
LOAN NUMBER 2257- AFG (SF)

GRANT NUMBER 0054- AFG (SF)

FINANCING AGREEMENT
(Special Operations)

(North-South Corridor Project)

between

ISLAMIC REPUBLIC OF AFGHANISTAN

and

ASIAN DEVELOPMENT BANK

DATED 2 NOVEMBER 2006

FAS: AFG 39467

**FINANCING AGREEMENT
(Special Operations)**

FINANCING AGREEMENT dated 2 November 2006 between the ISLAMIC REPUBLIC OF AFGHANISTAN (the "Beneficiary") and ASIAN DEVELOPMENT BANK ("ADB").

WHEREAS

(A) the Beneficiary has applied to ADB for a loan and a grant for the purposes of the Project described in Schedule 1 to this Financing Agreement;

(B) the Beneficiary has also applied to the Japan Fund for Poverty Reduction for a grant for the purpose of financing a part of the civil works described in Part B (i) of the Project; and

(C) ADB has agreed to provide financing by making a loan and a grant to the Beneficiary from ADB's Special Funds resources upon the terms and conditions hereinafter set forth.

NOW THEREFORE the parties agree as follows:

ARTICLE I

Loan Regulations and Grant Regulations; Definitions

Section 1.01. All provisions of the Special Operations Loan Regulations of ADB, dated 1 January 2006 (the "Loan Regulations"), are hereby made applicable to the Loan made pursuant to this Financing Agreement with the same force and effect as if they were fully set forth herein, subject, however, to the following modifications:

(a) The term "Loan Agreement", wherever it appears in the Loan Regulations, shall be substituted by the term "Financing Agreement"; and

(b) The term "Borrower", wherever it appears in the Loan Regulations, shall be substituted by the term "Beneficiary" as defined in the opening paragraph of this Financing Agreement.

Section 1.02. All provisions of the Special Operations Grant Regulations of ADB, dated 7 February 2005 (the "Grant Regulations"), are hereby made applicable to the Grant made pursuant to this Financing Agreement with the same force and effect as if they were fully set forth herein subject, however, to the following modifications:

(a) The term "Grant Agreement", wherever it appears in the Grant Regulations, shall be substituted by the term "Financing Agreement"; and

(b) The term “Recipient”, wherever it appears in the Grant Regulations, shall be substituted by the term “Beneficiary” as defined in the opening paragraph of this Financing Agreement.

Section 1.03. The definitions set forth in the Loan Regulations and Grant Regulations are applicable to this Financing Agreement, in each case unless the context requires otherwise. In addition, the following terms have the following meanings:

(a) “Consulting Guidelines” means “Guidelines on the Use of Consultants by Asian Development Bank and its Borrowers” dated April 2006, as amended from time to time;

(b) “Goods” means equipment and materials to be financed out of the proceeds of the Loan or the Grant, and including related services such as transportation, insurance, installation, commissioning, training, and initial maintenance, but excluding consulting services;

(c) “HIV/AIDS” means Human Immunodeficiency Virus / Acquired Immune Deficiency Syndrome;

(d) “IEE” means the initial environmental examination prepared by the Beneficiary for the Project, and agreed with ADB;

(e) “MOF” means the Ministry of Finance of the Beneficiary;

(f) “MOPH” means the Ministry of Public Health of the Beneficiary;

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

(h) “NEPA” means the National Environment Protection Agency of the Beneficiary;

(i) “NGO” means non-government organization;

(j) “PMU” means the Project Management Unit as described in paragraphs 2 and 3 of Schedule 5 to this Financing Agreement;

(k) “Procurement Guidelines” means the “Procurement Guidelines” dated April 2006, as amended from time to time;

(l) “Procurement Plan” means the procurement plan for the Project dated 25 August 2006 and agreed between the Beneficiary and ADB, as updated from time to time in accordance with Procurement Guidelines, Consulting Guidelines, and other arrangements agreed with ADB;

(m) “Project” means the project as described in Schedule 1 to this Financing Agreement;

(n) “Project Executing Agency” means for the purposes of, and within the meaning of, the Loan Regulations and the Grant Regulations, each of MPW, MOF and MOPH, or any successors thereto agreed by ADB, which shall be responsible for carrying

out their respective parts of the Project as described in paragraph 1 of Schedule 5 to this Financing Agreement;

(o) "Project facilities" means the facilities, equipment, and materials provided under the Project;

(p) "Road Master Plan" means the road master plan of the Beneficiary for road network improvement; and

(q) "Works" means construction or civil works to be financed out of the proceeds of the Loan or the Grant, and including services such as drilling or mapping, and Project related services that are provided as part of a single responsibility or turnkey contract, but excluding consulting services.

