

CONFORMED

CREDIT NUMBER 3955 RW

Development Credit Agreement

(Public Sector Capacity Building Project)

between

REPUBLIC OF RWANDA

and

INTERNATIONAL DEVELOPMENT ASSOCIATION

Dated August 3, 2004

CONFORMED

CREDIT NUMBER 3955 RW

DEVELOPMENT CREDIT AGREEMENT

AGREEMENT, dated August 4, 2004, between the REPUBLIC OF RWANDA (the Borrower) and INTERNATIONAL DEVELOPMENT ASSOCIATION (the Association).

WHEREAS (A) the Association has received a letter from the Borrower, dated June 3, 2004, describing a program designed to manage its financial and human resources and strengthen institutional capacity in its public and private sectors and its civil society (the Program), and declaring the Borrower's commitment to the execution of such Program; and

(B) the Borrower, having satisfied itself as to the feasibility and priority of the Project described in Schedule 2 to this Agreement, and which forms part of the Program, has requested the Association to assist in the financing of the Project;

WHEREAS the Association has agreed, on the basis, *inter alia*, of the foregoing, to extend the Credit to the Borrower upon the terms and conditions set forth in this Agreement;

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 October 6, 1999) (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) “Country Procurement Assessment Review” or “CPAR” means the review, conducted with the support of the World Bank, of a country’s procurement policies, organization, and procedures;

(b) “Eligible Categories” means Categories (1) - (5) set forth in the table in Part A.1 of Schedule 1 to this Agreement;

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

(d) “Financial Management Unit” or “FMU” means the unit within the HRCBA responsible for financial management under the Program;

(e) “Fiscal Year” or “FY” means the Borrower’s fiscal year, which runs from January 1 through December 31;

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

(g) “Human Resource and Capacity Building Agency” or “HRCBA” means the agency to be established under the laws of the Borrower in accordance with Article 6.01 (a) of this Agreement and whose responsibilities are set out in Section A.2 of Schedule 4 to this Agreement;

(h) “IAPSO” means the Inter-Agency Procurement Services Office of the United Nations;

(i) “MDAs” means the ministries, departments, and agencies of the Borrower;

(j) “Ministry of Education, Science, Technology, and Scientific Research” or “MINEDUC” means the ministry of the Borrower responsible for education, science, technology, and scientific research;

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

(l) “Ministry of Health” or “MINISANTE” means the ministry of the Borrower responsible for health;

(m) “Ministry of Infrastructure” or “MININFRA” means the ministry of the Borrower responsible for infrastructure;

(n) “Ministry of Lands, Environment, Forestry, Water, and Natural Resources” or MINITERE means the ministry of the Borrower responsible for lands, environment, forestry, water, and natural resources;

(o) “Ministry of Public Service, Skills Development, Vocational Training, and Labor” or “MIFOTRA” means the ministry of the Borrower responsible for public administration, skills development, vocational training, and labor;

(p) “Participating MDAs” means the MDAs of the Borrower involved in Project implementation, and which include MIFOTRA, MINECOFIN, MINEDUC, MINISANTE, MININFRA, and MINITERE;

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

(r) “Procurement Management Unit” or “PMU” means the unit within the HRCBA responsible for procurement under the Program;

(s) “Program Operation Manual” or “POM” means the manual containing details of financial and accounting procedures, procurement arrangements, monitoring and evaluation arrangements, and other administrative and organizational arrangements, as shall have been agreed with the Association for purposes of Program implementation, as the same may be amended from time to time with the concurrence of the Association, and such term includes any annexes or schedules to the POM;

(t) “Project Account” means the account referred to in Section 3.02 of this Agreement;

(u) “Project Preparation Advances” means the two (2) project preparation advances granted by the Association to the Borrower pursuant to (i) the letter agreement signed on behalf of the Association on November 30, 2001 and on behalf of the Borrower

on December 13, 2001, and (ii) the letter agreement signed on behalf of the Association on November 26, 2003 and on behalf of the Borrower on December 14, 2003;

(v) “Public Financial Management Capacity Building and Technical Input Plan” means the plan of the Borrower setting out actions to effect improvements in the Borrower’s public financial management system;

(w) “Public Sector Reform Strategy” means the strategy of the Borrower for reform of its public administration;

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

(y) “Rwanda Information Technology Agency” or “RITA” means the agency of the Borrower established and operating under the Borrower’s Law No. 32/ 2002 of February 10, 2002, and which is responsible for coordination of activities aimed at establishing and promoting the Borrower’s policy and strategies in matters relating to information and communications technology;

(z) “Rwandan Franc” or “RWF” means the currency of the Borrower; and

(aa) “Special Account” means the account referred to in Section B of Schedule 1 to this Agreement.

