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CONFORMED COPY

GRANT NUMBER H531-AF

Financing Agreement

(Afghanistan Rural Enterprise Development Project)

between

ISLAMIC REPUBLIC OF AFGHANISTAN

and

INTERNATIONAL DEVELOPMENT ASSOCIATION

Dated April 11, 2010

GRANT NUMBER H531-AF

FINANCING AGREEMENT

AGREEMENT dated April 11, 2010, entered into between 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 nineteen million Special Drawing Rights (SDR19,000,000) (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 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 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 — REMEDIES OF THE ASSOCIATION

- 4.01. The Co-financing Deadline for the effectiveness of the ARTF Co-financing Agreement is March 31, 2013.

ARTICLE V — EFFECTIVENESS; TERMINATION

- 5.01. The Effectiveness Deadline is the date ninety (90) days after the date of this Agreement.
- 5.02. 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 VI — REPRESENTATIVE; ADDRESSES

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

- 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/ Mohammed Omar Zakhilwal
Authorized Representative

INTERNATIONAL DEVELOPMENT ASSOCIATION

By /s/ Nicholas J. Krafft
Authorized Representative

SCHEDULE 1

Project Description

The objective of the Project is to improve employment opportunities and income of rural men and women; and sustainability of targeted local enterprises.

The Project consists of the following parts:

Part 1: Community-led Enterprise Development

- (a) Facilitating the formation and functioning of sustainable Saving Groups and Enterprise Groups which are able to collectively access technical expertise, wider market linkages and eventually access finance from financial institutions, through the provision of training and technical assistance and the acquisition of materials and equipment.
- (b) Building capacity of Enterprise Groups to enable them to maximize their economic potential to improve market access, deliver technical knowledge, acquire basic business skills and leverage economies of scale to increase the value of their sales, through, *inter alia*: (i) the provision of comprehensive business development services; and (ii) the facilitation of access to technical services.
- (c) Facilitating access to finance for members of Saving Groups through, *inter alia*: (i) the formation of sustainable Village Savings and Loan Associations (VSLAs) from federated Savings Groups and provision of training to VSLAs in managing finances, appraising small commercial loans and loan recovery; (ii) the provision of training and technical assistance to promote savings and inter-lending among members of Saving Groups; (iii) the provision of Matching Seed Grants to qualified VSLAs for the purpose of on-lending to eligible members; and (iv) monitoring the loan portfolio and sustainability of VSLAs with a view to linking VSLAs to formal financial institutions.

Part 2: Small and Medium Enterprise Development

- (a) Facilitating the growth of SMEs in a sequenced manner including: (i) identifying key value chains in each province of the Recipient, areas responsible for constricting growth, opportunities for forward and backward linkages and skills gaps; and (ii) carrying out an initial provincial situational analysis to identify local financial institutions, business development service suppliers and opportunities for collaboration with other projects of the Recipient.
- (b) Supporting business development for SMEs that are identified by the Recipient as key drivers of rural income through, *inter alia*: (i) the provision of basic

training to SMEs on business management; (ii) the facilitation of access to services needed in market development; (iii) the provision of technical assistance to business development service suppliers, including product development, design and certification, marketing and exposure visits; and (iv) the promotion of new business models through the awarding of Annual Innovation Prizes.

- (c) Facilitating improved access to finance by SMEs through, *inter alia*: (i) the establishment of a risk-sharing mechanism in the form of a Partial Risk Guarantee Facility to cover default risks of Partner Banks lending to target SMEs to be administered by a qualified financial services provider; (ii) building capacity and supporting new product development for Partner Banks; and (iii) provision of training and technical assistance to SMEs to better identify and present their financing requirements in line with the needs of Partner Banks.

Part 3: Project Management Support

Provision of Project implementation support to MRRD including: (i) strengthening the Project Management Office's capacity in financial management, procurement and technical skills, through the provision of training and technical assistance, the acquisition of equipment and the financing of operating costs; (ii) designing and implementing an efficient monitoring and evaluation system through the acquisition and installation of equipment and the provision of training and technical assistance; (iii) designing and implementing the Governance and Accountability Action Plan and the Gender Strategy and, carrying out external and internal audits through the provision of technical assistance; and (iv) construction of a Project office in Kabul.

