

**CREDIT NUMBER 3994 RW  
GRANT NUMBER H130 RW**

# **Development Financing Agreement**

**(Poverty Reduction Support Financing I)**

**between**

**REPUBLIC OF RWANDA**

**and**

**INTERNATIONAL DEVELOPMENT ASSOCIATION**

**Dated**

**, 2004**

**CREDIT NUMBER 3994 RW**  
**GRANT NUMBER H130 RW**

**DEVELOPMENT FINANCING AGREEMENT**

AGREEMENT, dated \_\_\_\_\_, 2004 between REPUBLIC OF RWANDA (the Borrower) and INTERNATIONAL DEVELOPMENT ASSOCIATION (the Association).

WHEREAS (A) the Borrower has issued a Poverty Reduction Strategy Paper (PRSP), dated July 2002, describing a program of actions, objectives and policies designed to promote rapid and sustainable development to reduce poverty in its territory;

(B) pursuant to the PRSP, the Borrower has issued a letter, dated September 16, 2004 (the Letter of Development Policy (LDP)), describing a program of actions, objectives and policies consistent with, and designed to give effect to, the PRSP (the Program), declaring the Borrower's commitment to the execution of the Program, and requesting assistance from the Association in support of the Program during the execution thereof;

(C) the Borrower has carried out the measures and taken the actions described in Schedule 2 to this Agreement to the satisfaction of the Association and has maintained a macroeconomic policy framework satisfactory to the Association;

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

NOW THEREFORE the parties hereto hereby agree as follows:

**ARTICLE I**

**General Conditions; Definitions**

Section 1.01. The "General Conditions Applicable to Development Credit Agreements" of the Association dated January 1, 1985 (as amended through May 1, 2004), with the modifications set forth in Schedule 3 to this Agreement (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) “Budget Execution Report” means the Borrower’s report, prepared by the Borrower’s Ministry of Finance and Economic Planning (as hereinafter defined), on implementation of the Borrower’s Budget;

(b) “Budget Framework Paper” means the Borrower’s document, prepared by the Borrower’s Ministry of Finance and Economic Planning, outlining the Borrower’s budget policy for the subsequent medium-term and intended budget allocations for the subsequent year;

(c) “Citizen’s Report Card” means the household survey of the Borrower’s citizens’ views on the relevance and quality of the Borrower’s public service delivery;

(d) “CNPE” means the Borrower’s *Centre National pour le Petit Elevage* (National Center for Small Livestock);

(e) “Country Procurement Issues Paper” or “CPIP” means the draft document, dated June 29, 2004, prepared by the Association and discussed with the Borrower, analyzing the Borrower’s public procurement policies, organization, and procedures and setting out an action plan aimed at improving the Borrower’s public procurement system;

(f) “Deposit Account” means the account referred to in Section 2.02 (b) of this Agreement;

(g) “Fiscal Year” or “FY” means the Borrower’s fiscal year beginning on January 1 in any one calendar year and ending on December 31 in the same calendar year;

(h) “Health Management Information System” means the Borrower’s system for the collection, analysis, and dissemination of information relating to health service delivery activities in the territory of the Borrower;

(i) “Mediator” means the person elected in each Sector (as hereinafter defined) under the Borrower’s Constitution of June 4, 2003, for purposes of dispute settlement;

(j) “Medium-Term Expenditure Framework” or “MTEF” means the transparent planning and budget formulation process within which the Cabinet and central agencies establish credible contracts for allocating public resources to their strategic priorities while ensuring overall fiscal discipline; and

(k) “Ministry of Finance and Economic Planning” or “MINECOFIN” means the Borrower’s ministry responsible for finance and economic planning;

(l) “Sector” means an administrative area of the Borrower, established pursuant to the Borrower’s Law No. 17/01 of July 9, 2004, representing a designated area and population within the territory of the Borrower; and

(m) “Universal Primary Education Completion” means the completion of primary education – defined as encompassing the period from the first to the sixth grades – by 100% of Rwandan children of an age cohort to be determined by the Borrower and set out in the sector strategy referred to in paragraph 4 of Schedule 2 to this Agreement.

## **ARTICLE II**

### **The Financing**

Section 2.01. The Association agrees to make available to the Borrower, on the terms and conditions set forth or referred to in this Agreement:

(a) an amount in various currencies equivalent to ten million three hundred thousand Special Drawing Rights (SDR 10,300,000) (the Credit); and

(b) an amount in various currencies equivalent to thirty-four million three hundred thousand Special Drawing Rights (SDR 34,300,000) (the Grant).

Section 2.02. (a) Subject to the provisions of paragraphs (b), and (c) of this Section, the Borrower shall be entitled to withdraw the proceeds of the Financing from the Financing Accounts in support of the Program.

