

CONFORMED COPY

CREDIT NUMBER 3295-UG

Development Credit Agreement

(Local Government Development Program)

between

THE REPUBLIC OF UGANDA

and

INTERNATIONAL DEVELOPMENT ASSOCIATION

Dated December 22, 1999

CREDIT NUMBER 3295-UG

DEVELOPMENT CREDIT AGREEMENT

AGREEMENT, dated December 22, 1999, 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 October 28, 1999, describing a program of actions, objectives and policies designed to improve fiscal devolution, control and management of public expenditure and strengthened management, financial and operational capacity of its local governments to provide improved basic public services in a demand-responsive manner (the Program) and declaring the Borrower's commitment to the execution of the Program;

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

(C) Part B of the Project will be carried out by Kampala City Council (KCC) with the Borrower's assistance and, as part of such assistance, the Borrower will make available to KCC part of the proceeds of the Credit as provided in this Agreement; and

WHEREAS the Association has (a) decided in support of the Program to provide such assistance to the Borrower by making available part of the Credit in three (3) tranches as hereinafter provided; and (b) agreed, on the basis, inter alia, of the foregoing, to extend the other part of the Credit to the Borrower, upon the terms and conditions set forth in this Agreement and in the Project Agreement of even date herewith between the Association and KCC;

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 December 2, 1997) with the modifications thereto set forth below (the General Conditions) constitute an integral part of this Agreement:

(a) Section 4.01 is modified to read:

"Except as the Borrower and the Association shall otherwise agree, withdrawals from the Credit Account shall be made (a) in the currency of the Deposit Account specified in the Development Credit Agreement or (b) in the respective currencies in which the expenditures to be financed out of the proceeds of the Credit have been paid or are payable; provided, however, that withdrawals in respect of expenditures in the currency of the Borrower shall be made in such currency or currencies as the Association shall from time to time reasonably select.

(b) Section 5.01 is renumbered as Section 5.01 (a) and the following new sub-section (b) is added to read:

"(b) "The Borrower shall be entitled to withdraw the proceeds of the Credit, allocated to Category (4) in the table set forth in paragraph 1 of Schedule 1 to the Development Credit Agreement, from the Credit Account in accordance with the provisions of the Development Credit Agreement and of these General Conditions";

(c) The last sentence of Section 5.03 is modified to read:

"Applications for withdrawal from Categories (1), (2) and (3) in the table set forth in paragraph 1 of Schedule 1 to the Development Credit Agreement, including the documentation required pursuant to this Article, shall be made promptly in relation to expenditures for the Project";

(d) Section 9.04 is modified to read:

"Except as the Association shall otherwise agree, the Borrower shall cause all goods and services financed out of the proceeds of the Credit allocated to Categories (1), (2) and (3) in the table set forth in paragraph 1 of Schedule 1 to Development Credit Agreement to be used exclusively for the purposes of the Project."

(e) Section 9.06 (c) is modified to read:

"(c) 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, 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:

(i) the execution and initial operation of the Project described in Schedule 2 to the Development Credit Agreement, its cost and the benefits derived and to be derived from it; and

(ii) the execution of the program referred to in the Preamble to

the Development Credit Agreement, the performance by the  
Borrower and the Association of their respective obligations  
under the Development Credit Agreement and the  
accomplishment of the purposes of the Credit."

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

(b) "LG" or "Local Government" means a local government established under the Local Governments Act;

(c) "Higher-Level LG" means (for the purposes of the Program) a District and a Municipality;

(d) "Lower-Level LG" means a Sub-county, a Division and a Town Council;

(e) "Eligible LG" means an LG which is deemed to be eligible in terms of the eligibility criteria referred to in Chapter 3 of the PIP, as hereinafter defined;

(f) "Qualifying LGs" means all Municipalities (and Divisions therein) and those Districts, Sub-Counties and Town Councils which meet the minimum criteria referred to in table 3.12 of the PIP for accessing Local Development Grants, as hereinafter defined;

(g) "Local Development Grant" means a grant, made, or to be made, to a Qualifying LG pursuant to a Participation Agreement, as hereinafter defined;

(h) "Capacity Building Grant" means a grant, made, or to be made, to an Eligible LG pursuant to a Participation Agreement, as hereinafter defined;

(i) "Sub-project" means an investment, financed, or proposed to be financed, under a Local Development Grant or activities financed under a Capacity Building Grant;

(j) "Participation Agreement" means each of the agreements to be entered between: (i) the Borrower and an Eligible Higher-Level LG; or (ii) an Eligible Higher-Level LG and a Lower-Level LG, for the purposes of making Local Development Grants or Capacity Building Grants, in accordance with the provisions of the PIP, as the same may be amended from time to time, and such term includes all schedules to the Participation Agreement;

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

(l) "KCC" means Kampala City Council established pursuant to the Local Governments Act;