SCHEDULE 2

Project Execution

Section I. Implementation Arrangements

A. Institutional Arrangements

1. The Recipient shall vest the overall responsibility for Project implementation in MRRD, and to that end shall:
 - (a) establish, and thereafter maintain during the implementation of the Project, a Project Steering Board chaired by the Minister of MRRD or the Deputy Minister for Programs of MRRD or an authorized representative and composed of representatives of various ministries associated with the Project, donors and private sector, to be responsible for, *inter alia*: providing overall strategic guidance, support and oversight of Project implementation;
 - (b) establish, and thereafter maintain during the implementation of the Project, a Project Management Office headed by an executive director, and provided with sufficient resources and competent staff in adequate numbers, under terms of reference satisfactory to the Association, comprising, *inter alia*, a financial management specialist, an environment and social safeguard specialist and a procurement specialist; which Project Management Office shall be assigned with such functions and responsibilities, satisfactory to the Association, as shall be required for the day-to-day implementation of the Project, including, *inter alia*: (i) managing the overall Project; (ii) coordinating Project core activities with provincial offices; and (iii) reporting to the Project Steering Board and MRRD on overall Project performance;
 - (c) establish, at the provincial levels, provincial offices in each province taking part in the Project, headed by provincial managers and provided with sufficient resources and competent staff in adequate numbers, under terms of reference satisfactory to the Association, which provincial offices shall be responsible for, *inter alia*: (i) managing, coordinating and implementing Project support activities, including administration, finance, human resources and procurement; (ii) managing and supervising Provincial Enterprise Facilitators who shall be selected in accordance with the criteria set out in the Operations Manual and be responsible for, *inter alia*, being the primary contact between MRRD and the Village Facilitators and providing technical training to the Village Facilitators; and (iii) managing and supervising Business Development Officers who shall be selected in accordance with the criteria set out in

the Operations Manual and be responsible for, *inter alia*, guiding SMEs in their development of businesses plans and facilitating their access to credit; and

- (d) appoint, at the community levels, Village Facilitators who shall be selected in accordance with the criteria set out in the Operations Manual and be are responsible for, *inter alia*, facilitating the formation of Enterprises Groups, Saving Groups and VSLAs.
2. The Recipient, through MRRD, shall ensure that Community Development Councils and, when possible, existing groups and institutions, including self-help groups, common interest groups, cooperatives and human capital development groups for women established under the National Solidarity Program, are used as Project's community entry points; said Community Development Councils and existing groups and institutions shall disseminate information on the Project's benefits and activities and monitor Project's activities.

B. Project Manuals

1. The Recipient shall carry out the Project in accordance with the procedures, principles and practices set forth in the Operations Manual, the Financial Management Manual, the Procurement Manual, the Governance and Accountability Action Plan and the Gender Strategy.
2. The Recipient shall not assign, amend, abrogate or waive the Operations Manual, the Financial Management Manual, the Procurement Manual, the Governance and Accountability Action Plan and the Gender Strategy or any provisions thereof if, in the opinion of the Association, such assignment, amendment, abrogation or waiver will materially and adversely affect the implementation of the Project. Any amendments to the said manuals shall be made with the prior agreement of the Association. Without prejudice to the foregoing, if any provision of the Operations Manual, the Financial Management Manual, the Procurement Manual, the Governance and Accountability Action Plan and the Gender Strategy are inconsistent with this Agreement, the provisions of this Agreement shall prevail.

C. Matching Seed Grants

1. (a) The Recipient shall provide, through MRRD, Matching Seed Grants from the proceeds of the Grant to eligible VSLAs up to a maximum ceiling of US\$10,000 per VSLA in accordance with the provisions of this Agreement and the provisions of the Operations Manual.
- (b) To be eligible for a Matching Seed Grant, a VSLA must submit evidence to a provincial level committee composed of relevant MRRD provincial

officers that it meets the eligibility criteria set out in the Operations Manual including the accumulation of sufficient savings, preparation and submission to MRRD of the VSLA's constituent documents, capacity to provide regular lending, good record keeping, maintenance of basic accounting practices, good governance arrangements and compliance with the Environmental and Social Safeguards Framework.

