

Public Disclosure Authorized

CONFORMED COPY

GRANT NUMBER H275-AF

Project Agreement

(Private Sector Development Support Project)

between

INTERNATIONAL DEVELOPMENT ASSOCIATION

and

AFGHANISTAN INVESTMENT SUPPORT AGENCY

Dated March 8, 2007

GRANT NUMBER H275-AF

PROJECT AGREEMENT

AGREEMENT dated March 8, 2007, entered into between INTERNATIONAL DEVELOPMENT ASSOCIATION (the "Association") and AFGHANISTAN INVESTMENT SUPPORT AGENCY (the "Project Implementing Entity") (the "Project Agreement") in connection with the Financing Agreement of same date between Islamic Republic of Afghanistan (the "Recipient") and the Association (the "Financing Agreement"). The Association and the Project Implementing Entity hereby agree as follows:

ARTICLE I - GENERAL CONDITIONS; DEFINITIONS

- 1.01. The General Conditions (as defined in the Appendix to the Financing Agreement) constitute an integral part of this Agreement.
- 1.02. Unless the context requires otherwise, the capitalized terms used in the Project Agreement have the meanings ascribed to them in the Financing Agreement or the General Conditions.

ARTICLE II - PROJECT

- 2.01. The Project Implementing Entity declares its commitment to the objectives of the Project. To this end, the Project Implementing Entity shall carry out Part 1 and Part 2(a) of the Project in accordance with the provisions of Article IV of the General Conditions, and shall provide promptly as needed, the funds, facilities, services and other resources required for its Respective Parts of the Project.
- 2.02. Without limitation upon the provisions of Section 2.01 of this Agreement, and except as the Association and the Project Implementing Entity shall otherwise agree, the Project Implementing Entity shall carry out its Respective Parts of the Project in accordance with the provisions of the Schedule to this Agreement.

ARTICLE III - TERMINATION

- 3.01. For purposes of Section 8.05(c) of the General Conditions, the date on which the provisions of this Agreement shall terminate is twenty years after the date of this Agreement.

ARTICLE IV - REPRESENTATIVE; ADDRESSES

- 4.01. The Project Implementing Entity's Representative is the President and Chief Executive Officer of AISA.

4.02. The Association's Address is:

International Development Association
1818 H Street, NW
Washington, DC 20433
United States of America

Cable:	Telex:	Facsimile:
INTBAFRAD Washington, D.C.	248423(MCI) or 64145(MCI)	1-202-477-6391

4.03. The Project Implementing Entity's Address is:

Afghanistan Investment Support Agency (AISA)
Opposite Ministry of Foreign Affairs
Kabul
Afghanistan
Tel.: 93 (0) 20-210 3404
e-mail: info@aisa.org.af

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

INTERNATIONAL DEVELOPMENT ASSOCIATION

By

/s/ Mariam J. Sherman
Authorized Representative

AFGHANISTAN INVESTMENT SUPPORT AGENCY

By

/s/ Omar Zakhilwal
Authorized Representative

SCHEDULE

Execution of the Project Implementing Entity's Respective Parts of the Project

Section I. Institutional and Other Arrangements

A. General

1. The Project Implementing Entity shall be responsible for implementing Parts 1 and 2(a) of the Project under the oversight of its President and Chief Executive Officer.
2. (a) With respect to Part 1 of the Project, the Project Implementing Entity shall vest responsibility for implementation and monitoring in the Industrial Parks Development Department. To that end, the Project Implementing Entity shall ensure that the Industrial Parks Development Department is maintained, with functions, staffing and resources satisfactory to the Association. Specifically, the Industrial Parks Development Department shall be responsible for: (i) managing and overseeing the environmental and social assessments and design work; (ii) preparing bid documents for the industrial park, inviting and evaluating bids, and awarding contracts; (iii) hiring implementation supervision consultants to supervise the construction contractors so as to ensure quality; (iv) monitoring the work of the implementation supervision consultants by supervising the progress in terms of specification, quality and actual progress of the work; (v) implementing the Environment Management Plan and the Social Management Plan; (vi) overseeing the procurement of consultants, equipment and other services for implementing Part 1(b) of the Project; (vii) supervising the consultants' work, and designing and implementing the training program and study tours; (viii) preparing withdrawal applications for payments to consultants, vendors and other purchases; and (ix) managing the financial records for all industrial parks activities and preparing accounts for standard financial reporting and management.
- (b) Within the first two years of the operation of the industrial park, the Project Implementing Entity shall ensure that tenants of the industrial park form an investors association with terms of reference, duties and responsibilities clearly spelt out in a memorandum of understanding ("MOU") to be entered into between the investors association and the Project Implementing Entity.
- (c) After the first three years of the operation of the industrial park, the Project Implementing Entity shall use its best efforts to transfer the maintenance functions of the industrial park to private management by entering into a management contract, satisfactory to the Association, with such private management with respect to the industrial park. The

