

Public Disclosure Authorized

CONFORMED COPY

CREDIT NUMBER 3967-AF

Development Credit Agreement

(Kabul Urban Reconstruction Project)

between

ISLAMIC REPUBLIC OF AFGHANISTAN

and

INTERNATIONAL DEVELOPMENT ASSOCIATION

Dated August 4, 2004

Public Disclosure Authorized



CREDIT NUMBER 3967-AF

DEVELOPMENT CREDIT AGREEMENT

AGREEMENT, dated August 4, 2004, between the ISLAMIC REPUBLIC OF AFGHANISTAN (the Borrower) and the 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, has requested the Association to assist in the financing of the Project;

(B) Parts A, B, C, D, and E of the Project will be carried out by the Borrower through the Ministry of Urban Development;

(C) Part F of the Project will be carried out in accordance with implementation arrangements that are satisfactory and acceptable to the Association;

(D) the Borrower intends to obtain grants and loans from various other donors to assist in financing Parts B, C, D, E, and F of the Project; and

WHEREAS the Association has agreed, on the basis, among other things, 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 May 2004) (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) "Afghan Cartography Office" means the Afghan Geodesy and Cartography Head Office;

(b) “Community-Based Organization” means a community development committee or a community action group that satisfies the eligibility criteria set forth in the Project Implementation Manual;

(c) “Community Upgrading Plans” means plans formulated by Community Based Organizations under Part A of the Project;

(d) “Environmental and Social Safeguards Framework” means the Borrower’s Environmental and Social Safeguards Framework (including any amendments made from time to time), satisfactory and acceptable to the Association, which includes (i) key policy principles for social and environmental management, (ii) tools to guide the screening of project activities for significant social and environmental impacts, and to assist in the mitigation of such impacts, (iii) procedures to ensure that these principles and tools are appropriately applied, and (iv) guidelines for capacity building and monitoring;

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

(f) “Kabul Mazhkan” means the government agency that is a repository of land titles, deeds, and other documents;

(g) “Kabul Municipality” means Kabul Municipality established and operating under the laws of the Borrower or any successor thereto acceptable to the Association;

(h) “Land Tenure Technical Committee” means the Land Tenure Technical Committee to be established under paragraph 6 of Schedule 4 to this Agreement;

(i) “Letter of Undertaking” means the letter of undertaking to be executed and furnished to the Borrower by Kabul Municipality and each of the Participating Municipalities regarding their respective roles and responsibilities in Project implementation;

(j) “Ministry of Finance” means the Borrower’s Ministry of Finance or any successor entity thereto acceptable to the Association;

(k) “Ministry of Urban Development” means the Borrower’s Ministry of Urban Development and Housing or any successor entity thereto acceptable to the Association;

(l) “Municipal Plan” means a physical plan to be prepared under Part E of the Project for development of Kabul Municipality and any other Participating Municipalities;

(m) “Participating Municipalities” means Kabul Municipality and other municipalities (including towns and cities) of the Borrower selected to participate in Part E of the Project with the Association’s approval;

(n) “Procurement Plan” means the Borrower’s procurement plan, covering the initial eighteen month period (or longer) of Project implementation, as the same shall be updated from time to time in accordance with the provisions of Section 3.03 (b) to this Agreement, to cover succeeding eighteen month periods (or longer) of Project implementation;

(o) “Program Management Unit” means the Program Management Unit, or any other entity acceptable to the Association, to be established pursuant to paragraph 2 of Schedule 4 to this Agreement with, among other things, overall responsibility for Project management;

(p) “Project Executing Agencies” means with respect to: (i) Parts A, B, C, D, and E of the Project, the Ministry of Urban Development or an entity satisfactory and acceptable to the Association; and for (ii) Part F of the Project, an entity satisfactory and acceptable to the Association;

(q) “Project Implementation Manual” means the Project Implementation Manual (including amendments made from time to time and any schedules and annexes thereto) satisfactory and acceptable to the Association, which sets forth various operational, financial management, and procurement procedures governing the operation of the Project; provided however, if there is a conflict between this Agreement and the manual, the provisions of this Agreement shall prevail;

(r) “Project Support Team” means the Project Support Team to be established by Kabul Municipality pursuant to paragraph 5 of Schedule 4 to this Agreement for coordinating Kabul Municipality’s participation in the Project;

(s) “Special Account” means the account referred to in Section 2.02 (b) of this Agreement;

(t) “Special Disbursement Unit” means the Special Disbursement Unit established by the Ministry of Finance under paragraph 2 of Schedule 4 to this Agreement;

(u) “Structure Plan Team” means the Structure Plan Team established under paragraph 4 of Schedule 4 to this Agreement; and

(v) “Technical Support Unit” means the Technical Support Unit to be established under paragraph 2 of Schedule 4 to this Agreement to provide technical support for all parts of the Project.

