Development Credit Agreement

(Second Private Sector Competitiveness Project)

between

THE REPUBLIC OF UGANDA

and

INTERNATIONAL DEVELOPMENT ASSOCIATION

Dated February 23, 2005
DEVELOPMENT CREDIT AGREEMENT

AGREEMENT, dated February 23, 2005, 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 (the Project), has requested the Association to assist in the financing of the Project;

(B) the Association has received a letter dated May 26, 2004, from the Borrower describing a Program of actions, objectives and policies designed to implement a comprehensive private sector strategy and increasing creation and growth of micro, small and medium enterprises (the Program) and declaring the Borrower’s commitment to the execution of the Program;

(C) the Project will be carried out by the Private Sector Foundation Uganda (PSFU) with the Borrower’s assistance and, as part of such assistance, the Borrower will make available the proceeds of the credit provided for in Article II of this Agreement (the Credit) available PSFU, as set forth 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 agreement of even date herewith between the Association and PSFU (the Project Agreement);

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 May 1, 2004), (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) “BOU” means the Bank of Uganda, the Borrower's central bank;
(b) “Business Plan Competition Beneficiary” means a micro, small or medium enterprise, established and operating under the laws of the Borrower, to whom PSFU has made or proposes to make a Business Plan Competition Grant (as hereinafter defined) financed or proposed to be financed out of the proceeds of the Credit;

(c) “Business Plan Competitions Grant” means a grant made or proposed to be made by PSFU to a Business Plan Competitions Beneficiary under Part B.2 of the Project;

(d) “Eligible Categories” means Categories (1) through (8) set forth in the table in Part A.1 of Schedule 1 to this Agreement;

(e) “Eligible Expenditures” means the expenditures for works, goods and consultants’ services referred to in Section 2.02 of this Agreement;

(f) “Environmental Management Plan” means the set of mitigation, enhancement, monitoring, and institutional measures dated February 27, 2004, to be taken during implementation of the Project to mitigate adverse environmental and social impacts, offset them, or reduce them to acceptable levels, or to enhance positive impacts;

(g) “Financial Management Manual” means the finance, accounting and administration manual referred to in Section 6.01 (b) of this Agreement, including internal financial control procedures, a chart of accounts, and the format and content of financial reports and cash flow forecasts;

(h) “Financial Monitoring Report” or “FMR” means each report prepared in accordance with Section 4.02 of this Agreement;

(i) “Institutional Building Grant Beneficiary” means a financial institution, established and operating under the laws of the Borrower, to whom PSFU has made or proposes to make an Institutional Building Grant financed or proposed to be financed out of the proceeds of the Credit;

(j) “Institutional Building Grant” means a grant made or proposed to be made by PSFU to an Institutional Building Grant Beneficiary under Part A.2 (c) of the Project;

(k) “KIBP” means Kampala Industrial and Business Park, to be established pursuant to paragraph A.3 (e) (i) of Schedule 1 to this Agreement;

(l) “Matching Grant Beneficiary” means a micro, small or medium enterprise or a financial institution, established and operating under the laws of the Borrower, to whom PSFU has made or proposes to make a Matching Grant financed or proposed to be financed out of the proceeds of the Credit;
(m) “Matching Grant” means a grant made or proposed to be made by PSFU to a Beneficiary under Part A of the Project;

(n) “Medium Term Competitiveness Strategy” means the Borrower’s planning framework dated February 2001, for private sector growth and competitiveness, for the period 2000 to 2005;

(o) “MFPED” means the Borrower’s Ministry of Finance, Planning and Economic Development;

(p) “PCU” means the Project Coordination Unit referred to in paragraph 1 (c), of Schedule 2 to the Project Agreement;

(q) “Procurement Plan” means the Borrower’s procurement plan, dated June 9, 2004, covering the initial 18 month period (or longer) of Project implementation, as the same shall be updated from time to time in accordance with the provisions of Section 3.02 to this Agreement, to cover succeeding 18 month periods (or longer) of Project implementation;

(r) “Project Account” means the account referred to in Section 3.03 of this Agreement;

(s) “Project Agreement” means the agreement between the Association and PSFU 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;

