

**GRANT NUMBER TF053490 ANG
European Community Grant Related to Credit Number 3816 ANG**

Grant Agreement

(Third Social Action Fund Project (FAS III))

among

REPUBLIC OF ANGOLA

and

FUNDO DE APOIO SOCIAL

and

**INTERNATIONAL DEVELOPMENT ASSOCIATION
(acting as administrator of the European Community Trust Fund for
Angola Third Social Action Fund)**

Dated

, 2005

GRANT NUMBER TF053490 ANG

GRANT AGREEMENT

AGREEMENT, dated _____, 2005, between THE REPUBLIC OF ANGOLA (the Recipient), *FUNDO DE APOIO SOCIAL (FAS)*, and INTERNATIONAL DEVELOPMENT ASSOCIATION (the Association), acting as administrator of the European Community Trust Fund for the Angola Third Social Action Fund in respect of grant funds provided by the European Community (the European Community);

WHEREAS (A) pursuant to a Development Credit Agreement (the Agreement) between the Recipient and the Association on one hand, and a Project Agreement (the Project Agreement) between the Association and FAS on the other hand, both dated September 15, 2003, for the Third Social Action Fund Project (FAS III) (the Project), the Association granted to the Recipient an amount in various currencies equivalent to forty million five hundred thousand Special Drawing Rights (SDR 40,500,000) to assist in the financing of such Project on the terms and conditions set forth in the Development Credit Agreement and the Project Agreement;

(B) the European Community, represented by the Commission, has agreed to make a grant to the Recipient in the amount of forty-four million five hundred fifty thousand Euros (€44,550,000) (the EC Grant), in three installments; and

(C) pursuant to the Administration Agreement signed on September 22, 2004, between the European Community and the International Development Association (the Administration Agreement), the Association has agreed to administer, on behalf of the European Community, the EC Grant under the terms and conditions of this Agreement;

(D) the Recipient hereby confirms its support for, and its commitment to, the objectives of the Project to be financed by the EC Grant, and to this end, hereby undertakes to take all action necessary or appropriate to enable FAS to carry out its obligations set forth in this Agreement;

WHEREAS the Association has agreed, on the basis, inter alia, of the foregoing, to extend the EC Grant to the Recipient on the terms and conditions set forth in this Agreement;

NOW THEREFORE, the parties hereto hereby agree as follows:

ARTICLE I

General Conditions; Definitions

Section 1.01. The “General Conditions Applicable to Development Credit Agreements” of the Association, dated January 1, 1985 (as amended through May 1, 2004) (the General Conditions), 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 and the following additional terms have the following meanings:

(a) “Annual Work Plan and Budget” means the annual work plan and budget prepared by the National Coordination Unit (as hereinafter defined) for the purpose of the Project as referred to in paragraph 1 (a) of Schedule 2 to the Project Agreement;

(b) “Beneficiary” means a community, municipality or group which meets the criteria specified in the Operational Manual (as hereinafter defined) and to which or for whose benefit a grant is made or proposed to be made for a Subproject (as hereinafter defined);

(c) “Environmental and Social Management Framework” means the environmental framework dated May 19, 2003, adopted by the Recipient and referred to in paragraph 7 of Schedule 2 to the Project Agreement, which sets out the social and environmental protection measures in respect of the Project, including: (i) environmental guidelines for subprojects; (ii) mitigation of any negative environmental and social impact of the Project; (iii) environmental and social monitoring of Subprojects; and (iv) institutional arrangements, as such arrangements may be revised from time to time with the agreement of the Association;

(d) “FAS” (*Fundo de Apoio Social*) means the Borrower’s Social Action Fund established by Decree No. 44/94 dated October 28, 1994 (as amended by Decree No. 04/96 dated January 19, 1996 and by Decree No. 22/01 dated April 6, 2001);

(e) “FAS Project Agreement” means the agreement between the Association and FAS dated September 15, 2003, as the same may be amended from time to time, and such term includes all schedules and agreements supplemental to the Project Agreement;

