

CONFORMED COPY

GRANT NUMBER H188 RW

Development Grant Agreement

(Urban Infrastructure and City Management Project)

between

REPUBLIC OF RWANDA

and

INTERNATIONAL DEVELOPMENT ASSOCIATION

Dated December 2, 2005

CONFORMED COPY

GRANT NUMBER H188 RW

DEVELOPMENT GRANT AGREEMENT

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

WHEREAS (A) the Association has received a letter from the Recipient, dated April 11, 2005, describing a program of objectives, policies, and actions designed to develop the Recipient's urban sector and declaring the Recipient's commitment to the execution of such program (the "Program");

(B) the Recipient has requested that the Association support the execution of the Program through a series of grants or credits over a period of approximately three (3) years to be utilized by the Recipient in the implementation of the Program;

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

(D) Parts A, B, and C.3 (b) of the Project will be carried out by *Association d'Exécution des Travaux d'Intérêt Public (ASSETIP)* (as hereinafter defined) with the Recipient's assistance and, as part of such assistance, the Recipient will make the proceeds of the grant provided for in Article II of this Agreement (the Grant) available to *ASSETIP*, as set forth in this Agreement;

(E) the Recipient intends to contract from the Nordic Development Fund (NDF) a loan in an amount equivalent to five million Euros (€5,000,000) (the NDF Loan) to assist in financing Parts A.1 (d) and C.1 (d) (v) of the Project on the terms and conditions set forth in an agreement to be entered into between the Recipient and NDF (the NDF Loan Agreement); and

WHEREAS the Association has agreed, on the basis, *inter alia*, of the foregoing, to extend the Grant to the Recipient upon the terms and conditions set forth in this Agreement and in the agreement of even date herewith between the Association and *ASSETIP* (the Project 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 May 1, 2004), with the modifications set forth in Schedule 6 to this Agreement (the General Conditions), constitute an integral part of this Agreement.

Section 1.02. Wherever used in this Agreement, unless the context otherwise requires, the several terms defined in the General Conditions and in the Recitals to this Agreement have the respective meanings therein set forth and the following additional terms have the following meanings:

(a) “Annual Work Plan” means the plan referred to in Part F.1 of Schedule 4 to this Agreement;

(b) “*Association d’Exécution des Travaux d’Intérêt Public*” or “ASSETIP” means Public Interest Works Execution Association, the association constituted under the Law No. 20/2000 of the Recipient, dated July 18, 2000 whose responsibilities are set out in Part C of Schedule 4 to this Agreement;

(c) “Beneficiary City” means the City (as hereinafter defined) of Butare, Kigali, or Ruhengeri, all in the territory of the Recipient;

(d) “Beneficiary District” means a District (as hereinafter defined) of the City of Kigali, in the territory of the Recipient;

(e) “Central Public Investment and External Finance Bureau” or “CEPEX” means the agency of the Recipient responsible for public investment coordination and planning, improvement of implementation performance of public investments, and aid mobilization and coordination;

(f) “City” means an administrative area of the Recipient, established pursuant to the Recipient’s Law Nos. 5/2001 and 7/2001, both of January 18, 2001, representing a designated area and population within the territory of the Recipient;

(g) “City Contract” means the contract concluded between the Recipient and a Beneficiary City or District describing, *inter alia*, the physical and institutional

activities planned for a future three (3)-year period in that Beneficiary City or District for purposes of urban development, and including the Priority Investment Program, the Priority Maintenance Program, and the Municipal Support Program (all as hereinafter defined);

(h) “City of Kigali” or “COK” means the local government of the City of Kigali;

(i) “Common Development Fund” or “CDF” means the Recipient’s fund established for purposes of provision of capital financing to local governments in the territory of the Recipient;

(j) “Community” means a socially cohesive population within the territory of the Recipient;

(k) “Community Development Committee” or “CDC” means a committee established and operating under the Recipient’s Law No. 04/2001 of January 13, 2001;

(l) “Community Development Plan” or “CDP” means a plan prepared by the CDC of a District or Town (as hereinafter defined) in the territory of the Recipient and outlining potential development activities for the District or Town (as hereinafter defined);

(m) “Delegated Contract Management Agreement” or “DCMA” means the agreement to be concluded between *ASSETIP* and each Beneficiary City or District for purposes of implementation of the activities set out in the respective City Contract;

(n) “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;

(o) “Eligible Categories” means Categories (3) (a), (b), and (c) (i) in respect of Special Account A, and Categories (1), (2), and (3) (c) (ii) in respect of Special Account B, all set forth in the table in Part A.1 of Schedule 1 to this Agreement;

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

(q) “Environmental and Social Management Framework” or “ESMF” means the framework, dated August 10, 2004, agreed with the Association for the environmental and social screening process to be followed in identifying, assessing, and mitigating the potential adverse environmental and social impact associated with activities to be implemented under the Project;

(r) “Euro” or “€” means the lawful common currency of member states of the European Union who adopt the single currency in accordance with the Treaty establishing the European Currency, as amended to date by the Treaty on European Union;

(s) “Financial and Accounting Procedures Manual” or “FAPM” means the manual contained in the Project Implementation Manual (as hereinafter defined) and outlining the accounting systems, policies, and procedures to be employed by the PCU and *ASSETIP*, as agreed with the Association, in accounting for and managing Project funds, as the same may be amended from time to time in consultation with the Association, and such term includes any annexes thereto;

(t) “Financial Management Cell” or “FMC” means the cell within the Project Coordination Unit (as hereinafter defined) whose responsibilities are set out in Part B.1 of Schedule 4 to this Agreement;

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

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

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

(x) “Implementation Agreement” means the agreement to be entered into between the Recipient and *ASSETIP* pursuant to Section 3.02 (a) of this Agreement, as the same may be amended from time to time, and such term includes all schedules to the Implementation Agreement;

(y) “Incremental Operating Costs” means the incremental expenses incurred by the Project Coordination Unit (as hereinafter defined) or *ASSETIP* on account of Project implementation, management, and monitoring, including office space rental, utilities, office supplies, vehicle operation, maintenance and insurance, building and

equipment maintenance costs, travel and supervision costs, bank charges, communications and advertising costs, but excluding salaries, honoraria, fees, and bonuses of members of the Recipient's civil service;