(t) “Project Implementation Manual” or “PIM” means the manual referred to in Section 6.01 (b) of this Agreement, and consisting of, inter alia, guidelines and procedures to be used for the purpose of implementation of the Project, including the eligibility criteria, terms and conditions of the Business Plan Competition Grant, Institutional Building Grant, Matching Grant and such other administrative, financial, organizational arrangements, as such manual may be amended from time to time, and such term includes any schedules to the PIM;

(u) “PSFU” means Private Sector Foundation Uganda, a company limited by guarantee, established and operating under the laws of the borrower, and its Memorandum and Articles of Association dated August 24, 1995;

(v) “Report-based Disbursements” means the Borrower’s option for withdrawal of funds from the Credit Account referred to in Part A.5 of Schedule 1 to this Agreement;

(w) “Special Account” means the account referred to in Part B of Schedule 1 to this Agreement;
(x) “Steering Committee” means the committee referred to in paragraph 1 (b), of Schedule 2 to the Project Agreement;

(y) “Subsidiary Agreement” means the agreement to be entered into between the Borrower and PSFU 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 Agreement;

(z) “Uganda Shilling” and “USh” means the currency of the Borrower;

(aa) “UIA” means the Uganda Investment Authority established pursuant to the Borrower’s Investment Code, 1991 (Statute No.1 of 1991), as amended under Statutory Instruments No. 259 of 1994; and

(bb) “URSB” means Uganda Registration Services Bureau established under Uganda Registration Services Bureau Act, Chapter 210 of the laws of the Borrower.

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 forty seven million nine hundred thousand Special Drawing Rights (SDR 47,900,000).

Section 2.02. The amount of the Credit may be withdrawn from the Credit Account in accordance with the provisions of Schedule 1 to this Agreement for: (a) expenditures made (or, if the Association shall so agree, to be made) in respect of the reasonable cost of works, goods and services required for Parts A.1, B.3, B.4 and C of the Project; and (b) amounts paid (or, if the Association shall so agree, to be paid) by PSFU on account of withdrawals made by: (i) a Matching Grant Beneficiary under a Matching Grant to meet the reasonable cost of goods and services required for a micro, small and medium enterprise activity under Parts A.2 (b), B.1 and B.5 of the Project; (ii) an Institutional Building Grant Beneficiary under an Institutional Building Grant to meet the reasonable cost of goods and services required for a micro, small and medium enterprise activity under Parts A.2 (a) and A.2 (c) of the Project; and (iii) a Business Plan Competition Beneficiary under a Business Plan Competition Grant to meet the reasonable cost of goods and services required for a micro and small enterprise activity under Part B.2 of the Project, all in respect of which the withdrawal from the Credit Account is requested.

Section 2.03. The Closing Date shall be July 31, 2010, 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 charges and service charges shall be payable semiannually on February 1 and August 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 February 1 and August 1 commencing February 1, 2015 and ending August 1, 2044. Each installment to and including the installment payable on August 1, 2024, 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 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, without any limitation or restriction upon any of its other obligations under the Development Credit Agreement, shall cause PSFU to perform in accordance with the provisions of the Project Agreement all the obligations of PSFU 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 PSFU 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 to the provisions of paragraph (a) above, the Borrower shall appoint and maintain a duly qualified liaison officer within MFPED in
order to facilitate the coordination between PSFU and the Borrower in the implementation of the Project.

(c) The Borrower shall make the proceeds of the Credit available to PSFU under a subsidiary agreement to be entered into between the Borrower and PSFU, under terms and conditions which shall have been approved by the Association and which shall include the terms and conditions set forth in Schedule 3 to this Agreement.

(d) The Borrower shall exercise its rights under the Subsidiary 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 Agreement or any provision thereof.

Section 3.02. (a) Except as the Association shall otherwise agree, procurement of the goods, works and consultants’ services required for 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, as said provisions may be further elaborated in the Procurement Plan.

(b) The Borrower shall update the Procurement Plan in accordance with guidelines acceptable to the Association, and furnish such update to the Association not later than 12 months after the date of the preceding Procurement Plan, for the Association’s approval.

