Financing Agreement

(Access to Finance Project)

between

ISLAMIC REPUBLIC OF AFGHANISTAN

and

INTERNATIONAL DEVELOPMENT ASSOCIATION

Dated January 11, 2014
FINANCING AGREEMENT

AGREEMENT dated 21 January 2014 entered into between 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 thirty two million six hundred thousand Special Drawing Rights (SDR32,600,000) ("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 February 15 and August 15 in each year.

2.05. The Payment Currency is Dollars.
ARTICLE III — PROJECT

3.01. The Recipient declares its commitment to the objective of the Project. To this end, the Recipient shall carry out Part 2 of the Project through MOF and shall cause MISFA to carry out Part A in accordance with the provisions of Article IV of the General Conditions and the Project Agreement.

3.02. Without limitation upon the provisions of Section 3.01 of this Agreement, and except as the Recipient and the Association shall otherwise agree, the Recipient shall ensure that the Project is carried out in accordance with the provisions of Schedule 2 to this Agreement.

ARTICLE IV — REMEDIES OF THE ASSOCIATION

4.01. The Additional Events of Suspension consists of the following:

(a) MISFA’s Legislation has been amended, suspended, abrogated, repealed or waived so as to affect materially and adversely the ability of MISFA to perform any of its obligations under the Project Agreement; or

(b) ACGF’s Legislation has been amended, suspended, abrogated, repealed or waived so as to affect materially and adversely the ability of the ACGF to perform any of its obligations under the Implementing Partner Agreement; or

(c) the DEG Agreement shall have been breached, amended, waived or terminated without the prior approval of the Association; or

(d) the Implementing Partner Agreement shall have been breached, amended, waived or terminated without the prior approval of the Association.

ARTICLE V — EFFECTIVENESS; TERMINATION

5.01. The Additional Conditions of Effectiveness consist of the following, namely that the Project Operational Manuals have been submitted to the Association and found to be satisfactory.

5.02. The Effectiveness Deadline is the date ninety (90) days after the date of this Agreement.
5.03. For the 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 VI — REPRESENTATIVE; ADDRESSES

6.01. Except as provided in Section 2.02 of this Agreement, the Recipient's Representative is its Minister of Finance.

6.02. The Recipient's Address is:

Ministry of Finance
Pashtunistan Watt
Kabul
Islamic Republic of Afghanistan

Facsimile:
+93202103258

6.03. The Association's Address is:

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

Facsimile:
+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

Authorized Representative

Name: Hazrat Omar Zakhilwal
Title: Minister of Finance

INTERNATIONAL DEVELOPMENT ASSOCIATION

By

Authorized Representative

Name: Robert Saum
Title: Country Director
SCHEDULE 1

Project Description

The objective of the Project is to build institutional capacity to improve access to credit of micro, small and medium enterprises.

The Project consists of the following parts:

Part 1: Improving Access to Financial Services for Micro and Small Enterprises

1. Provision of Capacity Building Fund support to selected institutions to encourage (a) innovations, in, *inter alia*, new financial products and the use of technology to improve access to financial services; and (b) systems strengthening relating to, *inter alia*, business planning, internal controls, financial management and information management.

2. Provision of support to the selected agencies of the Recipient in charge of financial sector policy regulation and advocacy.

3. Provision of support to selected non-governmental organizations to assist in the scaling up of the Recipient’s TUP Program.

4. Provision of support to MISFA for the implementation of its strategic plan through, *inter alia*, the carrying out of studies to develop new financial services and the strengthening of its capacity.

Part 2: Improving Access to Financial Services for Small and Medium Enterprises

1. Provision of support to DEG and to ACGF, once it is legally established, for the issuance of partial credit guarantees to eligible PFIs.

