Financing Agreement

(Additional Financing for Second Customs Reform and Trade Facilitation Project)

between

ISLAMIC REPUBLIC OF AFGHANISTAN

and

INTERNATIONAL DEVELOPMENT ASSOCIATION

Dated April 24, 2016
FINANCING AGREEMENT

AGREEMENT dated April 14, 2016, entered into between ISLAMIC REPUBLIC OF AFGHANISTAN ("Recipient") and INTERNATIONAL DEVELOPMENT ASSOCIATION ("Association") for the purpose of providing additional financing for activities related to the Original Project (as defined in the Appendix to this Agreement). 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 fifteen million three hundred thousand Special Drawing Rights (SDR 15,300,000) ("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 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 ACD assisted by the Project Implementing Consultant 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 Additional Condition of Effectiveness consists of the following, namely that the Management Service Agreement has been extended in a manner satisfactory to the Association to cover the entire period of Project implementation.

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

4.03. 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 years (20) 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:

+93202103258
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

Authorized Representative

Name: Shafiq Ahmad Karizada
Title: Acting Minister and DM for Revenues and Customs

INTERNATIONAL DEVELOPMENT ASSOCIATION

By

Authorized Representative

Name: Robert J. Saum
Title: Country Director
SCHEDULE 1

Project Description

The objective of the Project is to assist the Recipient to improve the release of legitimate goods in a fair and efficient manner.

The Project consists of the Original Project with the following modification to its Part D:

Part D: Customs infrastructure

1. Upgrading the physical infrastructure of selected ACD’s inland clearance depots, as well as selected ACD’s border posts, including, inter alia, site clearance and leveling, improvement of access and internal roads, construction improvement of truck parking area and warehouses within the existing walled facilities, provision and/or installation of cargo handling equipment and weighbridges, improvement of outer perimeters and fencing, construction of office block and peripheral facilities, provision of power connection, water supply and drainage installations, and designing and implementation of operations and maintenance plans thereof.

2. Carrying out feasibility studies for a multi-modal container freight station near to Jalalabad industrial park.
SCHEDULE 2

Project Execution

Section I. **Implementation Arrangements**

A. **Institutional Arrangements.**

1. The Recipient shall vest the overall responsibility for Project implementation in ACD. Without prejudice to the foregoing, the Recipient shall:

   (a) continue to maintain, throughout the period of implementation of the Project, a Project Steering Committee headed by the Minister of Finance (or his/her nominee), and comprised of the Deputy Minister of Finance for Customs and Revenue, the Director General of ACD, the Director Technical of ACD, the Director of Support and Development of ACD, the Director of Enforcement of ACD, the Director of Operations of ACD, the Director General of Budget of the Ministry of Finance, and the Director General of Treasury of the Ministry of Finance, which steering committee shall be vested with such functions, powers, resources and competencies, satisfactory to the Association, as shall be required for purposes of providing overall policy guidance, and ensuring inter-agency cooperation and general oversight of Project implementation, including approving the Annual Work Plans, and ensuring compliance with the legal covenants set out in this Agreement; and

   (b) continue to maintain, throughout the period of implementation of the Project, a Budget Committee, chaired by the Director General of ACD, and comprised of the representatives of MOF and the Project Implementing Consultant as detailed in the Financial Management Manual, 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 quarterly reviews of incurred and forecasted expenditures, preparation of Annual Work Plans for approval by the PSC, and compliance with governmental budgeting principles, policies and procedures.

2. To facilitate the carrying out of the Project, the Recipient shall:

   (a) 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; and
(b) refrain from amending, waiving, terminating, suspending and/or abrogating, whether in whole or in part, the Management Service Agreement without the prior written concurrence of the Association, which concurrence shall not be withheld unless, in the opinion of the Association, such amendment, waiver, termination, suspension and/or abrogation might materially or adversely compromise the successful implementation of the Project, or the achievement of its development objectives.

3. In the event of any conflict between any of the provisions of the Management Service Agreement and any of the provisions of this Agreement, the provisions of this Agreement shall prevail.

B. Project Manuals and Work Plans

1. The Recipient shall:

   (a) ensure that the Project shall be carried out in accordance with the Financial Management Manual; and

   (b) refrain from amending, waiving, terminating, suspending and/or abrogating, whether in whole or in part, the Financial Management Manual without the prior written concurrence of the Association, which concurrence shall not be withheld unless, in the opinion of the Association, such amendment, waiver, termination, suspension and/or abrogation might materially or adversely compromise the successful implementation of the Project, or the achievement of its development objectives.

2. In the event of any conflict between any of the provisions of the Financial Management Manual and any of the provisions of this Agreement, the provisions of this Agreement shall prevail.