(z) "Medium-Term Expenditure Framework" or "MTEF" means a document outlining the expenditures of a given administrative area or economic sector for a future three (3)-year period;

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

(bb) "Ministry of Infrastructure" or "MININFRA" means the Recipient's ministry responsible for infrastructure;

(cc) "Ministry of Lands, Environment, Forests, Water, and Mining" or "MINITERE" means the Recipient's ministry responsible for lands, environment, forests, water, and mining;

(dd) "Ministry of Local Administration, Good Governance, Community Development, and Social Affairs" or "MINALOC" means the Recipient's ministry responsible for local administration, good governance, community development, and social affairs;

(ee) "Municipal Support Program" or "MSP" means the set of institutional development and capacity building activities agreed on by a Beneficiary City or District and included in the respective City Contract;

(ff) "Pilot Project" means an activity to be implemented under Part B of the Project;

(gg) "PRIMATURE" means the office of the prime minister of the Recipient;

(hh) "Priority Investment Program" or "PIP" means the set of infrastructure and facilities investments to be carried out under Part A of the Project agreed on by a Beneficiary City or District and included in the respective City Contract;

(ii) "Priority Maintenance Program" or "PMP" means the set of annual maintenance activities to be included in the City Contract for an amount up to 10 percent

of the current annual revenues of the respective City or District and financed by the budget of such City or District;

(jj) "Procurement Plan" means the Recipient's procurement plan, dated October 6, 2005, covering the initial 18 month period (or longer) of Project implementation, as the same shall be updated from time to time in accordance with the provisions of Section 3.04 to this Agreement, to cover succeeding 18 month periods (or longer) of Project implementation;

(kk) "Project Agreement" means the agreement of even date herewith between the Association and *ASSETIP*, as such agreement may be amended from time to time; and such term includes all schedules and agreements supplemental to the Project Agreement;

(ll) "Project Coordination Unit" or "PCU" means the unit located within the MININFRA, and whose responsibilities are set out in Part A.5 of Schedule 4 to this Agreement;

(mm) "Project Coordinator" means the coordinator of the Project within the PCU;

(nn) "Project Implementation Manual" or "PIM" means the manual adopted by the Recipient pursuant to Section 6.01 (c) of this Agreement, and containing details of the institutional arrangements, financial and accounting procedures, procurement arrangements and schedule, monitoring and evaluation, and other administrative and organizational arrangements as shall have been agreed with the Association for Project implementation, as the same may be amended from time to time in consultation with the Association, and such term includes any annexes thereto;

(oo) "Project Preparation Advances" means the two (2) project preparation advances granted by the Association to the Recipient pursuant to the two letter agreements signed on behalf of the Association on October 23, 2003 and January 6, 2005, respectively, and on behalf of the Recipient on November 14, 2003 and February 18, 2005, respectively;

(pp) "Report-based Disbursements" means the Recipient's option for withdrawal of funds from the Grant Account referred to in Part A.4 of Schedule 1 to this Agreement;

(qq) “Resettlement Action Plan” or “RAP” means a plan that outlines the procedures, including related compensation measures, to be applied in the event of the physical or economic displacement of persons affected by activities to be implemented under the Project;

(rr) “Resettlement Policy Framework” or “RPF” means the framework, dated August 10, 2004, agreed with the Association for the resettlement and compensation of persons affected by potential changes in land use associated with activities to be implemented under the Project;

(ss) “Rwandan Franc” or “RWF” means the currency of the Recipient;

(tt) “Rwandan Association of Local Government Authorities” or “RALGA” means the Recipient’s association of local government authorities;

(uu) “Small and Medium Enterprise” or “SME” means an enterprise operating as such under Rwandan law;

(vv) “Special Accounts” (A and B) means the accounts referred to in Part B.1 of Schedule 1 to this Agreement;

(ww) “Town” means an administrative area of the Recipient, established pursuant to the Recipient’s Law No. 05/2001 of January 18, 2001, representing a designated area and population within the territory of the Recipient; and

(xx) “We Are the Future Youth Center” means the regional center established by the COK for purposes of carrying out youth development activities and which is to be renovated and expanded under Part A.1 (b) of the Project.

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 thirteen million nine hundred thousand Special Drawing Rights (SDR 13,900,000).

Section 2.02. (a) The amount of the Grant may be withdrawn from the Grant 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 and services required for carrying out the Project and to be financed out of the proceeds of the Grant.

(b) Promptly after the Effective Date, the Association shall, on behalf of the Recipient, withdraw from the Grant 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 unwithdrawn balance of the authorized amount of the Project Preparation Advances shall thereupon be canceled.

Section 2.03. The Closing Date shall be March 31, 2009 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 (60) 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 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 2.04 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 March 15 and September 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

Execution of the Project

Section 3.01. (a) The Recipient declares its commitment to the objective of the Project as set forth in Schedule 2 to this Agreement and, to this end, shall carry out Parts C.1, 2, and 3 (a) of the Project through the PCU with due diligence and efficiency and in conformity with appropriate engineering, financial, and administrative practices, and shall provide, promptly as needed, the funds, facilities, services and other resources required for the Project.

(b) Without any limitation or restriction upon any of its other obligations under this Agreement, the Recipient shall cause *ASSETIP* to perform in accordance with the provisions of the Project Agreement all the obligations of *ASSETIP* therein set forth, shall take and cause to be taken all action, including the provision of funds, facilities, services and other resources, necessary or appropriate to enable *ASSETIP* to perform such obligations, and shall not take or permit to be taken any action which would prevent or interfere with such performance.

(c) Without limitation upon the provisions of paragraphs (a) and (b) of this Section and except as the Recipient and the Association shall otherwise agree, the Recipient shall carry out Parts C.1, 2, and 3 (a) of the Project in accordance with the implementation program set forth in Schedule 4 to this Agreement, and cause *ASSETIP* to carry out Parts A, B, and C.3 (b) of the Project in accordance with the implementation program set forth in Schedule 4 to this Agreement.

