

CONFORMED COPY

CREDIT NUMBER 4035 ANG

GRANT NUMBER H146 ANG

Development Financing Agreement

(Emergency Multisector Recovery Program - Phase 1)

between

Republic of Angola

and

INTERNATIONAL DEVELOPMENT ASSOCIATION

Dated April 26, 2005

CREDIT NUMBER 4035 ANG

GRANT NUMBER H146 ANG

DEVELOPMENT FINANCING AGREEMENT

AGREEMENT, dated April 26, 2005, between Republic of Angola (the Borrower) and INTERNATIONAL DEVELOPMENT ASSOCIATION (the Association).

WHEREAS (A) The Borrower has requested the Association for support in the execution of a program designed to help build the foundation for long-term reconstruction, economic rehabilitation, and the reestablishment of state administration throughout its territory (the Program) through a series of grants or credits over a period of approximately 8 years to be utilized by the Borrower in the implementation of the Program; and

(B) the Borrower, having satisfied itself as to the feasibility and priority for Phase 1 of the Emergency Multisector Recovery Program (the Project) as described in Schedule 2 to this Agreement, has requested the Association to assist in the financing of such phase of the Project; and

WHEREAS the Association has agreed, on the basis, *inter alia*, of the foregoing, to extend the Credit and the Grant 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 May 1, 2004), with the modifications set forth in Schedule 5 to this Agreement (the General Conditions), constitute an integral part of this Agreement.

Section 1.02. Unless the context otherwise requires, the several terms defined in the General Conditions have the respective meanings therein set forth and the following additional terms have the following meanings:

(a) "Eligible Categories" means: (i) for Special Account A (as hereinafter defined), categories (1) (a), (1) (c), (1) (d), (2) (a), (3) (a), (4), and (5) set forth in the table under paragraph A.1 under Schedule 1 to this Agreement for Parts A, C and D of the Project; and (ii) for Special Account B (as hereinafter defined), categories (1) (b) and

(3) (b) set forth in the table under paragraph A.1 under Schedule 1 to this Agreement for Part B of the Project;

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

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

(d) “Fiscal Year” means the Borrower’s fiscal year commencing on January 1 and ending on December 31 of each year;

(e) “Initial Deposit” means the amount to be deposited in the Project Account pursuant to Section 3.03 (b) of this Agreement;

(f) “Kwanza” (*Kwanza*) or the acronym “KZ” means the currency of the Borrower;

(g) “Line Agencies” mean any one or all of the following independent or parastatal agencies, *inter alia*: *Instituto Nacional de Estradas de Angola (INEA)*, *Empresa Pública de Águas de Luanda (EPAL)*, *Empresa Nacional de Electricidade (ENE)*;

(h) “Line Ministries” mean any one or all of the following Ministries of the Borrower, *inter alia*: *Ministério da Saúde*, *Ministério da Educação*, *Ministério da Agricultura e do Desenvolvimento Rural*, *Ministério das Obras Públicas*, *Ministério dos Transportes*, e *Ministério da Energia e Águas*;

(i) “MoP” means the Borrower’s Ministry of Planning;

(j) “Phase 2” means the complementary financing of the Emergency Multisector Recovery Program will include construction of schools and health facilities, rehabilitation of rural feeder roads, trunk roads, electricity services, rural water and complement water supply to the provincial capital and urban infrastructure;

(k) “PMIU” means the Project Management and Implementation Unit established within the Ministry of Planning, by the Ministerial Decision *Despacho* No. 0067/GMP/2004 of August 30, 2004, and referred to in Paragraph A. 2 (a) of Schedule 4 to this Agreement;

(l) “Procedures Manual” means the Manual referred to in Section 4.03 (ii) of this Agreement, such Manual to, *inter alia*, document the Project’s internal controls and contain the administrative and financial procedures to be used by the Project to maintain its records, detail the procurement and contracting methods and procedures for the activities financed by the Association, as the same may be amended from time to time

with the approval of the Association, and such term includes any schedules to said Manual;