(f) “FAS Provincial Coordination Committees” (*Comitês de Coordenação Provinciais*) means each and all of FAS committees at the provincial level established and operating pursuant to Decree No. 44/94 dated October 28, 1994 (as amended by Decree No. 04/96 dated January 19, 1996 and by Decree No. 22/01 dated April 6, 2001),

which includes Recipient 's representatives as well as representatives from the civil society, non-governmental organizations and the private sector;

(g) "Financing Agreement" means an agreement referred to in paragraph 6 of Schedule 2 to the Project Agreement to be entered into between a FAS Provincial Coordination Committee and a Subproject Committee (as hereinafter defined) on one hand, or the Municipal Administration and a Subproject Committee on the other hand, for the financing of a Subproject (as hereinafter defined) through the provision of a grant;

(h) "Financial Management Procedural Manual" means the procedural manual referred to in paragraph 1 (a) of Schedule 2 to the Project Agreement, adopted by the National Coordination Committee, setting forth, *inter alia*, financial policies and procedures, accounting and internal control system and financial reporting, flow of funds, auditing arrangements and financial management assessments at central, provincial and municipal levels, as may be amended from time to time with the prior written consent of the Association;

(i) "Financial Monitoring Report" or "FMR" means each report prepared in accordance with Section 4.02 of this Grant Agreement;

(j) "Fiscal Year" and "FY" mean the Recipient's fiscal year commencing January 1 and ending December 31;

(k) "Implementing Partner" means a non governmental organization, public institution, private sector enterprise, community-based, religious organization or development agency, providing operational support, to or otherwise assisting in the carrying out of, the Project;

(l) "Kwanza" (*Kwanza*) or the acronym "KZ" means the lawful currency of the Recipient;

(m) "Memorandum of Understanding" or "MOU" means an agreement to be entered into between a FAS Provincial Coordination Committee and a Municipal Administration setting forth, *inter alia*, cooperation guidelines for the execution of Part B of the Project, a model of which will be included as an integral part of the Operational Manual;

(n) "Municipal Administrations" means each and all of the Recipient's administrative representations at the municipal level in the Recipient's territory, created and operating under Law No. 27/00 dated May 19, 2000;

(o) "National Coordination Committee" (*Comité de Coordenação Nacional*) means the supreme national oversight body for Project implementation created and operating pursuant to Decree No. 44/94 dated October 28, 1994 (as amended by Decree No. 04/96 dated January 19, 1996 and by Decree No. 22/01 dated April 6, 2001),

which includes members of the Recipient's ministerial cabinet as well as representatives from the civil society, non governmental organizations and the private sector;

(p) "National Coordination Unit" (*Unidade de Coordenação Nacional*) or "FAS" means the unit established pursuant to Decree No. 44/94 dated October 28, 1994 (as amended by Decree No. 04/96 dated January 19, 1996, and by Decree No. 22/01 dated April 6, 2001) in charge of the day-to-day management, coordination, implementation and administration of the Project at the national level;

(q) "Operational Manual" means the comprehensive manual referred to in paragraph 1 (a) of Schedule 2 to the Project Agreement, adopted by the National Coordination Committee, revised and updated for purposes of the implementation of this Project, and setting forth, *inter alia*, operational and administrative procedures, and eligibility criteria for the financing of Subprojects (as hereinafter defined) and to be used for the purpose of implementing the Project, as may be amended from time to time with the prior written consent of the Association, and such Operational Manual includes all schedules to the Operational Manual such as the MOU model form;

(r) "Procurement Plan" means the Recipient's procurement plan, submitted by October 30, 2004, covering the initial eighteen (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 3.02 to this Agreement, to cover succeeding eighteen (18) month periods (or longer) of Project implementation;

(s) "Project Municipalities" means those of the Recipient's municipalities where the Project will be implemented;

(t) "Project Provinces" means those of the Recipient's provinces where the Project will be implemented;

(u) "Project Year" means each twelve-month period during Project implementation starting from the day after the Effective Date;

(v) "Special Account" means the account referred to in Section 2.02 (b) of the Agreement;

(w) "Subproject Committee" (*Núcleo Comunitário*) means the Committee to be established by each Beneficiary Community in accordance with the Operational Manual and paragraph 6 of Schedule 4 to this Grant Agreement for the purpose of identifying, preparing and implementing Subprojects; and

(x) "Subproject" means a specific development project which meets the criteria set forth in the Operational Manual and in Paragraph 5 of Schedule 4 to this Agreement and which is to be financed out of the proceeds of the EC Grant under Parts A.1, A.2 (b) and B.2 of the Project.

