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GRANT NUMBER 0126-AFG(SF)

GRANT AGREEMENT  
(Special Operations)  
(Agriculture Market Infrastructure Project)

between

ISLAMIC REPUBLIC OF AFGHANISTAN

and

ASIAN DEVELOPMENT BANK

DATED 1 FEBRUARY 2009

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GAS:AFG 39370

## **GRANT AGREEMENT (Special Operations)**

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

### **WHEREAS**

(A) the Recipient has applied to ADB for a grant for the purposes of the Project described in Schedule 1 to this Grant Agreement (the "Project"); and

(B) 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 are applicable to this Grant Agreement unless the context requires otherwise. In addition, the following 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 February 2007, as amended from time to time;

(b) "Consulting Services" means consulting services for the Project, including for training, results-based management-related surveys and workshops, and business processes;

(c) "Goods" means equipment, vehicles and materials to be financed out of the proceeds of the Grant; and including related services such as transportation, insurance, installation, commissioning, training, and initial maintenance, but excluding consulting services;

(d) "MAIL" means the Ministry of Agriculture, Irrigation, and Livestock of the Recipient, or any successor thereto;

(e) "MOCI" means the Ministry of Commerce and Industries of the Recipient, or any successor thereto;

(f) "MOF" means the Ministry of Finance of the Recipient, or any successor thereto;

(g) "PMO" means the Project Management Office as described in paragraphs 2 and 3 of Schedule 4 to this Grant Agreement;

(h) "Procurement Guidelines" means ADB's Procurement Guidelines dated February 2007, as amended from time to time;

(i) "Procurement Plan" means the procurement plan for the Project dated 27 October 2008 and agreed between the Recipient and ADB, as updated from time to time in accordance with Procurement Guidelines, Consulting Guidelines, and other arrangements agreed with ADB;

(j) "Project Executing Agency" for the purposes of, and within the meaning of, the Grant Regulations means MOF or any successor thereto acceptable to ADB, which is responsible for the carrying out of the Project;

(k) "Project facilities" means the livestock slaughterhouse facilities and the farm level collection and marketing facilities to be provided as Subprojects under the Project;

(l) "Project management expenses" means the expenses related to PMO staff, equipment and vehicles to be financed under the Project;

(m) "Subprojects" means the slaughterhouses and the farm level collection and marketing facilities satisfying the selection criteria described in paragraph 6 of Schedule 4 to this Grant Agreement; and

(n) "Works" means construction or civil works to be financed out of the proceeds of the Grant, including management operations support, 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 thirty million Dollars (\$30,000,000).

### **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 Goods, Works, Consulting Services and other items of expenditure to be financed out of the proceeds of the Grant 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 Goods, Works, Consulting Services and other items of expenditure 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 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 member countries of ADB 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 2014 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 as well as on the use of the procedures for imprest account/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) hereinabove, 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. The following are specified as additional conditions to the effectiveness of this Grant Agreement for the purposes of Section 9.01(e) of the Grant Regulations:

(i) the Recipient shall have established PMO with a Project Director and a Finance Administration Manager acceptable to ADB; and

(ii) the Recipient shall have established the Project Steering Committee, which will be chaired by the Minister of Agriculture, Irrigation, and Livestock or his/her designate, and will be comprised of representatives from MOCI, MOF, and the private sector.

Section 5.02. 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  
Pashtunistan Watt  
Kabul, Afghanistan

Facsimile Number:

(93-20) 210-3258

#### For ADB

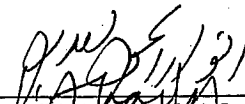
Asian Development Bank  
P.O. Box 789  
0980 Manila, Philippines

Facsimile Numbers:

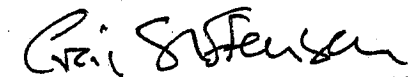
(63-2) 636-2444  
(63-2) 636-2301.

