

CONFORMED COPY

GRANT NUMBER H189 RW

Development Grant Agreement

(Second Poverty Reduction Support Grant)

between

REPUBLIC OF RWANDA

and

INTERNATIONAL DEVELOPMENT ASSOCIATION

Dated December 2, 2005

CONFORMED COPY

GRANT NUMBER H189 RW

DEVELOPMENT GRANT AGREEMENT

AGREEMENT, dated December 2, 2005, between the REPUBLIC OF RWANDA (the Recipient) and INTERNATIONAL DEVELOPMENT ASSOCIATION (the Association).

WHEREAS (A) the Association has received from the Recipient a letter dated October 7, 2005, 2005 (the Letter of Development Policy (LDP)), describing a program of actions, objectives and policies designed to promote growth and achieve sustainable reductions in poverty (hereinafter called the Program), declaring the Recipient's commitment to the execution of the Program, and requesting assistance from the Association in support of the Program during the execution thereof;

(B) the Recipient 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;

(C) on the basis, *inter alia*, of the foregoing, the Association has decided in support of the Program to provide such assistance to the Recipient by making the Grant in one (1) tranche as hereinafter provided; and

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 Framework Paper” means the Recipient’s document, prepared by its Ministry of Finance and Economic Planning (as hereinafter defined), outlining its budget policy for the subsequent medium-term and intended budget allocations for the subsequent year;

(b) “Budget Execution Report” means the Recipient’s report, prepared by its Ministry of Finance and Economic Planning (as hereinafter defined), on implementation of the Recipient’s Budget;

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

(d) “COMESA” means the Common Market for Eastern and Southern Africa;

(e) “Contract for the Management of ELECTROGAZ” means the contract for the management of ELECTROGAZ (as hereinafter defined), signed on behalf of the Recipient on August 28, 2003 and Lahmeyer International GmbH on September 5, 2003;

(f) “Development Assistance Committee” means the principal body through which the Organization for Economic Cooperation and Development addresses issues relating to cooperation with developing countries;

(g) “Directorate of Water and Sanitation” means the unit within the Recipient’s Ministry of Lands, Environment, Forests, Water, and Natural Resources (as hereinafter defined) responsible for water and sanitation;

(h) “District” means an administrative area of the Recipient, established pursuant to the Recipient’s Law No. 04/2001 of January 13, 2001, representing a designated area and population within the territory of the Recipient;

(i) “Education Sector Strategic Plan” means the document setting out the Recipient’s policies, programs, and financing strategy for its education sector;

(j) “ELECTROGAZ” means *Etablissement Public de Production, de Transport, et de Distribution d’Electricité, d’Eau, et de Gaz* (Public Establishment for Production, Transport, and Electricity, Water, and Gas Distribution), a governmental

enterprise established and operating under the Recipient's Law No. 18/76 of April 20, 1976, as amended by its Law No. 18/99 of August 30, 1999;

(k) "Medium-Term Expenditure Framework" or "MTEF" means the transparent planning and budget formulation process within which the Cabinet establishes credible envelopes for allocating public resources to its strategic priorities while ensuring overall fiscal discipline;

(l) "Ministry of Finance and Economic Planning" means the Recipient's ministry responsible for finance and economic planning;

(m) "Ministry of Lands, Environment, Forests, Water, and Natural Resources" means the Recipient's ministry responsible for lands, environment, forests, water, and natural resources;

(n) "OECD" means the Organization for Economic Cooperation and Development;

(o) "Office of the Accountant General" means the Recipient's office established pursuant to the Recipient's Cabinet Decision of February 13, 2005 and which is responsible for accounting and treasury matters;

(p) "Office of the Ombudsman" means the Recipient's office established pursuant to the Recipient's Law No. 25/2003 of June 15, 2003 and which is responsible for investigation of allegations of abuse of office and corruption by public officials;

(q) "Poverty Reduction Strategy Paper" or "PRSP" means the document setting out a country's macroeconomic, structural, and social policies and programs to promote growth and reduce poverty, as well as associated external financing needs, prepared by governments through a participatory process involving civil society and development partners, including the World Bank and the International Monetary Fund;

(r) "Province" means an administrative area of the Recipient, established pursuant to the Recipient's Law No. 43/2000 of December 29, 2000, representing a designated area and population within the territory of the Recipient;

(s) "Rwanda Utilities Regulatory Agency" means the Recipient's agency established and operating under its Law No. 39/2001 of September 13, 2001 and responsible for the regulation of public utilities;

(t) “*RwandaTel*” means the *Société Rwandaise de Télécommunications* or the Rwandan Telecommunications Company; and

(u) “*Rwandex*” means the Recipient’s company engaged in the processing and export of coffee and hides as well as general merchandising.

ARTICLE II

The Grant

Section 2.01. The Association agrees to make available to the Recipient, on the terms and conditions set forth or referred to in this Agreement, an amount in various currencies equivalent to thirty-seven million six hundred thousand Special Drawing Rights (SDR 37,600,000).

