

CONFORMED COPY

CREDIT NUMBER 1893 UG

(Sugar Rehabilitation Project)

between

THE REPUBLIC OF UGANDA

and

INTERNATIONAL DEVELOPMENT ASSOCIATION

Dated May 11, 1988

CREDIT NUMBER 1893 UG

DEVELOPMENT CREDIT AGREEMENT

AGREEMENT, dated May 11, 1988, between THE REPUBLIC OF UGANDA (the Borrower) and INTERNATIONAL DEVELOPMENT ASSOCIATION (the Association).

WHEREAS: (A) the Borrower, having satisfied itself as to the feasibility and priority of the Project described in Schedule 2 to this Agreement, has requested the Association to assist in the financing of the Project;

(B) the Borrower intends to obtain from the African Development Bank (AfDB), a loan (the AfDB Loan) in an amount equivalent to six million eight hundred sixty thousand Units of Account (BUA 6,860,000) to assist in financing the Project, on the terms and conditions set forth in an agreement (the AfDB Loan Agreement) to be entered into between the Borrower and AfDB;

(C) the Borrower intends to obtain from the African Development Fund (ADF), a credit (the ADF Credit) in an amount equivalent to seven million nine hundred seventy thousand Units of Account (FUA 7,970,000) to assist in financing the Project, on the terms and conditions set forth in an agreement (the ADF Credit Agreement) to be entered into between the Borrower and ADF;

(D) Parts A through D of the Project will be carried out by Kakira Sugar Works (1985) Ltd. (KSW) with the Borrower's assistance and, as part of such assistance, the Borrower will make available to KSW part of the proceeds of the Credit as provided in this Agreement; and

WHEREAS the Association has agreed, on the basis, inter alia, of the foregoing, to extend the Credit to the Borrower upon the terms and conditions set forth in this Agreement and in the Project Agreement of even date herewith between the Association and KSW;

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 last sentence of Section 3.02 deleted (the General Conditions), constitute an integral part of this Agreement.

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

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

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

(d) "JVA" means the Joint Venture Agreement, entered into by the Borrower and East African Holdings Limited on March 12, 1985, as amended on February 19, 1987, providing for the establishment of KSW, and such term also includes the Subsidiary Agreement to the JVA, signed by the Borrower and East African Holdings Limited on February 19, 1987;

(e) "Credit 1328-UG" means the Credit made available by the Association to assist the Borrower in financing its Agricultural Rehabilitation Project, pursuant to the Development Credit Agreement entered into by the Borrower and the Association on March 11, 1983;

(f) "Credit 1434-UG" means the Credit made available by the Association to assist the Borrower in financing its Second Technical Assistance Project, pursuant to the Development Credit Agreement entered into by the Borrower and the Association on March 8, 1984;

(g) "MOI" means the Borrower's Ministry of Industry and Technology;

(h) "U Sh" means Uganda shillings, the currency of the Borrower;

(i) "FBL" means the Borrower's Food and Beverages Limited and includes such other organizations as the Borrower may designate from time to time; and

(j) "SIU" means the sugar industry unit to be established within MOI.

ARTICLE II

The Credit

Section 2.01. The Association agrees to lend to the Borrower, on the terms and conditions set forth or referred to in the Development Credit Agreement, an amount in various currencies equivalent to eighteen million nine hundred thousand Special Drawing Rights (SDR 18,900,000).

Section 2.02. (a) The amount of the Credit may be withdrawn from the Credit Account in accordance with the provisions of Schedule 1 to this Agreement for expenditures made (or, if the Association shall so agree, to be made) in respect of the reasonable cost of goods and services required for the Project and to be financed out of the proceeds of the Credit.

(b) The Borrower shall, for the purposes of Parts B and D of the Project, cause KSW to open and maintain in dollars, through the Bank of Uganda, a special account in a commercial bank on terms and conditions satisfactory to the Association. Deposits into, and payments out of, the Special Account shall be made in accordance with the provisions of Schedule 3 to the Project Agreement.

