Financing Agreement

(Eighth Poverty Reduction Support Development Policy Financing)

between

THE REPUBLIC OF UGANDA

and

INTERNATIONAL DEVELOPMENT ASSOCIATION

Dated November 24, 2010
FINANCING AGREEMENT

AGREEMENT dated November 24, 2010, entered into between the REPUBLIC OF UGANDA ("Recipient") and the INTERNATIONAL DEVELOPMENT ASSOCIATION ("Association") for the purpose of providing financing in support of the Program (as defined in the Appendix to this Agreement). The Association has decided to provide this financing on the basis, inter alia, of: (a) the actions which the Recipient has already taken under the Program and which are described in Section IA of Schedule 1 to this Agreement, and (b) the Recipient’s maintenance of an appropriate macroeconomic policy framework. The Recipient and the Association therefore hereby agree as follows:

ARTICLE I — GENERAL CONDITIONS; DEFINITIONS

1.01. The General Conditions (as defined in the Appendix to this Agreement) constitute an integral part of this Agreement.

1.02. Unless the context requires otherwise, the capitalized terms used in this Agreement have the meanings ascribed to them in the General Conditions or in the Appendix to this Agreement.

ARTICLE II — FINANCING

2.01. The Association agrees to extend to the Recipient, on the terms and conditions set forth or referred to in this Agreement, a credit in an amount equivalent to sixty-five million nine hundred thousand Special Drawing Rights (SDR 65,900,000) (variously, “Credit” and “Financing”).

2.02. The Recipient may withdraw the proceeds of the Financing in support of the Program in accordance with Section II of Schedule 1 to this Agreement.

2.03. The Maximum Commitment Charge Rate payable by the Recipient on the Unwithdrawn Financing Balance shall be one-half of one percent (1/2 of 1%) per annum.

2.04. The Service Charge payable by the Recipient on the Withdrawn Credit Balance shall be equal to three-fourths of one percent (3/4 of 1%) per annum.

2.05. The Payment Dates are February 1 and August 1 in each year.

2.06. The principal amount of the Credit shall be repaid in accordance with repayment schedule set forth in Schedule 2 to this Agreement.

2.07. The Payment Currency is United States Dollars.
ARTICLE III — PROGRAM

3.01. The Recipient declares its commitment to the Program and its implementation. To this end:

(a) the Recipient and the Association shall from time to time, at the request of either party, exchange views on the Recipient’s macroeconomic policy framework and the progress achieved in carrying out the Program;

(b) prior to each such exchange of views, the Recipient shall furnish to the Association for its review and comment a report on the progress achieved in carrying out the Program, in such detail as the Association shall reasonably request; and

(c) without limitation upon the provisions of paragraphs (a) and (b) of this Section, the Recipient shall promptly inform the Association of any situation that would have the effect of materially reversing the objectives of the Program or any action taken under the Program including any action specified in Section I of Schedule 1 to this Agreement.

ARTICLE IV — REMEDIES OF THE ASSOCIATION

4.01. The Additional Event of Suspension consists of the following, namely that, a situation has arisen which shall make it improbable that the Program, or a significant part of it, will be carried out.

ARTICLE V — EFFECTIVENESS; TERMINATION

5.01. The Additional Condition of Effectiveness consists of the following, namely that, the Association is satisfied with the progress achieved by the Recipient in carrying out the Program and with the adequacy of the Recipient’s macroeconomic policy framework.

5.02. The Effectiveness Deadline is the date ninety (90) days after the date of this Agreement.

ARTICLE VI — REPRESENTATIVE; ADDRESSES

6.01. The Recipient’s Representative is its Minister responsible for finance.
6.02. The Recipient’s Address is:

Ministry of Finance, Planning and Economic Development  
P.O. Box 8147  
Kampala  
The Republic of Uganda  
Cable address: Telex: Facsimile:  
FINSEC 61170 230163

6.03. The Association’s Address is:

International Development Association  
1818 H Street, N.W.  
Washington, D.C. 20433  
United States of America  
Cable address: Telex: Facsimile:  
INDEVAS 248423(MCI) 1-202-477-6391  
Washington, D.C.

AGREED at Kampala, The Republic of Uganda, as of the day and year first above written.