ARTICLE II

The Credit

Section 2.01. The Association agrees to lend to the Borrower, on the terms and conditions set forth or referred to in the Development Credit Agreement, an amount in various currencies equivalent to seventeen million one hundred thousand Special Drawing Rights (SDR 17,100,000).

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 a special deposit account with its central bank, on terms and conditions satisfactory to the Association. 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 March 31, 2009, 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 June 15 and December 15 in each year.

Section 2.07. (a) Subject to paragraphs (b), (c) and (d) below, the Borrower shall repay the principal amount of the Credit in semiannual installments payable on each June 15 and December 15 commencing December 15, 2014 and ending June 15, 2044. Each installment to and including the installment payable on June 15, 2024 shall be one percent (1%) of such principal amount, and each installment thereafter shall be two percent (2%) of such principal amount.

(b) Whenever: (i) the Borrower's per capita gross national product (GNP), as determined by the Association, shall have exceeded for three consecutive years the level established annually by the Association for determining eligibility to access the Association's resources; and (ii) the Bank shall consider the Borrower creditworthy for Bank lending, the Association may, subsequent to the review and approval thereof by the Executive Directors of the Association and after due consideration by them of the development of the Borrower's economy, modify the repayment of installments under paragraph (a) above by:

- (A) requiring the Borrower to repay twice the amount of each such installment not yet due until the principal amount of the Credit shall have been repaid; and
- (B) requiring the Borrower to commence repayment of the principal amount of the Credit as of the first semiannual payment date referred to in paragraph (a) above falling six months or more after the date on which the Association notifies the Borrower that the events set out in this paragraph (b) have occurred, provided, however, that there shall be a grace period of a minimum of five years on such repayment of principal.

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

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

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

ARTICLE III

Execution of the Project

Section 3.01. (a) The Borrower declares its commitment to the objectives of the Project as set forth in Schedule 2 to this Agreement, and, to this end, shall carry out the Project, through the Project Executing Agencies, with due diligence and efficiency and in conformity with the Project Implementation Manual and the Environmental and Social Safeguards Framework and appropriate administrative, financial, engineering, environmental, and urban reconstruction 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.

(c) Without limitation or restriction upon any of its obligations under the Development Credit Agreement, the Borrower shall cause Kabul Municipality and each of the other Participating Municipalities to: (i) execute and furnish to the Borrower a Letter of Undertaking, in form and substance satisfactory to the Association; and (ii) carry-out their respective activities under the Project in accordance with their respective Letters of Undertaking.

(d) Without limitation or restriction upon its obligations under the Development Credit Agreement, the Borrower shall take all actions, including the provision of funds, facilities, services and other resources, necessary or appropriate to enable Kabul Municipality and each of the other Participating Municipalities to perform all the respective obligations of their respective Letters of Undertaking. The Borrower shall not take or permit to be taken any action which would prevent or interfere with such performance.

Section 3.02. (a) The Borrower shall ensure that the Project Executing Agency responsible for implementing Part F of the Project carries out all its obligations in accordance with implementation arrangements satisfactory and acceptable to the Association. To this end, the Borrower shall take all actions, including the provision of

funds, facilities, services, and other resources, necessary or appropriate to enable this Project Executing Agency to perform its obligations. The Borrower shall not take or permit to be taken any action which would prevent or interfere with such performance.

(b) The Borrower shall cause its officials, agents, and representatives to provide, promptly as necessary, any necessary entry and exit visas, work permits, exchange and travel documents required for personnel engaged to implement Part F of the Project.

Section 3.03. (a) 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.

(b) The Borrower shall update the Procurement Plan in accordance with guidelines acceptable to the Association, and furnish such update to the Association not later than eighteen months after the date of the preceding Procurement Plan, for the Association's approval.