(b) The Borrower shall open, prior to furnishing to the Association the first request for withdrawal from the Financing Accounts, and thereafter maintain in its central bank, a Deposit Account in Dollars on terms and conditions satisfactory to the Association. All withdrawals from the Financing Accounts shall be deposited by the Association into the Deposit Account.

(c) The Borrower undertakes that the proceeds of the Financing shall not be used to finance expenditures excluded pursuant to the provisions of Schedule 1 to this Agreement. If the Association shall have determined at any time that any proceeds of the Financing shall have been used to make a payment for an expenditure so excluded, the Borrower shall, promptly upon notice from the Association: (i) deposit into the Deposit Account an amount equal to the amount of said payment; or (ii) if the Association shall so request, refund such amount to the

Association. Amounts refunded to the Association upon such request shall be credited to the Financing Accounts for cancellation.

Section 2.03. The Closing Date shall be October 31, 2005 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: (i) 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; and (ii) a commitment charge on the principal amount of the Grant 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) Each commitment charge shall accrue: (i) from the 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 Grant Account (as the case may be) or canceled; and (ii) at the respective 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 respective 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) Each 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 April 15 and October 15 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 April 15 and October 15, commencing April 15, 2015 and ending October 15, 2044. Each installment to and including the installment payable on October 15, 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 (3) 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 the Association 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 (6) 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 (5) years on such repayment of principal.

(c) If so requested by the Borrower, the Association may revise the modification referred to in paragraph (b) above to include, in lieu of some or all of the increase in the amounts of such installments, the payment of interest at an annual rate agreed with the Association on the principal amount of the Credit withdrawn and outstanding from time to time, provided that, in the judgment of the Association, such revision shall not change the grant element obtained under the above-mentioned repayment modification.

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

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

### ARTICLE III

#### Particular Covenants

Section 3.01. (a) The Borrower undertakes to implement the Program with due diligence to ensure that actions and policies adopted under the Program are put into effect.

(b) The Borrower and the Association shall from time to time, at the request of either party, exchange views on the progress achieved in carrying out the Program.

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

(d) Without limitation upon the provisions of paragraph (b) of this Section, the Borrower shall exchange views with the Association on any proposed action to be taken after the disbursement of the Financing which would have the effect of materially reversing the objectives of the Program, or any action taken under the Program, including any action specified in Schedule 2 to this Agreement.

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

(a) have the Deposit Account audited in accordance with appropriate auditing principles consistently applied, by independent auditors acceptable to the Association;

(b) furnish to the Association as soon as available, but in any case not later than six (6) months after the date of the Association's request for such audit, a certified copy of the report of such audit by said auditors, of such scope and in such detail as the Association shall have reasonably requested; and

(c) furnish to the Association such other information concerning the Deposit Account and the audit thereof as the Association shall have reasonably requested.

#### **ARTICLE IV**

##### **Additional Event of Suspension**

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

#### **ARTICLE V**

##### **Effective Date; Termination**

Section 5.01. The date ninety (90) days after the date of this Agreement is hereby specified for the purposes of Section 12.04 of the General Conditions.



## ARTICLE VI

### Representative of the Borrower; Addresses

Section 6.01. 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 and Economic Planning  
P. O. Box 158  
Kigali  
Republic of Rwanda

Facsimile:

(250) 577 581

For the Association:

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

Cable address:

Telex:

Facsimile:

INDEVAS  
Washington, D.C.

248423 (MCI) or  
64145 (MCI)

(202) 477 6391

IN WITNESS WHEREOF, the parties hereto, acting through their duly authorized representatives, have caused this Agreement to be signed in their respective names in Kigali, Republic of Rwanda, as of the day and year first above written.

REPUBLIC OF RWANDA

By

Authorized Representative

INTERNATIONAL DEVELOPMENT ASSOCIATION

By

Authorized Representative

## SCHEDULE 1

### Excluded Expenditures

For purposes of Section 2.02 (c) of this Agreement, the proceeds of the Financing shall not be used to finance any of the following expenditures:

1. expenditures in the currency of the Borrower or for goods or services supplied from the territory of the Borrower;
2. expenditures for goods or services supplied under a contract which any national or international financing institution or agency other than the Bank or the Association shall have financed or agreed to finance, or which the Bank or the Association shall have financed or agreed to finance under another credit or a loan;
3. expenditures for goods included in the following groups or subgroups of the Standard International Trade Classification, Revision 3 (SITC, Rev.3), published by the United Nations in Statistical Papers, Series M, No. 34/Rev.3 (1986) (the SITC), or any successor groups or subgroups under future revisions to the SITC, as designated by the Association by notice to the Borrower:

<u>Group</u>	<u>Subgroup</u>	<u>Description of Items</u>
112	-	Alcoholic beverages
121	-	Tobacco, unmanufactured, tobacco refuse
122	-	Tobacco, manufactured (whether or not containing tobacco substitutes)
525	-	Radioactive and associated materials
667	-	Pearls, precious and semiprecious stones, unworked or worked

<u>Group</u>	<u>Subgroup</u>	<u>Description of Items</u>
718	718.7	Nuclear reactors, and parts thereof; fuel elements (cartridges), non-irradiated, for nuclear reactors
728	728.43	Tobacco processing machinery
897	897.3	Jewelry of gold, silver or platinum group metals (except watches and watch cases) and goldsmiths' or silversmiths' wares (including set gems)
971	-	Gold, non-monetary (excluding gold ores and concentrates)

4. expenditures for goods intended for a military or paramilitary purpose or for luxury consumption;

5. expenditures for environmentally hazardous goods (for purposes of this paragraph the term "environmentally hazardous goods" means goods, the manufacture, use or import of which is prohibited under the laws of the Borrower or international agreements to which the Borrower is a party);

6. expenditures on account of any payment to persons or entities, or any import of goods, if such payment or import is prohibited by a decision of the United Nations Security Council taken under Chapter VII of the Charter of the United Nations; and

7. expenditures under a contract in respect of which the Association determines that corrupt or fraudulent practices were engaged in by representatives of the Borrower or of a beneficiary of the Credit or Grant during the procurement or execution of such contract, without the Borrower having taken timely and appropriate action satisfactory to the Association to remedy the situation.

## **SCHEDULE 2**

### **Actions Referred to in Recital (C) of the Preamble to this Agreement**

#### **Private Sector-Led Growth**

1. The Borrower has brought Pfunda Tea Factory to the point of sale to qualified buyers, in accordance with paragraph 3 of the LDP.
2. The Borrower has brought CNPE Kabuye to the point of sale to qualified buyers, in accordance with paragraph 3 of the LDP.
3. For the purposes of the preceding two paragraphs, the phrase “brought . . . to the point of sale” means: (i) carried out an evaluation of the stocks of the concerned enterprise, on the basis, *inter alia*, of an evaluation of its assets and liabilities; (ii) prepared a prospectus for distribution to prospective buyers; (iii) solicited offers for the purchase of share capital; (iv) evaluated any such offers and selected successful bidders; and (v) invited the successful bidders to enter into good faith negotiations.

#### **Education**

4. The Borrower has prepared a sector strategy reflecting the Borrower’s preferred scenario for achievement of Universal Primary Education Completion by 2015 and including discussion of the fiscal sustainability of the implementation of such strategy.
5. The Borrower has reflected in its FY 2005 Budget and 2005-07 MTEF such strategy as described in the preceding paragraph, in accordance with paragraph 4 of the LDP.

#### **Health Services**

6. The Borrower has implemented performance-based remuneration schemes for high-impact services, including immunization, assisted deliveries, and antenatal care, in Butare and Cyangugu provinces, as evidenced by publication by the Borrower of the evaluation report on such schemes, in accordance with paragraph 5 of the LDP.
7. The Borrower has made provisions in its FY 2005 Budget Framework Paper to transfer at least 50% of the recurrent costs of such remuneration schemes as described in the preceding paragraph (Spending Area 3 in Budget Framework Paper: Health Center Performance/Results-Based Approach) from donor funding to its FY 2005 Budget, in accordance with paragraph 5 of the LDP.

8. The Borrower has increased Diphtheria Pertussis Tetanus third dose (DPT3) coverage to at least 80% of children having reached their first birthday between January 1 and June 30, 2004, as evidenced by data collected through the Borrower's Health Management Information System, in accordance with paragraph 5 of the LDP.

### **Public Expenditure Management**

9. The Borrower has maintained a macroeconomic policy framework satisfactory to the Association.

10. The Borrower has prepared its FY 2005 Budget Framework Paper, consistent with its macroeconomic policy framework, 2005-07 MTEF, and PRSP priorities, in accordance with paragraph 8 of the LDP.

11. The Borrower has prepared detailed output-oriented MTEFs for its education and health sectors, in accordance with paragraph 7 of the LDP.

12. The Borrower's Parliament has been submitted, through the Borrower's Auditor General and along with his opinion thereon, the Borrower's FY 2003 Budget Execution Report, in accordance with paragraph 7 of the LDP.

### **Transparency and Accountability**

13. The Borrower's Parliament has been submitted the draft Organic Budget Law, in accordance with paragraph 7 of the LDP.

14. The Borrower's Cabinet has approved the draft Public Procurement Law and recommendations of the CPIP, in accordance with paragraph 7 of the LDP.

15. The Borrower has published in its Official Gazette the legislation establishing the Office of the Ombudsman, in accordance with paragraph 7 of the LDP.

