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**GRANT NUMBER H592-AF**

**AMENDMENT  
GRANT NUMBER H162-AF**

# **Financing Agreement**

**(Additional Financing for Strengthening Higher Education Project and  
Amendment to the Development Grant Agreement)**

**between**

**ISLAMIC REPUBLIC OF AFGHANISTAN**

**and**

**INTERNATIONAL DEVELOPMENT ASSOCIATION**

**Dated June 27, 2010**

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## **FINANCING AGREEMENT**

AGREEMENT dated June 27, 2010, entered into between ISLAMIC REPUBLIC OF AFGHANISTAN (the “Recipient”) and INTERNATIONAL DEVELOPMENT ASSOCIATION (the “Association”) for the purpose of providing additional financing for activities related to the Original Project (as defined in the Appendix to this Agreement).

This Agreement: (i) sets out the terms and conditions related to the Additional Financing for the Strengthening Higher Education Project; and (ii) extends the Closing Date of the Development Grant Agreement (herein referred to as the “Original Financing Agreement” as such term is defined in the Appendix to this Agreement).

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, the Original Financing Agreement 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 thirteen million one hundred thousand Special Drawing Rights (SDR 13,100,000) (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 Financing 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 June 15 and December 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 its Ministry of Higher Education 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 and in accordance with the Environment and Social Safeguards Framework and the Project Implementation Manual.

**ARTICLE IV — EFFECTIVENESS; TERMINATION**

- 4.01. The Effectiveness Deadline is the date ninety (90) days after the date of this Agreement.
- 4.02. 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 V — REPRESENTATIVE; ADDRESSES**

- 5.01. The Recipient's Representative is the Minister of Finance.
- 5.02. The Recipient's Address is:

Ministry of Finance  
Pashtunistan Watt  
Kabul  
Islamic Republic of Afghanistan

Facsimile:

93-20-210-3258

- 5.03. 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 assist the Recipient in restoring the basic operational performance of Higher Education Institutions so as to enhance the quality of tertiary education.

The Project consists of the Original Project, scaled up in the manner reflected below:

#### **Part A: Improvement of Quality in Key Higher Education Institutions**

1. Carrying out of partnership programs between additional selected universities within the Recipient's territory and established foreign universities, with the aim of, *inter alia*, supporting the preparation of Strategic Development Plans, supporting curriculum revision and development, providing fellowships for local professors to study at foreign universities, providing opportunities for foreign faculty to teach at local universities, carrying out of joint research and publication and preparing physical and academic facility development plans.
2. Provision of additional and increased Block Grants to assist Beneficiaries in carrying out Sub-Projects designed to implement the prioritized and focused areas of the Strategic Development Plan and to restore the basic operational performance of Beneficiaries.

#### **Part B: Development of Higher Education System**

1. Provision of additional technical assistance to MOHE for the development of an improved higher education system including, defining the relationship between MOHE and Higher Education Institutions, facilitating the autonomy and accountability of Higher Education Institutions, reforming the employment structure of academic staff and reviewing the financing strategies of Higher Education Institutions.
2. Development of an autonomous quality assurance system for public and private universities, through the provision of additional technical advisory services, equipment and training.

**SCHEDULE 2****Project Execution****Section I. Implementation Arrangements**

**A. Institutional Arrangements.** The implementation arrangements set out in Schedule 4 to the Original Financing Agreement constitute an integral part of this Agreement.

**B. Anti-Corruption**

The Recipient shall ensure that the Project and any Sub-Projects there under are 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 semester, 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.** All goods required for the Project and to be financed out of the proceeds of the Financing 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 Financing shall be procured in accordance with the requirements set forth or referred to in Sections I and IV of the Consultant Guidelines, and with the provisions of this Section.
3. **Definitions.** The capitalized terms used below in this Section to describe particular procurement methods or methods of review by the Association of particular contracts, refer to the corresponding method described in the Procurement Guidelines, or Consultant Guidelines, as the case may be.

#### **B. Particular Methods of Procurement of Goods**

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

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

\***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.

