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GRANT NUMBER H732 -AF

# Financing Agreement

(Financial Sector Rapid Response Project)

between

ISLAMIC REPUBLIC OF AFGHANISTAN

and

INTERNATIONAL DEVELOPMENT ASSOCIATION

Dated August 27, 2011

Public Disclosure Authorized



## **FINANCING AGREEMENT**

AGREEMENT dated August 27, 2011, 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 eleven million nine hundred thousand Special Drawing Rights (SDR 11,900,000) (“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 June 1 and December 1 in each year.
- 2.05. The Payment Currency is United States Dollars.

**ARTICLE III — PROJECT**

- 3.01. The Recipient declares its commitment to the objective of the Project. To this end, the Recipient shall cause DAB (the “Project Implementing Entity”), to carry out the Project 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  - (a) that DAB’s Legislation has been amended, suspended, abrogated, repealed or waived so as to affect materially and adversely the ability of DAB to perform any of its obligations under the Project Agreement.
  - (b) that APS’ Legislation has been amended, suspended, abrogated, repealed or waived so as to affect materially and adversely the ability of APS to perform any of its obligations under the APS Sub-Grant Agreement.

**ARTICLE V — EFFECTIVENESS; TERMINATION**

- 5.01. The Additional Condition of Effectiveness is that the Subsidiary Grant Agreement has been executed on behalf of the Recipient and the Project Implementing Entity.
- 5.02. The Additional Legal Matter is that the Subsidiary Grant 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 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 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/ Hazrat Omar Zakhilwal

Authorized Representative

INTERNATIONAL DEVELOPMENT ASSOCIATION

By/s/ Nicholas Krafft

Authorized Representative

## SCHEDULE 1

### Project Description

The objective of the Project is to assist DAB to develop actions plans for improved banking supervision and implement a modern national payment system for efficient and transparent payment transactions.

The Project consists of the following parts:

#### Part A: Audits of Commercial Banks

1. Carry out audits (i.e. financial, portfolio, and institutional audits) of ten (10) commercial banks, in order to assess their financial situations and suggest action plans to address any identified weaknesses.
2. Assist in the implementation of the banks' action plans devised under paragraph (1) above and take remedial actions if necessary.

#### Part B: Modernization of Afghanistan National Payment System

Carry out the modernization of the Recipient's payment system through:

- (a) the deployment of: (i) a real time gross settlement system to process large value inter-bank payments and/or systemically important payments for the financial system; (ii) an automated clearing house to process retail payment transactions; (iii) a centralized securities depository to record securities account holdings of market participants in a de-materialized form, and facilitate the automated pledging and lending of securities; and (iv) a card and mobile payment switch to support the settlement of card transactions and mobile payments;
- (b) the development of an inter-bank communications network to support the four payment systems infrastructure components referred to in sub-paragraph (a) above;
- (c) the upgrade of the existing core banking system and other internal information technology systems of DAB; and
- (d) the operation and maintenance of the national payment system.

#### Part C: Support to the Afghanistan Institute of Banking and Finance

Scale up the activities of the Afghanistan Institute of Banking and Finance to allow the increase of the types and quality of training offered, and its outreach (in term of number of trainees).

Part D: Technical Assistance; Training and Project Implementation

1. Strengthen the legal and regulatory framework for the settlement of payments, remittances and securities, including the development of a comprehensive national payment systems law.
2. Strengthen DAB capacity to pilot the modernization of, and effectively oversee, operate and regulate, the national payment system.
3. Strengthen DAB's institutional capacity, in order to carry out the coordination, monitoring and evaluation of the Project, including the maintenance and operation of a Project Implementation Cell responsible for the administrative, financial and procurement management of the Project.