Section 3.03. Without limitation to its obligations under Sections 3.01 of this Agreement, the Borrower shall or shall cause PSFU to:

(a) open and thereafter maintain, until the completion of the Project, an account in USh in BOU, on terms and conditions satisfactory to the Association (the “Project Account”);

(b) promptly thereafter, make an initial deposit of USh equivalent to $250,000 into the Project Account, to finance the Borrower’s contribution to the costs of the Project;

(c) thereafter deposit into the Project Account, on a quarterly basis, the amount required to timely replenish said Project Account up to the Borrower’s contribution to the cost of the Project; and

(d) ensure that amounts deposited into the Project Account shall be used exclusively to finance expenditures under the Project in addition to those financed out of the proceeds of the Credit.

Section 3.04. For the purposes of Section 9.06 of the General Conditions and without limitation thereto, the Borrower shall:
(a) 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 Borrower and the Association, a plan for the future operation of the Project; and

(b) afford the Association a reasonable opportunity to exchange views with the Borrower on said plan.

Section 3.05. 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) shall be carried out by PSFU pursuant to Section 2.03 of the Project Agreement.

ARTICLE IV

Financial Covenants

Section 4.01. (a) The Borrower shall:

(i) maintain a financial management system, including records and accounts, and prepare financial statements, all in accordance with consistently applied accounting standards acceptable to the Association, adequate to reflect the operations, resources and expenditures related to the Project; and

(ii) cause PSFU to maintain a financial management system, including records and accounts, and prepare financial statements in accordance with consistently applied accounting standards acceptable to the Association, adequate to reflect its operations and financial condition and to register separately the operations, resources and expenditures related to the Project.

(b) The Borrower shall:

(i) have the financial statements referred to in paragraph (a) of this Section for each fiscal year (or other period agreed to by the Association), audited, in accordance with consistently applied auditing standards acceptable to the Association, 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 (or such other period agreed to by the Association): (A) certified copies of the financial statements referred to in paragraph (a) of this Section for such year (or such other period agreed to by the
Association), as so audited; and (B) an opinion on such statements by said auditors, in scope and detail satisfactory to the Association; and

(iii) furnish to the Association such other information concerning such records, accounts and the audit of such financial statements, and concerning said auditors, as the Association may from time to time reasonably request.

(c) For all expenditures with respect to which withdrawals from the Credit Account were made on the basis of reports referred to in Part A.5 of Schedule 1 to this Agreement (Report-based Disbursements) or on the basis of statements of expenditure, the Borrower shall:

(i) ensure that all records (contracts, orders, invoices, bills, receipts and other documents) evidencing such expenditures are retained until at least one year after the Association has received the audit report for, or covering, the fiscal year in which the last withdrawal from the Credit Account was made;

(ii) enable the Association’s representatives to examine such records; and

(iii) ensure that such reports or statements of expenditure are included in any audit that the Association may have requested pursuant to paragraph (b) of this Section.

**ARTICLE V**

**Remedies of the Association**

Section 5.01. Pursuant to Section 6.02 (l) of the General Conditions, the following additional events are specified:

(a) a situation shall have arisen which shall make it improbable that the Program, or a significant part thereof, will be carried out;

(b) PSFU shall have failed to perform any of its obligations under the Project Agreement;

(c) 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 PSFU will be able to perform its obligations under the Project Agreement;
(d) The Memorandum and Articles of Association of PSFU shall have been amended, suspended, abrogated, repealed or waived so as to affect materially and adversely the ability of PSFU to perform any of its obligations under the Project Agreement; and

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

Section 5.02. Pursuant to Section 7.01(h) of the General Conditions, the following additional events are specified:

(a) the event specified in paragraph (b) of Section 5.01 of this Agreement shall occur and shall continue for a period of sixty days after notice thereof shall have been given by the Association to the Borrower; and

(b) any event specified in paragraphs (c), (d) and (e) of Section 5.01 of this Agreement shall occur.

