

CONFORMED COPY

CREDIT NUMBER 3735 AF

Development Credit Agreement

(Emergency Transport Rehabilitation Project)

between

TRANSITIONAL ISLAMIC STATE OF AFGHANISTAN

and

INTERNATIONAL DEVELOPMENT ASSOCIATION

Dated March 17, 2003



CREDIT NUMBER 3735 AF

DEVELOPMENT CREDIT AGREEMENT

AGREEMENT, dated March 17, 2003, between TRANSITIONAL ISLAMIC STATE OF AFGHANISTAN (the Borrower) and INTERNATIONAL DEVELOPMENT ASSOCIATION (the Association).

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

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

NOW THEREFORE the parties hereto hereby agree as follows:

ARTICLE I

General Conditions; Definitions

Section 1.01. The “General Conditions Applicable to Development Credit Agreements” of the Association, dated January 1, 1985 (as amended through October 6, 1999) (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) “AACA” means the Afghanistan Assistance Coordination Authority, an authority established pursuant to a Decree of the Borrower, dated March 30, 2002, as the same may be amended from time to time;

(b) “ESMP” means the Borrower’s environmental and social management plan, furnished to the Association on June 28, 2002, which provides for certain environmental and social impact mitigation measures to be undertaken by the Borrower as part of the implementation of the Project, together with related monitoring activities;

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

(d) “Framework” means the Borrower’s Environmental and Social Safeguards Framework, furnished to the Association, which sets out, *inter alia*: (i) key policy principles for social and environmental management; (ii) measures to guide the screening of activities for significant social and environmental impacts, and to assist in the mitigation of such impacts; (iii) procedures to ensure that these principles and measures are appropriately applied; and (iv) guidelines for capacity building and monitoring, as the same may be amended from time to time with the agreement of the Borrower and the Association;

(e) “MCAT” means the Ministry of Civil Aviation and Tourism of the Borrower;

(f) “Mines” means landmines, and this term shall include explosive items such as bombs, booby traps, munitions and unexploded ordnance of any kind;

(g) “MPW” means the Ministry of Public Works of the Borrower;

(h) “Special Account A” means the account referred to in Section 2.02 (b) of this Agreement in respect of Parts A.1, A.2, C, D and E.1 of the Project;

(i) “Special Account B” means the account referred to in Section 2.02 (b) of this Agreement in respect of Parts B.1, B.2 and E.2 of the Project;

(j) “Special Accounts” means, collectively, Special Account A and Special Account B; and

(k) “Sub-Project” means a secondary or tertiary road rehabilitation project to be carried out under Part C of the Project.

ARTICLE II

The Credit

Section 2.01. The Association agrees to lend to the Borrower, on the terms and conditions set forth or referred to in this Agreement, an amount in various currencies equivalent to eighty million Special Drawing Rights (SDR 80,000,000).

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

(b) The Borrower may, for the purposes of the Project, open and maintain in dollars two (2) separate special deposit accounts in its central bank, Special Account A and Special Account B, on terms and conditions satisfactory to the Association. Deposits into, and payments out of, the Special Accounts shall be made in accordance with the provisions of Schedule 5 to this Agreement.

Section 2.03. The Closing Date shall be December 31, 2005, 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 March 1 and September 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 March 1 and September 1 commencing September 1, 2013, and ending March 1, 2043. Each installment to and including the installment payable on March 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 (3) 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 (6) 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 (5) 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 technical, administrative, financial, management and transport 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, and with the environmental social and other principles, measures, procedures and guidelines set out in the ESMP and the Framework.

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

Section 3.03. For the purposes of Section 9.06 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 continued achievement of the objectives 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 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 Borrower 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 Accounts, 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 Credit Account were made on the basis of statements of expenditure, the Borrower shall:

- (i) maintain or cause to be maintained, in accordance with paragraph (a) of this Section, records and accounts reflecting such expenditures;
- (ii) retain, until at least one (1) year after the Association has received the audit report for the fiscal year in which the last withdrawal from the Credit 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 Borrower's progress reporting obligations set out in paragraph B (ii) of 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 Credit, 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 days after the end of the first calendar semester 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 semester; thereafter, each Financial Monitoring Report shall be furnished to the Association not later than forty-five days after each subsequent calendar semester, and shall cover such calendar semester.