ARTICLE II

The Credit

Section 2.01. The Association agrees to lend to the Borrower, on the terms and conditions set forth or referred to in the Development Credit Agreement, an amount in various currencies equivalent to thirteen million seven hundred thousand Special Drawing Rights (SDR 13,700,000).

Section 2.02. (a) The amount of the Credit may be withdrawn from the Credit Account in accordance with the provisions of Schedule 1 to this Agreement for expenditures made (or, if the Association shall so agree, to be made) in respect of the reasonable cost of goods, works, and services required for the Project and to be financed out of the proceeds of the Credit.

(b) Promptly after the Effective Date, the Association shall, on behalf of the Borrower, withdraw from the Credit Account and pay to itself the amount required to repay the principal amount of the Project Preparation Advances withdrawn and outstanding as of such date and to pay all unpaid charges thereon. The un-withdrawn balance of the authorized amount of the Project Preparation Advances shall thereupon be canceled.

Section 2.03. The Closing Date shall be December 31, 2009 or such later date as the Association shall establish. The Association shall promptly notify the Borrower of such later date.

Section 2.04. (a) The Borrower shall pay to the Association a commitment charge on the principal amount of the Credit not withdrawn from time to time at a rate to be set by the Association as of June 30 of each year, but not to exceed the rate of one-half of one percent (1/2 of 1%) per annum.

(b) The commitment charge shall accrue: (i) from the date sixty (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 canceled; and (ii) at the rate set as of the June 30 immediately preceding the accrual date and at such other rates as may be set from time to time thereafter pursuant to paragraph (a) above. The rate set as of June 30 in each year shall be applied from the next date in that year specified in Section 2.06 of this Agreement.

(c) The commitment charge shall be paid: (i) at such places as the Association shall reasonably request; (ii) without restrictions of any kind imposed by, or in the territory of, the Borrower; and (iii) in the currency specified in this Agreement for the purposes of Section 4.02 of the General Conditions or in such other eligible currency or currencies as may from time to time be designated or selected pursuant to the provisions of that Section.

Section 2.05. The Borrower shall pay to the Association a service charge at the rate of three-fourths of one percent (3/4 of 1%) per annum on the principal amount of the Credit withdrawn and outstanding from time to time.

Section 2.06. Commitment charges and service charges shall be payable semiannually on May 15 and November 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 May 15 and November 15 commencing November 15, 2014 and ending May 15, 2044. Each installment to and including the installment payable on May 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 them of the development of the Borrower's economy, modify the repayment of installments under paragraph (a) above by:

- (A) requiring the Borrower to repay twice the amount of each such installment not yet due until the principal amount of the Credit shall have been repaid; and
- (B) requiring the Borrower to commence repayment of the principal amount of the Credit as of the first semiannual payment date referred to in paragraph (a) above falling six (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

Execution of the Project

Section 3.01. (a) The Borrower declares its commitment to the objectives of the Project as set forth in Schedule 2 to this Agreement and, to this end, shall carry out the Project, through the HRCBA, and in close collaboration with the Participating MDAs, with due diligence and efficiency, and in conformity with appropriate administrative, financial, human resource, and technical practices, and shall provide promptly as needed, the funds, facilities, services, and other resources required for the Project.

(b) Without limitation upon the provisions of paragraph (a) of this Section and except as the Borrower and the Association shall otherwise agree, the Borrower shall carry out the Project in accordance with the Implementation Program set forth in Schedule 4 to this Agreement.

Section 3.02. Without limitation to its obligations under Section 3.01 of this Agreement, and except as the Borrower and the Association shall otherwise agree, the Borrower shall for purposes of making its counterpart contribution to the financing of the Project:

(a) establish and thereafter maintain, until completion of the Project, in RWF a project account in its Central Bank, on terms and conditions satisfactory to the Association;

(b) (i) deposit into the Project Account, no later than January 31, 2005, an initial amount of \$75,200 equivalent; and (ii) thereafter, at quarterly intervals, replenish the Project Account by amounts required to finance the Borrower's contribution for expenditures under the Project as shall be agreed upon between the Borrower and the Association; and

(c) ensure that the funds deposited into the Project Account in accordance with paragraph (b) of this Section shall be used exclusively to finance expenditures under the Project.

3.03. Except as the Association shall otherwise agree, procurement of the goods, works and consultants' services required for the Project and to be financed out of the proceeds of the Credit shall be governed by the provisions of Schedule 3 to this Agreement.

