

CONFORMED COPY

INTERIM FUND CREDIT NUMBER N023-UG

Interim Fund
Development Credit Agreement

(Third Structural Adjustment Credit)

between

THE REPUBLIC OF UGANDA

and

INTERNATIONAL DEVELOPMENT ASSOCIATION

as Administrator of the interim trust fund established
with funds contributed by certain members of International
Development Association pursuant to Resolution No. IDA 184
of the Board of Governors of International Development Association

Dated July 10, 1997

INTERIM FUND CREDIT NUMBER N023-UG

INTERIM FUND
DEVELOPMENT CREDIT AGREEMENT

AGREEMENT, dated July 10, 1997, between THE REPUBLIC OF UGANDA (the Borrower) and INTERNATIONAL DEVELOPMENT ASSOCIATION (the Association) as administrator (the Administrator) of the interim trust fund (Interim Fund) established with funds contributed by certain members of the Association pursuant to Resolution No. IDA 184 (the Interim Fund Resolution) of the Board of Governors of the Association, adopted on June 26, 1996.

WHEREAS (A) by the Interim Fund Resolution the Interim Fund has been established, constituted of the funds contributed by certain members of the Association and administered by the Association acting as Administrator of the Interim Fund, in accordance with the provisions of the Interim Fund Resolution;

(B) the Administrator has received a letter (the Letter of Development Policy), dated April 29, 1997, from the Borrower describing a program of actions, objectives and policies designed to achieve structural adjustment of the Borrower's economy (hereinafter called the Program), declaring the Borrower's commitment to the execution of the Program, and requesting assistance from the Administrator in support of the Program during the execution thereof; and

(C) on the basis, inter alia, of the foregoing, the Administrator has decided in support of the Program to provide such assistance to the Borrower by making an Interim Fund Credit in one tranche 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, with the modifications thereof set forth below, (the General Conditions) constitute an integral part of this Agreement:

(a) The term "Association", wherever used in the General Conditions means the International Development Association acting as Administrator of the Interim Fund referred to in the Preamble to the Interim Fund Development Credit Agreement;

(b) The terms "Development Credit Agreement", "Credit" and "Credit Account", wherever used in the General Conditions, are amended to read "Interim Fund Development Credit Agreement", "Interim Fund Credit" and "Interim Fund Credit Account", respectively;

(c) Section 2.01, paragraph 9, shall be modified to read:

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

(d) A new paragraph, numbered 15, is added to Section 2.01 to read as follows:

"15. "Participating Country" means any country that meets the requirements set forth in Section 5(e) of Resolution No. IDA 184 of the Board of Governors of the Association, adopted on June 26, 1996, as determined by the Administrator as of the date on which the Interim Fund Credit was approved pursuant to Section 5(c) of said Resolution"; and "Participating Countries" means, collectively, all such countries";

(e) The last sentence of Section 3.02 is deleted;

(f) Section 4.01 is modified to read:

"Except as the Administrator and the Borrower shall otherwise agree, withdrawals from the Interim Fund Credit Account shall be made in the currency of the deposit account specified in Section 2.02 of the Interim Fund Development Credit Agreement."

(g) Section 5.01 is modified to read:

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

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

(i) In Sections 6.02 and 7.01 of the General Conditions, the term "Association" shall also mean the International Development Association acting in its own capacity;

(j) Section 9.06 (c) shall be 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 Administrator, the Borrower shall prepare and furnish to the Administrator a report, of such scope and in such detail as the Bank shall reasonably request, on the execution of the program referred to in the Preamble to the Interim Fund Development Credit Agreement, the performance by the Borrower and the Administrator of their respective obligations under the Interim Fund Development Credit Agreement and the

accomplishment of the purposes of the Interim Fund Credit."; and

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

(d) "First Tranche" means the Tranche of the proceeds of the Interim Fund Credit allocated to Category (1) in the table set forth in paragraph 1 of Schedule 1 to this Agreement, to be released by the Administrator on or after the Effective Date;

(e) "Second Tranche" means the Tranche of the proceeds of the Interim Fund Credit allocated to Category (2) in the table set forth in paragraph 1 of Schedule 1 to this Agreement, to be released by the Administrator on or after the date on which the conditions referred to in paragraph 3 of Schedule 1 to this Agreement have been met;

(f) "First Floating Tranche" means the Tranche of the proceeds of the Interim Fund Credit allocated to Category (3) in the table set forth in paragraph 1 of Schedule 1 to this Agreement, to be released by the Administrator on or after the date on which the conditions referred to in paragraph (4) (a) of Schedule 1 to this Agreement have been met;

(g) "Second Floating Tranche" means the Tranche of the proceeds of the Interim Fund Credit allocated to Category (4) in the table set forth in paragraph 1 of Schedule 1 of this Agreement, to be released by the Administrator on or after the date on which the conditions referred to in paragraph (4) (b) of Schedule 1 to this Agreement have been met;

(h) "Ush" means Uganda Shillings, the currency of the Borrower;

(i) "UCB" means Uganda Commercial Bank;

(j) "NPART" means the Non-Performing Assets Recovery Trust established under the NPART Act of 1995 to recover UCB's non-performing loans portfolio;

(k) "District" means each of the Borrower's local government units described as such in its 1995 Constitution;

(l) "LDP" means the Letter of Development Policy referred to in paragraph (B) of the Preamble to the Interim Fund Development Credit Agreement;

(m) "State of Emergency" means a state of emergency declared pursuant to Article 110 of the Borrower's 1995 Constitution; and

(n) "COMESA" means the Community of Eastern and Southern African Countries.

