

Memorandum of Understanding

between

The Government of the Kingdom of the Netherlands

and

The Government of the Islamic Republic of Afghanistan

on

The Programme for Cooperation with Emerging Markets (PSOM),

hereafter referred to as "the signatories".

The Signatories have decided as follows:

Paragraph 1

Objectives of the Programme

- a. This programme aims at supporting private sector development by promoting and supporting economic cooperation between the business sectors of Afghanistan and the Netherlands on the basis of equal partnership and mutual benefit with a focus on private investments.
- b. Support is provided to initiatives of the business communities of the Netherlands and Afghanistan in setting up joint innovative pilot-projects in specific sectors, making use of international and local know how, goods and services.
- c. It is expected that successful try-outs will be continued and/or duplicated by the private sector.
- d. The business projects are expected to contribute to poverty alleviation. Projects creating substantial local employment, transferring knowledge, making extensive use of local SMEs in the supply chain, operating in geographically disadvantaged regions, generating income for a substantial group of beneficiaries and/or contributing in other ways substantially to poverty alleviation will receive priority in the selection process. Projects however have to be at all times sound business proposals that lead to a sustainable business relation.

Paragraph 2

Budget

Official Development Assistance will be granted by the Government of the Netherlands to provide support to joint Netherlands – Afghanistan business projects starting from 2005 under the Programme for Cooperation with Emerging Markets (PSOM). The total budget of the PSOM programme is currently € 51 million per year for 42 countries. The average PSOM contribution per project being in the order of € 500,000 allows for an average 2-3 investment projects per country per year. The actual number of projects that can be approved for Afghanistan will depend on the quality of the proposals

H.A.S

2

received for Afghanistan. If for Afghanistan more than two proposals qualify per year, the third, fourth etc. ranked proposals will compete with demand from other countries. The programme will be operational for at least 2 years and may be extended thereafter, if both Signatories consider the programme to be beneficial, through an exchange of letters.

Paragraph 3

Taxes

All taxes (import duty and other direct and indirect taxes) will be paid normally by the beneficiaries of the Programme. Investors will however benefit from any general privileges provided by the Government of the Islamic republic of Afghanistan (at national or lower administrative level) to encourage foreign and local investments.

Paragraph 4

Executive Agency

The Programme shall - on behalf of the Government of the Kingdom of the Netherlands - be executed by the Dutch Government Agency EVD, in consultation with the Royal Netherlands Embassy in Kabul. On behalf of the Government of the Islamic Republic of Afghanistan the Ministry of Commerce will act as the focal point for the Programme.

Paragraph 5

Areas of the Programme

The Signatories will not give preference to projects in any particular economic sector. In all sectors specific attention will be given to corporate social responsibility issues. The preferred sectors (defined above) and the pro-poor aspects referred to Paragraph 1.d will receive special weight in the selection procedure of the projects. The signatories will help, where possible, to ensure the smooth implementation of the programme.

Paragraph 6

Submission of proposals

EVD will invite at least once a year (consortia of) companies to submit proposals for projects with special emphasis on the sectors and/or region(s) mentioned in paragraph 5. Every consortium will contain at least one Dutch and one Afghan partner. The Dutch partner in the consortium will make the application to EVD and serve as the contact point with EVD. The PSOM agreement between the Dutch Ministry of Foreign Affairs and EVD contains the detailed procedures through which PSOM proposals will be selected and funds are allocated. EVD will inform the Ministry of Commerce about the proposals that are awarded financial contributions under PSOM.

21.9.9

2

Paragraph 7

Monitoring

EVD will monitor the projects and report half-yearly about the progress made to the Royal Netherlands Embassy in Kabul and the Ministry of Commerce Embassy personnel and staff of the Ministry of Commerce will meet at least once a year to discuss the progress of project implementation.

Paragraph 8

Dispute settlement

Any dispute between the signatories concerning the interpretation and/or implementation of this Memorandum of Understanding shall be settled amicably through consultations and/or negotiations.

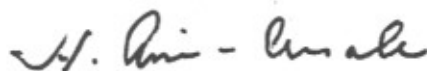
Paragraph 9

Duration and amendment

The Memorandum of Understanding will enter into force on the date of signing and will be effective for a period of two years. Further extensions may be decided upon agreed by an exchange of letters.

Done in duplicate in Kabul on 15 March in the year two thousand and five in the English and Dari language. In case of disagreement the English language version will apply.

For the Government of
The Islamic Republic of Afghanistan



Dr. Hedayat Amin Arsala
Minister of Commerce

For the Government of
the Kingdom of the Netherlands



A.M.A. van Ardenne - van der Hoeven
Minister for Development Co-operation

H. A. - a