

CONFORMED COPY

CREDIT NUMBER 3399 ANG

Development Credit Agreement

(Second Social Action Fund Project (FAS II))

between

REPUBLIC OF ANGOLA

and

INTERNATIONAL DEVELOPMENT ASSOCIATION

Dated July 17, 2000

CREDIT NUMBER 3399 ANG

DEVELOPMENT CREDIT AGREEMENT

AGREEMENT, dated July 17, 2000, between REPUBLIC OF ANGOLA (the Borrower) and INTERNATIONAL DEVELOPMENT ASSOCIATION (the Association).

WHEREAS the Borrower, having satisfied itself as to the feasibility and priority of the Project described in Schedule 2 to this Agreement, has requested the Association to assist in the financing of the Project; and

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

NOW THEREFORE the parties hereto hereby agree as follows:

ARTICLE I

General Conditions; Definitions

Section 1.01. The "General Conditions Applicable to Development Credit Agreements" of the Association, dated January 1, 1985 (as amended

through October 6, 1999), with the modifications set forth below (the General Conditions), constitute an integral part of this Agreement:

(a) A new paragraph (12) is added to Section 2.01 to read as set forth below, and the existing paragraphs (12) through (14) of said Section are accordingly renumbered as paragraphs (13) through (15):

"12. 'Participating Country' means any country that the Association determines meets the requirements set forth in Section 11 of Resolution No. 194 of the Board of Governors of the Association, adopted on April 8, 1999; and 'Participating Countries' means, collectively, all such countries." ; and

(b) The second sentence of Section 5.01 is modified to read:

"Except as the Borrower and the Association shall otherwise agree, no withdrawals shall be made: (a) on account of expenditures in the territories of any country which is not a Participating Country or for goods produced in, or services supplied from, such territories; or (b) for the purpose of any payment to persons or entities, or for any import of goods, if such payment or import, to the knowledge of the Association, is prohibited by a decision of the United Nations Security Council taken under Chapter VII of the Charter of the United Nations."

Section 1.02. Unless the context otherwise requires, the several terms defined in the General Conditions have the respective meanings therein set forth 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 Borrower for the purpose of the Project pursuant to paragraph 1 (b) of Schedule 4 to this Agreement;

(b) "Beneficiary Community" means a community or group which meets the criteria specified in the Operational Manual (as hereinafter defined) and to which or for whose benefit a Grant (as hereinafter defined) is made or proposed to be made for a Subproject (as hereinafter defined);

(c) "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);

(d) "FAS Project Account" means the account referred to in Section 3.04 (a) of this Agreement;

(e) "FAS Project Subaccount" means each one of the nine bank accounts that shall be opened for each one of the nine provinces referred to in Section 3.04 (e);

(f) "Financing Agreement" means an agreement to be entered into between FAS and a Subproject Committee (as hereinafter defined) for the financing of a Subproject (as hereinafter defined) through the provision of a grant;

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

(h) "Grassroot Management Training" or the acronym "GMT" means a training method to be used for building capacity of Beneficiary Communities in managing their development process;

(i) "Human Resource Development Plan" means a plan to be prepared and adopted by the board of FAS for the training, recruiting and managing of human resources needs regarding the implementation of the Project;

(j) "Implementing Partner" means a non governmental organization, public institution, private sector enterprise,

community-based or religious organization and development agency providing operational support to or otherwise assisting in the carrying out of the Project;

(k) "Kwanza" (Kwanza) or the acronym "KZ" means the currency of the Borrower;

(l) "National Coordinating Committee" or "NCC" of FAS (Comité de Coordenação Nacional) means the project's national management body which is coordinated by its Executive Director;

(m) "Operational Manual" means the comprehensive manual referred to in subparagraphs (iii) and (v), paragraph 1 of Schedule 4 to this Agreement, adopted by the Borrower, 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;

(n) "Project Management Report" or "PMR" means each report prepared in accordance with Sections 4.01 and 4.02 of this Agreement;

(o) "Project Provinces" means each of the nine provinces where the Program will be implemented;

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

(q) "Provincial Account" means each of the nine new, separately and independently managed advance accounts of the Special Account referred to in Section 2.02 (c) of this Agreement;

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

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

(t) "Subproject" means a specific development project which meets the criteria set forth in the Operational Manual and which is to be financed out of the proceeds of the Credit under Part A of the Project.