ARTICLE VI

Effective Date; Termination

Section 6.01. 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 Agreement has been executed on behalf of the Borrower and PSFU;

(b) PSFU has adopted a Project Implementation Manual, including a Financial Management Manual, in form and substance satisfactory to the Association;

(c) the Borrower has or has caused PSFU to establish the Project Account and deposited therein the initial deposit referred to in Section 3.03 (b) of this Agreement;

(d) PSFU has: (i) demonstrated the ability to produce an FMR; and (ii) opened books of accounts and completed the chart of accounts for the Project, all in form and substance satisfactory to the Association; and

(e) PSFU has employed a procurement specialist with qualifications and terms of reference satisfactory to the Association.

Section 6.02. 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 PSFU, and is legally binding upon PSFU in accordance with its terms; and

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

Section 6.03. 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.

ARTICLE VII

Representative of the Borrower; Addresses

Section 7.01. The Minister for Finance, Planning and Economic Development of the Borrower is designated as representative of the Borrower for the purposes of Section 11.03 of the General Conditions.

Section 7.02. The following addresses are specified for the purposes of Section 11.01 of the General Conditions:

For the Borrower:

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

Cable address: FINSEC
Telex: 61170
Kampala

For the Association:

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

Cable address: INDEVAS
Telex: 248423 (MCI) or (202) 477-6391
Washington, D.C. 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 Kampala, The Republic of Uganda, as of the day and year first above written.

THE REPUBLIC OF UGANDA

By /s/ Ezra Suruma
Authorized Representative

INTERNATIONAL DEVELOPMENT ASSOCIATION

By /s/ Judy O’Connor
Authorized Representative
SCHEDULE 1

Withdrawal of the Proceeds of the Credit

A. General

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:

<table>
<thead>
<tr>
<th>Category</th>
<th>Amount of the Credit Allocated (Expressed in SDR Equivalent)</th>
<th>% of Expenditures to be Financed</th>
</tr>
</thead>
<tbody>
<tr>
<td>(1) Works</td>
<td>100% of foreign expenditures and 90% of local expenditures</td>
<td>17,000,000</td>
</tr>
<tr>
<td>(a) for Part A.1 of the Project</td>
<td></td>
<td>2,360,000</td>
</tr>
<tr>
<td>(b) for Part C.1(a) and (d) of the Project</td>
<td></td>
<td></td>
</tr>
<tr>
<td>(2) Goods</td>
<td>100% of foreign expenditures and 90% of local expenditures</td>
<td>180,000</td>
</tr>
<tr>
<td>(a) for Part A.1 of the Project</td>
<td></td>
<td>7,210,000</td>
</tr>
<tr>
<td>(b) for Parts B.3, B.4 and C of the Project</td>
<td></td>
<td></td>
</tr>
<tr>
<td>(3) Consultants’ services, including audits</td>
<td>90%</td>
<td>1,170,000</td>
</tr>
<tr>
<td>(a) for Part A.1 of the Project</td>
<td></td>
<td>7,170,000</td>
</tr>
<tr>
<td>(b) for Parts B.3, B.4 and C of the Project</td>
<td></td>
<td></td>
</tr>
<tr>
<td>(4) Training</td>
<td>100%</td>
<td>100,000</td>
</tr>
<tr>
<td>(5) Matching Grants</td>
<td>50% of the amounts disbursed</td>
<td>4,860,000</td>
</tr>
<tr>
<td>for Parts A.2 (b), B.1 and B.5 of the Project</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Description</td>
<td>Amount</td>
</tr>
<tr>
<td>---</td>
<td>-------------------------------------------------------</td>
<td>----------</td>
</tr>
<tr>
<td>6</td>
<td>Business Plan Competition Grants for Part B.2 of the Project</td>
<td>1,030,000</td>
</tr>
<tr>
<td>7</td>
<td>Institutional Building Grants for Parts A.2 (a) and A.2 (c) of the Project</td>
<td>2,060,000</td>
</tr>
<tr>
<td>8</td>
<td>Operating Costs</td>
<td>2,390,000</td>
</tr>
<tr>
<td>9</td>
<td>Unallocated</td>
<td>2,370,000</td>
</tr>
<tr>
<td></td>
<td><strong>TOTAL</strong></td>
<td><strong>47,900,000</strong></td>
</tr>
</tbody>
</table>

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;

   (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; and

   (c) the term “operating costs” means [the cost arising under the Project on account Project implementation, management and monitoring, including rental of office for the PCU, utilities, office supplies, consumables, maintenance and operation of vehicles and equipment, travel and accommodation for Project staff and salaries of the Project staff, excluding salaries of officials of the Borrower’s civil service.]