16. The Borrower has elected Mediators in all Sectors of its territory, in accordance with paragraph 7 of the LDP.

### **Monitoring and Evaluation**

17. The Borrower has prepared the PRSP Progress Report covering the second year (2003-2004) of PRSP implementation, in accordance with paragraph 8 of the LDP.

18. The Borrower has prepared draft survey questionnaires, including in relation to the quality of education and health services, on Citizen's Report Cards, in accordance with paragraph 8 of the LDP.



### **SCHEDULE 3**

#### **Modifications to the General Conditions**

For the purpose of this Agreement, the provisions of the General Conditions are modified as follows:

1. Section 1.01 is amended to read:

“These General Conditions set forth certain terms and conditions generally applicable to development financing granted by the Association as a development credit and development grant to its members. They apply to any development financing agreement providing for any such development finance to the extent and subject to any modifications set forth in such agreement.”

2. Paragraph 8 of Section 2.01 is amended to read as follows:

“8. “Development Financing Agreement” means the particular Development Financing Agreement to which these General Conditions apply, as such agreement may be amended from time to time. Development Financing Agreement includes these General Conditions as applied thereto, and all schedules and agreements supplemental to the Development Financing Agreement.”

3. Paragraph 12 of Section 2.01 is modified to read:

“12. “Project” means the Program, referred to in the Preamble to the Development Financing Agreement, in support of which the Financing is made.”

4. The following new paragraphs are added to Section 2.01:

“15. “Grant” means the development grant provided for in the Development Financing Agreement;”

“16. “Grant Account” means the account opened by the Association on its books in the name of the Borrower to which the amount of the Grant is credited;”

“17. “Financing” means, collectively, the Credit and the Grant;” and

“18. “Financing Accounts” means, collectively, the Credit Account and the Grant Account (or, where the context so requires, either of the Credit Account or the Grant Account).”

5. The term “Credit”, wherever used in the following Articles and Sections of the General Conditions, is amended to read “Financing”: Sections 2.01 (3), 2.01 (12), 4.01, Article V, Article VI (excluding Section 6.05), Section 7.01 (d), Article VIII and Article IX.

6. The term “Credit Account”, wherever used in the following Articles and Sections of the General Conditions, is amended to read “Financing Accounts”: Section 2.01 (6), 4.01, Article V, Article VI and Section 12.03.

7. The term “Development Credit Agreement”, wherever used in the General Conditions, is amended to read the Development Financing Agreement.

8. Section 3.01 is modified to read as follows:

“Section 3.01. Financing Accounts. The amount of the Credit shall be credited to the Credit Account and may be withdrawn from the Credit Account by the Borrower as provided in the Development Financing Agreement and in these General Conditions. The amount of the Grant shall be credited to the Grant Account and may be withdrawn from the Grant Account by the Borrower as provided in the Development Financing Agreement and in these General Conditions.”

9. Section 4.01 is modified to read:

“Except as the Borrower and the Association shall otherwise agree, withdrawals from the Financing Accounts shall be made in the currency of the deposit account specified in Section 2.02 of the Development Financing Agreement.”

10. Section 5.01 is modified to read:

“The Borrower shall be entitled to withdraw the proceeds of the Financing from the Financing Accounts in accordance with the provisions of the Development Financing Agreement and of these General Conditions.”

11. The last sentence of Section 5.03 is deleted.
12. The phrase “Development Financing Agreement or Development Grant Agreement” is added to Section 6.02 (a) (ii) after the words “any other Development Credit Agreement” and before the words “between the Borrower and the Association”, to Section 6.02 (c) (i) after the words “any Development Credit Agreement” and before the words “with the Association”, and to Section 7.01 (b) (i) after the words “any other Development Credit Agreement” and before the words “between the Borrower and the Association.”
13. Section 6.05 is amended to read as follows:

“Except as the Borrower and the Association shall otherwise agree, any cancellation of any amount of the Credit shall be applied *pro rata* to the several installments of the principal amount of the Credit maturing after the date of such cancellation.”
14. Paragraph (c) of Section 9.06 is modified to read as follows:

“(c) Not later than six months before the Closing Date or such later date as may be agreed for this purpose between the Borrower and the Association, the Borrower shall prepare and furnish to the Association a report, of such scope and in such detail as the Association shall reasonably request, on the execution of the program referred to in the Preamble to the Development Financing Agreement, the performance by the Borrower and the Association of their respective obligations under the Development Financing Agreement and the accomplishment of the purposes of the Financing.”
15. Section 9.04 is deleted and Sections 9.05, 9.06 (as modified above), 9.07 and 9.08 are renumbered, respectively, Sections 9.04, 9.05, 9.06 and 9.07.