(m) "Procurement Plan" means the Borrower's procurement plan, dated December 5, 2004 covering the initial 18 month period (or longer) of Phase 1 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 18 month periods (or longer) of Project implementation;

(n) "Project Account" means the account to be opened pursuant to Section 3.03 (a) of this Agreement;

(o) "Project Preparation Advance" means the project preparation advance granted by the Association to the Borrower pursuant to the letter agreement signed on behalf of the Association on November 11, 2003, and on behalf of the Borrower on November 18, 2003;

(p) "Report-based Disbursements" means the Borrower's option for withdrawal of funds from the Financing Account referred to in Part A.5 of Schedule 1 to this Agreement;

(q) "Special Account A" means the account referred to in Part B (1) (a) of Schedule 1 to this Agreement;

(r) "Special Account B" means the account referred to in Part B (1) (b) of Schedule 1 to this Agreement;

(s) "Special Accounts" means collectively Special Account A and Special Account B.

ARTICLE II

The Financing

Section 2.01. The Association agrees to make available to the Borrower, on the terms and conditions set forth or referred to in the Development Financing Agreement:

(a) an amount in various currencies equivalent to sixteen million three hundred thousand Special Drawing Rights (SDR 16,300,000) (The Credit); and

(b) an amount in various currencies equivalent to sixteen million nine hundred thousand Special Drawing Rights (SDR 16,900,000) (The Grant).

Section 2.02. (a) (i) The amount of the Credit may be withdrawn from the Credit Account in accordance with the provisions of Schedule 1 to this Agreement for expenditures made (or, if the Association shall so agree, to be made) in respect of the

reasonable cost of goods, works, and services required for Parts A, C and D of the Project and to be financed out of the proceeds of the Credit; and

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

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

Section 2.03. The Closing Date shall be December 31, 2007, 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: (i) 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, such rate not to exceed the rate of one-half of one percent (1/2 of 1%) per annum; and (ii) a commitment charge on the principal amount of the Grant not withdrawn from time to time at a rate to be set by the Association as of June 30 of each year, such rate not to exceed the rate of one-half of one percent (1/2 of 1%) per annum .

(b) Each 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 the Grant Account (as the case may be), or canceled; and (ii) at the respective 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 respective 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) Each 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 15 and October 15 in each year.

Section 2.07. (a) Subject to paragraphs (b), (c) and (d) below, the Borrower shall repay the principal amount of the Credit in semiannual installments payable on each April 15 and October 15 commencing April 15, 2015, and ending October 15, 2044. Each installment to and including the installment payable on October 15, 2024, shall be one percent (1%) of such principal amount, and each installment thereafter shall be two percent (2%) of such principal amount.

(b) Whenever: (i) the Borrower's per capita gross national product (GNP), as determined by the Association, shall have exceeded for three 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 with due diligence and efficiency and in conformity with appropriate engineering, health, environmental, resettlement, financial and administrative 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. (a) Except as the Association shall otherwise agree, procurement of the goods, works and services required for the Project and to be financed out of the proceeds of the Financing 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 Borrower shall update the Procurement Plan in accordance with guidelines acceptable to the Association, and furnish such update to the Association not later than 12 months after the date of the preceding Procurement Plan, for the Association's approval.

Section 3.03. Without limitation to its obligations under Section 3.01 of this Agreement, the Borrower shall for the purposes of the Project:

(a) open and thereafter maintain, until the completion of the Project, an account in Kwanzas in a commercial bank on terms and conditions satisfactory to the Association (Project Account) into which it shall deposit from time to time its local counterpart contribution to the cost of the Project;

(b) not later than thirty days after the Effective Date, deposit the initial amount in Kwanzas equivalent to \$500,000 (the Initial Deposit);

(c) thereafter deposit into the Project Account, at quarterly intervals during Project implementation, an amount or amounts as may be required and agreed upon with the

Association to timely replenish the Project Account back to the amount of the Initial Deposit; and

(d) ensure that amounts deposited into the Project Account pursuant to paragraphs (b) and (c) above shall be used only to make payments to meet expenditures made or to be made in respect of the reasonable cost of goods, works, consultant services and training for the Project.

