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CONFORMED COPY

GRANT NUMBER H238 - AF

Financing Agreement

(Sustainable Development of Natural Resources Project)

between

ISLAMIC REPUBLIC OF AFGHANISTAN

and

INTERNATIONAL DEVELOPMENT ASSOCIATION

Dated July 5, 2006

GRANT NUMBER H238-AF

FINANCING AGREEMENT

AGREEMENT dated July 5, 2006, 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 the Financing 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, grant in an amount equivalent to twenty million six hundred thousand Special Drawing Rights (SDR 20,600,000) (the "Grant") 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 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 Ministry of Mines 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The Additional Event of Suspension is that the Minerals and Hydrocarbons Laws have been amended, suspended, abrogated, repealed or waived so as to affect materially and adversely the implementation of the Project.

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 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
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) or 64145 (MCI)	1-202-477-6391

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

ISLAMIC REPUBLIC OF AFGHANISTAN

By

/s/ Anwar-ul Haq Ahady
Authorized Representative

INTERNATIONAL DEVELOPMENT ASSOCIATION

By

/s/ Jean Mazurelle
Authorized Representative

SCHEDULE 1

Project Description

The objective of the Project is to assist the Recipient in improving Ministry of Mine's capacity to effectively regulate the mineral and hydrocarbon resource sector in a transparent manner, and to foster private sector development in the sector.

The Project consists of the following parts:

Part 1: Improving Ministry of Mines' Internal Efficiencies

Strengthening capacity and streamlining processes within the Ministry of Mines administration department including, budgeting and planning, financial management, human resources, information technology and asset management, through, among other things: (i) establishment of an operating information technology and financial management system; (ii) defining a strategy for development of a finance and accounts unit; (iii) designing administrative systems for performing internal audit functions and improving Ministry of Mines financial efficiencies; and (iv) providing technical support to the budgetary process.

Part 2: Developing Regulatory Capacity

Establishment of new departments within Ministry of Mines to effectively regulate and handle mining and hydrocarbons activities, including: (i) a mining and hydrocarbons inspectorate; (ii) a mining and hydrocarbons title registry and cadastre which will house a licensing unit and a production and royalty audit unit; (iii) an environmental and social protection department which will work with the National Environmental Protection Agency to provide broad oversight of environmental issues across sectors; and (iv) a mining licensing board to review the activities of the three aforementioned departments with respect to the rights of investors to operate in the sector, all through the provision of technical advisory services and training to staff, acquisition of equipment, and preparation of operational guidelines for the new departments.

Part 3: Developing Mineral Resources

(a) Supporting the sector policy unit of Ministry of Mines in formulating extractive industry policy, undertaking market analysis and preparing sector laws, regulations and guidelines, through the provision of technical advisory services and training to staff.

(b) Supporting the Recipient's geological survey process through: (i) the provision of technical support for mapping of prospective mineral regions and mineral resource assessments; (ii) development of a geographic information system for internet

based distribution of information and establishment of a public information center; and (iii) establishment of a business development unit to design short-term resource development strategies, serve as the interface to the private sector in basic information, Ministry of Mines activities and tender of resource properties, participating in industry trade shows and conferences, and preparing promotional materials.

(c) Carrying out of an inventory of the assets of mineral-based state-owned enterprises, conducting strategic sector studies and analyzing the functioning and comparative advantages of state-owned enterprises, with a view to developing concrete recommendations for improvement of the regulation of the mineral and hydrocarbons sector.

Part 4: Enhancing Sector Governance

(a) Establishment of an international advisory council to: (i) review procedures for awarding licenses and contracts for all major transactions as well as the negotiated licenses and contacts so as to ensure the conformity of each transaction with international best practice; and (ii) conduct an annual audit of cadastre functions, all through the provision of technical advisory services.

(b) Supporting the implementation of EITI principles through the establishment of a multi-stakeholder EITI committee to agree upon procedures, develop a work plan for implementation, design a reporting template, and disseminate and engage the public in discussion of audit findings.