Section 2.02. (a) Subject to the provisions of paragraphs (b), (c) and (d) of this Section, the Recipient shall be entitled to withdraw the proceeds of the Grant from the Grant Account in support of the Program.

(b) Except as the Association may otherwise agree: (i) all withdrawals from the Grant Account shall be deposited by the Association into an account in Dollars designated by the Recipient and acceptable to the Association (Deposit Account); and (ii) the Recipient shall ensure that upon each deposit of an amount of the Grant into said account, an equivalent amount is accounted for in the Recipient’s budget management system, in a manner acceptable to the Association.

(c) The Recipient undertakes that the proceeds of the Grant shall not be used to finance expenditures excluded pursuant to the provisions of Schedule 1 to this Agreement. If the Association determines at any time that an amount of the Grant was used to make a payment for an expenditure so excluded, the Recipient shall, promptly upon notice from the Association, refund an amount equal to the amount of said payment to the Association. Amounts refunded to the Association upon such request shall be cancelled.

Section 2.03. The Closing Date shall be December 31, 2006 or such later date as the Association shall establish. The Association shall promptly notify the Recipient of such later date.

Section 2.04. (a) The Recipient shall pay to the Association 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) 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 Recipient from the Grant Account or cancelled; 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 Recipient; 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. Commitment charges shall be payable semiannually on April 15 and October 15 in each year.

Section 2.06. 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 Recipient 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.

(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.

(c) Without limitation upon the provisions of paragraph (a) of this Section, the Recipient shall exchange views with the Association on any proposed action to be taken after the disbursement of the Grant 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. Without limitation upon the provisions of Section 9.01 (a) of the General Conditions, the Recipient shall promptly furnish to the Association such information relating to the provisions of Article II of this Agreement as the Association may, from time to time, reasonably request.

Section 3.03. Upon the Association's request, the Recipient 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

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 Recipient; Addresses**

Section 6.01. The minister of the Recipient at the time responsible for finance and economic planning is designated as the representative of the Recipient 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 Recipient:

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 /s/ Paul Manasseh Nshuti
Authorized Representative

ASSOCIATION INTERNATIONAL DEVELOPMENT

By /s/ Pedro Alba
Authorized Representative
Africa Region

SCHEDULE 1

Excluded Expenditures

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

1. 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 Association or the Bank shall have financed or agreed to finance under another credit, loan, or grant;
2. 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 Recipient:

<u>Group</u>	<u>Subgroup</u>	<u>Description of Items</u>
112	-	Alcoholic beverages
121	-	Tobacco, manufactured tobacco refuse
122 manufactured	-	Tobacco, (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)

3. expenditures for goods intended for a military or paramilitary purpose or for luxury consumption;
4. 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 Recipient or international agreements to which the Recipient is a party;
5. 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
6. expenditures under a contract in respect of which the Association determines that corrupt, fraudulent, collusive, or coercive practices were engaged in by representatives of the Recipient or of a beneficiary of the Grant during the procurement or execution of

such contract, without the Recipient having taken timely and appropriate action satisfactory to the Association to remedy the situation.

SCHEDULE 2**Actions Referred to in Recital (B) of the Preamble to this Agreement****A. Private-Sector Led Growth**

1. The Recipient has brought *RwandaTel*, *Rwandex*, and the Nshili-Kivu tea plantation to the point of sale to qualified buyers, in accordance with paragraph 3 of the LDP.

2. For the purposes of the preceding paragraph, 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.

3. The Recipient has initiated the privatization process of the Bugarama, Gikonko, and Rwamagana rice factories, in accordance with paragraph 3 of the LDP.

4. For the purposes of the preceding paragraph, the phrase “initiated the privatization process” 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; and (iii) solicited offers for the purchase of share capital.

B. Education

5. The Recipient’s 2006-08 MTEF ceilings and 2006 Budget Framework Paper are consistent with its Education Sector Strategic Plan, in accordance with paragraph 4 of the LDP.

6. The Recipient has presented its Education MTEF to its development partners in July 2005, in accordance with paragraph 4 of the LDP.

C. Health Services

7. The Recipient has carried out a comparative review of the two (2) pilot performance-based remuneration schemes for high-impact services implemented from January to December 2004, in accordance with paragraph 5 of the LDP.

8. The Recipient has made provisions in its 2006 Budget Framework Paper to transfer at least 75% of the recurrent costs of the remuneration schemes referred to in the preceding paragraph from donor funding to its 2006 Budget (Budget Framework Paper: Section 4.2. c: Results-Based Allocation), in accordance with paragraph 5 of the LDP.

D. Water Sector

9. The Recipient has developed guidelines to assist Districts in contracting private operators for management of new or rehabilitated water adduction systems, in accordance with paragraph 6 of the LDP.

10. Management contracts for new or rehabilitated water adduction systems have been concluded in at least one (1) District in each of the four (4) pilot Provinces of Butare, Cyangugu, Gitarama, and Byumba, in accordance with paragraph 6 of the LDP.

E. Energy Sector

11. The Recipient has, through the Rwanda Utilities Regulatory Agency, approved revised ELECTROGAZ tariffs, in accordance with paragraph 7 of the LDP.