(m) "KCC Project Account" means the account referred to in Section 3.04 of the Project Agreement;

(n) "KCC Subsidiary Agreement" means the agreement to be entered into between the Borrower and KCC pursuant to Section 3.01 (d) of this Agreement, as the same may be amended from time to time, and such term includes all schedules to the KCC Subsidiary Agreement;

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

(p) "MOLG Project Account" means the account referred to in Section 3.04 of this Agreement;

(q) "PMU" means the Program Management Unit established within MOLG for the execution of the Program and the Project;

(r) "Project Agreement" means the agreement between the Association and KCC of even date herewith, as the same may be amended from time to time, and such term includes all schedules and agreements supplemental to the Project Agreement;

(s) "Program Implementation Plan" or "PIP" means the Program Implementation Plan referred to in paragraph 2 of Schedule 4 to this Agreement, and adopted on October 25, 1999, as the same may be amended from time to time, and such term includes any schedules to the Program Implementation Plan;

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

(u) "Project Preparation Advance" means the project preparation advance granted by the Association to the Borrower pursuant to an exchange of letters dated April 15, 1996, April 29, 1996; April 29, 1996, May 15, 1996; October 15, 1997 and October 30, 1997 between the Borrower and the Association;

(v) "Fiscal year" or "FY" means the Borrower's fiscal year, which begins on July 1 and ends on June 30 of the following year;

(w) "LGFC" means the Local Government Finance Commission established under the Borrower's Constitution;

(x) "Tranche" means any of the following: the First Tranche, the Second Tranche and the Third Tranche as such terms are hereinafter defined;

(y) "First Tranche" means the Tranche of the proceeds of the Credit allocated to Category (4) (a) in the table set forth in paragraph 1 of Schedule 1 to this Agreement;

(z) "Second Tranche" means the Tranche of the proceeds of the Credit allocated to Category (4) (b) in the table set forth in paragraph 1 of Schedule 1 to this Agreement;

(aa) "Third Tranche" means the Tranche of the proceeds of the Credit allocated to Category (4) (c) in the table set forth in paragraph 1 of Schedule 1 to this Agreement;

(bb) "Road Map" means the Borrower's strategy for the implementation of its decentralization policy;

(cc) "Deposit Account" means the account referred to in Section 2.02. (b) of this Agreement; and

(dd) "Special Account" means each of the accounts referred to in Section 2.03 (b) of 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 the Development Credit Agreement, an amount in various currencies equivalent to fifty eight million seven hundred thousand Special Drawing Rights (SDR 58,700,000).

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 Credit allocated to Category (4) in the table set forth in paragraph 1 of Schedule 1 to this Agreement from the Credit Account in support of the Program.

(b) The Borrower shall open, prior to furnishing to the Association the first request for withdrawal from Category (4) in the table set forth in paragraph 1 of Schedule 1 to this Agreement, and thereafter maintain in BOU, a deposit account in Dollars on terms and conditions satisfactory to the Association. All withdrawals from such Category shall be deposited by the Association into the Deposit Account.

(c) The Borrower undertakes that the proceeds of the Credit allocated from time to time to Category (4) in the table set forth in paragraph 1 of Schedule 1 to this Agreement shall not be used to finance expenditures excluded pursuant to the provisions of paragraph 4 of Schedule 1 to this Agreement. If the Association shall have determined at any time that any proceeds of such Category shall have been used to make a payment for an expenditure so excluded, the Borrower shall, promptly upon notice from the Association, (i) deposit into the Deposit Account an amount equal to the amount of said payment, or (ii) if the Association shall so request, refund such amount to the Association. Amounts refunded to the Association upon such request shall be credited to the Credit Account for cancellation.

Section 2.03. (a) The amount of the Credit allocated to Categories (1), (2) and (3) in the table set forth in Schedule 1 to this Agreement, may be withdrawn from the Credit Account in accordance with the provisions of Schedule 1 to this Agreement for expenditures made (or, if the Association shall so agree, to be made) in respect of the reasonable cost of goods and services required for the Project and to be financed out of the proceeds of the Credit;

(b) The Borrower may, for the purposes of the Project, open and maintain in dollars two (2) special deposit accounts (Special Account "A" for Parts A and C of the Project and Special Account "B" for Part B of the Project) in a commercial bank, on terms and conditions satisfactory to the Association, including appropriate protection against set-off, seizure or attachment. Deposits into, and payments out of, the Special Accounts shall be made in accordance with the provisions of Schedule 5 to this Agreement.

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

2.04. The Closing Date shall be June 30, 2003 or such later date as the Association shall establish. The Association shall promptly notify the Borrower of such later date.

Section 2.05. (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 (60) days after the date of this Agreement (the accrual date) to the respective dates on which amounts shall be withdrawn by the Borrower from the Credit Account or cancelled; and (ii) at the rate set as of the June 30 immediately preceding the accrual date 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 2.06. 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 2.07. Commitment charges and service charges shall be payable semiannually on March 1 and September 1 in each year.