<b>Procurement Method</b>	
(a)	Selection Based on Consultants’ Qualifications
(b)	Quality-Based Selection
(c)	Single Source Selection
(d)	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 procured on the basis of International Competitive Bidding or National Competitive Bidding; (b) each contract for goods procured on the basis of Direct Contracting; and (c) each contract for consultants' services provided by a firm estimated to cost the equivalent of \$100,000 or more. In addition, with respect to each contract for the employment of individual consultants estimated to cost the equivalent of \$50,000 or more, the report on the qualifications and experience of all evaluated candidates, the terms of reference and the terms of employment of the consultants shall be subject to prior approval by the Association. All other contracts shall be subject to Post Review by the Association.

**Section IV. Withdrawal of the Proceeds of the Financing****A. General**

1. The Recipient may withdraw the proceeds of the Financing 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 Financing ("Category"), the allocations of the amounts of the Financing to each Category, and the percentage of expenditures to be financed for Eligible Expenditures in each Category:

<b>Category</b>	<b>Amount of the Financing Allocated (expressed in SDR)</b>	<b>Percentage of Expenditures to be Financed (inclusive of Taxes)</b>
(1) Expenditures Associated with Project Implementation	13,100,000	100%
<b>TOTAL AMOUNT</b>	<b>13,100,000</b>	

3. For the purposes of this Schedule, the term “Expenditures Associated with Project Implementation” means expenditures arising under the Project including: (i) goods; (ii) consultants’ services; (iii) training; (iv) fellowships; (v) scholarships; (vi) Block Grants; and (vii) incremental operating costs (which means the incremental expenses incurred on account of Project implementation and management, including the operation and maintenance of vehicles, office supplies, communication charges, insurance costs, office administration costs, banking charges, utility charges, rental charges, domestic/international travel and per diem allowances, but excluding salaries of 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 payments made prior to the date of this Agreement.
2. The Closing Date is June 30, 2013.

**Section V. Other Undertakings**

The Recipient shall ensure that payments shall not be made to each Beneficiary of a Block Grant unless: (i) the Beneficiary has opened a bank account on terms and conditions acceptable to the Association; and (ii) the Beneficiary has signed the Disbursement Protocol.

**APPENDIX****Section I. Definitions**

1. “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 with the modifications set forth in Section IV of this Appendix.
2. “Beneficiaries” means universities that receive Block Grants, each such university is referred to as a “Beneficiary”.
3. “Block Grant” means a grant made, or proposed to be made by MOHE to a Beneficiary out of the proceeds of the Grant for the purpose of carrying out Sub-Projects, in accordance with paragraph B of Schedule 4 to the Original Financing Agreement.
4. “Disbursement Protocol” means a document to be prepared by MOF and signed by each Beneficiary, setting forth the disbursement and procurement arrangements for Block Grants.
5. “Category” means a category set forth in the table in Section IV of Schedule 2 to this Agreement.
6. “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 and May 2010.
7. “Environmental and Social Safeguards Framework” or “ESSF” means the Recipient’s Environmental and Social Safeguards Framework dated 2002 acceptable to the Association and any amendments made to such ESSF from time to time, 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.
8. “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 III of this Appendix.
9. “Higher Education Institutions” means local universities and other tertiary institutions involved in the implementation of the Project, each such university or tertiary institution is referred to as a “Higher Education Institution”.

10. “MOHE” means the Recipient’s Ministry of Higher Education or any successor thereto.
11. “Original Financing Agreement” means the development grant agreement for the Strengthening Higher Education Project between the Recipient and the Association, dated June 16, 2005 as amended to the date of this Agreement (IDA Grant No. H162-AF).
12. “Original Project” means the Project described in the Original Financing Agreement.
13. “Part” means a part of the Project described in Schedule 1 to this Agreement.
14. “Procurement Guidelines” means the “Guidelines: Procurement under IBRD Loans and IDA Credits” published by the Bank in May 2004 and revised in October, 2006 and May 2010.
15. “Procurement Plan” means the Recipient’s procurement plan for the Project, dated May 16, 2010 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 Implementation Manual” means the Project implementation manual dated July 14, 2005, including amendments, schedules and annexes thereto, setting forth the procedures governing the operation of the Project and the carrying out of Sub-Projects, provided however, that in the event of a conflict between this Agreement and the Project Implementation Manual, the provisions of this Agreement shall prevail.
17. “Strategic Development Plan” means a plan which sets out the strategic direction of a Higher Education Institution, prepared by a Beneficiary as a framework for the proposal for a Block Grant.
18. “Sub-Project” means a project to be carried out under Part A.2 of the Project described in Schedule 1 to this Agreement and in accordance with paragraph B of Schedule 4 to the Original Financing Agreement.
19. “Sub-Project Agreement” means a written agreement to be entered into between MOHE and a Beneficiary in accordance with terms and conditions satisfactory to the Association, including those set forth in paragraph B.4 of Schedule 4 to the Original Financing Agreement.