ARTICLE II

The Credit

Section 2.01. The Association agrees to lend to the Borrower, on the terms and conditions set forth or referred to in the Development Credit Agreement, an amount in various currencies equivalent to twenty-four million nine hundred thousand Special Drawing Rights (SDR 24,900,000).

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

(b) The Borrower may, for the purposes of the Project, open and maintain in US\$, a special deposit account, the FAS Special 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.

(c) The Borrower shall:

- (i) open and maintain in Dollars Provincial Accounts, for each of the Project Provinces where commercial banks are available, in one commercial bank acceptable to the Association, on terms and conditions acceptable to the Association (including appropriate protection against set-off, seizure or attachment) to be used by such Project Provinces exclusively for the purposes of financing Subprojects and Operating Costs under the Project to be carried out by such Project Province, as specified in paragraph 5 of Schedule 4 to this Agreement; and
- (ii) withdraw from the Special Account and deposit into each Provincial Account and amount not exceeding \$85,000 for Huambo, \$125,000 for Benguela, \$125,000 for Cabinda, \$125,000 for Luanda, \$125,000 for Huila, \$85,000 for Bengo, \$85,000 for Kwanza Sul, \$125,000 for Namibe and \$125,000 for Kunene, and thereafter replenish said Provincial Accounts in accordance with paragraph 7 of Schedule 5 to this Agreement.

Section 2.03. The Closing Date shall be February 29, 2004 or such later date as the Association shall establish. The Association shall promptly notify the Borrower of such later date.

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

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

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

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

Section 2.06. Commitment charges and service charges shall be payable semiannually on April 1 and October 1 in each year.

Section 2.07. (a) Subject to paragraphs (b), (c) and (d) below, the Borrower shall repay the principal amount of the Credit in semiannual installments payable on each April 1 and October 1, commencing October 1, 2010 and ending April 1, 2040. Each installment to and including the installment payable on April 1, 2020 shall be one percent (1%) of such principal amount, and each installment thereafter shall be two percent (2%) of such principal amount.

(b) Whenever: (i) the Borrower's per capita gross national

product (GNP), as determined by the Association, shall have exceeded for three consecutive years the level established annually by the Association for determining eligibility to access the Association's resources; and (ii) the Bank shall consider the Borrower creditworthy for Bank lending, the Association may, subsequent to the review and approval thereof by the Executive Directors of the Association and after due consideration by them of the development of the Borrower's economy, modify the repayment of installments under paragraph (a) above by: (A) requiring the Borrower to repay twice the amount of each such installment not yet due until the principal amount of the Credit shall have been repaid; and (B) requiring the Borrower to commence repayment of the principal amount of the Credit as of the first semiannual payment date referred to in paragraph (a) above falling six months or more after the date on which the Association notifies the Borrower that the events set out in this paragraph (b) have occurred, provided, however, that there shall be a grace period of a minimum of five years on such repayment of principal.

(c) If so requested by the Borrower, the Association may revise the modification referred to in paragraph (b) above to include, in lieu of some or all of the increase in the amounts of such installments, the payment of interest at an annual rate agreed with the Association on the principal amount of the Credit withdrawn and outstanding from time to time, provided that, in the judgment of the Association, such revision shall not change the grant element obtained under the above-mentioned repayment modification.

(d) If, at any time after a modification of terms pursuant to paragraph (b) above, the Association determines that the Borrower's economic condition has deteriorated significantly, the Association may, if so requested by the Borrower, further modify the terms of repayment to conform to the schedule of installments as provided in paragraph (a) above.

Section 2.08. The currency of the United States of America is hereby specified for the purposes of Section 4.02 of the General Conditions.

