
GRANT NUMBER 0135-AFG(SF)
[Supplementary to Loan No. 2140-AFG(SF) and
Supplementary to Loan No. 2257-AFG(SF) and Grant No. 0054-AFG (SF)]

GRANT AGREEMENT
(Special Operations)

(Road Network Development Investment Program – Project 1)

between

ISLAMIC REPUBLIC OF AFGHANISTAN

and

ASIAN DEVELOPMENT BANK

DATED 01 FEBRUARY 2009

GAS:AFG 42095

**GRANT AGREEMENT
(Special Operations)**

GRANT AGREEMENT dated 1 February 2009 between ISLAMIC REPUBLIC OF AFGHANISTAN (the "Recipient") and ASIAN DEVELOPMENT BANK ("ADB").

WHEREAS

(A) by a framework financing agreement dated 3 November 2008 between the Recipient and ADB, ADB has agreed to provide a multitranche financing facility to the Recipient for purposes of financing projects under the Recipient's Road Network Development Investment Program;

(B) by a loan agreement dated 7 April 2005 (Loan No. 2140-AFG(SF): Andkhoy-Qaisar Road Project) between the Recipient and ADB (the "Initial Loan Agreement"), ADB agreed to make a loan of SDR 53,087,000 to the Recipient for the purposes of the project described in Schedule 1 to the Initial Loan Agreement (the "Andkhoy-Qaisar Road Project");

(C) by a financing agreement dated 2 November 2006 (Loan No. 2257-AFG(SF) and Grant No. 0054-AFG(SF): North-South Corridor Project) between the Recipient and ADB (the "Initial Financing Agreement"), ADB agreed to provide financing in the amount of SDR 92,567,000 to the Recipient for the purposes of the project described in Schedule 1 to the Initial Financing Agreement (the "North-South Corridor Project");

(D) by a periodic financing request dated 4 November 2008, the Recipient has applied to ADB for a grant to finance cost overruns under the Andkhoy-Qaisar Road Project and the North-South Corridor Project, as described more fully in Schedule 1 to this Grant Agreement (the "Project"); and

(E) ADB has agreed to provide a grant to the Recipient from ADB's Special Fund 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 are applicable to this Grant Agreement unless the context requires otherwise. In addition, the following terms have the following meanings:

(a) “Andkhoy-Qaisar Road Project” has the meaning given thereto in Recital (B) to this Grant Agreement;

(b) “Consulting Guidelines” means ADB’s Guidelines on the Use of Consultants by Asian Development Bank and its Borrowers dated February 2007, as amended from time to time;

(c) “Consulting Services” means consulting services to be financed out of the proceeds of the Grant, and excludes ancillary services rendered under a contract for the supply of Goods or Works;

(d) “FFA” means the framework financing agreement dated 3 November 2008 between ADB and the Recipient with respect to the Facility;

(e) “Facility” means the multitranche financing facility provided by ADB to the Recipient for purposes of financing projects under the Investment Program;

(f) “Goods” means materials and equipment to be financed out of the proceeds of the Grant, and includes ancillary services rendered under a contract for the supply of these materials and equipment, such as transportation, insurance, installation, inspection, commissioning, training, and initial maintenance;

(g) “Initial Financing Agreement” has the meaning given thereto in Recital (C) to this Grant Agreement;

(h) “Initial Loan Agreement” has the meaning given thereto in Recital (B) to this Grant Agreement;

(i) “Investment Program” means the Recipient’s Road Network Development Investment Program;

(j) “Loan Disbursement Handbook” means ADB’s Loan Disbursement Handbook (2007, as amended from time to time);

(k) “MPW” means the Ministry of Public Works of the Recipient;

(l) “North-South Corridor Project” has the meaning given thereto in Recital (C) to this Grant Agreement;

(m) “PFR” means the periodic financing request submitted or to be submitted by the Recipient, for the purposes of each grant under the Facility, and for the purpose of this Grant Agreement means the periodic financing request dated 4 November 2008;

(n) “Procurement Guidelines” means ADB’s Procurement Guidelines dated February 2007, as amended from time to time; and

(o) "Works" means construction or civil works to be financed out of the proceeds of the Grant, including services such as drilling or mapping, and project related services that are provided as part of a single responsibility or turnkey contract, but excluding Consulting Services.

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 sixty million Dollars (\$60,000,000).

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 proceeds of the Grant shall be allocated and withdrawn 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. All Goods, Works and Consulting Services to be financed from the proceeds of the Grant have already been procured. If procurement of further Goods, Works or Consulting Services is necessary for successful implementation of the Project, those Goods, Works or Consulting Services shall be procured in accordance with the Procurement Guidelines and the Consulting Guidelines under a procurement plan approved by ADB.