Section 2.08. (a) Subject to paragraphs (b) and (c) below, the Borrower shall repay the principal amount of the Credit in semiannual installments payable on each March 1 and September 1 commencing March 1, 2010 and ending September 1, 2039. Each

installment to and including the installment payable on September 1, 2019 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 above-mentioned repayment modification.

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

Section 2.09. The currency of the United States of America is hereby specified for the purposes of Section 4.02 of the General Conditions.

Section 2.10. (a) The Governor of BOU 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 with respect to withdrawals under Category (4) of the table set forth in paragraph 1 of Schedule 1 to this Agreement.

(b) Without limitation or restriction to the foregoing, the Borrower hereby entrusts BOU with responsibility for the preparation of withdrawal applications under the Credit from Category (4) of the table set forth in paragraph 1 of Schedule 1 to this Agreement and for the collection of the documents and other evidence to be furnished to the Association in support of such applications.

### ARTICLE III

#### Execution of the Project

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

(b) Without any limitation or restriction upon any of its other obligations under the Development Credit Agreement, the Borrower shall cause KCC to perform in accordance with the provisions of the Project Agreement all of the obligations of KCC therein set forth, shall take and cause to be taken all action, including the provision of funds, facilities, services and other resources, necessary or appropriate to enable KCC to perform such obligations, and shall not take or permit to be taken any action which would prevent or interfere with such performance.

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

(d) The Borrower shall make the proceeds of the Credit from time to time allocated to Categories (1), (2) (b), and (3) (b) in the table in Schedule 1 to this Agreement available to KCC as a grant under a subsidiary agreement to be entered into

between the Borrower and KCC, under terms and conditions which shall have been approved by the Association.

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

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

Section 3.03. The Borrower and the Association hereby agree that the obligations set forth in Sections 9.03, 9.04, 9.05, 9.06, 9.07 and 9.08 of the General Conditions (relating to insurance, use of goods and services, plans and schedules, records and reports, maintenance and land acquisition, respectively) in respect of Part B of the Project shall be carried out by KCC pursuant to Section 2.03 of the Project Agreement.

Section 3.04. Without limitation to its obligations under Section 3.01 of this Agreement, the Borrower shall:

(a) open and maintain an account (the MOLG Project Account) in Uganda Shillings in a commercial bank on terms and conditions satisfactory to the Association;

(b) promptly thereafter, make an initial deposit into such account, the Uganda Shillings equivalent to \$350,000, to finance the Borrower's contribution to Parts A and C of the Project;

(c) thereafter deposit into the MOLG Project Account by March 1, June 1, September 1 and December 1 in each year during Project Implementation, such amounts as shall be required to timely replenish the Project Account back to the amount of the initial deposit referred to in paragraph (b) above; and

(d) use the MOLG Project Account funds exclusively to finance expenditures under Parts A and C of the Project.

Section 3.05. (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 and the actions specified in the Annex to Schedule 1 to this Agreement.

(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 Credit 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 the Annex to Schedule 1 to this Agreement.

Section 3.06. Upon the Association's request, the Borrower shall:

(a) have the Deposit Account audited in accordance with appropriate auditing principles consistently applied, by independent auditors acceptable to the Association;

(b) furnish to the Association as soon as available, but in any case not later than six (6) months after the date of the Association's request for such audit, 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

(c) furnish to the Association such other information concerning the Deposit Account and the audit thereof as the Association shall have reasonably requested.

Section 3.07. The Borrower shall take all measures necessary to include in its annual budget the funds required to meet its contribution for the carrying out of Parts A and C 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 Parts A and C 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 Accounts 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, 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 and accounts and the audit thereof as the Association shall from time to time reasonably request.

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

(i) maintain or cause to be maintained, in accordance with paragraph (a) of this Section, records and accounts reflecting such expenditures;

(ii) retain, until at least one year after the Association has received the audit report for the fiscal year in which the last withdrawal from the Credit Account was made, all records (contracts, orders, invoices, bills, receipts and other documents) evidencing such expenditures;

(iii) enable the Association's representatives to examine such records; and

(iv) ensure that such records and accounts are included in the annual audit referred to in paragraph (b) of this Section and that the report of such audit contains a separate opinion by said auditors as to whether the statements of expenditure submitted during such fiscal year, together with the procedures and internal controls involved in their preparation, can be relied upon to support the related withdrawals.