3. Notwithstanding the provisions of paragraph 1 above, no withdrawals shall be made in respect of:

   (a) payments made for expenditures prior to the date of this Agreement;

   (b) payments made for expenditures in respect of Category 5, unless the PSFU and a Matching Grant Beneficiary shall have entered into a Matching Grant Agreement, in accordance with the procedures and the terms and conditions referred to in paragraph 4 of Schedule 2 to the Project Agreement and set forth in detail in the Project Implementation Plan;
(c) payments made for expenditures in respect of Category 6, unless the PSFU and the a Business Plan Competition Beneficiary shall have entered into a Business Plan Competition Agreement, in accordance with the procedures and the terms and conditions referred to in paragraph 5 of Schedule 2 to the Project Agreement and set forth in detail in the Project Implementation Plan;

(d) payments made for expenditures in respect of Category 7, unless the PSFU and an Institutional Building Grant Beneficiary shall have entered into an Institutional Building Grant Agreement, in accordance with the procedures and the terms and conditions referred to in paragraph 6 of Schedule 2 to the Project Agreement and set forth in detail in the Project Implementation Plan; and

(e) payments made for expenditures in respect of Category 1 (a), 2 (a) and 3 (a) unless: (i) KIBP has been established as an industrial park under the laws of the Borrower; (ii) the Borrower and UIA have adopted a KIBP implementation plan, including an eligibility criteria for operation of the parks and allocation of land within the industrial zone; and (iii) the Borrower has confirmed its commitment to ensure adequate power supply generation to satisfy the initial demand of KIBP, in accordance with paragraph 21 of the letter describing the Program referred to in the Preamble to this Agreement.

4. The Association may require withdrawals from the Credit Account to be made on the basis of statements of expenditure for expenditures under contracts for: (a) works costing less than $250,000; (b) goods costing less than $150,000 equivalent per contract; (c) for services of individual consultants costing less than $50,000 equivalent per contract; and (d) for services of consulting firms under contracts costing less than $100,000 equivalent per contract, all under such terms and conditions as the Association shall specify by notice to the Borrower.

5. The Borrower may request withdrawals from the Credit Account to be made on the basis of reports to be submitted to the Association in form and substance satisfactory to the Association, such reports to include the FMR and any other information as the Association shall specify by notice to the Borrower (Report-based Disbursements). In the case of the first such request submitted to the Association before any withdrawal has been made from the Credit Account, the Borrower shall submit to the Association only a statement with the projected sources and applications of funds for the Project for the six-month period following the date of such request.

B. Special Account

1. The Borrower may open and maintain in Dollars a special deposit account in BOU, on terms and conditions satisfactory to the Association.
2. After the Association has received evidence satisfactory to it that the Special Account has been opened, withdrawals from the Credit Account of amounts to be deposited into the Special Account shall be made as follows:

   (a) if the Borrower is not making Report-based Disbursements, withdrawals shall be made in accordance with the provisions of Annex A to this Schedule 1; and

   (b) if the Borrower is making Report-based Disbursements, withdrawals shall be made in accordance with the provisions of Annex B to this Schedule 1.

3. Payments out of the Special Account shall be made exclusively for Eligible Expenditures. For each payment made by the Borrower out of the Special Account, the Borrower shall, at such time as the Association shall reasonably request, furnish to the Association such documents and other evidence showing that such payment was made exclusively for Eligible Expenditures.

4. Notwithstanding the provisions of Part B.2 of this Schedule, the Association shall not be required to make further deposits into the Special Account:

   (a) if the Association, at any time, is not satisfied that the reports referred to in Part A.5 of this Schedule 1 adequately provide the information required for Report-based Disbursements;

   (b) if the Association determines at any time that all further withdrawals for payment of Eligible Expenditures should be made by the Borrower directly from the Credit Account; or

   (c) if the Borrower shall have failed to furnish to the Association, within the period of time specified in Section 4.01 (b) (ii) of this Agreement, any of the audit reports required to be furnished to the Association pursuant to said Section in respect of the audit of: (A) the records and accounts for the Special Account; or (B) the records and accounts reflecting expenditures with respect to which withdrawals were Report-based Disbursements or were made on the basis of statements of expenditure, as the case may be.

