Financing Agreement

(Urban Development Support Project)

between

ISLAMIC REPUBLIC OF AFGHANISTAN

and

INTERNATIONAL DEVELOPMENT ASSOCIATION

Dated July 12, 2017
GRANT NUMBER D1910- AF

FINANCING AGREEMENT

AGREEMENT dated July 12, 2017, 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 fourteen million eight hundred thousand Special Drawing Rights (SDR 14,800,000) ("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 January 15 and July 15 in each year.

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

3.01. The Recipient declares its commitment to the objectives of the Project. To this end, the Recipient shall carry out the Project, through its MUDH, 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 — EFFECTIVENESS; TERMINATION

4.01. The Effectiveness Deadline is the date ninety (90) days after the date of this Agreement.

4.02 For purposes of Section 8.05 (b) of the General Conditions, the date on which the obligations of the Recipient under this Agreement (other than those providing for payment obligations) shall terminate is twenty (20) years after the date of this Agreement.

ARTICLE V — REPRESENTATIVE; ADDRESSES

5.01. The Recipient’s Representative is its Minister of Finance.

5.02. The Recipient’s Address is:

Ministry of Finance
Pashtunistan Watt
Kabul
Islamic Republic of Afghanistan

Facsimile:

+93-20-210-3258

5.03. The Association’s Address is:

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

[Signature]

Authorized Representative

Name: [Signature]

July 12, 2017

Title: Minister

INTERNATIONAL DEVELOPMENT ASSOCIATION

By

[Signature]

Authorized Representative

Name: Shubham Chaudhry

Title: Country Director
SCHEDULE 1

Project Description

The objectives of the Project are to: (a) create an enabling policy framework and enhance urban policy making capacity in relevant agencies at the national level; and (b) strengthen city planning, management and service delivery capacity in the Participating Provincial Capital Cities (PCCs).

The Project consists of the following parts:

Component 1 – Urban Information: Building an Urban Management Information System (UMIS)
(a) Creation of database and web architecture for the UMIS.
(b) Design and implementation of surveys, and analysis of data gathered by municipalities.
(c) Annual data update as well as the maintenance of hardware and software of the UMIS.

Component 2 – Urban Institutions: Institutional and Capacity Development
(a) Implementation of a functional review of the urban planning functions and capacities of MUDH and other relevant agencies, as well as the planning functions and capacities under the Participating PCCs, and the preparation of an action plan of technical assistance under the Project.
(b) Provision of technical assistance and advisory services for capacity development in MUDH and the Participating PCCs in select areas, including urban policies, procurement, contract management, financial management and internal audit, all in accordance with the results of the functional review referred to in para (a) of this Component.
(c) Preparation of policy notes and strategy papers in select areas, including, but not limited to: (i) planning and land use management; (ii) urban regeneration through public private partnerships; (iii) affordable housing; and (iv) municipal finance.
(d) Provision of training through in-country structured training programs, as well as the customized out-of-country group and individual training programs.

Component 3 – Urban Integration: Strengthening Urban Planning at National and Local Levels
(a) Development of curriculum for urban planning practitioners.
(b) Preparation of local strategic development plans, taking into account an inventory of existing planning and land use conditions, land use efficiency and service provision.

**Component 4 – Urban Investments: Feasibility and Design Studies for Urban Infrastructure**

(a) Preparation of the capital investment plans for MUDH and the Participating PCCs.

(b) Preparation of feasibility studies for both priority and catalytic projects, as well as detailed design for priority projects identified in the capital investment plans in the Participating PCCs.

**Component 5: Project Management and Administration**

Support to the MUDH to manage and coordinate the Project’s technical operation and implementation as well as monitoring and evaluation, through provision of non-consulting services, consultants’ services, goods, Incremental Operating Costs and Training.
SCHEDULE 2

Project Execution

Section 1. Implementation Arrangements

A. Institutional Arrangements.

The Recipient shall, throughout the implementation of the Project, maintain the Project Core Team (PCT) within MUDH, led by a qualified and experienced Project Director satisfactory to the Association, under terms of reference acceptable to the Association, and assigned staff and resources in adequate numbers acceptable to the Association, including the professional specialization in: (i) financial management, (ii) procurement, (iii) environment and social safeguards, (iv) monitoring and evaluation, and (v) national technical issues on four selected areas of policy work.

