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**GRANT NUMBER H680-AF**

# **Financing Agreement**

**(Afghanistan New Market Development Project)**

**between**

**ISLAMIC REPUBLIC OF AFGHANISTAN**

**and**

**INTERNATIONAL DEVELOPMENT ASSOCIATION**

**Dated July 3, 2011**

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**GRANT NUMBER H680-AF**

**FINANCING AGREEMENT**

AGREEMENT dated July 3, 2011, entered into between the ISLAMIC REPUBLIC OF AFGHANISTAN (“Recipient”) and INTERNATIONAL DEVELOPMENT ASSOCIATION (“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 this 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) (“Financing”) to assist in financing the project described in Schedule 1 to this Agreement (“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 1 and December 1 in each year.
- 2.05. The Payment Currency is Dollar.

### **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 the Ministry of Commerce and Industry (“MoCI”) 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 — TERMINATION**

- 4.01. The Effectiveness Deadline is the date ninety days (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 Ministry of Finance.
- 5.02. The Recipient’s Address is:

Ministry of Finance  
Pashtunistan Watt  
Kabul, 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/ Hazrat Omar Zakhilwal

Authorized Representative

INTERNATIONAL DEVELOPMENT ASSOCIATION

By/s/ Nicholas Krafft

Authorized Representative

## **SCHEDULE 1**

### **Project Description**

The objective of the Project is to help in the revitalization of private sector activities in the four major urban cities of Kabul, Mazar-e-Sharif, Jalalabad and Herat through the provision of business development technical assistance to support private firms' initiatives to gain market knowledge, improve product quality and processing technologies, and increase their presence in both domestic and export markets.

The Project consists of the following parts:

#### Part A: Facility for New Market Development (FNMD)

1. Providing FNMD Cost Sharing Grants to private firm and/or consortia of private firms and business associations in order to implement business plans to access new markets, through market research, product development, the adoption of quality standards and/or the acquisition of new technologies.
2. Developing and implementing a communication and marketing program and carrying out core-skills development workshops, in order to disseminate: (i) best practices on business and market development planning; (ii) the utilization of business development services; and (iii) the availability, accessibility and benefits of FNMD Cost Sharing Grants.
3. Providing technical support to private firms, consortia of private firms and/or business association eligible for FNMD Cost Sharing Grants in order to improve the depth and quality of their business development plans.

#### Part B: Project Implementation Support and Technical Assistance to MoCI

1. Strengthening the institutional capacity of MoCI through the establishment of a project management unit (PMU), in order to coordinate and implement the Project, fulfill its fiduciary duties thereunder, and carry Project related analytical work, including an ex-post impact assessment.
2. Developing MoCI's strategic business plan: (i) defining the priorities of its next five year development program; (ii) devising legislative or regulatory initiatives aimed at improving the investment climate and easing private sector growth constraint; and (iii) building a critical mass of managerial and professional staff.

## SCHEDULE 2

### Project Execution

#### Section I. Implementation Arrangements

##### A. Institutional Arrangements & Project Manuals

1. The Recipient shall vest the overall responsibility of the Project implementation in MoCI and to that end shall:
  - (a) establish, by no later than one (1) months after Effective Date, and thereafter maintain throughout the period of implementation of the Project, a project steering committee (“PSC”) chaired by the Recipient’s Minister of Commerce and Industry or his/her representative, and comprised of representatives of, *inter alia*, the ACCI and AISA; which committee shall be assigned with functions, responsibilities, staff and resources satisfactory to the Association as shall be required for the overall strategic policy guidance and oversight of Project implementation;
  - (b) establish, and thereafter maintain throughout the period of implementation of the Project, a project management unit (“PMU”) vested with the responsibilities for the daily management, coordination and monitoring of Project activities (other than management functions delegated to the FNMD Management Consultant pursuant to the Management Service Agreement), which unit shall: (i) be headed by a qualified and experienced Project Manager, satisfactory to the Association, assisted by competent staff in adequate numbers, acceptable to the Association; and (ii) be vested with such functions, powers, financial resources and competences, satisfactory to the Association, as shall be required to achieve its purposes and mandate, including, *inter alia*: (i) the hiring and oversight of the FNMD Management Consultant; and (ii) the development of MoCI’s five-year business plan;
  - (c) establish, by no later than one (1) months after Effective Date, and thereafter maintain, throughout the period of implementation of the Project, a budget committee for the Project (the “Project Budget Committee”), comprised of the representatives of MoF, MoCI and the FNMD Management Consultant as detailed in the FMM, which committee shall be vested with such functions, powers, resources and competencies, satisfactory to the Association, as shall be required for purposes of overseeing the overall budgeting process for the Project, including compliance with governmental budgeting principles, policies and procedures, preparation of annual work plans, and quarterly reviews

of incurred and forecasted expenditures. The Project Budget Committee shall report to the PSC;