Section 3.02. (a) The Recipient shall make the proceeds of the Grant available to *ASSETIP* under an Implementation Agreement to be entered into between the Recipient and *ASSETIP*, under terms and conditions which shall have been approved by the Association, which shall include the provisions set forth in Part C of Schedule 4 to this Agreement.

(b) The Recipient shall exercise its rights under the Implementation Agreement in such manner as to protect the interests of the Recipient and the Association and to accomplish the purposes of the Grant, and, except as the Association shall otherwise agree, the Recipient shall not assign, amend, abrogate or waive the Implementation Agreement or any provision thereof.

Section 3.03. Without limitation upon the provisions of paragraph (a) of Section 3.01 of this Agreement, and except as the Recipient and the Association shall otherwise agree, the Recipient shall finance its contribution for expenditures under the Project other than those financed from the proceeds of the Grant and shall:

(a) maintain, for the duration of the Project, an account in RWF (the Project Account) in the Central Bank of the Recipient on terms and conditions satisfactory to the Association;

(b) within 30 days of the Effective Date, deposit into the Project Account, through the CDF, an initial contribution of RWF 200,000,000;

(c) prior to September 30, 2006 and March 31, 2007, respectively, deposit into the Project Account, through the CDF, an additional contribution of RWF 155,000,000, respectively; and

(d) ensure that funds deposited into the Project Account in accordance with the provisions of paragraphs (b) through (c) of this Section shall be used exclusively to finance expenditures under the Project other than those financed from the proceeds of the Grant.

Section 3.04. (a) Except as the Association shall otherwise agree, procurement of the goods, works and services required for the Project and to be financed out of the proceeds of the Grant shall be governed by the provisions of Schedule 3 to this Agreement, as said provisions may be further elaborated in the Procurement Plan.

(b) The Recipient shall update the Procurement Plan in respect of Parts C.1, 2, and 3 (a) of the Project, and cause *ASSETIP* to update the Procurement Plan in respect of Parts A, B, and C.3 (b) of the Project, in accordance with guidelines acceptable to the Association, and furnish such update to the Association not later than 12 months after the date of the preceding Procurement Plan, for the Association's approval.

Section 3.05. For the purposes of Section 9.06 of the General Conditions and without limitation thereto, the Recipient shall:

(a) prepare in respect of Part C.1, 2, and 3 (a) of the Project, and cause *ASSETIP* to prepare in respect of Parts A, B, and C.3 (b) of the Project, on the basis of guidelines acceptable to the Association, and furnish to the Association not later than six (6) months before the Closing Date or such later date as may be agreed for this

purpose between the Recipient and the Association, a plan for the future operation of the Project, and for the continued achievement of the Project objective; and

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

Section 3.06. The Recipient and the Association hereby agree that the obligations set forth in Sections 9.03, 9.04, 9.05, 9.06, 9.07 and 9.08 of the General Conditions (relating to insurance, use of goods and services, plans and schedules, records and reports, maintenance and land acquisition, respectively) in respect of Parts A, B, and C.3 (b) of the Project shall be carried out by *ASSETIP* pursuant to Section 2.03 of the Project Agreement.

ARTICLE IV

Financial Covenants

Section 4.01. (a) The Recipient shall maintain, and shall cause *ASSETIP* to 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 Recipient shall:

- (i) have the financial statements referred to in paragraph (a) of this Section for each fiscal year (or other period agreed to by the Association), commencing with the Fiscal Year in which the first withdrawal under the first 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 Grant Account were made on the basis of reports referred to in Part A.4 of Schedule 1 to this Agreement (Report-based Disbursements) or on the basis of statements of expenditure, the Recipient shall:

- (i) retain, until at least one (1) year after the Association has received the audit report for, or covering, the Fiscal Year in which the last withdrawal from the Grant 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 Recipient's progress reporting obligations set out in Part F of Schedule 4 to this Agreement, the Recipient shall prepare in respect of Parts C.1, 2, and 3 (a) of the Project, and cause *ASSETIP* to prepare in respect of Parts A, B, and C.3 (b) of the Project, and furnish to the Association an FMR, 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 Grant, 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 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 45 days after each subsequent calendar quarter, and shall cover such calendar quarter.

Section 4.03 The Recipient shall appoint, no later than six (6) months after the Effective Date, a firm under terms of reference satisfactory to the Association, for purposes of conducting the audit referred to in Section 4.01 (b) (1) of this Agreement.

ARTICLE V

Remedies of the Association

Section 5.01. Pursuant to Section 6.02 (1) of the General Conditions, the following additional events are specified:

(a) As a result of events which have occurred after the date of this Agreement, an extraordinary situation shall have arisen which shall make it improbable that the Program or a significant part thereof shall be carried out;

(b) *ASSETIP* shall have failed to perform any of its obligations under the Project Agreement;

(c) As a result of events which have occurred after the date of this Agreement, an extraordinary situation shall have arisen which shall make it improbable that *ASSETIP* will be able to perform its obligations under the Project Agreement;

(d) The law of the Recipient creating *ASSETIP* shall have been amended, suspended, abrogated, repealed or waived so as to affect materially and adversely the ability of *ASSETIP* to perform any of its obligations under the Project Agreement; or

(e) The proposed law of the Recipient relating to resettlement procedures and compensation of affected persons shall not have been published in the official gazette of the Recipient within three (3) months of the Effective Date.

ARTICLE VI

Effectiveness; Termination

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

(a) The Recipient and *ASSETIP* have executed the Implementation Agreement, in form and substance satisfactory to the Association;

(b) The Recipient has caused *ASSETIP* to: (i) appoint an Executive Director, with qualifications, experience and terms of reference satisfactory to the Association; and (ii) establish technical, financial, and procurement units in form and substance and with resources and functions satisfactory to the Association and staffed by specialists whose qualifications, experience, and terms of reference are satisfactory to the Association;

(c) The Recipient has adopted the PIM, including the FAPM, in form and substance satisfactory to the Association;

(d) The Recipient has caused *ASSETIP* to adopt the PIM, including the FAPM, in form and substance satisfactory to the Association;

(e) The Recipient has established an integrated financial management and accounting system, in form and substance satisfactory to the Association, for purposes of proper implementation and monitoring of Parts C.1, 2, and 3 (a) of the Project;

(f) The Recipient has caused *ASSETIP* to establish an integrated financial management and accounting system, in form and substance satisfactory to the Association, for purposes of proper implementation and monitoring of Parts A, B, and C.3 (b) of the Project; and

(g) The Recipient has furnished to the Association the terms of reference, in form and substance satisfactory to the Association, for purposes of conducting the audit referred to in Section 4.01 (b) (i) of this Agreement.

