

Public Disclosure Authorized

CONFORMED COPY

GRANT NUMBER H006-AF

Development Grant Agreement

(Emergency Public Administration Project)

between

AFGHANISTAN

and

INTERNATIONAL DEVELOPMENT ASSOCIATION

Dated April 9, 2002

Public Disclosure Authorized



GRANT NUMBER H006-AF

DEVELOPMENT GRANT AGREEMENT

AGREEMENT, dated April 9, 2002, between AFGHANISTAN (the Recipient) and INTERNATIONAL DEVELOPMENT ASSOCIATION (the Association).

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

(B) the Association was authorized under Resolution No. IDA 194, adopted by its Board of Governors on April 8, 1999, to provide financing, under the Twelfth Replenishment, in the form of grants in the context of assistance to post-conflict countries, under a framework to be approved by the Executive Directors of the Association;

(C) the Executive Directors of the Association approved such a framework with respect to post-conflict grants on July 1, 2001, and further determined that the development grant referred to in Section 2.01 of this Agreement (the Grant) is consistent with such framework; and

WHEREAS the Association has agreed, on the basis, *inter alia*, of the foregoing, to make the Grant available to the Recipient upon the conditions set forth in this Agreement;

NOW THEREFORE the parties hereto hereby agree as follows:

ARTICLE I

General Conditions; Definitions

Section 1.01. The following provisions of the "General Conditions Applicable to Development Credit Agreements" of the Association, dated January 1, 1985 (as amended through October 6, 1999), with the modifications set forth below (the General Conditions), constitute an integral part of this Agreement:

- (a) (i) Article I;
- (ii) Sections 2.01 (1), (2), (3), (4), (5), (6), (7), (8), (9), (10), (12), (as modified below), (13) and (14), 2.02 and 2.03;
- (iii) Section 3.01;

- (iv) Sections 4.01 (as modified below) and 4.05;
- (v) Sections 5.01, 5.03 (as such sections are modified below), 5.05, 5.06 and 5.07;
- (vi) Sections 6.02 (as modified below), 6.03 and 6.06;
- (vii) Section 8.01 (b);
- (viii) Sections 9.01, 9.02, 9.03, 9.05, 9.06 (as modified below), 9.07 and 9.08;
- (ix) Article X;
- (x) Article XI; and
- (xi) Article XII.

(b) The General Conditions shall be modified as follows:

- (i) the terms “Borrower”, “Credit”, “Credit Account” and “Development Credit Agreement”, wherever they appear in the General Conditions, are replaced by “the Recipient”, “the Grant”, “the Grant Account” and “the Development Grant Agreement”, respectively;
- (ii) the terms “Development Credit Agreement” and “development credit”, where used in Article I of the General Conditions, mean “Development Grant Agreement” and “development grant”, respectively; and

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

“Except as the Recipient and the Association shall otherwise agree, no withdrawals shall be made for the purpose of any payment to persons or entities, or for any import of goods, if such payment or import, to the knowledge of the Association, is prohibited by a decision of the United Nations Security Council taken under Chapter VII of the Charter of the United Nations.”

Section 1.02. Unless the context otherwise requires, the several terms defined in the General Conditions and in the Preamble to this Agreement have the respective

meanings therein set forth and the following additional terms have the following meanings:

(a) “AACCA” means the Afghanistan Assistance Coordination Authority, an authority established pursuant to a Decree of the Recipient, dated March 30, 2002, as the same may be amended from time to time;

(b) “AIA” means the Afghanistan Interim Administration established under the Agreement on Provisional Arrangements in Afghanistan Pending the Re-Establishment of Permanent Government Institutions, dated December 5, 2001, and any successor thereto;

(c) “AGO” means the Auditor General Office of the Recipient;

(d) “Donor” means any country, multilateral agency, public or private financial institution, development finance institution or international organization, which is proposing to make, or has made, financing available to the Recipient on a grant basis or on concessional terms to support a development program of the Recipient;

(e) “Fiscal Year” means the Recipient’s fiscal year, commencing on March 21 of each calendar year and ending on March 20 of the following calendar year;

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

(g) “MOF” means the Ministry of Finance of AIA; and

(h) “Special Account” means the account referred to in Section 2.02 of this Agreement.