ARTICLE II

The Loan and the Grant

Section 2.01. ADB agrees to provide to the Beneficiary from ADB's Special Funds resources, on terms and conditions set forth in this Financing Agreement:

(a) an amount in various currencies equivalent to fifty two million five hundred and sixty seven thousand Special Drawing Rights (SDR 52,567,000) (the "Loan"); and

(b) an amount of forty million dollars (\$40,000,000) (the "Grant").

Section 2.02. (a) The Loan proceeds shall be withdrawn from the Loan Account in accordance with the provisions of Schedule 3A to this Agreement for purposes of financing the Project expenditures under Part A of the Project; and

(b) The Grant proceeds shall be withdrawn from the Grant Account in accordance with the provisions of Schedule 3B to this Agreement for purposes of financing the Project expenditures under Part B of the Project.

Section 2.03. The Beneficiary shall pay to ADB an interest charge at the rate of one percent (1%) per annum on the amount of the Loan withdrawn from the Loan Account and outstanding from time to time.

Section 2.04. The interest charge and any other charge on the Loan shall be payable semiannually on 15 February and 15 August in each year.

Section 2.05. The Beneficiary shall repay the principal amount of the Loan withdrawn from the Loan Account in accordance with the amortization schedule set forth in Schedule 2 to this Financing Agreement.

Section 2.06. The currency of repayment of the principal amount of the Loan and the currency of payment of the interest charge for the purposes of Section 4.03(a) and 4.04 of the Loan Regulations shall be Dollar.

ARTICLE III

Use of Proceeds of the Loan and the Grant

Section 3.01. The Beneficiary shall cause the proceeds of the Loan and the Grant to be applied to the financing of expenditures on the Project in accordance with the provisions of this Financing Agreement.

Section 3.02. The Goods, Works and consulting services and other items of expenditure to be financed out of the proceeds of the Loan and the Grant and the respective allocation of amounts of the Loan and the Grant among different categories of such Goods, Works and consulting services and other items of expenditure shall be in accordance with the provisions of Schedule 3A and Schedule 3B, respectively, to this Financing Agreement, as such Schedule 3A and Schedule 3B may be amended from time to time by agreement between the Beneficiary and ADB.

Section 3.03. Except as ADB may otherwise agree, all Goods, Works and consulting services to be financed out of the proceeds of the Loan and the Grant shall be procured in accordance with the provisions of Schedule 4 to this Financing Agreement.

Section 3.04. Withdrawals from the Loan Account and the Grant Account in respect of goods and services shall be made only on account of expenditures relating to

- (a) goods which are produced in and supplied from and services which are supplied from such member countries of ADB as shall have been specified by ADB from time to time as eligible sources for procurement, and
- (b) goods and services which meet such other eligibility requirements as shall have been specified by ADB from time to time.

Section 3.05. The Loan Closing Date for the purposes of Section 8.02 of the Loan Regulations shall be 30 June 2017, and the Grant Closing Date for the purposes of Section 8.02 of the Grant Regulations shall be 30 June 2011 or, in each case, such other date as may from time to time be agreed between the Beneficiary and ADB.

ARTICLE IV

Particular Covenants

Section 4.01. In the carrying out of the Project and operation of the Project facilities, the Beneficiary shall perform, or cause to be performed, all obligations set forth in Schedule 5 to this Financing Agreement.

Section 4.02. (a) The Beneficiary shall (i) maintain, or cause to be maintained, separate accounts for the Project, including separate accounts for the Loan and the Grant; (ii) have such accounts and related financial statements audited annually, in accordance with appropriate auditing standards consistently applied, by independent auditors whose qualifications, experience and terms of reference are acceptable to ADB; (iii) furnish to ADB, as soon as available but in any event not later than 6 months after the end of each related fiscal year, certified copies of such audited accounts and financial statements and the report of the auditors relating thereto (including the auditors' opinion on the use of the Loan proceeds and the Grant proceeds and compliance with the financial covenants of this Financing Agreement as well as on the use of the procedures for imprest account and statement of expenditures), all in the English language, provided that the Beneficiary may submit such certified copies (A) not later than 8 months after the end of the fiscal year 2007, (B) not later than 7 months after the end of the fiscal year 2008, and (C) not later than 6 months after the end of the fiscal year 2009 and thereafter; and (iv) furnish to ADB such other information concerning such accounts and financial statements and the audit thereof as ADB shall from time to time reasonably request.