- (d) select and engage, by no later than three (3) months after the Effective Date, and thereafter retain for at least twelve (12) months, an experienced and qualified internal auditor, acceptable to the Association, under terms or reference satisfactory to the Association, to carry out the internal audits of the Project account;
  - (e) select and engage, by no later than July 1, 2012, and thereafter retain throughout the period of implementation of the Project, under terms of reference satisfactory to the Association, a monitoring and evaluation consultant, acceptable to the Association, to be responsible for, *inter alia*: (i) carrying out annual assessments, on a statistically representative sample basis, of the impacts of the FNMD Cost Sharing Grants facility on the incremental business capacity of firms, their local sales and exports' value, and the resulting job market; and (ii) validating the completion by beneficiaries of the business development plans supported through FNMD Cost Sharing Grants; and
  - (f) select and engage, by no later than three (3) months after the Effective Date, and thereafter retain throughout the period of implementation of the Project, an experienced and qualified financial management specialist to the PMU, under terms of reference satisfactory to the Association.
2. The Recipient shall develop, adopt and apply, and cause the FNMD Management Consultant (as defined herein below) to adhere to and apply, throughout the period of implementation of the Project:
- (a) an operations manual for Part A of the Project (the "FNMD Operations Manual") in form and substance acceptable to the Association, setting forth, *inter alia*: (i) the allocation of responsibilities, functions and reporting lines between the PMU and the FNMD Management Consultant; (ii) the eligibility criteria for private firms, consortia of private firms and/or business associations to benefit from the FNMD Cost Sharing Grant (including *inter alia* the criteria set forth in Section I.B.4 below); (iii) the roles, responsibilities and operating procedures of the FNMD Management Committee; (iv) the screening protocols for the selection of Sub-projects; (v) the terms and conditions for the FNMD Cost Sharing Grants; (vi) the template Sub-grant Agreement for the FNMD Cost Sharing Grants; (vii) the procurement guidelines to be followed by FNMD Cost Sharing Grants' beneficiaries and the monitoring arrangements thereof; and (viii) the requirements and procedures for data verification, monitoring, reporting and evaluation, including third party validation, of Project's activities and/or Sub-projects; and

- (b) by no later than three (3) months after the appointment of the financial management specialist to the PMU, a financial management manual (the “FMM”), in form and substance acceptable to the Association, setting forth, *inter alia*: (i) minimum financial management staffing requirements for the Project, recruitment needs and applicable deadlines; (ii) the assignment of functions, powers and responsibilities for the financial management staff at the PMU and the FNMD Management Team; (iii) the reporting and information sharing protocols between the financial management staff of PMU and the FNMD Management Team; (iv) the policies and procedures for fund and asset management, procedures for the preparation of withdrawal applications and for the settlement of payments (including the defrayment of FNMD Cost Sharing Grants), accounting, maintenance of records, reporting regimes, security protocols and compliance with auditing requirements; and (v) the terms of reference of the Project Budget Committee.

The Recipient shall not amend, waive, suspend or abrogate, whether in whole or in part, either the FNMD Operations Manual or the FMM, without the prior written consent of the Association.

**B. FNMD Cost Sharing Grants**

1. The Recipient shall:

- (a) enter into a management service agreement (the “Management Service Agreement”) with a consulting firm (the “FNMD Management Consultant”), under terms of reference acceptable to the Association, for purposes of administering activities under Part A of the Project, including, *inter alia*: (i) the screening, technical evaluation and selection of Sub-project and FNMD Cost Sharing Grant beneficiaries; (ii) the execution and performance monitoring, on behalf of MoCI, of the respective Sub-grant Agreements to be entered with the beneficiaries of FNMD Cost Sharing Grants; (iii) the enforcement, monitoring and evaluation of compliance with ESMF and, where applicable, the Sub-project’s Environmental and Social Management Plans; (iv) the maintenance of computerized systems and accounting record regarding FNMD Cost Sharing Grant payments/expenditures; (v) the operation of the Grievance Redressal Mechanism; (vi) the support for mobilization and provision of business development services to private firms, consortia thereof and/or business associations; (vii) the preparation of case studies, trainings and workshops; and (viii) the establishment and operation of a management information system for Part A of the Project.
- (b) exercise its rights under the Management Service Agreement in such manner as to protect the interests of the Recipient and the Association and to accomplish the purposes of the Financing. The Recipient shall not



assign, amend, abrogate or waive the Management Service Agreement, whether in whole or in part, without the prior written consent of the Association.

