

**CONFORMED COPY**

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**GRANT NUMBER H348-AF**

# **Financing Agreement**

**(Expanding Microfinance Outreach and Improving Sustainability Project)**

**between**

**ISLAMIC REPUBLIC OF AFGHANISTAN**

**and**

**INTERNATIONAL DEVELOPMENT ASSOCIATION**

**Dated March 10, 2008**

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**GRANT NUMBER H348-AF**

**FINANCING AGREEMENT**

AGREEMENT dated March 10, 2008, entered into between the ISLAMIC REPUBLIC OF AFGHANISTAN (“Recipient”) and INTERNATIONAL DEVELOPMENT ASSOCIATION (“Association”). The Recipient and the Association hereby agree as follows:

**ARTICLE I — GENERAL CONDITIONS; DEFINITIONS**

- 1.01. The General Conditions (as defined in the Appendix to this Agreement) constitute an integral part of this Agreement.
- 1.02. Unless the context requires otherwise, the capitalized terms used in this Agreement have the meanings ascribed to them in the General Conditions or in the Appendix to this Agreement.

**ARTICLE II — FINANCING**

- 2.01. The Association agrees to extend to the Recipient, on the terms and conditions set forth or referred to in this Agreement, a grant in an amount equivalent to nineteen million two hundred thousand Special Drawing Rights (SDR 19,200,000) (“Financing”) to assist in financing the project described in Schedule 1 to this Agreement (“Project”).
- 2.02. The Recipient may withdraw the proceeds of the Financing in accordance with Section IV of Schedule 2 to this Agreement.
- 2.03. The Maximum Commitment Charge Rate payable by the Recipient on the Unwithdrawn Financing Balance shall be one-half of one percent (1/2 of 1%) per annum.
- 2.04. The Payment Dates are February 15 and August 15 in each year.
- 2.05. The Payment Currency is Dollar.

**ARTICLE III — PROJECT**

- 3.01. The Recipient declares its commitment to the objectives of the Project. To this end, the Recipient shall cause the Project to be carried out by the Project Implementing Entity in accordance with the provisions of Article IV of the General Conditions and the Project Agreement.
- 3.02. Without limitation upon the provisions of Section 3.01 of this Agreement, and except as the Recipient and the Association shall otherwise agree, the Recipient

shall ensure that the Project is carried out in accordance with the provisions of Schedule 2 to this Agreement.

#### **ARTICLE IV — REMEDIES OF THE ASSOCIATION**

- 4.01. The Additional Events of Suspension consist of the following:
- (a) the Project Implementing Entity's Legislation has been amended, suspended, abrogated, repealed or waived so as to affect materially and adversely the ability of the Project Implementing Entity to perform any of its obligations under the Project Agreement; or
  - (b) the Subsidiary Agreement has been amended, suspended, abrogated, repealed or waived without the prior approval of the Association; or
  - (c) the Recipient or any authority having jurisdiction over the MFPs shall have taken any actions (including the repeal, amendment, suspension, abrogation, or waiver of existing legislation) which, in the opinion of the Association, materially or adversely affects the operations or financial condition of MFPs, or a considerable number thereof.

#### **ARTICLE V — EFFECTIVENESS; TERMINATION**

- 5.01. The Additional Conditions of Effectiveness consist of the following, namely, that the Subsidiary Agreement has been executed on behalf of the Recipient and the Project Implementing Entity.
- 5.02. The Additional Legal Matter consists of the following, namely, that the Subsidiary Agreement has been duly authorized or ratified by the Recipient and the Project Implementing Entity and is legally binding upon the Recipient and the Project Implementing Entity in accordance with its terms.
- 5.03. The Effectiveness Deadline is the date ninety (90) days after the date of this Agreement.
- 5.04. For purposes of Section 8.05(b) of the General Conditions, the date on which the obligations of the Recipient under this Agreement (other than those providing for payment obligations) shall terminate is twenty (20) years after the date of this Agreement.

#### **ARTICLE VI — REPRESENTATIVE; ADDRESSES**

- 6.01. The Recipient's Representative is the Recipient's Minister of Finance.

6.02. The Recipient's Address is:

Ministry of Finance  
Pashtunistan Watt  
Kabul  
Islamic Republic of Afghanistan

Facsimile:

93-20-210-3258

6.03. The Association's Address is:

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

Cable:

Telex:

Facsimile:

INDEVAS  
Washington, D.C.

248423 (MCI)

1-202-477-6391

AGREED at Kabul, Islamic Republic of Afghanistan, as of the day and year first above written.

