

Public Disclosure Authorized

CONFORMED COPY

GRANT NUMBER H275-AF

Financing Agreement

(Private Sector Development Support Project)

between

ISLAMIC REPUBLIC OF AFGHANISTAN

and

INTERNATIONAL DEVELOPMENT ASSOCIATION

Dated March 8, 2007

GRANT NUMBER H275-AF

FINANCING AGREEMENT

AGREEMENT dated March 8, 2007, 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 sixteen million seven hundred thousand Special Drawing Rights (SDR 16,700,000) (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 Part 2(b) of the Project through MOCI and cause Part 1 and Part 2(a) of the Project to be carried out by the Project Implementing Entity in accordance with the provisions of Article IV of the General Conditions and the Project Agreement.
- 3.02. Without limitation upon the provisions of Section 3.01 of this Agreement, and except as the Recipient and the Association shall otherwise agree, the Recipient shall ensure that the Project is carried out in accordance with the provisions of Schedule 2 to this Agreement.

ARTICLE IV - REMEDIES OF THE ASSOCIATION

- 4.01. The Additional Event of Suspension consists of the following:

The Articles of Association of the Project Implementing Entity have been amended, suspended, abrogated, repealed or waived so as to affect materially and adversely the ability of the Project Implementing Entity to perform any of its obligations under the Project Agreement.

ARTICLE V – EFFECTIVENESS; TERMINATION

- 5.01. The Additional Condition of Effectiveness consists of the following:

The Subsidiary Agreement has been executed on behalf of the Recipient and the Project Implementing Entity.
- 5.02. The Additional Legal Matter consists of the following:

The Subsidiary Agreement has been duly authorized or ratified by the Recipient and the Project Implementing Entity and is legally binding upon the Recipient and the Project Implementing Entity in accordance with its terms.
- 5.03. The Effectiveness Deadline is the date ninety (90) days after the date of this Agreement.
- 5.04. For purposes of Section 8.05(b) of the General Conditions, the date on which the 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/ Mariam J. Sherman
Authorized Representative

SCHEDULE 1

Project Description

The objective of the Project is to assist the Recipient in improving its investment climate for foreign and domestic investors.

The Project consists of the following parts:

Part 1: Industrial Park Development

- (a) Increasing access to land, infrastructure and utility services, through the construction of an industrial park at Hissar-e-Shahi.
- (b) Provision of technical assistance to AISA to: (i) strengthen its capacity for the management, implementation and supervision of industrial park development, including construction supervision, financial management, procurement, and environment and social management; and (ii) develop a policy, regulatory and institutional framework for industrial park development in Afghanistan.

Part 2: Institutional Development and Capacity-Building for Private Sector Development

- (a) Strengthening AISA's capacity in investment promotion, facilitation and policy research, including: (i) enhancing the analytical, monitoring and advocacy functions of AISA's policy and research department; and (ii) enhancing the delivery of specialized individual client services for domestic and foreign investors by AISA's investor support department.
- (b) Capacity building of MOCI to develop the policy formulation, implementation and evaluation skills of its Private Sector Development Directorate and to strengthen the managerial, technical and administrative skills of its staff.

SCHEDULE 2

Project Execution

Section I. Subsidiary Financing; Institutional and Other Arrangements

A. Subsidiary Agreement

1. To facilitate the carrying out of Part 1 and Part 2(a) of the Project, the Recipient shall make part of the proceeds of the Grant available to the Project Implementing Entity under a subsidiary agreement (the "Subsidiary Agreement") between the Recipient and the Project Implementing Entity, under terms and conditions approved by the Association, which shall include the following:
 - (i) that the Recipient shall make available to the Project Implementing Entity proceeds of the Grant for the financing of Eligible Expenditures under Parts 1 and 2(a) of the Project;
 - (ii) that the Project Implementing Entity shall open an account for the Project in a commercial bank acceptable to the Recipient and the Association;
 - (iii) that the right of the Project Implementing Entity to withdraw the proceeds of the Grant shall be subject to the right of the Recipient to withdraw the proceeds of the Grant under the Financing Agreement;
 - (iv) that the Project Implementing Entity declares its commitment to the objectives of the Project as set forth in Schedule 1 to the Financing Agreement, and, to this end, shall carry out the Project with due diligence and efficiency;
 - (v) that the Project Implementing Entity shall carry on its operations and conduct its affairs in accordance with sound administrative, financial, environmental and investment practices under the supervision of qualified and experienced management assisted by competent staff in adequate numbers;
 - (vi) that procurement of goods, works and services required for the carrying out of the Project and to be financed out of the proceeds of the Grant shall be governed by the provisions of Section III of Schedule 2 to this Agreement;
 - (vii) that the Project Implementing Entity shall prepare, not later than four (4) months after the Closing Date of the Financing Agreement or such later date as may be agreed for this purpose with the Recipient and

the Association, a plan designed to ensure the continued achievement of the Project's objectives;

