

CONFORMED COPY

CREDIT NUMBER 3588 UG

BOU Project Agreement
(Energy for Rural Transformation Project)

between

INTERNATIONAL DEVELOPMENT ASSOCIATION

and

BANK OF UGANDA

Dated December 20, 2001

CREDIT NUMBER 3588 UG

BOU PROJECT AGREEMENT

AGREEMENT, dated December 20, 2001, between INTERNATIONAL DEVELOPMENT ASSOCIATION (the Association) and BANK OF UGANDA (BOU).

WHEREAS (A) by the Development Credit Agreement of even date herewith between the Republic of Uganda (the Borrower) and the Association, the Association has agreed to make available to the Borrower an amount in various currencies equivalent to thirty-eight million three hundred thousand Special Drawing Rights (SDR 38,300,000), on the terms and conditions set forth in the Development Credit Agreement, but only on condition that BOU agrees to undertake such obligations toward the Association as are set forth in this Agreement;

(B) by a subsidiary financing agreement to be entered into between the Borrower and BOU (the BOU Subsidiary Financing Agreement), a portion of the proceeds of the credit provided for under the Development Credit Agreement will be made available to BOU on the terms and conditions set forth in the BOU Subsidiary Financing Agreement; and

WHEREAS BOU, in consideration of the Association's entering into the Development Credit Agreement with the Borrower, has agreed to undertake the obligations set forth in this Agreement;

NOW THEREFORE the parties hereto hereby agree as follows:

ARTICLE I

Definitions

Section 1.01. Unless the context otherwise requires, the several terms defined in the Development Credit Agreement, the Preamble to this Agreement and in the General

Conditions (as so defined) have the respective meanings therein set forth.

ARTICLE II

Execution of Part G.2 (a) of the Project; Management and Operations of BOU

Section 2.01. (a) BOU declares its commitment to the objectives of the Project as set forth in Schedule 2 to the Development Credit Agreement and, to this end, shall carry out, or cause to be carried out, Part G.2 (a) of the Project and conduct its operations and affairs, in accordance with sound financial standards and practices, with qualified and experienced management and in accordance with BOU's Statute.

(b) Without limitation upon the provisions of paragraph (a) of this Section and except as the Association and BOU shall otherwise agree, BOU shall carry out, or cause to be carried out, Part G.2 (a) of the Project in accordance with the provisions of the Schedule to this Agreement, the Project Implementation Plan and ESMF.

(c) BOU shall establish and thereafter maintain, in a form and with functions and staffing satisfactory to the Association, a unit to be responsible for the carrying out of Part G.2 (a) of the Project (the Apex Unit) including the supervision of the PFIs in the carrying out of their obligations under the Participation Agreements.

(d) BOU shall:

(i) make available to the PFIs the proceeds of the Credit allocated to Category (1) in the table set forth in paragraph A.1 of Schedule 1 to the Development Credit Agreement under Participation Agreements to be entered into between BOU and each PFI, under terms and conditions which shall have been approved by the Association, including the terms and conditions set forth in the Schedule to this Agreement; and

(ii) without limitation or restriction upon any of its other obligations under this Agreement, take all action, including the provision of funds, facilities, services or other resources, necessary or appropriate to enable the PFIs to perform in accordance with the provisions of their respective Participation Agreements all the obligations of the PFIs therein set forth, and

not to take any action which would prevent or interfere with such performance.

Section 2.02. (a) BOU undertakes that, unless the Association shall otherwise agree, Subloans will be made in accordance with the procedures and on the terms and conditions set forth or referred to in the Schedule to this Agreement.

(b) BOU shall exercise its rights in relation to each Subproject in such manner as to: (i) protect the interests of the Borrower, the Association and of BOU; (ii) comply with its obligations under this Agreement, the BOU Subsidiary Financing Agreement and the Participation Agreements; and (iii) achieve the purposes of the Project.

Section 2.03. BOU shall establish a fund into which shall be deposited amounts of principal and interest paid by PFIs to BOU, acting for the Borrower, under the respective Participating Agreements.

