

CONFORMED COPY

CREDIT NUMBER 2541 RW

Project Agreement

(Private Sector Development Project)

between

INTERNATIONAL DEVELOPMENT ASSOCIATION

and

BANQUE NATIONALE DU RWANDA

Dated November 18, 1993

CREDIT NUMBER 2541 RW

PROJECT AGREEMENT

AGREEMENT, dated November 18, 1993, between INTERNATIONAL DEVELOPMENT ASSOCIATION (the Association) and BANQUE NATIONALE DU RWANDA (BNR).

WHEREAS (A) by the Development Credit Agreement of even date herewith between Rwandese Republic (the Borrower) and the Association, the Association has agreed to make available to the Borrower an amount in various currencies equivalent to eight million seven hundred thousand Special Drawing Rights (SDR 8,700,000), on the terms and conditions set forth in the Development Credit Agreement, but only on condition that BNR agree to undertake such obligations toward the Association as are set forth in this Agreement;

(B) by a Subsidiary Loan Agreement to be entered into between the Borrower and BNR, a portion of the proceeds of the Credit provided for under the Development Credit Agreement will be relent to BNR on the terms and conditions set forth in said Subsidiary Loan Agreement; and

WHEREAS (C) BNR, in consideration of the Association's entering into the Development Credit Agreement with the Borrower, has agreed to undertake the obligations set forth in this Agreement.

NOW THEREFORE the parties hereto hereby agree as follows:

ARTICLE I

Definitions

Section 1.01. Unless the context otherwise requires, the several terms defined in the Development Credit Agreement, the Preamble to this Agreement and in the General Conditions (as so defined) have the respective meanings therein set forth.

ARTICLE II

Execution of the Project

Section 2.01. (a) BNR declares its commitment to the objectives of the Project as set forth in Schedule 2 to the Development Credit Agreement and, to this end, shall carry out Parts A and C.3 of the Project with due diligence and efficiency and in conformity with appropriate administrative, financial, engineering and banking practices, and shall provide, or cause to be provided, promptly as needed, the funds, facilities, services and other resources required for Parts A and C.3 of the Project.

(b) Without limitation upon the provisions of paragraph (a) of this Section and except as the Association and BNR shall otherwise agree, BNR shall carry out Part A of the Project in accordance with the Implementation Program set forth in Schedule 1 to this Agreement.

Section 2.02. Except as the Association shall otherwise agree, procurement of the goods and works required for Parts A and C.3 of the Project and to be financed out of the proceeds of the Credit shall be governed by the provisions of Schedule 3 to the Development Credit Agreement.

Section 2.03. (a) BNR undertakes that unless the Association shall otherwise agree, Subloans shall be made in accordance with the procedures and on the terms and conditions set forth in Schedule 2 to this Agreement.

(b) BNR shall exercise its rights in relation to each Investment Project in such manner as to: (i) protect the interests of the Association and BNR; (ii) comply with its obligations under this Agreement and the Subsidiary Loan Agreement; and (iii) achieve the purposes of the Project.

Section 2.04. BNR shall carry out the obligations set forth in Sections 9.03, 9.04, 9.05, 9.06, 9.07 and 9.08 of the General Conditions (relating to insurance, use of goods and services, plans and schedules, records and reports, maintenance and land acquisition, respectively) in respect of the Project Agreement and Parts A and C.3 of the Project.

Section 2.05. BNR shall duly perform all its obligations under the Subsidiary Loan Agreement. Except as the Association shall otherwise agree, BNR shall not take or concur in any action which would have the effect of amending, abrogating, assigning or waiving the Subsidiary Loan Agreement or any provision thereof.

Section 2.06. (a) BNR shall, at the request of the Association, or at its own initiative, exchange views with the Association with regard to the progress of Parts A and C.3 of the Project, the performance of its obligations under this Agreement and under the Subsidiary Loan Agreement, and other matters relating to the purposes of the Credit.

(b) BNR shall promptly inform the Association of any condition which interferes or threatens to interfere with the progress of Parts A and C.3 of the Project, the accomplishment of the purposes of the Credit, or the performance by BNR of its obligations under this Agreement and under the Subsidiary Loan Agreement.

ARTICLE III

Financial Covenants

Section 3.01. (a) BNR shall cause DPM to maintain procedures and accounts adequate to monitor and record the progress of Parts A and C.3 of the Project and of each Investment Project (including its cost and the benefits to be derived from it) and to reflect, in accordance with consistently maintained sound accounting practices, its operations and financial condition.