ARTICLE II

The EC 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 equivalent to the amount of forty-four million five hundred fifty thousand Euros (€44,550,000).

Section 2.02. (a) The amount of the EC 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 EC Grant.

(b) FAS may, for the purposes of the Project, open and maintain in Dollars a special deposit account in a commercial bank on terms and conditions satisfactory to the Association, including appropriate protection against set off, seizure or attachment. Deposits into, and payments out of, the Special Account shall be made in accordance with the provisions of Schedule 5 to this Agreement.

Section 2.03. The Closing Date shall be June 30, 2008, or such later date as the Association shall establish. The Association shall promptly notify the Recipient of such later date.

Section 2.04. The Association shall not make any payment under this Agreement except to the extent it shall have received funds for the purposes of the Project from the European Community, as referred to in Paragraph B of the preamble to this Agreement.

Section 2.05. The Recipient's Minister of Planning or the Executive Director of FAS, and any person they shall designate in writing, is designated as an authorized representative for the purposes of taking any action required or permitted to be taken under the provisions of Section 2.02 of this Agreement and Article V of the General Conditions.

ARTICLE III

Execution of the Project

Section 3.01. (a) FAS declares its commitment to the objectives of the Project as set forth in Schedule 2 to this Agreement and, to this end, shall carry out the Project with due diligence and efficiency and in conformity with appropriate administrative, financial, engineering, and environmental practices, and shall provide, promptly as needed, the funds, facilities, services and other resources required for the Project.

(b) Without limitation upon the provisions of paragraph (a) of this Section and except as the Recipient and the Association shall otherwise agree, FAS shall carry

out the Project in accordance with the implementation program set forth in Schedule 4 to this Agreement.

Section 3.02. (a) Except as the Association shall otherwise agree, procurement of the goods and consultant's services required for the Project and to be financed out of the proceeds of the EC 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 accordance with terms of reference 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 3.03. For the purposes of Section 9.06 of the General Conditions and without limitation thereto, the Recipient and FAS shall:

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

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

Section 3.04. FAS, shall carry out the obligations set forth in Sections 9.03, 9.04, 9.05, 9.06, 9.07 and 9.08 of the General Conditions (relating to insurance, use of goods and services, plans and schedules, records and reports, maintenance and land acquisition, respectively).

ARTICLE IV

Financial Covenants

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

(b) FAS shall:

(i) have the records and accounts referred to in paragraph (a) (i) of this Section and those for the Special Account for each fiscal year audited, in accordance with appropriate auditing principles

consistently applied, by independent auditors acceptable to the Association;

- (ii) furnish to the Association as soon as available, but in any case not later than six months after the end of each such semi annual period 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 period, or such 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 statements of expenditure, the Recipient shall:

- (i) retain, until at least one year after the Association has received the audit report for, or covering, the fiscal year in which the last withdrawal from the 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 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 Schedule 4 to this Agreement, FAS shall prepare and furnish to the Association a Financial Monitoring Report, in form and substance satisfactory to the Association, which:

- (i) sets forth sources and uses of funds for the Project, both cumulatively and for the period covered by said report, showing separately funds provided under the EC 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 Financial Monitoring Report 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 Financial Monitoring Report shall be furnished to the Association not later than 45 days after each subsequent calendar quarter, and shall cover such calendar quarter.

ARTICLE V

Effectiveness; Termination

Section 5.01. This Grant Agreement will become effective upon receipt by the Association of a fully executed copy of this agreement countersigned by the Recipient and FAS.

