

**CONFORMED COPY**

**CREDIT NUMBER 3816 ANG**

# **Development Credit Agreement**

**(Third Social Action Fund Project (FAS III))**

**between**

**REPUBLIC OF ANGOLA**

**and**

**INTERNATIONAL DEVELOPMENT ASSOCIATION**

**Dated September 15, 2003**

**CREDIT NUMBER 3816 ANG**

**DEVELOPMENT CREDIT AGREEMENT**

AGREEMENT, dated September 15, 2003, between REPUBLIC OF ANGOLA (the Borrower) and INTERNATIONAL DEVELOPMENT ASSOCIATION (the Association).

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

(B) the Project will be carried out by *Fundo de Apoio Social* (FAS) with the Borrower's assistance and, as part of such assistance, the Borrower will make the proceeds of the credit provided for in Article II of this Agreement (the Credit) available to FAS, as set forth in this Agreement;

(C) the Borrower intends to contract from the European Union a grant in an amount of Euros 45 millions (the EU Loan) to assist in financing the Project on the terms and conditions set forth in an agreement to be entered into between the Borrower and the European Union (the EU Grant Agreement); 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 and in the agreement of even date herewith between the Association and FAS (the Project Agreement);

NOW THEREFORE the parties hereto hereby agree as follows:

**ARTICLE I**

**General Conditions; Definitions**

Section 1.01. The "General Conditions Applicable to Development Credit Agreements" of the Association, dated January 1, 1985 (as amended through October 6, 1999) (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 and in the Preamble to this Agreement 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 National Coordination Unit (as hereinafter defined) for the purpose of the Project as referred to in paragraph 1 (a) of Schedule 2 to the Project Agreement;

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

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

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

(e) “FAS Project Agreement” means the agreement between the Association and FAS of even date herewith, as the same may be amended from time to time, and such term includes all schedules and agreements supplemental to the Project Agreement;

(f) “FAS Provincial Coordination Committees” (*Comités de Coordenação Provinciais*) means each and all of the FAS committees at the provincial level established and operating pursuant to Decree No. 44/94 dated October 28, 1994 (as amended by Decree No. 04/96 dated January 19, 1996 and by Decree No. 22/01 dated April 6, 2001), which includes Borrower’s representatives as well as representatives from the civil society, non-governmental organizations and the private sector;

(g) “FAS III Municipal Accounts” means each and all of the new, separately and independently managed advance accounts of the FAS III Provincial Accounts (as hereinafter defined) referred to in Section 2.02 (b) (iii) of this Agreement;

(h) “FAS III Project Account” means the account referred to in Section 3.05 (a) of this Agreement;

(i) “FAS III Provincial Accounts” means each and all of the new, separately and independently managed advance accounts of the FAS III Special Account referred to in Section 2.02 (b) (ii) of this Agreement;

(j) “FAS III Special Account” means the account referred to in Section 2.02 (b) (i) of this Agreement;

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

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

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

(n) “Fiscal Year” and FY mean the Borrower’s fiscal year commencing January 1 and ending December 31;

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

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

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

(r) “Municipal Administrations” means each and all of the Borrower’s administrative representations at the municipal level in the Borrower’s territory, created and operating under Law No. 27/00 dated May 19, 2000;

(s) “National Coordination Committee” (*Comité de Coordenação Nacional*) means the supreme national oversight body for Project implementation created and operating pursuant to Decree No. 44/94 dated October 28, 1994 (as amended by Decree No. 04/96 dated January 19, 1996 and by Decree No. 22/01 dated April 6, 2001), which includes members of the Borrower’s ministerial cabinet as well as representatives from the civil society, non governmental organizations and the private sector;

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

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

(v) “Project Municipalities” means those of the Borrower’s municipalities where the Project will be implemented;

(w) “Project Provinces” means those of the Borrower’s provinces where the Project will be implemented;

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

(y) “Subproject Committee” (*Núcleo Comunitário*) means the Committee to be established by each Beneficiary Community in accordance with the Operational Manual and paragraph 6 of Schedule 2 to the Project Agreement for the purpose of identifying, preparing and implementing Subprojects;

(z) “Subproject” means a specific development project which meets the criteria set forth in the Operational Manual and in Paragraph 5 of Schedule 2 to the Project Agreement and which is to be financed out of the proceeds of the Credit under Parts A.1, A.2 (b) and B.2 of the Project; and

(v) “Subsidiary Agreement ” means the agreement to be entered into between the Borrower and FAS pursuant to Section 3.01 (d) of this Agreement, as the same may be amended from time to time, and such term includes all schedules to the Subsidiary Agreement .