ARTICLE II

The Interim Fund Credit

Section 2.01. The Administrator agrees to lend to the Borrower, on the terms and conditions set forth or referred to in the Interim Fund Development Credit Agreement, an amount in various currencies equivalent to ninety million four hundred thousand Special Drawing Rights (SDR 90,400,000).

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

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

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

Section 2.03. The Closing Date shall be June 30, 1999 or such later date as the Administrator shall establish. The Administrator 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 Interim Fund 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 Interim Fund Credit Account or cancelled; and (ii) at the rate set as of the June 30 immediately preceding the accrual date or 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 payment 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 Interim Fund Credit withdrawn and outstanding from time to time.

Section 2.06. Commitment and service charges shall be payable semiannually on February 15 and August 15 in each year.

Section 2.07. (a) Subject to paragraphs (b) and (c) below, the Borrower shall repay the principal amount of the Interim Fund Credit in semiannual installments payable on each February 1 and August 1 commencing August 1, 2007 and ending February 1, 2037. Each installment to and including the installment payable on February 1, 2017 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 Administrator 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 Interim Fund Credit shall have been repaid; and (B) requiring the Borrower to commence repayment of the principal amount of the Interim Fund 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 Administrator 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 Administrator 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 rate at an annual rate agreed with the Administrator on the principal amount of the Interim Fund Credit withdrawn and outstanding from time to time, provided that, in the judgment of the Administrator, 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 Administrator 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 Administrator shall from time to time, at the request of either party, exchange views on the progress achieved in carrying out the Program.

(b) Prior to each such exchange of views, the Borrower shall furnish to the Administrator for its review and comment a report on the progress achieved in carrying out the Program, in such detail as the Administrator shall reasonably request.

(c) Without limitation upon the provisions of paragraph (a) of this Section, the Borrower shall exchange views with the Administrator on any proposed action to be taken after the disbursement of the Interim Fund Credit which would have the effect of materially reversing the objectives of the Program, or any action taken under the Program.

Section 3.02. Upon the Administrator's request, the Borrower shall:

(a) have the deposit account referred to in Section 2.02 (b) of this Agreement audited, in accordance with appropriate auditing principles consistently applied, by independent auditors acceptable to the Administrator;

(b) furnish to the Administrator as soon as available, but in any case not later than four months after the date of the Administrator'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 Administrator shall have reasonably requested; and

(c) furnish to the Administrator such other information concerning said deposit account and the audit thereof as the Administrator shall have reasonably requested.

ARTICLE IV

Additional Event of Suspension

Section 4.01. Pursuant to Section 6.02 (h) 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; Designation of Administrator

Section 5.01. The following event is specified as an additional condition to the effectiveness of this Agreement namely that the Borrower has announced its tariff reform plan and time table in accordance with paragraph 19 of the LDP.

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.

Section 5.03. In the event that the Executive Directors of the Association decide to terminate the functions of the Association as administrator of the Interim Fund pursuant to Section 7 of the Interim Fund Resolution, all of the rights and obligations of the Administrator under this Agreement shall be assumed by the Association in accordance with the Interim Fund Resolution and such decision of said Executive Directors, as of a date to be notified by the Administrator to the Borrower.

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:	Telex:
FINSEC Kampala	61170

For the Association and the Administrator:

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

Cable address:	Telex:
INDEVAS Washington, D.C.	248423 (RCA) 82987 (FTCC) 64145 (WUI) or 197688 (TRT)

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
as Administrator of the interim trust fund established with
funds contributed by certain members of
International Development Association pursuant to
Resolution No. IDA 184 of the Board of Governors of
International Development Association

By /s/ Callisto Madavo

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) First Tranche	32,530,000	100%
(2) Second Tranche	28,890,000	100%
(3) First Floating Tranche	14,490,000	100%
(4) Second Floating Tranche	14,490,000	100%
Total	90,400,000 =====	

2. Notwithstanding the provisions of paragraph 1 above, and for purposes of Section 2.02 (c) of this Agreement, the proceeds of the Interim Fund 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 Administrator shall have financed or agreed to finance, or which the Administrator shall have financed or agreed to finance under another loan;

