

Public Disclosure Authorized

CONFORMED COPY

GRANT NUMBER H476-AF

**AMENDMENT
GRANT NUMBER H261-AF**

Financing Agreement

**(Additional Financing for the Second Emergency National Solidarity Project
and Amendment to the Original Financing Agreement)**

between

ISLAMIC REPUBLIC OF AFGHANISTAN

and

INTERNATIONAL DEVELOPMENT ASSOCIATION

Dated May 31, 2009

Public Disclosure Authorized

FINANCING AGREEMENT

AGREEMENT dated May 31, 2009, entered into between ISLAMIC REPUBLIC OF AFGHANISTAN (the “Recipient”) and INTERNATIONAL DEVELOPMENT ASSOCIATION (the “Association”) for the purpose of providing additional financing for activities related to the Original Project (as defined in the Appendix to this Agreement).

This Agreement: (i) sets out the terms and conditions related to the Additional Financing for the Second Emergency National Solidarity Project; and (ii) amends specific provisions of the Original Financing Agreement (as such term is defined in the Appendix to this Agreement).

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, the Original Financing Agreement 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 fifty million nine hundred thousand Special Drawing Rights (SDR 50,900,000) (the “Grant” or the “Financing”) to assist in financing the project described in Schedule 1 to this Agreement (the “Project”).
- 2.02. The Recipient may withdraw the proceeds of the Grant 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 Grant 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 United States Dollars.

ARTICLE III — PROJECT

- 3.01. The Recipient declares its commitment to the objectives of the Project. To this end, the Recipient shall carry out the Project through MRRD in accordance with the provisions of Article IV of the General Conditions.
- 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 — EFFECTIVENESS; TERMINATION

- 4.01. The Effectiveness Deadline is the date ninety (90) days after the date of this Agreement.
- 4.02. 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 V — REPRESENTATIVE; ADDRESSES

- 5.01. The Recipient's Representative is the Minister of Finance.
- 5.02. The Recipient's Address is:

Ministry of Finance
Pashtunistan Watt
Kabul
Islamic Republic of Afghanistan

Facsimile:

93-20-210-3258

- 5.03. 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/ Mohammed Omar Zakhilwal
Authorized Representative

INTERNATIONAL DEVELOPMENT ASSOCIATION

By

/s/ Mariam J. Sherman
Authorized Representative

SCHEDULE 1

Project Description

The objective of the Project is to strengthen community level governance in Afghanistan and to improve the access of rural communities to social and productive infrastructure and services by supporting certain components of the Recipient's National Solidarity Program.

The Project consists of the Original Project but reflects the merging of what was previously referred to as Parts 2 and 3 as described in Schedule 1 to the Original Financing Agreement, and renumbering of what was Part 4 as Part 3 of the Project. The amended Project Description is below.

Part 1: Grants for Community Sub-Projects

Provision of Block Grants to local communities to carry out Sub-Projects involving reconstruction and development activities through a facilitated participatory planning process. These activities shall focus on, *inter alia*, community-based productive and social infrastructure such as irrigation works, roads, water supply facilities, micro-hydropower and school buildings.

Part 2: Community Mobilization, Empowerment and Capacity Building

- (a) Supporting local communities through, *inter alia*: (i) facilitation exercises to establish, through elections, inclusive Community Development Councils and identify local development needs and priorities; and (ii) assistance for preparing Community Development Plans and Sub-Project proposals.
- (b) Strengthening the capacity of Community Development Councils to carry out Sub-Projects and carrying out capacity building for members of local communities and their Community Development Councils, through, *inter alia*, provision of training and technical advisory services in procurement financial management and technical skills.

Part 3: Implementation and Management Support

Capacity building and provision of implementation support to MRRD, through the provision of consultants' services, equipment, operating costs and furniture to strengthen local communities' capacity in financial management, procurement, and technical skills.

SCHEDULE 2

Project Execution

Section I. Implementation Arrangements

A. The implementation arrangements contained in Schedule 2 Section I to the Original Financing Agreement constitute an integral part of this Agreement.

B. Anti-Corruption

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

Section II. Project Monitoring, Reporting, 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 quarter, and shall be furnished to the Association not later than one (1) month after the end of the period covered by such report.
2. For purposes of Section 4.08(c) of the General Conditions, the report on the execution of the Project and related plan required pursuant to that Section shall be furnished to the Association not later than six (6) months after the Closing Date.

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 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 Grant 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 Schedule.
2. **Consultants' Services.** All consultants' services required for the Project and to be financed out of the proceeds of the Grant 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 Schedule.
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. **Other Methods of Procurement of Goods and Works.** The following table specifies the methods 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:

Procurement Method	
(a)	National Competitive Bidding*
(b)	Shopping
(c)	Direct Contracting
(d)	Community Participation**

* **National Competitive Bidding** shall be subject to the following additional procedures:

- (i) Standard bidding documents approved by the Association will be used.
- (ii) Invitations to bid will be advertised in at least one (1) widely circulated national daily newspaper and bidding documents will be made available to prospective bidders, at least twenty-eight (28) days prior to the deadline for the submission of bids.
- (iii) Bids will not be invited on the basis of percentage premium or discount over the estimated cost.
- (iv) Bidding documents will be made available, by mail or in person, to all who are willing to pay the required fee.
- (v) Foreign bidders will not be precluded from bidding.
- (vi) Qualification criteria (in case pre-qualifications were not carried out) will be stated on the bidding documents, and if a registration process is required, a foreign firm determined to be the lowest evaluated bidder will 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 will provide bid security or a bid security declaration form as indicated in the bidding documents. A bidder's bid security or a bid security declaration form will apply only to a specific bid.
- (ix) Bids will 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 will 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 will 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 will not be carried out. When two (2) or more bidders quote the same price, an investigation will be made to determine any evidence of collusion, following which: (A) if collusion is determined, the parties involved will be disqualified and the award will then be made to the next lowest evaluated and qualified

bidder; and (B) if no evidence of collusion can be confirmed, then fresh bids will be invited after receiving the concurrence of the Association.