Section 6.02. The following are specified as additional matters, within the meaning of Section 12.02 (b) of the General Conditions, to be included in the opinion or opinions to be furnished to the Association:

(a) that the Project Agreement has been duly authorized or ratified by the Recipient and *ASSETIP*, and is legally binding upon the Recipient and *ASSETIP* in accordance with its terms; and

(b) that the Implementation Agreement has been duly authorized or ratified by the Recipient and *ASSETIP*, and is legally binding upon the Recipient and *ASSETIP* in accordance with its terms.

Section 6.03. 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

Representatives of the Recipient; Addresses

Section 7.01. The minister of the Recipient at the time responsible for finance and economic planning is designated as representative of the Recipient 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 Recipient:

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

INTERNATIONAL DEVELOPMENT ASSOCIATION

By /s/ Pedro Alba

Authorized Representative

SCHEDULE 1

Withdrawal of the Proceeds of the Grant

A. General

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

<u>Category</u>	<u>Amount of the Grant Allocated (Expressed in SDR Equivalent)</u>	<u>% of Expenditures to be Financed</u>
(1) Part A of Project (Goods, works, and consultant services)	8,760,000	100
(2) Part B of Project (Goods, works, and consultant services)		
(a) Part B.1	970,000	100
(b) Part B.2	490,000	100
(3) Part C of Project		100
(a) Part C.1 (Goods, consultant services, and training)	970,000	100
(b) Part C.2	420,000	100
(c) Part C.3		
(i) PCU	630,000	100
(ii) <i>ASSETIP</i>	760,000	100

(4) Refunding of Project Preparation Advances	900,000	Amount due pursuant to Section 2.02 (b) of this Agreement
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TOTAL	13,900,000	
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2. 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, except that withdrawals, in an aggregate amount not exceeding the equivalent of SDR 70,000 may be made in respect of Category 3 (c) (ii) on account of payments made for expenditures before that date but after November 1, 2005.

3. The Association may require withdrawals from the Grant Account to be made on the basis of statements of expenditure for expenditures under contracts for: (a) goods costing less than \$250,000 equivalent per contract; (b) works costing less than \$500,000 equivalent per contract; (c) services of individual consultants costing less than \$50,000 equivalent per contract; and (d) services of consulting firms under contracts costing less than \$100,000 equivalent per contract, (e) training; (f) implementation of RAPs under Part C.2 of Project; and (g) incremental operating costs under Part C.3 of the Project, all under such terms and conditions as the Association shall specify by notice to the Recipient, all under such terms and conditions as the Association shall specify by notice to the Recipient.

4. The Recipient may request withdrawals from the Grant 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 Recipient (Report-based Disbursements). In the case of the first such request submitted to the Association before any withdrawal has been made from the Grant Account, the Recipient 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 Accounts

1. The Recipient may open and maintain in Dollars two (2) special deposit accounts (Special Account A (PCU) in respect of activities to be financed under Parts C.1, 2, and 3 (a) of the Project, and Special Account B (*ASSETIP*) in respect of activities to be financed under Parts A, B, and C.3 (b) of the Project, respectively) in the Central Bank of Rwanda, on terms and conditions satisfactory to the Association.

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

(a) if the Recipient 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 Recipient 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 respective Special Account shall be made exclusively for Eligible Expenditures. For each payment made by the Recipient out of the respective Special Account, the Recipient 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 respective Special Account:

(a) if the Association, at any time, is not satisfied that the reports referred to in Part A.4 of this Schedule 1 adequately provide the information required for Report-based Disbursements;

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

(c) if the Recipient 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 respective Special Accounts; 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 respective Special Account in accordance with the provisions of Part B.2 of this Schedule if, at any time, the Association shall have notified the Recipient of its intention to suspend in whole or in part the right of the Recipient to make withdrawals from the Grant 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 respective Special Account may be made and what procedures should be followed for making such deposits, and shall notify the Recipient of its determination.

6. (a) If the Association determines at any time that any payment out of the respective 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 Recipient shall, promptly upon notice from the Association, provide such additional evidence as the Association may request, or deposit into the respective 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 Recipient 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 respective Special Account will not be required to cover payments for Eligible Expenditures during the six-month period following such determination, the Recipient shall, promptly upon notice from the Association, refund to the Association such outstanding amount.

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

(d) Refunds to the Association made pursuant to subparagraph (a), (b) or (c) of this paragraph 6 shall be credited to the Grant 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:
 - (a) in respect of Special Account A (PCU), an amount equivalent to \$400,000 to be withdrawn from the Grant Account and deposited into said Special Account pursuant to paragraph 2 of this Annex ; and
 - (b) in respect of Special Account B (*ASSETIP*), an amount equivalent to \$1,800,000 to be withdrawn from the Grant Account and deposited into said Special Account pursuant to paragraph 2 of this Annex.

2. Withdrawals of the Authorized Allocation and subsequent withdrawals to replenish the respective Special Account shall be made as follows:
 - (a) For withdrawals of the Authorized Allocation, the Recipient shall furnish to the Association a request or requests for deposit into the respective 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 Recipient, withdraw from the Grant Account and deposit into the respective Special Account such amount as the Recipient shall have requested.
 - (b) For replenishment of the respective Special Account, the Recipient shall furnish to the Association requests for deposit into the respective Special Account at such intervals as the Association shall specify. Prior to or at the time of each such request, the Recipient shall furnish to the Association the documents and other evidence required pursuant to Part 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 Recipient, withdraw from the Grant Account and deposit into the respective Special Account such amount as the Recipient shall have requested and as shall have been shown by said documents and other evidence to have been paid out of the respective Special Account for Eligible Expenditures. Each such deposit into the respective Special Account shall be withdrawn by the Association from the Grant Account under one or more of the Eligible Categories.