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

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

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

ARTICLE IV

Financial Covenants

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

(b) The Borrower shall:

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

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

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

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

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

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

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

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

later than 45 days after each subsequent calendar quarter, and shall cover such calendar quarter.

Section 4.03. The Borrower shall, not later than ninety days following Effective Date: (i) recruit the following personnel for the PMIU, in accordance with the provisions of Section II of Schedule 3 to this Agreement: (A) an international financial management advisor; (B) an internal auditor; and (C) a project accountant; and (ii) adopt, in form and substance acceptable to the Association, a Procedures Manual which covers financial policies and procedures, accounting and internal control system, financial reporting, flow of funds and auditing arrangements.

Section 4.04. The Borrower shall, not later than one hundred and twenty days following Effective Date: (i) adopt and, thereafter maintain an operational financial management system within the PMIU, in form and substance acceptable to the Association; and (ii) recruit for the PMIU an independent auditor in accordance with the provisions of Section II of Schedule 3 to this Agreement.

ARTICLE V

Termination

Section 5.01. 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 VI

Representatives of the Borrower; Addresses

Section 6.01. The Minister of Planning (*Ministra do Planeamento*) of the Borrower is designated as representative of the Borrower 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 Borrower:

Ministry of Planning
Largo do Palácio
Cidade Alta
Caixa Postal 1205
Luanda
Angola

Facsimile:
244 233 9586

For the Association:

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

Cable address:

INDEVAS
Washington, D.C.

Telex:

248423 (MCI)
64145 (MCI)

Facsimile:

(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 Luanda, Republic of Angola, as of the day and year first above written.

REPUBLIC OF ANGOLA

By /s/ Ana Dias Lourenco
Authorized Representative

INTERNATIONAL DEVELOPMENT ASSOCIATION

By /s/ Laurence C. Clarke
Authorized Representative

SCHEDULE 1

Withdrawal of the Proceeds of the Financing

A. General

1. The table below sets forth the Categories of items to be financed out of the proceeds of the Financing, the allocation of the amounts of the Credit or 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 Credit Allocated (Expressed in SDR Equivalent)</u>	<u>Amount of the Grant Allocated (Expressed in SDR Equivalent)</u>	<u>% of Expenditures to be Financed</u>
(1) Civil Works			
(a) for Part A	1,110,000		75%
(b) for Part B		13,600,000	100%
(c) for Part C	330,000		100%
(2) Goods			
(a) for Part A	5,550,000		75%
(b) for Parts C and D	200,000		70%
(3) Consultant and Engineering Services, Audits			
(a) for Part A, C and D	4,770,000		70%
(b) for Part B		3,300,000	100%
(4) Training	2,020,000		70%
(5) Operating Cost	130,000		100%
(6) Refunding of the Project Preparation Advance	720,000		Amount due pursuant to Section 2.02 (b) of this Agreement
(7) Unallocated	1,470,000		
Total	<u>16,300,000</u>	<u>16,900,000</u>	

2. For the purposes of this Schedule, the terms:

(a) “operating costs” means the incremental expenditures incurred on account of Project implementation, including office furniture and supplies, vehicle operation and maintenance, communication and insurance costs, bank charges on Special Account, rental expenses, office maintenance costs, utility services, travel, accommodation and supervision costs for Project staff and salaries of support consultants for the Project, excluding salaries of officials of the Borrower’s civil service; and

(b) “training” includes scholarships, stipends, travel expenses for trainers and trainees, purchase of training materials and rental of training facilities.

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 Financing Accounts to be made on the basis of statements of expenditure for expenditures under contracts for: (a) goods costing less than \$200,000 equivalent per contract; (b) works costing less than \$500,000 equivalent per contract; (c) for services of individual consultants costing less than \$50,000 equivalent per contract; (d) for services of consulting firms under contracts costing less than \$100,000 equivalent per contract; and (e) training and operating costs, all under such terms and conditions as the Association shall specify by notice to the Borrower.

