

CONFORMED COPY

CREDIT NUMBER 4431-UG

Financing Agreement

(Seventh Poverty Reduction Support Development Policy Financing)

between

THE REPUBLIC OF UGANDA

and

INTERNATIONAL DEVELOPMENT ASSOCIATION

Dated June 13, 2008

FINANCING AGREEMENT

Agreement dated June 13, 2008, entered into between THE REPUBLIC OF UGANDA (“Recipient”) and INTERNATIONAL DEVELOPMENT ASSOCIATION (“Association”) for the purpose of providing financing in support of the Program (as defined in the Appendix to this Agreement). The Association has decided to provide this financing on the basis, *inter alia*, of: (a) the actions which the Recipient has already taken under the Program and which are described in Section I A of Schedule 1 to this Agreement; and (b) the Recipient’s maintenance of an appropriate macro-economic policy framework. The Recipient and the Association therefore hereby agree as follows:

ARTICLE I — GENERAL CONDITIONS; DEFINITIONS

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

ARTICLE II — FINANCING

- 2.01. The Association agrees to extend to the Recipient, on the terms and conditions set forth or referred to in this Agreement, a credit in an amount equivalent to one hundred and twenty five million Special Drawing Rights (125,000,000).
- 2.02. The Recipient may withdraw the proceeds of the Financing in support of the Program in accordance with Section II of Schedule 1 to this Agreement.
- 2.03. The Maximum Commitment Charge Rate payable by the Recipient on the Unwithdrawn Financing Balance shall be one-half of one percent (1/2 of 1%) per annum.
- 2.04. The Service Charge payable by the Recipient on the Withdrawn Credit Balance shall be equal to three-fourths of one percent (3/4 of 1%) per annum.
- 2.05. The Payment Dates are May 15 and November 15 in each year.
- 2.06. The principal amount of the Credit shall be repaid in accordance with repayment schedule set forth in Schedule 2 to this Agreement.
- 2.07. The Payment Currency is Dollars.

ARTICLE III — PROGRAM

- 3.01 The Recipient declares its commitment to the Program and its implementation. To this end:
- (a) the Recipient and the Association shall from time to time, at the request of either party, exchange views on the progress achieved in carrying out the Program and the actions specified in Section I of Schedule 1 to this Agreement;
 - (b) prior to each such exchange of views, the Recipient shall furnish to the Association for its review and comment a report on the progress achieved in carrying out the Program, in such detail as the Association shall reasonably request; and
 - (c) without limitation upon the provisions of paragraphs (a) and (b) of this Section, the Recipient shall exchange views with the Association on any proposed action to be taken after the disbursement of the Financing which would have the effect of materially reversing the objectives of the Program, or any action taken under the Program including any action specified in Section I of Schedule 1 to this Agreement.