Section 4.02. Without limitation upon the provisions of Section 4.01 of this Agreement, the Borrower shall carry out a time-bound action plan acceptable to the Association for the strengthening of its financial management system for Parts A and C of the Project in order to enable the Borrower, not later than December 31, 2000 or such later date as the Association shall agree, to prepare and furnish to the Association not later than 45 days after the end of each calendar quarter, quarterly Project Management Reports, acceptable to the Association, each of which:

(a) (i) sets 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



(ii) shows separately expenditures financed out of the proceeds of the Credit during the six-month period covered by said report; 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;

(b) (i) describes physical progress in Project implementation, both cumulatively and for the period covered by said report; and

(ii) explains variances between the actual and previously forecast implementation targets; and

(c) sets forth the status of procurement under Parts A and C of 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 6.02 (1) of the General Conditions, the following additional events are specified:

(a) A situation shall have arisen which shall make it improbable that the Program or a significant part thereof will be carried out.

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

(c) The Local Governments Act shall have been amended, suspended, abrogated or waived so as to materially and adversely affect the ability of the Borrower or Eligible Local Governments to perform any of their obligations.

Section 5.02. Pursuant to Section 7.01 (h) of the General Conditions, the following additional event is specified: the events specified in Section 6.01 (b) and (c) of this Agreement shall occur and shall continue for a period of sixty (60) days after notice thereof shall have been given by the Association to the Borrower.

#### 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, namely:

(a) the Borrower has furnished to the Association a Financial Management Manual acceptable to the Association;

(b) the Borrower has appointed a Project Accountant and a Procurement Specialist for PMU, selected in accordance with the provisions of Section II of Schedule 3 to this Agreement;

(c) the MOLG Project Account referred to in Section 3.04 of this Agreement has been opened and an initial deposit of the Uganda Shillings equivalent of \$350,000 has been made therein;

(d) the KCC Project Account referred to in Section 3.04 of the Project Agreement has been opened and an initial deposit of the Uganda Shillings equivalent of \$220,000 has been made therein; and

(e) the KCC Subsidiary Agreement has been executed by the Borrower and KCC.

Section 6.02. The following are specified as additional matters, within the meaning of Section 12.02 (b) of the General Conditions, to be included in the opinion or opinions to be furnished to the Association:

(a) that the Project Agreement has been duly authorized or ratified by KCC, and is legally binding upon KCC in accordance with its terms; and

(b) that the KCC Subsidiary Agreement has been duly authorized or ratified by the Borrower and KCC and is legally binding upon the Borrower and KCC in accordance with its terms.

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

#### ARTICLE VII

##### Representative of the Borrower; Addresses

Section 7.01. Except as provided in Section 2.10 of this Agreement, the Minister of the Borrower for the time being responsible for finance is designated as representative of the Borrower for the purposes of Section 11.03 of the General Conditions.

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

For the Borrower:

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

Cable address:

Telex:

Facsimile:

61170

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)

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

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 under Part B of the Project;	470,000	60%
(2) Goods under:		80%
(a) Parts A and C of the Project; and	640,000	
(b) Part B of the Project;	320,000	
(3) Consultants' Services under:		
(a) Parts A and C of the Project:		
(i) Contracted out Services and Institutional support;	4,760,000	95%
(ii) Office and Administrative Support;	3,210,000	95%
(iii) Training;	2,640,000	70%
(b) Part B of the Project:		
(i) Contracted out Services and Institutional Support;	9,360,000	95%
(ii) Office and Administrative Support;	110,000	95%
(iii) Training;	120,000	70%
(4) (a) First Tranche	5,590,000	100%
(b) Second Tranche	12,360,000	100%
(c) Third Tranche	16,230,000	100%
(5) Refunding of	1,450,000	Amount due pursuant

Project Preparation  
Advance

to Section 2.02 (c)  
of this Agreement

(6)	Unallocated	1,440,000
	TOTAL	58,700,000

2. Notwithstanding the provisions of paragraph 1 above, no withdrawals shall be made in respect of payments made prior to the date of this Agreement for expenditures under Categories (1), (2) and (3).

3. The Association may require withdrawals from the Credit Account to be made on the basis of statements of expenditure for expenditures under Categories (1), (2) and (3) for (a) goods, under contracts not exceeding \$100,000 equivalent each, (b) works under contracts not exceeding \$300,000 equivalent each and (c) consultants' services by firms under contracts not exceeding \$100,000 equivalent each and consultants' services by individuals under contracts not exceeding \$50,000 equivalent each, under such terms and conditions as the Association shall specify by notice to the Borrower.

4. Notwithstanding the provisions of paragraph 1 (a) above, and for purposes of Section 2.02 (c) of this Agreement, the proceeds of the Credit allocated to Category (4) shall not be used to finance any of the following expenditures:

(a) expenditures in the currency of the Borrower or for goods or services supplied from the territory of the Borrower;

(b) expenditures for goods or services supplied under a contract which any national or international financing institution or agency other than the Association shall have financed or agreed to finance, or which the Association shall have financed or agreed to finance under another credit;

(c) 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:

Group	Subgroup	Description of Items
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 for elements (cartridges), non-irradiated, 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)

(d) expenditures for goods intended for a military or paramilitary purpose or for luxury consumption;

(e) 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 and any other goods designated as environmentally hazardous by agreement between the Borrower and the Association);

(f) expenditures: (i) in the territories of any country which is not a member of the Bank or for goods procured in, or services supplied from, such territories; or (ii) 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

(g) expenditures under a contract in respect of which the Association determines that corrupt or fraudulent practices were engaged in by representatives of the Borrower or of a beneficiary of the Credit 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.