3. The Association shall not be required to make further deposits into the respective Special Account, once the total unwithdrawn amount of the Grant 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 Grant Account of the remaining unwithdrawn amount of the Grant shall follow such procedures as the Association shall specify by notice to the Recipient. 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 respective 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 Grant Account shall be deposited by the Association into the respective Special Account in accordance with the provisions of Schedule 1 to this Agreement. Each such deposit into the respective Special Account shall be withdrawn by the Association from the Grant Account under one or more of the Eligible Categories.

2. Upon receipt of each application for withdrawal of an amount of the Grant, the Association shall, on behalf of the Recipient, withdraw from the Grant Account and deposit into the respective 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 Part A.4 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 increase access to urban infrastructure and services in the primary City of Kigali and the secondary cities of Butare and Ruhengeri through physical investment and upgrading and improved urban management tools.

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

A. Urban Infrastructure

1. City-level and inter-District physical investments and upgrading, including, without limitation, the carrying out of: (a) improvement and construction of inter-District roads; (b) renovation and extension of We Are the Future Youth Center; (c) upgrading of Kimironko bus station, and (d) drainage and anti-erosion program.

2. District-level physical investments and upgrading, including, without limitation, in respect of: (i) paved and unpaved roads and sidewalks; (ii) urban mobility and security; (iii) sanitation, drainage, and erosion prevention; (iv) schools; (v) health centers; (vi) sports and recreational facilities; (vii) City halls; (viii) select small-scale District administrative facilities; (ix) slaughterhouses; (x) markets; (xi) bus and truck stations; (xii) environmental facilities such as transit dumpsites; and (xiii) other urban upgrading, all through implementation of the Priority Investment Programs.

B. Slum Area Upgrading and Low Income Area Development Zone Pilot

1. Slum area upgrading in Kigali:

Upgrading one (1) slum area in peri-central part of Kigali focusing, *inter alia*, on: (i) access through secondary and tertiary roads and pedestrian pathways; (ii) drainage and run-off control; (iii) recreational facilities; and (iv) public and community spaces.

2. Piloting of development zone in low-income area of Kigali:

Implementation in Akumunigo area of Kigali of pilot development zone, serviced to revised basic standards of urban land development, and provision of land in said zone to low-income dwellers and any households resettled under Part C.2 of Project.

C. Institutional Capacity Building

1. Provision of logistical support, technical advisory services, and training to Beneficiary cities, Beneficiary Districts, and the Recipient's relevant ministries, departments, and agencies for purposes of implementation of municipal improvement activities defined in the respective MSP of the respective City Contract and carrying out of studies for purposes of:

(a) Improvement of resource mobilization: support to improvement of local tax assessment and collection, including activities such as street addressing, urban and financial database preparation, improved land registration filing, preparation of practical handbook on resource mobilization, training, and logistical support.

(b) Improvement of accounting procedures and municipal management, including operation and maintenance capacity: (i) preparation and dissemination to Districts and cities of practical handbook on accounting and budget management and of financial ratio guide; (ii) provision of technical and logistical support to financial management units of Districts of Project implementation; and (iii) preparation, implementation, and monitoring of PMP.

(c) Improvement, in collaboration with cities Alliance, of urban planning practices and carrying out of sector studies in support of selected reforms in decentralization, urban planning, land management, and urban environment.

(d) Improvement of urban environmental and social management through: (i) provision of training in urban environmental management; (ii) provision of support to social intermediation activities; (iii) provision of support to City and District-level HIV / AIDS programs in Kigali; (iv) preparation of RAPs as needed; and (v) preparation of strategic drainage plan, including anti-erosion interventions.

(e) Preparation of studies and carrying out of cross-cutting activities: (i) updating of City Contracts in Butare, Kigali, and Ruhengeri; (ii) carrying out of audits and conclusion of City Contracts in three (3) additional secondary cities; (iii) monitoring and evaluation activities, (iv) training activities for Districts, central government staff,

and local contractors in information technology, project management, and project execution; (v) other preparation and sector studies; and (vi) provision of training to local contractors and consultants in construction sector in technical implementation and financial management of infrastructure projects, integration of environmental issues in project design and implementation, and urban real estate development.

2. Resettlement Action Plans

Implementation of RAPs under Parts A and B of Project.

3. Project Management

(a) Provision of support to PCU for purposes of Project implementation, including for auditing, monitoring and evaluation: (i) goods, such as ICT equipment and office supplies; (ii) technical advisory services; and (iii) training of staff.

(b) Provision of support to *ASSETIP* for purposes of Project implementation, including for auditing, monitoring and evaluation: (i) goods, such as ICT equipment and office supplies; (ii) technical advisory services; and (iii) training of staff.

* * *

The Project is expected to be completed by September 30, 2008.

SCHEDULE 3

Procurement

Section I. General

A. All goods, works and services (other than consultants' services) shall be procured in accordance with the provisions of Section I of the "Guidelines: Procurement under IBRD Loans and IDA Credits" dated May 2004 (the Procurement Guidelines), and with the provisions of this Schedule.

B. All consultants' services shall be procured in accordance with Sections I and IV of the "Guidelines: Selection and Employment of Consultants by World Bank Borrowers" dated May 2004 (the Consultant Guidelines), and with the provisions of this Schedule.

C. The capitalized terms used below in this Schedule to describe particular procurement methods or methods of review by the Association of particular contracts, have the meanings ascribed to them in the Procurement Guidelines, or Consultant Guidelines, as the case may be.

Section II. Particular Methods of Procurement of Goods, Works and Services (other than Consultants' Services)

A. International Competitive Bidding. Except as otherwise provided in Part B of this Section, contracts shall be awarded on the basis of International Competitive Bidding. The provisions of paragraphs 2.55 and 2.56 of the Procurement Guidelines, providing for domestic preference in the evaluation of bids, shall apply to goods manufactured in the territory of the Recipient and works to be carried out by domestic contractors.