ARTICLE VI

Representative of the Recipient; Addresses

Section 6.01. The Minister of Planning is designated as representative of the Recipient, and the Executive Director is designated as representative of FAS, for the purposes of Section 11.03 of the General Conditions.

Section 6.02 The following addresses are specified for the purposes of Section 11.01 of the General Conditions:

For the Recipient:

Ministry of Planning
Largo do Palácio
Cx. Postal 885
Luanda
Angola

Facsimile:
244 233 9586

For *FUNDO DE APOIO SOCIAL (FAS)*:

Largo do Palacio
C.P. 1205, Luanda, Angola

Facsimile:
(244-2) 33 38 35
(244-2) 33 01 91

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 _____, as of the day and year first above written.

REPUBLIC OF ANGOLA

BY

Authorized Representative

FUNDO DE APOIO SOCIAL

By

Authorized Representative

INTERNATIONAL DEVELOPMENT ASSOCIATION

By

Authorized Representative

SCHEDULE 1

Withdrawal of the Proceeds of the EC Grant

1. The table below sets forth the Categories of items to be financed out of the proceeds of the EC Grant, the allocation of the amounts of the EC 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 (in Euros)</u>	<u>% of Expenditures to be Financed</u>
(1) Goods	810,000	100%
(2) Consultant Services (including Audits)	1,620,000	100%
(3) Training and Workshops	1,620,000	100%
(4) Subprojects	33,700,000	100% of amounts disbursed
(5) Operating Costs	4,800,000	100%
(6) Unallocated	2,000,000	
TOTAL	<u>44,550,000</u> =====	

2. For the purposes of this Schedule the term:

(a) "Operating Costs" means the incremental expenses incurred on account of Project implementation, management and monitoring, including office supplies, vehicle and equipment operation and maintenance, communication and insurance costs, salaries of locally contracted employees, and reasonable bank charges related to the operation of the Special Account, but excluding salaries of officials of the Recipient's civil service and regular staff of FAS; and

(b) "Training and Workshops" means the expenses incurred for per diem, travel, purchase of training materials and rental of facilities, and includes workshops and seminars.

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

Agreement; and (b) payments made for expenditures under category (4) unless the Subproject grants have been made in accordance with the provisions set forth or referred to in the Operation Manual and in Paragraph 5 of Schedule 4 to this Agreement.

4. 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 estimated to cost less than US\$100,000 equivalent each, (b) services of consulting firms costing less than US\$100,000 equivalent each; (c) services of individual consultants costing less than US\$50,000 equivalent each; (d) Contracts under Subprojects costing less than US\$200,000; and (e) training, workshops and operating costs, all under such terms and conditions as the Association shall specify by notice to the Recipient.

SCHEDULE 2

Description of the Project

The objective of the Project is to assist the Recipient in achieving improved, expanded and sustainable utilization of basic social and economic services through: (a) the provision or rehabilitation of social and economic infrastructure at the community level; (b) capacity building at the level of communities, Implementing Partners, local government and FAS; and (c) strengthening and improving networks to facilitate collective action among community members, including vulnerable groups.

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

Part A: Community Development

1. Support for demand-driven community initiatives, through the provision of Subprojects, including: (i) construction, rehabilitation, or provision of the basic infrastructure for health, education, water and sanitation; (ii) small-scale community and municipal infrastructure; and (iii) environmental upgrading such as waste management or reforestation.

2. (a) Carrying out of a conflict impact and vulnerability assessment to identify potential constraints to, and opportunities for, social capital building, including scope of vulnerability and its impact at the community level as well as community demand for targeted support to vulnerable groups, through the provision of technical advisory services.

(b) Implementation of pilot interventions, such as improved access to social and economic services, to support vulnerable groups identified by means of the assessment through the provision of Subprojects.

Part B: Municipal Development

1. Strengthening the capacity of municipalities including capacity development in participatory decision making, strategic planning, resource allocation, and implementation and monitoring of local development activities, through the provision of technical advisory services and training for staff from municipalities and Implementing Partners.