ARTICLE II

The Grant

Section 2.01. The Association agrees to make available to the Recipient, on the conditions set forth or referred to in this Agreement, an amount in various currencies equivalent to eight million one hundred thousand Special Drawing Rights (SDR 8,100,000).

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

(b) The Recipient may open and maintain in dollars a special deposit account in a bank on terms and conditions satisfactory to the Association. In the event that said deposit account is opened in a commercial bank, such terms and conditions shall include appropriate protection against set-off, seizure or attachment. Deposits into, and payments out of, the Special Account shall be made in accordance with the provisions of Schedule 5 to this Agreement.

Section 2.03. The Closing Date shall be September 30, 2005, or such later date as the Association shall establish. The Association shall promptly notify the Recipient of such later date.

ARTICLE III

Execution of the Project

Section 3.01. (a) The Recipient declares its commitment to the objectives of the Project as set forth in Schedule 2 to this Agreement, and, to this end, shall carry out the Project through AACA, MOF and AGO with due diligence and efficiency and in conformity with appropriate administrative, financial and technical practices and with due regard for environment, and shall provide, promptly as needed, the funds, facilities, services and other resources required for the Project.

(b) Without limitation upon the provisions of paragraph (a) of this Section and except as the Recipient and the Association shall otherwise agree, the Recipient shall carry out the Project in accordance with the Implementation Program set forth in Schedule 4 to this Agreement.

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

Section 3.03. For the purposes of Section 9.06(c) of the General Conditions and without limitation thereto, the Recipient shall:

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

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

ARTICLE IV

Financial Covenants

Section 4.01. (a) The Recipient shall, not later than June 30, 2002, establish, and thereafter maintain, a financial management system, including records and accounts, and prepare financial statements in a format acceptable to the Association, adequate to reflect the operations, resources and expenditures related to the Project.

(b) The Recipient shall:

- (i) have the records, accounts and financial statements referred to in paragraph (a) of this Section, and the records and accounts for the Special Account, for each Fiscal Year, audited in accordance with auditing standards acceptable to the Association, 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 (6) months after the end of each Fiscal Year, (A) certified copies of the financial statements referred to in paragraph (a) of this Section for such Fiscal Year as so audited, and (B) an opinion on such statements, records and accounts and report of such audit, by said auditors, of such scope and in such detail as the Association shall have reasonably requested; and
- (iii) furnish to the Association such other information concerning such records and accounts, and the audit thereof, and concerning said auditors, as the Association may from time to time reasonably request.

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

- (i) maintain or cause to be maintained, in accordance with paragraph (a) of this Section, records and separate accounts reflecting such expenditures;
- (ii) retain, until at least one year after the Association has received the audit report for the Fiscal Year in which the last withdrawal from the Grant Account was made, all records (contracts, orders, invoices, bills, receipts and other documents) evidencing such expenditures;

- (iii) enable the Association's representatives to examine such records; and
- (iv) ensure that such records and accounts are included in the annual audit referred to in paragraph (b) of this Section and that the report of such audit contains 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.

Section 4.02. (a) Without limitation upon the Recipient's progress reporting obligations set out in paragraph B of Schedule 4 to this Agreement, the Recipient 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 Grant, and explains variances between the actual and planned uses of such funds;
- (ii) describes physical progress in Project implementation, both cumulatively and for the period covered by said report, and explains variances between the actual and planned Project implementation; and
- (iii) sets forth the status of procurement under the Project, as at the end of the period covered by said report.