(b) The Beneficiary shall enable ADB, upon ADB's request, to discuss the Beneficiary's financial statements for the Project and its financial affairs related to the Project from time to time with the auditors appointed by the Beneficiary pursuant to Section 4.02(a) hereabove, and shall authorize and require any representative of such auditors to participate in any such discussions requested by ADB, provided that any such discussion shall be conducted only in the presence of an authorized officer of the Beneficiary unless the Beneficiary shall otherwise agree.

Section 4.03. The Beneficiary shall enable ADB's representatives to inspect the Project, the goods financed out of the proceeds of the Loan and the Grant, and any relevant records and documents.

ARTICLE V

Effectiveness

Section 5.01. A date ninety (90) days after the date of this Financing Agreement is specified for the effectiveness of the Financing Agreement for the purposes of Section 9.04 of the Loan Regulations and Section 9.04 of the Grant Regulations.

ARTICLE VI

Miscellaneous

Section 6.01. The Minister of Finance of the Beneficiary is designated as representative of the Beneficiary for the purposes of Section 11.02 of the Loan Regulations and Section 11.02 of the Grant Regulations.

Section 6.02. The following addresses are specified for the purposes of Section 11.01 of the Loan Regulations and Section 11.01 of the Grant Regulations:

For the Beneficiary

Ministry of Finance
Pashtonistan Watt, Kabul,
Afghanistan

Facsimile Number:
93 202 103 258

For ADB

Asian Development Bank
P.O. Box 789
0980 Manila, Philippines

Cable Address:

ASIANBANK
MANILA

Telex Numbers:


29066 ADB PH (RCA)
42205 ADB PM (ITT)
63587 ADB PN (ETPI)

Facsimile Numbers:

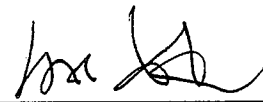
(632) 636-2444
(632) 636-2340

IN WITNESS WHEREOF the parties hereto, acting through their representatives thereunto duly authorized, have caused this Financing Agreement to be signed in their respective names and to be delivered at the principal office of ADB, as of the day and year first above written.

ISLAMIC REPUBLIC OF AFGHANISTAN

By  _____
ANWAR UL-HAQ AHADY
Authorized Representative

ASIAN DEVELOPMENT BANK

By  _____
XIANBIN YAO
Deputy Director General
Central and West Asia Department

SCHEDULE 1

Description of the Project

1. The objective of the Project is to rehabilitate the national highway network, which will connect the central hinterland of Afghanistan to the ring road.
2. The Project consists of the following:

Part A (Loan-financed):

(i) Rehabilitation of North-South National Highway

This part of the Project will include rehabilitation of the Mazar-e-Sharif-Dari Suf road (140.3 km).

(ii) Provision of Cross-Border Facilities

This part of the Project will include installation of cross-border customs facilities in the border point of Spin Boldak.

(iii) Project Management and Monitoring

This part of the Project will include provision of consultants to assist MPW, MOF, and MOPH in the implementation of the Project.

Part B (Grant-financed):

(i) Rehabilitation of North-South National Highway

This part of the Project will include rehabilitation of the Bamian-Yakawlang road (98.9 km).

(ii) Resettlement

This part of the Project will finance the cost of resettlement - of affected persons - incurred in rehabilitation of the North-South National Highway (Mazar-e-Sharif - Dari Suf, and Bamian - Yakawlang).

(iii) HIV/AIDS Prevention and Anti-Human Trafficking Awareness Campaign

This part of the Project will include designed activities to reduce the vulnerability of at risk groups to HIV/AIDS and trafficking, and increased access to HIV prevention services.

(iv) Incremental Project Management Support

This part of the Project will include provision of incremental support for Project management, such as engagement of external auditors, and additional staff salaries.

