(b) With respect to each contract not governed by the preceding paragraph, the procedures set forth in paragraphs 3 and 4 of Appendix 1 to the Guidelines shall apply. Where payments for such contracts are to be made out of the Special Account, such procedures shall be modified to ensure that the two conformed copies of each contract, together with the other information required to be furnished to the Association, pursuant to paragraph 3 of Appendix 1 to the Guidelines, shall be furnished to the Association as part of the evidence to be furnished pursuant to paragraph 4 of Schedule 5 to this Agreement.

(c) The provisions of the preceding subparagraphs (a) and (b) shall not apply to contracts on account of which the Association has authorized withdrawals from the Credit Account on the basis of statements of expenditure. Such contracts shall be retained in accordance with Section 4.01 (c) (ii) of this Agreement.

3. The figure of 15% is hereby specified for purposes of paragraph 4 of Appendix 1 to the Guidelines.

SCHEDULE 4

Implementation Program

Project Coordination and Management:

1. The Borrower shall coordinate the implementation of the Project through a central Interministerial Coordinating Committee and a Regional Coordinating Committee in the Project Area.

(a) The Interministerial Coordinating Committee shall consist of the Permanent Secretary, MOA, as Chairman, and representatives of MOLG, the Ministry of Finance, the Ministry of Planning and Economic Development, the Ministry of Cooperatives and Marketing, the Bank of Uganda, UCB, and a Project Coordinator. The Project Liaison Officer to be appointed by MOA shall serve as Secretary to the Committee. The Committee shall meet quarterly and be responsible for reviewing policy issues, annual progress reports, annual accounts and audit reports, and approving annual work plans, budgets, major procurement contracts and overseas training.

(b) The Regional Coordinating Committee shall consist of the Project Coordinator, as Chairman, and the Regional Engineer, MOLG, the Regional Agricultural Officer, MOA, the UCB Regional Manager Mbarara, the Regional Officers of the Ministry of Cooperatives and Marketing, the Borrower's Regional Implementation Officer for the UNICEF Health and Rural Water Supply Program for the Project Area and the four District Administrators as members. Other staff involved in Project implementation, including District Planners/ Statisticians, may be invited to attend meetings of the Committee from time to time. The Project Evaluation Officer, who will head the Project Monitoring and Evaluation Unit, shall serve as Secretary to the Committee, and shall be established as the Regional Evaluation Officer by June 30, 1989. The main functions

of the Committee shall be to facilitate the implementation of Project activities, to prepare annual work plans and budgets, to coordinate with other entities responsible for the implementation of other projects in the Project Area, to prepare requests to the Ministry of Finance for funding on a quarterly basis, and to prepare and review quarterly progress reports for submission to the Interministerial Coordinating Committee. The Committee shall meet once a month. To the extent practicable, meetings shall be held, on a rotation basis, at the headquarters of the four districts comprising the Project Area.

2. Under the overall guidance and supervision of MOA and MOLG, implementation of the Project shall be carried out by PMU which shall be headed by a Project Coordinator and shall include the Regional Agricultural Officer, the Regional Evaluation Officer, an accountant, an inputs supply manager, a financial controller, a specialist in agricultural research and an extension training specialist. PMU, with headquarters in Mbarara, shall be established and fully staffed, by not later than September 30, 1988.

Part A of the Project:

3. The Chief Research Officer of MOA shall be responsible for Project-related agricultural research, with technical support and supervision of adaptive research provided by staff of the Kawanda Research Station. The identification, detailed planning and establishment of adaptive research programs shall be the direct responsibility of the agricultural research specialist and counterpart staff. Adaptive research activities shall be centered at the Kalengyere Research Substation, the Rubare Farm, and the District Farm Institutes at Kachwekano and Bushenyi, with their respective outreach programs. Under the direction of the Deputy Commissioner for Agriculture/Production, the Regional Agricultural Officer shall continue to have overall responsibility for extension services in the Project Area.