2. Provision of support to DEG and to ACGF, once it is legally established, to provide technical assistance and training to selected commercial banks and micro finance institutions on best practice for small and medium enterprise lending.
SCHEDULE 2

Project Execution

Section I. Implementation Arrangements

A. Institutional Arrangements.

1. The Recipient, through MoF shall:

   (a) carry out Part 2 of the Project in accordance with the Guarantee Facility Operational Manual and the DEG Agreement or the Implementing Partner Agreement (as the case may be, depending on which such agreement is in effect from time to time in accordance with conditions set forth in Part B of this Section I); and cause MISFA to carry out Part 1 of the Project, in accordance with the Project Agreement and the MISFA Operational Manual; and not amend, delete or waive, or permit to be amended, deleted or waived, any provision of the aforementioned instruments without prior agreement thereon between the Recipient and the Association; and

   (b) maintain, at all times during Project implementation, a Project representative within MoF, with functions, resources and responsibilities acceptable to the Association, including, *inter alia*, the responsibility to coordinate and monitor the carrying out of the Project.

2. In the event of a conflict between the provisions of any of: (a) the MISFA Operational Manual or the Subsidiary Agreement, and the Project Agreement or this Agreement, the latter shall prevail; or

   (b) the DEG Agreement, the Implementing Partner Agreement or the Guarantee Facility Operational Manual and this Agreement, the latter shall prevail; or

   (c) the ESMF and the Project Agreement or this Agreement, the latter shall prevail.

B. DEG Agreement & Implementing Partner Agreement

1. For the purposes of carrying out of Part 2 of the Project, the Recipient, through MoF, shall:

   (a) enter into an agreement between the Recipient, through MoF, and DEG (the "DEG Agreement") under terms and conditions approved by the Association, which shall include, *inter alia*,

   (i) the terms and conditions upon which MoF shall make available to DEG a portion of the proceeds of the Financing required by
DEG for the carrying out of Part 2 of the Project in accordance with the Guarantee Facility Operational Manual; and

(ii) the obligations of DEG to: (A) carry out Part 2 of the Project until ACGF is legally established, in accordance with the sub-paragraph (D) of this section; (B) ensure that no proceeds from Financing made available by MoF to DEG for the carrying out of Part 2 of the Project, shall be used to finance items listed as excluded in the Guarantee Facility Operational Manual; (C) ensure that proceeds from the Financing made available by MOF to DEG are protected against set-off, seizure or attachment in a manner satisfactory to the Recipient and the Association; (D) ensure that ACGF is legally established in a manner satisfactory to the Recipient and the Association and in accordance with the requirements of the Guarantee Facility Operational Manual by no later than December 31, 2015; (E) ensure that all proceeds from the Financing made available by MoF to DEG for the carrying out of Part 2 of the Project shall be transferred to ACGF in a manner satisfactory to the Association, promptly upon the foregoing establishment of ACFG; and (F) in the event that ACGF fails to be legally established in a manner satisfactory to the Recipient and the Association prior to the Closing Date, at the request of the Recipient, refund the balance of the proceeds from the Financing made available by MOF to DEG for the carrying out of Part 2 of the Project for the purposes of paragraph 2 of this Section 1.B;

(b) exercise its rights under the DEG Agreement in such manner as to protect the interests of the Association and to accomplish the purposes of Part 2 of the Project, and, except as the Association shall otherwise agree, not assign, amend, abrogate or waive or fail to enforce any provision of the DEG Agreement;

(c) by no later than December 31, 2015, enter into a partnership agreement with ACGF (the “Implementing Partner Agreement”) under terms and conditions approved by the Association, which shall include, *inter alia*:

(i) the terms and conditions upon which MOF shall make available to ACGF a portion of the proceeds of the Financing required by ACGF for the carrying out of Part 2 of the Project in accordance with the Guarantee Facility Operational Manual; and

(ii) the obligations of ACGF to: (A) ensure that all proceeds from the Financing previously transferred to DEG under the DEG Agreement shall be transferred to ACGF; (B) carry out Part 2 of
the Project in accordance with the provisions of the Guarantee Facility Operational Manual and the Implementing Partnership Agreement; (C) ensure that no proceeds from Financing transferred by MoF to ACGF for the carrying out of Part 2 of the Project shall be used to finance items listed as excluded in the Guarantee Facility Operational Manual; (D) ensure that proceeds from the Financing transferred to ACGF will be protected against set-off, seizure or attachment in a manner satisfactory to the Association; and (E) at the request of the Recipient, refund the balance of the proceeds from the Financing made available by MOF to ACGF for the carrying out of Part 2 of the Project and remaining in ACGF as of the Closing Date for the purposes of paragraph 2 of this Section I.B; and

(d) exercise its rights under the Implementing Partner Agreement in such manner as to protect the interests of the Association and to accomplish the purposes of Part 2 of the Project, and, except as the Association shall otherwise agree, not assign, amend, abrogate or waive or fail to enforce any provision of the Implementing Partner Agreement.