ARTICLE V

Termination

Section 5.01. The date one hundred and twenty (120) 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 Borrower; Addresses

Section 6.01. The Minister of Finance 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 Finance
Kabul
Transitional Islamic State of Afghanistan

For the Association:

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

Cable address:	Telex:	Facsimile:
INDEVAS Washington, D.C.	248423 (MCI) or 64145 (MCI)	(202) 477-6391

IN WITNESS WHEREOF, the parties hereto, acting through their duly authorized representatives, have caused this Agreement to be signed in their respective names in Brussels, Kingdom of Belgium, as of the day and year first above written.

TRANSITIONAL ISLAMIC STATE OF
AFGHANISTAN

By /s/ Ashraf Ghani

Authorized Representative

INTERNATIONAL DEVELOPMENT ASSOCIATION

By /s/ Mieko Nishimizu

Regional Vice President
South Asia Region

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. MPW		
(a) Works		
(i) under Parts A.1, A.2 and E.1 of the Project	39,600,000	100%
(ii) for Sub-projects under Part C of the Project	14,000,000	100%
(b) Goods under Parts A.1, A.2, C and E.1 of the Project	700,000	100%
(c) Consultants' services and training under Parts A.1, A.2 and D of the Project	1,200,000	100%
(d) Engineering services under Parts A.1, A.2 and C of the Project	2,800,000	100%
2. MCAT		
(a) Works under Parts B.1, B.2 and E.2 of the Project	7,000,000	100%

<u>Category</u>	<u>Amount of the Credit Allocated (Expressed in SDR Equivalent)</u>	<u>% of Expenditures to be Financed</u>
(b) Goods under Parts B.1, B.2 and E.2 of the Project	6,000,000	100%
(c) Consultant's services and training under Parts B.1, B.2 of the Project	200,000	100%
(d) Engineering services under Parts B.1 and B.2 of the Project	500,000	100%
(3) Unallocated	8,000,000	
TOTAL	<u>80,000,000</u> =====	

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; and

(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.

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, except that withdrawals, in an aggregate amount not exceeding the equivalent of SDR 8,000,000, may be made in respect of Categories (1) (a)(i), (1) (a)(ii), (1) (b), (1) (c), (1) (d), (2) (a), (2) (b), (2) (c) and (2) (d) on account of payments made for expenditures before that date but after June 30, 2002.

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 not exceeding \$300,000 equivalent each; (ii) (works procured under the provisions of paragraph C.5 of Section I of Schedule 3 to this Agreement; (iii) consultants' services under contracts not exceeding \$100,000 equivalent for consulting firms; (iv) consultants' services under contracts not exceeding \$50,000

equivalent for individual consultants; (v) engineering services; and (vi) training, all under such terms and conditions as the Association shall specify by notice to the Borrower.

SCHEDULE 2

Description of the Project

The objective of the Project is to contribute to the recovery of the Borrower's economy by improving access to goods, markets, and administrative and social services.

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: Road Rehabilitation

1. Rehabilitation of the Kabul-Doshi and the Pol-e-Khomri-Kunduz roads, as well as roads and bridges in the northern region of the country, including the provision of goods, training and consultants' services required for the maintenance thereof.

2. Rehabilitation of the Salang tunnel, including the tunnel's approaches, and the provision of goods and training required for the maintenance thereof.

Part B: Civil Aviation

1. Rehabilitation of the runway at Kabul's international airport, and provision of consultants' services and goods, including, without limitation, communication, radio, meteorological, ground-handling and de-icing equipment, and a power distribution system, to upgrade the capabilities of said airport.

2. Carrying out of works and provision of goods required to construct a water and sanitation system in Kabul's international airport.

Part C: Secondary and Tertiary Roads

Carrying out a program to rehabilitate about two hundred fifty (250) kilometers of secondary and tertiary roads adjacent to the roads referred to under Part A of the Project, including the provision of goods, training and consultants' services related thereto.

Part D: Transport Sector Review and Miscellaneous Studies

Carrying out pre-feasibility and other studies, as well as a review whose objective is to develop an institutional and policy framework for the transport sector.

Part E: Mine Clearing

Clearance of Mines, including the carrying out of requisite screenings, surveys and quality assurance tests in:

1. Areas to be rehabilitated under Parts A.1, A.2 and C of the Project; and
2. Areas to be rehabilitated under Part B.1 of the Project, together with areas where the construction of the system referred to under Part B.2 of the Project shall take place.

* * *

The Project is expected to be completed by June 30, 2005.

SCHEDULE 3

Procurement

Section I. Procurement of Goods and Works

Part A: General

Goods and works 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: International Competitive Bidding

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

2. The following provisions shall apply to goods and works to be procured under contracts awarded in accordance with the provisions of paragraph 1 of this Part B.

