

Public Disclosure Authorized

CONFORMED COPY

GRANT NUMBER H484 - AF

Financing Agreement

(Financial Sector Strengthening Project)

between

ISLAMIC REPUBLIC OF AFGHANISTAN

and

INTERNATIONAL DEVELOPMENT ASSOCIATION

Dated May 24, 2009

Public Disclosure Authorized

GRANT NUMBER H484 - AF

FINANCING AGREEMENT

AGREEMENT dated May 24, 2009, entered into between the ISLAMIC REPUBLIC OF AFGHANISTAN (the “Recipient”) and INTERNATIONAL DEVELOPMENT ASSOCIATION (the “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 five million five hundred thousand Special Drawing Rights (SDR 5,500,000) (the “Grant” or the “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 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 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 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 cause the Project to be carried out by DAB (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 Event of Suspension is that the Project Implementing Entity's Legislation has been amended, suspended, abrogated, repealed or waived so as to affect materially and adversely the ability of the Project Implementing Entity to perform any of its obligations under the Project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.

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 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

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/ 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 assist DAB to improve its core function of banking supervision and regulation, and to help improve access to formal banking services by establishing key initial building blocks for further financial sector reform.

The Project consists of the following parts:

Part 1: Strengthening Capacity of DAB

- (a) Strengthening of the off-site supervisory functions of DAB through: (i) the automation of off-site supervisory capabilities; (ii) the provision of training of staff involved in off-site supervision; (iii) development of career plans for supervisory staff; and (iv) enhancing the role of case managers.
- (b) Strengthening of DABs accounting and internal audit capabilities through: (i) provision of technical assistance for the completion of an accounting manual, preparation of accounting policy and operation procedures for effective implementation of the accounting manual, and capacity building for implementation of the manual; (ii) provision of training to accounting staff for professional development and career enhancement; (iii) provision of technical assistance for the completion of an audit manual, preparation of audit policies and operation procedures for effective implementation of the audit manual and capacity building for implementation of the manual; and (iv) provision of training to audit staff for professional development and career enhancement.
- (c) Establishment of an effective human resource management system through: (i) provision of technical assistance for the development and implementation of new human resources policies in line with DAB's strategic plan; (ii) provision of training to DAB staff for the implementation of the new human resources policies and general awareness thereof; and (iii) automation of human resources management to store and maintain a database of information of DAB's employees.
- (d) Development of an effective information technology system through the provision of technical assistance for: (i) the updating of DAB's information system strategy plan in order to determine the requirements for increasing automation in DAB's supervision department and human resource department and the basic requirements for operating a public credit registry and a collateral registry; and (ii) automation of off-site supervision, HR management, public credit registry and collateral registry in accordance with the updated information system strategy plan.

Part 2: Development of Financial Sector Infrastructure

- (a) Establishment of a public credit registry through: (i) the provision of technical assistance for the review and drafting of relevant enabling laws, regulations and amendments thereto; (ii) conducting workshops to explain the benefits of credit reporting systems; (iii) acquisition and installation of physical infrastructure including software and hardware development; and (iv) organization of study tours and workshops to educate relevant stakeholders on the benefits of a public credit registry.
- (b) Establishment of a collateral registry through: (i) the provision of technical assistance for the review and drafting of relevant enabling laws, procedures, regulations and amendments on registration of collateral; (ii) conducting workshops to explain the benefits of a collateral registry; (iii) acquisition and installation of physical infrastructure including software and hardware development; (iv) provision of training aimed at building internal capacity for managing the registry; (v) development of a registry guide and manual; and (vi) conducting workshops to explain the benefits of a collateral registry.
- (c) Supporting the physical development of the Afghanistan Institute of Banking and Finance including: (i) renting of premises, acquisition of necessary equipment and hiring of staff; and (ii) assisting in the development of a training collaboration agreement with a regional banker's training institute.

SCHEDULE 2

Project Execution

Section I. Implementation Arrangements

A. Institutional Arrangements

The institutional arrangements for the Project are set out in the Schedule to the Project Agreement.