3.04. For the purposes of Section 9.06 of the General Conditions and without limitation thereto, the Borrower shall:

(a) prepare, on the basis of guidelines acceptable to the Association, and furnish to the Association not later than six (6) months after the Closing Date or such later date as may be agreed for this purpose between the Borrower and the Association, a plan for the sustainability of the Project; and

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

ARTICLE IV

Financial Covenants

Section 4.01. (a) The Borrower shall establish and maintain a financial management system, including records and accounts, and prepare financial statements in accordance with consistently applied accounting standards acceptable to the Association, adequate to reflect the operations, resources and expenditures related to the Project.

(b) The Borrower shall:

(i) have the financial statements referred to in paragraph (a) of this Section and records and accounts of the Special Account and Project Account for each Fiscal Year (or other period agreed to by the Association), commencing with the Fiscal Year in which the first withdrawal under the Project Preparation Advance was made, audited, in accordance with consistently applied auditing standards acceptable to the Association, by independent auditors acceptable to the Association;

(ii) furnish to the Association as soon as available, but in any case not later than six (6) months after the end of each such year (or such other period agreed to by the Association), (A) certified copies of the financial statements referred to in paragraph (a) of this Section for such year (or other period agreed to by the Association), as so audited, and (B) an opinion on such statements by said auditors, in scope and detail satisfactory to the Association; and

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

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

- (i) retain, until at least one year after the Association has received the audit report for, or covering, the fiscal year in which the last withdrawal from the Credit Account was made, all records (contracts, orders, invoices, bills, receipts and other documents) evidencing such expenditures;
- (ii) enable the Association's representatives to examine such records; and
- (iii) ensure that such reports and statements of expenditure are included in the audit for each fiscal year (or other period agreed to by the Association), referred to in paragraph (b) of this Section.

Section 4.02. (a) Without limitation upon the Borrower's progress reporting obligations set out in Section B of Schedule 4 to this Agreement, the Borrower shall prepare and furnish to the Association a Financial Monitoring Report, in form and substance satisfactory to the Association, which:

- (i) sets forth sources and uses of funds for the Project, both cumulatively and for the period covered by said report, showing separately funds provided under the Credit, and explains variances between the actual and planned uses of such funds;
- (ii) describes physical progress in Project implementation, both cumulatively and for the period covered by said report, and explains variances between the actual and planned Project implementation; and
- (iii) sets forth the status of procurement under the Project, as at the end of the period covered by said report.

(b) The first FMR shall be furnished to the Association not later than forty-five (45) days after the end of the first calendar quarter after the Effective Date, and shall cover the period from the incurrence of the first expenditure under the Project through the end of such first calendar quarter; thereafter, each FMR shall be furnished to the Association not later than forty five (45) days after each subsequent calendar quarter, and shall cover such calendar quarter.

ARTICLE V

Remedies of the Association

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

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

(b) the law establishing the HRCBA shall have been amended, suspended, abrogated, repealed, or waived so as to effect materially and adversely the ability of the HRCBA to perform any of its obligations under this Agreement.

ARTICLE VI

Effective Date; Termination

Section 6.01. The following events are specified as additional conditions to the effectiveness of this Agreement within the meaning of Section 12.01 (b) of the General Conditions, namely that the Borrower has:

(a) established, under the tutelage of MIFOTRA, the HRCBA, in form and substance and with resources and functions satisfactory to the Association, set out the mandate, governing arrangements, and responsibilities of the HRCBA, in form and substance satisfactory to the Association, and appointed to the HRCBA the Director General in accordance with the Borrower's National Constitution (2003);

(b) adopted the POM, including annexes thereto setting out financial management and procurement arrangements, in form and substance satisfactory to the Association;

(c) established a financial management system, in form and substance satisfactory to the Association, to ensure proper execution and monitoring of Project activities;

(d) established, within the HRCBA, the FMU and PMU, in form and substance satisfactory to the Association, and appointed to the FMU a financial management specialist with qualifications and experience satisfactory to the Association and to the PMU a procurement specialist with qualifications and experience satisfactory to the Association; and

(e) has prepared and submitted to the Association a shortlist, in form and substance satisfactory to the Association, of firms to be invited to submit proposals for purposes of conducting the audit referred to in Section 4.01 (b) (i) of this Agreement, under terms of reference satisfactory to the Association.

Section 6.02. The date ninety (90) days after the date of this Agreement is hereby specified for the purposes of Section 12.04 of the General Conditions.

ARTICLE VII

Representative of the Borrower; Addresses

Section 7.01. The Minister of the Borrower at the time responsible for finance is designated as representative of the Borrower for the purposes of Section 11.03 of the General Conditions.