2. Support of demand-driven community initiatives at the municipal level, including: (i) construction, rehabilitation or provision of the basic infrastructure for health, education, water and sanitation; (ii) small-scale community and municipal infrastructure; and (iii) environmental upgrading such as waste management or reforestation.

* * *

The Project is expected to be completed by December 31, 2007.

SCHEDULE 3

Procurement

Section I. General

A. All goods and services (other than consultants' services) shall be procured in accordance with the provisions of Section I of the "Guidelines for 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 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 in accordance with the provisions of Section II of the Procurement Guidelines, and the following additional procedure.

B. Other Procurement Procedures

1. National Competitive Bidding. Goods estimated to cost less than \$100,000 equivalent per contract may be procured under contracts awarded on the basis of National Competitive Bidding.

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

3. Direct Contracting. Goods which should be procured as an extension of an existing contract, are of a proprietary nature or must be procured from a particular supplier as a condition of a performance guarantee and costing \$20,000 equivalent or less per contract, may, with the Association's prior agreement, be procured in accordance with the provisions of paragraph 3.7 of the Guidelines.

4. Community Participation. Goods estimated to cost less than \$5,000 may be procured in accordance with procedures acceptable to the Association and described in the Operational Manual.

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 \$50,000 equivalent per contract may comprise entirely national consultants.

B: Other Procedures

1. Selection Under Fixed Budget. Services for training and supervision contracts, estimated to cost less than \$200,000 equivalent, may be procured under contracts awarded in accordance with the provision of paragraph 3.5 of the Consultant Guidelines.

2. Selection Based on Consultants' Qualifications. Services of consulting firms estimated to cost less than \$100,000 equivalent per contract and services of individual consultants estimated to cost less than \$50,000 equivalent per contract 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 estimated to cost less than \$50,000, 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.

Section IV. Review by the Association of Procurement Decisions

1. Except as the Association shall otherwise determine by notice to FAS, the following contracts shall be subject to Prior Review by the Association: (a) with respect to each contract for goods estimated to cost the equivalent of \$100,000 or more; (b) with respect to all contracts for Subprojects estimated to cost the equivalent of \$200,000 or more; ; and (c) each contract for consultants' services provided by a firm estimated to cost the equivalent of \$100,000 or more. In addition, the record of justification referred to in paragraph 5 of Appendix 1 to the Consultant Guidelines for each contract for the employment of individual consultants estimated to cost the equivalent of \$50,000 or more shall be subject to Prior Review by the Association. All other contracts shall be subject to Post Review by the Association.

2. Post Review

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

SCHEDULE 4

Implementation Program

1. General

FAS shall:

(a) carry out the Project in accordance with the Operational Manual. This Manual will not be amended or waived, without the Association's prior written approval, if, in the opinion of the Association, such amendment or waiver may materially and adversely affect the carrying out of the Project or the achievement of the objectives thereof;

(b) carry out the Financing Agreements in accordance with the Operational Manual, and shall not amend or waive the Financial Agreements without the Association prior written approval, if, in the opinion of the Association, such amendment or waiver may materially and adversely affect the carrying out of the Project or the achievement of the objectives thereof; and

(c) 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 7 to this Agreement, the carrying out of the Project and the achievement of the objectives thereof.

2. Reports

FAS shall:

(a) prepare, under terms of reference satisfactory to the Association, and furnish to the Association, quarterly on September 30, December 31, March 31 and June 30, beginning on December 31, 2004, a report integrating the results of the monitoring and evaluation activities performed pursuant to paragraph (b) of Section 1 above, on the progress achieved in the carrying out of the Project during the period preceding the date of said report, including specific reference to physical progress achieved and measures recommended to ensure the efficient carrying out of the Project and the achievement of the objectives thereof during the period following such date;

(b) prepare, under terms of reference satisfactory to the Association, and furnish to the Association, annually on or about September 30, beginning on September 30, 2005, a report integrating the results of the monitoring and evaluation activities performed pursuant to paragraph (b) of Section 1 above, on the progress achieved in the carrying out of the Project during the period preceding the date of said report, including specific reference to physical progress achieved and measures recommended to ensure the efficient carrying out of the Project and the achievement of the objectives thereof during the period following such date;