ARTICLE IV — REMEDIES OF THE ASSOCIATION

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

ARTICLE V —TERMINATION

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

ARTICLE VI — REPRESENTATIVE; ADDRESSES

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

6.02. The Recipient's Address is:

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

Cable:	Telex	Facsimile:
FINSEC	61170	230163

6.03. The Association's Address is:

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

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

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

THE REPUBLIC OF UGANDA

By: */s/ Ezra Suruma*
Authorized Representative

INTERNATIONAL DEVELOPMENT ASSOCIATION

By: */s/ Kundhavi Kadiresan*
Authorized Representative

SCHEDULE 1

Program Actions; Availability of Financing Proceeds

Section I. Actions under the Program

A. Actions Taken Under the Program

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

1. Public Expenditure Review: The Recipient has in accordance with paragraph 11.1 of the Letter of Development Policy: (a) submitted to the Association a Medium-Term Expenditure Framework for FY 2007/08-2009/10; and (b) executed the FY2006/07 budget consistent with the budget allocation as appropriated and adjusted with the approval of the Legislative Assembly.
2. Investment Climate: The Recipient has in accordance with paragraph 11.2(i) of the Letter of Development Policy: (a) prioritized and fulfilled the key investment climate and competitiveness undertakings identified in the PEAP, including the approval by its cabinet, and submission to the Legislative Assembly of, *inter alia*, the following draft bills, the Companies Bill and the Insolvency Bill; and obtained the Cabinet's approval of the Policy Paper on Regulations of Pension Reform system; and (b) submitted evidence satisfactory to the Association, as to implementation of the undertakings referred to in paragraph A.2(a) of this Schedule.
3. Rural Development: In accordance with paragraph 11.2(ii) of the Letter of Development Policy, the Recipient has submitted to the Association evidence of satisfactory progress in implementing its core undertakings made during the Joint PMA Annual Review, including the undertakings relating to the resource utilization and allocation, finalization of the MAAIF SPFP for FY08/09, the framework for revision of MAAIF DSIP, and the agricultural market information system.
4. Public Financial Management: In accordance with paragraph 11.3(i) of the Letter of Development Policy, the Recipient has made satisfactory progress in implementing its undertakings pursuant to the Public Financial Management Performance Report (2006), and has: (a) caused its Ministry of Finance to publish annual and semi-annual budget execution reports concerning budget allocations, quarterly ceiling, budget releases, and actual quarterly expenditures; (b) conducted a comprehensive payroll audit; (c) caused the statutory bodies receiving funds from the Consolidated Fund to fully comply in submission of their respective accounts for audit within the statutory timeframe; and (d) issued the Treasury Memoranda for completed Public Accounts Committee Reports.
5. Public Procurement: In accordance with paragraph 11.3(ii) of the Letter of Development Policy, the Recipient has ensured satisfactory implementation and monitoring of procurement regulations and systems at the central government, and local government levels, and has: (a) established the procurement and disposal units within the Recipient's ministries and

statutory bodies, and in at least seventy percent of its local governments, as shall be evidenced by submission to the Association of a status report; and (b) produced an interim report on the review of at least 200 public procurement contracts.

6. Anti-corruption: In accordance with paragraph 11.3(iii) of the Letter of Development Policy, the Recipient has made satisfactory progress in implementation of its undertakings concerning the National Anti-Corruption Action Plan (2004-07), pursuant to its commitment to the joint government and development partners review process of the National Anti-corruption Action Plan (2004-07).

7. Public Service Reform: The Recipient has, in accordance with paragraph 11.3(iv) of the Letter of Development Policy, made satisfactory progress in implementing the new phase of the Public Service Reform Program as shall be evidenced in the accomplishment of its undertakings to the joint government and development partners review process, including the following specific measures: (a) taken necessary action against its personnel responsible for maintaining ghost workers in the public service payroll; (b) taken appropriate action to right-size and control growth in the public service; and (c) made necessary effort to achieve medium-term salary targets, which were established in the August 2006 public service pay policy.

8. Decentralization: In accordance with paragraph 11.3(v) of the Letter of Development Policy, the Recipient has made progress satisfactory to the Association, in fulfilling its core undertakings made to the JARD 2006 and subsequent confirmation during the JARD 2007.

9. Education: In accordance with paragraph 11.4(i) of the Letter of Development Policy, the Recipient has provided evidence satisfactory to the Association as to the implementation of the undertakings made in the education sector review during November 2006, and subsequent confirmation during October 2007 review.

10. Health: In accordance with paragraph 11.4(ii) of the Letter of Development Policy, the Recipient has provided evidence satisfactory to the Association as to the implementation of: the undertakings made during the November 2006 review and subsequent confirmation during October 2007 review.

11. Water and Sanitation: In accordance with paragraph 11.4(iii) of the Letter of Development Policy, the Recipient has provided evidence satisfactory to the Association as to the implementation of the undertakings made during the September 2006 review, and subsequent confirmation during 2007 review.

B. Actions to be Taken Under the Program

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

1. Macroeconomic Environment: In accordance with paragraph 13(i) of the Letter of Development Policy, the Recipient has, to the satisfaction of the Association, maintained a stable macroeconomic environment, as shall be evidenced by a joint review with the Association.

2. FY 2008/09 Budget: In accordance with paragraph 13(ii) of the Letter of Development Policy, the Recipient has approved the FY2008/09 budget consistent with the PEAP and its medium-term growth objectives.