- (viii) that the Project Implementing Entity shall establish and maintain a financial management system, prepare quarterly interim un-audited financial reports and ensure that its accounts are audited on an annual basis; and
 - (ix) that if the right of the Recipient to obtain disbursements from the Grant is suspended or terminated by the Association pursuant to the provisions of the Financing Agreement, the right of the Project Implementing Entity to obtain disbursements from the Grant shall, likewise and simultaneously, be suspended or terminated, as the case may be.
2. The Recipient shall exercise its rights under the Subsidiary Agreement in such manner as to protect the interests of the Recipient and the Association and to accomplish the purposes of the Grant. Except as the Association shall otherwise agree, the Recipient shall not assign, amend, abrogate or waive the Subsidiary Agreement or any of its provisions.

B. Project Implementation

- 1. The Recipient shall vest responsibility for the implementation of Part 2(b) of the Project in MOCI through its Private Sector Development Directorate.
- 2. To this end, the Private Sector Development Directorate shall be responsible for designing and organizing training programs, preparing training budgets, financial planning and control, monitoring and evaluation, and carrying out procurement and financial management with the assistance of AISA.
- 3. Part 1 and Part 2(a) of the Project shall be implemented by the Project Implementing Entity in accordance with Section I of the Schedule to the Project Agreement.

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 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 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** shall be subject to the following additional procedures:

- (i) Standard bidding documents approved by the Association will be used.
- (ii) Invitations to bid will be advertised in at least one (1) widely circulated national daily newspaper and bidding documents will be made available to prospective bidders, at least twenty eight (28) days prior to the deadline for the submission of bids.
- (iii) Bids will not be invited on the basis of percentage premium or discount over the estimated cost.
- (iv) Bidding documents will be made available, by mail or in person, to all who are willing to pay the required fee.
- (v) Foreign bidders will not be precluded from bidding.
- (vi) Qualification criteria (in case pre-qualifications were not carried out) will be stated on the bidding documents, and if a registration process is required, a foreign firm determined to be the lowest evaluated bidder will be given reasonable opportunity of registering, without any hindrance.
- (vii) Bidders may deliver bids, at their option, either in person or by courier service or by mail.

- (viii) All bidders will provide bid security as indicated in the bidding documents. A bidder's bid security will apply only to a specific bid.
- (ix) Bids will be opened in public in one place preferably immediately, but no later than one hour, after the deadline for submission of bids.
- (x) Evaluation of bids will be made in strict adherence to the criteria disclosed in the bidding documents, in a format, and within the specified period, agreed with the Association.
- (xi) Bids will not be rejected merely on the basis of a comparison with an official estimate without the prior concurrence of the Association.
- (xii) Split award or lottery in award of contracts will not be carried out. When two (2) or more bidders quote the same price, an investigation will be made to determine any evidence of collusion, following which: (A) if collusion is determined, the parties involved will be disqualified and the award will then be made to the next lowest evaluated and qualified bidder; and (B) if no evidence of collusion can be confirmed, then fresh bids will be invited after receiving the concurrence of the Association.
- (xiii) Contracts will be awarded to the lowest evaluated bidders within the initial period of bid validity so that extensions are not necessary. Extension of bid validity may be sought only under exceptional circumstances.
- (xiv) Extension of bid validity will not be allowed without the prior concurrence of the Association: (A) for the first request for extension if it is longer than eight (8) 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; and
- (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) 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

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 estimated to cost the equivalent of \$200,000 or more; (b) each contract for works estimated to cost the equivalent of \$500,000 or more; (c) each contract for goods or works procured on the basis of Direct Contracting regardless of value; (d) each contract for consultants' services with firms estimated to cost the equivalent of \$100,000 or more; (e) each contract for consultants' services with individual consultants estimated to cost the equivalent of \$50,000 or more; and (f) each contract for consultants' services procured on the basis of Single-Source Selection regardless of value. All other contracts shall be subject to Post Review by the Association.

