

Public Disclosure Authorized

CONFORMED COPY

IDA GRANT NUMBER H163-AF

Development Grant Agreement

(Emergency Transport Rehabilitation Project – Supplemental Financing)

between

ISLAMIC REPUBLIC OF AFGHANISTAN

and

INTERNATIONAL DEVELOPMENT ASSOCIATION

Dated June 16, 2005

IDA GRANT NUMBER H163-AF

DEVELOPMENT GRANT AGREEMENT

AGREEMENT, dated June 16, 2005, between ISLAMIC REPUBLIC OF AFGHANISTAN (the Recipient) and INTERNATIONAL DEVELOPMENT ASSOCIATION (the Association).

WHEREAS (A) the Recipient (in its capacity as Borrower) and the Association have entered into a Development Credit Agreement dated March 17, 2003 as amended to date, (the Development Credit Agreement) for the purpose of assisting in the financing of the project described in Schedule 2 to the Development Credit Agreement (the Project);

(B) the Recipient has requested the Association to provide additional financing in support of the Project through a grant in an amount in various currencies equivalent to twenty nine million nine hundred thousand Special Drawing Rights (SDR 29,900,000) (the Grant);

WHEREAS the Association has agreed, on the basis, *inter alia*, of the foregoing, to provide such additional financing to the Recipient upon the terms and conditions set forth in this Agreement;

NOW THEREFORE, the parties hereto hereby agree as follows:

ARTICLE I

General Conditions; Definitions

Section 1.01. The “General Conditions Applicable to Development Credit Agreements” of the Association, dated January 1, 1985 (as amended through May 1, 2004), with the modifications set forth in Schedule 2 to this Agreement (the General Conditions), constitute an integral part of this Agreement.

Section 1.02. (a) Unless the context otherwise requires, the terms defined in the Development Credit Agreement, the Preamble to this Development Grant Agreement and in the General Conditions (as defined in Section 1.01, above) used in this Development Grant Agreement shall have the meanings set forth in the Development Credit Agreement, and the term “MOT” means the Borrower’s Ministry of Transport or any successor thereto.

ARTICLE II

The Grant

Section 2.01. The Association agrees to make available to the Recipient, on the terms and conditions set forth or referred to in this Agreement, an amount in various currencies equivalent to twenty nine million nine hundred thousand Special Drawing Rights (SDR 29,900,000).

Section 2.02. The amount of the Grant may be withdrawn from the Grant Account in accordance with the provisions of Schedule 1 to this Agreement for expenditures made (or, if the Association shall so agree, to be made) in respect of the reasonable cost of goods, works and services required for carrying out the Project and to be financed out of the proceeds of the Grant.

Section 2.03. The Closing Date shall be June 30, 2007 or such later date as the Association shall establish. The Association shall promptly notify the Recipient of such later date.

Section 2.04. (a) The Recipient shall pay to the Association a commitment charge on the principal amount of the Grant not withdrawn from time to time at a rate to be set by the Association as of June 30 of each year, but not to exceed the rate of one-half of one percent (1/2 of 1%) per annum.

(b) The commitment charge shall accrue: (i) from the date sixty (60) days after the date of this Agreement (the accrual date) to the respective dates on which amounts shall be withdrawn by the Recipient from the Grant Account or canceled; and (ii) at the rate set as of the June 30 immediately preceding the accrual date and at such other rates as may be set from time to time thereafter pursuant to paragraph (a) above. The rate set as of June 30 in each year shall be applied from the next date in that year specified in Section 2.05 of this Agreement.

(c) The commitment charge shall be paid: (i) at such places as the Association shall reasonably request; (ii) without restrictions of any kind imposed by, or in the territory of, the Recipient; and (iii) in United States Dollars or in such other eligible currency or currencies as may from time to time be designated or selected pursuant to the provisions of Section 4.02 of the General Conditions.

Section 2.05. Commitment charges shall be payable semiannually on February 1 and August 1 in each year.

ARTICLE III

Execution of the Project

Section 3.01. (a) Subject to paragraph (b), below, of this Section 3.01, Sections 3.01, 3.02, 3.03, 4.01, and 4.02 of the Development Credit Agreement and Schedules 1, (except the table in paragraph 1 thereof and the language in paragraph 3 related to the permissible retroactive financing), 2, 3, 4 and 5 are incorporated in this Agreement, with the following modifications in these sections and schedules, unless the context otherwise requires:

- (i) the term “Borrower” shall be read as “Recipient”;
- (ii) the term “Credit” and “Credit Account” shall be read as “Grant” and “Grant Account”; and
- (iii) the term “this Agreement” or “the Development Credit Agreement” shall be read as “the Development Grant Agreement”.