- (c) In evaluating each VSLA, consideration shall be given to the VSLA's capacity to provide regular lending in conformity with appropriate administrative, financial, technical and managerial standards.
2. The Recipient shall, through MRRD, make the proceeds of the Matching Seed Grant available, to a VSLA in accordance with a Matching Seed Grant agreement entered into between the VSLA and MRRD, under terms and conditions which shall be acceptable to the Association, including:
- (a) provisions to require the VSLA to: (i) exercise due diligence and efficiency in the management of the Matching Seed Grant in accordance with sound on-lending, administrative, financial, accounting, technical and managerial standards; (ii) on-lend the funds provided from the Matching Seed Grant to eligible members of the VSLA and require such eligible members to use the funds for enterprise related productive purposes; and (iii) prepare and furnish to the Recipient and the Association all such information as the Recipient and Association shall request related to the Matching Seed Grant;
 - (b) provisions to suspend or terminate the right of the VSLA to access the proceeds of the Matching Seed Grant or require the repayment of the Matching Seed Grant upon the VSLA's failure to perform any of its obligations under the Matching Seed Grant agreement;
 - (c) provisions requiring the VSLA to maintain adequate records to reflect the operations, resources and expenditures related to the Matching Seed Grant and permit the Association, at its request, to inspect their accounts and records; and
 - (d) provisions requiring that the activities to be financed out of the proceeds of the Matching Seed Grant: (i) are used for enterprise related productive purposes; (ii) comply with the provisions of the Environmental and Social Management Framework and the Anti-Corruption Guidelines; and (iii) will not finance or support the cultivation of poppy, the purchase of military equipment or luxury goods and other items on the negative list set out in the Environment and Social Management Framework.

D. Annual Innovation Prize

1. The Recipient shall award, through MRRD, from the proceeds of the Grant to a qualifying SME, Producers Association, VSLA or Enterprise Group an Annual Innovation Prize of up to a maximum amount of US\$50,000 for each qualifying SME for innovative developments in technology, trade or a service sector which contribute to the development of rural income and employment.
2. A provincial level committee comprising eminent citizens, academics, representative of the Afghanistan chamber of commerce and other members as may be determined by MRRD, shall be formed and chaired by MRRD in each participating province, to assess, judge and award the Annual Innovation Prizes in accordance with the provisions of the Operations Manual.
3. To qualify for an Annual Innovation Prize, SMEs, Producers Associations, VSLAs or Enterprise Groups shall submit an application to the provincial level committee in a format specified by MRRD in its widely publicized advertisements agreed with the Association.
4. MRRD shall enter into an Annual Innovation Prize agreement with a representative of the winning SME, Producers Association, VSLA or Enterprise Group under terms and conditions acceptable to the Association, which shall include a positive list of the items to be purchased using the Annual Innovation Prize as well as adequate fiduciary, environment and social safeguard requirements.
5. MRRD shall ensure that the Annual Innovation Prize is awarded under a highly competitive and transparent process in which applications are assessed and judged uniformly.

E. Partial Risk Guarantee Facility

1. The Recipient shall, through MRRD, carry out Part 2(c)(i) of the Project in accordance with the PRG Facility Agreement acceptable to the Association, which shall include: (i) the obligation on the part of the selected financial services provider to ensure that sufficient capacity and technical knowledge will be utilized in the administration of the Partial Risk Guarantee Facility; and (ii) provisions relating to evidence to be furnished to the Association through MRRD when a Partial Risk Guarantee issued to a Partner Bank has been called.
2. The Recipient shall, through MRRD, perform all its obligations under the PRG Facility Agreement, not take or permit to be taken any action which would prevent or interfere with such performance and except as the Association shall otherwise agree, not assign, amend, abrogate or waive, or permit to be assigned, amended, abrogated or waived the said agreement or any provision thereof.

3. The Recipient shall, through the PRG Facility Agreement, require the selected qualified financial services provider to enter into PRG Agreements with Partner Banks selected in accordance with the eligibility criteria set out in the PRG Facility Agreement, such agreements to include terms and conditions set out in the PRG Facility Agreement.

F. Environmental and Social Safeguards

1. The Recipient shall ensure that the Project is carried out in accordance with the Environmental and Social Safeguards Framework, which includes a negative list of activities to be applied during the screening of SME activities to be financed out of the Project.
2. Except as the Association shall otherwise agree, the Recipient shall not amend or waive any provision of the Environmental and Social Safeguards Framework if, in the opinion of the Association, such amendment or waiver may materially and adversely affect the implementation of the Project.
3. The Recipient shall ensure that activities financed under the Project shall not involve any land acquisition or involuntary resettlement of the local population and/or businesses. In the event that any land is required for the Project or any resettlement is to be carried out, the Recipient shall, in consultation with the Association, ensure that such land shall be obtained and such resettlement carried out in accordance with plans agreed with the Association.