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

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

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

ARTICLE IV

Financial Covenants

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

(b) The Borrower shall:

(i) have the financial statements referred to in paragraph (a) of this Section for each fiscal year (or other period agreed to by the Association), audited, in accordance with consistently applied

auditing standards acceptable to the Association, by independent auditors acceptable to the Association;

- (ii) furnish to the Association as soon as available, but in any case not later than six months after the end of each such year (or such other period agreed to by the Association), (A) certified copies of the financial statements referred to in paragraph (a) of this Section for such year (or other period agreed to by the Association), as so audited, and (B) an opinion on such statements by said auditors, in scope and detail satisfactory to the Association; and
- (iii) furnish to the Association such other information concerning such records and accounts, and the audit of such financial statements, and concerning said auditors, as the Association may from time to time reasonably request.

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

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

Section 4.02. (a) Without limitation upon the Borrower's progress reporting obligations set out in Schedule 4 to this Agreement, the Borrower shall cause the Project Executing Agencies to 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 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 45 days after each subsequent calendar quarter, and shall cover such calendar quarter.

ARTICLE V

Other Covenants

Section 5.01. The Borrower shall cause Kabul Municipality, the Project Executing Agencies, and the other Participating Municipalities:

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

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

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

ARTICLE VI

Effective Date; Termination

Section 6.01. The date one hundred twenty (120) 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 Finance 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 Finance
Kabul
Islamic Republic 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 the District of Columbia, United State of America, as of the day and year first above written.

ISLAMIC REPUBLIC OF AFGHANISTAN

By /S/ Said Tayeb Jawad

Authorized Representative

INTERNATIONAL DEVELOPMENT ASSOCIATION

By /S/ Alastair McKechnie

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	16,540,000	100%
(2) Goods	320,000	100%
(3) Consultants services, including audits	70,000	100%
(4) Incremental Operating Costs	170,000	100%
TOTAL	<u>17,100,000</u> =====	

2. For the purposes of this Schedule, the term “Incremental Operating Costs” means the incremental expenses incurred on account of Project implementation and management, including the operation and maintenance of vehicles, communication and insurance costs, office administration costs, Special Account banking charges, utility charges, domestic travel and per diem allowances, but excluding salaries of the officials of the Borrower’s civil service.

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

4. The Association may require withdrawals from the Credit Account to be made on the basis of statements of expenditure for expenditures under contracts for: (a) goods costing less than \$100,000 equivalent per contract; (b) works costing less than \$500,000 equivalent per contract; (c) contracts for individual consultants costing less than \$50,000 equivalent per contract; (d) contracts for consulting firms costing less than \$100,000

equivalent per contract; and (e) all expenditures for Incremental Operational Costs; all under such terms and conditions as the Association shall specify by notice to the Borrower.

5. Notwithstanding anything in paragraph (1) above, no withdrawals shall be made with respect to category (1) for Part A of the Project unless the Borrower and the Association have agreed upon a list of areas within Kabul Municipality's jurisdiction in which upgrading shall be carried out.

SCHEDULE 2

Description of the Project

The objectives of the Project are to assist the Borrower in: (i) improving capacity of the Ministry of Urban Development and Kabul Municipality in urban management; and (ii) supporting the integration of selected neighborhoods into the urban fabric of Kabul Municipality through the reconstruction and rehabilitation of urban services and facilities.

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: Area Upgrading in Kabul Municipality

Carrying out an area-upgrading program in areas under Kabul Municipality's jurisdiction focusing on poor, infrastructure-deficient, planned, and unplanned neighborhoods by providing improved water supply, sanitation, solid waste management, access roads, hill-side steps, drainage and street lighting services and facilities.

Part B: Land Tenure Regularization

Developing an appropriate capacity, appropriate methodologies, and procedures to regularize urban land-tenure in the Borrower's territory, including:

- (i) the carrying out of pilot schemes to test methodologies and assess capacity in four identified communities; and
- (ii) capacity-building and training in the Afghan Cartography Office, the Kabul Makhzan, and other project implementing agencies.

Part C: Engineering and Project Management Support for the Borrower's Urban Agencies

Provision of engineering and project management support including: (i) technical assistance by the Technical Support Unit to support the Program Management Unit, the Project Support Team, and the planning and design consultants; (ii) goods for the Ministry of Urban Development, Kabul Municipality, and the Afghan Cartography Office; (iii) auditing, monitoring and evaluation services, and (iv) incremental operating expenses.