3. The Project is expected to be completed by 31 December 2010.

SCHEDULE 2**Amortization Schedule
(North-South Corridor Project)**

<u>Date Payment Due</u>		<u>Payment of Principal</u> (expressed in Special Drawing Rights)*
15 February	2017	525,700
15 August	2017	525,700
15 February	2018	525,700
15 August	2018	525,700
15 February	2019	525,700
15 August	2019	525,700
15 February	2020	525,700
15 August	2020	525,700
15 February	2021	525,700
15 August	2021	525,700
15 February	2022	525,700
15 August	2022	525,700
15 February	2023	525,700
15 August	2023	525,700
15 February	2024	525,700
15 August	2024	525,700
15 February	2025	525,700
15 August	2025	525,700
15 February	2026	525,700
15 August	2026	525,700
15 February	2027	1,051,300
15 August	2027	1,051,300
15 February	2028	1,051,300
15 August	2028	1,051,300
15 February	2029	1,051,300
15 August	2029	1,051,300
15 February	2030	1,051,300
15 August	2030	1,051,300
15 February	2031	1,051,300
15 August	2031	1,051,300
15 February	2032	1,051,300
15 August	2032	1,051,300
15 February	2033	1,051,300
15 August	2033	1,051,300

* The figures in this column represent SDR equivalents determined as of the respective dates of withdrawal. The arrangements for payment of each maturity are subject to the provisions of Sections 3.04 and 4.03 of the Loan Regulations.

<u>Date Payment Due</u>		<u>Payment of Principal</u> (expressed in Special Drawing Rights)*
15 February	2034	1,051,300
15 August	2034	1,051,300
15 February	2035	1,051,300
15 August	2035	1,051,300
15 February	2036	1,051,300
15 August	2036	1,051,300
15 February	2037	1,051,300
15 August	2037	1,051,300
15 February	2038	1,051,300
15 August	2038	1,051,300
15 February	2039	1,051,300
15 August	2039	1,051,300
15 February	2040	1,051,300
15 August	2040	1,051,300
15 February	2041	1,051,300
15 August	2041	1,051,300
15 February	2042	1,051,300
15 August	2042	1,051,300
15 February	2043	1,051,300
15 August	2043	1,051,300
15 February	2044	1,051,300
15 August	2044	1,051,300
15 February	2045	1,051,300
15 August	2045	1,051,300
15 February	2046	1,051,300
15 August	2046	1,052,300
TOTAL		52,567,000

* The figures in this column represent SDR equivalents determined as of the respective dates of withdrawal. The arrangements for payment of each maturity are subject to the provisions of Sections 3.04 and 4.03 of the Loan Regulations.

SCHEDULE 3A**Allocation and Withdrawal of Loan Proceeds**General

1. The table attached to this Schedule sets forth the Categories of Goods, Works, consulting services and other items to be financed out of the proceeds of the Loan and the allocation of amounts of the Loan to each such Category (hereinafter called the Table), (reference to "Category" or "Categories" in this Schedule is to a Category or Categories of the respective Tables).

Percentages of ADB Financing

2. Except as ADB may otherwise agree, the items of the Categories listed in the Table shall be financed out of the proceeds of the Loan, and on the basis of the percentages set forth in the Table.

Interest Charge

3. The amount allocated to Category 4 is for financing the interest charge on the Loan during the implementation period of the Project.

Reallocation

4. Notwithstanding the allocation of Loan proceeds and the withdrawal percentages set forth in the Table,

(a) if the amount of the Loan allocated to any Category appears to be insufficient to finance all agreed expenditures in that Category, ADB may, by notice to the Beneficiary, (i) reallocate to such Category, to the extent required to meet the estimated shortfall, amounts of the Loan which have been allocated to another Category but, in the opinion of ADB, are not needed to meet other expenditures, and (ii) if such reallocation cannot fully meet the estimated shortfall, reduce the withdrawal percentage applicable to such expenditures in order that further withdrawals under such Category may continue until all expenditures thereunder shall have been made; and

(b) if the amount of the Loan then allocated to any Category appears to exceed all agreed expenditures in that Category, ADB may, by notice to the Beneficiary, reallocate such excess amount to any other Category.

Imprest Account: Statement of Expenditures

5. (a) Except as ADB may otherwise agree, the Beneficiary shall establish immediately after the Effective Date, an imprest account at Da Afghanistan Bank. The imprest account shall be established, managed, replenished and liquidated in accordance with ADB's "Loan Disbursement Handbook" dated January 2001, as amended from time to time, and detailed arrangements agreed upon between the Beneficiary and ADB. The currency of the imprest account shall be Dollars. The initial amount to be deposited into the imprest account shall not exceed the lower of (i) the estimated expenditure for the first six

months of Project implementation, or (ii) the equivalent of ten (10) percent of the Loan amount.