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

For the Borrower:

Ministry of Finance 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 the District of Columbia, United States of America, as of the day and year first above written.

REPUBLIC OF RWANDA

By/s/ Zac Nsenga

Authorized Representative

INTERNATIONAL DEVELOPMENT ASSOCIATION

By /s/ Emmanuel Mbi

Authorized Representative

SCHEDULE 1

Withdrawal of the Proceeds of the Credit

A. General

1. The table below sets forth the Categories of items to be financed out of the proceeds of the Credit, the allocation of the amounts of the Credit to each Category and the percentage of expenditures for items so to be financed in each Category:

<u>Category</u>	<u>Amount of the Credit Allocated (Expressed in SDR Equivalent)</u>	<u>% of Expenditures to be Financed</u>
(1) Goods	1,200,000	100% of foreign expenditures and 90% of local expenditures
(2) Works	680,000	100% of foreign expenditures and 90% of local expenditures
(3) Consultants' services, including audits	6,200,000	100% of foreign expenditures and 85% of local expenditures
(4) Training	3,900,000	100%
(5) Incremental operating costs	270,000	90%
(6) Refunding of Project Preparation Advances	600,000	Amount due pursuant to Section 2.02 (b) of this Agreement
(7) Unallocated	850,000	
	<u>13,700,000</u>	
TOTAL	=====	

2. For the purposes of this Schedule:

(a) the term “foreign expenditures” means expenditures in the currency of any country other than that of the Borrower for goods, works, or services supplied from the territory of any country other than that of the Borrower;

(b) the term “local expenditures” means expenditures in the currency of the Borrower or for goods, works, or services supplied from the territory of the Borrower; and

(c) the term “incremental operating costs” means the incremental expenses incurred by the HRCBA on account of Project implementation, management and monitoring, including office space rental and utilities, office supplies, bank charges, communications, vehicle operation, maintenance and insurance, building and equipment maintenance costs, travel and supervision costs, and salaries of supporting staff, but excluding salaries of officials of the Borrower’s civil service.

3. Notwithstanding the provisions of paragraph 1 above, no withdrawals shall be made in respect of payments made for expenditures prior to the date of this Agreement.

4. The Association may require withdrawals from the Credit Account to be made on the basis of statements of expenditure for expenditures under contracts for: (a) goods costing less than \$150,000 equivalent per contract; (b) works costing less than \$200,000 equivalent per contract; (c) services of individual consultants costing less than \$50,000 equivalent per contract; (d) services of consulting firms under contracts costing less than \$100,000 equivalent per contract; (e) training not subject to contract; and (f) incremental operating costs, all under such terms and conditions as the Association shall specify by notice to the Borrower.

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

B. Special Account

1. The Borrower may open and maintain in Dollars a special deposit account (Special Account) in its Central Bank, on terms and conditions satisfactory to the Association.

2. After the Association has received evidence satisfactory to it that the Special Account has been opened, withdrawals from the Credit Account of amounts to be deposited into the Special Account shall be made as follows:

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

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

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

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

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

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

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

5. The Association shall not be required to make further deposits into the Special Account in accordance with the provisions of Section B.2 of this Schedule if, at any time, the Association shall have notified the Borrower its intention to suspend in whole or in part the right of the Borrower to make withdrawals from the Credit Account pursuant to Section 6.02 of the General Conditions. Upon such notification, the Association shall determine, in its sole discretion, whether further deposits into the Special Account may be made and what procedures should be followed for making such deposits, and shall notify the Borrower of its determination.

6. (a) If the Association determines at any time that any payment out of the Special Account was made for an expenditure which is not an Eligible Expenditure, or was not justified by the evidence furnished to the Association, the Borrower shall, promptly upon notice from the Association, provide such additional evidence as the Association may request, or deposit into the Special Account (or, if the Association shall so request, refund to the Association) an amount equal to the amount of such payment. Unless the Association shall otherwise agree, no further deposit by the Association into the Special Account shall be made until the Borrower has provided such evidence or made such deposit or refund, as the case may be.

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

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

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

**Annex A
to
SCHEDULE 1**

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

1. For the purposes of this Annex, the term “Authorized Allocation” means the amount of \$1,500,000 to be withdrawn from the Credit Account and deposited into the Special Account pursuant to paragraph 2 of this Annex, provided, however, that unless the Association shall otherwise agree, the Authorized Allocation shall be limited to an amount equivalent to \$750,000, until the aggregate amount of withdrawals from the Credit Account plus the total amount of all outstanding special commitments entered into by the Association pursuant to Section 5.02 of the General Conditions shall equal or exceed the equivalent of SDR 2,000,000.