3. The Recipient shall:

   (a) cause the Budget Committee to prepare and furnish to the Association, by no later than September 20th of each year, commencing on September 20, 2015, a detailed Annual Work Plan, in a form and substance satisfactory to the Association, setting out the time-bound program of Project activities for the Recipient's following fiscal year, including: (i) a forecast of the funds required for Project implementation, with breakdown by expected financing sources; (ii) an update of the Project's disbursement profile; and (iii) the Project indicators to be achieved during the fiscal year covered by the plan; and
thereafter, carry out the Project activities for the corresponding fiscal year as so provided in the Annual Work Plan discussed and agreed with the Association.

C. **Anti-Corruption**

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

D. **Safeguards.**

1. Before commencing any civil works or related design, feasibility or other studies, the Recipient shall:

   (a) carry out an environmental screening of the proposed activities in accordance with the Environmental and Social Safeguards Management Framework and, if necessary, on the basis of such screening, prepare a full Social and Environmental Impact Assessment, on terms and in substance satisfactory to the Association, in order to determine measures to be taken to prevent, minimize, mitigate or compensate any environmentally or socially adverse effects;

   (b) in the event that any civil works shall require mitigation measures pursuant to sub-paragraph (a) above, prepare an Environmental and Social Management Plan, on terms and in substance satisfactory to the Association, and in accordance with sound environmental practices and standards; and

   (c) thereafter, implement such works pursuant to the applicable Environmental and Social Management Plan, in a manner acceptable to the Association.

2. The Recipient shall take all measures necessary to avoid, where feasible, or minimize, activities requiring involuntary resettlement and/or giving rise to Displaced Persons. To this end, before commencing any civil works, the Recipient undertakes to furnish the Association with documentation, acceptable to the Association, evidencing that either (i) the allocated tract(s) of land is/are public land, free of encroachments and that the title(s) of such tract(s) has/ve been duly transferred to the relevant authorities; or (ii) the requirements of paragraph 3 below have been met.

3. In the event that any Project activity is likely to result in Displaced Persons, the Recipient shall:
(a) prior to commencing any such activity, prepare a Resettlement Action Plan, on terms and in substance satisfactory to the Association, in accordance with the policies and procedures set forth in the Environmental and Social Safeguards Management Framework; and

(b) thereafter, implement such activity pursuant to the said Resettlement Action Plan, in a manner acceptable to the Association.

4. The Recipient undertakes to refrain from amending, waiving, terminating, suspending and/or abrogating, whether in whole or in part, the Environmental and Social Safeguards Management Framework or, as the case may be, the Environmental and Social Management Plan and/or the Resettlement Action Plan, if in the opinion of the Association, such amendment, waiver, termination, suspension and/or abrogation might materially or adversely compromise the successful implementation of the Project, or the achievement of its development objectives.

5. In the event of any conflict between any provision of any of the Environmental and Social Safeguards Management Framework or any Environmental and Social Management Plan or Resettlement Action Plan, on the one hand, and any provision of this Agreement, on the other hand, the provisions of this Agreement shall prevail.

Section II. Project Monitoring, Reporting and Evaluation

A. Project Reports

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 indicators agreed with the Association. Each Project Report shall cover the period of one (1) fiscal year of the Recipient, 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 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 year of the Recipient, commencing with the fiscal year in 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:
Procurement Method

(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 Method</th>
</tr>
</thead>
<tbody>
<tr>
<td>(a) Quality-based Selection</td>
</tr>
<tr>
<td>(b) Selection under a Fixed Budget</td>
</tr>
<tr>
<td>(c) Least Cost Selection</td>
</tr>
<tr>
<td>(d) Selection based on Consultants' Qualifications</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>
<tr>
<td>(g) Single-source procedures 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 Financing Allocated (expressed in SDR)</th>
<th>Percentage of Expenditures to be Financed (inclusive of Taxes)</th>
</tr>
</thead>
<tbody>
<tr>
<td>(1) Goods, works and consultants' services, Training and Incremental Operating Costs for the Project</td>
<td>15,300,000</td>
<td>100%</td>
</tr>
<tr>
<td>TOTAL AMOUNT</td>
<td>15,300,000</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 December 31, 2016.
APPENDIX

Definitions

1. “ACD” means the Afghanistan Customs Department within the Recipient’s Ministry of Finance and any successor thereto.

2. “Annual Work Plan” means the time-bound program of Project activities to be prepared on an annual basis, pursuant to Section I.B.3 of Schedule 2 to this Agreement.