management contract shall spell out the functions, rights and responsibilities of the private management *vis-à-vis* the Project Implementing Entity and the investors association, including general maintenance and cleaning, environmental and social management, property inspection, reporting on the state of the property, and security. The private management shall collect utility service charges from tenants but not the lease rents or sales installments, which shall remain responsibilities of the Project Implementing Entity. The Project Implementing Entity shall retain the authority/responsibility to market industrial plots, award leases or sale industrial plots, draw up, negotiate and re-negotiate sales/lease agreements, cancel leases, collect installment payments on sales and rentals, and prepare operational and capital budgets. The private management may sub-contract certain activities, subject to approval of the Project Implementing Entity. The private management shall employ and supervise the maintenance, cleaning and security staff employed at the park. The private management shall be paid a management fee for its services.

B. Environment and Social Safeguards

1. The Project Implementing Entity shall no later than September 30, 2007 adopt a Social Management Plan acceptable to the Association in accordance with the Environment and Social Impact Assessment.
2. The Project Implementing Entity shall ensure that the Project is carried out in accordance with the Environment Management Plan and the Social Management Plan, and that the implementation of the Environment Management Plan and the Social Management Plan are adequately monitored and supervised throughout Project Implementation.
3. Except as the Association shall otherwise agree, the Project Implementing Entity shall not amend or waive any provision of the Environmental Management Plan or the Social Management Plan 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.
4. In implementing and monitoring the Environment Management Plan and the Social Management Plan, the Project Implementing Entity shall coordinate and work closely with NEPA, which shall also assist in developing the environmental management and monitoring capacity of the Project Implementing Entity.
5. The Project Implementing Entity shall ensure that no land acquisition is carried out under the Project without prior consultation with the Association, and that any resettlement of people, property or businesses is carried out in accordance with a plan approved by the Association prior to the commencement of such resettlement or the payment of any compensation related thereto.

Section II. Project Monitoring, Reporting, Evaluation

A. Project Reports

1. The Project Implementing Entity shall monitor and evaluate the progress of its Respective Parts of the Project and prepare Project Reports for its Respective Parts of the Project in accordance with the provisions of Section 4.08(b) of the General Conditions and on the basis of indicators agreed with the Association. Each such Project Report shall cover the period of one calendar quarter, and shall be furnished to the Recipient not later one month after the end of the period covered by such report for incorporation and forwarding by the Recipient to the Association of the overall Project Report.
2. The Project Implementing Entity shall provide to the Recipient not later than four (4) months after the Closing Date, for incorporation in the report referred to in Section 4.08(c) of the General Conditions all such information as the Recipient or the Association shall reasonably request for the purposes of such Section.

B. Financial Management, Financial Reports, Audits

1. The Project Implementing Entity shall maintain a financial management system and prepare financial statements in accordance with consistently applied accounting standards acceptable to the Association, both in a manner adequate to reflect the operations and financial condition of the Project Implementing Entity, including the operations, resources and expenditures related to its Respective Parts of the Project.
2. The Project Implementing Entity shall have its financial statements referred to above audited by independent auditors acceptable to the Association, in accordance with consistently applied auditing standards acceptable to the Association. Each audit of these financial statements shall cover the period of one fiscal year of the Recipient. The audited financial statements for each period shall be furnished to the Association not later than six (6) months after the end of the period.

Section III. Procurement

All goods, works and services required for the Project (including for the Project Implementing Entity's Respective Parts of the Project) and to be financed out of the proceeds of the Grant shall be procured in accordance with the provisions of Schedule 2 to the Financing Agreement.

Section IV. Other Undertakings

1. The Project Implementing Entity shall, no later than June 30, 2007, hire an implementation supervision consultant with terms of reference, qualifications and experience satisfactory to the Association, who shall work under the Industrial

Parks Development Department to ensure timely and quality implementation of Part 1 of the Project.

2. The Project Implementing Entity shall, no later than March 1, 2007, hire an environment specialist and a social development specialist, with terms of reference, qualifications and experience satisfactory to the Association.
3. The Project Implementing Entity shall no later than September 30, 2007 carry out base line surveys of: (i) private sector views on the Recipient's private sector policies; and (ii) time taken and costs incurred to start a business.