(b) The statement of expenditures (SOE) procedure may be used for reimbursement of eligible expenditures and to liquidate advances provided into the imprest account, in accordance with ADB's "Loan Disbursement Handbook" dated January 2001, as amended from time to time, and detailed arrangements agreed upon between the Beneficiary and ADB. Any individual payment to be reimbursed or liquidated under the SOE procedure shall not exceed the equivalent of \$50,000.

TABLE

ALLOCATION AND WITHDRAWAL OF LOAN PROCEEDS (North-South Corridor Project)			
CATEGORY			ADB FINANCING
Number	Item	Amount Allocated [SDR] Category	Percentage and Basis for Withdrawal from the Loan Account
1	Civil Works	35,829,000	100 percent of total expenditure*
2	Cross Border Facilities	2,689,000	100 percent of total expenditure*
3	Project Management and Monitoring	3,630,000	100 percent of total expenditure*
4	Interest Charge	3,227,000	100 percent of amount due
5	Unallocated	7,192,000	
	Total	52,567,000	

*Exclusive of local taxes and duties.

SCHEDULE 3B**Allocation and Withdrawal of Grant Proceeds**General

1. The table attached to this Schedule sets forth the Categories of Goods, Works, consulting services and other items to be financed out of the proceeds of the Grant and the allocation of amounts of the Grant to each such Category (hereinafter called the "Table") (reference to "Category" or "Categories" in this Schedule is to a Category or Categories of the Table).

Percentages of ADB Financing

2. Except as ADB may otherwise agree, the items of the Categories listed in the Table shall be financed out of the proceeds of the Grant on the basis of the percentages set forth in the Table.

Reallocation

3. Notwithstanding the allocation of Grant proceeds and the withdrawal percentages set forth in the Table,

(a) if the amount of the Grant allocated to any Category appears to be insufficient to finance all agreed expenditures in that Category, ADB may, by notice to the Beneficiary, (i) reallocate to such Category, to the extent required to meet the estimated shortfall, amounts of the Grant which have been allocated to another Category but, in the opinion of ADB, are not needed to meet other expenditures, and (ii) if such reallocation cannot fully meet the estimated shortfall, reduce the withdrawal percentage applicable to such expenditures in order that further withdrawals under such Category may continue until all expenditures thereunder shall have been made; and

(b) if the amount of the Grant then allocated to any Category appears to exceed all agreed expenditures in that Category, ADB may, by notice to the Beneficiary, reallocate such excess amount to any other Category.

Imprest Account; Statement of Expenditures

4. (a) Except as ADB may otherwise agree, the Beneficiary shall establish immediately after the Effective Date, an imprest account at Da Afghanistan Bank. The imprest account shall be established, managed, replenished and liquidated in accordance with ADB's "Loan Disbursement Handbook" dated January 2001, as amended from time to time, and detailed arrangements agreed upon between the Beneficiary and ADB. The currency of the imprest account shall be Dollars. The initial amount to be deposited into the imprest account shall not exceed the lower of (i) the estimated expenditure for the first six months of Project implementation, or (ii) the equivalent of ten (10) percent of the Grant amount.

(b) The statement of expenditures (SOE) procedure may be used for reimbursement of eligible expenditures and to liquidate advances provided into the imprest account, in accordance with ADB's "Loan Disbursement Handbook" dated January 2001, as amended from time to time, and detailed arrangements agreed upon between the Beneficiary and ADB. Any individual payment to be reimbursed or liquidated under the SOE procedure shall not exceed the equivalent of \$50,000.

TABLE

ALLOCATION AND WITHDRAWAL OF GRANT PROCEEDS (North-South Corridor Project)			
CATEGORY			ADB FINANCING
Number	Item	Amount Allocated \$ Category	Percentage and Basis for Withdrawal from the Grant Account
1	Resettlement	1,000,000	100 percent of total expenditure*
2	Civil Works	27,400,000	57.8 percent of total expenditure*
3	HIV/AIDS and Anti- Human Trafficking Public Campaign	1,500,000	100 percent of total expenditure*
4	Incremental Project Management Support	1,200,000	100 percent of total expenditure*
5	Unallocated	8,900,000	
	Total	40,000,000	

*Exclusive of local taxes and duties.

SCHEDULE 4

Procurement of Goods and Works, and Consulting Services

A. General

1. All Goods and Works, and consulting services, to be financed out of the proceeds of the Loan and Grant shall be subject to and governed by the Procurement Guidelines, and the Consulting Guidelines, respectively.