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

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

Representative of the Recipient; Addresses

Section 6.01. The Vice Chairman and Minister of Finance of the AIA is designated as representative of the Recipient for the purposes of Section 11.03 of the General Conditions.

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

For the Recipient:

Ministry of Finance
Afghanistan Interim Administration
Kabul
Afghanistan

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 Kabul, Afghanistan, as of the day and year first above written.

AFGHANISTAN

By /s/ Hedayat Amin-Arsala,

Authorized Representative

INTERNATIONAL DEVELOPMENT ASSOCIATION

By /s/ Mieko Nishimizu

Regional Vice President
South Asia Region

SCHEDULE 1

Withdrawal of the Proceeds of the Grant

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

| <u>Category</u> | <u>Amount of the Grant Allocated (Expressed in SDR Equivalent)</u> | <u>% of Expenditures to be Financed</u> |
|--|--|---|
| (1) Goods | 500,000 | 100% |
| (2) Consultants' services and training | 7,300,000 | 100% |
| (3) Operating Expenditures | 300,000 | 100% |
| | ----- | |
| TOTAL | 8,100,000 | |
| | ===== | |

2. For the purposes of this Schedule, the term "Operating Expenditures" means the incremental expenses incurred on account of Project implementation and management, including the rental of office space, the operation and maintenance of vehicles, communication and insurance costs, office administration costs, Special Account banking charges, utility charges, domestic travel and per diem, but excluding salaries of officials of the Recipient's civil service.

3. Notwithstanding the provisions of paragraph 1 above, no withdrawals shall be made in respect of: (a) payments made for expenditures prior to the date of this Agreement, except that withdrawals, in an aggregate amount not exceeding the equivalent of four hundred thousand Special Drawing Rights (SDR 400,000), may be made in respect of Category (2) on account of payments made for expenditures before that date but after March 15, 2002; and (b) Categories (1) and (3), unless the Recipient has employed a qualified consulting firm to carry out Part B (i) of the Project.

4. The Association may require withdrawals from the Grant Account to be made on the basis of statements of expenditure for expenditures: (i) for goods under contracts costing less than \$100,000 equivalent each; (ii) for services under contracts costing less than \$100,000 equivalent each for consulting firms; (iii) for services under contracts

costing less than \$50,000 equivalent each for individual consultants; (iv) for training; and (v) for Operating Expenditures, all under such terms and conditions as the Association shall specify by notice to the Recipient.

SCHEDULE 2

Description of the Project

The objectives of the Project are: (i) to assist AIA in putting in place, on an emergency basis, capacity in key public administration areas to facilitate better use of public resources, including Donor funds, for immediate reconstruction and development efforts; and (ii) to support certain basic steps toward laying the foundation for a sustainable program of public administration strengthening.

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

Part A : Support to AACA

Support to AACA, through the provision of goods and consultants' services, with a view to:

(i) putting in place emergency procurement capacity to facilitate rapid, transparent utilization of Donor resources, and to finance reconstruction and development activities, and building procurement capacity within AIA;

(ii) developing AACA's institutional capacity to enhance its ability to carry out its functions;

(iii) carrying out miscellaneous studies and institutional strengthening activities associated with reconstruction and development; and

(iv) training of the staff of AACA, and other ministries and agencies of AIA, in computer technology and the English language, and developing training programs for the staff of AACA, and other ministries and agencies of AIA, for financing by Donors.

Part B: Support to MOF

Support to MOF, through the provision of goods and consultants' services, with a view to:

(i) putting in place emergency financial management capacity to ensure transparent accounting of AIA's expenditures and timely disbursements, and building financial management capacity within AIA;

(ii) carrying out studies and technical assistance activities with a view to enhancing control over, and execution of, the payroll;

(iii) carrying out studies and technical assistance activities with a view to strengthening the organizational structure of the budget department within MOF, and developing selected functions therein; and

(iv) carrying out studies and technical assistance activities with a view to building capacity for economic policy planning.