5. The Association shall not be required to make further deposits into the Special Account in accordance with the provisions of Part B.2 of this Schedule if, at any time, the Association shall have notified the Borrower and the Guarantor of its intention to suspend in whole or in part the right of the Borrower to make withdrawals from the Credit Account pursuant to Section 6.02 of the General Conditions. Upon such notification, the Association shall determine, in its sole discretion, whether further deposits into the Special Account may be made and what procedures should be followed for making such deposits, and shall notify the Borrower and the Guarantor of its determination.
6.  (a) If the Association determines at any time that any payment out of the Special Account was made for an expenditure which is not an Eligible Expenditure, or was not justified by the evidence furnished to the Association, the Borrower shall, promptly upon notice from the Association, provide such additional evidence as the Association may request, or deposit into the Special Account (or, if the Association shall so request, refund to the Association) an amount equal to the amount of such payment. Unless the Association shall otherwise agree, no further deposit by the Association into the Special Account shall be made until the Borrower has provided such evidence or made such deposit or refund, as the case may be.

(b) If the Association determines at any time that any amount outstanding in the Special Account will not be required to cover payments for Eligible Expenditures during the six-month period following such determination, the Borrower shall, promptly upon notice from the Association, refund to the Association such outstanding amount.

(c) The Borrower may, upon notice to the Association, refund to the Association all or any portion of the funds on deposit in the Special Account.

(d) Refunds to the Association made pursuant to subparagraph (a), (b) or (c) of this paragraph 6 shall be credited to the Credit Account for subsequent withdrawal or for cancellation in accordance with the provisions of the Credit Agreement.
Annex A

to

SCHEDULE 1

Operation of Special Account
When Withdrawals Are Not
Report-based Disbursements

1. For the purposes of this Annex, the term “Authorized Allocation” means the amount of $1,000,000 to be withdrawn from the Credit Account and deposited into the Special Account pursuant to paragraph 2 of this Annex.

2. Withdrawals of the Authorized Allocation and subsequent withdrawals to replenish the Special Account shall be made as follows:

   (a) For withdrawals of the Authorized Allocation, the Borrower shall furnish to the Association a request or requests for deposit into the Special Account of an amount or amounts which in the aggregate do not exceed the Authorized Allocation. On the basis of each such request, the Association shall, on behalf of the Borrower, withdraw from the Credit Account and deposit into the Special Account such amount as the Borrower shall have requested.

   (b) For replenishment of the Special Account, the Borrower shall furnish to the Association requests for deposit into the Special Account at such intervals as the Association shall specify. Prior to or at the time of each such request, the Borrower shall furnish to the Association the documents and other evidence required pursuant to Part B.3 of Schedule 1 to this Agreement for the payment or payments in respect of which replenishment is requested. On the basis of each such request, the Association shall, on behalf of the Borrower, withdraw from the Credit Account and deposit into the Special Account such amount as the Borrower shall have requested and as shall have been shown by said documents and other evidence to have been paid out of the Special Account for Eligible Expenditures. Each such deposit into the Special Account shall be withdrawn by the Association from the Credit Account under one or more of the Eligible Categories.

3. The Association shall not be required to make further deposits into the Special Account, once the total unwithdrawn amount of the Credit minus the total amount of all outstanding special commitments entered into by the Association pursuant to Section 5.02 of the General Conditions shall equal the equivalent of twice the amount of the Authorized Allocation. Thereafter, withdrawal from the Credit Account of the remaining unwithdrawn amount of the Credit shall follow such procedures as the Association shall
specify by notice to the Borrower. Such further withdrawals shall be made only after and to the extent that the Association shall have been satisfied that all such amounts remaining on deposit in the Special Account as of the date of such notice will be utilized in making payments for Eligible Expenditures.
Annex B
to
SCHEDULE 1
Operation of Special Account
When Withdrawals Are
Report-based Disbursements

1. Withdrawals from the Credit Account shall be deposited by the Association into the Special Account in accordance with the provisions of Schedule 1 to this Agreement. Each such deposit into the Special Account shall be withdrawn by the Association from the Credit Account under one or more of the Eligible Categories.