**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 grant agreement between the Recipient and the Project Implementing Entity, under terms and conditions approved by the Association (the “Subsidiary Grant Agreement”), which shall include the following:
  - (a) the proceeds of the Financing shall be made available by the Recipient to the Project Implementing Entity on a grant basis;
  - (b) the Project Implementing Entity shall undertake to: (i) carry out the Project with due diligence and efficiency and in accordance with appropriate management, financial and social standards acceptable to the Association; and (ii) provide, promptly as needed, the funds, facilities and other resources required for this purpose;
  - (c) the Recipient shall have the right to suspend or terminate the right of the Project Implementing Entity to the use of the proceeds of the Financing made available under the Subsidiary Grant Agreement upon failure by the Project Implementing Entity to perform its obligations thereunder; and
  - (d) in the event that any portion of the proceeds of the Financing provided to the Project Implementing Entity is not used for Eligible Expenditures or is otherwise used in breach of this Agreement, the Project Agreement, or the Subsidiary Grant Agreement, the Project Implementing Entity shall, upon notice from the Recipient or from the Association, refund the notified amount to the account provided in such notice.
2. The Recipient shall exercise its rights under the Subsidiary Grant Agreement 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 Grant Agreement or any of its provisions.

**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 and Evaluation****A. Project Reports**

1. The Recipient shall, and/or shall cause the Project Implementing Entity to, 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 acceptable to the Association. Each Project Report shall cover the period of one (1) calendar quarter, and shall be furnished to the Association not later than forty-five (45) days after the end of the period covered by such report.
2. Notwithstanding the foregoing, the Recipient shall, and/or shall cause the Project Implementing Entity to, furnish to the Association on a monthly basis, commencing the month following the Effective Date, individual reports covering the calendar month preceding the issuance of each such report, containing desegregated data on the commercial banks' balance sheets, and/or any other indicator requested from time to time by the Association.

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

1. The Recipient shall, and shall cause each of the Project Implementing Entity to, 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, and shall cause the Project Implementing Entity to, prepare and furnish to the Association not later than forty-five (45) days after the end of each calendar quarter, interim unaudited 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 Non-consulting Services.** All goods and non-consulting 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 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 Sections II and III of the Procurement Guidelines, or Sections II, III, IV and V of the Consultant Guidelines, as the case may be.

**B. Particular Methods of Procurement of Goods and Non-consulting Services**

- 1. **International Competitive Bidding.** Except as otherwise provided in paragraph 2 below, goods and non-consulting services shall be procured under contracts awarded on the basis of International Competitive Bidding.
- 2. **Other Methods of Procurement of Goods and Non-consulting Services.** The following table specifies the methods of procurement, other than International Competitive Bidding, which may be used for goods and non-consulting services. The Procurement Plan shall specify the circumstances under which such methods may be used.

<b><u>Procurement Method</u></b>
(a) National Competitive Bidding*
(b) Shopping
(c) Direct Contracting

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

- (i) Standard bidding documents approved by the Association shall be used.
- (ii) Invitations to bid shall be advertised in at least one (1) widely circulated national daily newspaper and bidding documents shall be made available to prospective bidders, at least twentyeight (28) days prior to the deadline for the submission of bids.

- (iii) Bids shall not be invited on the basis of percentage premium or discount over the estimated cost.
- (iv) Bidding documents shall be made available, by mail or in person, to all who are willing to pay the required fee.
- (v) Foreign bidders shall not be precluded from bidding.
- (vi) Qualification criteria (in case pre-qualifications were not carried out) shall be stated on the bidding documents, and if a registration process is required, a foreign firm determined to be the lowest evaluated bidder shall be given reasonable opportunity of registering, without any hindrance.
- (vii) Bidders may deliver bids, at their option, either in person or by courier service or by mail.
- (viii) All bidders shall provide bid security or a bid security declaration form as indicated in the bidding documents. A bidder's bid security or the declaration form shall apply only to a specific bid.
- (ix) Bids shall be opened in public in one place preferably immediately, but no later than one hour, after the deadline for submission of bids.
- (x) Evaluation of bids shall be made in strict adherence to the criteria disclosed in the bidding documents, in a format, and within the specified period, agreed with the Association.
- (xi) Bids shall not be rejected merely on the basis of a comparison with an official estimate without the prior concurrence of the Association.
- (xii) Split award or lottery in award of contracts shall not be carried out. When two (2) or more bidders quote the same price, an investigation shall be made to determine any evidence of collusion, following which: (A) if collusion is determined, the parties involved shall be disqualified and the award shall then be made to the next lowest evaluated and qualified bidder; and (B) if no evidence of collusion can be confirmed, then fresh bids shall be invited after receiving the concurrence of the Association;
- (xiii) Contracts shall be awarded to the lowest evaluated bidders within the initial period of bid validity so that extensions are not necessary. Extension of bid validity may be sought only under exceptional circumstances.