## 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 forty million five hundred thousand Special Drawing Rights (SDR 40,500,000).

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: (i) goods and services required for the Project and to be financed out of the proceeds of the Credit; and (ii) goods and services required for Subprojects in respect of which the withdrawal from the Credit Account is requested.

(b) The Borrower may, for the purposes of the Project open and maintain: (i) in US Dollars, a special deposit account, the FAS III Special Account; (ii) in US Dollars, FAS III Provincial Accounts; and (iii) in Kwanzas, FAS III Municipal Accounts; all in commercial banks and on terms and conditions satisfactory to the Association, including appropriate protection against set-off, seizure or attachment. Deposits into, and payments out of, the FAS III Special Account and each respective FAS III Provincial Account and FAS III Municipal Account shall be made in accordance with the provisions of Schedule 3 to this Agreement.

Section 2.03. The Closing Date shall be June 30, 2008 or such later date as the Association shall establish. The Association shall promptly notify the 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, 2013 and ending April 1, 2043. Each installment to and including the installment payable on April 1, 2023 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 Part B.2 of the Project with due diligence and efficiency and in conformity with appropriate administrative, financial and technical practices and shall provide, promptly as needed, the funds, facilities, services and other resources required for the Project.

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

(c) Without limitation upon the provisions of paragraph (a) of this Section and except as the Borrower and the Association shall otherwise agree, the Borrower shall assist FAS in the carrying out of the Project in accordance with the Implementation Program set forth in Schedule 2 to the Project Agreement.

(d) The Borrower shall make the proceeds of the Credit available to FAS as a grant under a Subsidiary Agreement to be entered into between the Borrower and FAS, under terms and conditions which shall have been approved by the Association and which shall include, but without being limited to, the provisions set forth in Schedule 2 to the Project Agreement.

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

Section 3.02. Except as the Association shall otherwise agree, procurement of the goods, works, subprojects, consultants' services, audits and training required for the Project and to be financed out of the proceeds of the Credit shall be governed by the provisions of Schedule 1 to the Project Agreement.

Section 3.03. For the purposes of Section 9.06 of the General Conditions and without limitation thereto, the Borrower shall:

(a) prepare jointly with FAS, and 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 continued achievement of the objective of the Project; and

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

Section 3.04. The Borrower and the Association hereby agree that the obligations set forth in Sections 9.03, 9.04, 9.05, 9.06, 9.07 and 9.08 of the General Conditions (relating to insurance, use of goods and services, plans and schedules, records and reports, maintenance and land acquisition, respectively) shall be carried out by FAS pursuant to Section 2.03 of the Project Agreement.

Section 3.05. Without limitation to its obligations under Section 3.01 of this Agreement, the Borrower shall, for the purposes of making available its counterpart contribution to the financing of the Project:

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

(b) deposit into the FAS III Project Account an initial deposit in KZ of an amount equivalent to \$500,000 (the Initial Deposit) into such account;

(c) thereafter replenish said account up to the initial amount of \$500,000 by September 30, December 31, March 31 and June 30 in each Fiscal Year during Project implementation until the completion of the Project; and

(d) use the funds in the FAS III Project Account exclusively to finance expenditures under the Project.

Section 3.06. The Borrower shall, during the Project implementation, maintain or cause to be maintained the National Coordination Committee, the National Coordination Unit, (including its committees at the Provincial level) as well as the Municipal Administrations; all in form and functions satisfactory to the Association and with competent staff in adequate numbers.

Section 3.07. The Borrower shall cause the Municipal Administrations to carry out Part B of the Project in accordance with the Operational Manual, and the MOU.