Section 2.03. The Closing Date shall be December 31, 1993, 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 a date sixty (60) days after the date of this Agreement (the accrual date) to the respective dates on which amounts shall be withdrawn by the Borrower from the Credit Account or cancelled; and
- (ii) at the rate set as of the June 30 immediately preceding the accrual date 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 as of the next payment date in that year specified in Section 2.06 of this Agreement, except that the rate set as of June 30, 1988, shall be applied as of July 1, 1988.

(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 charges and service charges shall be payable semiannually on March 15 and September 15 in each year.

Section 2.07. (a) Subject to paragraphs (b) and (c) below, the Borrower shall repay the principal amount of the Credit in semiannual installments payable on each March 15 and September 15 commencing September 15, 1998, and ending March 15, 2028. Each installment to and including the installment payable on March 15, 2008, shall be one percent (1%) of such principal amount, and each installment thereafter shall be two percent (2%) of such principal amount.

(b) Whenever:

- (i) the Borrower's gross national product per capita, as determined by the Association, shall have exceeded \$790 in constant 1985-dollars for five (5) consecutive years; and
- (ii) the Bank shall consider the Borrower creditworthy for Bank lending, the Association may, subsequent to the review and approval thereof by the Executive Directors of the Association and, after due consideration by them of the development of the Borrower's economy, modify the terms of repayment of installments under paragraph (a) above by requiring the Borrower to repay twice the amount of each such installment not yet due until the principal amount of the Credit shall have been repaid. If so requested by the Borrower, the Association may revise such modification to include, in lieu of some or all of the increase in the amounts of such installments, the payment of interest at an annual rate agreed with the Association on the principal amount of the Credit withdrawn and outstanding from time to time, provided that, in the judgment of the Association, such revision shall not change the grant element obtained under the above-mentioned repayment modification.

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

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

ARTICLE III

Execution of the Project

Section 3.01. (a) The Borrower declares its commitment to the objectives of the Project as set forth in Schedule 2 to this Agreement, and, to this end:

- (i) shall carry out Part E of the Project through MOI,

with due diligence and efficiency and in conformity with appropriate administrative and financial practices, and shall provide, promptly as needed, the funds, facilities, services and other resources required for the Project; and

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

(b) Without limitation upon the provisions of paragraph (a) of this Section and, except as the Borrower and the Association shall otherwise agree, the Borrower shall carry out Part E of the Project in accordance with the Implementation Program set forth in Schedule 3 to this Agreement.

(c) The Borrower shall relend out of the proceeds of the Credit an amount not exceeding the dollar equivalent of SDR 18,650,000 to KSW, under terms and conditions which shall have been approved by the Association and which shall include the payment of interest at the rate of 8.71% per annum, capitalization of interest accruing in the first five (5) years, repayment over fifteen (15) years, including five (5) years of grace and the foreign exchange risk to be borne by KSW.

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

Section 3.02. Except as the Association shall otherwise agree:

(a) procurement of the goods, works and consultants' services required for Parts B and D of the Project and to be financed out of the proceeds of the Credit shall be governed by the provisions of Schedule 1 to the Project Agreement; and

(b) vehicles and office equipment required for Part E of the Project and to be financed out of the proceeds of the Credit may be procured under contracts awarded on the basis of comparison of price quotations solicited from at least three suppliers eligible under the "Guidelines for Procurement under IBRD Loans and IDA Credits", published by the Bank in May 1985.

Section 3.03. The Borrower and the Association hereby agree that the obligations set forth in Sections 9.03, 9.04, 9.05, 9.06, 9.07 and 9.08 of the General Conditions (relating to insurance, use of goods and services, plans and schedules, records and reports, maintenance and land acquisition, respectively) in respect of Parts A through D of the Project shall be carried out by KSW pursuant to Section 2.04 of the Project Agreement.

Section 3.04. The Borrower's decisions on proposals for expansion of sugar processing capacity in the Borrower's territory shall be taken considering, inter alia, an evaluation by SIU.

Section 3.05. The Borrower shall take such action as may be necessary to ensure that the Bank of Uganda shall make available to KSW, promptly as needed, such amounts of foreign exchange as shall be necessary for KSW to carry out its annual work programs, including the importation of spare parts, agricultural and factory

inputs, and remittances by KSW's expatriate supervisory and technical staff recruited under Part D of the Project.