3. Amendment to the Public Procurement and Disposal Act and Regulations: In accordance with paragraph 13(iii) of the Letter of Development Policy, the Recipient has submitted to the Cabinet the draft proposed amendments to the Public Procurement and Disposal Act and Regulations, as shall be evidenced by submission to the Association of published draft amendments.

Section II. Availability of Financing Proceeds

A. General

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

B. Allocation of Financing Amounts

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

Allocations	Amount of the Financing Allocated (expressed in SDR)
First Tranche	62,500,000
Second Tranche	62,500,000
TOTAL AMOUNT	125,000,000

C. Tranche Release Conditions. No withdrawal shall be made of the Second Tranche unless the Association is satisfied, after an exchange of views as described in Sections 3.01 (a) and (b) of this Agreement based on evidence satisfactory to the Association:

1. with the progress achieved by the Recipient in carrying out the Program;
2. that the macroeconomic policy framework of the Recipient is appropriate; and
3. that the actions described in Part B of Section I of this Schedule have been taken.

If after this exchange of views, the Association is not so satisfied, it may give notice to the Recipient to that effect and, if within ninety (90) days after the notice, the Recipient has not taken steps satisfactory to the Association with respect to paragraphs 1, 2 and 3 above, then the Association may, by notice to the Recipient, cancel all or any part of the Unwithdrawn Financing Balance.

D. Deposits of Financing Amounts

Except as the Association may otherwise agree:

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

E. Excluded Expenditures

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

F. Closing Date

The Closing Date is November 30, 2009.

SCHEDULE 2

Repayment Schedule

Date Payment Due	Principal Amount of the Credit repayable (expressed as a percentage)*
On each May 15 and November 15: commencing May 15, 2018 to and including November 15, 2027	1
Commencing May 15, 2028 to and including November 15, 2047	2

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

APPENDIX

Section I. Definitions

1. “Auditor General’s Report” means the report of the Auditor General issued during each FY pursuant to the Public Finance and Accountability Act, 2003.
2. “Companies Bill” means a draft bill titled “The Companies Bill, 2008” – “A Bill for an Act, Entitled, The Companies Act, 2008”, intended to amend, replace and reform the law relating to the incorporation, regulation and administration of companies and other associations and to make provision for related matters.
3. “Excluded Expenditure” means any expenditure:
 - (a) for goods or services supplied under a contract which any national or international financing institution or agency other than the Association or the Bank has financed or agreed to finance, or which the Association or the Bank has financed or agreed to finance under another credit, grant or loan;
 - (b) for goods included in the following groups or sub-groups of the Standard International Trade Classification, Revision 3 (SITC, Rev.3), published by the United Nations in Statistical Papers, Series M, No. 34/Rev.3 (1986) (the SITC), or any successor groups or subgroups under future revisions to the SITC, as designated by the Association by notice to the Recipient:

Group	Sub-group	Description of Item
112		Alcoholic beverages
121		Tobacco, un-manufactured, tobacco refuse
122		Tobacco, manufactured (whether or not containing tobacco substitutes)
525		Radioactive and associated materials
667		Pearls, precious and semiprecious stones, unworked or worked
718	718.7	Nuclear reactors, and parts thereof; fuel elements (cartridges), non-irradiated, for nuclear reactors
728	728.43	Tobacco processing machinery
897	897.3	Jewelry of gold, silver or platinum group metals (except watches and watch cases) and

Group	Sub-group	Description of Item
		goldsmiths' or silversmiths' wares (including set gems)
971		Gold, non-monetary (excluding gold ores and concentrates)