B. Anti-Corruption

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

C. Safeguards.

1. The Recipient shall:

   (a) ensure that the Project is carried out in accordance with the ESMF and RPF, in a manner and substance satisfactory to the Association;

   (b) ensure that all strategic development plans, feasibility studies, detailed designs, investment plans and other plans to be prepared under the Project, include the preparation of the ESMPs and/or RAPs in a manner and substance satisfactory to the Association and as required by the ESMF and RPF, respectively; and

   (c) refrain from amending, suspending, waiving, abrogating, and/or voiding any provision of the Safeguards Instruments, in whole or in part, without the prior written agreement of the Association.

2. By December 31, 2018, the Recipient shall establish, and thereafter maintain a grievance redress mechanism for the Project, with staffing and operating procedures acceptable to the Association, for monitoring and addressing the concerns of people affected by the Project and building public and stakeholder support for the Project.
3. The Recipient shall maintain policies and procedures adequate to enable it to monitor and evaluate, in accordance with guidelines acceptable to the Association, the implementation of the ESMF and RPF, and, where applicable, the preparation of the ESMPs and RAPs. Without limiting its other reporting obligations under this Agreement, the Recipient shall take all necessary measures to collect, compile and submit to the Association, as part of the Project Reports, information on the status of compliance with the ESMF and RPF, giving details of:

(a) measures taken in furtherance of the Safeguards Instruments;

(b) conditions, if any, which interfere or threaten to interfere with the smooth implementation of the ESMF and RPF; and

(c) remedial measures taken or required to be taken immediately to address such conditions.

4. In the event of any inconsistency between the provisions of any of the Safeguards Instruments and the provisions of this Agreement, the provisions of this Agreement shall prevail.

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 acceptable to the Association. Each Project Report shall cover the period of one 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. For purposes of Section 4.08 (c) of the General Conditions, the report on the execution of the Project and related plan required pursuant to that Section shall be furnished to the Association not later than six (6) months after the Closing Date.

B. Financial Management, Financial Reports and Audits

1. The Recipient shall maintain or cause to be maintained a financial management system in accordance with the provisions of Section 4.09 of the General Conditions.

2. The Recipient shall prepare and furnish to the Association not later than forty-five (45) days after the end of each calendar quarter, interim unaudited financial reports for the Project covering the quarter, in form and substance satisfactory to the Association.
3. The Recipient shall have its Financial Statements audited in accordance with the provisions of Section 4.09 (b) of the General Conditions. Each audit of the Financial Statements shall cover the period of one 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 and Non-consulting Services.** The following methods, other than National Competitive Bidding, may be used for procurement of good and non-consulting services for those contracts specified in the Procurement Plan: (a) National Competitive Bidding, subject to additional provisions agreed upon from time to time between the Recipient and the Association and set forth in the Procurement Plan; (b) Shopping; and (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 methods, other than Quality and Cost-based Selection, may be used for procurement of consultants’ services for those contracts which are specified in the Procurement Plan: (a) Quality-based Selection; (b) Selection under a Fixed Budget; (c) Least Cost Selection; (d) Selection based on Consultants’ Qualifications; (e) Single-source Selection of consulting firms; and (f) Single-source procedures for the Selection of Individual Consultants.

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 “Disbursement Guidelines for Investment Project Financing” dated February 2017, 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 Financing 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 Incremental Operating Costs for the Project</td>
<td>14,800,000</td>
<td>100%</td>
</tr>
<tr>
<td>TOTAL AMOUNT</td>
<td>14,800,000</td>
<td></td>
</tr>
</tbody>
</table>

B. Withdrawal Conditions; Withdrawal Period

1. Notwithstanding the provisions of Part A of this Section, no withdrawal shall be made for payments made prior to the date of this Agreement.

2. The Closing Date is June 30, 2020.
APPENDIX

Definitions


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


4. "Displaced Persons" means persons who, on account of the implementation 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; (iii) loss of income source 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 of such persons.