(b) BNR shall cause DPM to:

- (i) have its records, accounts and financial statements (balance sheets, statements of income and expenses and related statements) for each fiscal year audited, in accordance with appropriate auditing principles consistently applied, 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: (A) certified copies of its financial statements for such year as so audited; and (B) the report of such audit by said auditors, of such scope and in such detail as the Association shall have reasonably requested; and
- (iii) furnish to the Association such other information concerning said records, accounts and financial statements as well as the audit thereof, as the Association shall 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 statements of expenditure, the BNR shall:

- (i) maintain or cause to be maintained, in accordance with paragraph (a) of this Section, records and accounts reflecting such expenditures;
- (ii) retain, until at least one year after the Association has received the audit report for the fiscal year in which the last withdrawal from the Credit Account or payment out of the Special Account A was made, all records (contracts, orders, invoices, bills, receipts and other documents) evidencing such expenditures;
- (iii) enable the Association's representatives to examine such records; and
- (iv) ensure that such records and accounts are included in the annual audit referred to in paragraph (b) of this Section and that the report of such audit contains a separate opinion by said auditors as to whether the statements of expenditure submitted during such fiscal year, together with the procedures and internal controls involved in their preparation, can be relied upon to support the related withdrawals.

Section 3.02. BNR shall take such steps satisfactory to the Association as shall be necessary to protect itself against risk of loss resulting from changes in the rates of exchange between the various currencies, including Rwandese Franc, used in its operations.

ARTICLE IV

Effective Date; Termination;
Cancellation and Suspension

Section 4.01. This Agreement shall come into force and effect on the date upon which the Development Credit Agreement becomes effective.

Section 4.02. (a) This Agreement and all obligations of the Association and of BNR thereunder shall terminate on the earlier of the following two dates:

- (i) the date on which the Development Credit Agreement shall terminate in accordance with its terms; or
- (ii) the date twenty years after the date of this Agreement.

(b) If the Development Credit Agreement terminates in accordance with its terms before the date specified in paragraph (a) (ii) of this Section, the Association shall promptly notify BNR of this event.

Section 4.03. All the provisions of this Agreement shall continue in full force and effect notwithstanding any cancellation or suspension under the General Conditions.

ARTICLE V

Miscellaneous Provisions

Section 5.01. Any notice or request required or permitted to be given or made under this Agreement, and any agreement between the parties contemplated by this Agreement, shall be in writing. Such notice or request shall be deemed to have been duly given or made when it shall be delivered by hand or by mail, telegram, cable, telex or radiogram to the party to which it is required or permitted to be given or made at such party's address hereinafter specified or at such other address as such party shall have designated by notice to the party giving such notice or making such request. The addresses so specified are:

For the Association:

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

Cable address:

INDEVAS
Washington, D.C.

Telex:

248423 (RCA)
82987 (FTCC)
64145 (WUI) or
197688 (TRT)

For BNR:

The Governor
National Bank of Rwanda
P.O.Box 531
Kigali
Rwandese Republic

Cable address:

Telex:

(909)22508 BNR RW

Telefax:

(250)72551

Section 5.02. Any action required or permitted to be taken, and any document required or permitted to be executed, under this Agreement on behalf of BNR, or by BNR on behalf of the Borrower under the Development Credit Agreement, may be taken or executed by the Governor of BNR or such other person or persons as BNR shall designate in writing, and BNR shall furnish to the Association sufficient evidence of the authority and the authenticated specimen signature of each such person.

Section 5.03. This Agreement may be executed in several counterparts, each of which shall be an original, and all collectively but one instrument.

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

INTERNATIONAL DEVELOPMENT ASSOCIATION

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

BANQUE NATIONALE DU RWANDA

By /s/ Aloys Uwimana
Authorized Representative

SCHEDULE 1

Implementation Program
for Part A of the Project

1. Under Part A of the Project, BNR shall onlend funds to PFIs as demand for Investment Project arises. PFIs shall make medium- and long-term Subloans for the purposes referred to in Schedule 2 to this Agreement. The line of credit will be managed by BNR through DPM to which necessary power shall be delegated, inter alia, for approving the application for refinancing from the PFI.

2. BNR shall, for the purposes of Part A of the Project, provide adequate human and physical resources to the DPM satisfactory to the Association and in accordance with the Subsidiary Loan Agreement.

