

Public Disclosure Authorized

CONFORMED COPY

GRANT NUMBER H226 - AF

Financing Agreement

(Emergency Horticulture and Livestock Project)

between

ISLAMIC REPUBLIC OF AFGHANISTAN

and

INTERNATIONAL DEVELOPMENT ASSOCIATION

Dated July 5, 2006

GRANT NUMBER H226 - 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, a grant in an amount equivalent to fourteen million Special Drawing Rights (SDR 14,000,000) (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 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 MAI 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 December 31, 2007.
- 4.02. The Co-financing Deadline for the effectiveness of the JSDF Co-financing Agreement is December 31, 2007.

ARTICLE V – EFFECTIVENESS; TERMINATION

- 5.01. The Additional Condition of Effectiveness is that IMST has been constituted and staffed with an adequate number of key professionals with skills, qualifications, experience and terms of reference satisfactory to the Association, including staff responsible for general management, financial management, procurement, monitoring and evaluation, accounting and training.
- 5.02. The Effectiveness Deadline is the date one hundred and twenty (120) days after the date of this Agreement.
- 5.03. 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 stimulating marketable output of perennial horticulture and livestock by improving the incentives framework for private investments and strengthening institutional capacity in the agricultural sector.

The Project consists of the following parts:

Part 1: Perennial Horticulture

(a) Rehabilitation and expansion of perennial tree crop cultivation through: (i) the carrying out of studies and research on orchard management systems and fruit crop production methods; (ii) the provision of training and extension support to farmers for the rehabilitation of existing orchards; (iii) the carrying out of research and training, and the creation of demonstrations for the establishment of better quality fruit tree nurseries; and (iv) the provision of seedlings and other inputs to farmers, provision of technical advisory services and training, and the provision of In-kind Grants to support the establishment of new orchards.

(b) Establishment of the Horticulture Development Council of Afghanistan for: (i) the provision of policy guidance and support to MAI; and (ii) the carrying out of activities such as training and research to support the development of the horticulture sector.

(c) Improving the production, processing and marketing of green raisins and pomegranate through the construction of simple drying facilities.

Part 2: Livestock

(a) Strengthening the capacity of GDLPD to supervise and regulate animal husbandry services, through the provision of technical advisory services and training to staff at federal and provincial offices, acquisition of equipment and software, carrying out of infrastructure rehabilitation and upgrading of offices, purchase and constitution of pure breed herds and supporting nomadic and agro-pastoral communities.

(b) Development of livestock production and marketing initiatives for improving domestic food supplies and reducing imports, including: (i) establishment of private dairy processing units and milk collection centers; (ii) establishment of a village-based poultry industry; and (iii) improving the collection, cleaning and marketing of cashmere fiber, all through the provision of In-kind Grants to Beneficiaries, the provision of training and technical advisory services, supply of initial stock, the acquisition of equipment and the carrying out of small works.

(c) Promoting public-private partnerships for the delivery of veterinary services, including: (i) supporting the development of official policies; (ii) provision of training and enhancing the capacity of veterinarians; (iii) harmonizing the privatized veterinary field units clinical services system; (iv) establishing sanitary mandates; and (v) provision of vaccines, disease surveillance equipment and supplies for conducting sanitary mandates.

Part 3: Project Management and Implementation

(a) Strengthening MAI's administrative capacity including development of its human resource functions and rehabilitation of its offices, through the provision of training, technical assistance, acquisition of equipment, carrying out of small works and provision of operating costs.

(b) Provision of training, technical assistance, goods, equipment and operating costs for the establishment of IMST and for the implementation, monitoring and supervision of the Project.