5. No withdrawal shall be made from the Credit Account under Category (4) (a) of the table set forth in paragraph 1 of this Schedule unless the Association shall be satisfied after an exchange of views as described in Section 3.05 of this Agreement based on evidence satisfactory to the Association:

(i) with the fulfillment of the requirements of Part A of the Annex to this Schedule 1; and

(ii) that the actions described in Part B of the Annex to this Schedule 1 have been taken in form and substance satisfactory to the Association.

6. No withdrawal shall be made from the Credit Account under Category (4) (b) of the table set forth in paragraph 1 of this Schedule unless the amount specified in Category (4) (a) has been withdrawn and the Association shall be satisfied after an exchange of views as described in Section 3.05 of this Agreement based on evidence satisfactory to the Association:

(i) with the fulfillment of the requirements of Part A of the Annex to this Schedule 1; and

(ii) that the actions described in Part C of the Annex to this Schedule 1 have been taken in form and substance satisfactory to the Association.

7. No withdrawal shall be made from the Credit Account under Category (4) (c) of the table in paragraph 1 of this Schedule unless the amount specified in Category (4) (b) has been withdrawn and the Association shall be satisfied after an exchange of views as described in Section 3.05 of this Agreement based on evidence satisfactory to the Association:

(i) with the fulfillment of the requirements of Part A of the Annex to this Schedule 1; and

(ii) that the actions described in Part D of the Annex to this Schedule 1 have been taken in form and substance satisfactory to the Association.

8. If after any of the exchange of views referred to in paragraphs 6 and 7 above, the Association shall have given notice to the Borrower that the requirements of Part A of the Annex to this Schedule 1, or the actions taken under Parts B or C of the Annex to this Schedule 1, as the case may be, are not satisfactory and, within ninety (90) days after such notice, the Borrower shall not have met the requirements of Part A of said Annex to this Schedule 1, or taken the actions under Parts B or C of said Annex to this Schedule 1, as the case may be, then the Association may, by notice to

the Borrower, cancel the unwithdrawn amount of the Credit or any part thereof.

Annex to Schedule 1

Actions Referred to in Section 3.05. (a)  
of this Agreement

Part A: Conditions for the Release of all Tranches

1. The macroeconomic policy framework of the Borrower is satisfactory, as measured on the basis of indicators agreed between the Borrower and the Association.
2. The Borrower has achieved progress satisfactory to the Association in the carrying out of the Program.

Part B: Conditions for the Release of the First Tranche

The Borrower has furnished to the Association:

(a) Participation Agreements, in form and substance satisfactory to the Association, between the Borrower and all Eligible Higher-Level Local Governments;

(b) standard format Participation Agreements to be entered into between Eligible Higher-Level Local Governments and Eligible Lower-Level Local Governments; and

(c) cashflow forecasts for the second half of FY 1999/2000 for:

Development (i) the Local Development Grants based on the District and Municipal plans of the Qualified LGs; and

(ii) the Capacity Building Grants for all Eligible LGs.

Part C: Conditions for the Release of the Second Tranche

The Borrower has furnished to the Association:

1. a financial performance assessment report with respect to expenditures for Local Development Grants and Capacity Building Grants financed under the First Tranche, in form and substance satisfactory to the Association, carried out by MOLG in May and June 2000 which shall include:

(a) For Qualifying LGs:

(i) a determination of whether there is continuing sufficient accounting capacity;

(ii) verification of expenditures using relevant supporting documentation;

(iii) random physical inspection of Sub-projects;

(iv) a review of the status of audits of all Eligible Local Governments;

Local (v) a review of cash-flow forecasts for FY 2000/2001 of all Eligible Governments;

Consolidated (vi) a review of reports of transfers of funds from the Borrower's Fund to the General Accounts of the Eligible Local Governments; and

their (vii) compliance by Eligible Local Governments with the provisions of respective Participation Agreements; and

(b) for other LGs:

- (i) a determination of whether there is continuing sufficient accounting capacity;
- (ii) a review of the status of audits of all Eligible Local Governments;
- (iii) a review of cash-flow forecasts for FY 2000/2001 of all Eligible Local Governments;
- (iv) a review of reports of transfers of funds from the Borrower's Consolidated Fund to the General Accounts of the Eligible Local Governments; and
- (v) compliance by Eligible Local Governments with the provisions of their respective Participation Agreements;

2. a schedule indicating the funds released by the Borrower to Local Governments through Local Development Grants and Capacity Building Grants during the period from January 2000 through June 2000; and the amounts to be released, on a quarterly basis, to each Eligible Local Government during the period July 2000 through June 2001;

3. certification indicating that there have been no (a) significant reallocations, deviations, or (b) suspension or partial suspension of First Tranche funds as compared to the Indicative Planning Figures for the Local Governments; and

4. Participation Agreements between the Borrower and Higher Level Local Governments, in form and substance, satisfactory to the Association.