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   
DR. ANWAR UL-HAQ AHADY  
Authorized Representative

ASIAN DEVELOPMENT BANK

By   
CRAIG M. STEFFENSEN  
Country Director  
Afghanistan Resident Mission

## SCHEDULE 1

### Description of the Project

#### Impact and Outcome

1. The Project will achieve the following: (i) improved agricultural marketing infrastructure with investment in livestock slaughterhouses, horticulture small scale market facilities and certified product laboratory testing facilities; and (ii) improved standards for horticulture products and product management systems. The impact of the Project is increased agricultural sector growth. The outcome is to develop more efficient livestock and horticulture agribusiness industries.

#### Project Description

2. The Project shall be comprised of the following components:

A. Improved Agricultural Marketing Infrastructure

- (i) Livestock Slaughterhouse Facility Subprojects: Civil works and provision of equipment and management operations support in connection with the establishment of five livestock slaughterhouses, two in Kabul and three in the provincial cities of Herat, Kundus and Mazar, with management and operation of the facilities to be contracted to the private sector following a competitive bidding process;
- (ii) Farm Level Collection and Marketing Facility Subprojects: Civil works and provision of equipment and post-harvest technology and market support in connection with the establishment of small-scale horticulture infrastructure investments, including commodity collection, sorting and grading centers, drying facilities and packing houses and small cold storage/facilities in production areas at the post harvest and market level. Such facilities will be managed and operated by farmer organizations and agricultural cooperatives; and
- (iii) Product Standards and Laboratories: Provision of equipment to establish an MOCI (Raisin and Other Dried Fruit Export Institute) laboratory in Mazar and for the MOCI (Raisin and Other Dried Fruit Export Institute) laboratory in Kabul.

B. Project Management and Capacity Support

- (i) Project Management: Support for the PMO through the provision of vehicles and equipment, Project staff and operating costs, and consulting services on technical oversight for contracts, procurement and monitoring and evaluation (including results-based management [RBM] surveys and workshops); and



- (ii) Capacity Support: Through technical support and other consulting services, assistance on farm level collection and market infrastructure design; development of product standards for MAIL, laboratory systems for MAIL and MOCI, and laboratory certification for MOCI; assistance on agricultural aspects of the Recipient's WTO accession process; and provision of training, including commodity market training linked to the farm level collection and marketing facilities.
- 3. The Project is expected to be completed by 31 December 2013.

## SCHEDULE 2

### Allocation and Withdrawal of Grant Proceeds

#### General

1. The categories to be financed out of the proceeds of the Grant (the "Categories") and the allocation of amounts of the Grant to each such Category shall be as follows:

(i)	Works	\$20,100,000
(ii)	Goods	\$ 4,700,000
(iii)	Consulting Services	\$ 3,900,000
(iv)	Project management expenses	\$ 1,300,000

#### Percentage of ADB Financing

2. Except as ADB may otherwise agree, the Categories shall be financed out of the proceeds of the Grant on the basis of one hundred percent (100%) of total expenditures, exclusive of local taxes and duties.

#### Reallocation

3. Notwithstanding the allocation of Grant proceeds and the withdrawal percentage set forth hereinabove,

(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 Goods, Works, consulting services and other items shall be disbursed in accordance with ADB's "Loan Disbursement Handbook" dated January 2007 (ADB's Loan Disbursement Handbook), as amended from time to time.

#### 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. The imprest account shall be established, managed, replenished and liquidated in accordance with ADB's Loan Disbursement Handbook and detailed arrangements agreed upon between

Schedule 2

the Recipient and ADB. The currency of the imprest account shall be Dollars. The initial amount to be deposited into the imprest account shall not exceed the lower of (i) the estimated expenditure to be financed from the imprest account for the first six months of Project implementation, or (ii) the equivalent of ten (10) percent of the Grant amount.

(b) The statement of expenditures (SOE) procedure may be used for reimbursement of eligible expenditures and to liquidate advances provided into the imprest account, in accordance with ADB's Loan Disbursement Handbook and detailed arrangements agreed upon between the Recipient and ADB.

