Afghanistan Reconstruction Trust Fund
Grant Agreement

(2020 Incentive Program Development Policy Grant)

between

ISLAMIC REPUBLIC OF AFGHANISTAN

and

INTERNATIONAL DEVELOPMENT ASSOCIATION

acting as an administrator of the Afghanistan Reconstruction Trust Fund
AFGHANISTAN RECONSTRUCTION TRUST FUND
GRANT AGREEMENT

AGREEMENT dated as of the Signature Date between ISLAMIC REPUBLIC OF
AFGHANISTAN ("Recipient") and INTERNATIONAL DEVELOPMENT
ASSOCIATION ("Bank"), acting as administrator of the Afghanistan Reconstruction Trust
Fund, for the purpose of providing financing in support of the Program (as defined in the
Appendix to this Agreement). The Bank has decided to provide this financing on the basis,
inter alia, of the Recipient's maintenance of an adequate macroeconomic policy
framework. The Recipient and the Bank hereby agree as follows:

Article I
Standard Conditions: Definitions

1.01. The Standard Conditions (as defined in the Appendix to this Agreement) apply to
and form 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 Standard Conditions or in the Appendix
to this Agreement.

Article II
Program

2.01. The Recipient declares its commitment to the Program and its implementation. To
this end, and further to Section 2.06 (renumbered as such pursuant to paragraph 1
of Section II of the Appendix to this Agreement and relating to Cooperation and
Consultation) of the Standard Conditions:

(a) the Recipient and the Bank shall from time to time, at the request of either
party, exchange views on the Recipient’s macroeconomic policy
framework and the progress achieved in carrying out the Program and the
actions specified in Section I of Schedule I to this Agreement;

(b) prior to each such exchange of view, the Recipient shall furnish to the
Bank for its review and comment a report of the progress achieved in
carrying out the Program in such detail as the Bank shall reasonably
request; and

(c) without limitation upon the provisions of paragraphs (a) and (b) of this
Section, the Recipient shall promptly inform the Bank of any situation that
would have the effect of materially reversing the objectives of the Program or any action taken or to be taken under the Program, including any action specified in Section I of the Schedule to this Agreement.

Article III
The Grant

3.01. The Bank agrees to extend to the Recipient a grant in an amount not to exceed forty million United States Dollars ($40,000,000) (“Grant”).

3.02. The Recipient may withdraw the proceeds of the Grant in accordance with Section II of the Schedule to this Agreement.

3.03. The Grant is funded out of the abovementioned trust fund for which the Bank receives periodic contributions from the donors to the trust fund. In accordance with Section 3.02 of the Standard Conditions, the Bank’s payment obligations in connection with this Agreement are limited to the amount of funds made available to it by the donors under the abovementioned trust fund, and the Recipient’s right to withdraw the Grant proceeds is subject to the availability of such funds.

Article IV
Additional Remedies

4.01. The Additional Event of Suspension referred to in Section 4.02 (k) of the Standard Conditions consists of the following, namely, that a situation has arisen which shall make it improbable that the Program, or a significant part of it, will be carried out.

Article V
Effectiveness; Termination

5.01. The Agreement shall not become effective until the Bank is satisfied with the progress achieved by the Recipient in carrying out the Program and with the adequacy of the Recipient’s macroeconomic policy framework.

5.02. Except as the Recipient and the Bank shall otherwise agree, this Agreement shall enter into effect on the date upon which the Bank dispatches to the Recipient notice of its acceptance of the evidence required pursuant to Section 5.01 (“Effective Date”). If, before the Effective Date, any event has occurred which would have entitled the Bank to suspend the right of the Recipient to make withdrawals from this Agreement had been effective, the Bank may postpone the dispatch of the notice referred to in this Section until such event (or events) has (or have) ceased to exist.

5.03. Termination for Failure to Become Effective. This Agreement and all obligations of the parties under it shall terminate if it has not entered into effect by the date
ninety (90) days after the date of the Signature Date, unless the Bank, after consideration of the reasons for the delay, establishes a later date for the purpose of this Section. The Bank shall promptly notify the Recipient of such later date.