THE REPUBLIC OF UGANDA

By:  
/s/ Syda N. Bbumba  
Authorized Representative

INTERNATIONAL DEVELOPMENT ASSOCIATION

By:  
/s/ Kundhavi Kadiresan  
Authorized Representative
SCHEDULE 1

Program Actions; Availability of Financing Proceeds

Section I. Actions under the Program

A. Actions Taken Under the Program. The actions taken by the Recipient under the Program include the following:

1. Budget Credibility: The Recipient has, in accordance with paragraph 15.2 of the Letter of Development Policy, section on economic management, ensured that:
   (a) actual annual budget releases for the sum of conditional grants to each of the four JBSF sectors (health, education, water and sanitation, and roads) were at least 95% of the corresponding approved budget allocations for the Fiscal Year 2008/2009; (b) budget releases for the sum of recurrent wage expenditure across the four sectors, the sum of recurrent non-wage expenditure across these sectors, and the sum of development expenditures across these sectors were in each case at least 95% of the corresponding approved budget allocations for the Fiscal Year 2008/2009; and (c) the Recipient’s Treasury has made budget releases to Spending Agencies on a quarterly basis, through the end of the first quarter of Fiscal Year 2009/2010.

2. Public Financial Management Compliance: In accordance with paragraph 15.3 (ii) of the Letter of Development Policy, section on good governance, the Recipient has made satisfactory progress in implementing its undertakings to develop a format for performance agreements for accounting officers including chief administrative officers) with an incentive and penalty system for non-compliance with public financial management regulations.

3. Public Procurement Compliance: In accordance with paragraph 15.3 (iii) of the Letter of Development Policy, section on good governance, the Recipient has ensured satisfactory implementation and monitoring of procurement regulations and systems at the central government and Local Government levels, and has established an agreed procurement performance indicator framework and ensured the availability of baseline data.

4. Performance of Public Servants: The Recipient has, in accordance with paragraph 15.3 (i) of the Letter of Development Policy, section on good governance, adopted the framework for attracting and retaining teachers and health personnel in Hard-to-Reach Areas.

5. Health: In accordance with paragraph 15.4 (ii) of the Letter of Development Policy, section on effective delivery of and improved access to core public services, the Recipient has provided evidence satisfactory to the Association as to
the establishment of a human resources for health management information system to provide information on levels and distribution of the health workforce.

6. Education: In accordance with paragraph 15.4 (i) of the Letter of Development Policy, section on effective delivery of and improved access to core public services, the Recipient has provided evidence satisfactory to the Association as to the signing of performance contracts, covering customized performance targets, with at least 90 percent of all head teachers in the 12 Districts with the weakest education sector indicators.

7. Water and Sanitation: In accordance with paragraph 15.4 (iii) of the Letter of Development Policy, section on effective delivery of and improved access to core public services, the Recipient has provided evidence satisfactory to the Association that water user committees under a community based maintenance system are actively functioning in at least 50% of Districts, and within these Districts at least 40% of water points are covered by water user committees.

8. Roads: In accordance with paragraphs 15.4 (iv) and (v) of the Letter of Development Policy, section on effective delivery of and improved access to core public services, the Recipient has provided evidence satisfactory to the Association that: (a) the board of directors as well as the executive director of the Road Fund have been appointed, and (b) Cabinet has approved a policy on strengthening national construction industry.

Section II. Availability of Financing Proceeds

A. General. The Recipient may withdraw the proceeds of the Financing in accordance with the provisions of this Section and such additional instructions as the Association may specify by notice to the Recipient.

B. Allocation of Financing Amounts. The Financing is allocated in a single withdrawal tranche, from which the Recipient may make withdrawals of the Financing. The allocation of the amounts of the Financing to this end is set out in the table below:

<table>
<thead>
<tr>
<th>Allocations</th>
<th>Amount of the Financing Allocated (expressed in SDR)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Single Tranche</td>
<td>SDR 65,900,000</td>
</tr>
<tr>
<td>TOTAL AMOUNT</td>
<td>SDR 65,900,000</td>
</tr>
</tbody>
</table>
C. **Withdrawal Tranche Release Conditions.**

1. No withdrawal shall be made of the Single Tranche unless the Association is satisfied (a) with the Program being carried out by the Recipient, and (b) with the appropriateness of the Recipient’s macroeconomic policy framework.

D. **Deposit of Financing Amounts.**

1. The Recipient shall open, prior to furnishing to the Association the first request for withdrawal from the Financing Account, and thereafter maintain the following two deposit accounts (“Deposit Accounts”) on terms and conditions satisfactory to the Bank:

   (a) a deposit account in United States Dollars (“Foreign Currency Deposit Account”); and

   (b) a deposit account in Ugandan Shillings (“Local Currency Deposit Account”).