(b) So long as any part of the Credit provided for under the Development Credit Agreement shall remain outstanding and unless the Recipient has been notified otherwise by the Association:

- (i) all actions taken or to be taken, including approvals given or to be given or decisions made or to be made, by the Association or its representatives pursuant to any sections of, or schedules to, the Development Credit Agreement, which have been incorporated in this Development Grant Agreement in accordance with paragraph (a) of this Section 3.01 shall, as the context may require, when taken or given by the Association or its representatives, be deemed to have been taken or given by, and on behalf of, the Association or its representatives under both the Development Credit Agreement and this Development Grant Agreement;
- (ii) all actions taken, or to be taken, by the Recipient in its capacity as Borrower under the Development Credit Agreement, as well as any obligations assumed, performed or fulfilled, or to be assumed, performed or fulfilled by the Recipient in its capacity as Borrower pursuant to any sections of, or schedules to, the Development Credit Agreement, which have been incorporated in this Development Grant Agreement in accordance with paragraph (a) of this Section 3.01 shall, as the context may require, when taken by the Borrower, be deemed to have been

taken by the Borrower in that capacity in the Development Credit Agreement and the Recipient under this Development Grant Agreement;

- (iii) all information, notices or documentation furnished, or to be furnished, by the Recipient in its capacity as Borrower under the Development Credit Agreement to the Association pursuant to any sections of, or schedules to, the Development Credit Agreement, which have been incorporated in this Development Grant Agreement in accordance with paragraph (a) of this Section 3.01, shall, as the context may require, when furnished by the Recipient in its capacity as Borrower under the Development Credit Agreement to the Association, be deemed to have been furnished to the Association under both the Development Credit Agreement and under this Development Grant Agreement; and
- (iv) all matters or instances in respect of which the Recipient in its capacity as Borrower under the Development Credit Agreement has consulted or is required to consult the Association under any sections of, or schedules to, the Development Credit Agreement, which have been incorporated in this Development Grant Agreement in accordance with paragraph (a) of this Section 3.01, shall, as the context may require, when such consultation takes place between the Recipient in its capacity as Borrower under the Development Credit Agreement and the Association, be deemed to have involved a consultation between the Borrower and the Association under the Development Credit Agreement and the Recipient and the Association under this Development Grant Agreement.

ARTICLE IV

Effectiveness; Termination

Section 4.01. The date ninety (90) days after the date of this Development Grant Agreement is hereby specified for the purposes of Section 12.04 of the General Conditions.

Section 4.02. If this Development Grant Agreement shall terminate under the provisions of Section 4.01, above, and Section 12.04 of the General Conditions, the Development Credit Agreement, and all agreements supplemental thereto, shall continue in full force and effect, as if this Development Grant Agreement had not been executed.

Section 4.03. Upon this Development Grant Agreement coming into force and effect under the terms of Section 4.01, above, the provisions of the Development Credit Agreement, and all agreements supplemental thereto, shall remain in full force and effect.

ARTICLE V

Representative of the Recipient; Addresses

Section 5.01. The Minister of Finance of the Recipient is designated as representative of the Recipient for the purposes of Section 11.03 of the General Conditions.

Section 5.02. The following addresses are specified for the purposes of Section 11.01 of the General Conditions:

For the Recipient:

Ministry of Finance
Kabul
Islamic Republic of Afghanistan

For the Association:

International Development Association
1818 H Street, N.W.
Washington, D.C. 20433
United States of America

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

IN WITNESS WHEREOF, the parties hereto, acting through their duly authorized representatives, have caused this Agreement to be signed in their respective names in the District of Columbia, United States of America, as of the day and year first above written.

ISLAMIC REPUBLIC OF AFGHANISTAN

By

/s/ Said Tayeb Jawad
Authorized Representative

INTERNATIONAL DEVELOPMENT ASSOCIATION

By

/s/ Mariam J. Sherman
Authorized Representative

SCHEDULE 1

Withdrawal of the Proceeds of the Grant

1. The table below sets forth the Categories of items to be financed out of the proceeds of the Grant, the allocation of the amounts of the Grant to each Category and the percentage of expenditures for items so to be financed in each Category:

<u>Category</u>	<u>Amount of the Grant Allocated (Expressed in SDR Equivalent)</u>	<u>% of Expenditures to be Financed</u>
1. MPW		
(a) Works		
(i) under Parts A.1, A.2 and E.1 of the Project	3,320,000	100%
(ii) for Sub-projects under Part C of the Project	16,580,000	100%
(b) Goods under Parts A.1, A.2, C and E.1 of the Project	1,330,000	100%
(c) Consultants' services and training under Parts A.1, A.2 and D of the Project	1,990,000	100%
(d) Engineering services under Parts A.1, A.2 and C of the Project	0	100%
2. MOT		
(a) Works under Parts B.1, B.2 and E.2 of the Project	2,590,000	100%
(b) Goods under Parts B.1, B.2 and E.2 of the Project	1,330,000	100%
(c) Consultant's services and training under Parts B.1, B.2 of the Project	1,990,000	100%