Section 3.06. (a) Subject to paragraphs (b) and (c) below, the Borrower shall:

- (i) periodically determine the producer price of sugar, the price of cane to be supplied to KSW by outgrower farmers under Part A of the Project, and the consumer price of sugar, based on principles acceptable to the Association and announce the producer price of sugar and the price of outgrowers' cane for the twelve-month period starting on January 1 of the following year, by not later than December 15 of each year; and
- (ii) by June 30 of each year, make appropriate revisions to the producer price of sugar and the price of outgrowers' cane to reflect changes in the international price of sugar, in the exchange rate of the Uganda shilling, and in the unit cost of inputs for the production of sugar in the Borrower's territory.

(b) Except as the Borrower and the Association shall otherwise agree, the Borrower shall take such measures as shall be necessary to ensure that, by not later than December 31, 1992, the producer and consumer prices of sugar shall be determined without the intervention of the Borrower as specified in paragraph (a) above.

(c) The Borrower shall:

- (i) not later than November 1 of each year, cause SIU to submit to the Association, for its review and comments, the producer price of sugar proposed to be announced pursuant to subparagraph (a) (i) above; and
- (ii) not later than April 30 of each year, with effect from April 30, 1989, submit to the Association, for its review and comments, any revisions proposed to be made to the price of outgrowers' cane on the basis of a review made by the Borrower's Agricultural Secretariat in consultation with SIU.

Section 3.07. The Borrower and KSW shall enter into an agreement, with terms and conditions satisfactory to the Association, to ensure that KSW shall repay the Borrower those proceeds of Credit Number 1328-UG and Credit Number 1434-UG used by the Borrower to finance engineering services and the refurbishment, storage and shipping of factory equipment to be installed under Part B of the Project.

Section 3.08. The Borrower shall, by not later than February 28, 1990, pay the outstanding balance of the equivalent of \$8,000,000 to KSW's second subordinated loan stock in accordance with the Subsidiary Agreement to the JVA.

Section 3.09. The Borrower shall make arrangements, satisfactory to the Association:

(a) to ensure that, except as the Borrower, the Association and KSW shall otherwise agree, KSW shall maintain rural access roads, connecting KSW's plantation with outgrowers' plots, under Part A of the Project; and

(b) to periodically reimburse KSW, in each year of Project implementation, for such road maintenance costs as KSW may incur and which KSW shall not have recovered from participating outgrower farmers.

Section 3.10. Except as the Borrower and the Association shall otherwise agree, the Borrower shall take such measures as shall be necessary to impose duties on the importation of sugar into the Borrower's territory to ensure that the aggregate of:

- (i) the price of imported sugar; and
- (ii) the duties imposed on such imported sugar shall not be less than \$400 per metric ton.

ARTICLE IV

Remedies of the Association

Section 4.01. Pursuant to Section 6.02 (h) of the General Conditions, the following additional events are specified:

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

(b) As a result of events which have occurred after the date of the Development Credit Agreement, an extraordinary situation shall have arisen which shall make it improbable that KSW will be able to perform its obligations under the Project Agreement.

(c) The Memorandum and Articles of Association of KSW or the JVA shall have been amended, suspended, abrogated, repealed or waived so as to affect materially and adversely the ability of KSW to perform any of its obligations under the Project Agreement.

(d) The Borrower or any other authority having jurisdiction shall have taken any action for the dissolution or disestablishment of KSW or for the suspension of its operations.

(e) (i) Subject to subparagraph (ii) of this paragraph:

(A) The right of the Borrower to withdraw the proceeds of the AfDB Loan or the ADF Credit, made to the Borrower for the financing of the Project, shall have been suspended, cancelled or terminated in whole or in part, pursuant to the terms of the AfDB Loan Agreement or the ADF Credit Agreement, respectively; or

(B) the AfDB Loan or the ADF Credit shall have become due and payable prior to the agreed maturity thereof.

(ii) Subparagraph (i) of this paragraph shall not apply if the Borrower establishes to the satisfaction of the Association that:

(A) such suspension, cancellation, termination or prematuring is not caused by the failure of the Borrower to perform any of its obligations under such agreement; and

(B) adequate funds for the Project are available to the Borrower from other sources on terms and conditions consistent with the obligations of the Borrower under this Agreement.