Part C: Support to AGO

Support to AGO, through the provision of goods and consultants' services, with a view to putting in place, on an emergency basis, audit capacity to ensure the timely audit of AIA's accounts, and building audit capacity within AIA.

* * *

The Project is expected to be completed by March 31, 2005.

SCHEDULE 3

Procurement and Consultants' Services

Section I. Procurement of Goods

Part A: General

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

Part B: Procurement Procedures

1. Limited International Bidding

Goods estimated to cost more than \$200,000 equivalent per contract, and goods which the Association agrees can only be purchased from a limited number of suppliers, regardless of the cost thereof, may be procured under contracts awarded in accordance with the provisions of paragraph 3.2 of the Guidelines. Bidding documents may provide that bidders may send their bids by facsimile, in which case, bid security shall not be required. Furthermore, the entity responsible for the procurement of the above-mentioned goods shall be required to put in place arrangements satisfactory to the Association to ensure confidentiality of the bids received by facsimile.

2. International or National Shopping

Goods estimated to cost \$200,000 equivalent or less per contract, may be procured under contracts awarded on the basis of international or national shopping procedures, respectively, in accordance with the provisions of paragraphs 3.5 and 3.6 of the Guidelines.

3. Procurement from UN Agencies

Goods estimated to cost less than \$100,000 equivalent per contract may be procured in accordance with the provisions of 3.9 of the Guidelines.

4. Direct Contracting

Goods estimated to cost \$50,000 equivalent or less per contract may, with the Association's prior agreement, be procured in accordance with the provisions of paragraph 3.7 of the Guidelines.

Part C: Review by the Association of Procurement Decisions

1. Procurement Planning

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

2. Prior Review

(a) With respect to: (i) each contract for goods procured estimated to cost more than the equivalent of \$100,000; and (ii) the first three (3) contracts for goods, irrespective of the contract's value, the procedures set forth in paragraphs 2 and 3 of Appendix 1 to the Guidelines shall apply when said contracts shall have been procured under the provisions of paragraph B.1 of this Schedule.

(b) In the event that any of the contracts referred to under sub-paragraph (a) above shall have been procured under the provisions of paragraphs B.2, B.3 or B.4 of Section I of this Schedule, the following procedures shall apply:

- (i) prior to the execution of any contract under shopping procedures, the Recipient shall provide to the Association a report on the comparison and evaluation of quotations received;
- (ii) prior to the execution of any contract procured under shopping or direct contracting procedures, or procured from a UN Agency, the Recipient shall provide to the Association a copy of the specifications and the draft contract; and
- (iii) the procedures set forth in paragraphs 2(f), 2(g) and 3 of Appendix 1 to the Guidelines shall apply.

3. Post Review

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

Section II. Employment of Consultants

Part A: General

Consultants' services shall be procured in accordance with: (a) the provisions of

the Introduction and Section IV of the “Guidelines: Selection and Employment of Consultants by World Bank Recipients” published by the Association in January 1997 and revised in September 1997 and January 1999, (the Consultant Guidelines); and (b) the provisions of the following Parts of this Section II.

Part B: Quality- and Cost-based Selection

1. Except as otherwise provided in Part C of this Section, consultants’ services shall be procured under contracts awarded in accordance with the provisions of Section II of the Consultant Guidelines, paragraph 3 of Appendix 1 thereto, Appendix 2 thereto, and the provisions of paragraphs 3.13 through 3.18 thereof applicable to quality- and cost-based selection of consultants.

2. The following provisions shall apply to consultants’ services to be procured under contracts awarded in accordance with the provisions of the preceding paragraph. The short list of consultants for services for the Project, estimated to cost less than \$50,000 equivalent per contract, may comprise entirely national consultants in accordance with the provisions of paragraph 2.7 of the Consultant Guidelines.