- (xiii) Contracts will 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 will not be allowed without the prior concurrence of the Association: (A) for the first request for extension if it is longer than four (4) weeks; and (B) for all subsequent requests for extensions irrespective of the period.
- (xv) Negotiations will not be allowed with the lowest evaluated or any other bidders.
- (xvi) Re-bidding will not be carried out without the Association's prior concurrence.
- (xvii) All contractors or suppliers will provide performance security as indicated in the contract documents. A contractor's or a supplier's performance security will apply to a specific contract under which it was furnished.

**** Community Participation:** Goods and works for Sub-Projects under Part 1 of the Project estimated to cost the equivalent of \$200 for each family up to an aggregate amount not exceeding \$60,000 equivalent for each community may be carried out in accordance with paragraph 3.17 of the Procurement Guidelines and the procedures set out in the Operational Manual.

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. **Other Methods of Procurement of Consultants' Services.** The following table specifies methods 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.

Procurement Method	
(a)	Quality-Based Selection
(b)	Single-Source Selection
(c)	Least-Cost Selection
(d)	Selection Based on the Consultants' Qualifications
(e)	Selection under a Fixed Budget
(f)	Selection of Individual Consultants

D. Review by the Association of Procurement Decisions

1. Except as the Association shall otherwise determine by notice to the Recipient, the following contracts shall be subject to Prior Review by the Association: (a) all contracts for goods or works procured on the basis of International Competitive Bidding; (b) each contract for works estimated to cost the equivalent of \$500,000 or more and each contract for goods estimated to cost the equivalent of \$200,000 or more, procured on the basis of National Competitive Bidding; (c) each contract for goods or works procured on the basis of Direct Contracting regardless of value; (d) each contract for consultants' services estimated to cost the equivalent of \$100,000 or more; (e) each contract for consultants' services procured on the basis of Single-Source Selection; (f) each contract for consultants' services by an individual estimated to cost the equivalent of \$50,000 or more; (g) the first contract submitted by each district for a Block Grant irrespective of value; and (h) all Block Grant contracts procured competitively estimated to cost the equivalent of \$100,000 or more when more than one CDC combines together to carry out a Sub-Project of common interest and benefit by pooling together their Block Grant resources. All other contracts shall be subject to Post Review by the Association.

Section IV. Withdrawal of the Proceeds of the Grant

A. General

1. The Recipient may withdraw the proceeds of the Grant 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 Eligible Expenditures as set forth in the table in paragraph 2 below.

2. The following table specifies the categories of Eligible Expenditures that may be financed out of the proceeds of the Grant (“Category”), the allocations of the amounts of the Grant to each Category, and the percentage of expenditures to be financed for Eligible Expenditures in each Category:

Category	Amount of the Grant Allocated (Expressed in SDR)	Percentage of Expenditures to be Financed (inclusive of Taxes)
(1) Goods, works, consultants’ services, training, Block Grants and Incremental Operating Costs* for the Project	50,900,000	100% of amounts disbursed by MRRD for Block Grants, and 100% of amounts disbursed for all other Eligible Expenditures
TOTAL AMOUNT	50,900,000	

* 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, office supplies, communication charges, insurance costs, office administration costs, banking charges, utility charges, domestic travel and per diem allowances, but excluding salaries of the officials of the Recipient’s civil service.

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.
2. The Closing Date is September 30, 2011.

APPENDIX

Section I. 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. “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.
3. “General Conditions” means the “International Development Association General Conditions for Credits and Grants”, dated July 1, 2005, (as amended through October 15, 2006).
4. “MRRD” means the Recipient’s Ministry of Rural Rehabilitation and Development or any successor entity thereto.
5. “Original Financing Agreement” means the Financing Agreement for the Second Emergency National Solidarity Project between the Recipient and the Association, dated February 3, 2007, (Grant No. H261).
6. “Original Project” means the Project described in Schedule 1 to the Original Financing Agreement as amended to date.
7. “Procurement Guidelines” means the “Guidelines: Procurement under IBRD Loans and IDA Credits” published by the Bank in May 2004, and revised in October, 2006.
8. “Procurement Plan” means the Recipient’s procurement plan for the Project, dated March 25, 2009, and referred to in paragraph 1.16 of the Procurement Guidelines and paragraph 1.24 of the Consultant Guidelines, as the same shall be updated from time to time in accordance with the provisions of said paragraphs.

Section II. Amendments to the Original Financing Agreement

The Original Financing Agreement is amended as follows:

1. The Closing Date as set out in Section IV. B(2) of Schedule 2 to the Original Financing Agreement is hereby extended to September 30, 2011.
2. The Project description in Schedule 1 to the Original Financing Agreement is amended to read as set out in Schedule 1 to this Agreement.