Section 4.02. Pursuant to Section 7.01 (d) of the General Conditions, the following additional events are specified:

(a) the event specified in paragraph (a) of Section 4.01 of this Agreement shall occur and shall continue for a period of sixty (60) days after notice thereof shall have been given by the Association to the Borrower; and

(b) the events specified in paragraphs (c) and (d) of

Section 4.01 of this Agreement shall occur; and

(c) subject to the proviso of paragraph (e) (ii) of Section 4.01 of this Agreement, the event specified in paragraph (e) (i) of Section 4.01 of this Agreement shall occur.

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) the Subsidiary Loan Agreement has been executed on behalf of the Borrower and KSW;

(b) all conditions precedent to the effectiveness of the AfDB Loan Agreement and the ADF Credit Agreement, other than the effectiveness of this Agreement, have been fulfilled;

(c) KSW has employed a firm to provide KSW with supervisory and technical staff, pursuant to paragraph 11 of Schedule 2 to the Project Agreement;

(d) KSW has appointed a financial controller, satisfactory to the Association, pursuant to paragraph 3 (a) of Schedule 2 to the Project Agreement;

(e) KSW has obtained a line of credit to cover KSW's projected deficits in the years 1987/88, 1988/89 and 1989/90, pursuant to Section 4.02 of the Project Agreement;

(f) the Borrower and KSW have executed the agreement referred to in Section 3.07 of this Agreement.

Section 5.02. The following are specified as additional matters, within the meaning of Section 12.02 (b) of the General Conditions, to be included in the opinion or opinions to be furnished to the Association:

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

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

Section 5.03. The date ninety (90) days after the date of this Agreement is hereby specified for the purposes of Section 12.04 of the General Conditions.

Section 5.04. The obligations of the Borrower under Sections 3.01, 3.03, 3.04, 3.05, 3.09 and 3.10 of this Agreement and the provisions of Section 4.02 of this Agreement shall cease and determine on the date on which the Development Credit Agreement shall terminate or on the date fifteen (15) years after the date of this Agreement, whichever shall be the earlier.

ARTICLE VI

Representative of the Borrower; Addresses

Section 6.01. The Minister of Finance of the Borrower is designated as 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:

440098 (ITT)
248423 (RCA) or
64145 (WUI)

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/ Elizabeth Bagaaya-Nyabongo
Authorized Representative

INTERNATIONAL DEVELOPMENT ASSOCIATION

By /s/ Edward V.K. Jaycox
Regional Vice President
Africa

SCHEDULE 1

Withdrawal of the Proceeds of the Credit

1. The table below sets forth the Categories of items to be financed out of the proceeds of the Credit, the allocation of the amounts of the Credit to each Category and the percentage of expenditures for items so to be financed in each Category:

Category	Amount of the Credit Allocated (Expressed in SDR Equivalent)	% of Expenditures to be Financed
(1) Equipment, materials and installation works under Part B of the	10,230,000	100%

Project			
(2)	Vehicles and equipment under Part E of the Project	40,000	100% of foreign expenditures and 65% of local expenditures
(3)	Factory inputs, (spare parts and chemicals) under Part B of the Project	660,000	100% of foreign expenditures
(4)	Consultants' services under Parts B and D of the Project	530,000	100% of foreign expenditures

Category	Amount of the Credit Allocated (Expressed in SDR Equivalent)	% of Expenditures to be Financed
(5) Supervisory and technical staffing services under Part D of the Project	5,030,000	100% of foreign expenditures
(6) Training under Part D of the Project	300,000	100%
(7) Consultants' services under Part E of the Project	210,000	100%
(8) Unallocated	1,900,000	
TOTAL	18,900,000	

2. For the purposes of this Schedule:

(a) the term "foreign expenditures" means expenditures in the currency of any country other than that of the Borrower for goods or services supplied from the territory of any country other than that of the Borrower; and

(b) the term "local expenditures" means expenditures in the currency of the Borrower or for goods or services supplied from the territory of the Borrower.