ARTICLE III

Execution of the Project

Section 3.01. (a) The Borrower declares its commitment to the objectives of the Project as set forth in Schedule 2 to this Agreement, and, to this end, shall carry out the Project through FAS with due diligence and efficiency and in conformity with appropriate administrative, financial, social 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 Borrower and the Association shall otherwise agree, the Borrower shall carry out the Project in accordance with the Implementation Program set forth in Schedule 4 to this Agreement.

Section 3.02. Except as the Association shall otherwise agree, procurement of the goods, subprojects and consultants' services required for the Project and to be financed out of the proceeds of the Credit shall be governed by the provisions of Schedule 3 to this Agreement.

Section 3.03. For the purposes of Section 9.07 of the General Conditions and without limitation thereto, the Borrower shall:

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

ensure the sustainability of the Project; and

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

Section 3.04. Without limitation to its obligations under Section 3.01 of this Agreement, the Borrower shall:

(a) open and thereafter maintain, until the completion of the Project, an account (the FAS Project Account) in KZ, in a commercial bank, on terms and conditions satisfactory to the Association;

(b) promptly thereafter make an initial deposit in KZ of an amount equivalent to \$300,000 (Initial Deposit) into such account to finance the Borrower's contribution to the Project;

(c) thereafter deposit into the Project Account by August 15, November 15, February 15 and May 15 in each Fiscal Year during Project implementation such amounts as shall be required and agreed upon with the Association to timely replenish the Project Account back to the amount of the initial deposit referred to in paragraph (b);

(d) use the funds in the Project Account exclusively to finance expenditures under the Project; and

(e) (i) open and maintain in KZ, in one or more commercial banks, nine FAS Project Sub-Accounts, on terms and conditions satisfactory to the Association, in the name of each Project Province to be used by such Project Province as the Project Province counterpart contribution to the costs of the Project; and (ii) deposit into each FAS Project Sub-Account an initial amount sufficient to cover the counterpart funds contribution to the Project for each Project Province as determined by the Annual Work Plan and Budget.

Section 3.05 The Borrower shall, by March 2001 and October 2001, and thereafter on an annual basis, furnish to the Association a procurement audit, in form and substance acceptable to the Association.

ARTICLE IV

Financial Covenants

Section 4.01. (a) The Borrower shall cause FAS to maintain records and accounts adequate to reflect, in accordance with sound accounting practices, the operations and financial condition of FAS and to register separately the operations, resources and expenditures related to the Project.

(b) The Borrower shall cause FAS to:

(i) have its records, accounts and financial statements (balance sheets, statements of income and expenses and related statements, including those for the Special Account and each Provincial 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 year: (A) certified copies of said financial statements reflecting the records and accounts referred to in paragraph (a) of this Section, for such year as so audited; and (B) the report of such audit by said auditors, of such scope

and in such detail as the Association shall have reasonably requested; and

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

(c) For all expenditures with respect to which withdrawals from the Credit Account were made on the basis of PMRs or statements of expenditure, the Borrower shall:

- (i) maintain or cause to be maintained, in accordance with sound accounting practices, records and separate accounts reflecting such expenditures;
- (ii) ensure that all records (contracts, orders, invoices, bills, receipts and other documents) evidencing such expenditures are retained until at least one year after the Association has received the audit report for the fiscal year in which the last withdrawal from the Credit Account was made; and
- (iii) enable the Association's representatives to examine such records.

(d) The Borrower shall:

- (i) have the records and accounts referred to in paragraph (c) (i) of this Section and those for the Special Account and each Provincial 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 year the report of such audit by said auditors, of such scope and in such detail as the Association shall have reasonably requested, including a separate opinion by said auditors as to whether the PMRs or statements of expenditure submitted during such fiscal year, together with the procedures and internal controls involved in their preparation, can be relied upon to support the related withdrawals; and
- (iii) furnish to the Association such other information concerning said records and accounts and the audit thereof as the Association shall from time to time reasonably request.