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

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

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

3. The Association shall not be required to make further deposits into the Special Account, once the total un-withdrawn amount of the Credit minus the total amount of all

outstanding special commitments entered into by the Association pursuant to Section 5.02 of the General Conditions shall equal the equivalent of twice the amount of the Authorized Allocation. Thereafter, withdrawal from the Credit Account of the remaining un-withdrawn amount of the Credit shall follow such procedures as the Association shall specify by notice to the Borrower. Such further withdrawals shall be made only after and to the extent that the Association shall have been satisfied that all such amounts remaining on deposit in the Special Account as of the date of such notice will be utilized in making payments for Eligible Expenditures.

**Annex B
to
SCHEDULE 1**

**Operation of Special Account
When Withdrawals Are
Report-based Disbursements**

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

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

SCHEDULE 2

Description of the Project

The objective of the Project is to support the Borrower in implementing the Program in respect of its public sector, in particular in strengthening the capacity of its public sector entities for more efficient, effective, transparent, and accountable performance in their redefined roles and for achievement of their strategic objectives contributing to implementation of the Borrower's PRSP.

The Project consists of the following parts, subject to such modifications thereof as the Borrower and the Association may agree upon from time to time to achieve such objectives:

A. Program Coordination

Provision of operational support for effective functioning of HRCBA, including in the following areas:

1. Staffing.
2. Acquisition of equipment and carrying out of small works for rehabilitation of space.
3. Development of data collection and management system.
4. Establishment of monitoring and evaluation framework.
5. Development of information, education, and communication program for public sector and civil society in respect of the Program.
6. Development of donor coordination mechanism in area of human resource and capacity building, including establishment of basket fund and harmonized rules of engagement and financial management, disbursement, and procurement guidelines.
7. Ensure financial management and procurement capacity of Participating MDAs, and supervision of their financial management and procurement arrangements and activities as needed.

B. Human Resource Development

1. Provision of technical advisory services to HRCBA and MIFOTRA, including in the following areas:

(a) development of sector policy and operational guidelines on human resource and capacity building;

(b) training of MDAs in areas of leadership, change management, strategic planning, human resource management, and performance management; and

(c) piloting of scheme (Rwandan Expertise Scheme) in Participating MDAs to fill vacant positions of high priority in the public sector.

2. Provision of technical advisory services to MIFOTRA for implementation of public service pay reform and evaluation of impact of such reform on recruitment and retention of qualified staff. Provision of technical advisory services and training to MIFOTRA for awareness raising and consensus-building around such reform.

3. Acquisition of equipment, carrying out of small works for rehabilitation of space, and provision of technical advisory services and training for capacity building of up to five (5) local professional training institutions.

C. Cross-Cutting Public Sector Reforms

1. Provision of technical advisory services and training for capacity building of MDAs in support of implementation of Borrower's Public Financial Management Capacity Building and Technical Input Plan and CPAR-based action plan.

2. Provision of equipment, technical advisory services, and training in following areas in support of the Public Sector Reform Strategy of the Borrower:

(a) decentralization of public service delivery and development of public-private-civil society partnerships:

(i) to MIFOTRA for development of legal framework for such partnerships;

- (ii) to MDAs for carrying out of functional reviews relating to decentralization and contracting out of services, and for implementation of findings of such reviews; and
- (iii) to MIFOTRA for refinement of legal framework for decentralization.

(b) development of service delivery directories in all ministries, departments, and agencies of Borrower, and of system of monitoring and evaluation of service delivery standards of ministries, departments, and agencies of the Borrower.

3. Provision of equipment, technical advisory services, and training to Participating MDAs and other relevant agency of the Borrower for development and implementation of comprehensive national monitoring and evaluation framework and system.

D. Strategic Planning

1. Provision of equipment, technical advisory services, and training to Participating MDAs for development of strategic, annual, and capacity building plans.

2. Establishment of fund (Agency Performance Fund) to support implementation and monitoring and evaluation of such plans.

3. Provision of equipment, technical advisory services, and training to Members of Parliament and Parliamentary staff of Borrower in following areas:

- (a) executive oversight, policy analysis, and legislation drafting;
- (b) budget approval and oversight, including journalists in such training;
- (c) organizational effectiveness, including through activities under Parts B.1 (b) and C.1 of the Project;
- (d) development and implementation of public outreach campaign in respect of activities of Parliament; and
- (e) collaboration with civil society.