Part D: Overall Capacity Building for Kabul Municipality

Assisting Kabul Municipality by: (i) strengthening its revenue-generation, financial management, asset management, budgeting, and planning (other than town

planning); (ii) capacity building for various departments including: (A) the planning and finance department and related sub-departments, (B) the income department, (C) the properties department, and (D) the control office; and (iii) the development, design, and implementation of simple operating procedures to improve efficiency.

Part E: Preparation of Structure Plans and a Future Urban Project

Assisting the Ministry of Urban Development, Kabul Municipality, and other Participating Municipalities in: (i) preparing physical development plans; and (ii) building planning capacity, and (iii) preparing a feasibility study for a future urban project focusing on city-wide urban services in Kabul Municipality and other Participating Municipalities.

Part F: Improvements to Main Roads, Drainage, and Traffic Management in Kabul

A program involving construction and rehabilitation of major streets and drains in Kabul Municipality that will include: (i) construction of new roads; (ii) reconstruction, repair, and overlay of existing roads; and (iii) repair of primary drainage channels and secondary drainage systems; and (iv) traffic management improvements.

* * *

The Project is expected to be completed by September 30, 2008.

SCHEDULE 3

Procurement

Section I. General

A. Goods and works shall be procured in accordance with the provisions of Section I of the “Guidelines for Procurement under IBRD Loans and IDA Credits” dated May 2004 (the Procurement Guidelines), and with the provisions of this Schedule.

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

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

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

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

B. Other Procurement Procedures

1. National Competitive Bidding. Goods estimated to cost less than \$200,000 equivalent per contract and works for medium sized upgrading schemes estimated to cost less than \$500,000 equivalent per contract, may be procured under contracts awarded on the basis of National Competitive Bidding and the procedures set out in the annex to this schedule.

2. Shopping. Goods estimated to cost less than \$100,000 equivalent per contract, may be procured under contracts awarded on the basis of Shopping.

3. Direct Contracting. Goods and works which the Association agrees meet the requirements for Direct Contracting may be procured in accordance with the provisions of said procurement method.

4. Force Account. Works which the Association agrees meet the requirements for Force Account may be carried out in accordance with the provisions of said procurement method.

5. Community Participation. Works involving small upgrading schemes estimated to cost less than \$50,000 equivalent per contract shall be procured in accordance with procedures acceptable to the Association.

Section III. Particular Methods of Procurement of Consultants' Services

A. Quality- and Cost-based Selection. Except as otherwise provided in Part B of this Section, consultants' services shall be procured under contracts awarded on the basis of Quality- and Cost-based Selection. For purposes of paragraph 2.7 of the Consultant Guidelines, the short list of consultants for services estimated to cost less than \$50,000 equivalent per contract may comprise entirely national consultants.

B. Other Procedures

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

2. Selection Under a Fixed Budget. Services for assignments which the Association agrees meet the requirements of paragraph 3.5 of the Consultant Guidelines may be procured under contracts awarded on the basis of a Fixed Budget in accordance with the provisions of paragraphs 3.1 and 3.5 of the Consultant Guidelines.

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

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

5. Single Source Selection. Services for tasks in circumstances which meet the requirements of paragraph 3.10 of the Consultant Guidelines for Single Source Selection, may, with the Association's prior agreement, be procured in accordance with the provisions of paragraphs 3.9 through 3.13 of the Consultant Guidelines.

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

Section IV. Review by the Association of Procurement Decisions

A. Except as the Association shall otherwise determine by notice to the Borrower, the following contracts shall be subject to Prior Review by the Association:

- (i) the first contract (irrespective of its value) for either goods or works in each year of the Project;
- (ii) each contract for works estimated to cost the equivalent of \$500,000 or more;
- (iii) each contract for goods estimated to cost the equivalent of \$100,000 or more; and
- (iv) each contract for the employment of consulting firms estimated to cost the equivalent of \$100,000 or more.

B. With respect to each contract for goods estimated to cost the equivalent of \$100,000 or more, the following procedures shall apply:

- (i) prior to the selection of any supplier or 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 direct contracting or shopping 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(h), 2(i) and 3 of Appendix 1 to the Guidelines shall apply.

C. For contract of individual consultants estimated to cost the equivalent of \$50,000 or more, the report on the comparison of the qualifications and experience of candidates, 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. The provisions of paragraph 3 of Appendix 1 to the Consultant Guidelines shall also apply to such contracts.