Retroactive Financing

6. Withdrawals from the Grant Account may be made for reimbursement of reasonable expenditures incurred under the Project before the Effective Date, but not earlier than 12 months before the date of this Grant Agreement in connection with items to be retroactively financed, subject to a maximum amount equivalent to 20 percent of the Grant amount.

### SCHEDULE 3

#### Procurement of Goods and Works, and Consulting Services

##### A. General

1. All Goods, Works and consulting services to be financed out of the proceeds of the Grant shall be subject to and governed by the Procurement Guidelines, and the Consulting Guidelines, respectively.
2. All terms used and not otherwise defined in this Financing Agreement shall have the meanings provided in the Procurement Guidelines and/or the Consulting Guidelines, as applicable.

##### B. Procurement for Goods and Works

3. Except as ADB may otherwise agree, Goods and Works shall only be procured on the basis of the methods of procurement set forth below:

International Competitive Bidding
National Competitive Bidding
Shopping

The methods of procurement are subject to, among other things, the detailed arrangements and threshold values set forth in the Procurement Plan. The Recipient may only modify the methods of procurement or threshold values with the prior agreement of ADB, and modifications must be set out in updates to the Procurement Plan.

4. Domestic Preference. The Recipient may grant a margin of preference in the evaluation of bids under international competitive bidding in accordance with paragraphs 2.55(a) and 2.56 of the Procurement Guidelines for domestically manufactured Goods and paragraphs 2.55(b) and 2.56 of the Procurement Guidelines for domestic Works.
5. National Competitive Bidding. The Recipient and ADB shall ensure that, prior to the commencement of any procurement activity under national competitive bidding, the Borrower's national competitive bidding procedures are consistent with the Procurement Guidelines. Any modifications or clarifications to such procedures agreed between the Recipient and ADB shall be set out in the Procurement Plan. Any subsequent change to the agreed modifications and clarifications shall become effective only after written approval of such change by the Recipient and ADB.

##### D. Selection of Consulting Services

6. Quality- and Cost-Based Selection. The Recipient shall apply quality- and cost-based selection for selecting and engaging consulting services.
7. The Recipient shall recruit the individual consultants for business processes, training and surveys in accordance with procedures acceptable to ADB for recruiting individual consultants.

**E. Industrial or Intellectual Property Rights**

8. (a) The Recipient shall ensure that all Goods and Works procured (including without limitation all computer hardware, software and systems, whether separately procured or incorporated within other goods and services procured) do not violate or infringe any industrial property or intellectual property right or claim of any third party.

(b) The Recipient shall ensure that all contracts for the procurement of Goods and Works contain appropriate representations, warranties and, if appropriate, indemnities from the contractor or supplier with respect to the matters referred to in subparagraph (a) of this paragraph.

9. The Recipient shall ensure that all ADB-financed contracts with consultants contain appropriate representations, warranties and, if appropriate, indemnities from the consultants to ensure that the consulting services provided do not violate or infringe any industrial property or intellectual property right or claim of any third party.

**F. ADB's Review of Procurement Decisions**

10. All contracts procured under international competitive bidding procedures and contracts for consulting services shall be subject to prior review by ADB, unless otherwise agreed between the Recipient and ADB and set forth in the Procurement Plan.

## **SCHEDULE 4**

### **Execution of Project and Operation of Project Facilities; Financial Matters**

#### Project Management

1. The MOF shall be the Executing Agency for the Project, and shall be responsible for overall Project management and coordination. The MAIL shall be the implementing agency for all Project activities except for the laboratory and training support provided to the Nut and Raisin Institute. A Project Steering Committee (PSC), chaired by the Minister of Agriculture, Irrigation and Livestock or his/her designate, shall be established and shall provide guidance on policy and project related strategic issues, and shall meet quarterly. A special committee shall be established by the PSC to be responsible for the selection of the small scale market sub-projects, based on the agreed selection criteria set forth in paragraph 6 below. The PSC shall also establish a three-person selection panel, which may include a consultant team member, for recruitment of key PMO staff through a competitive process.
  