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

SCHEDULE 2

Description of the Project

The objectives of the Project are to:

- (i) rehabilitate and reestablish the historic sugar production level of KSW's sugar complex at Kakira;

- (ii) strengthen MOI's capability to formulate policy on, and monitor the performance of, the sugar industry; and
- (iii) provide a mechanism to liberalize the pricing and marketing of sugar.

The Project consists of the following parts, subject to such modifications thereof as the Borrower and the Association may agree upon from time to time to achieve such objectives:

Part A: Agricultural Development

Rehabilitation and cultivation of about 7,900 hectares of KSW's sugar plantation and about 4,100 hectares of outgrowers' plots through:

1. acquisition of:
 - (a) equipment for land preparation, cultivation, harvesting, transport and road maintenance, including vehicles; and
 - (b) recurrent inputs, including fertilizers, herbicides and spare parts;
2. improvement of the irrigation system including the acquisition of pumps, motors and portable irrigation equipment, and repairs and replacement of pipelines; and
3. improvement of KSW's agricultural performance capability, including:
 - (a) acquisition of tools and equipment for the workshop, the agronomic research unit, the seed-cane treatment plant and the meteorological station;
 - (b) renovation of agricultural estate buildings and workshops; and
 - (c) acquisition of communication facilities.

Part B: Factory Rehabilitation

Rehabilitation of the sugar factory to attain a crushing capacity of 3,000 tons of cane per day through:

1. (a) acquisition of equipment and spare parts, and refurbishment of part of the existing equipment;
- (b) replacement of part of the existing equipment with equipment and spare parts procured in the past; and
- (c) acquisition of new equipment and spare parts;
2. installation of all existing and new equipment;
3. acquisition of recurrent factory inputs, including chemicals, spare parts and package materials; and
4. rehabilitation and construction of:
 - (a) factory buildings and their surrounding areas;
 - (b) storage and transportation facilities;
 - (c) utilities and effluent systems; and
 - (d) ancillaries.

Part C: Infrastructure Rehabilitation

Rehabilitation of infrastructure through:

1. acquisition of equipment and furniture for health, education, training, office, recreational and other social facilities;
2. construction and renovation of housing facilities, including construction of about 54 new staff houses and a training hostel, renovation of about 350 staff houses, about 2,800 single-room dwellings for laborers and the acquisition of vehicles and communication facilities for the administrative staff;
3. improvement of the water supply system of KSW's estate, including acquisition of pumps and motors, replacement of about 3.5 kms of pipelines and installation of a new water treatment system for potable water;
4. rehabilitation of KSW's estate road system including the resurfacing of all tarmac roads; and
5. engineering and architectural services for the design and supervision of civil works.

Part D: Management and Training

Strengthening of KSW's management and technical capability through the recruitment of supervisory and technical staff and training.

Part E: Sugar Industry Unit

Establishment of a sugar industry unit within MOI.

* * *

The Project is expected to be completed by June 30, 1993.

SCHEDULE 3

Implementation Program

Part E of the Project:

1. In order to assist the Borrower in the formulation of policy on the sugar sector and to monitor the performance of the sugar industry, the Borrower shall establish SIU within MOI, by not later than August 31, 1988.
2. SIU's main functions shall be to:
 - (a) prepare proposals on sugar prices in accordance with Section 3.06 of this Agreement;
 - (b) monitor the impact of the Borrower's pricing, fiscal trade and other relevant policies on the performance of the sugar industry;
 - (c) compile and disseminate statistical data and technical information on the sugar industry;
 - (d) evaluate proposals for investment in the sugar industry; and
 - (e) generally provide assistance to the sugar industry and liaise with representatives of the industry.
3. SIU shall be headed by an officer with suitable qualifications at the level of at least senior economist, to be appointed by not later than August 31, 1988, who shall, through the appropriate channels, report to the Permanent Secretary of MOI, and whose staff shall include an adequate number of statisticians and clerical personnel.

4. In order to assist SIU in establishing, organizing and implementing its working program, MOI shall, by not later than August 31, 1988, employ a sugar industry expert, whose qualifications and terms and conditions of employment shall be satisfactory to the Association. The expert shall be selected in accordance with principles and procedures satisfactory to the Association on the basis of the "Guidelines for the Use of Consultants by World Bank Borrowers and by The World Bank as Executing Agency", published by the Bank in August 1981.