Section 3.04. Withdrawals from the Grant Account in respect of Goods, Works and Consulting Services shall be made only on account of expenditures relating to

- (a) Goods which are produced in and supplied from and Works and Consulting Services which are supplied from such countries as shall have been specified by ADB from time to time as eligible sources for procurement, and
- (b) Goods, Works and Consulting 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 2012 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 3 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 as well as on the use of the procedures for imprest account and statement of expenditures), 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, the goods financed out of the proceeds of the Grant, and any relevant records and documents.

ARTICLE V

Effectiveness

Section 5.01. A date thirty (30) 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 VI

Miscellaneous

Section 6.01. The Minister of Finance of the Recipient is designated as representative of the Recipient for the purposes of Section 11.02 of the Grant Regulations.

Section 6.02. The following addresses are specified for the purposes of Section 11.01 of the Grant Regulations:

For the Recipient

Ministry of Finance
Pashtonistan Watt, Kabul
Afghanistan

Facsimile Number:
+93 202 103 258

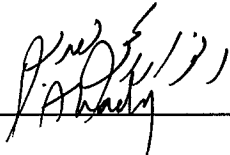
For ADB

Asian Development Bank
P.O. Box 789
0980 Manila, Philippines

Facsimile Numbers:
(632) 636-2444
(632) 636-2428

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 
CRAIG STEFFENSEN
Country Director
Afghanistan Resident Mission

SCHEDULE 1**Description of the Project**

1. The Investment Program aims to increase Afghanistan's road network connectivity and quality by promoting, and providing financing for, the road improvement and road institutions development component of the Afghanistan National Development Strategy.
2. As a part of the Investment Program, the Project will provide supplementary financing for cost overruns resulting from price changes under the Andkhoy-Qaisar Road Project and the North-South Corridor Project.
3. The Project comprises two components as more fully described in the PFR:
 - (i) civil works and construction supervision and monitoring for the Andkhoy-Qaisar Road Project; and
 - (ii) civil works and project management and monitoring for the North-South Corridor Project.
4. The Project is expected to be completed by 31 December 2011.

SCHEDULE 2

Allocation and Withdrawal of Grant Proceeds

General

1. The table attached to this Schedule sets forth the Categories of Goods, Works and Consulting 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.

Grant 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, the Grant proceeds for financing any Goods, Works, and Consulting Services shall be disbursed in accordance with the Loan Disbursement Handbook.

Imprest Account: Statement of Expenditures

5. (a) Except as ADB may otherwise agree, the Recipient shall establish immediately after the Effective Date, an imprest account at Da Afghanistan Bank (DAB) or a commercial bank acceptable to ADB and the Recipient. The imprest account shall be established, managed, replenished and liquidated in accordance with the Loan Disbursement Handbook and detailed arrangements agreed upon between the Recipient and ADB. The currency of the imprest account shall be Dollar. Except as ADB may otherwise agree, the amount deposited into the imprest account shall not exceed \$100,000.

(b) The statement of expenditures (SOE) procedure may be used for reimbursement of eligible expenditures not exceeding \$50,000 and to liquidate advances provided into the imprest account, in accordance with the Loan Disbursement Handbook and detailed arrangements agreed upon between the Recipient and ADB.

TABLE

ALLOCATION AND WITHDRAWAL OF GRANT PROCEEDS (Afghanistan Road Network Development Program – Project 1)			
CATEGORY			ADB FINANCING
Number	Item	Amount Allocated Category (\$)	Percentage and Basis for Withdrawal from the Grant Account
1	Works under Andkhoy-Qaisar Road Project [Loan 2140-AFG(SF)]	18,000,000	100 percent of total expenditure*
2	Works under North-South Corridor Project [Loan 2257-AFG(SF) and Grant 0054-AFG(SF)]	27,000,000	100 percent of total expenditure*
3	Consulting services under Andkhoy-Qaisar Road Project [Loan 2140-AFG(SF)]	1,000,000	100 percent of total expenditure*
4	Consulting services under North-South Corridor Project [Loan 2257-AFG(SF) and Grant 0054-AFG(SF)]	1,000,000	100 percent of total expenditure*
5	Unallocated	13,000,000	
	Total	60,000,000	

* Exclusive of taxes and duties imposed within the territory of the Recipient.

SCHEDULE 3

Project Execution; Specific Covenants

Project Execution

1. The Recipient designates MPW as the Project Executing Agency with overall responsibility for execution and supervision of the Project.
2. The Recipient shall ensure that within MPW a Program Management Office (PMO) is established and structured in accordance with the provisions of paragraph 2 through paragraph 12 of Schedule 3 to the FFA, and that the PMO takes responsibility for day-to-day implementation of the Project in accordance with the provisions set forth in those paragraphs.

Andkhoy-Qaisar Road Project

3. The Recipient shall ensure that the provisions of paragraph 4 through paragraph 19 of Schedule 6 to the Initial Loan Agreement are observed throughout implementation of component 3(i) of the Project.

North-South Corridor Project

4. The Recipient shall ensure that the provisions of paragraph 4 through paragraph 28 of Schedule 5 to the Initial Financing Agreement are observed throughout implementation of component 3(ii) of the Project.