Part D: Conditions for the Release of the Third Tranche

The Borrower has furnished to the Association:

1. a financial performance assessment report with respect to expenditures for Local Development Grants and Capacity Building Grants financed under the Second Tranche, in form and substance satisfactory to the Association, carried out by MOLG in November and December 2000, and May and June 2001, which shall include:

(a) For Qualifying LGs:

- (i) a determination of whether there is continuing sufficient accounting capacity;
- (ii) verification of expenditures using relevant supporting documentation;
- (iii) random physical inspection of Sub-projects;
- (iv) a review of the status of audits of all Eligible Local Governments;
- (v) a review of cash-flow forecasts for FY 2001/2002 of all Eligible Local Governments;
- (vi) a review of reports of transfers of funds from the Borrower's Consolidated Fund to the General Accounts of the Eligible Local Governments; and
- (vii) compliance by Eligible Local Governments with the provisions of their respective Participation Agreements; and

(b) for other LGs:

- (i) a determination of whether there is continuing sufficient accounting capacity;
- (ii) a review of the status of audits of all Eligible Local Governments;

Local (iii) a review of cash-flow forecasts for FY 2001/2002 of all Eligible Governments;

Consolidated (iv) a review of reports of transfers of funds from the Borrower's Fund to the General Accounts of the Eligible Local Governments; and

their (v) compliance by Eligible Local Governments with the provisions of respective Participation Agreements;

2. a schedule indicating the funds released by the Borrower to Local Governments through Local Development Grants and Capacity Building Grants during the period from July 2000 through June 2001; and the amounts to be released, on a quarterly basis, to each Eligible Local Government during the period July 2001 through June 2002;

3. certification indicating that there have been no: (a) significant reallocations, deviations; or (b) suspension or partial suspension of Second Tranche funds as compared to the Indicative Planning Figures for the Local Governments; and

4. Participation Agreements in form and substance satisfactory to the Association between the Borrower and Higher Level Local Governments.

## SCHEDULE 2

### Description of the Project

The objectives of the Project are to:

(i) test the feasibility of implementing constitutional and legal mandates with respect to decentralized service provision and devolution of the Borrower's development budget through the provision of investment funds to the Local Governments;

(ii) build the capacity of the MOLG, the Secretariat of the Local Government Finance Commission and a sub-set of the LGs for improved service delivery, accountability and transparency;

(iii) test and institute alternative service delivery mechanisms through private sector, beneficiary communities and other stakeholders in KCC; and

(iv) monitor and evaluate Program implementation for actual experience and good practices for formulating an appropriate strategy, implementation modalities, and phasing for eventual scaling up in all the territories of the Borrower, over time.

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: Support to MOLG and LGFC

1. MOLG

(a) (i) Building capacity of MOLG staff including, improvement of the recruitment process for filling vacant posts, the development of a training program and (ii) retooling of logistical support and acquisition of office equipment, furniture and facilities.

(b) Strengthening MOLG's capacity to mentor LGs' compliance with mandatory legal provisions, through the provision of technical advisory services for carrying out a review of existing manuals, guides and materials, training of MOLG staff and the development of communications materials.

(c) Strengthening MOLG's capacity to inspect and supervise LGs' performance through the provision of technical advisory services for the development of an



inspection manual and training of MOLG staff.

(d) Strengthening MOLG's capacity to monitor and evaluate the performance of LGs through the provision of technical advisory services for the development of a monitoring and evaluation manual, training of MOLG staff and workshops to assist LG officials in the implementation of the manual.

(e) Strengthening MOLG's capacity to undertake policy analysis and reform, to coordinate donor support to all levels of LGs and to coordinate the development of performance standards of LGs by the Borrower's ministries through the provision of technical advisory services, training and workshops.

(f) Strengthening MOLG's capacity to provide LGs access to accurate and reliable data and information easily and quickly through the provision of technical advisory services for the development of a computerized database, the acquisition of computer hardware and software and training of MOLG staff.

## 2. LGFC

Strengthening the capacity of LGFC's secretariat to implement its decentralization mandate through: (a) the provision of technical advisory services for the carrying out of studies on LG tax and revenue sharing and other finance-related issues, and the establishment, monitoring and evaluation of the revenue system for Local Governments; (b) the provision of training to LGFC staff; and (c) the rental of office space and the acquisition of equipment.

