

CONFORMED COPY

CREDIT NUMBER 3049 UG

Development Credit Agreement

(Education Sector Adjustment Operation)

between

THE REPUBLIC OF UGANDA

and

INTERNATIONAL DEVELOPMENT ASSOCIATION

Dated April 15, 1998

CREDIT NUMBER 3049 UG

DEVELOPMENT CREDIT AGREEMENT

AGREEMENT, dated April 15, 1998, between THE REPUBLIC OF UGANDA (the Borrower) and INTERNATIONAL DEVELOPMENT ASSOCIATION (the Association).

WHEREAS (A) the Association has received a letter (the Letter of Development Policy) dated February 12, 1998, from the Borrower describing a program of actions, objectives and policies designed to achieve structural adjustment of the Borrower's education sector (hereinafter called the Program), declaring the Borrower's commitment to the execution of the Program, and requesting assistance from the Association in support of the Program during the execution thereof;

(B) the Board of Executive Directors of the Association approved on April 22, 1997, the recommendation for assistance to be provided to the Borrower under the Heavily Indebted Poor Countries Debt Initiative in respect of debt owed by the Borrower to the Association;

(C) such assistance includes additional financing in support of the Program, and, by an agreement of even date herewith between the Borrower and the Association (the Development Grant Agreement), the Association is agreeing to provide a development grant to the Borrower in an amount equivalent to fifty-five million five hundred thousand Special Drawing Rights (SDR55,500,000) (the Grant);

(D) the Borrower and the Association intend, to the extent practicable, that the proceeds of the Grant be disbursed before disbursements of the proceeds of the credit provided for in Section 2.01 of this Agreement (the Credit) are made; and

(E) on the basis, inter alia, of the foregoing, the Association has decided in support of the Program to provide such assistance to the Borrower by making the Credit in two tranches as hereinafter provided;

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 thereof set forth below (the General Conditions) constitute an integral part of this Agreement:

(a) Section 2.01, paragraph 12, is modified to read:

"'Project' means the program, referred to in the Preamble to the Development Credit Agreement, in support of which the Credit is made.";

(b) 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 in the currency of the deposit account specified in Section 2.02 of the Development Credit Agreement.";

(c) Section 5.01 is modified to read:

"The Borrower shall be entitled to withdraw the proceeds of the Credit from the Credit Account in accordance with the provisions of the Development Credit Agreement and of these General Conditions";

(d) The last sentence of Section 5.03 is deleted;

(e) Section 6.02 (c) (i) is modified to read:

"(c) (i) The Association or the Bank shall have suspended in whole or in part the right of the Borrower to make withdrawals under any development credit agreement or development grant agreement with the Association or any loan agreement with the Bank because of a failure by the Borrower to perform any of its obligations under such agreement; or";

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

"(c) Not later than six 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 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."; and

(g) Section 9.04 is deleted and Sections 9.05, 9.06 (as modified above), 9.07 and 9.08 are renumbered, respectively, Sections 9.04, 9.05, 9.06 and 9.07.

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

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

(c) "District" means each of the Borrower's local government units described

as such in the Borrower's 1995 Constitution;

(d) "Development Grant" means the development grant in an aggregate amount equivalent to SDR 55,500,000 provided by the Association to the Borrower, in support of the Program, pursuant to the Development Grant Agreement of even date herewith entered into between the Borrower and the Association;

(e) "LDP" means the Letter of Development Policy referred to in paragraph (A) of the Preamble to this Agreement;

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

(g) "First Tranche" means the Tranche of the proceeds of the Development Grant to be released by the Association on or after the Effective Date of the Development Grant Agreement;

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

(i) "Third Tranche" means the Tranche of the proceeds of the Credit allocated to Category (2) in the table set forth in paragraph 1 of Schedule 1 to this Agreement;

(j) "FY" means the Borrower's fiscal year beginning on July 1 and ending on June 30 of the following year;

(k) "Recurrent Budget" means the Borrower's recurrent budget duly approved by its legislature in accordance with the provisions of its 1995 Constitution;

(l) "Staff Establishment Policy" means the document entitled 'Staff Establishment for Government Aided Primary Schools by District, County and Subcounty' issued by the Borrower's Ministry of Education in December 1997 and distributed to Districts on February 10, 1998; and

(m) "UPE", means the universal primary education initiative referred to in the Borrower's White Paper on Education for National Integration and Development dated April 1992 and launched in the 1996 academic year.

ARTICLE II

The Credit

Section 2.01. The Association agrees to lend to the Borrower, on the terms and conditions set forth or referred to in this Agreement, an amount in various currencies equivalent to fifty-nine million two hundred thousand Special Drawing Rights (SDR 59,200,000).

Section 2.02. (a) The Borrower shall open, prior to furnishing to the Association the first request for withdrawal from the Credit Account, and thereafter maintain in BOU, a deposit account in dollars on terms and conditions satisfactory to the Association. All withdrawals from the Credit Account shall be deposited by the Association into the Deposit Account.

(b) Subject to the provisions of paragraphs (c) and (d) of this Section, the Borrower shall be entitled to use the proceeds of the Credit withdrawn from the Credit Account and deposited into the Deposit Account in support of the Program.