Section 4.02. (a) Without limitation upon the provisions of Section 4.01 of this Agreement, the Borrower shall carry out a time-bound action plan acceptable to the Association for the strengthening of its financial management system for the Project in order to enable the Borrower, not later than 18 months after the Effective Date, or such later date as the Association shall agree, to prepare quarterly PMRs, acceptable to the Association, each of which:

- (i) (A) sets forth actual sources and applications of funds for the Project, both cumulatively and for the period covered by said report, and projected sources and applications of funds for the Project for the six-month period following the period covered by said report; and (B) shows separately expenditures

financed out of the proceeds of the Credit during the period covered by said report and expenditures proposed to be financed out of the proceeds of the Credit during the six-month period following the period covered by said report;

(ii) (A) describes physical progress in Project implementation, both cumulatively and for the period covered by said report; and (B) explains variances between the actual and previously forecast implementation targets; and

(iii) sets forth the status of procurement under the Project and expenditures under contracts financed out of the proceeds of the Credit, as at the end of the period covered by said report.

(b) Upon the completion of the action plan referred to in paragraph (a) of this Section, the Borrower shall prepare, in accordance with guidelines acceptable to the Association, and furnish to the Association not later than 45 days after the end of each such quarter a PMR for such period.

ARTICLE V

Other Covenants

Section 5.01. The Borrower shall cause FAS:

(a) to take out and maintain with responsible insurers, or to make other provision satisfactory to the Association for, insurance against such risks and in such amounts as shall be consistent with appropriate practice;

(b) to carry on its operations and conduct its affairs in accordance with sound administrative, financial, social and environmental practices under the supervision of qualified and experienced management assisted by competent staff in adequate numbers; and

(c) at all times to operate and to maintain its plants, machinery, equipment and other property, and from time to time, promptly as needed, to make all necessary repairs and renewals thereof, all in accordance with sound engineering, financial, administrative and environmental practices.

ARTICLE VI

Remedies of the Association

Section 6.01. Pursuant to Section 6.02 (1) of the General Conditions, the following additional events are specified:

(a) the Borrower's Decree No. 44/94 (including its amendment by Decree No. 04/96 dated January 19, 1996) shall have been amended, suspended, abrogated, repealed or waived so as to affect materially and adversely the ability of FAS to carry out the Project; and

(b) 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 FAS will be able to carry out the Project.

Section 6.02. Pursuant to Section 7.01 (h) of the General Conditions, the following additional event is specified, namely, that any event specified in paragraphs (a) and (b) of Section 6.01 of this

Agreement shall occur.

ARTICLE VII

Effective Date; Termination

Section 7.01. The following events are specified as additional conditions to the effectiveness of the Development Credit Agreement within the meaning of Section 12.01 (b) of the General Conditions:

- (a) the revised Operational Manual in form and substance satisfactory to the Association has formally been adopted by the Borrower;
- (b) the Borrower has appointed external auditors under terms of reference, and qualification and experience satisfactory to the Association for purposes of Section 4.01 of this Agreement;
- (c) the Borrower has opened the Project Account and deposited the Initial Deposit therein;
- (d) the Borrower has established a financial management and accounting system acceptable to the Association;
- (e) the Borrower has submitted the first Annual Work Plan and Budget to the Association; and
- (f) the Borrower has completed an Environmental Impact Assessment of the Project acceptable to the Association.

Section 7.03. 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 VIII

Representative of the Borrower; Addresses

Section 8.01. The Minister of Planning (Ministro do Planeamento) of the Borrower is designated as representative of the Borrower for the purposes of Section 11.03 of the General Conditions.

Section 8.02. The following addresses are specified for the purposes of Section 11.01 of the General Conditions:

For the Borrower:

Ministry of Planning
Largo do Palácio
Caixa Postal 1205
Luanda
Angola

Facsimile:

244 233 9586

For the Association:

International Development Association
1818 H Street, N.W.
Washington, D.C. 20433

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

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

(c) the term "Operating Costs" means the incremental expenses incurred on account of Project Implementation, management and monitoring, including office supplies, utilities expenses, rental expenses, vehicles and equipment operation, transport, travel, per diem, supervision costs and local contractual staff salaries but excluding salaries of officials of the Borrower's civil service

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

4. The Association may require withdrawals from the Credit Account to be made on the basis of statements of expenditure for expenditures for: (i) goods under contracts costing less than \$100,000 equivalent each; (ii) Subprojects under contracts costing less than \$100,000 equivalent each; (iii) services under contracts costing less than \$100,000 equivalent each for consulting firms and less than \$50,000 equivalent each for individual consultants; and (iv) operating costs and training, all under such terms and conditions as the Association shall specify by notice to the Borrower.