<u>Category</u>	<u>Amount of the Grant Allocated (Expressed in SDR Equivalent)</u>	<u>% of Expenditures to be Financed</u>
(d) Engineering services under Parts B.1 and B.2 of the Project	0	100%
(3) Unallocated	770,000	
TOTAL	<u>29,900,000</u> =====	

2. If the Association shall have determined at any time that any amount of the Grant was used in a manner inconsistent with the provisions of this Agreement, the Recipient shall, promptly upon notice from the Association, refund to the Association for deposit into the Grant Account, an amount equivalent to the amount so used.

SCHEDULE 2

Modifications to the General Conditions

For the purpose of this Agreement, the provisions of the General Conditions are modified as follows:

1. Sections 3.02, 3.03, 3.04(a), 3.04(b), 6.05 and Article VII are deleted in their entirety.
2. Wherever used in the General Conditions, the following terms are modified to read as follows:
 - (a) The term “Borrower” is modified to read “Recipient”.
 - (b) The term “Credit” is modified to read “Grant”.
 - (c) The term “Credit Account” is modified to read “Grant Account”.
 - (d) The term “Development Credit Agreement” is modified to read “Development Grant Agreement”.
3. Section 1.01 is modified to read as follows:

“Section 1.01. Application of General Conditions

These General Conditions set forth the terms and conditions generally applicable to the Development Grant Agreement to the extent and subject to any modifications set forth in such agreement.”
4. Paragraph 3 of Section 2.01 is modified to read as follows:

“3. “Recipient” means the party to the Development Grant Agreement to which the Grant is made.”
5. Article III is modified as follows:
 - (a) The heading of Article III is modified to read “Grant Account; Partial Payment”, and the heading of Section 3.04 is modified to read “Partial Payment”.
 - (b) The words “The principal of, and service charges on, the Credit” in Section 3.05 are modified to read “All amounts required to be paid under the Development Grant Agreement”.

6. Article IV is modified as follows:

(a) Section 4.02(a) is modified to read as follows:

“Section 4.02. *Currencies in which Payments are to be Made*

(a) The Recipient shall pay all amounts required to be paid by it under the Development Grant Agreement in the currency specified in such agreement or in such other eligible currency or currencies as may from time to time be designated or selected pursuant to paragraph (c) or (e) of this Section.”

(b) Wherever used in Section 4.02(c) and (e) of the General Conditions, the words “principal and service charges” are modified to read “amounts”.

(c) Section 4.03 is modified to read as follows:

“Section 4.03. *Amount of the Grant*

The amount of the Grant withdrawn from time to time shall be the equivalent in terms of SDR (determined as of the date or respective dates of withdrawal from the Grant Account) of the value of the currency or currencies so withdrawn.”

(d) Section 4.06(b) is modified to read as follows:

“(b) All amounts which the Recipient shall be required to pay under the Development Grant Agreement shall be paid without restrictions of any kind imposed by, or in the territory of, the Recipient.”

7. Section 5.08 of the General Conditions is amended to read as follows:

“Section 5.08. *Treatment of Taxes*

Except as otherwise provided in the Development Grant Agreement, the proceeds of the Grant may be withdrawn to pay for taxes levied by, or in the territory of, the Recipient on the goods or services to be financed under the Grant, or on their importation, manufacture, procurement or supply. Financing of such taxes is subject to the Association’s policy of requiring economy and efficiency in the use of the proceeds of its credits and grants. To that end, if the Association shall at any time determine that the amount of any taxes levied on or in respect of any item to be financed out of the proceeds of the Grant is

excessive or otherwise unreasonable, the Association may, by notice to the Recipient, adjust the percentage for withdrawal set forth or referred to in respect of such item in the Development Grant Agreement as required to be consistent with such policy of the Association.”

8. Article VI is modified as follows:

- (a) The word “credit” in paragraphs (a)(ii) and (c)(i) of Section 6.02 is replaced with the words “credit, grant or financing”.
- (b) Section 6.03(c) is modified by replacing the words “corrupt or fraudulent” with the words “corrupt, fraudulent, collusive or coercive”.

9. Section 8.01(a) is modified to read as follows:

“(a) All amounts which the Recipient shall be required to pay under the Development Grant Agreement shall be paid without deduction for, and free from, any taxes levied by, or in the territory of, the Recipient.”

10. Section 12.05 and its heading are modified to read as follows:

“Section 12.05. *Termination of Development Grant Agreement.*

The obligations of the Recipient under the Development Grant Agreement shall terminate on the date twenty (20) years after the date of the Development Grant Agreement.”