Section 3.08. The Borrower shall cause the Municipal Administrations to enter into a Financing Agreement with each Subproject Committee for the benefit of each Beneficiary under Part B of the Project. The terms of the Financing Agreement shall be satisfactory to the Association and shall include the right for the Municipal Administrations to obtain adequate protection of 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 2 to this Agreement.

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

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

(e) The Municipal Administration 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 the Borrower, the Municipal Administrations or FAS on progress in implementing the Subproject.

(g) The obligation for the Municipal Administration if so instructed by the Borrower or FAS 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.

## ARTICLE IV

### Financial Covenants

Section 4.01. (a) For all expenditures with respect to which withdrawals from the Credit Account were made on the basis of 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.

(b) The Borrower shall:

- (i) have the records and accounts referred to in paragraph (a) (i) of this Section and those for the FAS III Special Account for each fiscal year audited, in accordance with appropriate auditing principles consistently applied, by independent auditors acceptable to the Association;
- (ii) furnish to the Association as soon as available, but in any case not later than six months after the end of each such 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 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.

## **ARTICLE V**

### **Remedies of the Association**

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

(a) the Borrower's Decree No. 44/94 (including its amendments by Decree No. 04/96 dated January 19, 1996 and by Decree No. 22/01 dated April 6, 2001) shall have been amended, suspended, abrogated, repealed or waived so as to affect materially and adversely, in the opinion of the Association, 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 5.02. 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 VI**

### **Effective Date; Termination**

Section 6.01. 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 FAS III Project Account has been opened and the Initial Deposit deposited therein;

(b) the Subsidiary Agreement has been executed on behalf of the Borrower and FAS;

(c) a certified accountant, a financial internal auditor and a technical internal auditor have been appointed, under terms of reference, qualification and experience satisfactory to the Association, in accordance with the provisions of Section II of Schedule 2 to the Project Agreement;

(d) external auditors have been appointed under terms of reference, qualification and experience satisfactory to the Association for purposes of Section 4.01 of this Agreement, in accordance with the provisions of Section II of Schedule 2 to the Project Agreement;

(e) a financial management system with capacity to produce FMRs for the Project, including a Financial Management Procedural Manual, has been approved in form and substance satisfactory to the Association;

(f) the Operational Manual in form and substance satisfactory to the Association had been approved; and

(g) the first Annual Work Plan and Budget for the first 12 months of the Project, including the commitments for each province to carry out the planned subprojects, has been submitted to the Association, in form and substance satisfactory to the Association.

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

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

(b) that the Subsidiary Agreement has been duly authorized or ratified by the Borrower and FAS and is legally binding upon the Borrower and FAS in accordance with its terms.

Section 6.03. The date ninety (90) days after the date of this Agreement is hereby specified for the purposes of Section 12.04 of the General Conditions.

## ARTICLE VII

### Representative of the Borrower; Addresses

Section 7.01. 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 7.02. 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  
United States of America

Cable address:

INDEVAS  
Washington, D.C.

Telex:

248423 (MCI) or  
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 the District of Columbia, United States of America, as of the day and year first above written.

REPUBLIC OF ANGOLA

By /s/ Adao Pinto  
Authorized Representative

INTERNATIONAL DEVELOPMENT ASSOCIATION

By /s/ Nils Tcheyan  
Authorized Representative

**SCHEDULE 1**

**Withdrawal of the Proceeds of the Credit**

1. The table below sets forth the Categories of items to be financed out of the proceeds of the Credit, the allocation of the amounts of the Credit 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>% of Expenditures to be Financed</u>
(1) Works	740,000	85%
(2) Goods, Vehicles and Equipment	1,470,000	100% of foreign expenditures and 85% of local expenditures
(3) Subprojects	28,830,000	100% of amounts disbursed
(4) Consultants' services and audits	1,470,000	85%
(5) Training	1,100,000	100%
(6) Operating Costs	4,860,000	85%
(7) Unallocated	2,030,000	
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TOTAL	40,500,000	
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2. For the purposes of this Schedule:

(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, insurances, vehicles and equipment operation, bank charges on the FAS III Special Accounts, the FAS III Provincial Accounts and the FAS III Municipal Accounts, 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: (a) payments made for expenditures under Category (3) above unless the Association has received confirmation by the National Coordination Unit in form and substance satisfactory to the Association that the related Financing Agreement executed under Parts A.1, A.2 (b) and B.2 of the Project has been duly executed; and (b) 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 and works under contracts costing less than \$100,000 equivalent each; (ii) Subprojects under contracts costing less than \$200,000 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 assist the Borrower in achieving improved, expanded and sustainable utilization of basic social and economic services through: (a) the provision or rehabilitation of social and economic infrastructure at the community level; (b) capacity building at the level of communities, Implementation Partners, local government and FAS; and (c) strengthening and improving networks to facilitate collective action among community members, including vulnerable groups.

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

#### Part A: Community Development

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

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

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

#### Part B: Municipal Development

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

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

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\* \* \*

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

### **SCHEDULE 3**

#### **Special Account**

##### FAS III Special Account

1. For the purposes of this Schedule:

(a) the term “eligible Categories” means Categories (1) through (6) 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 \$5 million to be withdrawn from the Credit Account and deposited into the FAS III Special Account pursuant to paragraph 3 (a) of this Schedule.

2. Payments out of the FAS III 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 FAS III Special Account has been duly opened, withdrawals of the Authorized Allocation and subsequent withdrawals to replenish the FAS III 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 FAS III 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 FAS III Special Account such amount or amounts as the Borrower shall have requested.

(b) (i) For replenishment of the FAS III Special Account, the Borrower shall furnish to the Association requests for deposits into the FAS III 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 FAS III 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 FAS III 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 FAS III Special Account, 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 FAS III 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 FAS III Special Account;

(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 FAS III 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 FAS III Special Account: (i) was made for an expenditure or in an amount not eligible pursuant to paragraph 2 of this Schedule; or (ii) was not justified by the evidence furnished to the Association, the Borrower shall, promptly upon notice from the Association: (A) provide such additional evidence as the Association may request; or (B) deposit into the FAS III 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 FAS III 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 FAS III 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 FAS III 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.

#### FAS III Provincial Accounts

7. (a) The Borrower shall withdraw from the FAS III Special Account and deposit into each FAS III Provincial Account the funds necessary to assist the Project Provinces to pay for goods, vehicles and equipment, Subprojects, consultants services and audits, training and operating costs under the Project. Such withdrawals or deposits shall be in amounts sufficient to assist each Project Province to pay for such goods, vehicles and equipment, Subprojects, consultants services and audits, training and operating costs, provided that in no event the Borrower shall cause the amount held in any FAS III Provincial Account to exceed \$250,000 each for Benguela, Cabinda, Huila, Kunene, Luanda, Namibe, Bengo, Huambo and Kwanza Sul, and \$125,000 each for new Project Provinces to be included by the Borrower under the Project.

(b) payments out of any FAS III Provincial Account shall only be made for eligible expenditures under categories 1, 2, 3, 4, 5 and 6 as set forth in the table in paragraph 1 of Schedule 1 to this Agreement;

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

- (i) Goods estimated to cost less than \$50,000 equivalent;
- (ii) Subprojects estimated to cost less than \$100,000 equivalent;
- (iii) Contracts for consultants' services estimated to cost less than \$50,000 equivalent; and
- (iv) Operating costs and training;

all under such terms and conditions as the Association shall specify to the Borrower.

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

#### FAS III Municipal Accounts

8. (a) The Borrower shall withdraw from the Provincial Special Account and deposit into each FAS III Municipal Account the funds necessary to assist the Project Municipalities to pay for Subprojects and operating costs under the Project.

(b) payments out of any FAS III Municipal Account shall only be made for eligible expenditures under categories 3 and 6 as set forth in the table in paragraph 1 of Schedule 1 to this Agreement;

(c) withdrawals from any FAS III Municipal Account may be justified by the Borrower on the basis of statements of expenditures for: (i) Subprojects estimated to cost less than \$50,000 equivalent; and (ii) operating costs; all under such terms and conditions as the Association shall specify to the Borrower.

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

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