B. Other Procurement Procedures

1. Limited International Bidding. Goods which the Association agrees can only be purchased from a limited number of suppliers may be procured under contracts awarded on the basis of Limited International Bidding.

2. National Competitive Bidding. Goods estimated to cost less than \$250,000 equivalent per contract and works estimated to cost less than \$500,000

equivalent per contract may be procured under contracts awarded on the basis of National Competitive Bidding.

3. Shopping. Goods estimated to cost less than \$50,000 equivalent per contract and works estimated to cost less than \$50,000 equivalent per contract may be procured under contracts awarded on the basis of Shopping.

4. Procurement from UN Agencies. Vehicles regardless of cost may be procured directly from IAPSO in accordance with the provisions of paragraphs 3.1 and 3.9 of the Procurement Guidelines.

Section III. Particular Methods of Procurement of Consultants' Services

A. Quality- and Cost-based Selection. Except as otherwise provided in Part B of this Section, consultants' services shall be procured under contracts awarded on the basis of Quality- and Cost-based Selection. For purposes of paragraph 2.7 of the Consultant Guidelines, the short list of consultants for services estimated to cost less than \$100,000 equivalent per contract may comprise entirely national consultants.

B. Other Procedure

1. Least-cost Selection. Services for assignments which the Association agrees meet the requirements of paragraph 3.6 of the Consultant Guidelines may be procured under contracts awarded on the basis of Least-cost Selection in accordance with the provisions of paragraphs 3.1 and 3.6 of the Consultant Guidelines.

2. Selection Based on Consultants' Qualifications. Services estimated to cost less than \$200,000 equivalent per contract and services for purposes of training may be procured under contracts awarded in accordance with the provisions of paragraphs 3.1, 3.7 and 3.8 of the Consultant Guidelines.

3. Single Source Selection. Services for tasks in circumstances which meet the requirements of paragraph 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 3.9 through 3.13 of the Consultant Guidelines.

4. Individual Consultants. Services for assignments that meet the requirements set forth in the first sentence of paragraph 5.1 of the Consultant Guidelines may be procured under contracts awarded to individual consultants in accordance with the provisions of paragraphs 5.2 through 5.3 of the Consultant Guidelines. Under the

circumstances described in paragraph 5.4 of the Consultant Guidelines, such contracts may be awarded to individual consultants on a sole-source basis, subject to prior approval of the Association.

Section IV. Review by the Association of Procurement Decisions

Except as the Association shall otherwise determine by notice to the Recipient, the following contracts shall be subject to Prior Review by the Association: (a) each contract for goods estimated to cost the equivalent of \$250,000 or more; (b) the first three (3) contracts for goods procured by *ASSETIP*; (c) the first contract for goods procured by the PCU; (d) each contract for works and services (other than consultants' services) estimated to cost the equivalent of \$500,000 or more; (e) the first three (3) contracts for works and services (other than consultants' services) procured by the *ASSETIP*; (f) each contract for consultants' services provided by a firm estimated to cost the equivalent of \$100,000 or more; (g) the first three (3) contracts for consultants' services provided by a firm procured by *ASSETIP*; and (h) the first three (3) contracts for consultants' services provided by a firm procured by the PCU. In addition, with respect to each contract for the employment of individual consultants estimated to cost the equivalent of \$50,000 or more, the report on the qualifications and experience of all evaluated candidates, the terms of reference and the terms of employment of the consultants shall be subject to prior approval by the Association. All other contracts shall be subject to Post Review by the Association.

SCHEDULE 4

Implementation Program

A. Oversight and Implementation

1. The Recipient shall implement Parts C.1, 2, and 3 (a) of the Project, and shall cause *ASSETIP* to, and *ASSETIP* shall, implement Parts A, B, and C.3 (b) of the Project.
2. The Recipient shall maintain a steering committee, headed by MINECOFIN and comprising representatives of CEPEX, COK, MINALOC, MININFRA, MINITERE, PRIMATURE, and RALGA, in form and substance and with resources and functions satisfactory to the Association (the “Steering Committee”), throughout Project implementation.
3. The Steering Committee shall meet quarterly during the first year of Project implementation, and biannually thereafter, and be responsible for, *inter alia*: (i) review of and provision of advice on Project implementation issues, including the progress of *ASSETIP* and PCU work programs and reports; (ii) ensuring adequate and effective communication between Project stakeholders; and (iii) coordination of work between agencies of the Recipient.
4. The Recipient shall maintain, within MININFRA, the PCU in form and substance and with resources and functions satisfactory to the Association, throughout the period of Project implementation. The Recipient shall maintain at all times in the PCU, staff with qualifications, experience and terms of reference satisfactory to the Association, including, but not limited to, a coordinator specializing in urban development, an infrastructure specialist, a municipal finance specialist, a financial management specialist, and an operations assistant.
5. The PCU shall be responsible for financial management and provision of overall technical support in respect of the Project, and for supervision and coordination of the implementation of Parts C.1, 2, and 3 (a) of the Project. The PCU shall also: (i) prepare the Annual Work Plans and budgets for various Project activities; (ii) consolidate the progress reports, financial reports, and monitoring and evaluation reports of the Project; (iii) ensure that Beneficiary City contributions through the CDF are available in a timely manner to enable implementation of the PMPs; and (iv) perform secretariat duties for the Steering Committee, including preparing reports and following up on implementation of Steering Committee decisions.

6. Except as the Association shall otherwise agree, the Recipient shall: (a) apply, and cause *ASSETIP* to apply, the criteria, policies, procedures, and arrangements set out in the PIM; and (b) not amend or waive, or permit to be amended or waived, the PIM, or any provision thereto, in a manner which, in the opinion of the Association, may materially and adversely affect Project implementation.

B. Financial Management

1. The Recipient shall maintain an integrated financial management and accounting system, in form and substance satisfactory to the Association, and including maintenance of an FMC within the PCU, throughout the period of Project implementation. The FMC shall be headed by a Chief Finance Officer assisted by an accountant, both with qualifications, experience, and terms of reference satisfactory to the Association, and the Chief Finance Officer shall report to the Project Coordinator.