2. The Recipient shall cause the FNMD Management Consultant to establish by no later than one (1) month after the signing of the Management Service Agreement, and thereafter maintain throughout the implementation of Part A of the Project:
  - (a) a management team (the “FNMD Management Team”), headed by a qualified and experienced Director, assisted by competent staff in adequate numbers as required in the FNMD Operations Manual, which team shall be responsible for daily administration of the Project activities under Part A of the Project;
  - (b) a management committee (the “FNMD Management Committee”), composed of the Director of FNMD Management Team and the account managers for each of the cities covered under the Project; which committee shall be responsible for the periodic review of proposals and selection of beneficiaries to be awarded FNMD Cost Sharing Grants, as well as the monitoring of the beneficiaries’ performance there under; and
  - (c) an *ad hoc* consultative group with representation from, *inter alia*, AISA, ACCI, Harakat and Peace Dividend Trust, in order to obtain technical advice for the FNMD Management Team and FNMD Management Committee as deemed necessary from time to time.
3. The Recipient shall cause the FNMD Management Consultant to publicly call for private firms and consortia of private firms or business associations located in Kabul, Mazar-e-Sharif, Jalalabad or Herat, to submit proposals for the financing of Sub-project through FNMD Cost Sharing Grants in accordance with the principles and procedures, and subject to the requirements, set forth in the FNMD Operations Manual; which requirements shall include that the proposal/application: (i) be deemed technically feasible; and (ii) be designed in accordance with appropriate business, environmental and social standards.
4. The Recipient, acting through the FNMD Management Consultant, shall make the FNMD Cost Sharing Grant available to private firms, consortia of private firms, and/or business associations in accordance with the eligibility criteria and procedures set forth in the FNMD Operations Manual, which criteria shall include the following:
  - (a) the firms’ scope of activities shall not include any of the activities described in the negative list set forth in Attachment 1 to this Schedule;
  - (b) the firms, consortia of private firms, and business associations shall be willing and capable of: (i) contributing counterpart resources, as required

in the FNMD Operations Manual for the specific FNMD Cost Sharing Grant; (ii) maintaining all relevant records, documents and information in respect of the financing received under the FNMD Cost Sharing Grant, and furnishing them to the FNMD Management Consultant, MoCI and/or the Association upon request; and (iii) submitting regular monitoring reports to the FNMD Management Consultant regarding the status and development of the respective Sub-projects;

- (c) the firms may be eligible to one or more FNMD Cost Sharing Grants up to an aggregate of US\$100,000 equivalent during the lifespan of the Project. Notwithstanding the foregoing, firms that, as part of their Sub-projects establish a representation or branch overseas, shall be entitled to additional FNMD Cost Sharing Grants for up to another US\$50,000 equivalent;
  - (d) consortia of private firms and business associations shall, in principle, be eligible to a single FNMD Cost Sharing Grant for up to a maximum of US\$150,000 equivalent. Notwithstanding the foregoing, the consortia and/or associations may be eligible for a second (additional) FNMD Cost Sharing Grant for up to a maximum of US\$100,000 equivalent, provided that the implementation of the business development plan supported under the first FNMD Cost Sharing Grant has been successfully completed;
  - (e) the firms, firm consortia and business associations shall maintain accounting systems and records satisfactory to the Association;
  - (f) the firms, firm consortia and business associations shall not be selected on political, discriminatory, ethnic, sectarian or exclusionary basis; and
  - (g) for purposes of FNMD Cost Sharing Grants to be awarded to consortia of private firms or business associations, the pre-requisites set forth in subparagraphs (a) and (b) above shall apply to all members of the consortia/association, individually considered.
5. Upon the selection by the FNMD Management Committee of a Sub-project proposal submitted by eligible private firms, consortia of private firms, or business associations for financing under the FNMD Cost Sharing Grants, the Recipient, acting through the FNMD Management Consultant, shall enter into a written agreement (the "Sub-grant Agreement") with each awardee, for the respective FNMD Cost Sharing Grant, on terms and conditions acceptable to the Association, which agreements shall provide, *inter alia*, that:
- (a) the grantee(s) shall: (i) declare its/their commitment to the objectives of the Project; and (ii) undertake to conduct its/their operations in accordance with sound financial, environmental and labor standards and

practices, including when applicable the respective Environmental and Social Management Plan;