2. Procurement of Bitumen from Non-member Countries. Notwithstanding the provisions of Section 3.04(a) of this Financing Agreement, bitumen may be procured for civil works under the Project from non-member countries of ADB.

3. All terms used and not otherwise defined in this Financing Agreement have the meanings provided in the Procurement Guidelines and/or the Consulting Guidelines, as applicable.

B. Procurement for Goods and Works

4. Except as ADB may otherwise agree, Goods and Works shall only be procured on the basis of the methods of procurement set forth below:

International Competitive Bidding
Limited International Bidding
National Competitive Bidding
Shopping
Direct Contracting

5. The methods of procurement are subject to, among other things, the detailed arrangements and threshold values set forth in the Procurement Plan. The Beneficiary may only modify the methods of procurement or threshold values with the prior agreement of ADB, and modifications must be set out in updates to the Procurement Plan.

6. Domestic Preference. The Beneficiary may grant a margin of preference in the evaluation of bids under international competitive bidding in accordance with paragraphs 2.55(a) and 2.56 of the Procurement Guidelines for domestically manufactured Goods and paragraphs 2.55(b) and 2.56 of the Procurement Guidelines for domestic Works.

7. National Competitive Bidding. No procurement activity may be undertaken under National Competitive Bidding until ADB and the Beneficiary have agreed in writing on any necessary modifications or clarifications to ensure consistency with ADB's Procurement Guidelines. Such modifications or clarifications shall be subsequently reflected in the Procurement Plan and are hereby incorporated by reference to this Financing Agreement.

C. Selection of Consulting Services

8. Quality- and Cost-Based Selection. Except as ADB may otherwise agree, and except as set forth in the paragraph below, the Beneficiary shall apply quality- and cost-based selection for selecting and engaging consulting services.

9. The Beneficiary shall apply the following methods for selecting and engaging consulting services, in accordance with, among other things, the procedures set forth in the Procurement Plan: Least-Cost Selection; and Consultants' Qualifications Selection.

10. The Beneficiary's standard procedures for selecting and engaging individual consultants may be subject to such modifications as set out in the Procurement Plan.

D. Industrial or Intellectual Property Rights

11. (a) The Beneficiary shall ensure that all Goods and Works procured (including without limitation all computer hardware, software and systems, whether separately procured or incorporated within other goods and services procured) do not violate or infringe any industrial property or intellectual property right or claim of any third party.

(b) The Beneficiary shall ensure that all contracts for the procurement of Goods and Works contain appropriate representations, warranties and, if appropriate, indemnities from the contractor or supplier with respect to the matters referred to in subparagraph (a) of this paragraph.

12. The Beneficiary shall ensure that all ADB-financed contracts with consultants contain appropriate representations, warranties and, if appropriate, indemnities from the consultants to ensure that the consulting services provided do not violate or infringe any industrial property or intellectual property right or claim of any third party.

E. ADB's Review of Procurement Decisions

13. All contracts procured under international competitive bidding procedures and contracts for consulting services shall be subject to prior review by ADB, unless otherwise agreed between the Beneficiary and ADB, and set forth in the Procurement Plan.

SCHEDULE 5

Execution of Project and Operation of Project Facilities; Financial matters

Project Executing Agency

1. MPW shall be the Project Executing Agency, and shall be responsible for overall supervision and execution of all parts of the Project, except that (a) MOPH shall be the Project Executing Agency for Part B(iii), and (b) MOF shall be the Project Executing Agency for Part A(ii).

Project Management Unit; Implementation arrangements

2. Except as set out in paragraphs 4 and 5 below, the Project shall be implemented by the existing PMU, which handles the ongoing ADB road projects. The PMU shall (i) monitor the progress of day-to-day Project implementation, (ii) prepare withdrawal applications, (iii) prepare Project progress reports, and (iv) maintain Project accounts and complete loan financial records for auditing.

3. The deputy minister of MPW shall have the overall responsibility for Project management as the Project director of the PMU. The existing staff of the PMU (three engineers, one accountant, and an office administrator) shall continue to support the Project. MPW shall assign a team of two engineers, one land/revenue officer, and one office administrator to the site office/s of the Project management consultants within two months of the site office/s being set up. MPW staff, stationed in the field, shall handle day-to-day Project implementation. The PMU shall also be assisted in overall Project management and financial management by consultants engaged under ADB's technical assistance - TA 3874 *Capacity Building for Reconstruction and Development*.