ISLAMIC REPUBLIC OF AFGHANISTAN

By

/s/ Anwar-ul Haq Ahady  
Authorized Representative

INTERNATIONAL DEVELOPMENT ASSOCIATION

By

/s/ Paul Edwin Sisk  
Authorized Representative

## **SCHEDULE 1**

### **Project Description**

The objective of the Project is to achieve operational sustainability for most Microfinance Providers (MFPs) and help them scale up outreach of financial services to meet the needs and demands of the poor, especially women.

The Project consists of the following single component:

#### **Microcredit Outreach and Scale-up**

Provision of concessional financing to Microfinance Providers to extend and outreach Microcredits to eligible Microcredit Recipients.

## SCHEDULE 2

### Project Execution

#### Section I. Implementation Arrangements

##### A. **Subsidiary Agreement**

1. To facilitate the carrying out of the Project, the Recipient shall make the proceeds of the Financing available to the Project Implementing Entity under a subsidiary agreement between the Recipient and the Project Implementing Entity (“Subsidiary Agreement”), under terms and conditions approved by the Association, which conditions shall include:
  - (a) the provision of a local currency denominated credit line for individual subsidiary loans (“Subsidiary Loans”) for up to an aggregate amount equivalent to the amount of this Financing, and with the foreign exchange risk being borne by the Recipient.
  - (b) an administrative charge payable on the principal amount of each Subsidiary Loan withdrawn and outstanding from time to time at a simple administration charge not greater than one percent (1%) per annum;
  - (c) a minimum amortization period of ten (10) years, inclusive of a minimum five (5) year grace period;
  - (d) no penalty for early prepayments of Subsidiary Loans; and
  - (e) the Recipient’s right to suspend or terminate the credit line set forth in subparagraph (a) above, and/or accelerate any outstanding amounts withdrawn under Subsidiary Loans, upon: (i) MISFA’s failure to perform any of its obligations under the Subsidiary Agreement, or to comply with all legal and regulatory requirements applicable to its operations; or (ii) the Association exercising any of the remedies under Article VI of the General Conditions and/or Article IV of this Agreement.
2. The Recipient shall exercise its rights under the Subsidiary Agreement with respect to each Subsidiary Loan in such manner as to protect the interests of the Recipient and the Association and to accomplish the purposes of the Financing. Except as the Association shall otherwise agree, the Recipient shall not assign, amend, abrogate or waive the Subsidiary Agreement or any of its provisions.
3. The Recipient shall: (a) establish a separate administration account within Da Afghanistan Bank, on terms and conditions satisfactory to the Association (including appropriate protection against set off, seizure or attachment) to be

funded with the amortizations, prepayments and the administration charges paid by MISFA with respect to each Subsidiary Loan; and (b) use the proceeds therein so collected, exclusively for purposes of making new Subsidiary Loans to MISFA, for it to on-lend, through MFP Sub-Loan Agreements to eligible MFPs, which in turn shall use such funds to extend Microcredits to MFPs Clients for the carrying out of Subprojects, under the same terms and conditions as set forth in this Agreement and the Project Agreement.

**B. Anti-Corruption**

The Recipient shall ensure that the Project is carried out in accordance with the provisions of the Anti-Corruption Guidelines.

**C. Safeguards**

1. The Recipient shall cause MISFA to ensure that the Project be carried out with due regard to sound health-safety, social and environmental practices, standards and principles, as reflected in the Environmental Assessment Framework and the Recipient's applicable laws and regulations (including the Law on the Preservation of Afghanistan's Historical and Cultural Heritages – Official Gazette No. 828, 1383/02/31).
2. The Recipient shall cause MISFA to ensure that any land required for the carrying out of any eligible Subproject shall have been acquired by, or otherwise made available to, the respective Microcredit Recipient on a voluntary basis.

**Section II. Project Monitoring, Reporting and Evaluation**

**A. Project Reports**

1. The Recipient shall monitor and evaluate the progress of the Project and prepare Project Reports in accordance with the provisions of Section 4.08 of the General Conditions and on the basis of indicators agreed with the Association. Each Project Report shall cover the period of one calendar semester, and shall be furnished to the Association not later than ninety (90) days after the end of the period covered by such report.

**B. Financial Management, Financial Reports and Audits**

1. The Recipient shall maintain or cause to be maintained a financial management system in accordance with the provisions of Section 4.09 of the General Conditions.