4. “Budget Committee” means the committee established by the Recipient pursuant to Section I.A.1(b) of Schedule 2 to this Agreement.

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


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 of such persons.

8. “Environmental and Social Management Plan” means each action plan to be prepared, if needed, pursuant to Section I.D.1 of Schedule 2 to this Agreement, setting out environmental and social measures, including, *inter alia*, monitoring, communication and documentation requirements, waste disposal protocols, traffic management arrangements, and emergency response/contingency plans, in order to address any adverse environmental and social impacts that might originate from the Project.

9. “Environmental and Social Safeguards Management Framework” means the environmental and social framework prepared and adopted by the Recipient on April 28, 2004, setting out, *inter alia*: (i) standards, principles, guidelines and mechanisms to assess/screen the potential negative and positive effects of Project
activities; (ii) recommendations to prevent or minimize the adverse social and environmental impacts thereof; (iii) codes of practice and procedures applicable to the preparation of environmental impact assessments; (iv) "chance-finding" protocols; (v) landmine risk management procedures; and (vi) capacity building requirements for the Project.

10. "Financial Management Manual" means the manual dated July 17, 2012 prepared by the Recipient with the assistance of the Project Implementing Consultant, setting out, inter alia: (i) the policies and procedures for fund and asset management, procedures for the preparation of withdrawal applications and for the settlement of payments, accounting, maintenance of records, reporting regimes, security protocols and compliance with auditing requirements; (ii) the terms of reference and composition of the Budget Committee; and (iii) the roles and responsibilities of the Project Implementing Consultant and ACD’s financial management staff, as well as any recruitment needs and applicable deadlines, as said manual may be amended from time to time by agreement between the Recipient and the Association.


12. "Incremental Operating Costs" means the reasonable costs of incremental expenditures incurred by ACD, which expenditures would not have been incurred absent the Project, including, inter alia: (i) rental of office space; (ii) the operation, maintenance, rental and insurance of vehicles; (iii) fuel costs; (iv) communications supplies and charges; (v) advertisement expenses; (vi) books and periodicals; (vii) office administration and maintenance costs; (viii) bank transaction charges; (ix) utility fees; and (x) domestic and international travel expenses, per diem, and allowances for the Recipient’s officers and employees; but excluding salaries of officials and/or the Recipient’s civil servants.

13. "Management Service Agreement" means the agreement dated December 28, 2010, between the Recipient and the Project Implementing Consultant under terms of reference acceptable to the Association, for purposes of assisting ACD with the fiduciary aspects of the Project and its day-to-day implementation, including: (i) preparation of procurement documents (and any subsequent changes/variations thereto); (ii) assistance in the preparation of the Annual Work Plans; (iii) evaluation of technical and financial proposals; (iv) development of terms of reference for, and negotiation of inter-agency arrangements with, UNCTAD and UNIDO to implement Parts A, D and E of the Project; (v) handling of procurement disputes; (vi) certification of performance/delivery of contractual obligations and quality control thereof; (vii) maintenance of computerized systems and accounting records regarding Project expenditures, and oversight of payments to service providers and/or Project contractors; and (viii) enforcement, monitoring and evaluation of compliance with the Environmental and Social Safeguards
Management Framework and, where applicable, the Environmental and Social Management Plan and Resettlement Action Plan.


15. "Original Financing Agreement" means the financing agreement for a Second Customs Reform and Trade Facilitation Project between the Recipient and the Association, dated June 28, 2010 (Grant No.H568-AF).

16. "Original Project" means the Project described in Schedule 1 to the Original Financing Agreement.


18. "Procurement Plan" means the Recipient's procurement plan for the Project, dated May 8, 2015, 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.


20. "Project Steering Committee" and the acronym "PSC" means the committee to be established by the Recipient pursuant to sub-paragraph 1(a) of Section I.A of Schedule 2 to this Agreement.

21. "Resettlement Action Plan" means each resettlement plan to be prepared, if needed, pursuant to Section I.D.3 of Schedule 2 to this Agreement, setting out principles and procedures governing land acquisition from, resettlement of, and compensation and other assistance to Displaced Persons, as well as reporting and monitoring arrangements therefor, on account of implementation of Project activities.

22. "Social and Environmental Impact Assessment" means each social and environmental assessment to be prepared, if needed, pursuant to Section I.D.1(a) of Schedule 2 to this Agreement, for purposes of reviewing the positive and negative social and environmental impact of Project activities (particularly the civil works).

23. "Training" means the reasonable costs of training, workshops and conferences conducted in the territory of the Recipient for, or attended abroad by, ACD's officials and staff, including the purchase and publication of materials, rental of facilities, course fees and travel and subsistence of trainees.