5. "Environmental and Social Management Framework" or "ESMF" means the Recipient's environmental and social management framework adopted by MUDH and disclosed on March 20, 2017, acceptable to the Association, setting out the principles, standards, processes and tools to be applied to assess potential adverse environmental and social impacts associated with Project activities and the ways to avoid, minimize and/or mitigate them, with related public consultation, disclosure, reporting and grievance redress procedures, including for the preparation of the Environmental and Social Management Plans and chance find procedures, as may be required for any strategic development plans, feasibility studies, detailed designs, investment plans or any other strategies and/or plans to be prepared under the Project, as said framework may be modified from time to time by agreement between the Recipient and the Association.

6. "Environmental and Social Management Plan" or "ESMP" means, individually, each environmental and social management plan, as may be required to be prepared, as applicable, by MUDH or any of the Participating PCCs, for any strategic development plans, feasibility studies, detailed designs, investment plans or any other strategies and/or plans to be prepared under the Project, in accordance with the ESMF and Section I.C.2 of Schedule 2 to this Agreement, as the same may be modified from time to time with the prior written agreement of the Association, and such term includes any annexes or schedules to such plan, and
"Environmental and Social Management Plans" and "ESMPs" means, collectively, all such plans.


8. "Incremental Operating Costs" means the reasonable costs of incremental expenditures incurred by MUDH in relation to the implementation of the Project which expenditures would not have been incurred absent the Project, including, inter alia: (a) office rental and utility fees; (b) office supplies; (c) office equipment operation and maintenance; (d) vehicles rental, operation and maintenance; (e) in-country travel per diem and allowances for the MUDH staff; (f) banking services and insurance costs; (g) advertisement, communication and dissemination expenses; (h) translation and printing costs; and (i) salaries and allowances of incremental Project staff. However, the term "Incremental Operating Costs" shall not include salaries or salary supplements of the Recipient's civil services.

9. "MUDH" means the Recipient's Ministry of Urban Development and Housing, or its successor thereto.

10. "Participating Provincial Capital Cities", or "Participating PCCs" means Herat, the provincial capital city of the Province of Herat of the Recipient, Mazar-i-Sharif, provincial capital city of the Province of Balkh of the Recipient, Kandahar, provincial capital city of the Province of Kandahar of the Recipient, Jalalabad, provincial capital city of the Province of Nangarhar, and Khost, the provincial capital city of the Province of Khost.


12. "Procurement Plan" means the Recipient's procurement plan for the Project, dated April 25, 2017 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.

13. "Project Core Team" or its acronym "PCT" means an implementation unit within MUDH, responsible for the day-to-day Project implementation as well as coordination and engagement with agencies at the national and local level, to be maintained by the Recipient in accordance with Section 1.A of Schedule 2 to this Agreement.

14. "Resettlement Action Plan" or "RAP" means, individually, each of the Recipient's resettlement action plans, as may be required to be prepared for any strategic development plans, feasibility studies, detailed designs, investment plans, or any
other strategies and/or plans to be prepared under the Project, in accordance with
the RPF and Section I.C.2 of Schedule 2 to this Agreement, acceptable to the
Association, as said plan may be revised from time to time by agreement between
the Recipient and the Association; and "Resettlement Action Plans" and "RAPs"
means, collectively, all such plans.

15. "Resettlement Policy Framework" or "RPF" means the Recipient's resettlement
policy framework adopted by MUDH and disclosed on March 20, 2017, acceptable
to the Association, setting out policies and procedures for addressing adverse
temporary or permanent social impacts resulting, or likely to result, from the
carrying out of the Project, including: (a) the principles, policies and procedures
and organizational arrangements; and (b) for the preparation of Resettlement
Action Plans as may be required for strategic development plans, feasibility
studies, detailed designs, investment plans, any other strategies and/or plans to be
prepared under the Project, as said framework may be revised from time to time
with the prior written agreement of the Association.

16. "Safeguard Instruments" means collectively the ESMF, ESMPs, RFP and RAPs.

17. "Training" means the reasonable costs of training, workshops and conference
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 selected officials and
staff related/relevant to the Project, including the purchase and publication of
materials, rental of facilities, course fees and travel and subsistence of trainers and
trainees.