2. All withdrawals from the Financing Account shall be deposited by the Association into the Foreign Currency Deposit Account. Upon each deposit of an amount of the Financing into the Foreign Currency Deposit Account, the Recipient shall deposit an equivalent amount into the Local Currency Deposit Account. All amounts withdrawn from the Local Currency Deposit Account shall be used exclusively for budgeted public expenditures.

E. **Audit.** Upon the Association’s request, the Recipient shall:

1. have both Deposit Accounts audited by independent auditors acceptable to the Association, in accordance with consistently applied auditing standards acceptable to the Association;

2. furnish to the Association as soon as available, but in any case not later than four months after the date of the Association’s request for such audit, a certified copy of the report of such audit, of such scope and in such detail as the Association shall reasonably request, and make such report publicly available in a timely fashion and in a manner acceptable to the Association; and

3. furnish to the Association such other information concerning the Deposit Accounts and their audit as the Association shall reasonably request.
F. **Excluded Expenditures.** The Recipient undertakes that the proceeds of the Financing shall not be used to finance Excluded Expenditures. If the Association determines at any time that an amount of the Financing was used to make a payment for an Excluded Expenditure, the Recipient shall, promptly upon notice from the Association, refund an amount equal to the amount of such payment to the Association. Amounts refunded to the Association upon such request shall be cancelled.

G. **Closing Date.** The Closing Date is March 31, 2012.
## SCHEDULE 2

**Repayment Schedule**

<table>
<thead>
<tr>
<th>Date Payment Due</th>
<th>Principal Amount of the Credit repayable (expressed as a percentage)*</th>
</tr>
</thead>
<tbody>
<tr>
<td>On each February 1 and August 1</td>
<td></td>
</tr>
<tr>
<td>commencing February 1, 2021 to and including August 1, 2030</td>
<td>1%</td>
</tr>
<tr>
<td>commencing February 1, 2031 to and including August 1, 2050</td>
<td>2%</td>
</tr>
</tbody>
</table>

* The percentages represent the percentage of the principal amount of the Credit to be repaid, except as the Association may otherwise specify pursuant to Section 3.03 (b) of the General Conditions.
APPENDIX

Section I. Definitions

1. “District” means a district as a unit for local administration within the context of the Recipient’s Local Governments Act, CAP 243.


3. “Excluded Expenditure” means any expenditure:

   (a) for goods or services supplied under a contract which any national or international financing institution or agency other than the Association or the Bank has financed or agreed to finance, or which the Association or the Bank has financed or agreed to finance under another credit, grant or loan;

   (b) 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 subgroups under future revisions to the SITC, as designated by the Association by notice to the Recipient:

<table>
<thead>
<tr>
<th>Group</th>
<th>Sub-group</th>
<th>Description of Item</th>
</tr>
</thead>
<tbody>
<tr>
<td>112</td>
<td></td>
<td>Alcoholic beverages</td>
</tr>
<tr>
<td>121</td>
<td></td>
<td>Tobacco, un-manufactured, tobacco refuse</td>
</tr>
<tr>
<td>122</td>
<td></td>
<td>Tobacco, manufactured (whether or not containing tobacco substitutes)</td>
</tr>
<tr>
<td>525</td>
<td></td>
<td>Radioactive and associated materials</td>
</tr>
<tr>
<td>667</td>
<td></td>
<td>Pearls, precious and semiprecious stones, unworked or worked</td>
</tr>
<tr>
<td>718</td>
<td>718.7</td>
<td>Nuclear reactors, and parts thereof; fuel elements (cartridges), non-irradiated, for nuclear reactors</td>
</tr>
<tr>
<td>728</td>
<td>728.43</td>
<td>Tobacco processing machinery</td>
</tr>
<tr>
<td>897</td>
<td>897.3</td>
<td>Jewelry of gold, silver or platinum group metals (except watches and watch cases) and goldsmiths’ or silversmiths’ wares (including set gems)</td>
</tr>
<tr>
<td>971</td>
<td></td>
<td>Gold, non-monetary (excluding gold ores and concentrates)</td>
</tr>
</tbody>
</table>
10

(c) for goods intended for a military or paramilitary purpose or for luxury consumption;

(d) for environmentally hazardous goods, the manufacture, use or import of which is prohibited under the laws of the Recipient or international agreements to which the Recipient is a party;

(e) on account of any payment prohibited by a decision of the United Nations Security Council taken under Chapter VII of the Charter of the United Nations; and

(f) with respect to which the Association determines that corrupt, fraudulent, collusive or coercive practices were engaged in by representatives of the Recipient or other recipient of the Financing proceeds, without the Recipient (or other such recipient) having taken timely and appropriate action satisfactory to the Association to address such practices when they occur.