- (b) the grantee(s) shall implement the approved Sub-project in compliance with the Procurement Guidelines, the Consultant Guidelines and the Anti-corruption Guidelines;
- (c) the grantee(s) shall: (i) establish and/or maintain satisfactory procedures and operational policies to allow the FNMD Management Consultant and the Association to carry out supervision and monitoring activities regarding the implementation of the approved Sub-project; and (ii) accept and cooperate with any random and unannounced physical or documentary inspections by the FNMD Management Consultant and/or the Association's representatives;
- (d) the grantee(s) shall maintain, up to three (3) years after the completion of its/their respective Sub-project(s), records and accounts adequate to reflect, in accordance with sound accounting practices, the operation, resources and expenditures incurred in respect of its/their respective Sub-project(s), and, upon the FNMD Management Consultant's and/or the Association's request, shall have such records and account audited in accordance with appropriate auditing principles consistently applied by an independent auditor;
- (e) in the event of FNMD Cost Sharing Grants to be awarded to consortia of private firms, all the firms in such consortia/association shall be deemed jointly and severally liable for all the obligations undertaken by the consortia/association;
- (f) the FNMD Management Consultant shall have the right to suspend or terminate, upon recommendation of the FNMD Management Committee, the right of the grantee(s) to use the proceeds of the FNMD Cost Sharing Grant:
  - (i) upon failure of the respective grantee(s) to perform its/their obligations under the Sub-grant Agreement, or upon notice by the Association that it intends to exercise any of its remedies under Section 4.02 of the General Conditions; or
  - (ii) upon the Association declaring the grantee(s) ineligible under the Anti-corruption Guidelines; and
- (g) the grantee(s) shall acknowledge the FNMD Management Consultant's rights of restitution of any amounts paid under the FNMD Cost Sharing Grants with respect to which fraud and corruption has occurred.

**C. FNMD Redressal Mechanism**

The Recipient shall develop and adopt, or cause the FNMD Management Consultant to develop and adopt, by no later than January 1, 2012, and thereafter implement throughout the lifespan of the Project, a grievance redressal mechanism (the “Grievance Redressal Mechanism”), satisfactory to the Association, establishing the principles, guidelines and procedures for private firms, and/or consortia or business associations thereof, to file any complaints regarding possible inclusion or exclusion errors, abuse of power or arbitrariness, in the selection of beneficiaries for the FNMD Cost Sharing Grants, and/or any failure in monitoring the implementation of the Sub-projects financed thereunder.

**D. Safeguards.**

1. The Recipient shall implement, and cause the FNMD Management Consultant to implement, the Project in accordance and compliance with the Environmental and Social Management Framework (“ESMF”) developed for the Project. To this end, the Recipient shall cause the FNMD Management Consultant to refrain from awarding any FNMD Cost Sharing Grant unless and until: (i) the screening of the Sub-project application has been carried out pursuant to ESMF; and (ii) if applicable, an appropriate Environmental and Social Management Plan setting forth the required mitigation measures for the Sub-project proposal under consideration has been developed.
2. The Recipient shall ensure, and cause the FNMD Management Consultant to ensure, that:
  - (a) no activities and/or Sub-projects that could potentially cause significant, irreversible, sensitive, diverse and/or unprecedented environmental and social damage are carried out under the Project;
  - (b) no activities and/or Sub-projects involving land taking are carried out under the Project. In the event that any land acquisition were required for a firm, firms consortium or a business association for the carrying out of its respective Sub-project, the Recipient shall ensure that such land be obtained by the firm, consortium or association, on a willing-buyer willing-seller basis;
  - (c) the proceeds of this Financing, including the proceeds on-granted under the FNMD Cost Sharing Grants, are not utilized for the purchase/acquisition of land; and
  - (d) no activities under the Project give rise to Displaced Persons.