2. Upon receipt of each application for withdrawal of an amount of the Credit, the Association shall, on behalf of the Borrower, withdraw from the Credit Account and deposit into the Special Account an amount equal to the lesser of: (a) the amount so requested; and (b) the amount which the Association has determined, based on the reports referred to in Part A.5 of this Schedule 1 applicable to such withdrawal application, is required to be deposited in order to finance Eligible Expenditures during the six-month period following the date of such reports.
SCHEDULE 2

Description of the Project

The objective of the Project is to support the Borrower’s efforts for creation of sustainable conditions conducive to enterprise development and growth, encouraging investment, facilitating private sector development, increasing micro, small and medium enterprises, increasing competitiveness in local and export market, and employment opportunities in its territory, through: (a) reduction of the cost of doing business; and (b) improvement of business environment and public-private dialogue.

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: Developing Infrastructure and Financial Services

1. Supporting the growth of the industrial sector, including development of serviced industrial land, through the carrying out of: (a) infrastructure development for a new industrial park, KIBP at Namanve; (b) strengthening the capacity of UIA in facilitation and promotion of investment, industrial planning, regulation of an export processing zone authority and environmental monitoring; (c) implementation of new export legislation, regional planning, social and environmental impact mitigation plans and development of an implementation plan for KIBP; and (d) investment promotion functions and activities of the UIA, all through the acquisition of goods, provision of works and technical advisory services.

2. Supporting the financial institutions in introduction of financial products and services suitable for micro, small and medium enterprises, including: (a) carrying out the transformation of micro finance institutions into deposit taking institutions, and/or commercialization of such micro finance institutions in preparation to transforming them into deposit taking institutions; (b) provision of Matching Grants to support capacity building activities for the private sector financial institutions and development of new products designed to encourage expansion of the financial institutions’ micro, small and medium enterprise portfolios; and (c) provision of Institutional Building Grants to financial institutions for the carrying out of feasibility studies for institutional development, including studies on pension reform, developing a legal framework for leasing, commodity risk management, management of guarantee products and micro-insurance.

Part B: Enhancing Enterprise Competitiveness

Improving enterprise capacity particularly in micro, small and medium enterprises and increasing investment in skills, raising productivity, quality, standard and
reliability of micro, small and medium enterprise producers and export value chains, including:

1. The provision of Matching Grants for the carrying out of: (a) technology improvement; (b) strengthening of capacity for micro, small and medium enterprise skill improvement; and (c) strengthening the capacity of financial management of micro, small and medium enterprises to facilitate their access to finance.

2. The provision of Business Plan Competition Grants to micro and small enterprises for development of innovative private sector initiatives, including commercialization of new research for business products and services.

3. Strengthening the linkage between micro, small scale and medium enterprises and formal technical and vocational education institutions, including: (a) preparing skill-oriented training modules, skill testing and certification; (b) facilitating the provision of hands-on and formal training, promoting gender balance in technical skills; and (c) developing a pilot partnership approach to expand enterprise-based, on-the-job system for acquisition of basic skills and improving the skills of apprenticeship, all through the provision technical advisory service and training and acquisition of goods.

4. Creating an enabling framework for increased participation in the higher value segment of the supply chain, including:

   (a) developing business brand linkages, including: (i) a branding strategy framework to coordinate strategies for use of branding to market exports; (ii) an appellation brand asset-building program; and (iii) a wildlife and national parks brand asset-building program;

   (b) strengthening the capacity of the private sector to market and create equity in the brand, including: (i) negotiating joint market ventures with international firms; and (ii) implementing public relations marketing campaigns; and

   (c) encouraging participation of farmers in owning and sharing the brand equity, including: (i) creating mechanisms for assigning brand equity to farmers; (ii) creating innovative mechanism to facilitate participation of local communities; and (iii) strengthening the effectiveness of local firms in implementing firm linkages and ventures, all through the acquisition of goods, provision of technical advisory services and training.