- (c) for goods intended for a military or paramilitary purpose or for luxury consumption;
 - (d) for environmentally hazardous goods, the manufacture, use or import of which is prohibited under the laws of the Recipient or international agreements to which the Recipient is a party;
 - (e) on account of any payment prohibited by a decision of the United Nations Security Council taken under Chapter VII of the Charter of the United Nations; and
 - (f) with respect to which the Association determines that corrupt, fraudulent, collusive or coercive practices were engaged in by representatives of the Recipient or other recipient of the Financing proceeds, without the Recipient (or other such recipient) having taken timely and appropriate action satisfactory to the Association to address such practices when they occur.
4. "Fiscal Year" or "FY" means the Recipient's fiscal year commencing on July 1 and ending on June 30 of the following year.
 5. "General Conditions" means the "International Development Association General Conditions for Credits and Grants", dated July 1, 2005 (as amended through October 15, 2006) with the modifications set forth in Section II of this Appendix.
 6. "Insolvency Bill" means a draft bill titled "Insolvency Bill, 2008", "A Bill for an Act, Entitled, The Insolvency Act, 2008", and intended to amend and consolidate the law relating to receiverships, administration, liquidation, arrangements and bankruptcy; and to provide for other related matters.
 7. "JARD" means the Joint Annual Review of Decentralization among the Recipient, the Association and other development partners.
 8. "Letter of Development Policy" means the letter dated March 2, 2008, from the Recipient to the Association, describing the Program (as hereinafter defined), and declaring the Recipient's commitment to the execution of the Program, and requesting assistance from the Association in support of the Program during its execution.

9. “MAAIF DSIP” means the Recipient’s Ministry of Agriculture, Animal Industry and Fisheries, Development Strategy and Investment Plan, 2008.
10. “MAAIF SPFP” means the Recipient’s Ministry of Agriculture, Animal Industry and Fisheries, Sector Budget Framework Paper, 2008.
11. “Medium-Term Expenditure Framework” means the Recipient’s Medium-Term Expenditure Framework for FY 2007/08 – 2009/10.
12. “National Anti-corruption Action Plan” means the Recipient’s National Strategy to fight Corruption and Rebuild Ethics and Integrity in Public Office (2004 – 2007).
13. “Parliament” means the parliament of the Recipient established pursuant to the Recipient’s Constitution.
14. “PEAP” means the Recipient’s third Poverty Eradication Action Plan dated November 2004.
15. “PMA Annual Review” means the Recipient’s Plan for Modernization of Agriculture Annual Review.
16. “Policy Paper on Regulation of Pensions” means a proposal for the pension sector regulation submitted to the Recipient’s Cabinet in February 2008.
17. “Public Accounts Committee Reports” means the reports of the committees of the Recipient’s Parliament charged with the responsibility for reviewing the audited financial reports of the accounts of the Recipient’s public institutions, including ministries, departments, agencies, state enterprises and local governments.
18. “Public Financial Management Performance Report (2006)” means the Recipient’s report concerning public expenditure and financial accountability.
19. “Public Procurement and Disposal of Public Assets Act and Regulations” means the Public Procurement and Disposal of Public Assets Act No. 1 of 2003, of the Laws of the Recipient, and Regulations No.17 of 2003, made under that Act.
20. “Program” means the program of actions, objectives and policies designed to promote growth and achieve sustainable reductions in poverty and set forth or referred to in the Letter of Development Policy.
21. “Second Tranche” means the amount of the Financing allocated to the category entitled “Second Tranche” in the table set forth in Part B of Section II of Schedule 1 to this Agreement

22. “Treasury Memorandum” means the memorandum issued during each FY by the Recipient’s Ministry responsible for finance in response to the Parliament’s report on the Auditor General’s Report, and “Treasury Memoranda” means all such memorandum.

Section II. Modifications to the General Conditions

The modifications to the “International Development Association General Conditions for Credits and Grants”, dated July 1, 2005 (as amended through October 15, 2006) are as follows:

1. The last sentence of paragraph (a) of Section 2.03 (relating to Applications for Withdrawal) is deleted in its entirety.
2. Sections 2.04 (*Designated Accounts*) and 2.05 (*Eligible Expenditures*) are deleted in their entirety, and the remaining Sections in Article II are renumbered accordingly.
3. Sections 4.01 (*Project Execution Generally*), and 4.09 (*Financial Management; Financial Statements; Audits*) are deleted in their entirety, and the remaining Sections in Article IV are renumbered accordingly.
4. Paragraph (a) of Section 4.05 (renumbered as such pursuant to paragraph 3 above and relating to *Use of Goods, Works and Services*) is deleted in its entirety.
5. Paragraph (c) of Section 4.06 (renumbered as such pursuant to paragraph 3 above) is modified to read as follows:

“Section 4.06. *Plans; Documents; Records*

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

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

Section 4.07. *Program Monitoring and Evaluation*

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

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

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

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

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

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

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