2. The PMO shall be based in the Private Sector Department in MAIL, and shall manage and coordinate Project activities. MAIL shall nominate a PMO project director with the appropriate qualifications and experience, with the appointment to be endorsed by ADB. Within three months of the Effective Date, MAIL shall establish a PMO in Kabul.
  
3. The PMO shall be responsible for the following functions: Project implementation in accordance with its design; effective coordination of all activities and agencies involved; Project compliance with environment requirements and other safeguard measures; maintenance of all appropriate accounts, including reports on withdrawal applications and disbursements; procurement management in accordance with ADB guidelines; preparation of progress and other reports in formats agreed on with ADB; monitoring of all contracts; working closely with selected contracted service providers to ensure that methodologies, approaches and management systems are appropriate and deliver the expected results; developing and implementing an effective monitoring and evaluation system, undertaking necessary awareness and public relation procedures. The PMO, with support from the consultants, shall prepare and manage the contracts that will be established with the proposed project providers, including contracts for the slaughterhouses, and small scale infrastructure, consultant contracts, and for associated activities to be undertaken with training.
  
4. A MAIL Tender Committee shall be established to review and evaluate Project procurement proposals. The PMO shall assist this committee, in preparing any bid tender documents, and shall be responsible for the bidding process and contract award through international competitive bidding. The bid evaluation shall be undertaken by the MAIL Tender Committee. Prior to commencement of any evaluation of bids and within one month of the Effective Date, MAIL shall have established eligibility criteria acceptable to ADB for persons serving on the Bid Tender Committee, including but not limited to disclosure by such persons of any conflicts of interest. During the Project implementation period, MOF and MAIL shall disclose, on [its] website and in at least one local newspaper, Project-related procurement actions such as adopted bidding procedures, specifications of goods, works and consulting services, participating bidders, and awards of contracts.

5. The MOCI shall designate a staff member in the Raisin and Other Dried Fruit Export Institute as the project coordinator for the MOCI component under the Project.

Selection Criteria and Approval Procedures

6. With respect to the slaughterhouses and the market infrastructure facilities, MAIL shall follow the selection criteria and approval procedures set forth:

Criteria:

a) Financial

The subproject enterprise is financially viable, with at least 12% financial internal rate of return.

Operations and maintenance and financial sustainability established.

b) Technical

Suitable site (topography, land use, drainage) is available on Government land for the slaughterhouse or small scale market facility.

Locations of facilities to have a regional spread, especially for the small scale infrastructure to reflect the concentration in production areas, are identified project priority commodities with opportunities for growth and value added, and may enable integration with other agricultural and agribusiness projects.

c) Enterprise Institution and Operation

Private sector entities (companies) including for the small scale market infrastructure (farmer associations and agricultural cooperatives) have been identified with the capacity to manage and operate the market facilities.

Expressions of interest sought from private sector entities for long-term slaughterhouse management and operation contracts prior to construction.

d) Environment

The subprojects will have environmental management systems that meet EPA standards.

With the slaughterhouse facilities, waste water management systems to be established as an integral aspect of the design and operation, to meet national and international standards, in line with ADB policy where such regulations have yet to be established in Afghanistan.

The subprojects will not have negative impacts upon existing or proposed protected areas, historical, cultural, or religious sites.

## e) Social

## Small scale facilities:

-Farmer associations and agricultural cooperatives have expressed interest, and demonstrated capacity to participate, benefit with improved post harvest returns, and manage a small scale facility.

-Organization willingness to operate and manage the facility, operate in an equitable manner.

-Facility will have a beneficial impact on beneficiary farmers.

-Slaughterhouse facility will increase employment, and opportunity for value addition.

## f) Security

The security environment in the location will enable construction, establishment and operation of the small scale facility or of a slaughterhouse.

7. Prior to commencement of civil works for any market infrastructure facility, MAIL and the relevant party (e.g., farmers organizations or agricultural cooperatives) will have entered into a written agreement regarding respective responsibilities relating to construction, operation and maintenance of such facilities, including financing and any in-kind counterpart contributions.