(c) review with the Association, on October 31 each year, or such later date as the Association shall request, the report referred to in paragraph (b) of this Section, and, thereafter, take all measures required to ensure the efficient completion of the Project and the achievement of the objectives thereof, based on the conclusions and recommendations of the said report and the Association's views on the matter; and

(d) the progress report referred to in paragraph (b) of this Schedule shall cover, amongst other things: (i) progress achieved in the implementation of the Project in the previous 12 months and comparison target/actual, including environmental practices and standards; (ii) analysis of the reasons for not achieving the targets and plans for improving performance accordingly; (iii) targets and activities to be carried out in the coming 12 months, including work, training and procurement plans and budget; (iv) administration and financial operation of FAS; (v) operating costs of FAS including the operating costs of each FAS Provincial Coordination Committee and Project Municipalities; and (vi) the results of the most recent external audits of a representative sample of Subprojects, a review of procurement, a description of monitoring activities of the quality and timeliness of implementation of Subprojects and a summary of the impact of the most recent Subprojects.

3. Annual Work Plan and Budget, Annual Procurement Audit, and Procurement Plan

(a) FAS shall, beginning on October 30, 2004, and thereafter on an annual basis, furnish to the Association: (i) the Annual Work Plan and Budget; and (ii) a procurement audit; both in form and substance acceptable to the Association; and

(b) beginning on October 30, 2004, and thereafter on an 18 month basis, furnish to the Association a Procurement Plan in form and substance satisfactory to the Association.

4. Midterm Review

(a) On or about the date twenty-four (24) months when one half (1/2) of the proceeds of the EC Grant have been disbursed, whichever is earlier, the Recipient and FAS shall thereafter carry out, jointly with the Association, a midterm review of the progress made in carrying out the Project (hereinafter referred to as the Midterm Review).

(b) The Midterm Review shall cover among other things:

(i) an assessment of: (a) work programs and budgets prepared to date and their status of implementation; (b) training provided under the Project; (c) procurement under the Project; (d) the status of the Project monitoring indicators referred to in

Schedule 7 to this Agreement and plans for updating such monitoring indicators;

- (ii) a review of the geographical, community, municipal and provincial indicators and of the distribution of the Subprojects under the Project in order to evaluate the performance of FAS in implementing the Project;
- (iii) a review of the state of maintenance of the infrastructure rehabilitated and constructed under the Project; and
- (iv) an assessment of, among other things, whether the Recipient and FAS is maintaining the social and economic infrastructure rehabilitated and constructed under the Project with sufficient personnel for its operation.

(c) FAS shall, at least four (4) weeks prior to the Midterm Review, furnish to the Association a separate report describing the status of implementation of Parts A.1, A.2 (b) and B.2 of the Project and a summary report of the other Parts of Project implementation.

(d) FAS shall, during the Midterm Review, prepare an action program, acceptable to the Association, for the further implementation of the Project having regard to the findings of the Midterm Review, and thereafter implement such program.

5. Implementation of Subprojects

(a) Subprojects eligible for financing will meet the technical, financial, economic, social and environmental criteria and conditions specified in the Operational Manual.

(b) The procedures in the Operational Manual shall be followed in identifying, processing and approving Subprojects under the Project.

(c) Subprojects estimated to: (i) receive \$200,000 or more will be submitted to the National Coordination Committee and the Association for approval prior to the signing of the respective Financial Agreements; (ii) receive \$100,000 or more (but less than \$200,000) will be submitted to the National Coordination Unit for approval prior to the signing of the respective Financial Agreements; (iii) receive \$50,000 or more (but less than \$100,000) will be submitted to FAS Provincial Coordination Committees for approval prior to the signing of the respective Financial Agreement; and (iv) receive less than \$50,000 will be approved by the Municipal Administrations prior to the signing of the respective Financial Agreement.

(d) Financing for each Subproject will not exceed 90% of the total costs of the Subproject.