G. 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 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 (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. 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. The Recipient shall 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 (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 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 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)	Commercial Practices acceptable to the Association as per Section 3.12 of the Procurement Guidelines (the selection process is further elaborated in the Operations Manual).

***National Competitive Bidding** shall be carried out in accordance with the Recipient's Procurement Law published in Official Gazette No. 865 of October 25, 2005, as amended on January 19, 2009, and 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 (1) 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 the Consultants’ Qualifications
(c)	Least-cost Selection
(d)	Selection under a Fixed Budget
(e)	Single-source Selection
(f)	Selection of Individual Consultants
(g)	Commercial Practices acceptable to the Association as per Section 3.14 of the Consultants Guidelines (the selection process is further elaborated in the Operations Manual).

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 and works procured on the basis of International Competitive Bidding regardless of value; (b) each contract for goods and works procured on the basis of National Competitive Bidding costing the equivalent of \$200,000 or more; (c) each contract for non-consultant services procured on the basis of International Competitive Bidding to cost the equivalent of \$200,000 or more; (d) each contract for goods procured on the basis of Direct Contracting regardless of value; (e) the first three contracts awarded under the Annual Innovation Prize and procured in accordance with paragraph 3.12 of the Procurement Guidelines and paragraph 3.14 of the Consultant Guidelines regardless of value; (f) each contract for consultants’ services by a firm estimated to cost the equivalent of \$100,000 or more; (g) each contract for consultants’ services by an individual estimated to cost the equivalent of \$50,000 or more; and (h) each contract for consultants’ services by a firm or individual 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, works, consultants’ services, training, Matching Seed Grant, Annual Innovation Prize and Incremental Operating Costs* for the Project	11,550,000	100%
(2) Partial Risk Guarantee	6,330,000	100% of amounts disbursed by Partner Banks
(3) Refund of Preparation Advance	1,120,000	Amount payable pursuant to Section 2.07 of the General Conditions
TOTAL AMOUNT	19,000,000	

* For the purposes of this Schedule, the term “Incremental Operating Costs” means the incremental expenses incurred on account of Project implementation and management, including vehicle rental and other transportation costs, office rental and maintenance, utilities, telecommunications and other incidental costs, office equipment and consumable supplies, bank charges and advertising costs and salaries and benefits of staff contracted by MRRD to support the Project as agreed with the Association 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:
- (a) payments made prior to the date of this Agreement, except that withdrawals up to an aggregate amount not to exceed SDR 1,300,000 equivalent may be made for payments made prior to this date but on or after January 1, 2010, for Eligible Expenditures under Category (1).
 - (b) payments under Category (2) unless:

- (i) a qualified financial services provider has been selected in a manner and on terms and conditions acceptable to the Association, and a PRG Facility Agreement entered into for the administration of the Partial Risk Guarantee Facility;
 - (ii) a PRG Agreement for such Partial Risk Guarantee, has been duly executed and all the conditions precedent to its effectiveness have been fulfilled; and
 - (iii) sufficient evidence in form and substance specified in the PRG Facility Agreement and acceptable to the Association, has been received by the Association that a Partial Risk Guarantee issued by the qualified financial services provider to a Partner Bank has been called in accordance with the terms of the PRG Agreement.
2. The Closing Date is January 1, 2015.

Section V. Other Undertakings

- 1. The Recipient shall, no later than July 31, 2010, employ a finance and budgeting manager, a finance and budgeting advisor and two (2) finance specialists for the Project Management Office in a manner and under terms of reference satisfactory to the Association.
- 2. The Recipient shall, no later than December 31, 2009, employ an environmental and social safeguards officer for the Project Management Office in a manner and under terms of reference satisfactory to the Association.

APPENDIX**Section I. Definitions**

1. “Annual Innovation Prize” means a grant made available by the Recipient to an SME, Producers Association, VSLA or Enterprise Group selected in accordance with Section I.D of Schedule 2 to this Agreement in an annual competition to be held in every province of the Recipient.
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. “ARTF Co-financing Agreement” means the agreement to be entered into between the Recipient and the Co-financier providing the Co-financing, as these terms are hereinafter defined.
4. “Business Development Officers” means individuals responsible for, *inter alia*, guiding SMEs in their development of businesses plans and facilitating their access to credit as provided in Section I.A.(1)(c) of Schedule 2 to this Agreement.
5. “Category” means a category set forth in the table in Section IV of Schedule 2 to this Agreement.
6. “Co-financier” means the Afghanistan Reconstruction Trust Fund (ARTF), administrated by the Association on behalf of various donors.
7. “Co-financing” means an amount of fifty seven million two hundred thousand United States Dollars (USD57,200,000), to be provided by the Co-financier to assist in financing the Project.
8. “Community Development Councils” means a community-based decision making body responsible for, *inter alia*, preparing and implementing development projects at a local community level.
9. “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.
10. “Enterprise Group” means a group established with the facilitation of MRRD at the community level involving between five to fifteen members, formed around a common enterprise activity and usually not for the conduct of financial activities and “Enterprise Groups” mean, collectively, more than one Enterprise Group.