SCHEDULE 2

Description of the Project

The objective of the Project is to contribute to the Borrower's effort to achieve a sustainable utilization of basic social and economic services by the population of the nine Project Provinces through: (a) the provision or rehabilitation of social and economic infrastructure at the community level; (b) capacity building at the level of communities, partners, local government and FAS; and (c) strengthening the monitoring and evaluation system.

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

Part A: Social and Economic Infrastructure

Strengthening social and economic infrastructure in poor communities (as determined by the social economic indicators produced by the Borrower National Statistics Institute) through the financing of Subprojects in areas such as health, education, water and sanitation, feeder road rehabilitation, natural resources management, storage facilities and small irrigation facilities.

Part B: Capacity Building

Increasing the effectiveness and sustainability of community projects by building capacity through: (i) production and dissemination of technical manuals; and (ii) the provision of technical advisory services in support of training activities at the community level, level of implementing partners, local government, and level of FAS.

Part C: Monitoring and Evaluation

Increasing the flow and quality of information on project

implementation through the: (i) provision of technical advisory services for the monitoring of project performance; (ii) carrying out of qualitative appraisal and impact assessments of projects; (iii) carrying out of reviews and analysis of interim and final evaluations and the lessons learned therefrom; (iv) acquisition of material and equipment for the carrying out of project monitoring; and (v) carrying out of training programs in project monitoring for the staff of FAS.

* * *

The Project is expected to be completed by August 31, 2003.

SCHEDULE 3

Procurement and Consultants' Services

Section I. Procurement of Goods

Part A: General

1. Goods shall be procured in accordance with (a) the provisions of Section I of the "Guidelines for Procurement under IBRD Loans and IDA Credits" published by the Bank in January 1995 and revised in January and August 1996, September 1997 and January 1999 (the Guidelines); and (b) the provisions of the following Parts of this Section I.

2. In paragraphs 1.6 and 1.8 of the Guidelines, the references to "Bank member countries" and "member country" shall be deemed to be references, respectively, to "Participating Countries" and "Participating Country".

Part B: International Competitive Bidding

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

Part C: Other Procurement Procedures

1. National Competitive Bidding

Goods estimated to cost less than \$100,000 equivalent per contract, up to an aggregate amount not to exceed \$200,000 equivalent, may be procured under contracts awarded in accordance with the provisions of paragraphs 3.3 and 3.4 of the Guidelines.

2. National Shopping

Goods estimated to cost less than \$30,000 equivalent per contract, up to an aggregate amount not to exceed \$3,600,000 equivalent, may be procured under contracts awarded on the basis of national shopping procedures in accordance with the provisions of paragraphs 3.5 and 3.6 of the Guidelines.

Section II. Procurement of Subprojects

Part A: General

1. Goods shall be procured in accordance with: (a) the provisions of Section I of the "Guidelines for Procurement under IBRD Loans and IDA Credits" published by the Bank in January 1995 and revised in January and August 1996, September 1997 and January 1999 (the Guidelines); and (b)

the provisions of the following Parts of this Section II.

2. In paragraphs 1.6 and 1.8 of the Guidelines, the references to "Bank member countries" and "member country" shall be deemed to be references, respectively, to "Participating Countries" and "Participating Country".

Part B: Community Participation

Goods and works up to an aggregate amount not to exceed \$22,500,000 equivalent required for Subprojects shall be procured in accordance with paragraph 3.15 of the Guidelines and as specified in the Operational Manual.

Part C: Review by the Association of Procurement Decisions for Sections I and II

1. Procurement Planning

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

2. Prior Review

(a) With respect to each contract for goods and works estimated to cost the equivalent of \$100,000 or more, the procedures set forth in paragraphs 2 and 3 of Appendix 1 to the Guidelines shall apply; and

(b) with respect to the first two contracts for Subprojects per each of the Project Provinces, the procedures set forth in paragraphs 2 and 3 of Appendix 1 to the Guidelines shall apply.