Section 2.04. Except as the Association shall otherwise agree, procurement of the goods, works and consultants' services required for Part G.2 (a) of the Project and to be financed out of the proceeds of the Credit shall be governed by the provisions of paragraph 4 of Part A of the Schedule to this Agreement.

Section 2.05. (a) BOU shall carry out 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 the BOU Project Agreement and Part G.2 (a) of the Project.

(b) For the purposes of Section 9.06 of the General Conditions and without limitation thereto, BOU shall:

- (i) prepare, on the basis of guidelines acceptable to the Association, and furnish to the Association, not later than six (6) months after the Closing Date or such later date as may be agreed for this purpose between the Association and BOU, a plan for the future operation of Part G.2 (a) of the Project; and
- (ii) afford the Association a reasonable opportunity to exchange views with BOU on said plan.

Section 2.06. BOU shall duly perform all its obligations under the BOU Subsidiary Financing Agreement and the Participation Agreements. Except as the Association shall otherwise agree, BOU shall not take or concur in any action which would have the effect of amending, abrogating, assigning or waiving the BOU Subsidiary Financing Agreement, the Participation Agreements or any provision thereof.

Section 2.07. (a) BOU shall, at the request of the Association, exchange views with the Association with regard to the progress of Part G.2 (a) of the Project, the performance of its obligations under this Agreement and under the BOU Subsidiary Financing Agreement and the Participation Agreements, and other matters relating to the purposes of the Credit and, to that end, together with the Borrower, review with the Association, at least once every year progress in carrying out Part G.2 (a) of the Project, with a view to determining and effecting such changes as may be required to ensure the successful carrying out of the Project.

(b) BOU shall promptly inform the Association of any condition which interferes or threatens to interfere with the progress of Part G.2 (a) of the Project, the accomplishment of the purposes of the Credit, or the performance by BOU of its obligations under this Agreement and under the BOU Subsidiary Financing Agreement and the Participation Agreements.

Section 2.08. BOU shall:

(a) maintain policies and procedures adequate to enable it to monitor and evaluate on an ongoing basis, in accordance with the indicators set forth in Schedule 5 to the Development Credit Agreement the carrying out of Part G.2 (a) of the Project, and the achievement of the objectives thereof;

(b) review with the Association, by March 31 and September 30, 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 that efficient completion of Part G.2 (a) of the Project 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;

(c) carry out, jointly with the Borrower, the Association, PSF and UCC not later than June 30, 2004, a midterm review, of the Project, which shall cover salient aspects of the Project, including: (i) progress made in meeting the Project's objectives, (ii) overall Project performance as measured against the said Performance Indicators, and (iii) the quality of the advisory services provided for the Project;

(d) the Borrower shall, not later than four weeks prior to the review referred to in (c) above, furnish to the Association a report, in such detail as the Association shall reasonably request, including an evaluation of the progress achieved in Project implementation; and

(e) not later than 60 days after the Midterm Review, prepare an action program, acceptable to the Association, for further implementation of the Project having regard to the findings of the Midterm Review and, thereafter, carry out such action program.

ARTICLE III

Financial Covenants

Section 3.01. (a) BOU shall with respect to Part G.2 (a) of the Project maintain records and accounts adequate to reflect in accordance with sound accounting practices its operations and financial condition.

(b) BOU shall:

- (i) have its records, accounts and financial statements (balance sheets, statements of income and expenses and related statements) relating to the Project 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 months after the end of each such year: (A) certified copies of its financial statements for such year as so audited, and (B) 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 financial statements as well as the audit thereof, as the Association shall from time to time reasonably request.

Section 3.02. (a) Without limitation upon the provisions of Section 3.01 of this Agreement, BOU shall carry out a time-bound action plan acceptable to the Association for the strengthening of its financial system for Part G.2 (a) of the Project in order to enable BOU not later than eighteen (18) months after the Effective Date or such later date as the Association shall agree, to prepare quarterly Project Management Reports, acceptable to the Association. Each such report shall:

- (i) set forth actual sources and application of funds for Part G.2 (a) of the Project, both cumulatively and for the period covered by said report, and projected sources and application of funds for the said Part of the Project for the six-month period following the period covered by said report, and show separately expenditures proposed to be financed out of the proceeds of the Credit during the six-month period following the period covered by said report;
- (ii) describe physical progress in Project implementation, both cumulatively and for the period covered by said report, and explain variances between the actual and previously forecast implementation targets; and
- (iii) set forth the status of procurement under the said Part 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.