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

B. Special Accounts

1. The Borrower shall, for the purposes of depositing an amount of the:

(a) Credit allocated to Categories (1) (a), (1) (c), (1) (d), (2) (a), (3) (a), (4), and (5) set forth in the table under paragraph A.1 under Schedule 1 to this Agreement for Parts A, C and D of the Project, may open and maintain in Dollars a separate special deposit account (Special Account A),

(b) Grant allocated to Categories (1) (b) and (3) (b) set forth in the table under paragraph A.1 under Schedule 1 to this Agreement for Part B of the Project, may open and maintain in Dollars a separate special deposit account (Special Account B), both in a

commercial Bank acceptable to the Association, on terms and conditions satisfactory to the Association, including appropriate protection against set-off, seizure and attachment.

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

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

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

3. Payments out of the Special Accounts shall be made exclusively for Eligible Expenditures. For each payment made by the Borrower out of the Special 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.

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

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

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

(c) 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: (A) the records and accounts for the respective Special Accounts; or (B) the records and accounts reflecting expenditures with respect to which withdrawals were Report-based Disbursements or were made on the basis of statements of expenditure, as the case may be.

5. The Association shall not be required to make further deposits into the respective Special Accounts in accordance with the provisions of Part B.2 of this Schedule 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 or the Grant Account pursuant to Section 6.02 of the General Conditions. Upon such notification, the Association shall determine, in its sole discretion, whether further

deposits into the respective Special Accounts may be made and what procedures should be followed for making such deposits, and shall notify the Borrower of its determination.

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

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

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

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

**Annex A
to
SCHEDULE 1**

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

1. For the purposes of this Annex, the term “Authorized Allocation” means:
 - (a) in respect to Special Account A, an amount of \$2,500,000 to be withdrawn from the Credit Account deposited into the said Account pursuant to paragraph 2 of this Annex, provided, however, that, unless the Association agrees with the compliance of Section 4.04 of this Agreement, said allocation shall be limited to a single amount of \$500,000.
 - (b) in respect to Special Account B an amount of \$2,500,000 to be withdrawn from the Grant Account deposited into the said Account pursuant to paragraph 2 of this Annex, provided, however, that, the Association agrees with the compliance of Section 4.04 of this Agreement.

2. Withdrawals of the respective Authorized Allocation and subsequent withdrawals to replenish the respective 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 respective Special Account of an amount or amounts which in the aggregate do not exceed the respective Authorized Allocation. On the basis of each such request, the Association shall, on behalf of the Borrower, withdraw from the Credit Account or the Grant Account and deposit into the respective Special Account such amount as the Borrower shall have requested.
 - (b) For replenishment of the respective Special Account, the Borrower shall furnish to the Association requests for deposit into the respective Special Account at such intervals as the Association shall specify. Prior to or at the time of each such request, the Borrower shall furnish to the Association the documents and other evidence required pursuant to Part B.3 of Schedule 1 to this Agreement for the payment or payments in respect of which replenishment is requested. On the basis of each such request, the Association shall, on behalf of the Borrower, withdraw from the Credit Account or the Grant Account and deposit into the respective 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 respective Special Account for Eligible Expenditures. Each such deposit into the Special Account shall be withdrawn by the Association from the Credit Account or the Grant Account under one or more of the respective Eligible Categories.

3. The Association shall not be required to make further deposits into the respective Special Account, once the total unwithdrawn amount of the Credit and the Grant minus the total amount of all outstanding special commitments entered into by the Association pursuant to Section 5.02 of the General Conditions shall equal the equivalent of twice the amount of the Authorized Allocation. Thereafter, withdrawal from the Credit Account or the Grant Account of the remaining unwithdrawn amount of the Credit and the Grant shall follow such procedures as the Association shall specify by notice to the Borrower. Such further withdrawals shall be made only after and to the extent that the Association shall have been satisfied that all such amounts remaining on deposit in the Special Account as of the date of such notice will be utilized in making payments for Eligible Expenditures.