12. The Recipient has revised the performance indicators set out in the Contract for the Management of ELECTROGAZ, in accordance with paragraph 7 of the LDP.

F. Public Expenditure Management

13. The Recipient has submitted its draft 2006 budget law to Cabinet, consistent with its macroeconomic policy framework, 2006-08 MTEF, including detailed, output-oriented MTEFs for the education, energy, health, and water sectors, and Poverty Reduction Strategy Paper priorities, in accordance with paragraph 9 of the LDP.

14. The Recipient has submitted to Parliament, through its Auditor General and along with his opinion thereon, its 2004 Budget Execution Report, in accordance with paragraph 9 of the LDP.

15. The Recipient has established the Office of the Accountant General and commissioned a study to determine ways of supporting its operationalization, in accordance with paragraph 9 of the LDP.

16. The Recipient has commissioned a capacity needs assessment in respect of accountants and internal auditors in its civil service at the central level, in accordance with paragraph 9 of the LDP.

G. Transparency and Accountability

17. The Recipient's Organic Budget Law has been adopted by the Lower Chamber of Parliament, in accordance with paragraph 10 of the LDP.

18. The Recipient has submitted to Parliament a revised draft public procurement law which establishes a new independent regulatory body, notably with _____ responsibility _____ for:
(a) provision of advice to contracting entities; (b) preparation of amendments to the legislative and regulatory framework and implementing regulations for public procurement; and (c) provision of implementation tools and documents to support training and capacity building of implementation staff, all consistent with international best practice, specifically the OECD Development Assistance Committee and COMESA public procurement guidelines, in accordance with paragraph 10 of the LDP.

19. The Recipient has prepared the 2005-07 action plan for the Office of the Ombudsman, in accordance with paragraph 10 of the LDP.

H. Monitoring and Evaluation

20. The Recipient has prepared the PRSP Annual Progress Report covering the third year (2004-05) of PRSP implementation, in accordance with paragraph 11 of the LDP.

21. The Recipient has published the results of a baseline pilot survey of Citizen Report Cards relating to the quality of education and health services, in accordance with paragraph 11 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. Sections 3.02, 3.03, 3.04 (a), 3.04 (b), 3.05, 6.05, and Article VII are deleted in their entirety.
2. Wherever used in the General Conditions, the following terms are modified to read as follows:
 - (a) The term “Borrower” is modified to read “Recipient”.
 - (b) The term “Credit” is modified to read “Grant”.
 - (c) The term “credit” is modified to read “grant”; except that where used in Sections 6.02 (a) (ii) and 6.02 (c) (i), as modified below, the term “credit” shall continue to read “credit”.
 - (d) The term “Credit Account” is modified to read “Grant Account”.
 - (e) The term “Development Credit Agreement” is modified to read “Development Grant 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 Grant Agreement, in support of which the Grant is made.”

4. Article IV is modified as follows:

(a) Section 4.01 is modified to read:

“Except as the Recipient and the Association shall otherwise agree, withdrawals from the Grant Account shall be made in the currency specified in Section 2.02 (b) of the Development Grant Agreement; provided, however, that withdrawals in the currency of the Recipient shall be made in such currency or currencies as the Association shall from time to time reasonably select.”;

(b) Section 4.02 (a) and its heading are modified to read as follows:

“Section 4.02 Currencies in which Commitment Charges are Payable

(a) The Recipient shall pay the commitment charge on the Grant in the currency specified in the Development Grant Agreement or in such other eligible currency or currencies as may from time to time be designated or selected pursuant to paragraph (c) or (e) of this Section.”

(c) Wherever used in Section 4.02 (c) and (e) of the General Conditions, the words “principal and service charges” are modified to read “commitment charge”.

(d) Section 4.03 and its heading are modified to read as follows:

“Section 4.03. Amount of the Grant

The amount of the Grant withdrawn from time to time shall be the equivalent in terms of SDR (determined as of the date or respective dates of withdrawal from the Grant Account) of the value of the currency or currencies so withdrawn.”

5. Section 5.01 is modified to read:

“The Recipient shall be entitled to withdraw the proceeds of the Grant from the Grant Account in accordance with the provisions of the Development Grant Agreement and of these General Conditions.”

6. The last sentence of Section 5.03 is deleted.

7. Section 6.02 is modified as follows:
 - (a) The phrase “any other development credit agreement” in Section 6.02 (a) (ii) is modified to read: “any other development grant, credit or financing agreement”.
 - (b) The phrase “any development credit agreement” in Section 6.02 (c) (i) is modified to read: “any development grant, credit or financing agreement”.
8. The words “The principal of, and any other charges on” in paragraph (a) of Section 8.01 are modified to read “The commitment charge on”.
9. Section 9.06 (c) is modified to read:

“(c) Not later than six months after the Closing Date or such later date as may be agreed for this purpose between the Recipient and the Association, the Recipient 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 Grant Agreement, the performance by the Recipient and the Association of their respective obligations under the Development Grant Agreement and the accomplishment of the purposes of the Grant.”
10. Section 9.04 is deleted in its entirety 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.