E. Information and Communications Technology (ICT)

1. (a) provision of technical advisory services to RITA for preparation of ICT policy, for dissemination of such policy to MDAs of Borrower, and for provision of assistance to MININFRA for implementation of and evaluation of other MDAs' compliance with such policy; and

(b) development by RITA of website on such policy.

2. (a) provision of technical advisory services and training in area of ICT to Participating MDAs; and

(b) establishment of fund to create, finance, and oversee ten (10) entry-level ICT jobs in public sector entities each year for the first three years of the Project.

3. (a) carrying out of assessment of ICT equipment and skills of Participating MDAs, and provision of ICT equipment and training to Participating MDAs on the basis of such assessment;

(b) identification and capacity building of entity to provide ICT hardware maintenance and repair to MDAs of Borrower; and

(c) introduction and upgrading, as applicable, of websites of Participating MDAs.

* * *

The Project is expected to be completed by June 30, 2009.

SCHEDULE 3

Procurement

I. Procurement of Goods and Works

A. General

Goods and works shall be procured in accordance with the provisions of Section I of the “Guidelines for Procurement under IBRD Loans and IDA Credits” published by the Bank in January 1995 and revised in January and August 1996, September 1997 and January 1999 (the Guidelines) and the following provisions of Section I of this Schedule.

B. International Competitive Bidding

1. Except as otherwise provided in Part C of this Section, goods and works shall be procured under contracts awarded in accordance with the provisions of Section II of the Guidelines and paragraph 5 of Appendix 1 thereto.

2. The following provision shall apply to goods and works to be procured under contracts awarded in accordance with the provisions of paragraph 1 of this Section B.

Notification and Advertising

The invitation to bid for each contract estimated to cost \$150,000 equivalent or more shall be advertised in accordance with the procedures applicable to large contracts under paragraph 2.8 of the Guidelines.

C. Other Procurement Procedures

1. National Competitive Bidding

Goods estimated to cost less than \$150,000 equivalent per contract and works estimated to cost less than \$500,000 equivalent per contract may be procured under contracts awarded in accordance with the provisions of paragraphs 3.3 and 3.4 of the Guidelines.

2. International or National Shopping

Goods estimated to cost less than \$30,000 equivalent per contract may be procured under contracts awarded on the basis of international or national shopping procedures in accordance with the provisions of paragraphs 3.5 and 3.6 of the Guidelines.

3. Procurement from UN Agencies

Goods, including vehicles, estimated to cost less than \$150,000 equivalent per contract may be procured from the IAPSO in accordance with the provisions of paragraph 3.9 of the Guidelines.

4. Procurement of Small Works

Works estimated to cost less than \$30,000 equivalent per contract may be procured under lump sum, fixed-price contracts awarded on the basis of quotations obtained from three (3) qualified domestic contractors in response to a written invitation. The invitation shall include a detailed description of the works, including basic specifications, the required completion date, and a basic form of agreement acceptable to the Association, and relevant drawings, where applicable. The award shall be made to the contractor who offers the lowest price quotation for the required work, and who has the experience and resources to complete the contract successfully.

D. Review by the Association of Procurement Decisions

1. Procurement Planning

Prior to the issuance of any invitations to bid for contracts, the proposed procurement plan for the Project shall be furnished to the Association for its review and approval, in accordance with the provisions of paragraph 1 of Appendix 1 to the Guidelines. Procurement of all goods and works shall be undertaken in accordance with such procurement plan as shall have been approved by the Association, and with the provisions of said paragraph 1.

2. Prior Review

With respect to each contract for goods estimated to cost \$150,000 equivalent or more, each contract for works estimated to cost \$200,000 equivalent or more, the first contract for goods estimated to cost less than \$150,000 equivalent, and the first contract for works estimated to cost less than \$200,000 equivalent, the procedures set forth in paragraphs 2 and 3 of Appendix 1 to the Guidelines shall apply.

3. Post Review

With respect to each contract not governed by paragraph 2 of this Part, the procedures set forth in paragraph 4 of Appendix 1 to the Guidelines shall apply.

II. Employment of Consultants

A. General

Consultants' services shall be procured in accordance with the provisions of Sections I and IV of the "Guidelines: Selection and Employment of Consultants by World Bank Borrowers" published by the Bank in January 1997 and revised in September 1997, January 1999 and May 2002 (the Consultant Guidelines), paragraph 1 of Appendix 1 thereto, Appendix 2 thereto and the following provisions of Section II of this Schedule.

B. Quality- and Cost-based Selection

1. Except as otherwise provided in Part C of this Section, consultants' services shall be procured under contracts awarded in accordance with the provisions of Section II of the Consultant Guidelines, and the provisions of paragraphs 3.13 through 3.18 thereof applicable to quality- and cost-based selection of consultants.