Slaughterhouse Facilities

8. The Recipient through MAIL shall ensure that the terms and conditions for the transfer of ownership of the facilities for the slaughterhouse Subprojects to the relevant private sector entities are agreed upon in advance with ADB, and that such transfer takes place in a timely manner on such terms and conditions.

Labor

9. MAIL shall ensure that all civil works contracts contain provisions: (a) requiring contractors to comply with applicable workplace occupational safety norms and applicable labor laws; (b) prohibiting the use of child labor; and (c) ensuring that there is no differentiation in wages between men and women for the same work.

Environment

10. MAIL shall ensure that the Project is carried out in accordance with all applicable environmental laws and regulations, ADB's *Environment Policy* (2002), and IEEs.



Resettlement

11. The Recipient shall ensure that the carrying out of the Project will not involve any land acquisition or resettlement of persons, and will not have any adverse impact on indigenous peoples.

Gender

12. Within 12 months of the Effective Date, PMO shall undertake implementation of the Project gender action plan (GAP) and ensure that it is completed in a timely manner over the project period. The plan shall enable effective involvement of women in the implementation, monitoring and evaluation of the Project. Gender-related indicators shall be included in the project performance monitoring and evaluation system and reported to ADB.

Standards

13. Within 24 months of the Effective Date, the Recipient shall ensure that (i) MAIL reviews existing quality standards and certification systems and prepares updates for such standards and systems, so that they are consistent with internationally-recognized levels for fruit and vegetable commodities and products (e.g., Codex Alimentarius); and (ii) ANSA adopts such standards and certification systems within 24 months of grant effectiveness.

Agriculture Sector Inputs for the WTO Accession Process

14. Within 24 months of the Effective Date, MAIL shall have prepared the Afghan agriculture sector inputs as required for Afghanistan's WTO accession process.

Laboratory Procedures and Management Practices

15. Within 24 months of the Effective Date, MOCI shall have approved improved laboratory procedures and management practices. Within six months after approval of such procedures and practices, MOCI shall have provided the necessary training on such procedures and practices.

Financial Control and Accounting and Audit

16. Within 6 months of the Effective Date, MAIL shall have put in place appropriate and adequate financial control and accounting systems, so that PMO can apply international accounting standards during Project implementation. MAIL shall establish an audit review process and commission financial and performance audits of the PMO by an audit agency in accordance with auditing standards acceptable to ADB. The audit report shall include, among others, a separate opinion on the proper use of the imprest account and the statement of expenditure procedures.

Project Performance Monitoring and Evaluation

17. To monitor the Project's progress in achieving the planned outputs and outcome, the PMO shall establish a comprehensive project performance monitoring and evaluation system within 6 months of the Effective Date. A monitoring and evaluation unit shall be established in the PMO to monitor project performance, including environmental, poverty, gender, and

social impacts, as specified in the Summary Initial Environmental Examination (SIEE) and the poverty, social and gender assessment. The monitoring indicators in the project design and monitoring framework shall form the core of the data required for assessment. The project implementation reports shall incorporate project performance monitoring data and all relevant financial data, and may include such other reports and information relating to the Project as ADB may reasonably request. The reports shall be submitted within one month after the end of the quarter to which they relate. The annual progress report shall include an annual benefit monitoring report.

#### Project Reviews

18. During the third year of the Project, the Recipient and ADB shall jointly undertake a comprehensive midterm review to assess performance, identify any problems and constraints affecting project implementation, including changes in the policy and institutional environment, assess options and reach agreement on required changes to address any shortcomings. The Project midterm review shall incorporate any required changes in scope, activities, and associated financial reallocation.

#### Security

19. The Recipient shall exercise its best efforts to provide adequate security for the smooth and uninterrupted implementation of the Project. In addition, for each civil works contract, the Recipient shall ensure that an action plan for adequate security and smooth and uninterrupted implementation of the Project is prepared, the cost of implementing such a plan is included in the budget for civil works, and such plan is fully implemented.