3. Post Review

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

Section III. Employment of Consultants

Part A: General

1. Consultants' services shall be procured in accordance with: (a) the provisions of the Introduction and Section IV of the "Guidelines: Selection and Employment of Consultants by World Bank Borrowers" published by the Association in January 1997 and revised in September 1997 and January 1999, subject to the modifications thereto set forth in paragraph 2 of this Part A (the Consultant Guidelines); and (b) the provisions of the following Parts of this Section III.

2. In paragraph 1.10 of the Consultant Guidelines, the references to "Bank member countries" and "member country" shall be deemed to be references, respectively, to "Participating Countries" and "Participating Country".

Part B: Quality- and Cost-based Selection

1. Except as otherwise provided in Part C of this Section, consultants' services shall be procured under contracts awarded in

accordance with the provisions of Section II of the Consultant Guidelines, paragraph 3 of Appendix 1 thereto, Appendix 2 thereto, and the provisions of paragraphs 3.13 through 3.18 thereof applicable to quality- and cost-based selection of consultants.

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

Part C: Other Procedures for the Selection of Consultants

1. Selection Based on Consultants' Qualifications

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

2. Individual Consultants

Services for tasks that meet the requirements set forth in paragraph 5.1 of the Consultant Guidelines shall be procured under contracts awarded to individual consultants in accordance with the provisions of paragraphs 5.1 through 5.3 of the Consultant Guidelines.

Part D: Review by the Association of the Selection of Consultants

1. Selection Planning

Prior to the issuance to consultants of any requests for proposals, the proposed plan for the selection of consultants under the Project shall be furnished to the Association for its review and approval, in accordance with the provisions of paragraph 1 of Appendix 1 to the Consultant Guidelines. Selection of all consultants' services shall be undertaken in accordance with such selection plan as shall have been approved by the Association, and with the provisions of said paragraph 1.

2. Prior Review

(a) With respect to each contract for the employment of consulting firms and services for training estimated to cost the equivalent of \$100,000 or more and to each contract for services for training, as set forth in Schedule 2 (b) and paragraph 1 of Part C, the procedures set forth in paragraphs 1, 2 (other than the third subparagraph of paragraph 2(a)) and 5 of Appendix 1 to the Consultant Guidelines shall apply.

(b) With respect to each contract for the employment of consulting firms estimated to cost less than \$100,000 equivalent and individual consultants estimated to cost the equivalent of \$50,000 or less, the qualifications, experience, terms of reference and general terms of employment of the consultants shall be furnished to the Association for its prior review and approval. The contract shall be awarded only after the said approval shall have been given.

3. Post Review

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

Implementation Program

1. (a) The Borrower shall:
 - (i) 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 6, the carrying out of the Project and the achievement of the objectives thereof, including any required revisions of the monitoring and evaluation systems to facilitate the carrying out of the Project and the achievement of its objectives;
 - (ii) prepare and furnish to the Association, no later than July 31 each year and throughout the duration of the Project, an Annual Work Program and Budget;
 - (iii) carry out the Project in accordance with the Operational Manual and shall not amend the Operational Manual or waive any provision thereof which, in the opinion of the Association will materially and adversely affect the implementation of the Project or the objectives thereof;
 - (iv) prepare, under terms of reference satisfactory to the Association, and furnish to the Association, semi-annually on or about March 31 and September 30, a report integrating the results of the monitoring and evaluation activities performed pursuant to paragraph (a) of this Section, on the progress achieved in the carrying out of the Project during the period preceding the date of said report, including specific reference to physical progress of each Subproject, 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
 - (v) review with the Association, by April 30 and October 31, or such later date as the Association shall request, the report referred to in paragraph (iii) 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. The first such exchange of views shall take place no later than six months after the Effective Date.
- (b) The progress report referred to in paragraph (a) (iv) of this Schedule shall cover, amongst other things:
 - (i) progress achieved in the implementation of the Project in the previous 6 months and comparison target/actual;
 - (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 six 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 provincial office; 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.