**Section II. Amendment to the Original Financing Agreement**

The Original Financing Agreement is amended as follows:

1. The Closing Date as set out in Section 2.03 of the Original Financing Agreement is hereby extended to June 30, 2013.

**Section III. 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 (1) 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: (i) 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; and/or (ii) a declaration by another financier that the Project Implementing Entity is ineligible to receive proceeds of financings made by such financier or otherwise to participate in the preparation or implementation of any project financed in whole or in part by such financier as a result of a determination by such financier that the Project Implementing Entity has engaged in fraudulent, corrupt, coercive or collusive practices in connection with the use of the proceeds of a financing made by such financier.”

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.”

#### **Section IV. Modifications to the Anti-Corruption Guidelines**

The modifications to the Anti-Corruption Guidelines are as follows:

1. Section 5 is re-numbered as Section 5(a) and a new Section 5(b) is added to read as follows:
 

“... (b) These Guidelines also provide for the sanctions and related actions to be imposed by the Bank on Borrowers (other than the Member Country) and all other individuals or entities who are recipients of Loan proceeds, in the event that the Borrower or the individual or entity has been debarred by another financier as a result of a determination by such financier that the Borrower or the individual or entity has engaged in fraudulent, corrupt, coercive or collusive practices in connection with the use of the proceeds of a financing made by such financier.”
2. Section 11(a) is modified to read as follows:
 

“... (a) sanction in accordance with prevailing Bank’s sanctions policies and procedures (fn13) a Borrower (other than a Member Country) (fn 14) or an individual or entity, including (but not limited to) declaring such Borrower, individual or entity ineligible publicly, either indefinitely or for a stated period of time: (i) to be awarded a Bank-financed contract; (ii) to benefit from a Bank-financed contract, financially or otherwise, for example as a sub-contractor; and (iii) to otherwise participate in the preparation or implementation of the project or any other project financed, in whole or in part, by the Bank, if at any time the Bank determines (fn 15) that such Borrower, individual or entity has engaged in corrupt, fraudulent, collusive, coercive or obstructive practices in connection with the use of loan proceeds, or if another financier with which the Bank has entered into an agreement for the mutual enforcement of debarment decisions has declared such person or entity ineligible to receive proceeds of financings made by such financier or otherwise to participate in the preparation or implementation of any project financed in whole or in part by such financier as a result of a determination by such financier that the Borrower or the individual or entity has



engaged in fraudulent, corrupt, coercive or collusive practices in connection with the use of the proceeds of a financing made by such financier.”

Footnotes to Anti-Corruption Guidelines:

“13. An individual or entity may be declared ineligible to be awarded a Bank financed contract upon completion of sanctions proceedings pursuant to the Bank’s sanctions policies and procedures, or under the procedures of temporary suspension or early temporary suspension in connection with an ongoing sanctions proceeding, or following a sanction by another financier with whom the Bank has entered into a cross debarment agreement, as a result of a determination by such financier that the firm or individual has engaged in fraudulent, corrupt, coercive or collusive practices in connection with the use of the proceeds of a financing made by such financier.”

“14. Member Country includes officials and employees of the national government or of any of its political or administrative subdivisions, and government owned enterprises and agencies that are not eligible to bid under paragraph 1.8(b) of the Procurement Guidelines or participate under paragraph 1.11(c) of the Consultant Guidelines.”

“15. The Bank has established a Sanctions Board, and related procedures, for the purpose of making such determinations. The procedures of the Sanctions Board sets forth the full set of sanctions available to the Bank. In addition, the Bank has adopted an internal protocol outlining the process to be followed in implementing debarments by other financiers, and explaining how cross-debarments will be posted on the Bank’s website and otherwise be made known to staff and other stakeholders.”