**E. Anti-Corruption**

The Recipient shall ensure that the Project is 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 the indicators set forth below in paragraph (2) of this sub-section. Each Project Report shall cover the period of one (1) 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. The performance indicators referred to above in paragraph (1) consist of the following:
  - (a) by Closing Date, at least seven hundred and fifty (750) firms have benefited from the FNMD Cost Sharing Grants to increase productivity and innovation for researching and entering new markets;
  - (b) by Closing Date, the firms/associations benefiting from FNMD Cost Sharing Grants shall have evidenced an average increase in sales revenue from pre-grant levels of approximately twenty percent (20%);
  - (c) during the life-span of the Project, the firms/associations benefiting from FNMD Cost Sharing Grants shall have created at least one thousand five hundred (1,500) new jobs, with five percent (5%) of those positions taken by women; and
  - (d) by Closing Date, the firms benefiting from FNMD Cost Sharing Grants shall have developed at least twenty (20) new products/services, or opened/entered into (20) new markets.

**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 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 fiscal (1) year of the Recipient, commencing with the fiscal year for which the first withdrawal 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, Works and Non-consulting Services.** All goods, works and non-consulting 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 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, Works and Non-consulting Services**

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

<b>Procurement Method</b>
(a) National Competitive Bidding ( <i>subject to the additional procedures detailed in the Attachment 2 to this Schedule</i> )
(b) Shopping
(c) Established private sector or commercial practices acceptable to the Association.
(d) Direct Contracting

**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) Quality-Based Selection
(b) Selection Based on Consultants' Qualifications
(c) Least Cost Selection
(d) Fixed Budget Selection
(e) Single-Source Selection
(f) Individual Consultants
(g) Established private sector or commercial practices acceptable to the Association.

**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 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) Goods, works, non-consulting services, consultants’ services, Training and Workshops and Incremental Operating Costs for the Project	6,880,000	100%
(2) FNMD Cost Sharing Grants	7,120,000	100% of the amounts paid under the FNMD Cost Sharing Grants
<b>TOTAL AMOUNT</b>	<b>14,000,000</b>	

**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; and
  - (b) under Category (1), unless and until the Recipient has established the PMU pursuant to Section I.A.1(b) of this Schedule; and
  - (c) under Category (2), unless and until the Recipient has: (i) fulfilled the conditions set forth in sub-paragraph B.1 (b) above; (ii) entered into the Management Service Agreement with the FNMD Management Consultant; and (iii) developed and adopted the FNMD Operations Manual.
2. The Closing Date is February 29, 2016.



## **ATTACHMENT 1 to SCHEDULE 2**

### **Negative List of Activities**

1. Production or trade in any product or activity deemed illegal under the Recipient's laws or regulations, or under international conventions and agreements, or subject to international phase out and/or bans (e.g. pharmaceuticals, pesticides/herbicides, ozone depleting substances, Polychlorinated Biphenyls, wildlife or products regulated under the CITES).
2. Investments detrimental to the environment.
3. Investments destined to be used for the production poppy or poppy processing.
4. Production or trade in guns, mines, armaments or other military supplies.
5. Production or trade in alcoholic beverages.
6. Production or trade in tobacco.
7. Any activity on land that is considered dangerous due to security hazards or the presence of unexploded ordnance (i.e. mines, bombs).
8. Use of any land that has disputed ownership or tenure rights.
9. Production or activities involving harmful or exploitative forms of forced labor or child labor.
10. Equipment or infrastructure (e.g. pumps, deep bore wells) designed to exploit any underground water sources with diesel engines for irrigation or mass processing (e.g. washing, produce transport in processing plant), including the construction of tube-wells.
11. Crop and soil biocides (i.e. pesticides, herbicides, fungicides) that are shown to have toxic or noxious effects on humans.
12. Activity that would significantly damage non-replicable cultural property.
13. Production or trade in radioactive materials.
14. Production or trade in or use of non-bonded asbestos fibers.
15. Fishing in the marine environment using electric shocks and explosive materials.
16. Production or trade in wood or other forestry products other than from sustainably managed forests.

17. Production, trade, storage, or transport of significant volumes of hazardous chemicals, or commercial scale usage of hazardous chemicals. Hazardous chemicals include gasoline, kerosene, and other petroleum products.
18. Gambling, casinos and equivalent enterprises.
19. Activities involved with production, trade, transport and storage of ammonium nitrate fertilizer.