ANNEX
to
SCHEDULE 3

Procedures for National Competitive Bidding

In order to ensure economy, efficiency, transparency and broad consistency with the provisions of Section I of the Guidelines, the following criteria shall be followed in procurement under National Competitive Bidding procedures:

- (i) Standard bidding documents approved by the Association shall be used.
- (ii) Invitations to bid shall be advertised in at least one widely circulated national daily newspaper and bidding documents shall be made available to prospective bidders, at least 28 days prior to the deadline for the submission of bids.
- (iii) Bids shall not be invited on the basis of percentage premium or discount over the estimated cost.
- (iv) Bidding documents shall be made available, by mail or in person, to all who are willing to pay the required fee.
- (v) Foreign bidders shall not be precluded from bidding.
- (vi) Qualification criteria (in case pre-qualifications were not carried out) shall be stated on the bidding documents, and if a registration process is required, a foreign firm determined to be the lowest evaluated bidder shall be given reasonable opportunity of registering, without any hindrance.
- (vii) Bidders may deliver bids, at their option, either in person or by courier service or by mail.
- (viii) All bidders shall provide bid security as indicated in the bidding documents. A bidder's bid security shall apply only to a specific bid.
- (ix) Bids shall be opened in public in one place preferably immediately, but no later than one hour, after the deadline for submission of bids.
- (x) Evaluation of bids shall be made in strict adherence to the criteria disclosed in the bidding documents, in a format, and within the specified period, agreed with the Association.

- (xi) Bids shall not be rejected merely on the basis of a comparison with an official estimate without the prior concurrence of the Association.
- (xii) Split award or lottery in award of contracts shall not be carried out. When two or more bidders quote the same price, an investigation shall be made to determine any evidence of collusion, following which: (A) if collusion is determined, the parties involved shall be disqualified and the award shall then be made to the next lowest evaluated and qualified bidder; and (B) if no evidence of collusion can be confirmed, then fresh bids shall be invited after receiving the concurrence of the Association.
- (xiii) Contracts shall be awarded to the lowest evaluated bidders within the initial period of bid validity so that extensions are not necessary. Extension of bid validity may be sought only under exceptional circumstances.
- (xiv) Extension of bid validity shall not be allowed without the prior concurrence of the Association (A) for the first request for extension if it is longer than eight weeks, and (B) for all subsequent requests for extensions irrespective of the period.
- (xv) Negotiations shall not be allowed with the lowest evaluated or any other bidders.
- (xvi) Re-bidding shall not be carried out without the Association's prior concurrence.
- (xvii) All contractors or suppliers shall provide performance security as indicated in the contract documents. A contractor's or a supplier's performance security shall apply to a specific contract under which it was furnished.

SCHEDULE 4

Implementation Program

Overall Project Management

1. (a) The Borrower shall prepare a Project Implementation Manual in form and substance satisfactory to the Association setting out details of all procedures, guidelines, timetables and criteria required for the Project, including: (i) the financial, administrative, and operational arrangements for carrying out the Project; (ii) criteria for selecting eligible communities to participate in the Project; and (iii) principles on which the Project's upgrading program is to be designed.

(b) The Borrower shall carry out the Project in accordance with the Project Implementation Manual and except as the Association shall otherwise agree, the Borrower shall not amend, vary, or waive any provision of the Project Implementation Manual and the Environmental and Social Safeguards Framework if, in the opinion of the Association, such amendment or waiver may materially and adversely affect the carrying out of the Project or the achievement of the objectives thereof.

2. (a) The Borrower shall assign responsibility for the overall management of the Project to the Ministry of Urban Development and, to that end, shall maintain the Ministry of Urban Development in a form and with functions, staffing and resources satisfactory to the Association.

(b) The Ministry of Urban Development shall establish, and thereafter maintain a Program Management Unit with responsibilities, functions, staffing, and resources satisfactory and acceptable to the Association. The Program Management Unit shall be responsible for, among other things, managing Parts A, B, C, D, and E of the Project including procurement and financial management.

(c) The Borrower shall ensure that two financial officers (an external appointee and an internal staff member), with qualifications and experience acceptable to the Association, are available on a full-time basis throughout the Project's implementation period to coordinate and oversee the Project's financial management and disbursement aspects.

(d) The Borrower shall ensure that the Project Executing Agency for Part F of the Project carries out this component in accordance with implementation arrangements that are satisfactory and acceptable to the Association and the provisions of this Agreement.