6. Financing Agreements and Subproject Committees

FAS shall enter into a Financing Agreement with each Subproject Committee for the benefit of each Beneficiary. The terms of the Financing Agreement shall be satisfactory to the Association and shall include the right for FAS to obtain adequate protection of the interests of the Recipient, the Association and FAS itself, through, *inter alia*, the following provisions:

(a) the Subproject Committee shall carry out the Subproject with due diligence and efficiency in accordance with sound technical, financial, managerial and environmental standards and maintain adequate records.

(b) The goods and services to be financed out of the proceeds of the EC Grant for the Subproject shall be procured in accordance with the provisions of Schedule 3 to this Agreement.

(c) FAS shall have the right to inspect, by itself or jointly with the Association and the Recipient, the goods and sites, and construction included in the Subproject.

(d) FAS shall have the right to obtain all such information as FAS or the Association shall reasonably request regarding the goods, site and construction included in the Subproject, the administration, operation, financial and environmental condition of the Subproject and the benefits to be derived from the Subproject.

(e) FAS shall have the right to suspend or terminate the right of a Subproject Committee to use the proceeds of the EC Grant for the relevant Subproject upon failure by any such Subproject Committee to perform any of its respective obligations under the Financing Agreement.

(f) The Subproject Committee shall have the obligation to report to FAS on progress in implementing the Subproject.

7. Environmental and Social Management Framework

(a) The Recipient and FAS shall ensure that the Project is implemented in accordance with sound environmental practices and standards, satisfactory to the Association.

(b) The Recipient and FAS shall:

(i) maintain policies and procedures adequate to enable them to monitor and evaluate, in accordance with guidelines acceptable to the Association, the implementation of the Environmental and Social Management Framework;

(ii) include the results of such monitoring and evaluation activities in each report referred to in paragraph 2 (b) above, together with any revisions proposed to be introduced into such plan and framework in order to achieve their respective objectives; and

(iii) introduce such revisions into the Environmental and Social Management Framework as shall have been agreed to with the Association.

SCHEDULE 5

Special Account

1. For the purposes of this Schedule:
 - (a) the term “eligible Categories means Categories (1) through (5) set forth in the table in paragraph 1 of Schedule 1 to this Agreement;
 - (b) the term “eligible expenditures” means expenditures in respect of the reasonable cost of goods and services required for the Project and to be financed out of the proceeds of the EC Grant allocated from time to time to the eligible Categories in accordance with the provisions of Schedule 1 to this Agreement; and
 - (c) the term “Authorized Allocation” means an amount equivalent to \$5,500,000 to be withdrawn from the Grant Account and deposited into the Special Account pursuant to paragraph 3 (a) of this Schedule.
2. Payments out of the Special Account shall be made exclusively for eligible expenditures in accordance with the provisions of this Schedule.
3. After the Association has received evidence satisfactory to it that the Special Account has been duly opened, withdrawals of the Authorized Allocation and subsequent withdrawals to replenish the Special Account shall be made as follows:
 - (a) For withdrawals of the Authorized Allocation, FAS shall furnish to the Association a request or requests for deposit into the Special Account of an amount or amounts which do not exceed the aggregate amount of the Authorized Allocation. On the basis of such request or requests, the Association shall, on behalf of the Recipient and FAS, withdraw from the Grant Account and deposit into the Special Account such amount or amounts as the Recipient and FAS shall have requested.
 - (b)
 - (i) For replenishment of the Special Account, FAS shall furnish to the Association requests for deposits into the Special Account at such intervals as the Association shall specify.
 - (ii) Prior to or at the time of each such request, FAS shall furnish to the Association the documents and other evidence required pursuant to paragraph 4 of this Schedule 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 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 Special Account for eligible expenditures. All such deposits shall be withdrawn by

the Association from the Grant Account under the respective eligible Categories, and in the respective equivalent amounts, as shall have been justified by said documents and other evidence.