(a) Functions:

The DPM shall, inter alia:

- (i) ensure adherence of PFIs to established procedures in selecting eligible Investment Projects and ensure application of appropriate standards for Subloan appraisals;
- (ii) review eligibility and authorize financing under Part A of the Project for Investment Projects submitted by PFIs. For Investment Projects estimated to cost the equivalent of \$350,000 or less each, DPM shall ensure that the requests meet the eligibility criteria and give its approval within five working days from submission. For Investment Projects estimated to cost the equivalent of more than \$350,000, DPM shall review the requests in more detail, give its comments on the quality of

the appraisal to the PFI and ensure that the eligibility and financing criteria are met, all within a maximum period of ten working days;

- (iii) ensure liaison between the Association, the PFIs and other donors on matters related to the Project;
- (iv) ensure, through the PFIs, that potential beneficiaries are provided guidance in the preparation of Investment Projects including safeguards for projects with potential environmental hazards, and appropriate procurement procedures;
- (v) cause to ensure that all subprojects provide for a satisfactory environmental impact assessment;
- (vi) organize training courses and seminars in project appraisal and supervision techniques for BNR and other bank staff;
- (vii) manage Subloan disbursement and collect operations upon approval; and
- (viii) cause to ensure that the investment projects are effectively supervised by the PFIs.

(b) BNR will receive a spread of interest of one percent per annum, on the outstanding amount of Subloans to cover its administrative and material expenses resulting from the management of these sub-loans; this spread will be reviewed periodically by the Association and BNR to ensure that it covers the actual administrative and material expenses of BNR.

SCHEDULE 2

Terms and Conditions of Subloans and Investments

1. (a) Lending Terms Subloans approved by PFIs will carry variable lending rates which will be reviewed at least once a year by BNR and the Association to ensure that they reflect the real cost of resources and remain positive in real terms. PFIs shall be charged a variable interest rate equal to the three-months average interest yield on one year bank deposits or such other rates as may be determined by the Borrower and BNR in consultation with the Association. Repayment periods of Subloans shall not exceed thirteen years, including a grace period of two to three years.

(b) PFIs Eligibility Criteria. Any commercial bank, development bank or financial institution registered in the Rwandese Republic and engaged or willing to engage in medium or long-term lending will be eligible as a PFI, provided it submits to BNR (i) annually, independently audited and satisfactory annual financial accounts and statements; (ii) an undertaking to reinforce its loan supervision and collection of bad debt; to maintain or reinforce a sound internal auditing and accounting procedures; and to upgrade and train its professional staff; (iii) an undertaking to maintain satisfactory capital adequacy ratio; and (iv) an undertaking to bear all credit risk.

(c) In addition to the criteria specified in (b) above, BRD shall be required to implement an action plan, agreed upon and satisfactory to the Association, which shall include, inter alia, increased provisions for loan risks and reduction of staff, to eliminate its operating losses and maintain adequate profitability levels.

(d) Accreditation of PFIs shall become effective after conclusion of Participating Agreement. Said accreditation will be based on a review by BNR and approval by the Association. If

accreditation is not granted, the concerned institution will be informed of the reasons. Such institution can renew its application after complying with the requirements. Accreditation may be withdrawn in the event of the failure of a PFI to comply at any time with the requirements set forth above and in the Participating Agreements.

(e) Investment Enterprise Eligibility. Unless otherwise agreed upon by the Association, the criteria for an Investment Enterprise to be eligible for a Subloan include:

- (i) a determination that the Investment Project is technically feasible, financially and economically viable and environmentally sound;
- (ii) a minimum expected financial rate of return of at least 10 percent in constant price. In addition, for Investment Projects estimated to cost US\$350,000 or more, a minimum expected economic rate of return of 10 percent, in real terms, will be required;
- (iii) a minimum projected debt service coverage of 1.5 over the life of the Investment Project, and a maximum debt to equity ratio of 2.33:1.00, calculated on the basis of the Investment Enterprise's total debts; and
- (iv) the Investment Project satisfies environmental impact tests to be undertaken as deemed necessary by DMP and the Association.

(f) Eligible Activities. All productive Investment Projects, including investments in associated permanent or self-standing working capital for industrial projects, contributing to the economic development of the Rwandese Republic, with the exception of land acquisition, land development for housing, housing or office construction, purchase of existing productive assets and investments by enterprises with majority direct or indirect state-ownership will be eligible for financing under the Project.

(g) Lending Limits (i) Subloans for any Investment Project for extension or rehabilitation of existing facilities may not exceed eighty percent (80%) of its total investment project cost; and (ii) Subloans for any other Investment Project may not exceed seventy (70%) percent of the proposed Investment Project cost.