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

**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.

<b>Procurement Method</b>
(a) Quality-Based Selection
(b) Selection based on Consultants’ Qualifications
(c) Least-Cost Selection
(d) Selection under a Fixed Budget
(e) Single Source Selection
(f) Selection of Individual Consultants

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

The Procurement Plan shall set forth those contracts which shall be subject to the Association’s Prior Review. All other contracts shall be subject to Post Review by the Association.

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

**A. General**

1. 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 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 Financing (“Category”), the allocations of the amounts of the Financing to each Category, and the percentage of expenditures to be financed for Eligible Expenditures in each Category:

<b>Category</b>	<b>Amount of the Grant Allocated (expressed in SDR)</b>	<b>Percentage of Expenditures to be Financed (inclusive of Taxes)</b>
(1) Goods, non-consulting services, consultants’ services, Incremental Operating Costs and Training for the Project (except expenditures incurred by or for APS)	8,130,000	100%
(2) Goods, non-consulting services, consultants’ services, APS Operating Costs and Training for the Project incurred by or for APS	3,440,000	100%
(3) Unallocated	330,000	
<b>TOTAL AMOUNT</b>	<b>11,900,000</b>	

**B. Withdrawal Conditions; Withdrawal Period**

1. Notwithstanding the provisions of Part A of this Section, no withdrawal shall be made:
  - (a) for payments made prior to the date of this Agreement, except that withdrawals up to an aggregate amount not to exceed three million five

hundred thousand United States Dollars (US\$3,500,000) equivalent may be made for payments made prior to this date but on or after August 1, 2011 for Eligible Expenditures under Category (1); or

- (b) for payments made for expenditures under Category (2) until:
  - (i) DAB and APS have entered into the APS Sub-Grant Agreement in accordance with the provisions of Section I.C.1 of the Schedule to the Project Agreement; and
  - (ii) The APS Legislation has been amended, in form and substance satisfactory to the Association, to enable APS to meet its obligations under the APS Sub-Grant Agreement, including those set forth in sub-paragraphs 1(b)(i) through (iv) of Section I.C of the Schedule to the Project Agreement.

2. The Closing Date is June 30, 2014.

## APPENDIX

### Definitions

1. “APS” means the Afghanistan Payments Systems, a limited liability corporation established and operating under the Recipient’s Corporations and Limited Liability Law (2007) pursuant to Registration No. D-37351.
2. “APS’ Legislation” means APS’ Articles of Incorporation/By-laws, dated January 2011, as amended to the date of this Agreement.
3. “APS Operating Costs” means the reasonable recurrent and non-recurrent costs of goods and services required for APS to run its day-to-day activities in accordance with the institutional mandate.
4. “APS Sub-Grant Agreement” means the agreement referred to in Section I.C of the Schedule to the Project Agreement pursuant to which the Project Implementing Entity shall make the proceeds of the Financing allocated to Category (2) available to APS, in kind and/or cash, for purposes of carrying out Parts B(a)(iv) and B(d) of the Project.
5. “Afghanistan Institute of Banking and Finance” and the acronym “AIBF” mean the institute established and operating as a non-for-profit organization under the Law for Non-Governmental Organization (2005), Ministry of Economy of Islamic Republic of Afghanistan, pursuant to Registration No. 2214, dated 05/05/1390.
6. “Annual Work Plan” means the time-bound plan of Project activities to be prepared by the Project Budget Committee pursuant to the provisions of Section I.D of the Schedule to the Project Agreement.
7. “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 and revised in January 2011.
8. “Category” means a category set forth in the table in Section IV of Schedule 2 to this Agreement.
9. “Consultant Guidelines” means the “Guidelines: Selection and Employment of Consultants under IBRD Loans and IDA Credits and Grants by World Bank Borrowers” dated January 2011.
10. “DAB” means the Da Afghanistan Bank, the Recipient’s central bank, established and operating in accordance with the Law of Da Afghanistan Bank (2003).