(a) Grouping of Contracts

To the extent practicable, contracts for goods shall be grouped in bid packages estimated to cost \$200,000 equivalent or more each.

(b) Preference for Domestically Manufactured Goods and Domestic Contractors

The provisions of paragraphs 2.54 and 2.55 of the Guidelines and Appendix 2 thereto shall apply to goods manufactured in the territory of the Borrower and works to be carried out by domestic contractors.

(c) Notification and Advertising

The invitation to pre-qualify or bid for each contract estimated to cost \$500,000 equivalent or more shall be advertised in accordance with the procedures applicable to large contracts under paragraph 2.8 of the Guidelines.

(d) Prequalification

Bidders for contracts for works under Part A.1 of the Project shall be prequalified in accordance with the provisions of paragraphs 2.9 and 2.10 of the Guidelines.

(e) Dispute Review Board

Each contract for works estimated to cost \$10,000,000 equivalent or more shall include the provisions for a dispute review board set forth in the standard bidding documents for works referred to in paragraph 2.12 of the Guidelines.

Part C: Other Procurement Procedures

1. Limited International Bidding

Works under Part A.2 of the Project and goods under Part B.1 of the Project shall be procured under contracts awarded in accordance with the provisions of paragraph 3.2 of the Guidelines.

2. National Competitive Bidding

Works under Part C of the Project estimated to cost \$2,000,000 equivalent or less per contract, up to an aggregate amount not to exceed \$5,000,000, may be procured under contracts awarded in accordance with the provisions of paragraphs 3.3 and 3.4 of the Guidelines.

3. International and National Shopping

Goods estimated to cost \$500,000 equivalent or less per contract, up to an aggregate amount not to exceed \$6,000,000 equivalent, 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.

4. Direct Contracting

Goods, including spare parts and equipment, under Parts A.2 and B.1 of the Project which must be purchased from the original supplier may be procured in accordance with the provisions of paragraph 3.7 of the Guidelines.

5. Force Account

Maintenance works under Parts A.1 and A.2 of the Project which meet the requirements of paragraph 3.8 of the Guidelines, and costing \$700,000 equivalent in the aggregate, may, with the Association's prior agreement, be carried out by force account in accordance with the provisions of said paragraph of the Guidelines.

Part D: 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 and works shall be undertaken in accordance with such procurement plan as shall have been approved by the Association, and with the provisions of said paragraph 1.

2. Prior Review

(a) With respect to: (i) each contract for goods and each contract for works estimated to cost more than \$300,000 equivalent; and (ii) the first three (3) contracts for goods and the first three (3) contracts for works, 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 paragraphs C.1 or C.2 of this Schedule.

(b) In the event that any of the contracts for goods referred to under subparagraph (a) (ii) above shall have been procured under the provisions of paragraphs C.3 or C.4 of this Schedule, the following procedures shall apply:

- (i) prior to the execution of any contract under shopping procedures, the Borrower 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, the Borrower 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 Borrowers" published by the Association in January 1997 and revised in September 1997, January 1999 and May 2002 (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

Training services under Part A.1 of the Project estimated to cost \$400,000 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

Engineering services under Part C of the Project and services to carry out pre-feasibility studies under Part D of the Project 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 \$100,000 equivalent or less per contract may, with the Association's 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 \$50,000 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 \$20,000 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.

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

1. The Borrower shall vest responsibility for the implementation of Parts A.1, A.2, C, D and E.1 of the Project in MPW, and Parts B.1, B.2 and E.2 of the Project in MCAT. The Borrower shall cause AACCA to: (i) carry out the procurement process under Parts A.1, A.2, C, D and E.1 of the Project; (ii) assist in consolidating progress reports prepared by MPW and MCAT on the implementation of their respective Parts of the Project; and (iii) submit the consolidated progress reports to the Association in satisfaction of the Borrower's obligations under paragraphs B (ii) (a) and B (ii) (b) of this Schedule. Furthermore, the Borrower shall maintain arrangements satisfactory to the Association pursuant to which the procurement of goods and services under Part B.1 of the Project shall be carried out by the International Civil Aviation Organization.