## **ATTACHMENT 2 to SCHEDULE 2**

### **Agreed Improved Procedures for National Competitive Bidding**

1. Standard bidding documents approved by the Association shall be used.
2. 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.
3. Bids shall not be invited on the basis of percentage premium or discount over the estimated cost.
4. Bidding documents shall be made available, by mail or in person, to all who are willing to pay the required fee.
5. Foreign bidders shall not be precluded from bidding.
6. 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.
7. Bidders may deliver bids, at their option, either in person or by courier service or by mail.
8. All bidders shall provide bid security or a bid security declaration form as indicated in the bidding documents. A bidder's bid security or the declaration form shall apply only to a specific bid.
9. Bids shall be opened in public in one place preferably immediately, but no later than one (1) hour, after the deadline for submission of bids.
10. 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.
11. Bids shall not be rejected merely on the basis of a comparison with an official estimate without the prior concurrence of the Association.
12. 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;

13. 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.
14. 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 four (4) weeks; and (B) for all subsequent requests for extensions irrespective of the period in case of prior review.
15. Negotiations shall not be allowed with the lowest evaluated or any other bidders.
16. Re-bidding shall not be carried out without the Association's prior concurrence in case of prior review; and
17. 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.

## APPENDIX

### Definitions

1. “ACCI” means the Afghanistan Chamber of Commerce and Industry, established and operating under the Recipient’s Chamber Law 2009.
2. “AISA” means the Afghanistan Investment Support Agency, established pursuant to Articles 6(b) and 8(c) of the Recipient’s Law on Private Investment in Afghanistan, as amended on December 6, 2005.
3. “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 and revised in January 2011.
4. “Category” means a category set forth in the table in Section IV of Schedule 2 to this Agreement.
5. “CITES” means the Convention on International Trade in Endangered Species of Wild Fauna and Flora, dated March 3, 1973.
6. “Consultant Guidelines” means the “Guidelines: Selection and Employment of Consultants under IBRD Loans and IDA Credits and Grants by World Bank Borrowers” published by the Bank in January 2011.
7. “Displaced Persons” means persons who, on account of the execution of the Project, have experienced or would experience direct economic and social impacts caused by: (a) the involuntary taking of land, resulting in: (i) relocation or loss of shelter; (ii) loss of assets or access to assets; or (iii) loss of income sources or means of livelihood, whether or not such persons must move to another location; or (b) the involuntary restriction of access to legally designated parks and protected areas, resulting in adverse impacts on the livelihood or such persons.
8. “Environmental and Social Management Framework” and the acronym “ESMF” mean the Recipient’s document dated March 26, 2011, containing the policy statements, guiding principles and procedures of reference in order to avoid, mitigate and minimize any adverse environmental and social impact under the Project, which document: (i) summarizes the appropriate roles and responsibilities in the screening of Project activities and Sub-projects; (ii) assesses the MoCI, PMU and FNMD Management Consultant’s needs for training and technical assistance on social and environmental matters, and outlines the program funding therefor; and (iii) evaluates potential environmental and social impacts of the Project, and indicates the required mitigation measures.

9. “Environmental and Social Management Plan” means any of the management plans setting forth the environmental and/or social mitigation measures consistent with the ESMF, to be implemented by a firm, firm consortium or business association benefiting from an FNMD Cost Sharing Grant, as the case may be, in the carrying out of the respective Sub-project, pursuant to the provisions of Section I.D.1 of Schedule 2 to this Agreement.
10. “FMM” means the Recipient’s financial management manual to be prepared by the Recipient pursuant to Section I.A.2(b) of Schedule 2 to this Agreement.
11. “FNMD Cost Sharing Grants” means, collectively, the matching grants to be provided by the Recipient to selected private firms and/or consortia of private firms and business associations under Part A.1 of the Project in amounts not to exceed the greater of: (i) US\$100,000 or fifty percent (50%) of the respective Sub-project proposals submitted by individual firms; and (ii) US\$150,000 or seventy percent (70%) of the respective Sub-project proposals submitted by consortia of private firms or business associations; and the term “FNMD Cost Sharing Grant” means, individually, any such grants.
12. “FNMD Management Consultant” means the consulting firm to be hired and retained throughout the implementation of Part A of the Project, pursuant to Section I.B.1 of Schedule 2 to this Agreement.
13. “FNMD Management Committee” means the committee to be established by the FNMD Management Consultant pursuant to Section I.B.2(b) of Schedule 2 to this Agreement.
14. “FNMD Management Team” means the team to be established by the FNMD Management Consultant pursuant to Section I.B.2(a) of Schedule 2 to this Agreement.
15. “FNMD Operations Manual” means the operations manual to be prepared by the Recipient pursuant to Section I.A.2(a) of Schedule 2 to this Agreement.
16. “General Conditions” means the “International Development Association General Conditions for Credits and Grants”, dated July 31, 2010.
17. “Grievance Redressal Mechanism” means the mechanism to be established pursuant to Section I.C of Schedule 2 to this Agreement in order to address any complaints or challenges filed by applicants to, and/or beneficiaries of, the FNMD Cost Sharing Grants.
18. “Harakat” means the Harakat-Afghanistan Investment Climate Facility Organization (H-AICFO), an independent, non-for-profit organization, established and operating under the laws of the Recipient, and registered with the Recipient’s Ministry of Economy under Registration No.248.