### Part B: Kampala City Council

Strengthening KCC's capacity to test and institute alternative basic service delivery mechanisms including:

- (a) contracting out and privatization of basic service delivery;
- (b) improvements and extensions to the Mpererwe landfill site, including the management and operation of the landfill site, contracting out of refuse collection and rehabilitation and maintenance of tertiary, secondary and primary anti-malarial drains outside KCC's central business district area;
- (c) improvement of KCC's operational and financial management performance:
  - (i) through technical advisory services and the acquisition of computer hardware and software equipment for the development and implementation of an information technology strategy, and
  - (ii) the setting up and updating support for the implementation of a computerization program for KCC's operations; and
- (d) (i) support for KCC's implementation of its strategic framework for reform in the areas of engineering, financial management, management information systems and organizational reforms through the provision of technical advisory services; and
  - (ii) institutional development and capacity building to improve KCC's performance through training of KCC staff, training of councilors, the provision of additional office space for KCC's Divisions and the acquisition of office furniture and communication facilities.

### Part C: Program Management, Monitoring and Evaluation

Strengthening MOLG's and PMU's capacity to:

- (a) implement the Program and the Project;
- (b) test and refine procedures for allocation of resources to LGs for improvement of basic service delivery functions, including the establishment and implementation of a comprehensive system for monitoring and evaluation of Program

implementation; and

(c) prepare any future operation required for the carrying out of subsequent phases of the Program, through the provision of technical advisory services and the acquisition of office equipment.

\* \* \*

The Project is expected to be completed by December 31, 2002.

### SCHEDULE 3

#### Procurement and Consultants' Services

##### Section I. Procurement of Good and Works

###### Part A: General

1. Goods and works shall be procured in accordance with 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 the provisions of the following Parts of this Section I.

###### 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 goods shall be grouped in bid packages estimated to cost \$100,000 equivalent or more each.

###### (b) Notification and Advertising

The invitation to prequalify or bid for each contract estimated to cost \$100,000 equivalent or more for goods shall be advertised in accordance with the procedures applicable to large contracts under paragraph 2.8 of the Guidelines.

###### 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 \$600,000 equivalent, and works estimated to cost not less than \$50,000 equivalent per contract, up to an aggregate amount not to exceed \$7,500,000, may be procured under contracts awarded in accordance with the provisions of paragraphs 3.3 and 3.4 of the Guidelines.

###### 2. Shopping

Goods estimated to cost less than \$30,000 equivalent per contract, up to an aggregate amount not to exceed \$600,000 equivalent, may be procured under contracts awarded on the basis of national or international shopping procedures in accordance with the provisions of paragraphs 3.5 and 3.6 of the Guidelines.

###### 3. Procurement of Small Works

Works estimated to cost less than \$50,000 equivalent per contract, up to an aggregate amount not to exceed \$7,500,000 equivalent, may be procured under lump-sum, fixed-price contracts awarded on the basis of quotations obtained from three (3) qualified domestic contractors in response to a written invitation. The invitation

shall include a detailed description of the works, including basic specifications, the required completion date, a basic form of agreement acceptable to the Association, and relevant drawings, where applicable. The award shall be made to the contractor who offers the lowest price quotation for the required work, and who has the experience and resources to complete the contract successfully.

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 and works 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: (i) goods estimated to cost the equivalent of \$100,000 or more; and (ii) works estimated to cost the equivalent of \$300,000 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

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, (the Consultant Guidelines); and

(b) the provisions of the following Parts of this Section II.

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 short list of consultants for services estimated to cost less than \$200,000 equivalent per contract, may comprise entirely 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. Selection Based on Consultants' Qualifications

Services for studies, supervision, monitoring and training 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.

2. Single Source Selection

In exceptional cases, where the overall interests of the client and the Project demand, selection of consultants 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.

### 3. 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.

##### 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. MOLG shall be responsible for coordinating the implementation of the Project with the assistance of its PMU. To this end, MOLG shall take all measures necessary to:

(a) complete recruitment of senior staff in MOLG by no later than June 30, 2000; and

(b) maintain PMU, with staffing and terms of reference satisfactory to the Association.

2. The Borrower shall:

(a) implement the Project in accordance with the Program Implementation Plan (the PIP) in form and substance acceptable to the Association giving details of all procurement and disbursement arrangements, performance indicators and other

administrative, financial and organizational arrangements, as shall have been agreed with the Association for purposes of the Project;

(b) carry out the Project in accordance with procedures set out in the PIP, and, except as the Association shall otherwise agree, shall not amend or waive any provision thereof, if such amendment or waiver may, in the opinion of the Association, materially or adversely affect the implementation of the Project.