(b) Upon completion of the action plan referred to in paragraph (a) of this Section, BOU shall prepare in accordance with guidelines acceptable to the Association, and furnish to the Association, not later than 45 days after the end of each calendar quarter, a Project Management Report for such period.

ARTICLE IV

Effective Date; Termination;
Cancellation and Suspension

Section 4.01. This Agreement shall come into force and effect on the date upon which the Development Credit Agreement becomes effective.

Section 4.02. (a) This Agreement and all obligations of the Association and of BOU thereunder shall terminate on the earlier of the following two dates:

- (i) the date on which the Development Credit Agreement shall terminate in accordance with its terms; or
- (ii) the date 20 years after the date of this Agreement.

(b) If the Development Credit Agreement terminates in accordance with its terms before the date specified in paragraph (a) (ii) of this Section, the Association shall promptly notify BOU of this event.

Section 4.03. All the provisions of this Agreement shall continue in full force

and effect notwithstanding any cancellation or suspension under the General Conditions.

ARTICLE V

Miscellaneous Provisions

Section 5.01. Any notice or request required or permitted to be given or made under this Agreement and any agreement between the parties contemplated by this Agreement shall be in writing. Such notice or request shall be deemed to have been duly given or made when it shall be delivered by hand or by mail, telegram, cable, telex to the party to which it is required or permitted to be given or made at such party's address hereinafter specified or at such other address as such party shall have designated by notice to the party giving such notice or making such request. The addresses so specified are:

For the Association:

International Development Association
1818 H Street, NW
Washington, DC 20433
United States of America

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

For BOU:

The Governor
Bank of Uganda
37/43 Kampala Road
Box 7120
Kampala, Uganda

Cable address:	Telex:	Facsimile:
UGABANK Kampala, Uganda	61059	256-41-258218

Section 5.02. Any action required or permitted to be taken, and any document required or permitted to be executed, under this Agreement on behalf of BOU, or by BOU on behalf of the Borrower under the Development Credit Agreement, may be taken or executed by the Governor of BOU or such other person or persons as BOU shall designate in writing, and BOU shall furnish to the Association sufficient evidence of the authority and the authenticated specimen signature of each such person.

Section 5.03. This Agreement may be executed in several counterparts, each of which shall be an original, and all collectively but one instrument.

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.

INTERNATIONAL DEVELOPMENT ASSOCIATION

By /s/ Callisto Madavo

Regional Vice President
Africa

BANK OF UGANDA

By /s/ Edith Ssempala

Authorized Representative

SCHEDULE

Part A: Terms and Conditions Applicable to Subloans

1. No expenditures for goods or services required for a Subproject shall be eligible for financing out of the proceeds of the Credit unless: (a) the Subloan for such Subproject shall have been a Subloan in an amount approved by BOU and for which the Association has authorized withdrawals from the Credit Account; and (b) such expenditures shall have been made not earlier than ninety days prior to the date on which the Association shall have received the request and information required under paragraph 2 (a) of this Schedule in respect of such Subloan.

2. (a) Each request by a PFI for authorization to make withdrawals from the Credit Account in respect of a Subloan shall contain: (i) a summary description of the eligible enterprise and the Subproject, including a description of the expenditures proposed to be financed out of the proceeds of the Credit; (ii) the terms and conditions of the Subloan, including the schedule of amortization therefor; (iii) a statement as to the environmental impact of the Subproject, including where relevant any remedial action to be taken with respect thereto; and (iv) such other information as the Association shall reasonably request.

(b) Requests made pursuant to the provisions of sub-paragraph (a) of this paragraph shall be presented to the Association on or before November 15, 2005.