4. Part B (iii) of the Project shall be implemented by MOPH. A steering committee shall be established under MOPH consisting of representatives from MOPH, United Nations International Children Emergency Fund, and ADB to direct the implementation of the evidence-based communication strategy on HIV/AIDS prevention and control, supervise NGOs, and monitor the progress in its implementation. MOPH shall designate an official to coordinate and monitor the day to day execution of this part of the Project.

5. Part A (ii) of the Project shall be implemented by the Customs Department of MOF. The Director General of Customs Department shall be responsible for day-to-day implementation of this part of the Project.

Security

6. The Beneficiary shall provide adequate security for the smooth and uninterrupted implementation of the Project.

7. The Beneficiary shall ensure that (i) all civil works contracts contain requirements to prepare an action plan for adequate security for the smooth and

uninterrupted implementation of the Project, (ii) the cost of implementing such a plan is included in the budget for civil works, and (iii) such a plan is fully implemented.

8. The Beneficiary shall work with local communities to ensure that poppy cultivation does not take place in the Project areas, and measures are introduced to detect and prevent opium smuggling along the Project roads.

Road Master Plan

9. Within three months of the Effective Date, the Beneficiary shall approve the Road Master Plan for road network improvement, which will guide the road development and maintenance, and shall establish, sufficiently resource and empower, the master plan unit in MPW to program and implement the Road Master Plan.

Road maintenance financing

10. The Beneficiary shall allocate, and make available in a timely manner, sufficient funds from its budget for each fiscal year for the operation and proper maintenance of the Project roads. The Beneficiary shall ensure implementation of a toll collection system on the ring road which has been rehabilitated by donors' assistance. The Beneficiary shall adopt adequate procedures to promote transparency and accountability in the collection of toll proceeds, and shall install proper procedures, including spot audits to detect any abuse in the collection and use of the proceeds. The Beneficiary will also evaluate other sustainable methods for revenue generation such as setting up a dedicated road maintenance fund based on fuel levies, vehicles licensing, and other road user related taxes, and shall complete this evaluation latest by December, 2007.

Road Safety Measures

11. The Beneficiary shall ensure that road safety measures agreed upon with ADB are incorporated in the design of the Project, and that public awareness campaigns relating to such measures are conducted on a periodic basis.

Anticorruption

12. The Beneficiary shall ensure that all contracts financed by ADB in connection with the Project shall include provisions specifying the right of ADB to audit and examine the records and accounts of MPW, MOF, MOPH, and all contractors, suppliers, consultants, and other service providers as they relate to the Project.

13. The Beneficiary shall allow, and facilitate ADB's representatives to carry out random spot checks on the work in progress and utilization of funds for the Project.

14. The Beneficiary shall ensure that each of MPW, MOF and MOPH (a) submit a general procurement notice to ADB for publication in accordance with the *Procurement Guidelines*; (b) publish, upon receiving ADB's "no objection" to the recommendation of the contract award, in newspaper dailies circulated nationally, both in English and Dari, the results identifying the bid and lot numbers, the name of each bidder, the bid prices as read out at bid opening, the name and evaluated prices of each bid that was evaluated, the names of bidders whose bids were rejected and the reasons for their rejection, and the name

of the winning bidder, the price it offered, as well as the duration and summary scope of the contract awarded.

Land Acquisition; Resettlement

15. The Beneficiary shall ensure that land acquisition and resettlement activities shall be carried out, promptly and efficiently, in accordance with (i) all applicable laws and regulations of the Beneficiary, (ii) ADB's *Policy on Involuntary Resettlement* (1995), and (iii) the agreed upon resettlement plan.

16. The Beneficiary shall ensure that (i) all affected persons are given adequate opportunity to participate in resettlement planning and implementation, particularly in entitlement and income restoration measures as set out in the resettlement plan, (ii) compensation and other assistance are paid to the affected persons in the first section of the Project road/s under each contract package three months prior to their displacement from their houses, land and assets, and prior to commencement of civil works in such first section, and (iii) civil works for the subsequent sections of the Project road/s under each contract package shall not commence until the payment of compensation and other assistance to the affected persons has been completed prior to their displacement from their houses, land and assets.

17. Prior to commencement of civil works, the Beneficiary shall prepare an updated resettlement plan based upon the final detailed design for prior approval of ADB and disclosure on its website, and shall ensure that MPW discloses the updated resettlement plan to all the affected persons in local form and language.