(c) The Borrower undertakes that the proceeds of the Credit shall not be used to finance expenditures excluded pursuant to the provisions of Schedule 1 to this Agreement. If the Association shall have determined at any time that any proceeds of the Credit 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. The Closing Date shall be December 31, 2000, or such later date as the Association shall establish. The Association shall promptly notify the Borrower of such later date.

Section 2.04. (a) The Borrower shall pay to the Association a commitment charge 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 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 canceled; 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 2.05. The Borrower shall pay to the Association a service charge at the rate of three-fourths of one percent (3/4 of 1%) per annum on the principal amount of the Credit withdrawn and outstanding from time to time.

Section 2.06. Commitment and service charges shall be payable semiannually on March 1 and September 1 in each year.

Section 2.07. (a) Subject to paragraphs (b), (c) and (d) below, the Borrower shall repay the principal amount of the Credit in semiannual installments payable on each March 1 and September 1 commencing September 15, 2008, and ending March 15, 2038. Each installment to and including the installment payable on March 15, 2018, 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 per capita gross national product (GNP), as determined by the Association, shall have exceeded for three consecutive years the level established annually by the Association for determining eligibility to access the Association's resources; 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 repayment of installments under paragraph (a) above by: (A) 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; and (B) requiring the Borrower to commence repayment of the principal amount of the Credit as of the first semiannual payment date referred to in paragraph (a) above falling six months or more after the date on which the Association notifies the Borrower that the events set out in this paragraph (b) have occurred, provided, however, that there shall be a grace period of a minimum of five years on such repayment of principal.

(c) If so requested by the Borrower, the Association may revise the modification referred to in paragraph (b) above 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.

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

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

Section 2.09. 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.

ARTICLE III

Particular Covenants

Section 3.01. (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 Schedule 2 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 Schedule 2 to this Agreement.

(d) If, after said exchange of views, the Association shall have given notice to the Borrower that the progress achieved and actions taken are not satisfactory and, within 90 days after such notice, the Borrower shall not have achieved progress and taken actions satisfactory to the Association, then the Association may, by notice to the Borrower, cancel the unwithdrawn amount of the Credit or any part thereof.

Section 3.02. 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 four 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.

ARTICLE IV

Additional Event of Suspension

Section 4.01. Pursuant to Section 6.02 (1) of the General Conditions, the following additional event is specified, namely, that a situation has arisen which shall make it improbable that the Program, or a significant part thereof, will be carried out.

ARTICLE V

Effective Date; Termination

Section 5.01. The following events are specified as additional conditions to the effectiveness of the Development Credit Agreement within the meaning of Section 12.01 (b) of the General Conditions:

(a) all conditions precedent to the effectiveness of the Development Grant Agreement have been fulfilled, other than those related to the effectiveness of this Agreement; and

(b) the Borrower has furnished to the Association evidence that (i) as of

April 28, 1998, the aggregate amount of teachers' salary payments made to primary school teachers does not exceed 75,000,000,000 Uganda Shillings, (ii) the number of primary school teachers on the payroll does not exceed the number determined in accordance with the formula specified in the Staff Establishment Policy, and (iii) it has issued letters of termination of employment to all primary school teachers identified as redundant because they are in excess of the establishment permitted under the Staff Establishment Policy.

Section 5.02. The date ninety (90) days after the date of this Agreement is hereby specified for the purposes of Section 12.04 of the General Conditions.

ARTICLE VI

Representative of the Borrower; Addresses

Section 6.01. Except as provided in Section 2.09 (a) of this Agreement, the Minister of Finance of the Borrower is designated as the representative of the Borrower for the purposes of Section 11.03 of the General Conditions.

Section 6.02. The following addresses are specified for the purposes of Section 11.01 of the General Conditions:

For the Borrower:

Ministry of Finance
P.O. Box 8147
Kampala, Uganda

Cable address:

FINSEC
Kampala

Telex:

61170

For the Association:

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

Cable address:

INDEVAS
Washington, D.C.

Telex:

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 Sempala

Authorized Representative

INTERNATIONAL DEVELOPMENT ASSOCIATION

By /s/ James Adams

Acting Regional Vice President
Africa

SCHEDULE 1

Withdrawal of the Proceeds of the Credit
and Excluded Expenditures

1. Subject to the provisions set forth or referred to in this Schedule, the table below sets forth the amounts allocated to specific Tranches to be withdrawn from the Interim Fund Credit Account:

Categories	Amount of the Credit Allocated (Expressed in SDR Equivalent)	% of Expenditures to be Financed
(1) Second Tranche	33,300,000	100%
(2) Third Tranche	25,900,000	100%
Total	59,200,000 =====	

2. Notwithstanding the provisions of paragraph 1 above, and for purposes of Section 2.02 (c) of this Agreement, the proceeds of the Credit shall not be used to finance 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 Bank or the Association shall have financed or agreed to finance, or which the Bank or the Association shall have financed or agreed to finance under another credit or a loan;

(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
fuel for	718.7	Nuclear reactors, and parts thereof; 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.