**Annex B
to
SCHEDULE 1**

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

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

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

SCHEDULE 2

Description of the Project

The objective of the Project is to assist the Borrower to build a foundation for long-term reconstruction, economic rehabilitation, and the reestablishment of state administration throughout the Borrower's territory by assisting the Borrower to: (a) improve rural incomes and enhance food security in the provinces most affected by the conflict; (b) improve access to essential education and health services in the provinces most affected by the conflict, (c) rehabilitate and reconstruct critical infrastructure; and (d) strengthen capacity of government at all levels to formulate, prepare, implement, and manage medium and long-term development programs.

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: Rural Development and Delivery of Social Services

1. Support the carrying out of activities in the rural development sector through:
 - (a) Providing assistance to small farmers to restart their agricultural production by supporting the production of basic and prebasic seeds and the distribution of seeds and planting materials.
 - (b) Improving the knowledge base of rural livelihood systems by undertaking strategic studies, including the development of a strategy for involving producer organizations.
 - (c) Strengthening the capacity of the IIA (*Instituto de Investigação Agronomica*), and SENSE (*Serviço Nacional de Sementes*) to carry out activities for the improvement of the quality of seeds for multiplication schemes within the rural community including:
 - (i) rehabilitation of EDA (*Estação de Desenvolvimento Agrícola*) installations; (ii) capacity building for technicians; and (iii) acquisition of agricultural equipment and inputs, and other goods.
2. Support the carrying out of activities in the health services sector through:
 - (a) Improving access to basic health services, including: (i) increasing the number of ambulances within provincial capitals and selected areas; (ii) training of health care providers on the prevention and treatment of common diseases; (iii) promoting improved maternal and child health care; and (iv) providing essential drugs kits to health posts, health centers, and municipal hospitals.

(b) Supporting the Ministry of Health, including: (i) training health care technicians and municipal health teams; and (ii) strengthening the health information system through review of health services policies.

3. Support the carrying out of activities in the education sector through:

(a) Improving quality of education services, including: (i) training new and experienced teachers, (ii) providing student guides and pedagogical materials on core subjects at selected provinces, and (iii) providing textbooks and other school supplies and equipment.

(b) Strengthening Ministry of Education institutional capacity through improving data collection, analysis and planning, and school level management.

Part B: Rehabilitation and Reconstruction of Critical Infrastructure:

The rehabilitation and reconstruction of water supply and distribution services to the provincial capital of *Malange, Kuito* and *N'Dalatando*.

Part C: Sector Development Strategies and Strengthening of Human and Institutional Capacities

1. Supporting Line Ministries and Line Agencies during Project Implementation, including: (a) providing technical advisory services, (b) training programs, (c) carrying out capacity building activities in planning and management development at the national and local level to prepare adequate frameworks for efficient decentralization and sector development strategies, and (d) carrying out a pilot decentralization in selected provinces.

2. (a) Preparing an environmental and social assessment.

(b) Implementing the environmental and social monitoring, supervision and mitigation system referred to in Paragraph B of Schedule 4 to this Agreement.

Part D: Project Management and Preparation for Phase 2

Provision of technical advisory services and goods for the purposes of:

1. Supporting the management, monitoring and evaluation of the implementation of activities carried out under the Project.

2. Supporting activities to update the National Demining Strategy Action Plan.

3. Carrying out of engineering studies, including detailed design and tender documents preparation, and other preparatory activities for Phase 2 the Program.

* * *

The Project is expected to be completed by June 30, 2007.

