Development Credit Agreement

(Programmatic Support for Institution Building)

between

ISLAMIC REPUBLIC OF AFGHANISTAN

and

INTERNATIONAL DEVELOPMENT ASSOCIATION

Dated August 4, 2004
DEVELOPMENT CREDIT AGREEMENT

AGREEMENT, dated August 4, 2004, between ISLAMIC REPUBLIC OF AFGHANISTAN (the Borrower) and INTERNATIONAL DEVELOPMENT ASSOCIATION (the Association).

WHEREAS (A) the Association has received from the Borrower a letter dated June 29, 2004, describing a program of actions, objectives and policies designed to achieve structural adjustment of the Borrower’s economy (hereinafter called the Program), declaring the Borrower’s commitment to the execution of the Program, and requesting assistance from the Association in support of the Program during the execution thereof;

(B) the Borrower has carried out the measures and taken the actions described in Schedule 2 of this Agreement to the satisfaction of the Association and has maintained a macroeconomic policy framework satisfactory to the Association; and

(C) on the basis, inter alia, of the foregoing, the Association has decided in support of the Program to provide such assistance to the Borrower by making the Credit as hereinafter provided;

NOW THEREFORE the parties hereto hereby agree as follows:

ARTICLE I

General Conditions; Definitions

Section 1.01. The “General Conditions Applicable to Development Credit Agreements” of the Association, dated January 1, 1985, (as amended through May 1, 2004) with the modifications set forth below (the General Conditions) constitute an integral part of this Agreement:

(a) Section 2.01, paragraph 12 is modified to read:

“‘Project’ means the program, referred to in the Preamble to the Development Credit Agreement, in support of which the Credit is made.”;

(b) Section 4.01 is modified to read:

“Except as the Borrower and the Association shall otherwise agree, withdrawals from the Credit Account shall be made in the currency of the deposit account specified in Section 2.02 of the Development Credit Agreement.”;
(c) Section 5.01 is modified to read:

“The Borrower shall be entitled to withdraw the proceeds of the Credit from the Credit Account in accordance with the provisions of the Development Credit Agreement and of these General Conditions”;

(d) The last sentence of Section 5.03 is deleted;

(e) Section 9.06 (c) is modified to read:

“(c) 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, the Borrower shall prepare and furnish to the Association a report, of such scope and in such detail as the Association shall reasonably request, on the execution of the program referred to in the Preamble to the Development Credit Agreement, the performance by the Borrower and the Association of their respective obligations under the Development Credit Agreement and the accomplishment of the purposes of the Credit.”; and

(f) Section 9.04 is deleted and Sections 9.05, 9.06 (as modified above), 9.07 and 9.08 are renumbered, respectively, Sections 9.04, 9.05, 9.06 and 9.07.

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) “Independent Administrative Reform and Civil Service Commission” means an independent commission constituted under the Borrower’s laws;

(b) “Basic Package of Health Services” means the Borrower’s programs that provide health services to mothers, infants, and children under five years of age;

(c) “Da Afghanistan Bank” means the Borrower’s central bank;

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

(e) “Ministry of Education” means the Borrower’s Ministry of Education or any successor entity acceptable to the Association;

(f) “Ministry of Justice” means the Borrower’s Ministry of Justice or any successor entity acceptable to the Association;
(g) “National Solidarity Program” means the Borrower’s rural reconstruction and rehabilitation program which supports strengthening participatory governance at the community level and grants to communities for rural infrastructure improvements; and 

(h) “Priority Reform and Restructuring Program” means the Borrower’s civil service reform program managed by the Independent Administrative Reform and Civil Service Commission under which allocations are made to government employees.

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 fifty four million seven hundred thousand Special Drawing Rights (SDR 54,700,000).

Section 2.02. (a) Subject to the provisions of paragraphs (b) and (c) of this Section, the Borrower shall be entitled to withdraw the proceeds of the Credit from the Credit Account in support of the Program.

(b) The Borrower shall open, prior to furnishing to the Association the first request for withdrawal from the Credit Account, and thereafter maintain with its central bank, a deposit account in United States dollars on terms and conditions satisfactory to the Association. All withdrawals from the Credit Account shall be deposited by the Association into the Deposit Account.