Part C: Other Procedures for the Selection of Consultants

1. Selection Based on Consultants’ Qualifications

Services under Parts A (i), B (i) and C of the Project, estimated to cost \$3,000,000 equivalent or less per contract, may be procured under contracts awarded in accordance with the provisions of paragraphs 3.1 and 3.7 of the Consultant Guidelines.

2. Quality-based Selection

Services under contracts costing less than \$200,000 equivalent each may be procured under contracts awarded in accordance with the provisions of paragraphs 3.1 through 3.4 of the Consultant Guidelines.

3. Single Source Selection

Services which are estimated to cost less than \$100,000 equivalent per contract may, with the Association’ prior agreement, be procured in accordance with the provisions of paragraphs 3.8 through 3.11 of the Consultant Guidelines.

4. Individual Consultants

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

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

1. Selection Planning

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

2. Prior Review

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

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

(c) Notwithstanding the provisions of Part A of this Section II, the provisions of the Consultant Guidelines requiring the Association's prior review and/or approval of budgets, short lists, selection procedures, letters of invitation, proposals, evaluation reports and contracts shall not apply to contracts for the employment of consultants estimated to cost less than \$100,000 equivalent each for consulting firms and \$50,000 equivalent each for individual consultants. However, said exceptions to prior review shall not apply to: (i) the terms of reference for such contracts; (ii) single-source selection of consulting firms; (iii) assignments of a critical nature, as shall be reasonably determined by the Association; and (iv) amendments to contracts for the employment of consultants increasing the contract value to the equivalent of \$100,000 or more for consulting firms and the equivalent of \$50,000 or more for individual consultants.

3. Post Review

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

SCHEDULE 4

Implementation Program

A. Overall Project Implementation and Coordination

The Recipient shall vest responsibility for the implementation of Part A of the Project in AACA, Part B of the Project in MOF and Part C of the Project in AGO. The Recipient shall cause AACA to coordinate the implementation of the Project and prepare the reports referred to under paragraphs B (a) and B (b) of this Schedule.

B. Progress Reports and Mid-Term Review

The Recipient shall:

(a) maintain policies and procedures adequate to enable it to monitor and evaluate on an ongoing basis, in accordance with the indicators set forth in Schedule 6 to this Agreement, the carrying out of the Project and the achievement of the objectives thereof;

(b) prepare, under terms of reference satisfactory to the Association, and furnish to the Association: (i) on a quarterly basis, commencing September 30, 2002, a report on the progress achieved in the implementation of the Project and the achievement of the objectives thereof; and (ii) on or about September 15, 2003, a report, to constitute the basis upon which the mid-term review shall take place, integrating the results of the monitoring and evaluation activities performed pursuant to paragraph (a) of this Section and consolidating the results of the reports referred to under sub-paragraph (b) (i) of this Section, 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, by October 15, 2003, or such later date as the Association shall request, the report referred to in subparagraph (b) (ii) of this paragraph, and, thereafter, take all measures required to ensure the efficient completion of the Project and the achievement of the objectives thereof, based on the conclusions and recommendations of the said report and the Association's views on the matter.