SCHEDULE 3

Procurement

Section I. General

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

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

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

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

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

B. Other Procurement Procedures

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

2. National Competitive Bidding. Goods estimated to cost less than \$200,000 equivalent per contract and works estimated to cost less than \$500,000 equivalent per contract, may be procured under contracts awarded on the basis of National Competitive Bidding in accordance with provisions of paragraphs 3.1, 3.3, 3.4, 3.14, and 3.15 of the Procurement Guidelines

3. Shopping. Goods estimated to cost less than \$30,000 equivalent per contract and works estimated to cost less than \$30,000 equivalent per contract, may be

procured under contracts awarded on the basis of Shopping in accordance with the provisions of paragraph 3.1 and 3.5 of the Procurement Guidelines.

4. Direct Contracting. Goods and works which the Association agrees meet the requirements for Direct Contracting may be procured in accordance with the provisions of paragraph 3.6 and 3.7 of the Procurement Guidelines.

5. Procurement from UN Agencies. Goods may be procured directly from U.N. International Agency Procurement Services Unit (IAPSO), the United Nations International Children's Fund (UNICEF), and the World Health Organization (WHO), in accordance with the provisions of paragraphs 3.1 and 3.9 of the Procurement Guidelines.

Section III. Particular Methods of Procurement of Consultants' Services

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

B. Other Procedures

1. Quality-based Selection. Services for assignments which the Association agrees meet the requirements set forth in paragraph 3.2 of the Consultant Guidelines may be procured under contracts awarded on the basis of Quality-based Selection in accordance with the provisions of paragraphs 3.1 through 3.4 of the Consultant Guidelines.

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

3. Selection Based on Consultants' Qualifications. Services estimated to cost less than \$100,000 equivalent per contract may be procured under contracts awarded in accordance with the provisions of paragraphs 3.1, 3.7 and 3.8 of the Consultant Guidelines.

4. Single Source Selection. Services in accordance with the provisions of paragraphs 3.9 through 3.13 of the Consultant Guidelines and with the Association's prior agreement, for:

(a) the development didactic modules and materials under Part A.3 of Schedule 2 to this Agreement, may be procured through the United Nations International Children's Fund (UNICEF);

(b) the implementation of studies and capacity building for the pilot decentralization under Part C of Schedule 2 to this Agreement, may be procured through the United Nations Development Programme (UNDP) and the United Nations Capital Development Fund (UNCDF);

(c) rapid health needs assessment and resources under Part A.2. of Schedule 2 to this Agreement, may be procured through the World Health Organization (WHO); and

(d) the construction supervision for water supply in the target areas under Part B of Schedule 2 to this Agreement, may be procured in accordance with the provisions of paragraphs 3.9 through 3.13 of the Consultant Guidelines.

5. Individual Consultants. Services for assignments that meet the requirements set forth in the first sentence of paragraph 5.1 of the Consultant Guidelines may be procured under contracts awarded to individual consultants in accordance with the provisions of paragraphs 5.2 through 5.3 of the Consultant Guidelines. Under the circumstances described in paragraph 5.4 of the Consultant Guidelines, such contracts may be awarded to individual consultants on a sole-source basis.

Section IV. Review by the Association of Procurement Decisions

The Procurement Plan shall set forth those contracts which shall be subject to the Association's Prior Review. All other contracts shall be subject to Post Review by the Association.

SCHEDULE 4

Implementation Program

A. General

1. The Steering Committee: The Borrower shall maintain, for the purposes of the Project, a Steering Committee throughout the period of implementation of the Project, with structure, functions and responsibilities, for the purpose of overseeing the execution of the Project. The Steering Committee shall be chaired by the Ministry of Planning and comprise of the vice-ministers from the Line Ministries or their representatives.

2. The PMIU:

(a) The Borrower shall maintain within MoP, throughout the period of implementation of the Project, a Project Management and Implementation Unit (the PMIU), which shall: (i) have overall responsibility for Project implementation and shall act in accordance with the directives of the Steering Committee; and (ii) contain the structure, functions and responsibilities, and competent staff in numbers and qualifications and experience, all satisfactory to the Association, for the purpose of assisting in the carrying out of the Project.

(b) In carrying out provisions the obligations set forth in Section 4.01 of this Agreement, the Borrower shall adopt interim financial and administrative arrangements, in form and substance satisfactory to the Association, for the purpose of providing the Project with an adequate financial management system until the conclusion of the period otherwise specified in Section 4.04 of this Agreement.