B. Subsidiary Grant Agreement

1. To facilitate the carrying out of the Project, the Recipient shall make the proceeds of the Grant 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, which shall include the following:
 - (a) the proceeds of the Grant shall be made available by the Recipient to the Project Implementing Entity on a grant basis;
 - (b) the Project Implementing Entity shall undertake to carry out the Project:
 - (i) with due diligence and efficiency and in accordance with appropriate management, financial, procurement and social standards acceptable to the Association, and provide, promptly as needed, the funds, facilities and other resources required for the 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 Grant 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 Grant 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 Grant. 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.

C. 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 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(b) of the General Conditions and on the basis of the 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 forty-five (45) days 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, and shall cause 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 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, and shall cause the Project Implementing Entity, to 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.** All goods 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 Section.
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 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

1. **International Competitive Bidding.** Except as otherwise provided in paragraph 2 below, goods shall be procured under contracts awarded on the basis of International Competitive Bidding.
2. **Other Methods of Procurement of Goods.** 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

* **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 the 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.

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)	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

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) each contract for goods procured on the basis of International Competitive Bidding or Direct Contracting regardless of value; (b) 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 consultants' services with firms estimated to cost the equivalent of \$100,000 or more; (d) each contract for consultants' services with individual consultants estimated to cost the equivalent of \$50,000 or more; and (e) each contract for consultants' services procured on the basis of Single-Source Selection regardless of value. 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, consultants' services and training for Part 1 of the Project	3,870,000	100%
(2) Goods, consultants' services and training for Part 2 (a) of the Project	1,090,000	100%
(3) Goods, consultants' services and training for Part 2 (b) of the Project	310,000	100%
(4) Goods, consultants' services and training for Part 2(c) of the Project	170,000	100%
(5) Unallocated	60,000	
TOTAL AMOUNT	5,500,000	

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 SDR 1,630,000 equivalent may be made for payments made prior to this date but on or after January 1, 2009, for Eligible Expenditures under the Project;
 - (b) for payments under Category 2 of the table in Section IV.A(2) of Schedule 2, unless the Recipient has adopted appropriate rules or regulations enabling the creation of a public credit registry; and
 - (c) for payments under Category 3 of the table in Section IV.A(2) of Schedule 2, unless the Recipient has adopted appropriate legislation enabling the creation of a collateral registry.
2. The Closing Date is June 30, 2014.

APPENDIX

Section I. Definitions

1. “Afghanistan Institute of Banking and Finance” means the institute that has been legally established under the Corporations and Limited Liability Companies Law (2007) and referred to in Part 2(c) of the Project.
2. “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.
3. “Category” means a category set forth in the table in Section IV of Schedule 2 to this Agreement.
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. “DAB” means the Da Afghanistan Bank, which is the Recipient’s central bank, operating in accordance with the Law of Da Afghanistan Bank (2003), or any successor thereto.
6. “Financial Management Manual” means DAB’s financial management manual for the Project to be adopted in accordance with Section IV(c) of the Schedule to the Project Agreement, setting out the financial management arrangements for the Project.
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. “Part” means a part of the Project described in Schedule 1 to this Financing Agreement.
9. “PIC” or “Project Implementation Cell” means the unit within DAB established for the purpose of, *inter alia*, providing technical support and carrying out Project supervision, as provided for in Section I(1)(b) of the Schedule to the Project Agreement.
10. “Procurement Guidelines” means the “Guidelines: Procurement under IBRD Loans and IDA Credits” published by the Bank in May 2004 and revised in October, 2006.

11. “Procurement Plan” means the Recipient’s procurement plan for the Project, dated March 26, 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.
12. “Project Implementing Entity” means DAB.
13. “Project Implementing Entity’s Legislation” means the Law of Da Afghanistan Bank (2003) and the Law of Banking in Afghanistan (2003).
14. “Project Steering Committee” or “PSC” means the Committee within DAB to be established in accordance with Section IV(a) of the Schedule to the Project Agreement for the purpose of providing overall guidance and strategic direction for the Project.
15. “Subsidiary Grant Agreement” means the agreement referred to in Section I.B of Schedule 2 to this Agreement pursuant to which the Recipient shall make the proceeds of the Grant available to the Project Implementing Entity.