11. “Environmental and Social Safeguards Framework” means the environmental and social framework for the Project dated August 3, 2009, setting out, *inter alia*, potential negative and positive impacts and recommendations to prevent or minimize adverse social and environmental impacts, procedures to screen activities financed out of Matching Seed Grants and Annual Innovation Prizes, and guidelines for capacity building and monitoring, as the same may be updated from time to time in a manner acceptable to the Association.
12. “Financial Management Manual” means the Recipient’s manual dated March 22, 2010 setting out the financial management arrangements and procedures for the Project including the roles and responsibilities of all financial management staff, documentation and approval procedures for payments, reporting requirements and quality assurance measures, as such manual may be amended from time to time by agreement between the Recipient and the Association.
13. “Gender Strategy” means the Recipient’s strategy document dated October 6, 2009 setting out, *inter alia*, key principles and gender specific considerations for the Project, as the same may be updated from time to time.
14. “General Conditions” means the “International Development Association General Conditions for Credits and Grants”, dated July 1, 2005, (as amended through October 15, 2006), with the modifications set forth in Section II of this Appendix.
15. “Governance and Accountability Action Plan” means the Recipient’s plan dated October 6, 2009, setting out key activities, risks and mitigations measures to enhance good governance under the Project, as the same may be updated from time to time.
16. “Kabul” means the capital city of the Recipient.
17. “Matching Seed Grant” means the provision of capital by the Recipient through MRRD to an eligible Village Savings and Loan Association for the purpose of providing loans to eligible members of the Village Savings and Loan Association for enterprise related productive purposes, and “Matching Seed Grants” mean, collectively, more than one Matching Seed Grant.
18. “MRRD” means the Recipient’s Ministry of Rural Rehabilitation and Development or any successor entity thereto.
19. “National Solidarity Program” means the Recipient’s program launched in 2003 for the purpose of providing basic rural infrastructure and expanding outreach to rural communities through a community driven approach. The National

Solidarity Program is supported by several donors and is executed by MRRD on behalf of the Recipient.

20. “Operations Manual” means the manual dated December 2009 setting out policies and procedures for the implementation of the Project, including, *inter alia*, criteria and procedures for: (i) the selection of Village Facilitators, establishment of Saving Groups, Enterprise Groups and Village Savings and Loan Associations; (ii) the provision of Matching Seed Grants; and (iii) the awarding of Annual Innovation Prizes, as the same may be updated from time to time.
21. “Part” means a Part of the Project described in Schedule 1 to this Agreement.
22. “Partial Risk Guarantee Facility” means the facility to be established and administered by a qualified services provider selected by the Recipient through MRRD on terms and conditions acceptable to the Association, for the provision of Partial Risk Guarantees to Partner Banks in accordance with the PRG Facility Agreement.
23. “Partial Risk Guarantee” or “PRG” means a partial risk guarantee financed or to be financed out of the proceeds of the Grant under Part 2(c)(i) of the Project in accordance with the terms and conditions set out in the PRG Agreement; and “Partial Risk Guarantees” or “PRGs” mean, collectively, more than one Partial Risk Guarantee.
24. “Partner Bank” means, individually, a financial institution established and operating pursuant to the laws of the Recipient, which has met the eligibility criteria established by the Recipient through MRRD and agreed by the qualified financial services provider in the PRG Facility Agreement, and, as a result has received a Partial Risk Guarantee under Part 2(c)(i) of the Project; and “Partner Banks” mean, collectively, more than one Partner Bank.
25. “Preparation Advance” means the advance referred to in Section 2.07 of the General Conditions, granted by the Association to the Recipient pursuant to the letter agreement signed on behalf of the Association on November 5, 2008, and on behalf of the Recipient on the November 19, 2008.
26. “PRG Agreement” means an agreement to be entered into between a qualified financial services provider selected by the Recipient in accordance with the provisions of Section IV.B(1)(b)(i) of Schedule 2 to this Agreement, to administer the Partial Risk Guarantee Facility and a Partner Bank for the issuance of a Partial Risk Guarantee by the qualified financial services provider to such Partner Bank; and “PRG Agreements” mean, collectively, more than one PRG Agreement.