2. The FMC shall be responsible for daily supervision of financial management and accounting activities under Parts C.1, 2, and 3 (a) of the Project.

C. Implementation Agreement

The Implementation Agreement shall include, but without being limited to, provisions to the following effect:

(a) The Recipient shall provide the proceeds of the Grant allocated to Categories 1, 2, and 3 (c) (ii) of the table in Schedule 1 to this Agreement to *ASSETIP* on terms and conditions satisfactory to the Association, including provision of said proceeds on a grant basis.

(b) *ASSETIP* shall perform all of its obligations under the Project Agreement.

(c) Procurement of the goods, works, and services required for Parts A, B, and C.3 (b) of the Project and to be financed out of the proceeds of the Grant shall be governed by the provisions of Schedule 3 to this Agreement, as said provisions may be further elaborated in the Procurement Plan.

(d) *ASSETIP* shall ensure that Parts A, B, and C.3 (b) of the Project are implemented in accordance with the provisions of the PIM, ESMF, the RPF, and any RAP and, except as the Association shall otherwise agree, *ASSETIP* shall not amend or waive, or permit to be amended or waived, any provision of the aforementioned if such

amendment or waiver may, in the opinion of the Association, materially or adversely affect Project implementation.

D. Parts A and B of Project

1. Without limitation upon the provisions of Parts A, B and C of this Schedule, the Recipient, through the PCU, shall appraise, approve, and monitor the activities under Parts A and B of the Project in accordance with the provisions of this Part D and the PIM.

2. Without limitation upon the provisions of paragraph 1 of this Section, *ASSETIP* shall implement the activities under Parts A and B of the Project.

3. *ASSETIP*, whose mandate, terms of reference and composition shall be in accordance with the objectives of the Project shall be responsible for the implementation of Parts A and B of the Project, through the performance of its obligations as set out in each of the DCMA's entered into between *ASSETIP* and each Beneficiary City or District.

4. The Recipient shall ensure that:

(a) each of the Beneficiary cities and Districts prepares a PIP, an MSP, and an annual PMP;

(b) the PCU verifies the eligibility of each of the proposed PIPs in accordance with the eligibility criteria set forth in the PIM; and

(c) each of the Beneficiary cities and Districts signs a City Contract with the Recipient in form and substance satisfactory to the Association, as further described in the PIM.

5. PIPs and Pilot Projects shall be carried out pursuant to each DCMA to be concluded between *ASSETIP* and each Beneficiary City or District, under terms and conditions satisfactory to the Association, described in further detail in the PIM, which, *inter alia*, shall include the following, as applicable:

(i) the detailed investment program to be implemented by *ASSETIP* through the contracting of appropriate community-based organizations or private-sector contractors and consultants;

- (ii) the amount made available by the Recipient to cover the cost of studies, control, goods and works associated with each PIP or Pilot Project, and the fees of *ASSETIP* to cover its operating costs;
- (iii) disbursement and implementation schedule of the PIPs or Pilot Projects;
- (iv) with respect to the implementation of PIPs under Part A of the Project, the obligation of the respective Beneficiary City or District to contribute through the CDF at least five (5) percent of the projected costs of the PIPs;
- (v) the requirement that PIPs and Pilot Projects shall be implemented in accordance with the provisions of this Agreement, the PIM, the ESMF, the RPF, and any RAP;
- (vi) the obligation to: (A) carry out the PIPs and Pilot Projects with due diligence and efficiency and in accordance with sound engineering, environmental, financial, and managerial practices; and (B) maintain adequate records to reflect, in accordance with sound accounting practices, the resources, operations, and expenditures relating to the PIPs and Pilot Projects;
- (vii) the requirement that the goods, works, and consultants' services to be financed out of the proceeds of the Grant shall be procured in accordance with procedures ensuring efficiency and economy and in accordance with the provisions of Schedule 3 to this Agreement, and shall be used exclusively in the carrying out of the PIPs and Pilot Projects; and
- (viii) the right of the respective Beneficiary City or District and of the Recipient in its own right, to: (A) inspect by itself, or jointly with the Association, if the Association shall so request, the goods, works, sites, plants, and construction included in the PIPs and Pilot Projects, the operations thereof, and any relevant records and documents; (B) obtain all information as it, or the Association, shall reasonably request regarding the administration, operation, and financial condition of PIPs and Pilot Projects; and (C) initiate the process for the suspension or termination of the right of *ASSETIP* to use the financing under

Part A or B of the Project upon failure by *ASSETIP* to perform any of its obligations under the respective DCMA.

E. Safeguards

The Recipient shall ensure that the Project is, and *ASSETIP* shall ensure that Parts A, B, and C.3 (b) of the Project are, implemented in accordance with the provisions of the ESMF, the RPF, and any RAP, and, except as the Association shall otherwise agree, the Recipient shall not amend or waive any provision of the aforementioned if such amendment or waiver may, in the opinion of the Association, materially or adversely affect Project implementation.

F. Project Monitoring and Evaluation

1. Annual Work Plans and Budgets

The Recipient shall furnish to the Association for its approval as soon as available, but in any case not later than September 1 of each year, the Annual Work Plan and budget in respect of the Project for each subsequent Fiscal Year following FY 2005, of such scope and in such detail as the Association shall have reasonably requested.

ASSETIP shall furnish to the Association for its approval as soon as available, but in any case not later than September 1 of each year, the Annual Work Plan and budget in respect of Parts A, B and C.3 of the Project for each subsequent Fiscal Year following FY 2005, of such scope and in such detail as the Association shall have reasonably requested.

2. Annual Reviews

The Recipient shall:

(a) maintain, and cause *ASSETIP* to maintain, and *ASSETIP* shall maintain, policies and procedures adequate to enable it to monitor and evaluate on an ongoing basis, in accordance with the indicators set forth in Schedule 5 to this Agreement, and in Schedule 1 to the Project Agreement, respectively, the carrying out of Parts C.1, 2, and 3 (a), and of Parts A, B, and C.3 (a), of the Project, respectively, and the achievement of the objectives thereof;

(b) prepare, and cause *ASSETIP* to prepare, and *ASSETIP* shall prepare, under terms of reference satisfactory to the Association, and furnish to the Association,

on or about March 1, 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 Part C.1, 2, and 3 (a), and of Parts A, B, and C.3 (a), of the Project, respectively, 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, by June 1 or such later date as the Association shall request, the reports 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 reports and the Association's views on the matter.