4. In order to promote the full participation of women in Project productive activities, PMU shall take all measures necessary to ensure that, by December 31, 1991:

- (i) at least 10% of the contact farmers working with the extension service are women;
- (ii) training programs are put in place to raise the number of women farm-level extension workers to at least 10% of the total number of farm-level extension workers in the Project Area;
- (iii) the content of MOA's Home Economics Program is relevant to, and useful for, the needs of women; and
- (iv) gender questions are included as evaluation criteria in the various studies to be undertaken from time to time by the Monitoring and Evaluation Team.

Part B of the Project:

5. PMU shall be responsible for conducting market surveys, placing orders for, taking delivery, storing, repackaging and selling of agricultural inputs. These functions shall be carried out by PMU's inputs supply team, including a deputy inputs supply manager, a warehouse manager, guards and laborers, and headed by an inputs supply manager, whose qualifications and terms and conditions of employment shall be satisfactory to the Association. The Deputy Inputs Supply Manager and the Warehouse Manager shall be employed and in place, by not later than September 30, 1988.

6. In order to assist PMU in the procurement of agricultural inputs, MOA shall, by not later than September 30, 1988, appoint UCB to act as its procurement agent under an agreement, with terms and conditions satisfactory to the Association, which shall include:

(a) UCB's responsibility for procurement and delivery of agricultural inputs at Mbarara;

(b) an undertaking by UCB to hire a suitably qualified and experienced organization, under terms and conditions satisfactory to MOA and the Association, to assist UCB in product specification, evaluation of bidding firms and technical evaluation of bids, for a fee to be borne by the Borrower; and

(c) payment of a commission to UCB, not exceeding 7% of the cost of procured agricultural inputs delivered at Mbarara.

7. Subject to such modifications as the Borrower and the Association shall make from time to time, the agricultural inputs to be procured under the Project shall be:

(i) hoes, pangas, hand tools for small farm cultivation, wheelbarrows, bicycles, motorcycles, ox ploughs, carts and animal-drawn equipment, small mills and small-scale agro-processing equipment, agricultural chemicals, including fertilizers, pesticides and insecticides, improved seed, workshop equipment and spare parts, fencing materials and tools, packaging materials, equipment and materials to support crop storage and marketing; and

(ii) storage construction materials, and equipment and vehicles for cooperative unions and societies, farmers groups, and produce and inputs traders to support the development of agricultural inputs, and crop marketing services up to \$700,000 equivalent.

8. (a) In order to provide agricultural inputs to small farmers in the Project Area in a timely and accessible fashion, PMU shall encourage free market participation by all entities engaged in wholesale and retail trade in such inputs. Agricultural inputs procured under the Project shall be sold on a cash basis at wholesale market prices to:

(i) traders, cooperative unions and societies licensed to operate in the four districts of the Project Area; and

(ii) farmer groups from the Project Area.

The Inputs Supply Manager and his team within PMU shall, by not later than September 30, 1988, prepare and submit to the Association, for its review and comments, a proposal, satisfactory to the Association, on the management of the sale of inputs by PMU. Alternatives presented under this proposal shall include, inter alia:

(i) the sale of inputs at market wholesale prices set by PMU after a survey of similar prices in the Project area and taking into consideration the purchase price evaluated at the market exchange rate and cost of handling and transport; and

(ii) the sale of selected inputs through a pilot auction system. The proposal shall, for each alternative, also cover, inter alia, the minimum and maximum amounts to be sold to a given purchaser, the periodicity of price review, the methodology for

price determination and for the pilot auction system, the criteria for, and selection of, the goods to be auctioned, the periodicity of the auction, and the setting of reserve prices.

(b) The Inputs Supply Team, in collaboration with the Monitoring and Evaluation Unit and the Agricultural Secretariat, under terms of reference agreed with the Association, shall, by December 31, 1989, finalize and submit to the Association, for its review and comment, a study evaluating the inputs sale systems used, with recommendations on the pricing system to be used in subsequent years and to be implemented after consultation with and agreement of the Association.