2. Without limitation on the provisions of Part A of this Section, the Recipient shall prepare and furnish to the Association not later than forty five (45) days after the end of each calendar quarter, interim un-audited financial reports for the Project covering the quarter, in form and substance satisfactory to the Association.
3. The Recipient shall have its Financial Statements audited in accordance with the provisions of Section 4.09(b) of the General Conditions. Each audit of the Financial Statements shall cover the period of one (1) fiscal year of the Recipient. The audited Financial Statements for each such period shall be furnished to the Association not later than six (6) months after the end of such period.

**Section III. Procurement**

**A. General**

1. **Goods and Works.** All goods and works required for the Project and to be financed out of the proceeds of the Financing shall be procured in accordance with the requirements set forth or referred to in Section I of the Procurement Guidelines, and with the provisions of this Section.
2. **Consultants' Services.** All consultants' services required for the Project and to be financed out of the proceeds of the Financing shall be procured in accordance with the requirements set forth or referred to in Sections I and IV of the Consultant Guidelines, and with the provisions of this Section.
3. **Definitions.** The capitalized terms used below in this Section to describe particular procurement methods or methods of review by the Association of particular contracts, refer to the corresponding method described in the Procurement Guidelines, or Consultant Guidelines, as the case may be.

**B. Particular Methods of Procurement of Goods and Works**

1. **International Competitive Bidding.** Except as otherwise provided in paragraph 2 below, goods and works shall be procured under contracts awarded on the basis of International Competitive Bidding.
2. **Alternative Method of Procurement of Goods and Works.** The following table specifies the alternative method of procurement, other than International Competitive Bidding, which may be used for goods and works. The Procurement Plan shall specify the circumstances under which such methods may be used:

<b>Procurement Method</b>
Procurement in Loans to Financial Intermediaries

**C. Particular Methods of Procurement of Consultants' Services**

1. **Quality- and Cost-based Selection.** Except as otherwise provided in paragraph 2 below, consultants' services shall be procured under contracts awarded on the basis of Quality- and Cost-based Selection.
2. **Alternative Method of Procurement of Consultants' Services.** The following table specifies the alternative method of procurement, other than Quality- and Cost-based Selection, which may be used for consultants' services. The Procurement Plan shall specify the circumstances under which such methods may be used.

<b>Procurement Method</b>
Commercial Practices

**D. Review by the Association of Procurement Decisions**

All contracts shall be subject to Post Review by the Association.

**Section IV. Withdrawal of the Proceeds of the Financing**

**A. General**

The Recipient may withdraw the proceeds of the Financing in accordance with the provisions of Article II of the General Conditions, this Section, and such additional instructions as the Association shall specify by notice to the Recipient (including the "World Bank Disbursement Guidelines for Projects" dated May 2006, as revised from time to time by the Association and as made applicable to this Agreement pursuant to such instructions), to finance 100% of Eligible Expenditures, consisting of MISFA's MFPs Sub-Loans to MFPs for the provision of Microcredits.

**B. Withdrawal Conditions; Withdrawal Period**

1. Notwithstanding the provisions of Part A of this Section, no withdrawal shall be made for payments made prior to the date of this Agreement, except that withdrawals up to an aggregate amount not to exceed SDR 6,480,000 equivalent may be made for payments for Eligible Expenditures made prior to this date but on or after April 1, 2007.
2. The Closing Date is December 31, 2010.

## APPENDIX

### Definitions

1. “Anti-Corruption Guidelines” means the “Guidelines on Preventing and Combating Fraud and Corruption in Projects Financed by IBRD Loans and IDA Credits and Grants”, dated October 15, 2006.
2. “CITES” means the Convention on International Trade in Endangered Species of Wild Fauna and Flora (CITES), signed in Washington, D.C. on March 3, 1973, which entered into force on July 1, 1975.
3. “Concessional Financing” means the concessional credit line extended by the Recipient to MISFA pursuant to Section I.A. of Schedule 2 to the Financing Agreement, for MISFA to borrow the proceeds of the Financing under individual Subsidiary Loan, which proceeds shall in turn be on-lent to MFPs on concessional terms through MFPs Sub-Loans.
4. “Consultant Guidelines” means the “Guidelines: Selection and Employment of Consultants by World Bank Borrowers” published by the Bank in May 2004 and revised in October 2006.
5. “Displaced Persons” means persons who, on account of the execution of a Subproject, have experienced or would experience direct economic and social impacts cause by: (i) the involuntary taking of land, resulting in: (A) relocation or loss of shelter; (B) loss of assets or access to assets; or (C) loss of income sources or means of livelihoods, whether or not such persons must move to another location; or (ii) the involuntary restriction of access to legally designated parks and protected areas, resulting in adverse impacts on the livelihoods of such persons.
6. “Environmental Assessment Framework” means MISFA’s environmental and social safeguard framework to be prepared pursuant to Section I.D. of the Schedule to the Project Agreement.
7. “General Conditions” means the “International Development Association General Conditions for Credits and Grants”, dated July 1, 2005, (as amended through October 15, 2006).
8. “MFPs Sub-Loans” means, collectively, the loans to be extended or proposed to be extended by MISFA to the eligible MFPs, under MFPs Sub-Loan Agreements, in order to provide Microcredits to Microcredit Recipients for the carrying out of eligible Subprojects; and the term “MFP Sub-Loan” means each such loan, individually.