(c) The Borrower undertakes that the proceeds of the Credit shall not be used to finance expenditures excluded pursuant to the provisions of Schedule 1 to this Agreement. If the Association shall have determined at any time that any proceeds of the Credit shall have been used to make a payment for an expenditure so excluded, the Borrower shall, promptly upon notice from the Association, (i) deposit into the Deposit Account an amount equal to the amount of said payment, or (ii) if the Association shall so request, refund such amount to the Association. Amounts refunded to the Association upon such request shall be credited to the Credit Account for cancellation.

Section 2.03. The Closing Date shall be March 20, 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 cancelled; 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 the Association 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

Particular Covenants

Section 3.01. (a) The Borrower and the Association shall from time to time, at the request of either party, exchange views on the progress achieved in carrying out the Program.

(b) Prior to each such exchange of views, the Borrower shall furnish to the Association for its review and comment a report on the progress achieved in carrying out the Program, in such detail as the Association shall reasonably request.

(c) Without limitation upon the provisions of paragraph (a) of this Section, the Borrower shall exchange views with the Association on any proposed action to be taken after the disbursement of the Credit which would have the effect of materially reversing the objectives of the Program, or any action taken under the Program, including any action specified in Schedule 2 to this Agreement.

Section 3.02. Upon the Association’s request, the Borrower shall:

(a) have the Deposit Account audited in accordance with appropriate auditing principles consistently applied, by independent auditors acceptable to the Association;

(b) furnish to the Association as soon as available, but in any case not later than six months after the date of the Association’s request for such audit, a certified copy of the report of such audit by said auditors, of such scope and in such detail as the Association shall have reasonably requested; and
(c) furnish to the Association such other information concerning the Deposit Account and the audit thereof as the Association shall have reasonably requested.

ARTICLE IV

Remedies of the Association

Section 4.01. Pursuant to Section 6.02 (l) of the General Conditions, the following additional event is specified, namely, that a situation has arisen which shall make it improbable that the Program, or a significant part thereof, will be carried out.

Section 4.02. Pursuant to Section 7.01 (h) of the General Conditions, the following additional events are specified:

(a) the event specified in Section 4.01 of this Agreement shall have occurred; and

(b) any action shall have been taken or any omission shall have been made which would have the effect of materially reversing the objectives of the Program or any action taken under the Program, including any action specified in Schedule 2 to this Agreement.

ARTICLE V

Effective Date; Termination

Section 5.01. The date ninety (90) days after the date of this Agreement is hereby specified for the purposes of Section 12.04 of the General Conditions.

ARTICLE VI

Representative of the Borrower; Addresses

Section 6.01. The Minister of Finance of the Borrower is designated as the 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
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: INDEVAS 248423 (MCI) or (202) 477-6391
Telex: Washington, D.C. 64145 (MCI)
Facsimile:

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

ISLAMIC REPUBLIC OF AFGHANISTAN

By /S/ Said Tayeb Jawad
Authorized Representative

INTERNATIONAL DEVELOPMENT ASSOCIATION

By /S/ Alastair McKechnie
Authorized Representative
SCHEDULE 1

Excluded Expenditures

For purposes of Section 2.02 (c) of this Agreement, the proceeds of the Credit shall not be used to finance any of the following expenditures:

1. expenditures in the currency of the Borrower or for goods, works, or services supplied from the territory of the Borrower;

2. expenditures for goods, works, or services supplied under a contract which any national or international financing institution or agency, other than the Bank or the Association, shall have financed or agreed to finance, or which the Bank or the Association shall have financed, or agreed to finance, under another grant, credit, or a loan;

3. expenditures for goods included in the following groups or subgroups of the Standard International Trade Classification, Revision 3 (SITC, Rev.3), published by the United Nations in Statistical Papers, Series M, No. 34/Rev.3 (1986) (the SITC), or any successor groups or subgroups under future revisions to the SITC, as designated by the Association by notice to the Borrower:

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<th>Group</th>
<th>Subgroup</th>
<th>Description of Items</th>
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<tbody>
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<td>Alcoholic beverages</td>
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<tr>
<td>121</td>
<td>-</td>
<td>Tobacco, unmanufactured, tobacco refuse</td>
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<tr>
<td>122</td>
<td>-</td>
<td>Tobacco, manufactured (whether or not containing tobacco substitutes)</td>
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<tr>
<td>525</td>
<td>-</td>
<td>Radioactive and associated materials</td>
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<tr>
<td>667</td>
<td>-</td>
<td>Pearls, precious and semiprecious stones, unworked or worked</td>
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<tr>
<td>Group</td>
<td>Subgroup</td>
<td>Description of Items</td>
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</tr>
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<td>718</td>
<td>718.7</td>
<td>Nuclear reactors, and parts thereof; fuel elements (cartridges), non-irradiated, for nuclear reactors</td>
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<td>728</td>
<td>728.43</td>
<td>Tobacco processing machinery</td>
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<td>Jewelry of gold, silver or platinum group metals (except watches and watch cases) and goldsmiths’ or silversmiths’ wares (including set gems)</td>
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<tr>
<td>971</td>
<td>-</td>
<td>Gold, non-monetary (excluding gold ores and concentrates)</td>
</tr>
</tbody>
</table>

4. expenditures for goods, works, or services intended for a military or paramilitary purpose (including police forces) or for luxury consumption;

5. expenditures for environmentally hazardous goods (for purposes of this paragraph the term “environmentally hazardous goods” means goods, the manufacture, use or import of which is prohibited under the laws of the Borrower or international agreements to which the Borrower is a party);

6. expenditures (a) in the territories of any country which is not a member of the Bank or for goods procured in, or services supplied from, such territories or (b) on account of any payment to persons or entities, or any import of goods, if such payment or import is prohibited by a decision of the United Nations Security Council taken under Chapter VII of the Charter of the United Nations; and

7. expenditures under a contract in respect of which the Association determines that corrupt or fraudulent practices were engaged in by representatives of the Borrower or of a beneficiary of the Credit during the procurement or execution of such contract, without the
Borrower having taken timely and appropriate action satisfactory to the Association to remedy the situation.
SCHEDULE 2

Actions Referred to in Recital (B) of the Preamble to this Agreement

1. The Borrower’s cabinet has adopted an ordinary and a development budget for its fiscal year 1383, which, among other things, contains: (i) an adequate financing and fiscal framework, which shows the sources of the financing of the deficit; (ii) an increase in aggregate allocations to provinces above allotments in fiscal year 1382; (iii) an increase in aggregate non-salary allocations to provinces above allotments in fiscal year 1382; (iv) an increase in the allocation to the Basic Package of Health Services above fiscal year 1382; (v) an increase in the ordinary budgetary allocation to the Ministry of Education above fiscal year 1382; and (vi) an increase in the allocation to the National Solidarity Program above fiscal year 1382.

2. The Borrower’s government has submitted to its Ministry of Justice a draft of the Public Finance and Expenditure Management Law, which includes the budget preparation process and applicable standards of transparency and financial reporting.

3. The Borrower’s Independent Administrative Reform and Civil Service Commission has approved placing 3,000 government staff positions under an elevated pay-scale in accordance with the government’s Priority Reform and Restructuring Program.

4. The Borrower’s Independent Administrative Reform and Civil Service Commission has approved placing Da Afghanistan Bank's staff under an elevated pay-scale in accordance with the government’s Priority Reform and Restructuring Program.

5. The Borrower's cabinet has adopted a tax reform package which includes: (i) wage withholding; (ii) a fixed tax (10 percent) on selected services (hotel, restaurant, telecommunication and international air travel); (iii) a reduction in the corporate tax rate (to 20 percent); and (iv) withholding tax on rental income (20 percent).

6. The Borrower's cabinet has adopted Income Tax Law amendments which (i) give effect to the Decree of June 7, 2004 which provides for the Income Tax Law and the Customs Law to be preferred and applied if there is a conflict between those laws and other laws or agreements that provide for concessional tax treatment, (ii) provide alternative tax concessions (accelerated depreciation and loss carry-forward) for companies that are registered under the proposed investment law and for companies that enjoyed tax holidays under the 1381 Investment Law, and (iii) include appropriate transition rules.

7. The Borrower has prepared a draft procurement law and accompanying procurement regulations.