9. The prices of agricultural inputs, throughout the Borrower's territory and prices charged under the Project in Mbarara, shall be monitored by the Borrower's Agricultural Secretariat, which shall submit a report for the Association's review and comment by December 31 of each year.

10. PMU shall, by not later than June 30, 1990, appoint experts to undertake a study, with terms of reference satisfactory to the Association, on the feasibility of setting up a financially and operationally independent entity to assume the agricultural inputs supply functions of PMU. The study shall be completed, not later than December 31, 1990, and its findings and recommendations shall be reviewed by the Borrower and the Association.

11. By not later than six months after the completion of the study, the Borrower shall, on the basis of the recommendations of said study in consultation with the Association, initiate the transfer of PMU's functions for the procurement and distribution of agricultural inputs to agents acceptable to the Borrower and the Association. The Borrower shall continue to allocate the necessary foreign exchange to enable such agents to import agricultural inputs in sufficient quantities to meet recurrent requirements in the Project Area.

12. PMU shall deposit the proceeds of all sales of agricultural inputs into an account, to be opened and maintained in the Bank of Uganda, and to be used to support the Borrower's rural development program.

Part C:

13. The roads rehabilitation work, to be carried out by contractors selected pursuant to Part A.1 of Schedule 3 to this Agreement, shall be supervised by a team of consulting engineers in conjunction with the Regional Engineer, MOLG, and the District Works Superintendents. The team of consulting engineers shall include:

- (i) a project engineer to be based at Mbarara, who, in conjunction with the Regional Engineer, MOLG, shall report to the Project Coordinator;
- (ii) an assistant engineer to be attached to the contractors' work unit to supervise daily progress; and
- (iii) a mechanical superintendent to assist in the operation and maintenance of equipment and provide in-service training to MOLG staff. The Regional Engineer, MOLG, assisted by the various District Work Superintendents, shall be responsible for maintenance of regional rural access roads.

14. The Borrower shall ensure that funds are made available to each district in the Project Area to cover the costs of an adequate rural roads' maintenance program.

Part D:

15. On the basis of information submitted by all Project implementing agencies and ministries, PMU shall prepare an annual work program, for each year of Project implementation, for the review and approval of the Interministerial Coordinating Committee. The annual work program shall be submitted by MOA to the Association for review, by not later than April 1 preceding the fiscal year covered in the program.

16. The Monitoring and Evaluation Unit of PMU, which shall be responsible for the design and implementation of a monitoring system for the periodic reporting of selected indicators of Project performance, shall, under the supervision of the Planning Division of MOA, prepare a mid-term review, the results of which shall be provided to the Association, not later than December 31, 1990, in accordance with terms of reference satisfactory to the Association.

17. The Project Coordinator shall be responsible for the administration of a Community Development Fund of up to \$95,000 equivalent, designed to support the formation of farmers' groups, women's groups and primary cooperative societies in the Project Area. Applications for funds must be sponsored by MOA's extension service or home economics service, other agencies of the Borrower, such as the Ministry for Cooperatives and Marketing, the Department of Community Development of MOLG or by private non-government non-profit voluntary organizations. Applications for assistance will be submitted to the Project Coordinator and should contain a statement of the group's objectives, membership, management team and activities to be funded by the Project. The activities to be funded should be productive, provide additional employment and should include, inter alia, the marketing of agricultural inputs or agricultural products, the processing of agricultural commodities and the production of agricultural inputs. The Fund can be used to cover:

- (i) initial operating costs, supplies and allowances;
- (ii) renovation of buildings for use by the group; and
- (iii) courses and training programs for the group to be run by the sponsoring institution. Not more than \$3,000 equivalent may be disbursed to any one group.