4. For each payment made by FAS out of the Special Account, FAS 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.

5. Notwithstanding the provisions of paragraph 3 of this Schedule, the Association shall not be required to make further deposits into the Special Account:

(a) if, at any time, the Association shall have determined that all further withdrawals should be made by FAS directly from the Grant Account in accordance with the provisions of Article V of the General Conditions and paragraph (a) of Section 2.02 of this Agreement;

(b) if FAS 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 the records and accounts for the Special Account;

(c) if, at any time, the Association shall have notified FAS of its intention to suspend in whole or in part the right of FAS to make withdrawals from the Grant Account pursuant to the provisions of Section 6.02 of the General Conditions; or

(d) once the total unwithdrawn amount of the EC Grant allocated to the eligible Categories, minus the total amount of all outstanding special commitments entered into by the Association pursuant to Section 5.02 of the General Conditions with respect to the Project, 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 EC Grant allocated to the eligible Categories shall follow such procedures as the Association shall specify by notice to FAS. Such further withdrawals shall be made only after and to the extent that the Association shall have been satisfied that all such amounts remaining on deposit in the Special Account as of the date of such notice will be utilized in making payments for eligible expenditures.

6. (a) If the Association shall have determined at any time that any payment out of the Special Account: (i) was made for an expenditure or in an amount not eligible pursuant to paragraph 2 of this Schedule; or (ii) was not justified by the evidence furnished to the Association, FAS shall, promptly upon notice from the Association: (A) provide such additional evidence as the Association may request; or (B) deposit into the Special Account (or, if the Association shall so request, refund to the Association) an

amount equal to the amount of such payment or the portion thereof not so eligible or justified. Unless the Association shall otherwise agree, no further deposit by the Association into the Special Account shall be made until FAS has provided such evidence or made such deposit or refund, as the case may be.

(b) If the Association shall have determined at any time that any amount outstanding in the Special Account will not be required to cover further payments for eligible expenditures, FAS shall, promptly upon notice from the Association, refund to the Association such outstanding amount.

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

(d) Refunds to the Association made pursuant to paragraphs 6 (a), (b) and (c) of this Schedule shall be credited to the Grant Account for subsequent withdrawal or for cancellation in accordance with the relevant provisions of this Agreement, including the General Conditions.

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), 3.05, 6.05, 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 “the EC Grant”.
 - (c) The term “credit” is modified to read “the EC Grant”; except that where used in Sections 6.02 (a) (ii) and 6.02 (c) (i), as modified below, the term “credit” shall continue to read “credit”.
 - (d) The term “Credit Account” is modified to read “Grant Account”.
 - (e) The term “Development Credit Agreement” is modified to read “Grant Agreement”.
3. 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 Credit Agreement, the proceeds of the Credit may be withdrawn to pay for taxes levied by, or in the territory of, the Borrower on the goods or services to be financed under the Credit, 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. 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 Credit is excessive or otherwise unreasonable, the Association may, by notice to the Borrower, adjust the percentage for withdrawal set forth or referred to in respect of such item in the Development Credit Agreement as required to be consistent with such policy of the Association.”

4. Section 6.02 is modified as follows:
 - (a) The phrase “any other development credit agreement” in Section 6.02 (a) (ii) is modified to read: “any other development grant agreement or any development credit agreement or development financing agreement or any grant agreement”.
 - (b) The phrase “any development credit agreement” in Section 6.02 (c) (i) is modified to read: “any development grant agreement, development credit agreement or development financing agreement or any Grant Agreement”.
5. Section 12.05 and its heading are modified to read as follows:

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

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

SCHEDULE 7

Performance Indicators

The performance indicators for the Project shall include the following, said indicators being subject to modifications by agreement between the Recipient, FAS, and the Association:

- (a) Primary school enrollment increased;
- (b) Access to and usage of health services increased;
- (c) Access to and usage of water and sanitation facilities increased;
- (d) No. of Consultatives for a (CF) created and functioning;
- (e) 80% of participating Municipal Administrations achieving highest level of performance by End of Project (40%) by Midterm Review;
- (f) No. of Municipal Administration's staff skills, competencies and practices improved;
- (g) No. of communities making use of FAS supported mechanisms to hold; Municipal Administrations accountable; and
- (h) Project beneficiaries satisfied with services provided by project.