11. “DAB’s Legislation” means the Law of Da Afghanistan Bank (2003) and the Law of Banking in Afghanistan (2003), as amended to the date of this Agreement.
12. “Financial Management Manual” means DAB’s financial management manual, adopted in April 2009 for purposes of carrying out the Financial Sector Strengthening Project (IDA Grant H484-AF), as such manual shall be updated in accordance with the provisions of Section I.A.3(b) of the Schedule to the Project Agreement.
13. “Fiscal Year” means the Recipient’s fiscal year which commences on March 21, of each calendar year, and closes on March 20 of the next following calendar year.
14. “General Conditions” means the “International Development Association General Conditions for Credits and Grants”, dated July 31, 2010.
15. “Incremental Operating Costs” means the reasonable costs of incremental expenditures incurred by DAB in relation to the implementation of the Project which expenditures would not have been incurred absent the Project, including, *inter alia*: (i) office rental and utilities fees; (ii) office supplies; (iii) office equipment operation and maintenance; (iv) vehicles rental, operation and maintenance; (v) in-country travel per diem and allowances for the PIC staff; (vi) banking services and insurance costs; (vii) advertisement, communication; and dissemination expenses; (viii) translation and printing costs; (ix) salaries, allowances and other emoluments of incremental Project staff. However, the term “Incremental Operating Costs” shall not include salaries or salary supplements of the Recipient’s civil servants.
16. “MoF” means the Recipient’s Ministry of Finance, or any successor thereof.
17. “National Payment Council” and the acronym “NPC” means the council established by DAB during an inaugural meeting hold on April 5, 2010, for purposes of: (i) having a strategic vision for payments and lead the future development of cooperative payment service in Afghanistan; (ii) ensuring payment systems are open, accountable and transparent; (iii) ensuring the operational efficiency, effectiveness and integrity of payment services in Afghanistan.
18. “Procurement Guidelines” means the “Guidelines: Procurement of Goods, Works and Non-consulting Services under IBRD Loans and IDA Credits and Grants by World Bank Borrowers” dated January 2011.
19. “Procurement Manual” means DAB’s procurement manual adopted on June 18, 2011 for purposes of the implementation of the Financial Sector Strengthening

Project (IDA Grant H484-AF), and to be updated for the Project in accordance with Section III.2 of the Schedule to the Project Agreement.

20. “Procurement Plan” means the Recipient’s procurement plan for the Project, dated July 13, 2011 and referred to in paragraph 1.18 of the Procurement Guidelines and paragraph 1.25 of the Consultant Guidelines, as the same shall be updated from time to time in accordance with the provisions of said paragraphs.
21. “Project Budget Committee” means the committee to be established by DAB pursuant to Section I.A.4 of the Schedule to the Project Agreement.
22. “Project Implementation Cell” and the acronym “PIC” mean the unit established within DAB under the Financial Sector Strengthening Project (IDA Grant H484-AF) for purposes of carrying out said project, and to be maintained throughout Project implementation in accordance with Section I.A.1(b) of the Schedule to the Project Agreement.
23. “Project Implementing Entity” means DAB.
24. “Project Steering Committee” and the acronym “PSC” means the committee established by DAB under the Financial Sector Strengthening Project (IDA Grant H484-AF), as membership of said committee shall be extended in accordance with the provisions of Section I.A1. (a) of the Schedule to the Project Agreement.
25. “Subsidiary Grant Agreement” means the agreement referred to in Section I.A of Schedule 2 to the Financing Agreement pursuant to which the Recipient shall make the proceeds of the Financing available to the Project Implementing Entity for purposes of carrying out the Project.
26. “Training” means the reasonable costs of training, workshops and conference relevant for the Project and carried out in the territory of the Recipient, or, subject to the prior approval of the Association, attended abroad by DAB’s officials and staff, including the purchase and publication of materials, rental of facilities, course fees and travel and subsistence of trainers and trainees.