19. “Incremental Operating Costs” means the reasonable costs of incremental expenditures incurred by MoCI in relation to the implementation of the Project, which expenditures would not have been incurred absent the Project, including, *inter alia*: (i) office rental and utilities fees; (ii) office supplies and office equipment’s operation and maintenance; (iii) vehicles rental, operations and maintenance; (iv) in-country travel per diem and allowances for the PMU staff; (v) banking services and insurance costs; and (vi) advertisement, communication and dissemination expenses; (vii) translation and printing costs; (viii) salaries, allowances and other emoluments of incremental Project staff. However, the term “Incremental Operating Costs” does not include salaries or salary supplements of the Recipient’s civil servants.
20. “Management Service Agreement” means the agreement to be entered into by and between the Recipient and the FNMD Management Consultant, pursuant to Section I.B.1 of Schedule 2 to this Agreement, for the administration of activities under Part A of the Project.
21. “MoCI” means the Recipient’s Ministry of Commerce and Industry and/or any successor thereto.
22. “MoF” means the Recipient’s Ministry of Finance and/or any successor thereto.
23. “Peace Dividend Trust” means the not-for-profit organization headquartered in New York City, NY, United State, established and operating under Section 501(c)(3) of the Internal Revenue Code (USA) pursuant to the EIN/Tax ID number 98 0575195.
24. “PMU” means the Project’s management unit to be established within MoCI’s Private Sector Directorate, pursuant to Section I.A.1(b) of Schedule 2 to this Agreement.
25. “Procurement Guidelines” means the “Guidelines: Procurement of Goods, Works and Non-consulting Services under IBRD Loans and IDA Credits and Grants by World Bank Borrowers” published by the Bank in January 2011.
26. “Procurement Plan” means the Recipient’s procurement plan for the Project, dated March 29, 2011 and referred to in paragraph 1.18 of the Procurement Guidelines and paragraph 1.25 of the Consultant Guidelines, as the same shall be updated from time to time in accordance with the provisions of said paragraphs.
27. “Project Budget Committee” means the budgetary committee to be established by the Recipient pursuant to Section I.A.1(c) of Schedule 2 to this Agreement.
28. “PSC” means the Project’s steering committee to be established by MoCI, as set forth in Section I.A.1(a) of Schedule 2 to this Agreement.

29. “Sub-grant Agreement” means each of the written agreements to be entered by the FNMD Management Consultant with the selected private firms, firms consortia or business associations awarded a FNMD Cost Sharing Grant by the FNMD Management Committee pursuant to Section I.B.5 of Schedule 2 to this Agreement; and the term “Sub-grant Agreements” means, collectively, all said agreements.
30. “Sub-project” means any of the eligible investments, as defined in the FNMD Operations Manual and Section I.B.4 of Schedule 2 to this Agreement, proposed to be financed through FNMD Cost Sharing Grants under Part A.1 of the Project, including, *inter alia*: (i) market research; (ii) product development; (iii) acquisition of new technologies and productivity improvements; and (iv) adoption of new quality standards.
31. “Training and Workshops” means the reasonable costs of training, workshops and conferences relevant for the Project and carried out in the territory of the Recipient or, subject to the prior approval of the Association, attended abroad by MoCI’s officials and staff, including the purchase and publication of materials, rental of facilities, course fees and travel and subsistence of trainers and trainees.