

**CONFORMED COPY**

**GRANT NUMBER H260 RW**

# **Financing Agreement**

**(Third Poverty Reduction Support Grant)**

**between**

**REPUBLIC OF RWANDA**

**and**

**INTERNATIONAL DEVELOPMENT ASSOCIATION**

**Dated December 19, 2006**

**FINANCING AGREEMENT**

AGREEMENT dated December 19, 2006, entered into between REPUBLIC OF RWANDA (“Recipient”) and INTERNATIONAL DEVELOPMENT ASSOCIATION (“Association”) for the purpose of providing financing in support of the Program (as defined in the Appendix to this Agreement). The Association has decided to provide this financing on the basis, *inter alia*, of: (a) the actions which the Recipient has already taken under the Program and which are described in Section I.B of the Schedule to this Agreement; and (b) the Recipient’s maintenance of an appropriate macroeconomic policy framework. The Recipient and the Association therefore hereby agree as follows:

**ARTICLE I — GENERAL CONDITIONS; DEFINITIONS**

- 1.01. The General Conditions (as defined in the Appendix to this Agreement) constitute an integral part of this Agreement.
- 1.02. Unless the context requires otherwise, the capitalized terms used in this Agreement have the meanings ascribed to them in the General Conditions or in the Appendix to this Agreement.

**ARTICLE II — FINANCING**

- 2.01. The Association agrees to extend to the Recipient, on the terms and conditions set forth or referred to in this Agreement, a grant in an amount equivalent to thirty-three million eight hundred thousand Special Drawing Rights (SDR 33,800,000) (“Grant”).
- 2.02. The Recipient may withdraw the proceeds of the Financing in support of the Program in accordance with Section II of the Schedule to this Agreement.
- 2.03. The Maximum Commitment Charge Rate payable by the Recipient on the Un-withdrawn Financing Balance shall be one-half of one percent (1/2 of 1%) per annum.
- 2.04. The Payment Dates are April 15 and October 15 in each year.
- 2.05. The Payment Currency is the Dollar.

**ARTICLE III — PROGRAM**

- 3.01 The Recipient declares its commitment to the Program and its implementation. To this end:
  - (a) the Recipient and the Association shall from time to time, at the request of either party, exchange views on the progress achieved in carrying out the Program and the actions specified in Section I of the Schedule to this Agreement;

- (b) prior to each such exchange of views, the Recipient shall furnish to the Association for its review and comment a report on the progress achieved in carrying out the Program, in such detail as the Association shall reasonably request; and
- (c) without limitation upon the provisions of paragraphs (a) and (b) of this Section, the Recipient shall exchange views with the Association on any proposed action to be taken after the disbursement of the Financing which would have the effect of materially reversing the objectives of the Program, or any action taken under the Program, including any action specified in Section I of the Schedule to this Agreement.

#### **ARTICLE IV — REMEDIES OF THE ASSOCIATION**

4.01. The Additional Event of Suspension consists of the following:

A situation has arisen which shall make it improbable that the Program, or a significant part of it, will be carried out.

#### **ARTICLE V — EFFECTIVENESS**

5.01. The Additional Conditions of Effectiveness consist of the following:

- (a) the Recipient has submitted to the Association the draft 2007 budget of each of its Districts, in form and substance satisfactory to the Association, and consistent with its Decentralized Service Delivery Policy; and
- (b) the Recipient's Parliament has adopted the Public Procurement Code, in form and substance satisfactory to the Association, in accordance with paragraph 13 of the LDP.

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

#### **ARTICLE VI — REPRESENTATIVE; ADDRESSES**

6.01. The Recipient's Representative is the minister at the time responsible for finance.

6.02. The Recipient's Address is:

Ministry of Finance and Economic Planning  
P. O. Box 158  
Kigali  
Rwanda

Facsimile:

(250) 57 75 81

6.03. The Association's Address is:

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

Cable address:	Telex:	Facsimile:
INDEVAS Washington, D.C.	248423(MCI) or 64145(MCI)	1-202-477-6391

AGREED 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/ Hartwig Schafer*  
Authorized Representative

## SCHEDULE

### Program Actions; Availability of Financing Proceeds

#### Section I. Actions under the Program

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

A. Education

1. Preparation of the Recipient's draft 2007 budget and 2007-09 MTEF ceilings for the sector, both in form and substance satisfactory to the Association, and consistent with the Recipient's Education Sector Strategic Plan, in accordance with paragraph 4 of the LDP.
2. Presentation, in form and substance satisfactory to the Association, of the Recipient's draft MTEF for the sector to the Recipient's development partners in September 2006, in accordance with paragraph 4 of the LDP.

B. Health

3. Implementation, in form and substance satisfactory to the Association, of the recommendations of the 2005 comparative review of the two (2) pilot performance-based contracting schemes for high-impact services (immunization, assisted deliveries) implemented in Butare and Cyangugu Provinces from January to December 2004, including Recipient-financed expansion, in form and substance satisfactory to the Association, of such schemes to at least three (3) Regions, in accordance with paragraph 5 of the LDP.