2. Midterm Review

(a) On or about the date eighteen (18) months after the Effective Date, or when one half (1/2) of the proceeds of the Credit have been disbursed, whichever is earlier, the Borrower shall carry out, jointly with the Association and FAS, a midterm review of the progress made in carrying out the Project (hereinafter referred to as the Midterm Review). 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; and (d) the status of the Project monitoring indicators referred to in Schedule 6 to this Agreement and plans for updating such monitoring indicators;

- (ii) a review of the geographical, community and provincial indicators and of the distribution of the Subprojects under Part A of the Project in order to evaluate the performance of the FAS in implementing Part A of the Project;

- (iii) a review of the state of maintenance of the infrastructure rehabilitated and constructed under Part A of the Project; and

- (iv) an assessment of, among other things, whether the Borrower is maintaining the social and economic infrastructure rehabilitated and constructed under Part A of the Project with sufficient personnel for its operation.

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

(c) The Borrower shall cause FAS, no later than four (4) weeks after the Midterm Review, to prepare an action program, acceptable to the Association, for the further implementation of Part A of the Project having regard to the findings of the Midterm Review, and thereafter implement such program.

3. FAS Structure

The Borrower shall ensure that until Project completion, FAS will appoint and maintain the following personnel (including the Executive Director and Provincial Directors) to all key positions detailed in its organizational chart as set forth in the Operational Manual, all such personnel to possess experience and qualifications satisfactory to the Association.

4. Implementation of Subprojects

(a) Except as the Association shall otherwise agree, the Borrower shall insure that in carrying out Part A of the Project, FAS shall apply the procedures and guidelines set out in the Operational

Manual and shall not amend, suspend, abrogate, repeal or waive any provision of the Operational Manual in such a way that may, in the opinion of the Association, materially or adversely affect the execution of Part A of the Project.

(b) Eligible Subprojects and the Beneficiary Communities must meet the criteria (general, institutional, social, economic, technical, legal, environmental and gender) and conditions specified in the Operational Manual.

(c) The procedures in the Operational Manual shall be followed in identifying, processing and approving Subprojects under Part A of the Project. Subprojects estimated to receive less than \$70,000 of FAS financing will be approved at the provincial level. The provincial offices of FAS shall submit all subprojects estimated to exceed \$70,000 FAS contribution to the FAS National Coordination Unit for approval. Subprojects estimated to exceed \$100,000 FAS contribution will be submitted to the CCN and the Association for approval prior to the signing of the respective Financial Agreements.

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

5. Financing Agreements

The Borrower shall ensure that FAS shall enter into a Financing Agreement with each Subproject Committee for the benefit of each Beneficiary Community. The terms of the Financing Agreement shall be satisfactory to the Association and shall include FAS obtaining rights adequate to protect the interests of the Borrower, the Association and FAS, 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, works and services to be financed out of the proceeds of the Credit 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 Borrower, the goods and sites, works, plants 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, works, site, plant 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 Credit 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.

SCHEDULE 5

Special Account

1. For the purposes of this Schedule:

(a) the term "eligible Categories" means Categories (1), (2), (3) and (4) 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 Credit 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 \$3.2 million to be withdrawn from the Credit Account and deposited into the Special Account pursuant to paragraph 3 (a) of this Schedule, provided, however, that unless the Association shall otherwise agree, the Authorized Allocation shall be limited to an amount equivalent to \$1.6 million until the aggregate amount of withdrawals from the Credit Account plus the total amount of all outstanding special commitments entered into by the Association pursuant to Section 5.02 of the General Conditions shall be equal to or exceed the equivalent of \$6 million.

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, the Borrower 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 Borrower, withdraw from the Credit Account and deposit into the Special Account such amount or amounts as the Borrower shall have requested.