3. Subject to any modifications made from time to time by agreement of the Association and BOU, Subloans for amounts exceeding \$250,000 shall be subject to the prior approval of the Association.

4. Subloans shall be made on terms whereby a PFI shall obtain, by written contract with the eligible enterprise or by other appropriate legal means, rights adequate to protect the interests of the Borrower, the Association and the PFI, including the right to:

(a) require the eligible enterprise to carry out and operate the Subproject with due diligence and efficiency and in accordance with sound technical, financial managerial and environmental standards and to maintain adequate records;

(b) require that: (i) the goods works and services to be financed out of the proceeds of the Credit shall be procured in accordance with the provisions of paragraph 4 of this Part, and (ii) such goods and services shall be used exclusively in the carrying out of the Subproject;

(c) inspect, by itself or jointly with representatives of the Association, if the Association shall so request, such goods, works, plants and construction included in the Subproject, the operation thereof, and any relevant records and documents;

(d) require that: (i) the eligible enterprise shall take out and maintain with responsible insurers such insurance, against such risks and in such amounts, as shall be consistent with sound business practice; and (ii) without any limitation upon the foregoing, such insurance shall cover hazards incident to the acquisition, transportation and delivery of goods financed out of the proceeds of the Credit to the place of use or installation, any indemnity thereunder to be made payable in a currency freely usable by the eligible enterprise to replace or repair such goods;

(e) obtain all such information as the Association or the PFI shall reasonably request relating to the foregoing and to the administration, operations and financial condition of the eligible enterprise and to the benefits to be derived from the Subproject; and

(f) suspend or terminate the right of the eligible enterprise to the use of the proceeds of the Credit upon failure by such eligible enterprise to perform its obligations under its contract with the PFI.

5. With respect to the procurement of goods, works and services to be financed out of proceeds of Subloans, each Participation Agreement shall contain provisions

requiring each eligible enterprise to comply with the following procedures, namely, that goods and services shall be purchased at a reasonable price, account being taken also of other relevant factors such as time of delivery and efficiency and reliability of the goods and availability of maintenance facilities and spare parts therefore, and, in the case of services, of their quality and the competence of the parties rendering them.

6. (a) The annual interest payable by each PFI to BOU on proceeds of the Credit relent to it shall be at the average weighted deposit rate, namely the weighted average of the interest rates paid to depositors by all commercial banks on interest-bearing term deposits, as issued semi-annually by BOU.

(b) Each PFI shall on-lend the said proceeds to eligible enterprises, under Subloan Agreements at a rate commensurate with prudent banking practices. The PFIs may set the maturities of Subloans and grace periods in accordance with the said banking practices provided that the maturities and grace periods shall not exceed 15 years and 5 years, respectively; and shall promptly notify BOU of the interest and maturities applicable to Subloans made to eligible enterprises.

7. (a) Subloans made by a PFI to an eligible enterprise for any one Subproject shall not exceed \$10,000,000 equivalent; said amount being subject to change by BOU in consultation with the Association.

(b) A PFI shall not extend initial or additional Subloans to any Eligible enterprises with non-performing loans in that PFI.

8. (a) The Apex Unit shall be responsible for receiving and reviewing all documentation on Subloans made by PFIs.

(b) The APEX Unit shall: (i) receive and review all quarterly reports from PFIs receiving such support; and (ii) verify the eligibility of the PFIs for the said support and approve the grant of support to qualified applicants.

9. No support shall be provided for the refinancing of any portion of a PFI's exposure to an eligible enterprise. A PFI applying for support under the Credit Support Facility Fund must show that the support requested is to cover risks relating to incremental Subloans to existing eligible enterprises or initial Subloans to eligible enterprises borrowing from the PFI for the first time.

10. Unless otherwise agreed by BOU and the Association, an enterprise to be eligible for a Subloan must: (a) be a legal or physical person lawfully engaged in business activities in the territory of the Borrower; (b) have adequate technical expertise or experience in rural sector investment activities; (c) possess adequate infrastructure and staff; and (d) not be involved in any legal or financial dispute which would materially affect its ability to undertake the Subproject.