SCHEDULE 5

Special Account

1. For the purposes of this Schedule:
 - (a) the term “eligible Categories” means Categories (1), (2) and (3) set forth in the table in paragraph 1 of Schedule 1 to this Agreement in respect of the Project;
 - (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 Grant allocated from time to time to the eligible Categories in accordance with the provisions of Schedule 1 to this Agreement; and
 - (c) the term “Authorized Allocation” means an amount equivalent to one million dollars (\$1,000,000) to be withdrawn from the Grant Account and deposited into the Special Account pursuant to paragraph 3 (a) of this Schedule, provided, however, that unless the Association shall otherwise agree, the Authorized Allocation shall be limited to an amount equivalent to two hundred thousand dollars (\$200,000) until the aggregate amount of withdrawals from the Grant Account plus the total amount of all outstanding special commitments entered into by the Association pursuant to Section 5.02 of the General Conditions shall be equal to or exceed the equivalent of two million five hundred thousand Special Drawing Rights (SDR 2,500,000).
2. Payments out of the Special Account shall be made exclusively for eligible expenditures in accordance with the provisions of this Schedule.
3. After the Association has received evidence satisfactory to it that the Special Account has been duly opened, withdrawals of the Authorized Allocation and subsequent withdrawals to replenish the Special Account shall be made as follows:
 - (a) For withdrawals of the Authorized Allocation, the Recipient shall furnish to the Association a request or requests for deposit into the Special Account of an amount or amounts which do not exceed the aggregate amount of the Authorized Allocation. On the basis of such request or requests, the Association shall, on behalf of the Recipient, withdraw from the Grant Account and deposit into the Special Account such amount or amounts as the Recipient shall have requested.
 - (b)
 - (i) For replenishment of the Special Account, the Recipient shall furnish to the Association requests for deposits into the Special Account at such intervals as the Association shall specify.
 - (ii) Prior to or at the time of each such request, the Recipient shall furnish to the Association the documents and other evidence required pursuant to paragraph 4 of this Schedule for the

payment or payments in respect of which replenishment is requested. On the basis of each such request, the Association shall, on behalf of the Recipient, withdraw from the Grant Account and deposit into the Special Account such amount as the Recipient shall have requested and as shall have been shown by said documents and other evidence to have been paid out of the Special Account for eligible expenditures. All such deposits shall be withdrawn by the Association from the Grant Account under the respective eligible Categories, and in the respective equivalent amounts, as shall have been justified by said documents and other evidence.

4. For each payment made by the Recipient out of the Special Account, the Recipient shall, at such time as the Association shall reasonably request, furnish to the Association such documents and other evidence showing that such payment was made exclusively for eligible expenditures.

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

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

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

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

(d) once the total unwithdrawn amount of the Grant allocated to the eligible Categories for the Special Account, minus the total amount of all outstanding special commitments entered into by the Association pursuant to Section 5.02 of the General Conditions with respect to the Project, shall equal the equivalent of twice the amount of the Authorized Allocation.

Thereafter, withdrawal from the Grant Account of the remaining unwithdrawn amount of the Grant allocated to the eligible Categories shall follow such procedures as the Association shall specify by notice to the Recipient. Such further withdrawals shall be made only after and to the extent that the Association shall have been satisfied that all

such amounts remaining on deposit in the Special Account as of the date of such notice will be utilized in making payments for eligible expenditures.

6. (a) If the Association shall have determined at any time that any payment out of the Special Account: (i) was made for an expenditure or in an amount not eligible pursuant to paragraph 2 of this Schedule; or (ii) was not justified by the evidence furnished to the Association, the Recipient shall, promptly upon notice from the Association: (A) provide such additional evidence as the Association may request; or (B) deposit into the Special Account (or, if the Association shall so request, refund to the Association) an amount equal to the amount of such payment or the portion thereof not so eligible or justified. Unless the Association shall otherwise agree, no further deposit by the Association into the Special Account shall be made until the Recipient has provided such evidence or made such deposit or refund, as the case may be.

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

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

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

SCHEDULE 6

Performance Indicators

Unless otherwise agreed between the Recipient and the Association, the following indicators shall be used to judge progress in the implementation of the Project:

1. Goods, services and works have been delivered in accordance with the procurement plan.
2. An action plan for the strengthening of procurement capacity has been prepared, vetted by the Association and is being implemented.
3. AACA has been carrying out its aid coordination functions effectively.
4. Budgetary expenditures of AIA, including expenditures under projects financed by the Association, are accurately recorded and reported on a timely basis.
5. An action plan for the strengthening of the financial management capacity has been prepared, vetted by the Association and is being implemented.
6. AGO has provided timely and high quality audits for Fiscal Years 2003 and 2004 budget execution, including all operations financed by the Association.
7. An action plan for the strengthening of audit capacity has been prepared, vetted by the Association and is being implemented.