(e) The Ministry of Urban Development shall establish by December 31, 2004, and thereafter, maintain a Technical Support Unit in a form and with functions, staffing and resources satisfactory to the Association.

(f) The staff of the Technical Support Unit shall include a financial management specialist with qualifications and experience satisfactory to the Association.

(g) The Borrower shall maintain the Special Disbursement Unit in its Ministry of Finance in a form and with functions, staffing and resources satisfactory and acceptable to the Association. The Special Disbursement Unit shall be responsible for: (i) accounting of the Project's funds; and (ii) management of cash resources.

3. (a) The Borrower shall refrain from taking any action that shall prevent or interfere with the implementation of the Environmental and Social Safeguards Frameworks.

(b) The Borrower shall continue to conduct annual monitoring of the environmental impacts of Project implementation for at least the two years immediately following the Closing Date.

Project Teams and Committees

4. The Ministry of Urban Development shall establish, and thereafter maintain a Structure Plan Team with responsibilities, functions, staffing, and resources satisfactory and acceptable to the Association to prepare a Municipal Plan for Kabul Municipality and other Participating Municipalities.

5. Kabul Municipality shall establish, not later than December 31, 2004, and thereafter maintain, a Project Support Team with responsibilities, functions, staffing, and resources satisfactory and acceptable to the Association. The Project Support team shall, among other things, provide technical support for Project implementation.

6. The Ministry of Urban Development shall establish, not later than December 31, 2004, and thereafter maintain, a Land Tenure Technical Committee with responsibilities, functions, staffing, and resources satisfactory and acceptable to the Association. The Land Tenure Technical Committee shall provide the Ministry of Urban Development policy advice, direction, and strategy regarding land-tenure regularization under Part B of the Project.

Participating Communities

7. The Borrower shall ensure that communities identified to participate in the Project are selected according to a procedure satisfactory and acceptable to the Association.

Land Mines

8. (a) The Borrower shall ensure that no project activities are carried out in high security areas or areas containing a significant risk of land mines without receiving appropriate and necessary clearances from designated authorities.

(b) In particular, the Borrower shall ensure that no activities involving civil works to be financed under the Project shall commence without appropriate clearances concerning the status of land mines in the areas where civil works are to be undertaken.

(c) 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.

Progress Reports and Mid-Term Review

9. The Borrower shall:

(a) maintain policies and procedures adequate to enable it to monitor and evaluate on an ongoing basis, in accordance with indicators acceptable to the Association, 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, on or about April 30, 2006, a report integrating the results of the monitoring and evaluation activities performed pursuant to sub-paragraph (a) of this paragraph, 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 June 30, 2006, or such later date as the Association shall request, the report referred to in sub-paragraph (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.

SCHEDULE 5

Special Account

1. For the purposes of this Schedule:
 - (a) the term “eligible Categories” means Categories (1), (2), (3), and (4) set forth in the table in paragraph 1 of Schedule 1 to this Agreement;
 - (b) the term “eligible expenditures” means expenditures in respect of the reasonable cost of goods, works, 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 \$2,000,000 to be withdrawn from the Credit Account and deposited into the Special Account pursuant to paragraph 3 (a) of this Schedule, provided, however, that unless the Association shall otherwise agree, the Authorized Allocation shall be limited to an amount equivalent to \$1,000,000 until the aggregate amount of withdrawals from the Credit Account plus the total amount of all outstanding special commitments entered into by the Association pursuant to Section 5.02 of the General Conditions shall be equal to or exceed the equivalent of SDR 3,000,000.
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 Borrower shall furnish to the Association a request or requests for deposit into the Special Account of an amount or amounts which do not exceed the aggregate amount of the Authorized Allocation. On the basis of such request or requests, the Association shall, on behalf of the Borrower, withdraw from the Credit Account and deposit into the Special Account such amount or amounts as the Borrower shall have requested.
 - (b)
 - (i) For replenishment of the Special Account, the Borrower shall furnish to the Association requests for deposits into the Special Account at such intervals as the Association shall specify.
 - (ii) Prior to or at the time of each such request, the Borrower shall furnish to the Association the documents and other evidence required pursuant to paragraph 4 of this Schedule for the payment or payments in respect of which replenishment is

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

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

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

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

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

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

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

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

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

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

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

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