3. The Borrower shall:

(a) maintain policies and procedures adequate to enable it to monitor and evaluate on an ongoing basis, in accordance with indicators satisfactory to the Association, 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 15, 2001, a report integrating the results of the monitoring and evaluation activities performed pursuant to paragraph (a) of this Section, on the progress achieved in the carrying out of the Program during the period preceding the date of said report and setting out the measures recommended to ensure the efficient carrying out of the Program and the achievement of the objectives thereof during the period following such date; and

(c) review with the Association, by November 15, 2001, or such later date as the Association shall request, the report referred to in paragraph (b) of this Section, and, thereafter, take all measures required to ensure the efficient completion of the Program 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. MOLG shall by not later than June 30, 2000 furnish to the Association a revised Road Map for the implementation of the Borrower's decentralization program.

#### SCHEDULE 5

##### Special Accounts

1. For the purposes of this Schedule:

(a) the terms "eligible Categories" means, in the case of Special Account "A" Categories (2) (a) and (3) (a) set forth in the table in paragraph 1 of Schedule 1 to this Agreement, and, in the case of Special Account "B" Categories (1), (2) (b) and (3) (b) 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 Parts A, B and C of 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 (i) \$2,500,000 in the Case of Special Account "A", and (ii) \$1,500,000 in the case of Special Account "B", to be withdrawn from the Credit Account and deposited into the Special Accounts pursuant to paragraph 3 (a) of this Schedule, provided, however, that unless the Association shall otherwise agree, the Authorized Allocation for:

(i) Special Account "A" shall be limited to an amount of \$1,250,000 until the aggregate amount of withdrawals from the Credit Account allocated to Categories (2) (a) and (3) (a), plus the total amount of all outstanding special commitments entered into by the Association pursuant to Section 5.02 of the General Conditions for Parts A and C of the Project shall be equal to or exceed the equivalent of SDR 3,500,000; and

(ii) Special Account "B" shall be limited to an amount of \$750,000 until the aggregate amount of withdrawals from the Credit Account allocated to Categories (1), (2) (b) and (3) (b) plus

the total amount of all outstanding special commitments entered into by the Association pursuant to Section 5.02 of the General Conditions for Part B of the Project shall be equal to or exceed the equivalent of SDR 3,000,000.

2. Payments out of the Special Accounts shall be made exclusively for eligible expenditures in accordance with the provisions of this Schedule.

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

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

(b) (i) For replenishment of the Special Accounts, the Borrower shall furnish to the Association requests for deposits into the Special Accounts at such intervals as the Association shall specify.

(ii) Prior to or at the time of each such request, the Borrower shall furnish to the Association the documents and other evidence required pursuant to paragraph 4 of this Schedule for the payment or replenishment is requested. On the basis of each such request, the Association shall, on behalf of the Borrower, withdraw from the Credit Account and deposit into the Special 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 the Special Accounts for eligible expenditures. All such deposits shall be withdrawn by the Association from the Credit Account under the respective eligible Categories, and in the respective equivalent amounts, as shall have been justified by said documents and other evidence.

4. For each payment made by the Borrower out of the Special Accounts, the Borrower shall, at such time as the Association shall reasonably request, furnish to the Association such documents and other evidence showing that such payment was made exclusively for eligible expenditures.

5. Notwithstanding the provisions of paragraph 3 of this Schedule, the Association shall not be required to make further deposits into the Special Accounts:

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

(b) 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 the records and accounts for the Special Accounts;

(c) 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 the provisions of Section 6.02 of the General Conditions; or

(d) once the total unwithdrawn amount of the Credit allocated to the eligible Categories, minus the total amount of all outstanding special commitments entered into by the Association pursuant to Section 5.02 of the General Conditions with respect to the Project, shall equal the equivalent of twice the amount of the Authorized Allocation. Thereafter, withdrawal from the Credit Account of the remaining unwithdrawn amount of the Credit allocated to the eligible Categories shall follow such procedures as the Association shall specify by notice to the Borrower. Such

further withdrawals shall be made only after and to the extent that the Association shall have been satisfied that all such amounts remaining on deposit in the Special Accounts 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 Accounts:

(i) was made for an expenditure or in an amount not eligible pursuant to paragraph 2 of this Schedule; or

(ii) was not justified by the evidence furnished to the Association, the Borrower shall, promptly upon notice from the Association: (A) provide such additional evidence as the Association may request; or (B) deposit into the Special Accounts (or, if the Association shall so request, refund to the Association) an amount equal to the amount of such payment or the portion thereof not so eligible or justified. Unless the Association shall otherwise agree, no further deposit by the Association into the Special Accounts shall be made until the Borrower has provided such evidence or made such deposit or refund, as the case may be.

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

(c) The Borrower may, upon notice to the Association, refund to the Association all or any portion of the funds on deposit in the Special Accounts.

(d) Refunds to the Association made pursuant to paragraphs 6 (a), (b) and (c) of this Schedule shall be credited to the Credit Account for subsequent withdrawal or for cancellation in accordance with the relevant provisions of this Agreement, including the General Conditions.

