

GRANT AGREEMENT
(Special Operations)

(Supporting Private Sector and Financial Market Reforms Project)

between

ISLAMIC REPUBLIC OF AFGHANISTAN

and

ASIAN DEVELOPMENT BANK

DATED 14 March 2007

**GRANT AGREEMENT
(Special Operations)**

GRANT AGREEMENT dated 14 March 2007 between ISLAMIC REPUBLIC OF AFGHANISTAN (the "Recipient") and ASIAN DEVELOPMENT BANK ("ADB").

WHEREAS

(A) by way of a grant agreement of even date herewith between the Recipient and ADB (hereinafter called the "Program Grant Agreement"), ADB has agreed to give the Recipient from ADB's Special Funds resources an amount of fifty six million dollars (\$56,000,000) in furtherance of a program designed to develop the Recipient's private sector and financial markets (hereinafter called the "Program");

(B) in support of the Program, the Recipient has applied to ADB for a grant for the purposes of the Project described in Schedule 1 to this Grant Agreement (hereinafter called the "Project");

(C) ADB has agreed to provide a grant to the Recipient from ADB's Special Funds resources upon the terms and conditions hereinafter set forth;

NOW THEREFORE the parties agree as follows:

ARTICLE I

Grant Regulations; Definitions

Section 1.01. All provisions of the Special Operations Grant Regulations of ADB, dated 7 February 2005 (the "Grant Regulations"), are hereby made applicable to this Grant Agreement with the same force and effect as if they were fully set forth herein.

Section 1.02. The definitions set forth in the Grant Regulations and the Program Grant Agreement are applicable to this Grant Agreement unless the context requires otherwise, and the following additional terms have the following meanings:

(a) "Consulting Guidelines" means ADB's "Guidelines on the Use of Consultants by Asian Development Bank and its Borrowers" dated April 2006, as amended from time to time;

(b) "Grant Coordination Committee" means the committee to be established pursuant to Paragraph 2 of Schedule 4 to this Grant Agreement;

(c) "Project Executing Agency" means, for the purposes and within the meaning of the Grant Regulations, MOF, which is responsible for the carrying out of the Project;

(d) "Project facilities" means the facilities and equipment provided or to be provided under the Project; and

(e) "Project Implementing Agency" means MOF, MOC, or DAB, as applicable.

ARTICLE II

The Grant

Section 2.01. ADB agrees to make available to the Recipient from ADB's Special Funds resources on terms and conditions set forth in this Agreement an amount of four million dollars (\$4,000,000).

ARTICLE III

Use of Proceeds of the Grant

Section 3.01. The Recipient shall cause the proceeds of the Grant to be applied to the financing of expenditures on the Project in accordance with the provisions of this Grant Agreement.

Section 3.02. The services to be financed out of the proceeds of the Grant and the allocation of amounts of the Grant among different categories of such services shall be in accordance with the provisions of Schedule 2 to this Grant Agreement, as such Schedule may be amended from time to time by agreement between the Recipient and ADB.

Section 3.03. Except as ADB may otherwise agree, all services to be financed out of the proceeds of the Grant shall be procured in accordance with the provisions of Schedule 3 to this Grant Agreement.

Section 3.04. Withdrawals from the Grant Account in respect of services shall be made only on account of expenditures relating to

- (a) services which are supplied from such member countries of ADB as shall have been specified by ADB from time to time as eligible sources for procurement, and
- (b) services which meet such other eligibility requirements as shall have been specified by ADB from time to time.

Section 3.05. The Grant Closing Date for the purposes of Section 8.02 of the Grant Regulations shall be 30 June 2010 or such other date as may from time to time be agreed between the Recipient and ADB.

ARTICLE IV

Particular Covenants

Section 4.01. In the carrying out of the Project and operation of the Project facilities, the Recipient shall perform, or cause to be performed, all obligations set forth in Schedule 4 to this Grant Agreement.