2. The following provision shall apply to consultants' services to be procured under contracts awarded in accordance with the provisions of the preceding paragraph: the short list of consultants for services estimated to cost less than \$100,000 equivalent per contract may comprise entirely national consultants in accordance with the provisions of paragraph 2.7 and footnote 8 of the Consultant Guidelines.

C. Other Procedures for the Selection of Consultants

1. Quality-based Selection

Services for tasks that meet the requirement set forth in paragraph 3.2 of the Consultant Guidelines may be procured under contracts awarded in accordance with the provisions of paragraphs 3.1 through 3.4 of the Consultant Guidelines.

2. Least-cost Selection

Services for financial and technical audits estimated to cost less than \$75,000 equivalent per contract may be procured under contracts awarded in accordance with the provisions of paragraphs 3.1 and 3.6 of the Consultant Guidelines.

3. Selection Based on Consultants' Qualifications

Services estimated to cost less than \$100,000 equivalent per contract may be procured under contracts awarded in accordance with the provisions of paragraphs 3.1 and 3.7 of the Consultant Guidelines.

4. Single Source Selection

Services for tasks in circumstances, which meet the requirements of paragraphs 3.9 and 3.10 of the Consultant Guidelines for single source selection, may, with the Association's prior agreement, be procured in accordance with the provisions of paragraphs 3.8 through 3.11 of the Consultant Guidelines.

5. Individual Consultants

Services of individual consultants for tasks that meet the requirements set forth in paragraph 5.1 of the Consultant Guidelines shall be procured under contracts awarded in accordance with the provisions of paragraphs 5.1 through 5.4 of the Consultant Guidelines.

D. Review by the Association of the Selection of Consultants

1. Selection Planning

A plan for the selection of consultants, which shall include contract cost estimates, contract packaging, and applicable selection criteria and procedures, shall be furnished to the Association for its review and approval prior to the issuance to consultants of any requests for proposals. Selection of all consultants' services shall be undertaken in accordance with such selection plan (as updated from time to time) as shall have been approved by the Association.

2. Prior Review

(a) With respect to each contract for the employment of consulting firms estimated to cost the equivalent of \$100,000 or more, the procedures set forth in paragraphs 2, 3 and 5 of Appendix 1 to the Consultant Guidelines shall apply.

(b) With respect to each contract for the employment of individual consultants to be selected on a sole source basis, or estimated to cost the equivalent of \$50,000 or more, the report on the comparison of the qualifications, experience, terms of reference and terms of employment of the consultants shall be furnished to the Association for its prior review and approval. The contract shall be awarded only after the said approval shall have been given. The provisions of paragraph 3 of Appendix 1 to the Consultant Guidelines shall also apply to such contracts.

3. Post Review

With respect to each contract not governed by paragraph 2 of this Part, the procedures set forth in paragraph 4 of Appendix 1 to the Consultant Guidelines shall apply.

SCHEDULE 4

Implementation Program

A. Overall Project Oversight and Implementation Arrangements

1. Except as the Association shall otherwise agree, the Borrower shall: (a) apply the criteria, policies, procedures, and arrangements set out in the POM; and (b) not amend or waive, or permit to be amended or waived, the POM, or any provision thereto, in a manner which, in the opinion of the Association, may materially and adversely affect Project implementation.
2. The HRCBA shall be responsible for overall coordination of the Project in accordance with the provisions of this Agreement and the POM.
3. The HRCBA shall be headed by a Director General, acting as Program Coordinator. The HRCBA shall comprise program experts, including a human resource development specialist, an institutional capacity building specialist, a public sector reform specialist, an information, education and communication specialist, and a monitoring and evaluation specialist, and support staff, each with qualifications and experience satisfactory to the Association.
4. The Borrower shall maintain at all times during Project implementation the HRCBA in form and substance and with resources and functions satisfactory to the Association, including with a Director General in accordance with the Borrower's National Constitution (2003) and with staff having experience and qualifications satisfactory to the Association.
5. The FMU shall be responsible for financial management of the Project, including preparation of budgets, financial monitoring reports, financial statements, and progress reports, and shall consult with the Participating MDAs in such preparation.
6. The PMU shall be responsible for procurement under the Project in accordance with the provisions of this Agreement and the POM.
7. The FMU shall be headed by a financial management specialist, and comprise two accountants, each with qualifications and experience satisfactory to the Association.
8. The PMU shall be headed by a procurement management specialist, with qualifications and experience satisfactory to the Association, and comprise a procurement officer, with qualifications and experience satisfactory to the Association.