Section IV. Withdrawal of the Proceeds of the Grant

A. General

1. The Recipient may withdraw the proceeds of the Grant in accordance with the provisions of Article II of the General Conditions, this Section, and such additional instructions as the Association may 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
(1) Goods, Works, Consultants’ Services, training, audit costs, and Incremental Operating Costs*	16,055,000	100%
(2) Refund of Project Preparation Advance	645,000	Amount payable pursuant to Section 2.07 of the General Conditions
TOTAL AMOUNT	16,700,000	

* For the purposes of this Schedule, the term “Incremental Operating Costs” means the incremental expenses incurred on account of Project implementation and management, including the operation and maintenance of vehicles, office supplies, communication charges, advertising costs, insurance costs, office administration costs, banking charges, utility charges, domestic travel and per diem allowances, 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:
- (a) for payments made prior to the date of this Agreement;
 - (b) unless a financial management specialist and accounts officer has been appointed by the Project Implementing Entity in accordance with the provisions of Section III of Schedule 2 to this Agreement;

- (c) unless a Financial Management Manual, satisfactory to the Association has been adopted for the Project; and
 - (d) unless a procurement specialist and a procurement officer, with terms of reference, qualifications and experience satisfactory to the Association, are hired for the Project.
2. The Closing Date is June 30, 2011.

APPENDIX

Definitions

1. “AISA” means the Afghanistan Investment Support Agency, a limited liability company established under the laws of Afghanistan and operating pursuant to the Articles of Association.
2. “Articles of Association” means the Articles of Association of AISA which set out, *inter alia*, the mandate, organizational structure, duties and authorities of AISA and its officers.
3. “Category” means a category set forth in the table in Section IV of Schedule 2 to this Agreement.
4. “Consultant Guidelines” means the “Guidelines: Selection and Employment of Consultants by World Bank Borrowers” published by the Bank in May 2004.
5. “Environment and Social Impact Assessment” or “ESIA” means the Recipient’s Environment and Social Impact Assessment dated November 13, 2006, satisfactory to the Association, including any amendment made to such document from time to time with the Association’s approval that identifies potential environment and social impacts during the implementation and operation of the Project such as pollution, expected waste to be generated, and resettlement, as well as mitigation measures to address any adverse environmental and social impacts arising from carrying out the Project.
6. “Environment Management Plan” means the Recipient’s environment and social plan attached to the ESIA and satisfactory to the Association, setting forth measures for mitigating the potential environmental impact of the construction and operation of the industrial park, including monitoring mechanisms, institutional responsibilities, on-going consultations with stakeholders, training, and grievance mechanisms, as the same may be updated from time to time with the agreement of the Association.
7. “General Conditions” means the “International Development Association General Conditions for Credits and Grants”, dated July 1, 2005.
8. “Hissar-e-Shahi” means the proposed Hissar-e-Shahi industrial park to be located in Rodat District of Nangarhar province, Afghanistan, on the Turkham-Jalalabad road, about 25 km east from the city of Jalalabad.
9. “Industrial Parks Development Department” means the department of AISA charged with overseeing the construction and operation of the industrial park including any technical assistance related thereto.

10. “MOCI” means the Recipient’s Ministry of Commerce and Industry, or any successor thereto.
11. “Ministry of Finance” means the Recipient’s Ministry of Finance or any successor thereto.
12. “NEPA” means the Recipient’s National Environmental Protection Agency.
13. “Private Sector Development Directorate” means the department within MOCI responsible for creating an institutional, legislative and regulatory environment that encourages investment in Afghanistan, facilitating the development of market systems, encouraging the formalization of Afghan businesses and promoting effective dialogue between the Government and other stakeholders on private sector development issues.
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 and AISA’s procurement plan for the Project, dated November 11, 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 Implementing Entity” means AISA.
17. “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 October 11, 2005 and on behalf of the Recipient on October 24, 2005.
18. “Social Management Plan” means the plan, satisfactory to the Association, to be developed by the Project Implementing Entity in accordance with Section I paragraph B.1 of the Schedule to the Project Agreement, which includes measures for facilitating income generation and improving the provision of social services to households in the areas affected by the proposed industrial park, especially women.
19. “Subsidiary Agreement” means the agreement referred to in Section I.A of Schedule 2 to this Agreement pursuant to which the Recipient shall make the proceeds of the Grant available to the Project Implementing Entity.