SCHEDULE 2

Project Execution

Section I. Institutional and Other Arrangements

1. (a) The Recipient shall vest responsibility for the overall management and coordination of the Project in Ministry of Mines.
 - (b) The Recipient shall maintain PMU within Ministry of Mines with functions, staffing, and resources satisfactory and acceptable to the Association, for the purpose of overseeing the day-to-day coordination, monitoring, implementation, and administration of the Project, including the financial management and procurement processes thereunder.
 - (c) The Recipient shall ensure that the international advisory council provides reports generated under Part 4(a) of the Project to the Management Committee of ARTF to provide guidance from the perspective of the donor community represented thereon.
2. (a) The Recipient shall, no later than September 30, 2006, adopt a Project Implementation Manual in form and substance acceptable to the Association.
 - (b) The Recipient shall ensure that the Project is carried out in accordance with the Project Implementation Manual and the Financial Management Manual, and, except as the Association shall otherwise agree, shall not amend or waive any provision of the Project Implementation Manual and the Financial Management Manual if, in the opinion of the Association, such amendment or waiver may materially and adversely affect the carrying out of the Project or the achievement of the objectives thereof.

The Recipient shall ensure that all civil works under the Project are carried out in accordance with the Environmental and Social Safeguards Framework, and, except as the Association shall otherwise agree, the Recipient shall not amend, vary 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 carrying out of the Project or the achievement of the objectives thereof.

Section II. Project Monitoring, Reporting, Evaluation

A. Project Reports

1. The Recipient shall monitor and evaluate the progress of the Project and prepare Project Reports in accordance with the provisions of Section 4.08 of the General

Conditions and on the basis of indicators agreed with the Association. Each Project Report shall cover the period of one calendar semester, and shall be furnished to the Association not later than one month after the end of the period covered by such report.

2. For purposes of Section 4.08(c) of the General Conditions, the report on the execution of the Project and related plan required pursuant to that Section shall be furnished to the Association not later than six (6) months after the Closing Date.

B. Financial Management, Financial Reports and Audits.

1. The Recipient shall or shall cause to be established and 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 or shall cause to be prepared and furnished to the Association not later than forty-five (45) days after the end of each calendar quarter, interim un-audited financial reports for the Project covering the quarter, in form and substance satisfactory to the Association.
3. The Recipient shall have its Financial Statements audited in accordance with the provisions of Section 4.09(b) of the General Conditions. Each audit of the Financial Statements shall cover the period of one fiscal year of the Recipient, commencing with the fiscal year in which the first withdrawal under the Project Preparation Advance was made. The audited Financial Statements for each such period shall be furnished to the Association not later than six (6) months after the end of such period.

Section III. Procurement

A. General

1. **Goods and Works.** All goods and works required for the Project and to be financed out of the proceeds of the Grant shall be procured in accordance with the requirements set forth or referred to in Section I of the Procurement Guidelines, and with the provisions of this Schedule.
2. **Consultants' Services.** All consultants' services required for the Project and to be financed out of the proceeds of the Grant shall be procured in accordance with the requirements set forth or referred to in Sections I and IV of the Consultant Guidelines, and with the provisions of this Schedule.

3. **Definitions.** The capitalized terms used below in this Section to describe particular procurement methods or methods of review by the Association of particular contracts, refer to the corresponding method described in the Procurement Guidelines, or Consultant Guidelines, as the case may be.

B. Particular Methods of Procurement of Goods and Works

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

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

*National Competitive Bidding procedures 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 twenty eight (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 as indicated in the bidding documents. A bidder's bid security 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 eight (8) weeks; and (B) for all subsequent requests for extensions irrespective of the period.
- (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; 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.