Section 4.02. (a) The Recipient shall (i) maintain, or cause to be maintained, separate accounts for the Project; (ii) have such accounts and related financial statements audited annually, in accordance with appropriate auditing standards consistently applied, by independent auditors whose qualifications, experience and terms of reference are acceptable to ADB; (iii) furnish to ADB, as soon as available but in any event not later than 6 months after the end of each related fiscal year, certified copies of such audited accounts and financial statements and the report of the auditors relating thereto (including the auditors' opinion on the use of the Grant proceeds and compliance with the financial covenants of this Grant Agreement), all in the English language; and (iv) furnish to ADB such other information concerning such accounts and financial statements and the audit thereof as ADB shall from time to time reasonably request.

(b) The Recipient shall enable ADB, upon ADB's request, to discuss the Recipient's financial statements for the Project and its financial affairs related to the Project from time to time with the auditors appointed by the Recipient pursuant to Section 4.02(a) hereabove, and shall authorize and require any representative of such auditors to participate in any such discussions requested by ADB, provided that any such discussion shall be conducted only in the presence of an authorized officer of the Recipient unless the Recipient shall otherwise agree.

Section 4.03. The Recipient shall enable ADB's representatives to inspect the Project and any relevant records and documents.

ARTICLE V

Suspension and Cancellation

Section 5.01. The following is specified as an additional event for suspension of the right of the Recipient to make withdrawals from the Grant Account for the purpose of Section 8.01(k) of the Grant Regulations or cancellation of the Grant pursuant to Section 8.02 of the Grant Regulations: the Recipient shall have failed to perform any of its obligations or make satisfactory progress in the implementation of the activities specified under the Program Grant Agreement.

ARTICLE VI

Effectiveness

Section 6.01. The following is specified as an additional condition to the effectiveness of this Grant Agreement for the purpose of Section 9.01(e) of the Grant Regulations: the Program Grant Agreement shall have been duly executed and delivered on behalf of the Recipient, and all conditions for its effectiveness (other than a condition requiring the effectiveness of this Grant Agreement) shall have been fulfilled.

Section 6.02. The following is specified as additional matter, for the purposes of Section 9.02(c) of the Grant Regulations, to be included in the opinion or opinions to be furnished to ADB: the Program Grant Agreement has been duly ratified by, and executed and delivered on behalf of the Recipient, and has become legally binding upon the Recipient in accordance with its terms, subject only to the effectiveness of this Grant Agreement.

Section 6.03. A date ninety (90) days after the date of this Grant Agreement is specified for the effectiveness of the Grant Agreement for the purposes of Section 9.04 of the Grant Regulations.

ARTICLE VII

Miscellaneous

Section 7.01. The Deputy Minister of Finance for Budget and Treasury Management of the Recipient is designated as representative of the Recipient for the purposes of Section 11.02 of the Grant Regulations.

Section 7.02. The following addresses are specified for the purposes of Section 11.01 of the Grant Regulations:

For the Recipient

Ministry of Finance
Islamic Republic of Afghanistan
Kabul
Afghanistan

Telephone Number:

93-20 210-3157

For ADB

Asian Development Bank
P.O. Box 789

0980 Manila, Philippines

Cable Address:

ASIANBANK
MANILA

Telex Numbers:

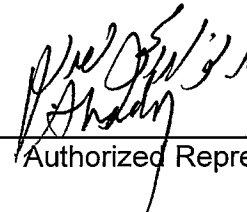
29066 ADB PH (RCA)
42205 ADB PM (ITT)
63587 ADB PN (ETPI)

Facsimile Numbers:

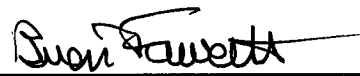
(632) 636-2444
(632) 636-2424

IN WITNESS WHEREOF the parties hereto, acting through their representatives thereunto duly authorized, have caused this Grant Agreement to be signed in their respective names and to be delivered at the principal office of ADB, as of the day and year first above written.

ISLAMIC REPUBLIC OF AFGHANISTAN

By 
Authorized Representative

ASIAN DEVELOPMENT BANK

By 

SCHEDULE 1**Description of the Project**

1. The objective of the Project is to support MOF, DAB and MOC in the effective implementation of the Program.
2. The Project shall comprise the following components:
 - (i) Supporting the Government in strengthening the legal framework;
 - (ii) Supporting the Government in addressing market distortions;
 - (iii) Supporting the Government in its disengagement from commercial activities;
 - (iv) Supporting the Government in strengthening financial intermediation;
 - (v) Supporting the Government in implementing accounting and auditing standards; and
 - (vi) Providing short-term support as additional capacity building needs are identified during Project implementation.
3. The Project is expected to be completed by 31 December 2009.