3. Midterm Review

The Recipient shall:

(a) carry out jointly with the Association, on or about the date 18 months after the Effective Date, a comprehensive review (Midterm Review) to assess the status of Project implementation. Such review shall be aimed at: (i) documenting progress towards the Project objective; (ii) identifying and resolving obstacles to Project implementation; and (iii) adjusting, in agreement with the Association, targets and corresponding activities to reflect progress achieved in Project implementation as of the date of review;

(b) take all actions it considers necessary to ensure the participation of representatives of *ASSETIP* and Beneficiary cities in such Midterm Review;

(c) not later than one (1) month before such review, prepare and furnish, and cause *ASSETIP* to prepare and furnish, to the Association 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 2 (a) of this Section on the progress achieved in the carrying out of Parts C.1, 2, and 3 (a), and of Parts A, B, C.3 (b) of the Project, respectively, 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 objective thereof during the period following such date; and

(d) review, jointly with the Association, the reports referred to in paragraph (c) of this Section and promptly thereafter, take all measures required to ensure the efficient completion of the Project and the achievement of the objective thereof, based

on the conclusions and recommendations of the said reports and the Association's views on the matter.

SCHEDULE 5

Performance Indicators

The Recipient shall implement Parts C.1, 2, and 3 (a) of the Project in accordance with the performance indicators set forth below:

Project objective

1. By the Closing Date, the total population of the Beneficiary cities that has access to improved social and economic infrastructure has increased by 572,000 persons as compared to that in 2004.
2. By the Closing Date, the proportion of the annual municipal budget of the COK allocated to the financing of infrastructure and facilities maintenance programs has reached at least 15 percent and of Butare and Ruhengeri cities and of each District of Kigali city, respectively, has reached at least 10 percent.

Parts C.1, 2, and 3 (a) of Project

3. By the Closing Date, at least 80 percent of social facilities built or rehabilitated under the Project are effectively operational.
4. By the Closing Date, all of the Beneficiary cities and Districts have prepared or updated their City Contracts on the basis of urban, financial, and organizational audits.
5. By the Closing Date, the Beneficiary cities of Butare, Kigali, and Ruhengeri have developed action plans to improve resource mobilization.
6. By the Closing Date, the Beneficiary cities of Butare, Kigali, and Ruhengeri have prepared and updated municipal financial ratios and reports.
7. By the Closing Date, the slum upgrading strategy of the COK has been completed and reflects lessons learned under Part B.1 of the Project.
8. By the Closing Date, land in the pilot development zone implemented in the Akumunigo area of Kigali under Part B.2 of the Project has been provided by the COK to low-income dwellers and any households resettled under Part C.2 of the Project.

SCHEDULE 6

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), 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 Account” is modified to read “Grant Account”.

(d) The term “Development Credit Agreement” is modified to read “Development Grant Agreement”.

3. Section 1.01 is modified to read as follows:

“Section 1.01. *Application of General Conditions*

These General Conditions set forth the terms and conditions generally applicable to the Development Grant Agreement to the extent and subject to any modifications set forth in such agreement.”

4. Paragraph 3 of Section 2.01 is modified to read as follows:

“3. “Recipient” means the party to the Development Grant Agreement to which the Grant is made.”

5. Article III is modified as follows:
 - (a) The heading of Article III is modified to read “Grant Account; Partial Payment”, and the heading of Section 3.04 is modified to read “Partial Payment”.
 - (b) The words “The principal of, and service charges on, the Credit” in Section 3.05 are modified to read “All amounts required to be paid under the Development Grant Agreement”.

6. Article IV is modified as follows:
 - (a) Section 4.02 (a) is modified to read as follows:

“Section 4.02. Currencies in which Payments are to be Made

 - (a) The Recipient shall pay all amounts required to be paid by it under the Development Grant Agreement in the currency specified in such 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.”
 - (b) Wherever used in Section 4.02 (c) and (e) of the General Conditions, the words “principal and service charges” are modified to read “amounts”.
 - (c) Section 4.03 is 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.”

- (d) Section 4.06 (b) is modified to read as follows:

“(b) All amounts which the Recipient shall be required to pay under the Development Grant Agreement shall be paid without restrictions of any kind imposed by, or in the territory of, the Recipient.”

7. Section 5.08 of the General Conditions is amended to read as follows:

“Section 5.08. *Treatment of Taxes*

Except as otherwise provided in the Development Grant Agreement, the proceeds of the Grant may be withdrawn to pay for taxes levied by, or in the territory of, the Recipient on the goods or services to be financed under the Grant, or on their importation, manufacture, procurement or supply. Financing of such taxes is subject to the Association’s policy of requiring economy and efficiency in the use of the proceeds of its credits and grants. To that end, if the Association shall at any time determine that the amount of any taxes levied on or in respect of any item to be financed out of the proceeds of the Grant is excessive or otherwise unreasonable, the Association may, by notice to the Recipient, adjust the percentage for withdrawal set forth or referred to in respect of such item in the Development Grant Agreement as required to be consistent with such policy of the Association.”

8. Article VI is modified as follows:

- (a) The word “credit” in paragraphs (a) (ii) and (c) (i) of Section 6.02 is replaced with the words “credit, grant or financing”.
- (b) Section 6.03 (c) is modified by replacing the words “corrupt or fraudulent” with the words “corrupt, fraudulent, collusive or coercive”.

9. Section 8.01 (a) is modified to read as follows:

“(a) All amounts which the Recipient shall be required to pay under the Development Grant Agreement shall be paid without deduction for, and free from, any taxes levied by, or in the territory of, the Recipient.”

10. Section 12.05 and its heading are modified to read as follows:

“Section 12.05. *Termination of Development Grant Agreement.*

The obligations of the Recipient under the Development Grant Agreement shall terminate on the date 20 years after the date of the Development Grant Agreement.”