2. No expenditures for goods or services required for an Investment Project shall be eligible for financing out of the proceeds of the Credit unless:

(a) the Subloan for such Investment Project shall have been approved by the Association and such expenditures shall have been made not earlier than ninety days prior to the date on which the Association shall have received the application and information required under paragraph 3 (a) of this Schedule in respect of such Subloan or Investment; or

(b) the Subloan for such Investment Project shall have been a free-limit Subloan for which the Association has authorized withdrawals from the Credit Account and such expenditures shall have been made not earlier than ninety days prior to the date on which the Association shall have received the request and information required under paragraph 3 (b) of this Schedule in respect of such free-limit Subloan. For the purposes of the Development Credit Agreement and this Agreement, a free-limit Subloan shall be a Subloan for an Investment Project in an amount to be financed out of the proceeds of the Credit which shall not exceed the sum of \$900,000 equivalent, when added to any other outstanding amounts financed or proposed to be financed out of the proceeds of the Credit or of any other credit, provided for in any outstanding development credit agreement between the Borrower and the Associa-

tion entered into before the date of this Agreement, the proceeds of which have been or are being used for financing goods and services directly and materially related to such Investment Project, the foregoing amount being subject to change from time to time as determined by the Association; provided that the first three Subloans (and in any event the first Subloan based on an appraisal report requiring an economic rate of return calculation) presented for approval by PFI's respectively, with the exception of BRD, shall not be free limit Subloans.

3. (a) When presenting a Subloan (other than a free-limit Subloan) or an Investment to the Association for approval, BNR shall furnish to the Association an application, in form satisfactory to the Association, together with (i) a description of the Investment Enterprise and an appraisal of the Investment Project, including a description of the expenditures proposed to be financed out of the proceeds of the Credit; (ii) the proposed terms and conditions of the Subloan or Investment, including the schedule of amortization of the Subloan or of repayment of the amount of the Credit to be used for the Investment; and (iii) such other information as the Association shall reasonably request.

(b) Each request by BNR for authorization to make withdrawals from the Credit Account in respect of a free-limit Subloan shall contain: (i) a summary description of the Investment Enterprise and the Investment Project, including a description of the expenditures proposed to be financed out of the proceeds of the Credit, and (ii) the terms and conditions of the Subloan, including the schedule of amortization therefor.

(c) Applications and requests made pursuant to the provisions of sub-paragraphs (a) and (b) of this paragraph shall be presented to the Association on or before December 31, 1997.

4. Subloans shall be made on terms whereby BNR shall obtain, by written contract with the Investment Enterprise or by other appropriate legal means, rights adequate to protect the interests of the Association and BNR, including, in the case of any Subloan and, to the extent that it shall be appropriate, in the case of any Investment, the right to:

(a) require the Investment Enterprise to carry out and operate the Investment Project with due diligence and efficiency and in accordance with sound technical, financial and managerial standards and to maintain adequate records;

(b) require that the goods and services to be financed out of the proceeds of the Credit shall be purchased at a reasonable price, from suppliers or contractors eligible under "the Guidelines for Procurement under IBRD Loans and IDA Credits" published by the Bank in May 1992, account being taken also of other relevant factors such as time of delivery and efficiency and reliability of the goods and availability of maintenance facilities and spare parts therefor, and in the case of services, of their quality and the competence of the parties rendering them; and such goods and services shall be used exclusively in the carrying out of the Investment Project;

(c) cause to be inspected, by itself or jointly with representatives of the Association if the Association shall so request, such goods, works, plants and construction included in the Investment Project, the operation thereof, and any relevant records and documents;

(d) require that: (i) the Investment Enterprise shall take out and maintain with responsible insurers such insurance, against such risks and in such amounts, as shall be consistent with sound business practice; and (ii) without any limitation upon the foregoing, such insurance shall cover hazards incident to the acquisition, transportation and delivery of goods financed out of the proceeds of the Credit to the place of use or installation, any indemnity thereunder to be made payable in a currency freely usable by the Investment Enterprise to replace or repair such goods;

(e) obtain all such information as the Association or BNR shall reasonably request relating to the foregoing and to the management, operations and financial condition of the Investment Enterprise and to the benefits to be derived from the Investment Project; and

(f) suspend or terminate the right of the Investment Enterprise to the use of the proceeds of the Credit upon failure by such Investment Enterprise to perform its obligations under its contract with PFI.