3. Participation of Line Ministries and Line Agencies: The Borrower shall, through the PMIU, shall enter into an memorandum of understanding with the Line Ministries and Line Agencies, in form and substance satisfactory to the Association, to provide technical support, as well as monitor and evaluate the technical implementation of the Project.

4. Except as the Association shall otherwise agree, in implementing the Project, the Borrower shall: (a) apply the criteria, policies, requirements and procedures set out in the Procedures Manual; and (b) not amend or waive, or permit to be amended or waived, the Procedures Manual, or any provisions thereof, in a manner which, in the opinion of the Association may materially and adversely affect the implementation of the Project.

B. Environmental and Social Assessment and Mitigation Measures

1. The Borrower shall, not later than six months following the Effective Date, or such later date as the Association shall determine, carry out a comprehensive environmental and social assessment of the activities carried out or to be carried out under the Project, in form and substance acceptable to the Association, and shall furnish

said assessment for review and comments to the Association no later than twelve months following the Effective Date.

2. The Borrower shall, not later than twelve months following the Effective Date, or such later date as the Association shall determine, adopt and thereafter maintain, in form and substance satisfactory to the Association, an environmental and social supervision and mitigation system comprising: (a) an environmental and social framework; (b) a resettlement policy framework; and (c) a pest management plan; all based on a plan recommended in the assessment study referred to in paragraph 2 of this Schedule and the views of the Association thereon.

C. Monitoring and Reporting

1. The Borrower shall:

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

(b) prepare, or cause to be prepared, under terms of reference satisfactory to the Association, and furnish to the Association, every quarter of each year, a report integrating the results of the monitoring and evaluation activities performed pursuant to paragraph C.1(a) of this Schedule, on the progress achieved in the carrying out of the Project during the period preceding the date of said report and setting out the measures recommended to ensure the efficient carrying out of the Project and the achievement of the objectives thereof during the period following such date; and

(c) review with the Association, every six-month of each year, or such later date as the Association shall request, the report referred to in paragraph C.1(b) of this Section, and thereafter act promptly and diligently in order to take, or cause to be taken, any corrective action deemed necessary to remedy any shortcoming identified in the implementation of the Project, or to implement such measures as may have been agreed between the Borrower and the Association in furtherance of the objectives of the Project.

D. Midterm Review

1. The Borrower shall carry out, jointly with the Association, not later than April 30, 2007 or such other date as the Association shall agree upon, a comprehensive midterm review aimed at: (i) documenting progress toward achieving the Project objectives; (ii) identifying and resolving obstacles to Project implementation; (iii) adjusting, in agreement with the Association, targets and corresponding programs to reflect progress achieved in the implementation of the Project as of the date of the review; and (iv) an overall evaluation of the Project against the indicators set forth in Schedule 5 to this Agreement. The Borrower shall invite representatives of Line Ministries to said Midterm Review and undertake all actions it considers necessary to

assure the attendance of representatives of Line Agencies, donors active in the reconstruction on its territories and representatives of civil society in said Review.

2. The Borrower shall, not later than four weeks prior to the midterm review referred to in paragraph D.1 above, furnish to the Association a midterm report, in such detail as the Association shall reasonably request, including an evaluation of the progress achieved in the Project implementation.

3. Promptly after completing the midterm review, the Borrower shall take, or cause to be taken, all measures required to fulfill the recommendations arising out of said review for the efficient completion of the Project and the achievement of the objectives thereof, with due diligence and efficiency and in accordance with appropriate practices, taking into account the Association's comments thereon.

SCHEDULE 5

Modifications to the General Conditions

For the purpose of this Agreement, the provisions of the General Conditions are modified as follows:

1. Section 1.01 is modified to read:

“Section 1.01. *Application of General Conditions*

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

2. Section 2.01 is modified to read as follows:

- (a) Paragraph 3 of Section 2.01 is modified to read as follows:

“3. “Borrower” means the party to the Development Financing Agreement to which the Financing is made.”