(b) (i) For replenishment of the Special Account, the Borrower 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, the Borrower 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 Borrower, withdraw from the Credit Account and deposit into the Special Account such amount as the Borrower shall have requested and as shall have been shown by said documents and other evidence to have been paid out of the Special Account for eligible expenditures. All such deposits shall be withdrawn by the Association from the Credit 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 the Borrower out of the Special Account or out of any of the Provincial Accounts, the Borrower shall, at such time as the Association shall reasonably request, furnish to the Association such documents and other evidence showing that such payment was made exclusively for eligible expenditures.

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 the Borrower directly from the Credit 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 the Borrower shall have failed to furnish to the Association, within the period of time specified in Section 4.01 (b) (ii) of this Agreement, any of the audit reports required to be furnished to the Association pursuant to said Section in respect of the audit of the records and accounts for the Special Account or the Provincial Accounts;

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

(d) once the total unwithdrawn amount of the Credit 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 Credit Account of the remaining unwithdrawn amount of the Credit allocated to the eligible Categories shall follow such procedures as the Association shall specify by notice to the Borrower. Such further withdrawals shall be made only after and to the extent that the Association shall have been satisfied that all such amounts remaining on deposit in the Special Account as of the date of such notice will be utilized in making payments for eligible expenditures.

6. (a) If the Association shall have determined at any time that any payment out of the Special Account or out of any Provincial 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, the Borrower 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 the Borrower 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, the Borrower shall, promptly upon notice from the Association, refund to the Association such outstanding amount.

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

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

7. (a) The Borrower shall withdraw from the Special Account and deposit into each Provincial Account the funds to assist the Project Provinces to pay for Subprojects and Operating Costs under the Project.

Such withdrawals or deposits shall be in amounts sufficient to assist each Project Province to pay for such Subprojects and Operating Cost provided that in no event the Borrower shall cause the amount held in any Provincial Account to exceed \$85,000 for Huambo, \$125,000 for Benguela, \$125,000 for Cabinda, \$125,000 for Luanda, \$125,000 for Huila, \$85,000 for Bengo, \$85,000 for Kwanza Sul, \$125,000 for Namibe and \$125,000 for Kunene;

(b) payments out of any Provincial Account shall only be made for eligible expenditures under categories 2 and 4 as set forth in the table in paragraph 1 of Schedule 1 to this Agreement;

(c) withdrawals from any Provincial Account may be justified by the Borrower on the basis of statements of expenditures for:

- (i) Subprojects estimated to cost less than \$70,000 equivalent FAS financing; and
- (ii) Operating Costs, all under such terms and conditions as the Association shall specify to the Borrower; and

(d) in the event the Association, after consultation with the Borrower, determines that any outstanding amount in any Provincial Account is not further required to cover payments for eligible expenditures, the Project Province beneficiary of such Provincial Account, upon notice from the Association, shall promptly refund such outstanding amount to the Special Account.

SCHEDULE 6

Performance Indicators

1. Project Development Objective Indicators:

- (i) a 15 percent annual increase in the total number of beneficiaries of the social and economic infrastructure facilities installed within the Project after each year of operation; and
- (ii) a 95 percent increase in beneficiary satisfaction with services being delivered through Project infrastructure by end of Project.

2. Impact Indicators (by Component):

- (i) 95 percent of Project related infrastructure functioning at acceptable standards by end of Project;
- (ii) improved performance of FAS personnel, implementing partners and local government authorities in Subproject related skills (participatory planning, proposal development, construction, maintenance, appropriate technologies, etc.);
- (iii) increase in number of community initiated activities aimed at rebuilding social and economic infrastructures and organizations; and
- (iv) a 95 percent increase in the use of Monitoring and Evaluation (hereinafter "M&E") data for Project management decisions.

3. Output Indicators (by Component):

- (i) 95% of planned structures completed to standards established in the Project Operational Manual;
- (ii) increased levels of Subproject related skills among FAS staff, implementing partners and local government authorities; and
- (iii) timely production of all Project related M&E reports (including interim and final evaluation).

4. Process Indicators (FAS Administration and Project Processing)

- (i) a 35 percent decrease in administrative costs for FAS by end of Project; and
- (ii) number of eligible Project applications by type and province, percentage approved, and average time for review, approval and contracting.