9. “MFPs Sub-Loan Agreements” means, collectively, the agreements to be entered between MIFSA and the MFPs pursuant Section I.C.(1) of the Schedule to the Project Agreement for the provision of concessional financing through MFPs Sub-Loans to Microfinance Providers; and the term MFP Sub Loan Agreement means each such agreement individually.
10. “Microcredits” means, collectively, the financings extended or proposed to be extended by MFPs to Microcredit Recipients for the carrying out of Subprojects, pursuant to Section II of the Attachment to the Schedule to the Project Agreement; and the term “Microcredit” means each such microcredit financing, individually.
11. “Microcredit Recipients” means, collectively, the private individuals and/or medium and small enterprises who are recipients, or are proposed to be recipients, of Microcredits for the carrying out of Subprojects; and the term “Microcredit Recipient” means each such individuals or enterprises, individually.
12. “Microfinance Providers” and the acronym “MFPs” mean the micro finance service providers, eligible to receive MFPs Sub-Loan financing pursuant to the Operations Manual and Section I.C.(2) of the Schedule to the Project Agreement, and responsible for the provision of Microcredits to eligible Microcredit Recipients; and the acronym “MFP” means each such micro finance institution, individually.
13. “MISFA” means the Microfinance Investment Support Facility for Afghanistan Ltd., a non-distributive non-shareholding state owned company, established and operating under the Recipient’s 1955 Commercial Code, and duly registered under Registration No. D-24124; which company shall serve, for purposes of this Project, as the Recipient’s microcredit “*apex*” institution.
14. “Operations Manual” means the manual approved by MISFA’s Board of Directors on April 18, 2007, referred to in Section I.A.(2) of the Schedule to the Project Agreement, as amended from time to time with the prior concurrence of the Association, which manual sets forth: (A) MISFA’s operating policies, including the procedures and criteria for: (i) the taking of MISFA’s investments decisions (on the basis of risk diversification, performance obligation, etc.); (ii) the minimum requirement for MFPs to qualify for MFPs Sub-Loans; (iii) the applicable model contracts and standard obligations (including the standard terms and conditions of MFPs Sub-Loan Agreements) of MISFA’s financial instruments; and (iv) the rules and procedures for the management of MISFA’s performance monitoring systems; and (B) MISFA’s financial management and accounting policies and procedures, including: (i) the roles and responsibilities of MISFA’s financial management staff; (ii) documentation and approval procedures for the settlement of payments and the release of funds to MFPs; (iii)

maintenance of records, monitoring and reporting requirements; and (iv) quality assurance measures to ensure adequate internal controls.

15. "Procurement Guidelines" means the "Guidelines: Procurement under IBRD Loans and IDA Credits" published by the Bank in May 2004, and revised in October, 2006.
16. "Project Implementing Entity" means MISFA.
17. "Project Implementing Entity's Legislation" means MISFA's Memorandum of Association, dated March 14, 2006, and Articles of Association, dated March 16, 2006.
18. "Subprojects" means, collectively, the projects and/or activities eligible for Microcredit financing pursuant to Section I of the Attachment to the Schedule of the Project Agreement; and the term "Subproject" means each of such Subprojects, individually.
19. "Subsidiary Agreement" means the agreement referred to in Section I.A of Schedule 2 to this Agreement pursuant to which the Recipient shall make available the Concessional Financing to the Project Implementing Entity in an amount in local currency equivalent to the proceeds of the Financing.
20. "Subsidiary Loans" mean, collectively, the individual loans extended by the Recipient to MISFA under the Concessional Financing agreed to under the Subsidiary Agreement, pursuant to the provisions of Section I.A of Schedule 2 to the Financing Agreement; and the term "Subsidiary Loan" means each such loan, individually.