3. No withdrawals shall be made from the Credit Account under Category (1) of the table in paragraph 1 of this Schedule unless:

(a) the full amount of the First Tranche has been withdrawn by the Borrower under the Development Grant Agreement; and

(b) the Association shall be satisfied, after an exchange of views as described in Section 3.01 of this Agreement based on evidence satisfactory to the Association (i) that the macroeconomic policy framework of the Borrower is consistent with the objectives of the Program, (ii) with the progress achieved by the Borrower in the carrying out of the Program, and (iii) that the actions described in Part A of Schedule 2 to this Agreement have been taken.

4. No withdrawals shall be made from the Credit Account under Category (2) of the table in paragraph 1 of this Schedule unless:

(a) the amount specified in Category (1) has been withdrawn by the Borrower; and

(b) the Association shall be satisfied, after an exchange of views as described in Section 3.01 of this Agreement based on evidence satisfactory to the Association (i) that the macroeconomic policy framework of the Borrower is consistent with the objectives of the Program; (ii) with the progress achieved by the Borrower in the carrying out of the Program; and (iii) that the actions described in Part B of Schedule 2 to this Agreement have been taken.

SCHEDULE 2

Actions Referred to in Section 3.01 (a) of this Agreement

Part A: Conditions for the release of the Second Tranche

1. The Borrower has, in accordance with the provisions of paragraph 7 of the LDP, implemented UPE dissemination activities throughout its territory.

2. The Borrower has:

(a) allocated not less than 19.5% of its FY1998/1999 Recurrent Budget (excluding statutory and interest payments) to support primary education activities; and

(b) implemented a public campaign, in accordance with the provisions of paragraph 6 of the LDP, to encourage parents' participation as part of its overall UPE dissemination efforts.

3. The Borrower has:

(a) in accordance with the provisions of paragraph 17 of the LDP, adopted a policy of double-shift teaching for the 1999 academic year, including a publicity campaign to promote such policy in its territory,

(b) furnished to the Association a policy paper, satisfactory to the Association, for multi-grade teaching, including a plan for the implementation of such teaching method in at least two Districts in accordance with the provisions of paragraph 14 of the LDP;

(c) (i) completed a study on the supply and demand of primary-school teachers; and

(ii) in accordance with the provisions of paragraph 15 of the LDP, approved an action plan, satisfactory to the Association, for preventing any excess in the supply of primary school teachers, based on the recommendations made under such study; and

(d) adopted a plan on classroom construction defining, inter alia, the size and design of classrooms and the roles and contributions of the Borrower, local communities, parents and external financiers in the construction of such classrooms.

4. The Borrower has:

(a) allocated at least 2.8% of the aggregate amount of its FY 1998/1999 Recurrent Budget allocated for primary education to finance instructional materials; and

(b) commenced to implement the fourth and fifth phases of its plan for the expansion of in-service teacher training in accordance with paragraph 16 of the LDP.

5. The Borrower has:

(a) in accordance with the provisions of paragraph 21 of the LDP, implemented its action plan for updating its primary schools teachers' payroll, and has cleared salary arrears to such teachers;

(b) in accordance with the provisions of paragraph 23 of the LDP, implemented a monitoring system for accountability on the use of public funds allocated to Districts and schools;

(c) furnished to the Association evidence that at least 12 Districts have completed educational planning, including school mapping, in accordance with the provisions of paragraph 19 of the LDP; and

(d) designed an education management information system, satisfactory to the Association, which shall include essential education inputs and outputs.

Part B: Conditions for the release of the Third Tranche

1. The Borrower has allocated not less than 17.5 % of its FY1999/2000 Recurrent Budget (excluding statutory and interest payments) to support primary education activities.

2. The Borrower has:

(a) in accordance with the provisions of paragraph 17 of the LDP (i)

implemented the policy of double-shift teaching referred to in paragraph 3 (a) of Part A of this Schedule for the academic year 1999; and (ii) furnished to the Association a report on the progress made by schools participating in the double-shift teaching system;

(b) (i) furnished to the Association evidence that it has implemented its policy for multi-grade teaching, referred to in paragraph 3(b) of Part A of this Schedule, in at least two schools in each of two Districts, and (ii) has adopted a program for the promotion of voluntary participation in the implementation of this policy;

(c) implemented the action plan for preventing any excess in the supply of primary school teachers referred to in paragraph 3(c) (ii) of Part A of this Schedule; and

(d) furnished to the Association a report, satisfactory to the Association, on progress made in classroom construction.

3. The Borrower has:

(a) allocated at least 2.8% of the aggregate amount of its FY1999/200 Recurrent Budget allocated for primary education to finance instructional materials; and

(b) furnished to the Association evidence that shipments of instructional materials have been distributed to schools in accordance with the provisions of paragraph 18 of the LDP.

4. The Borrower has furnished to the Association evidence that :

(a) all primary school teachers in schools receiving financial support from the Borrower are on the payroll;

(b) it has commenced implementing its education management information system and has provided samples of reports from at least 20 Districts; and

(c) at least 20 additional Districts have completed educational development planning, including school mapping, in accordance with the provisions of paragraph 19 of the LDP.