SCHEDULE 2

Project Execution

Section I. Institutional and Other Arrangements

A. Overall Project Implementation and Coordination

1. (a) The Recipient shall vest responsibility for the overall management, coordination and supervision of the Project in MAI.
 - (b) MAI shall, throughout the implementation of the Project, maintain IMST with staffing, skills, terms of reference and resources satisfactory to the Association, to assist with the overall management, coordination and supervision of the Project. IMST shall be responsible for the selection of Facilitating Partners, coordinating the preparation of annual work programs and budgets, overseeing all aspects of Project implementation, preparation of progress reports and monitoring the outputs, outcome and impact of Project activities, and for the financial management, procurement, disbursement and administrative management processes under the Project.
 - (c) MAI shall contract Facilitating Partners in accordance with terms of reference and eligibility criteria satisfactory to the Association to assist in delivering technical and human resource development in the Project areas. Each Facilitating Partner shall, in collaboration with the head of strategic regional research stations and MAI provincial offices, be responsible for implementing its respective activities under the Project, and in particular, preparing detailed work programs, identifying suitable Beneficiaries for In-kind Grants, organizing training and technical assistance for farmers, coordinating the supply and distribution of crop and livestock production inputs to farmers, maintaining records of administrative and financial activities and carrying out monitoring and evaluation activities.
2. (a) The Recipient shall, no later than December 31, 2006, prepare and adopt an Operations Manual satisfactory to the Association.
 - (b) The Recipient shall, and shall cause MAI and the Facilitating Partners to, carry out the Project in accordance with the Operations Manual, the Financial Management Manual and the ESSF, and, except as the Association shall otherwise agree, the Recipient shall not amend, vary, or waive any provision of the Operations Manual, the Financial Management Manual and the ESSF 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.

B. In-kind Grants

1. The Recipient through MAI shall, prior to approving any activity to be supported by an In-kind Grant, satisfy itself that such activity meets the selection criteria set out in the Operations Manual, including the requirement that the Beneficiary sponsoring such activity has:
 - (a) prepared an action plan satisfactory to MAI;
 - (b) undertaken to carry out such activity in accordance with the policies, principles and procedures set forth in the Operations Manual and the ESSF;
 - (c) undertaken to contribute any and all land required for such activity, which shall have been acquired by, or otherwise made available to, the Beneficiary for this purpose on a voluntary basis, and, as described in each agreement to be entered into pursuant to sub-paragraph 1(d) below, contribute to the estimated capital cost and the operation and maintenance cost of such activity.
 - (d) entered into an agreement with the responsible Facilitating Partner, substantially conforming to the standard form agreement appended to the Operations Manual, pursuant to which the Beneficiary shall assume full responsibility for the preparation, design and implementation of such activity while it is being carried out, and for its operation and maintenance upon its completion, and shall, among other things:
 - (i) require that the In-kind Grant be used to support only the activities included in the Beneficiary's action plan; and
 - (ii) require that the Beneficiary carries out the activities with due diligence and efficiency and in accordance with sound technical, financial, environmental and managerial standards.
2. The Recipient shall ensure that the first three agreements proposed to be entered into with the concerned Beneficiaries pursuant to the provisions of paragraph B.1 (d) of this Section I will be furnished to the Association for its prior review and concurrence.

Section II. Project Monitoring, Reporting, Evaluation

A. Project Reports

1. The Recipient shall, and shall cause MAI 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 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 maintain or cause to be maintained a financial management system in accordance with the provisions of Section 4.09 of the General Conditions.
2. Without limitation on the provisions of Part A of this Section, the Recipient shall prepare and furnish to the Association not later than one (1) month after the end of each calendar quarter, interim un-audited financial reports for the Project covering the quarter, in form and substance satisfactory to the Association.
3. The Recipient shall have its Financial Statements audited in accordance with the provisions of Section 4.09(b) of the General Conditions. Each audit of the Financial Statements shall cover the period of one fiscal year of the Recipient. The audited Financial Statements for each such period shall be furnished to the Association not later than six (6) months after the end of such period.

Section III. Procurement

A. General

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

2. **Consultants' Services.** All consultants' services required for the Project and to be financed out of the proceeds of the Grant shall be procured in accordance with the requirements set forth or referred to in Sections I and IV of the Consultant Guidelines, and with the provisions of this Schedule.
3. **Definitions.** The capitalized terms used below in this Section to describe particular procurement methods or methods of review by the Association of particular contracts, refer to the corresponding method described in the Procurement Guidelines, or Consultant Guidelines, as the case may be.