2. In the event that any balance of the proceeds of the Financing made available by MOF to DEG pursuant to the DEG Agreement for Part 2 of the Project remains in DEG as of the Closing Date (notwithstanding the obligations of DEG to establish ACGF and transfer such funds to ACGF pursuant to paragraph 1(a)(ii)(D) and 1(a)(ii)(E), respectively, of this Section I.B); or in the event that any balance of the proceeds of the Financing transferred from DEG to ACGF, pursuant to the Implementing Partner Agreement for Part 2 of the Project, remains in ACGF as of the Closing Date, then the Recipient and the Association shall consult and reach agreement in writing on the terms and conditions for the use of that remaining balance by no later than the date which is four (4) months prior to the Closing Date, which use shall include the following terms and conditions:

(a) the Recipient and the Association shall agree in writing prior to the Closing Date that such remaining balance shall either:

(i) be retained by ACGF, as applicable, during the remaining period of any partial credit guarantee for which any portion of the proceeds of the Financing remains committed, subject to such provisions and oversight arrangements as agreed in writing between the Recipient, ACGF and the Association; or

(ii) in the case of proceeds of the Financing remaining in ACGF, be retained by ACGF, at the request of the Recipient, for the
duration of the existence of ACGF, subject to such provisions and oversight arrangements as agreed in writing between the Recipient, ACGF and the Association; or

(iii) be transferred back to the Recipient, upon the Recipient’s request, (A) in the case of DEG; and (B) in the case of ACGF, including upon its request for dissolution of ACGF, to be used for the purposes agreed to between the Recipient and the Association, subject to such provisions and oversight arrangements as agreed in writing between the Recipient, and the Association; and

(b) in the event that the Recipient and the Association are unable to reach agreement in writing before the Closing Date, then the balance remaining as of the Closing Date shall be refunded by ACGF or DEG, as applicable, to the Recipient to be refunded to the Association.

C. Subsidiary Agreement

1. In order to achieve the objectives of Part 1 of the Project, the Recipient, through MoF, shall make part of the proceeds of the Financing allocated from time to time to Category 1 of the table set forth in Section IV.A.2 of this Schedule available to MISFA under an agreement between MoF and MISFA, under terms and conditions approved by the Association, which shall include, inter alia, (a) the on-granting terms and conditions and (b) the obligation of MISFA to: (i) carry out Part 1 of the Project in accordance with the MISFA Operational Manual; (ii) maintain, on behalf of the Recipient, records and accounts adequate to reflect the operations, resources and expenditures under Part 1 of the Project; (iii) grant the Association the right to examine and audit such records and accounts; (iv) refund to the Recipient any portion of the Financing which the Association determines has been used in a manner inconsistent with the provisions of this Agreement or the General Conditions; (v) procure the goods and services required to carry out Part 1 of the Project in accordance with the provisions of Section III of this Schedule; and (vi) enable the Recipient to comply with its obligations under this Agreement;

2. The Recipient, through MOF, shall exercise its rights under the Subsidiary Agreement in such manner as to protect the interests of the Recipient and the Association and to accomplish the purposes of the Project, and except as the Association shall otherwise agree, the Recipient, through MoF, shall not assign, amend, abrogate, waive or fail to enforce any provision of the Subsidiary Agreement; and
3. The Recipient, through MOF, shall ensure that throughout Project implementation, MISFA, maintains adequate Project implementation structures with functions, powers, staff and resources necessary and appropriate to enable it to carry out its obligations under the Project.

D. Anti-Corruption

The Recipient, through MoF, shall ensure that the Project is carried out in accordance with the provisions of the Anti-Corruption Guidelines.