27. “PRG Facility Agreement” means the agreement acceptable to the Association, to be entered into between the Recipient and a qualified financial services provider selected in a manner acceptable to the Association to administer the Partial Risk Guarantee Facility.
28. “Procurement Guidelines” means the “Guidelines: Procurement under IBRD Loans and IDA Credits” published by the Bank in May 2004 and revised in October, 2006.
29. “Procurement Manual” means the Recipient’s manual dated December 2009 setting out the duties and the responsibilities of all procurement staff and all the Project procurement policies and procedures; as such manual may be amended from time to time by agreement between the Recipient and the Association.
30. “Procurement Plan” means the Recipient’s procurement plan for the Project, dated October 28, 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.
31. “Producers Association” means an association formed as a result of several Enterprise Groups coming together around a common economic activity for reasons of aggregating demand and supply to become better market players.
32. “Project Management Office” means the office in MRRD that has been established for the purpose of managing the implementation of the Project, as such office is referred to in Section I.A(1)(b) of Schedule 2 to this Agreement.
33. “Project Steering Board” means the board referred to in Section I.A(1)(a) of Schedule 2 to this Agreement.
34. “Provincial Enterprise Facilitators” means male or female facilitators selected in accordance with the criteria set out in the Operations Manual as provided in Section I.A(1)(c) of Schedule 2 of this Agreement.
35. “Saving Groups” means groups promoted by MRRD at the community level to receive training in financial services and start common savings and inter-lending activities.
36. “SME” means rural businesses with an average of twenty-five to thirty employees, but generally not more than fifty, which have existing or potential backward linkages to rural suppliers of resources and “SMEs” mean, collectively, more than one SME.
37. “Village Facilitators” means male or female facilitators selected based on criteria set out in the Operations Manual responsible for, *inter alia*, facilitating the

formation of Enterprise Groups, Saving Groups and Village Savings and Loan Associations as provided in Section I.A(1)(d) of Schedule 2 of this Agreement.

38. “Village Savings and Loan Association” or “VSLA” means an association formed to administer savings of a Savings Group once the latter has crossed a threshold level, and has had a certain period of internal lending as specified in the Operations Manual and “Village Savings and Loan Associations” or “VSLAs” means, collectively, more than one Village Saving and Loan Association or VSLA.

Section II. Modifications to the General Conditions

The modifications to the General Conditions for Credits and Grants of the Association, dated July 1, 2005, (as amended through October 15, 2006) are as follows:

1. Section 2.07 is modified to read as follows:

“Section 2.07. *Refinancing Preparation Advance*

If the Financing Agreement provides for the repayment out of the proceeds of the Financing of an advance made by the Association or the Bank (“Preparation Advance”), the Association shall, on behalf of the Recipient, withdraw from the Financing Account on or after the Effective Date the amount required to repay the withdrawn and outstanding balance of the advance as at the date of such withdrawal from the Financing Account and to pay all accrued and unpaid charges, if any, on the advance as at such date. The Association shall pay the amount so withdrawn to itself or the Bank, as the case may be, and shall cancel the remaining unwithdrawn amount of the advance.”

2. Paragraph (i) of Section 6.02 is modified to read as follows:

“Section 6.02. *Suspension by the Association*

... (1) *Ineligibility*. The Association or the Bank has declared the Project Implementing Entity ineligible to receive proceeds of any financing made by the Association or the Bank or otherwise to participate in the preparation or implementation of any Project financed in whole or in part by the Association or the Bank, as a result of a determination by the Association or the Bank that the Project Implementing Entity has engaged in fraudulent, corrupt, coercive or collusive practices in connection with the use of the proceeds of any financing made by the Association or the Bank.”

3. The following terms and definitions set forth in the Appendix are modified or deleted as follows, and the following new terms and definitions are added in alphabetical order to the Appendix as follows, with the terms being renumbered accordingly:

(a) The term “Project Preparation Advance” is modified to read “Preparation Advance” and its definition is modified to read as follows:

“‘Preparation Advance’ means the advance referred to in the Financing Agreement and repayable in accordance with Section 2.07.”