2. The Borrower shall: (a) maintain, within each of MPW and MCAT, a team, with professional staff in adequate numbers whose qualifications, experience and terms of reference shall be acceptable to the Association, to assist each of MPW and MCAT in carrying out winter maintenance activities under their respective Parts of the Project; (b) not later than September 30, 2003, develop and furnish to the Association, for its review and comments, adequate plans to maintain the roads to be rehabilitated under Parts A.1 and A.2 of the Project and shall, following receipt of the Association's comments, finalize said plans and put them into effect taking into account the Association's comments thereon; (c) not later than December 31, 2003, develop and furnish to the Association, for its review and comments, a suitable methodology for screening and selecting Sub-projects under Part C of the Project and shall, following receipt of the Association's comments, adopt such methodology and put it into effect taking into account the Association's comments thereon; and (d) not later than December 31, 2003, take all actions required on its part, including regulatory action, to upgrade the safety standards of air traffic to those levels mandated by the International Civil Aviation Organization.

B. Progress Reports and Mid-Term Review

The Borrower shall:

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

(ii) prepare, under terms of reference satisfactory to the Association, and furnish to the Association: (a) on a quarterly basis, commencing not later than forty-five

days after the end of the first calendar quarter after the Effective Date, a report on the progress achieved in the implementation of the Project and the achievement of the objectives thereof; and (b) on or about March 31, 2004, 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 (i) of this Section and consolidating the results of the reports referred to under sub-paragraph (ii) (a) 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

(iii) review with the Association, by June 30, 2004, or such later date as the Association shall request, the report referred to in subparagraph (ii) (b) 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.

C. Part C of the Project

1. In order to achieve the objectives of Part C of the Project, the Borrower shall maintain arrangements, satisfactory to the Association, pursuant to which the Borrower shall select Sub-projects to be carried out under Part C of the Project. When presenting a Sub-project to the Association for approval, the Borrower shall furnish to the Association an application, in form satisfactory to the Association, together with an appraisal of the proposed Sub-project, including a description of the expenditures proposed to be financed out of the proceeds of the Credit.

2. Unless otherwise agreed by the Borrower and the Association, no expenditures for works required for a Sub-project shall be eligible for financing out of the proceeds of the Credit allocated from time to time to Part C of the Project unless the Borrower shall have furnished to the Association: (i) an environmental and social management plan relating to the proposed Sub-project, prepared pursuant to the principles, policies and guidelines set out in ESMP and the Framework, together with evidence, satisfactory to the Association, that the Sub-project shall not involve any involuntary resettlement of local population; (ii) a feasibility study concerning the proposed Sub-project, including an economic justification, satisfactory in substance to the Association, demonstrating that the internal rate of return of the proposed Sub-project equals or exceeds twelve percent (12%).

D. Part E of the Project

The Borrower shall undertake not to lay new Mines in any part of the Borrower's country so as to adversely affect, or in any way undermine, the implementation of the Project and the achievement of the objectives thereof.

SCHEDULE 5

Special Accounts

1. For the purposes of this Schedule:

(a) the term “eligible Categories” means Categories (1) (a)(i), (1) (a)(ii), (1) (b), (1) (c) and (1) (d) set forth in the table in paragraph 1 of Schedule 1 to this Agreement in respect of Parts A.1, A.2, C, D and E.1 of the Project; and Categories (2) (a), (2) (b), (2) (c) and (2) (d) set forth in the table in paragraph 1 of Schedule 1 to this Agreement in respect of Parts B.1, B.2, C and E.2 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 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 \$7,800,000 in respect of Special Account A and an amount equivalent to \$1,800,000 in respect of Special Account B, to be withdrawn from the Credit Account and deposited into the Special Accounts pursuant to paragraph 3 (a) of this Schedule.

2. Payments out of the respective 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 respective Special Account has been duly opened, withdrawals of the 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 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 respective Special Account such amount or amounts as the Borrower shall have requested.

(b) (i) For replenishment of the respective Special Account, the Borrower shall furnish to the Association requests for deposits into the respective 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 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. 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 respective 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 any Special Account:

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

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

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

(d) once the total unwithdrawn amount of the Credit allocated to the eligible Categories for the respective 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 Parts of the Project pertaining to said Special Account, 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 respective 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 any 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 respective 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 any 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 any Special Account will not be required to cover further payments for eligible expenditures, the Borrower shall, promptly upon notice from the Association, refund to the Association such outstanding amount.

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

(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.

SCHEDULE 6

Performance Indicators

The performance indicators for the Project shall include the following said indicators being subject to modification by agreement of the Borrower and the Association:

1. The average travel time between the cities of Kabul and Kunduz is reduced by fifty percent (50%).
2. The ability of goods and services' providers to supply products in the northern provinces of the country, during daytime and at night, is restored by March 31, 2004.
3. The ability of international airlines to land in Kabul's international airport is restored by December 31, 2003.
4. At least ten (10) rural communities have had their access to markets, social and administrative services improved by June 30, 2005.