C. Water

4. Conclusion of contracts, in form and substance satisfactory to the Association, with local private operators, for the management of at least ten percent (10%) of the Recipient's rural water supply systems, in accordance with paragraph 6 of the LDP.

D. Energy

5. Adoption by the Recipient's Cabinet of revised electricity tariffs, in form and substance satisfactory to the Association, and reflecting a balance, in form and substance satisfactory to the Association, between protection of industrial accounts and cost-recovery requirements, in accordance with paragraph 7 of the LDP.

E. Private-Sector Led Growth

6. Issuance of the Recipient's National Microfinance Policy, in form and substance satisfactory to the Association, in accordance with paragraph 10 of the LDP.

7. Recruitment of at least 25% of the staff of the Rwanda Agricultural Development Authority and Rwanda Animal Resources Development Authority, with qualifications, experience, and terms of reference satisfactory to the Association, and commencement of operations of these agencies, in form and substance satisfactory to the Association, in accordance with paragraph 10 of the LDP.

F. Public Expenditure Management

8. Submission to the Recipient's Cabinet, of the Recipient's draft 2007 budget law, in form and substance satisfactory to the Association, including consistent with the Recipient's macroeconomic policy framework, 2007-09 MTEF, including detailed, output-oriented MTEFs for the education, health, water, and energy sectors, and Poverty Reduction Strategy Paper priorities, in accordance with paragraph 12 of the LDP.
9. Submission to the Recipient's Parliament of the Recipient's 2005 Budget Execution Report, in form and substance satisfactory to the Association, through the Recipient's Auditor General and along with her opinion thereon, in accordance with paragraph 12 of the LDP.

G. Transparency and Accountability

10. Issuance of Volumes 2-4, in form and substance satisfactory to the Association, of the Recipient's Financial Management and Accounting Policies and Procedures Manual, in accordance with paragraph 12 of the LDP.
11. Review, in form and substance satisfactory to the Association, by the Recipient's Office of the Ombudsman, on a sample basis, of at least 15 percent (15%) of the 2006 declarations of assets of the Recipient's public officials, in accordance with paragraph 13 of the LDP.

H. Monitoring and Evaluation

12. Issuance and dissemination of the Recipient's 2005 Annual PRSP Progress Report, in form and substance satisfactory to the Association and covering the full period of implementation of its PRSP (2002-05), in accordance with paragraph 14 of the LDP.
13. Allocation, in form and substance satisfactory to the Association, in the Recipient's draft 2007 budget law, for expansion of the Recipient's Citizen Report Card program to all of the Recipient's Districts, in accordance with paragraph 14 of the LDP.

**Section II. Availability of Financing Proceeds**

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

**B. Allocation of Financing Amounts.** The Financing shall be withdrawn in a single tranche. The allocation of the amount of the Financing to this end is set out in the table below:

<b>Allocations</b>	<b>Amount of the Financing Allocated (Expressed in SDR)</b>
Single Tranche	33,800,000
<b>TOTAL AMOUNT</b>	<b>33,800,000</b>

**C. Deposits of Financing Amounts.** Except as the Association may otherwise agree:

1. all withdrawals from the Financing Account shall be deposited by the Association into an account designated by the Recipient and acceptable to the Association; and
2. the Recipient shall ensure that upon each deposit of an amount of the Financing into this account, an equivalent amount is accounted for in the Recipient's budget management system, in a manner acceptable to the Association.

**D. Audit.** The Recipient shall:

1. have the account referred to in Section II.C.1 of this Agreement audited by independent auditors acceptable to the Association, in accordance with consistently applied auditing standards acceptable to the Association;
2. furnish to the Association as soon as available, but in any case not later than six (6) months after the end of the Recipient's fiscal year, a certified copy of the report of such audit, of such scope and in such detail as the Association shall reasonably request; and
3. furnish to the Association such other information concerning such account and its audit as the Association shall reasonably request.

**E. Excluded Expenditures.** The Recipient undertakes that the proceeds of the Financing shall not be used to finance Excluded Expenditures. If the Association determines at any time that an amount of the Financing was used to make a payment for an Excluded Expenditure, the Recipient shall, promptly upon notice from the Association, refund an amount equal to the amount of such payment to the Association. Amounts refunded to the Association upon such request shall be cancelled.