- (b) Paragraph 8 of Section 2.01 is modified to read as follows:

“8. “Development Financing Agreement” means the particular Development Financing Agreement to which these General Conditions apply, as such agreement may be amended from time to time. Development Financing Agreement includes these General Conditions as applied thereto, and all schedules and agreements supplemental to the Development Financing Agreement.”

- (c) The following new paragraphs are added after paragraph 11 of Section 2.01, and paragraphs 12 through 14 are renumbered as paragraphs 16 through 18 accordingly:

“12. “Grant” means the development grant provided for in the Development Financing Agreement.”

“13. “Grant Account” means the account opened by the Association on its books in the name of the Borrower to which the amount of the Grant is credited.”

“14. “Financing” means, collectively, the Credit and the Grant.”

“15. “Financing Accounts” means, collectively, the Credit Account and the Grant Account (or, where the context so requires, either of the Credit Account or the Grant Account).”

3. The term “Credit”, wherever used in the following Articles and Sections of the General Conditions, is modified to read “Financing”: Sections 2.01(3), 2.01(12), 4.01, Article V, Article VI (excluding Section 6.05), Section 7.01(d), Article VIII, and Article IX.

4. The term “Credit Account”, wherever used in the following Articles and Sections of the General Conditions, is modified to read “Financing Accounts”: Section 2.01(6), the heading of Article III, 4.01, Article V, Article VI, and Section 12.03.

5. The term “Development Credit Agreement”, wherever used in the General Conditions, is modified to read “Development Financing Agreement”.

6. Article III is modified as follows:

(a) Section 3.01 is modified to read as follows:

“Section 3.01. *Financing Accounts*

The amount of the Credit shall be credited to the Credit Account and may be withdrawn from the Credit Account by the Borrower as provided in the Development Financing Agreement and in these General Conditions. The amount of the Grant shall be credited to the Grant Account and may be withdrawn from the Grant Account by the Borrower as provided in the Development Financing Agreement and in these General Conditions.”

(b) The words “The principal of, and service charges on, the Credit” in Section 3.05 are modified to read “All amounts required to be paid under the Development Financing Agreement”.

7. Article IV is modified as follows:

(a) Section 4.02(a) and the heading of Section 4.02 are modified to read as follows:

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

(a) The Borrower shall pay all amounts required to be paid by it under the Development Financing Agreement in the currency specified in such agreement or in such other eligible currency or currencies as may from time to time be designated or selected pursuant to paragraph (c) or (e) of this Section.”

(b) Wherever used in Section 4.02(c) and (e) of the General Conditions, the words “principal and service charges” are modified to read “amounts”.

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

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

8. 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 Financing Agreement, the proceeds of the Financing 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 Financing, or on their importation, manufacture, procurement or supply. The financing of such taxes is subject to the Association’s policy of requiring economy and efficiency in the use of the proceeds of its credits and grants. To that end, if the Association shall at any time determine that the amount of any taxes levied on or in respect of any item to be financed out of the proceeds of the Financing 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 Financing Agreement as required to be consistent with such policy of the Association.”

9. Article VI is modified as follows:

(a) The word “credit” in paragraphs (a)(ii) and (c)(i) of Section 6.02 is replaced with the words “credit, grant or financing”.

(b) Section 6.03 (c) is modified by replacing the words “corrupt or fraudulent” with the words “corrupt, fraudulent, collusive or coercive”.

(c) Section 6.05 is modified to read as follows:

“Except as the Borrower and the Association shall otherwise agree, any cancellation of any amount of the Credit shall be applied *pro rata* to the several installments of the principal amount of the Credit maturing after the date of such cancellation.”

10. Section 7.01 is modified to read as follows:

(a) The words “principal or interest or any other amount” in paragraph (b) are modified to read “any amount”.

a. The word “credit” in paragraph (b)(i) is replaced with the words “credit, grant or financing”.

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

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