4. “Fiscal Year” or “FY” means the Recipient’s fiscal year commencing on July 1 and ending on June 30 of the following year.

5. “Foreign Currency Deposit Account” means the account referred to in Part D. 1 (a) of Section II of Schedule 1 to this Agreement.

6. “General Conditions” means the “International Development Association General Conditions for Credits and Grants”, dated July 31, 2010 with the modifications set forth in Section II of this Appendix.

7. Hard-to-Reach Areas” means remote or insecure areas in Recipient’s territory that are unable to attract and retain sufficient numbers of motivated staff because of difficult living conditions.

8. “JBSF” means joint budget support framework, a cooperation mechanism for strengthening dialogue in implementing budget support and involving the Recipient and development partners supporting the Recipient’s poverty reduction strategy.

9. "Letter of Development Policy” means the letter dated August 19, 2010, from the Recipient to the Association, describing the Program (as hereinafter defined), and declaring the Recipient’s commitment to the execution of the Program, and requesting assistance from the Association in support of the Program during its execution.
10. “Local Currency Deposit Account” means the account referred to in Part D. 1 (b) of Section II of Schedule 1 to this Agreement.

11. “Local Government” means a local government established and operating pursuant to the Recipient’s Local Governments Act, CAP 243.

12. “Program” means the program of actions, objectives and policies designed to promote growth and achieve sustainable reductions in poverty and set forth or referred to in the Letter of Development Policy from the Recipient to the Association declaring the Recipient’s commitment to the execution of the Program, and requesting assistance from the Association in support of the Program during its execution.

13. “Road Fund” means Uganda Road Fund, the Recipient’s entity established and operating pursuant to the Uganda Road Fund Act of 2008.

14. “Spending Agencies” means Recipient’s ministries, departments and agencies identified in all government budget votes in the Recipient’s budget set out in the Recipient’s document entitled “Approved Estimates of Revenue and Expenditure FY (Recurrent and Development) 2009/10”.

15. “Single Tranche” means the amount of the Financing allocated to the category entitled “Single Tranche” in the table set forth in Part B of Section II of Schedule 1 to this Agreement.

Section II. Modifications to the General Conditions

The modifications to the General Conditions are as follows:

1. The last sentence of paragraph (a) of Section 2.03 (relating to Applications for Withdrawal) is deleted in its entirety.

2. Sections 2.04 (Designated Accounts) and 2.05 (Eligible Expenditures) are deleted in their entirety, and the remaining Sections in Article II are renumbered accordingly.

3. Sections 4.01 (Project Execution Generally), and 4.09 (Financial Management; Financial Statements; Audits) are deleted in their entirety, and the remaining Sections in Article IV are renumbered accordingly.

4. Paragraph (a) of Section 4.05 (renumbered as such pursuant to paragraph 3 above and relating to Use of Goods, Works and Services) is deleted in its entirety.
5. Paragraph (c) of Section 4.06 (renumbered as such pursuant to paragraph 3 above) is modified to read as follows:

“Section 4.06. Plans; Documents; Records

… (c) The Recipient shall retain all records (contracts, orders, invoices, bills, receipts and other documents) evidencing expenditures under the Financing until two years after the Closing Date. The Recipient shall enable the Association’s representatives to examine such records.”

6. Section 4.07 (renumbered as such pursuant to paragraph 3 above) is modified to read as follows:

“Section 4.07. Program Monitoring and Evaluation

… (c) The Recipient shall prepare, or cause to be prepared, and furnish to the Association not later than six months after the Closing Date, a report of such scope and in such detail as the Association shall reasonably request, on the execution of the Program, the performance by the Recipient and the Association of their respective obligations under the Legal Agreements and the accomplishment of the purposes of the Financing.”

7. The following terms and definitions set forth in the Appendix are modified or deleted as follows, and the following new terms and definitions are added in alphabetical order to the Appendix as follows, with the terms being renumbered accordingly:

(a) The definition of the term “Eligible Expenditure” is modified to read as follows:

“‘Eligible Expenditure’ means any use to which the Financing is put in support of the Program, other than to finance expenditures excluded pursuant to the Financing Agreement.”

(b) The term “Financial Statements” and its definition as set forth in the Appendix are deleted in their entirety.

(c) The term “Project” is modified to read “Program” and its definition is modified to read as follows:

“‘Program’ means the program referred to in the Financing Agreement in support of which the Financing is made.” All references to “Project” throughout these General Conditions are deemed to be references to “Program”.