**F. Closing Date.** The Closing Date is December 31, 2007.

## APPENDIX

### Section I. Definitions

2. “Auditor General” means the Recipient’s official responsible for the carrying out of financial and performance audits to provide independent and reliable information to the Recipient’s Parliament on a variety of matters, including the Recipient’s financial condition, its use of public funds in compliance with law and regulations, and the efficiency and effectiveness of its program operations.
3. “Budget Execution Report” means the Recipient’s report, prepared by its ministry at the time responsible for finance, on implementation of the Recipient’s budget.
4. “Citizen Report Card” means the household survey of the Recipient’s citizens’ views on the relevance and quality of its public service delivery.
5. “Decentralized Service Delivery Policy” means the Recipient’s document of May 31, 2006 setting out its policy for the development and strengthening of decentralized service delivery in its territory.
6. “District” means an administrative area of the Recipient, established pursuant to the Recipient’s Law No. 29/2005 of December 31, 2005, representing a designated area and population within the territory of the Recipient.
7. “Education Sector Strategic Plan” means the document setting out the Recipient’s policies, programs, and financing strategy for its education sector.
8. “Excluded Expenditure” means any expenditure:
  - (a) for goods or services supplied under a contract which any national or international financing institution or agency other than the Association or the Bank has financed or agreed to finance, or which the Association or the Bank has financed or agreed to finance under another Financing, credit, grant, or loan;
  - (b) for goods included in the following groups or sub-groups of the Standard International Trade Classification, Revision 3 (SITC, Rev.3), published by the United Nations in Statistical Papers, Series M, No. 34/Rev.3 (1986) (the SITC), or any successor groups or subgroups under future revisions to the SITC, as designated by the Association by notice to the Recipient:

Group	Sub-group	Description of Item
112		Alcoholic beverages
121		Tobacco, un-manufactured, tobacco refuse
122		Tobacco, manufactured (whether or not containing tobacco substitutes)
525		Radioactive and associated materials
667		Pearls, precious and semiprecious stones, un-worked or worked



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)

- (c) for goods intended for a military or paramilitary purpose or for luxury consumption;
  - (d) for environmentally hazardous goods, the manufacture, use or import of which is prohibited under the laws of the Recipient or international agreements to which the Recipient is a party;
  - (e) on account of any payment prohibited by a decision of the United Nations Security Council taken under Chapter VII of the Charter of the United Nations; and
  - (f) under a contract with respect to which the Association determines that corrupt, fraudulent, collusive or coercive practices were engaged in by representatives of the Recipient or other recipient of the Financing proceeds during the procurement or execution of such contract, without the Recipient (or other such recipient) having taken timely and appropriate action satisfactory to the Association to remedy the situation.
9. "Financial Management and Accounting Policies and Procedures Manual" means the Recipient's document of July 2006 setting out the financial management and accounting policies and procedures applicable to its operations.
10. "Financing Agreement" includes all appendices, schedules, and agreements supplemental to the Financing Agreement.
11. "General Conditions" means the "International Development Association General Conditions for Credit and Grants", dated July 1, 2005, with the modifications set forth in Section II of this Appendix.
12. "Letter of Development Policy" or "LDP" means the letter referred to in paragraph 15 of this Section I.
13. "Medium-Term Expenditure Framework" or "MTEF" means the transparent planning and budget formulation process whereby a government cabinet of ministers establishes credible envelopes for the allocation of public resources to its strategic priorities while ensuring overall fiscal discipline.
14. "National Microfinance Policy" means the Recipient's document of August 2006 setting out its policy for the development and strengthening of its microfinance sector.

15. “Office of the Ombudsman” means the Recipient’s entity 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 the Recipient’s public officials.
16. “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.
17. “Program” means the program of actions, objectives, and policies designed to promote growth and achieve sustainable reductions in poverty and set forth or referred to in the letter dated November 2, 2006 from the Recipient to the Association declaring the Recipient’s commitment to the execution of the Program, and requesting assistance from the Association in support of the Program during its execution.
18. “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.
19. “PRSP Annual Progress Report” means the Recipient’s annual evaluation of implementation of its PRSP.
20. “Public Procurement Code” means the Recipient’s legislation referred to in Section 5.01 (b) of this Agreement and setting out the policies and procedures applicable to its procurement activities.
21. “Region” means an administrative area of the Recipient, established pursuant to the Recipient’s Law No. 29/2005 of December 31, 2005, representing a designated area and population within the territory of the Recipient.
22. “Rwanda Agricultural Development Authority” means the Recipient’s agency established and operating under its Cabinet decision of June 29, 2005 and responsible for the development of its agricultural sector.
23. “Rwanda Animal Resources Development Authority” means the Recipient’s agency established and operating under its Cabinet decision of June 29, 2005 and responsible for the development of its animal resource sector.

## **Section II. Modifications to the General Conditions**

The modifications to the “International Development Association General Conditions for Credits and Grants”, dated July 1, 2005, are as follows:

1. The last sentence of paragraph (a) of Section 2.03 (relating to Applications for Withdrawal) is deleted in its entirety.
2. Sections 2.04 (*Designated Accounts*) and 2.05 (*Eligible Expenditures*) are deleted in their entirety, and the remaining Sections in Article II are renumbered accordingly.

3. Sections 4.01 (*Project Execution Generally*), and 4.09 (*Financial Management; Financial Statements; Audits*) are deleted in their entirety, and the remaining Sections in Article IV are renumbered accordingly.
4. Paragraph (a) of Section 4.05 (renumbered as such pursuant to paragraph 3 above and relating to *Use of Goods, Works and Services*) is deleted in its entirety.
5. Paragraph (c) of Section 4.06 (renumbered as such pursuant to paragraph 3 above) is modified to read as follows:

“Section 4.06. *Plans; Documents; Records*

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

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

“Section 4.07. *Program Monitoring and Evaluation*

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

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

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

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

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

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

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

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