18. The Borrower shall, not later than sixty (60) days after the end of the reporting period, submit to the Association semiannual progress reports comparing actual progress with the progress proposed in the annual work program and budget. The first semi-annual report shall be submitted, not later than February 28, 1989.

SCHEDULE 5

Special Account

1. For the purposes of this Schedule:

(a) the term "Eligible Categories" means Categories (1)(a), (1)(b) and (2) set forth in the table in paragraph 1 of Schedule 1 to this Agreement;

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

(c) the term "Authorized Allocation" means an amount of US\$400,000 to be withdrawn from the Credit Account and deposited

into the Special Account pursuant to paragraph 3 (a) of this Schedule.

2. Except as the Association shall otherwise agree, payments out of the Special Account shall be made exclusively for Eligible Expenditures in accordance with the provisions of this Schedule.

3. After the Association has received satisfactory evidence that the Special Account has been duly opened, withdrawals of the Authorized Allocation, and subsequent withdrawals to replenish the Special Account, may be made as follows:

(a) On the basis of a request or requests by the Borrower for a deposit or deposits which add up to the aggregate amount of the Authorized Allocation, the Association shall, on behalf of the Borrower, withdraw from the Credit Account and deposit into the Special Account such amount or amounts as the Borrower shall have requested.

(b) The Borrower shall furnish to the Association requests for replenishment of the Special Account at such intervals as the Association shall specify. On the basis of such requests, the Association shall withdraw from the Credit Account and deposit into the Special Account such amounts as shall be required to replenish the Special Account with amounts not exceeding the amount of payments made out of the Special Account for Eligible Expenditures. All such deposits shall be withdrawn by the Association from the Credit Account, under the respective Eligible Categories and in the respective equivalent amounts, as shall have been justified by the evidence supporting the request for such deposit furnished pursuant to paragraph 4 of this Schedule.

4. For each payment made by the Borrower out of the Special Account for which the Borrower requests replenishment pursuant to paragraph 3 (b) of this Schedule, the Borrower shall furnish to the Association, prior to or at the time of such request, such documents and other evidence as the Association shall reasonably request, showing that such payment was made for Eligible Expenditures.

5. (a) Notwithstanding the provisions of paragraph 3 of this Schedule, no further deposit into the Special Account shall be made by the Association when either of the following situations first arises:

(i) the Association shall have determined that all further withdrawals should be made by the Borrower directly from the Credit Account in accordance with the provisions of Article V of the General Conditions and paragraph (a) of Section 2.02 of this Agreement; or

(ii) the total unwithdrawn amount of the Credit allocated to the Eligible Categories, minus the amount of any outstanding special commitment entered into by the Association pursuant to Section 5.02 of the General Conditions with respect to the Project, shall be equal to the equivalent of twice the amount of the Authorized Allocation.

(b) Thereafter, withdrawal from the Credit Account of the remaining unwithdrawn amount of the Credit allocated to the Eligible Categories shall follow such procedures as the Association shall specify by notice to the Borrower. Such further withdrawals shall be made only after and to the extent that the Association shall have been satisfied that all such amounts remaining on deposit in the Special Account as of the date of such notice will be utilized in making payments for Eligible Expenditures.

6. (a) If the Association shall have determined at any time that any payment out of the Special Account:

- (i) was made for any expenditure or in any amount not eligible pursuant to paragraph 2 of this Schedule; or
- (ii) was not justified by the evidence furnished pursuant to paragraph 4 of this Schedule, the Borrower shall, promptly upon notice from the Association, deposit into the Special Account (or, if the Association shall so request, refund to the Association) an amount equal to the amount of such payment or the portion thereof not so eligible or justified. No further deposit by the Association into the Special Account shall be made until the Borrower has made such deposit or refund.

(b) If the Association shall have determined at any time that any amount outstanding in the Special Account will not be required to cover further payments for Eligible Expenditures, the Borrower shall, promptly upon notice from the Association, refund to the Association such outstanding amount for crediting to the Credit Account.