SCHEDULE 2

Allocation and Withdrawal of Grant Proceeds

General

1. The table attached to this Schedule sets forth the Categories of services to be financed out of the proceeds of the Grant and the allocation of amounts of the Grant to each such Category (hereinafter called the Table). (Reference to "Category" or "Categories" in this Schedule is to a Category or Categories of the Table.)

Percentages of ADB Financing

2. Except as ADB may otherwise agree, the items of the Categories listed in the Table shall be financed out of the proceeds of the Grant on the basis of the percentages set forth in the Table.

Reallocation

3. Notwithstanding the allocation of Grant proceeds and the withdrawal percentages set forth in the Table,

(a) if the amount of the Grant allocated to any Category appears to be insufficient to finance all agreed expenditures in that Category, ADB may, by notice to the Recipient, (i) reallocate to such Category, to the extent required to meet the estimated shortfall, amounts of the Grant which have been allocated to another Category but, in the opinion of ADB, are not needed to meet other expenditures, and (ii) if such reallocation cannot fully meet the estimated shortfall, reduce the withdrawal percentage applicable to such expenditures in order that further withdrawals under such Category may continue until all expenditures thereunder shall have been made; and

(b) if the amount of the Grant then allocated to any Category appears to exceed all agreed expenditures in that Category, ADB may, by notice to the Recipient, reallocate such excess amount to any other Category.

Disbursement Procedures

4. Except as ADB may otherwise agree, all services to be financed out of the Loan proceeds shall be disbursed in accordance with ADB's "Loan Disbursement Handbook" dated January 2001 (ADB's Loan Disbursement Handbook), as amended from time to time.

TABLE

ALLOCATION AND WITHDRAWAL OF GRANT PROCEEDS (Supporting Private Sector and Financial Market Reforms Project)			
CATEGORY			ADB FINANCING
Number	Item	Amount Allocated (\$) Category	Percentage and Basis for Withdrawal from the Grant Account (*)
1	Consulting Services	3,455,000	100 percent of total expenditure
2	Workshops, Training/Seminars & Conferences	155,000	100 percent of total expenditure
3	Miscellaneous Administration and Support Costs (including translation)	80,000	100 percent of total expenditure
4	Contract Negotiations	20,000	100 percent of total expenditure
5	Unallocated	290,000	
	Total	4,000,000	

(*) Exclusive of local taxes and duties.

SCHEDULE 3**Consulting Services****A. General**

1. All consulting services, to be financed out of the proceeds of the Grant shall be subject to and governed by the Consulting Guidelines.

B. Selection of Consulting Services

2. At the request of the Government, all the consultants shall be selected and engaged by ADB, in consultation with the Grant Coordination Committee.

3. The consultants for components (i), (ii), (iii), (iv) and (v) of the Project shall be selected and engaged using the quality-based selection.

4. The consultants for component (vi) of the Project shall be selected and engaged either as individuals in accordance with ADB's procedures for recruiting individual consultants or as a firm using the quality-based selection.

SCHEDULE 4

Project Implementation and Other Matters

Coordination and Administration

1. MOF shall be the Executing Agency for the Project. MOF shall also be the Project Implementing Agency responsible for components (i), (iii) and (v) of the Project. DAB shall be the Project Implementing Agency responsible for component (iv) of the Project. MOC shall be the Project Implementing Agency responsible for components (i) and (ii) of the Project. The responsibility for implementing component (vi) of the Project shall be determined during Project implementation as additional capacity building needs are identified.

2. MOF shall establish the Grant Coordination Committee headed by the Deputy Minister for Finance, and comprising representatives of MOF, DAB, MOC, ADB and the Head of Taqin (Legislative Department). The Grant Coordination Committee shall meet at least once every quarter and shall coordinate and ensure effective implementation of the Project.

Counterpart and financing

3. The Recipient shall ensure that sufficient counterpart staff and financing, needed to implement the Project, shall be provided.

Finding and Recommendations of the Project

4. The Recipient shall ensure that in carrying out the policy measures and activities included in the Policy Matrix of the Program Grant Agreement, due consideration shall be given to the findings and recommendations provided under the Project.