B. Particular Methods of Procurement of Goods and Works

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

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

*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) Goods, works, consultants’ services, training and Operating Costs* for the Project	14,000,000	100%
TOTAL AMOUNT	14,000,000	

*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 under the Project:
 - (a) for payments made prior to the date of this Agreement, except that withdrawals up to an aggregate amount not to exceed \$500,000 equivalent may be made for payments made prior to this date but on or after April 5, 2006, for Eligible Expenditures; and
 - (b) unless a Financial Management Manual satisfactory to the Association has been prepared and adopted for the Project.
2. The Closing Date is December 31, 2009.

APPENDIX

Definitions

1. “ARTF Co-financing Agreement” means the agreement to be entered into between the Recipient and Co-financier A providing for its respective amount of the Co-financing.
2. “Beneficiary” means an individual farmer, farmers’ organization or farmers association established and operating in the territory of the Recipient.
3. “Category” means a category set forth in the table in Section IV of Schedule 2 to this Agreement.
4. “Co-financier A” means the Afghanistan Reconstruction Trust Fund (ARTF) administered by the Association on behalf of various donors.
5. “Co-financier B” means the Japan Social Development Fund (JSDF) administered by the Association on behalf of Japan.
6. “Co-financier” means any or both of Co-financier A or Co-financier B.
7. “Co-financing” means: (i) the amount of seventeen million eight hundred thousand United States dollars (US\$17,800,000) to be provided by Co-financier A; and (ii) the amount of ten million United States dollars US\$10,000,000 to be provided by Co-financier B.
8. “Consultant Guidelines” means the “Guidelines: Selection and Employment of Consultants by World Bank Borrowers” published by the Bank in May 2004.
9. “ESSF” means the Recipient’s Environmental and Social Safeguards Framework which sets out, *inter alia*: (i) key policy principles for social and environmental management; (ii) measures to guide the screening of activities for significant social and environmental impacts, and to assist in the mitigation of such impacts; (iii) procedures to ensure that these principles and measures are appropriately applied; and (iv) guidelines for capacity building and monitoring.
10. “Facilitating Partner” means a non-governmental organization, international organization, individual or a private sector entity operating in the Recipient’s territory in accordance with the Recipient’s laws, which has been selected to take part in the implementation of the Project.
11. “Financial Management Manual” means the financial management manual setting out the financial management arrangements for the Project, to be prepared and adopted in accordance with Section IV paragraph B.1 (b) of Schedule 2 to

this Agreement, as the same may be updated from time to time in agreement with the Association.

12. “General Conditions” means the “International Development Association General Conditions for Credits and Grants”, dated July 1, 2005.
13. “GDLPD” means the General Department for Livestock Protection and Development operating within MAI.
14. “Horticulture Development Council of Afghanistan” means the Council to be established under Part 1(b) of the Project described in Schedule 1 to this Agreement with members from both the public and private sector.
15. “IMST” or “Implementation Management Support Team” means the Team to be constituted by MAI in accordance with Section 5.01 of this Agreement.
16. “In-kind Grant” means in-kind assistance financed out of the proceeds of the Grant provided or to be provided by the Recipient through Facilitating Partners to Beneficiaries for the carrying out of activities under Part 1(a) and Part 2(b) of the Project (as described in Schedule 1 to this Agreement), in accordance with eligibility criteria and operating procedures set out in the Operations Manual and in this Agreement.
17. “JSDF Co-financing Agreement” means the agreement to be entered into between the Recipient and Co-financier B providing for its respective amount of the Co-financing.
18. “MAI” means the Recipients Ministry of Agriculture and Irrigation, or any successor thereto.
19. “Operations Manual” means the Recipient’s manual to be prepared and adopted in accordance with Section I paragraph A.2(a) of Schedule 2 to this Agreement, which includes policies and guidelines for the strategic and operational management of the Project, terms of reference and eligibility criteria for the selection of Facilitating Partners and In-kind Grant Beneficiaries, including any updates made from time to time with the Association’s approval.
20. “Procurement Guidelines” means the “Guidelines for Procurement under IBRD Loans and IDA Grants” published by the Bank in May 2004.
21. “Procurement Plan” means the Recipient’s procurement plan for the Project, dated April 5, 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.