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

D. Review by the Association of Procurement Decisions

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 Grant

A. General.

1. The Recipient may withdraw the proceeds of the Grant in accordance with the provisions of this Section and such additional instructions as the Association may specify by notice to the Recipient, 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
(1) Consultants' services, training, works, goods and Operating Costs* for the Project	19,500,000	100%
(2) Refund of Project Preparation Advance	1,100,000	Amount payable pursuant to Section 2.07 of the General Conditions
TOTAL AMOUNT	20,600,000	

*For purposes of this Agreement "Operating Costs" means the Project-related incremental expenses incurred on account of Project implementation support and management including the rental of office space; the operation, maintenance, rental and insurance of vehicles; fuel; communications supplies and charges; advertisements; books and periodicals; office administration and maintenance costs; bank transaction charges; utility charges; domestic travel and per diem but excluding salaries of officials and staff 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:
 - (a) for payments made prior to the date of this Agreement;
 - (b) for any payments under the Project unless the Recipient has established a financial management system satisfactory to the Association and has adopted the Financial Management Manual in form and substance satisfactory to the Association; and
 - (c) for any payments under the Project unless the PMU has been established and staffed with an adequate number of key professionals whose skills, qualifications, experience and terms of reference shall be satisfactory to the Association, including staff responsible for general management, financial management, procurement, monitoring and evaluation, and accounting.
2. The Closing Date is July 31, 2011.

APPENDIX

Definitions

1. “ARTF” means the Afghanistan Reconstruction Trust Fund consisting of funds contributed by various donors and administered by the Association for the benefit of the Recipient.
2. “Category” means a category set forth in the table in Section IV of Schedule 2 to this Agreement.
3. “Consultant Guidelines” means the “Guidelines: Selection and Employment of Consultants by World Bank Borrowers” published by the Bank in May 2004.
4. “EITI” means the Extractive Industries Transparency Initiative which aims to increase transparency in transactions between governments and companies within extractive industries, as announced at the World Summit on Sustainable Development in Johannesburg, September 2002.
5. “Environmental and Social Safeguards Framework” means the Recipient’s Environmental and Social Safeguards Framework which sets out, among other things: (i) key principles for social and environmental management of Sub-Projects (as hereinafter defined); (ii) procedures to screen and process Sub-Projects for significant social and environmental impacts, and to assist in mitigating impacts; (iii) procedures to ensure that these principles and procedures are properly applied; and (iv) guidelines for capacity building and monitoring.
6. “Financial Management Manual” means the Recipient’s financial management manual for the Project to be developed in accordance with Section IV.B (1)(b) of Schedule 2 to this Agreement, as the same shall be updated in agreement with the Association, 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.
8. “Management Committee” means the committee consisting of representatives of the Association, the United Nations Development Programme, the Asian Development Bank, the Islamic Development Bank, and, with observer status, the Recipient’s Ministry of Finance, which committee is responsible for, among other things, approving projects to be financed by the ARTF.
9. “Ministry of Mines” means the Recipient’s Ministry of Mines or any successor thereto.

10. “Minerals and Hydrocarbons Laws” means the Minerals Law of Afghanistan dated July 2005 and the Hydrocarbons Law of Afghanistan dated December 2005.
11. “National Environmental Protection Agency” means the Recipient’s national agency responsible for regulating environmental management and compliance across all sectors, established and operating pursuant to the Recipient’s Environment Law dated January 19, 2006.
12. “PMU” means the Program Management Unit to be established within Ministry of Mines, in accordance with Section IV.B(1)(c) of Schedule 2 to this Agreement.
13. “Project Implementation Manual” means the Recipient’s manual prepared and adopted in accordance with Section I.2(a) of Schedule 2 to this Agreement, satisfactory and acceptable to the Association, which includes guidelines and procedures for the operational and administrative management of the Project, and any updates made from time to time with the Association’s approval, which approval shall not be unreasonably withheld.
14. “Procurement Guidelines” means the “Guidelines for Procurement under IBRD Loans and IDA Credits” published by the Bank in May 2004.
15. “Procurement Plan” means the Recipient’s procurement plan for the Project, dated May 14, 2006 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.
16. “Project 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 December 13, 2005, and on behalf of the Recipient on January 16, 2006.