(c) expenditures 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 sub-groups under future revisions to the SITC, as designated by the Administrator 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 elements (cartridges), nonirradiated for nuclear reactors
728	728.43	Tobacco processing machinery
group 897	897.3	Jewelry of gold, silver or platinum metals (except watches and watch cases) and goldsmiths' or silversmiths' wares (including set gems)
971	--	Gold, nonmonetary (excluding gold ores and concentrates)

(d) expenditures for goods intended for a military or para-military 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 Administrator);

(f) expenditures (a) in the territories of any country which is not a member of the Bank, or goods procured in or services supplied from such territories (b) in the territories of any country which is not a Participating Country, or for goods procured in, or services supplied from, such territories, or (c) 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 Administrator determines that corrupt or fraudulent practices were engaged in by representatives of the Borrower or of a beneficiary of the Interim Fund Credit during the procurement or execution of such contract, without the Borrower having taken timely and appropriate action satisfactory to the Administrator to remedy the situation.

3. No withdrawal shall be made from the Interim Fund Credit Account under Category (2) of the table in paragraph 1 of this Schedule unless the amount specified in Category (1) has been withdrawn by the Borrower and the Administrator shall be satisfied after an exchange of views as described in Section 3.01 of this Agreement based on evidence satisfactory to the Administrator:

(i) with the fulfillment of the requirements of Part A of Schedule 2 to this Agreement; and

(ii) that the actions described in Part B of Schedule 2 to this Agreement have been taken in form and substance satisfactory to the Administrator.

4. Notwithstanding the provisions of paragraph 3 above, withdrawals may be made by the Borrower in respect of Categories (3) and (4) of the table in paragraph 1 of this Schedule at any time when the Administrator shall be satisfied after an exchange of views as described in Section 3.01 of this Agreement, based on evidence satisfactory to the Administrator, that the requirements of Part A of Schedule 2 to this Agreement have been fulfilled, and in addition:

(a) with respect to said Category (3), the actions described in Part C of Schedule 2 to this Agreement have been taken in form and substance satisfactory to the Administrator; and

(b) with respect to said Category (4), the actions described in Part D of Schedule 2 to this Agreement have been taken.

5. If, after any of the exchange of views referred to in paragraphs 3 and 4 above, the Administrator shall have given notice to the Borrower that the requirements of Part A of Schedule 2 to this Agreement, or the actions taken under Parts B, C or D of Schedule 2 to this Agreement, 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 Schedule 2 or taken the actions under Parts B, C or D of said Schedule 2, as the case may be, then the Administrator may, by notice to the Borrower, cancel the unwithdrawn amount of the Interim Fund Credit or any part thereof.

SCHEDULE 2

Requirements and Actions Referred to in Paragraphs 3 and 4 of Schedule 1 to this Agreement

Part A:

1. The macroeconomic policy framework of the Borrower is consistent with the objectives of the Program.

2. The Borrower has achieved progress satisfactory to the Association in the carrying out of the Program.

3. The Borrower has, in each fiscal year, limited the use of supplementary budgets, except when otherwise justified on grounds of a State of Emergency, to no more than 3% of all expenditures funded by the Borrower.

Part B: (Conditions for the release of the Second Tranche)

The Borrower has:

1. reduced import duties to a maximum of 20%, terminated the practice of uneven application of taxes and rates (other than import duties) on imported and domestic goods and abolished all remaining non-tariff barriers except on tobacco.

2. implemented an integrated pilot sector programming and budgeting plan as specified in paragraph 24 of the LDP for the education, health and agriculture sectors in conjunction with the Districts;

3. in its fiscal years 1997/98 and 1998/99,

(a) increased budgetary allocations for agriculture research and extension, primary health and primary education at least at the rate of increase of nominal GDP; and

(b) (i) allocated the budgetary resources required to meet its contribution for projects in the Borrower's public investment program; and

(ii) released such resources on a timely basis;

4. commenced to implement an action plan to improve the financial accounting and auditing systems at the central and local government levels;

5. The Borrower has taken all measures necessary to publish in its official gazette and disseminate the budgets of Districts and the reports of the Local Government Public Accounts Committee;

6. in its fiscal year 1996/97, reduced by at least 20% the aggregate amount of subsidies given to state owned enterprises in fiscal year 1994/95;

7. (a) (i) completed the sale of UCB or

(ii) implemented a back-up plan for the restructuring of UCB consistent with paragraph 39 of the LDP;

(b) adopted, in accordance with paragraph 44 of the LDP, a policy designed to stop losses in, and minimize budgetary costs relating to, Uganda Development Bank.

8. submitted draft legislation to its Parliament to clarify the role of Uganda Revenue Authority in accordance with paragraph 14 of the LDP.

Part C: (Conditions for the release of the First Floating Tranche)

The Borrower has implemented a low uniform duty rate on all non-COMESA imports.

Part D: (Conditions for the release of the Second Floating Tranche)

NPART has collected at least Ush 25 billion in non-performing loans in accordance with paragraph 41 of the LDP.