9. The Borrower shall maintain at all times during Project implementation, within the HRCBA, the FMU and PMU in form and with functions satisfactory to the Association, and with staff having experience and qualifications satisfactory to the Association.

10. The Participating MDAs shall be responsible for implementation of the Project in their respective areas of competence in accordance with the provisions of this Agreement and the POM.

11. Without limitation upon the provisions of paragraphs 5-6 above, the Participating MDAs shall be responsible for financial management of the Project in their respective areas of competence in accordance with the provisions of this Agreement and the POM and for procurement under the Project in their respective areas of competence in accordance with the provisions of this Agreement and the POM at such time as the Association may determine.

B. Monitoring and Evaluation

Semi-Annual Audits

1. Without limitation upon the Borrower's obligations with respect to auditing of Project accounts set forth in Section 4.01 (b) of this Agreement, the Borrower shall have the financial statements referred to in Section 4.01 (a) of this Agreement and the records and accounts for the Special Accounts for each period of six (6) months (or other period agreed to by the Association) commencing the Effective Date, audited in accordance with consistently applied auditing standards acceptable to the Association, by independent auditors acceptable to the Association.

Annual Work Plans and Budgets

2. The Borrower shall furnish to the Association for its approval as soon as available, but in any case not later than November 15 of each year, the annual work plan and budget for each subsequent Fiscal Year following FY 2004, of such scope and in such detail as the Association shall have reasonably requested, with confirmation of availability of the Borrower's contribution for expenditures under the Project for that Fiscal Year.

Annual Reviews

3. The Borrower shall:

(a) maintain policies and procedures adequate to enable it to monitor and evaluate on an ongoing basis, in accordance with the indicators referred to in Schedule 5 to this Agreement, the carrying out of the Project and the achievement of the objectives thereof;

(b) prepare, under terms of reference satisfactory to the Association, and furnish to the Association, no later than four (4) months after the close of each Fiscal Year, commencing FY 2004, a report integrating the results of the monitoring and evaluation activities performed pursuant to paragraph (a) of this Section, on the progress achieved in the carrying out of the Project during the period preceding the date of said report and setting out the measures recommended to ensure the efficient carrying out of the Project and the achievement of the objectives thereof during the period following such date; and

(c) review with the Association, no later than six (6) months after close of each Fiscal Year, or such later date as the Association shall request, the report referred to in paragraph (b) of this Section, and, thereafter, take all measures required to ensure the efficient completion of the Project and the achievement of the objectives thereof, based on the conclusions and recommendations of the said report and the Association's views on the matter.

Midterm Reviews

4. The Borrower shall:

(a) carry out jointly with the Association, no later than March 31, 2007, a midterm review to assess the status of Project implementation, as measured against the project development indicators referred to in Schedule 5 to this Agreement. Such review shall include an assessment of the following: (i) overall progress in the implementation of the Project; (ii) results of monitoring and evaluation activities; and (iii) progress on procurement and disbursements; and make adjustments to the Project and reallocate funds to improve performance, if needed;

(b) prepare and furnish to the Association, two (2) months before such review, a report, in scope and detail satisfactory to the Association, needed to undertake the review, integrating the results of the monitoring and evaluation activities performed pursuant to paragraph (a) of this Section on the progress achieved in the carrying out of the Project during the period preceding the date of the said report and setting out the

measures recommended to ensure the efficient carrying out of the Project and the achievement of the objectives thereof during the period following such date; and

(c) review, jointly with the Association, the report referred to in paragraph (b) of this Section and thereafter take all measures required to ensure the efficient completion of the Project and the achievement of the objectives thereof, based on the conclusions and recommendations of the said report and the Association's views on the matter.

SCHEDULE 5

Performance Indicators

The Borrower shall implement the Project in accordance with the performance indicators set forth below:

1. Beneficiaries of central government entities perceiving improvements in transparency and accountability in government operations have increased by 10% by year 2009, as reflected in a survey to be conducted by the Borrower on an annual basis, commencing 2005, which first survey will establish the baseline value;
2. Government employees confirming that their work environment is more enabling and that they are better facilitated to work have increased by 20% by year 2009, as reflected in a survey to be conducted by the Borrower on an annual basis, commencing 2005, which first survey will establish the baseline value;
3. 50% of the Participating MDAs produce annual financial reports within timeframes stipulated in the relevant law of the Borrower and receive clean audit certificates by year 2009; and
4. Twenty-five (25) other capacity building projects, whether under or outside the Program, are being monitored and evaluated by the HRCBA by year 2007.