18. The Beneficiary shall ensure that MPW (i) provides quarterly monitoring reports to ADB on resettlement implementation including detailed compensation assessment and resettlement assistance for each affected person, and the date and amount of funds disbursed in accordance with the resettlement plan, separately for the Beneficiary and ADB financed parts of the Project, and (ii) engages an external monitor, acceptable to ADB, within three months of the Effective Date, who will provide to ADB bi-annual monitoring and social audit reports on the progress of the implementation of the resettlement plan and payment of compensation and other assistance to affected persons.

19. The Beneficiary shall cause MPW to recruit NGOs to facilitate timely implementation and monitoring of the resettlement plan, and establish grievance redress committees at the district level to address environmental, resettlement, and other social issues promptly. The grievance redress committees shall be formed in accordance with the resettlement plan with the task to resolve land acquisition and resettlement disputes.

20. The Beneficiary shall ensure that (i) all civil works contractors engaged shall comply with the requirements of the resettlement plan, the applicable laws and regulations of the Beneficiary, and ADB's *Policy on Involuntary Resettlement*, to the extent applicable to contractors; (ii) it furnishes an appropriate legal opinion, when so requested by ADB, to convey its compliance with all applicable local laws and regulations relating to land acquisitions and resettlements; and (iii) in the event of any difference between any local law or regulation, and ADB's *Policy on Involuntary Resettlement*, it shall consult with ADB to ensure that ADB's *Policy on Involuntary Resettlement* is fully applied.

21. In the event that any adverse impacts on indigenous people are identified during Project implementation, the Beneficiary shall prepare an indigenous peoples development plan in accordance with ADB's *Policy on Indigenous People* (1998).

Environmental Protection

22. The Beneficiary shall ensure that the preparation, design, construction, implementation, and operation of the Project will be done in accordance with ADB's *Environment Policy* (2002), the IEE, and the environmental management plan. The Beneficiary shall ensure that all mitigating and monitoring measures set out in the IEE and the environment management plan are incorporated in the Project design, including a detailed design of the Project facilities, and implemented during construction, operation, and maintenance thereof.

23. The Beneficiary shall ensure that MPW will forthwith submit the IEE report to NEPA, and comply with the requirements of the local environmental legislation and rules, as applicable. The Beneficiary shall also ensure that MPW submits an annual report on its implementation of the environment management plan to ADB, NEPA and other government agencies, as applicable.

HIV/AIDS and Anti-Human Trafficking

24. The Beneficiary shall ensure that all civil works contracts reflect the need and undertaking to carry out an information and education campaign on HIV/AIDS and anti-trafficking of women and children as part of the health and safety program and disseminate information on risks of HIV/AIDS.

Labor Laws

25. The Beneficiary shall ensure that the civil works contractors comply with its applicable labor laws and regulations and, in particular, (i) do not employ child labor for construction and maintenance activities, and (ii) provide appropriate health and safety facilities at construction campsites. The Beneficiary shall ensure that its contractors do not differentiate wages between men and women for work of equal value. The Beneficiary shall include a specific clause in the bidding documents to ensure adherence to these provisions, and shall monitor compliance during Project implementation.

Project Performance Management System

26. MPW shall be responsible for overall Project monitoring. The PMU shall establish a system for preparing quarterly reports, for performance monitoring and issues resolution, plus periodic action plans. MPW shall undertake quantitative and qualitative performance monitoring of each part of the Project. In addition to the requirements of Section 6.05(b) of the Loan Regulations and Section 6.04(b) of the Grant Regulations, MPW shall within three months of the Effective Date, with the assistance of the Project management consultants, develop a comprehensive system for monitoring the performance of Project, which will be subject to ADB's review and approval. The Beneficiary shall ensure that MPW will consult with ADB, and agree on the performance parameters to be monitored during the implementation of the Project, and for three months after completion of the Project.

Project Review

27. ADB shall review Project implementation through regular or special review missions. Based on the Project schedule, a midterm review will be carried out about eighteen months after Project commencement. The Beneficiary shall submit to ADB a detailed progress report on the Project's implementation and achievements prior to the midterm review.

Counterpart Support

28. The Beneficiary shall ensure, subject to its budgetary regulations, that sufficient budgetary allocations, counterpart funds (including additional funds as required in case of land acquisitions) and staff are made available in a timely manner for the efficient and timely implementation of the Project.