E. Safeguards

The Recipient, through MoF shall, and shall cause DEG, ACGF and MISFA, to:

1. carry out the Project in accordance with the ESMF, including the screening and mitigation measures set forth therein, in a manner satisfactory to the Association, and wherever an environmental and/or social management plan is required thereunder, have such plan prepared in accordance with the provisions of the ESMF and submitted to the Association for its prior review and approval thereafter adopted and locally disclosed; and

2. ensure that the Project shall not: (a) involve any compulsory land acquisition, forcible eviction and involuntary relocation of local population; or (b) introduce any restrictions on community access to natural resources unless voluntarily agreed and documented by said communities through a consultative process satisfactory to the Association.

Section II. Project Monitoring, Reporting and Evaluation

A. Project Reports

1. The Recipient through MoF shall, and shall cause MISFA to, 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 acceptable to 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.

B. Financial Management, Financial Reports and Audits

1. The Recipient, through MoF, shall, and shall cause MISFA to, maintain 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, through MoF shall prepare, and shall cause MISFA to 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, through MoF, shall, and shall cause MISFA to, 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 and Non-consulting Services. All goods 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 Sections II and III of the Procurement Guidelines, or Sections II, III, IV and V of the Consultant Guidelines, as the case may be.

B. Particular Methods of Procurement of Goods and Non-consulting Services

1. International Competitive Bidding. Except as otherwise provided in paragraph 2 below, goods 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:
Procurement Methods

(a) National Competitive Bidding (subject to the additional provisions agreed upon from time to time between the Recipient and the Association and set forth in the Procurement Plan).

(b) Shopping

(c) 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.

<table>
<thead>
<tr>
<th>Procurement Methods</th>
</tr>
</thead>
<tbody>
<tr>
<td>(a) Quality-Based Selection.</td>
</tr>
<tr>
<td>(b) Selection Based on Consultants' Qualifications.</td>
</tr>
<tr>
<td>(c) Least-Cost Selection.</td>
</tr>
<tr>
<td>(d) Selection under Fixed Budget.</td>
</tr>
<tr>
<td>(e) Single-Source Selection of consulting firms.</td>
</tr>
<tr>
<td>(f) Procedures set forth in paragraphs 5.2 and 5.3 of the Consultant Guidelines for the Selection of Individual Consultants.</td>
</tr>
</tbody>
</table>

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:

<table>
<thead>
<tr>
<th>Category</th>
<th>Amount of the Grant Allocated (expressed in SDR)</th>
<th>Percentage of Expenditures to be Financed (inclusive of Taxes)</th>
</tr>
</thead>
<tbody>
<tr>
<td>(1) Goods, non-consulting services, consultants’ services, Training and Operating Costs under Part 1 of the Project</td>
<td>20,860,000</td>
<td>100%</td>
</tr>
<tr>
<td>(2) Guarantees, goods, non-consulting services, consultants’ services, Training and Operating Costs under Part 2 of the Project</td>
<td>11,740,000</td>
<td>100%</td>
</tr>
<tr>
<td>TOTAL AMOUNT</td>
<td>32,600,000</td>
<td></td>
</tr>
</tbody>
</table>

For purposes of this Section IV:

(a) the term “Training” means non-consultant expenditures incurred in connection with the carrying out of workshops and the provision of training, including training institution fees, logistics, materials, study tours, and the cost of travel and per diem of trainers and trainees;

(b) the term “Operating Costs” means incremental costs incurred on account of Project implementation, support and management, including, office rent and utilities, office and equipment insurance, office maintenance and repair, vehicle maintenance and repair, communication and other administrative costs directly associated with, and necessary under, the Project, but excluding salaries of officials and staff of the Recipient’s civil service; and

(c) the term “Guarantees” means partial credit guarantees under Part 2.1 of the Project in accordance with the Guarantee Facility Operational Manual and: the DEG
Agreement, in the case of DEG, and the Implementing Partner Agreement, in the case of ACGF.

B. Withdrawal Conditions; Withdrawal Period

1. Notwithstanding the provisions of Part A of this Section no withdrawal shall be made for:

   (a) payments under Category (1) unless the Subsidiary Agreement has been duly entered into; or

   (b) payments under Category (2) unless the DEG Agreement has been duly entered into.