5. Promoting an innovative mechanism for rewarding micro, small and medium enterprises operating in high professional manner, including timely compliance with the Borrower’s tax administration requirements, business registration requirements and sound corporate governance, through the provision of Matching Grants.
Part C: Improving Business Environment

Improving the business environment through:

1. Strengthening the capacity of the land registry to process land titles, including: (a) rehabilitation of nineteen land registry offices, and the survey school; (b) updating of land records and establishment of a land information system; (c) extending formal system of land registration and sensitizing groups or individuals who have not had access to tenure security to land; and (d) establishing new zonal offices within existing facilities, upgrading old zonal offices and building capacity of land registry staff, all through the acquisition of goods, the provision of works, technical advisory services and training.

2. (a) Strengthening business registration process and operationalizing URSB, including developing: (i) a design for the URSB operational model; (ii) draft legal instruments for operation of URSB; (iii) a strategic plan; (iv) internal procedures and regulations for URSB; (v) information systems; (vi) an operational manual; and (iv) appropriate training for the staff of URSB; and

   (b) carrying out dissemination of information and outreach campaigns on the simplified procedures for business registration, all through the provision of technical advisory services and training.

3. Strengthening the capacity of Uganda Bureau of Standards in increasing awareness, demand and supply of internationally acceptable standards, including: (a) preparation of a strategic plan for the development, implementation, provision of service, and enforcement of domestic and international standards; and (b) designing and implementing an awareness program for exporters, civil society and policy makers for mainstreaming quality assurance into public, community and business development planning, and improvement of testing and certification services, all through the acquisition of goods and the provision of technical advisory services.

4. Strengthening the capacity of the Ministry of Justice and Constitutional Affairs and Uganda Law Reform Commission for implementing commercial legal reform process, including: (a) revision and drafting of laws relating to business, financial services and exports, and completion of work on intellectual property laws; and (b) coordination of commercial law reform activities, including workshops for policy makers and business community.

5. Supporting public-private sector partnership and dialogue, and focusing policy dialogue on issues relating to higher level of export growth, including: (a) strengthening the capacity of PSFU and other business membership organizations for participation in policy dialogue; (b) facilitating selected forums and mechanisms for private-public dialogue; (c) supporting the Medium Term Competitiveness Secretariat in analyzing ways for improvement of the cost-effectiveness of public-service delivery, and in developing a strategic plan; and (d) supporting PSFU in designing of the management
systems for monitoring, supervising and evaluating the performance and implementation of the Project, all through the acquisition of goods and the provision of technical advisory services.

* * *

The Project is expected to be completed by January 31, 2010.
SCHEDULE 3

Implementation Program

Terms and Conditions of Subsidiary Agreement

The Borrower and PSFU shall enter into a Subsidiary Agreement on terms and conditions, which shall include the following obligations of PSFU:

(a) carry out the Project with due diligence and efficiency, in conformity with appropriate administrative, financial, technical and environmental practices and in accordance with the Project Implementation Manual, and provide, or cause to be provided, promptly as needed, the facilities, services and other resources required for the Project;

(b) comply with the procedures for procurement of goods, and consultant services set forth in Schedule 1 to the Project Agreement;

(c) comply with record keeping, auditing and reporting requirements set forth in Section 4.01 of this Agreement with respect to the Project, including the annual auditing of its records and accounts in respect of the Project (operations, resources and expenditure in respect of the Project);

(d) at the request of the Borrower or the Association, exchange views with the Borrower and the Association with regard to the progress of the Project and the performance of its obligations under the Subsidiary Agreement;

(e) promptly inform the Borrower and the Association of any condition which interferes or threatens to interfere with the progress of the Project, or the performance of its obligations under the Subsidiary Agreement;

(f) except as the Borrower and the Association shall otherwise agree, neither take nor concur in any action which would have the effect of amending, abrogating, assigning or waiving Subsidiary Agreement or any provision thereof; and

(g) in case of conflict between the Subsidiary Agreement and this Agreement, or the Subsidiary Agreement and the Project Agreement, in either case the latter shall prevail.