2. The Closing Date is December 31, 2018.
APPENDIX

Section I. Definitions

1. "ACGF" means Afghanistan Credit Guarantee Foundation, to be established by the Recipient for the purposes of assisting in the implementation of Part 2 of the Project.

2. "ACGF Legislation" means ACGF’s Articles of Association, acceptable to the Association providing for the establishment and subsequent operation of ACGF.


4. "Capacity Building Fund" means the fund managed by MISFA under Part 1 of the Project in accordance with the MISFA Operations Manual.

5. "Category" means a category set forth in the table in Section IV of Schedule 2 to this Agreement.


7. "DEG" means Deutsche Investitions und Entwicklungs gesellschaft mbH, a member of KFW, Bank aus Verantwortung a German government–owned development bank.

8. "DEG Agreement" means the agreement referred to in Section I.B.1(a) of Schedule 2 to this Agreement.

9. "ESMF" means the Recipient’s Environment and Social Management Framework, acceptable to the Association, disclosed on October 16, 2013, and set forth as an annex to the Project Operational Manuals (as hereinafter defined), describing a framework and screening criteria applicable to activities proposed to be supported under the Project (including a list of items excluded from financing under the Project), designed to maximize the social and environmental benefits accruing under the Project and avoid or mitigate any adverse impacts, and such term includes all schedules and agreements supplemental to the ESMF, including any environmental management plans, prepared pursuant to the ESMF; as such ESMF may be amended from time to time by agreement between the Recipient and the Association.
10. “Financial Management Manual” means the financial management manual for the Project set forth as an annex to Project Operational Manuals (as hereinafter defined), which manual provides for the financial management obligations under the Project, as such manual may be amended from time to time by agreement between the Recipient and the Association.


12. “Guarantee Facility Operational Manual” means the Operational Manual for Part 2 of the Project, adopted initially by DEG and, once established, by ACGF, acceptable to the Association, which describes the detailed Project implementation and institutional arrangements for Part 2 of the Project, including, *inter alia*, eligibility criteria for the selection of the PFIs (as hereinafter defined), a list of activities excluded from financing under Part 2 of the Project, and is comprised of, among others, the ESMF, the Financial Management Manual, and the Procurement Plan, as such manual may be amended from time to time by agreement between the Recipient and the Association.

13. “Implementing Partner Agreement”, means the agreement referred to in Section I.B.1(c) of Schedule 2 to this Agreement.


15. “MISFA’s Legislation” means MISFA’S Memorandum of Association, dated March 14, 2006, and Articles of Association, dated March 16, 2006, as amended to the date of this Agreement.

16. MoF” means the Recipient’s Ministry of Finance, or any successor thereof.

17. “MSME” means Micro-Small and Medium Enterprises, selected in accordance with the criteria referred to in the MISFA Operational Manual.

18. “MISFA Operational Manual” means the Operational Manual for Part 1 of the Project, adopted by the Recipient and MISFA, acceptable to the Association, which describes the detailed Project implementation and institutional arrangements for Part 1 of the Project, including, *inter alia*, eligibility criteria for the selection of participating institutions under Part 1 of the Project, a list of activities excluded from financing under Part 1 of the Project, and is comprised of, among others, the ESMF, the Financial Management Manual, the Procurement Plan, the Subsidiary Agreement framework, as such manual may be
amended from time to time by agreement between the Recipient and the Association.

19. “PFI” means Participating Financial Institutions, selected in accordance with the criteria referred to in the Guarantee Facility Operational Manual to participate in Part 2 of the Project.


21. “Procurement Plan” means the Recipient’s procurement plan for the Project, dated October 3, 2013 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.


23. “Strategic Plan” means MISFA’s strategic plan approved by MISFA’s Board on April 30, 2013.

24. “Subsidiary Agreement” means the agreement referred to in Section I.C.1 of Schedule 2 to this Agreement.

25. “TUP Program” means, the Recipient’s Targeting the Ultra Poor Program, implemented by MISFA, which program provides financial and non-financial support to selected individuals to move from extreme poverty to above the poverty line.