Article VI
Recipient’s Representative; Addresses

6.01. The Recipient’s Representative referred to in Section 7.02 of the Standard Conditions is its Minister of Finance.

6.02. For purposes of Section 7.01 of the Standard Conditions:

(a) the Recipient’s address is:

Ministry of Finance
Pashinistan Wart
Kabul, Islamic Republic of Afghanistan; and

(b) the Recipient’s Electronic Address is:

Facsimile:
+93-202-103-259

6.03. For purposes of Section 7.01 of the Standard Conditions:

(a) the Bank’s address is:

International Development Association
1818 H Street, N.W.
Washington, D.C. 20433
United States of America; and

(b) the Bank’s Electronic Address is:

Facsimile:
+1-202-477-6391
AGREED as of the Signature Date.

ISLAMIC REPUBLIC OF AFGHANISTAN

By

[Signature]

Authorized Representative

Name: Abdul Hadi Arghandiwal
Title: Acting Finance minister
Date: 5/12/2020

INTERNATIONAL DEVELOPMENT ASSOCIATION
acting as administrator of the Afghanistan Reconstruction Trust Fund

By

[Signature]

Authorized Representative

Name: Henry Kerali
Title: Country Director
Date: 5/12/2020
SCHEDULE
Program Actions: Availability of Grant Proceeds

Section I. Actions Under the Program
A. Actions Taken Under the Program. The actions taken by the Recipient under the Program include the following:
1. To strengthen expenditure control and combat corruption, IARCSC has issued a procedure requiring the rollout of a new HRMIS system.
2. To support private sector development, Kabul Municipality has approved rules of procedures under the Kabul Urban Design Framework and the Municipalities Law to significantly reduce the time required to obtain a construction permit.
3. To improve tax administration, ARD issues a circular mandating e-filing for all large taxpayers and selected sectors in MTO and STO.
4. To improve fiscal transparency and accountability, MOF has published full data on expenditures over the past five years at the line-item level.

Section II. Availability of Grant Proceeds
A. General. The Recipient may withdraw the proceeds of the Grant in accordance with the provisions of this Section and such additional instructions as the Association may specify by notice to the Recipient.
B. Allocation of Grant Amounts. The Grant is allocated in a single withdrawal tranche, from which the Recipient may make withdrawals of the Grant proceeds. The allocation of the amounts of the Grant to this end is set out in the table below:

<table>
<thead>
<tr>
<th>Allocations</th>
<th>Amount of the Grant Allocated (expressed in USD)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Single Withdrawal Tranche</td>
<td>40,000,000</td>
</tr>
<tr>
<td>TOTAL AMOUNT</td>
<td>40,000,000</td>
</tr>
</tbody>
</table>

C. Withdrawal Tranche Release Conditions.
1. No withdrawal shall be made of the Single Withdrawal Tranche unless the Bank is satisfied: (a) with the Program being carried out by the Recipient; (b) with the adequacy of the Recipient’s macroeconomic policy framework.
D. Deposit of Grant Amounts.

1. The Recipient, within thirty (30) days after the withdrawal of each of the First Withdrawal Tranche, the Second Withdrawal Tranche, the Third Withdrawal Tranche, the Fourth Withdrawal Tranche, the Fifth Withdrawal Tranche, the Sixth Withdrawal Tranche, the Seventh Withdrawal Tranche, the Eighth Withdrawal Tranche, the Ninth Withdrawal Tranche, the Tenth Withdrawal Tranche, and the Eleventh Withdrawal Tranche, shall report to the Bank: (a) the exact sum received into the account designated by the Recipient and acceptable to the Bank; (b) the details of the account to which the Afghan equivalent of the Grant proceeds will be credited; (c) the record that an equivalent amount has been accounted for in the Recipient’s budget management systems; and (d) the statement receipts and disbursement of the account designated by the Recipient and acceptable to the Bank.

F. Audit. Upon the Bank request, the Recipient shall:

1. have the account referred to in Section II.D.1(a) of this Schedule audited by independent auditors acceptable to the Bank, in accordance with consistently applied auditing standards acceptable to the Bank;

2. furnish to the Bank as soon as available, but in any case not later than four months after the date of the Bank’s request for such audit, a certified copy of the report of such audit, of such scope and in such detail as the Bank shall reasonably request, and make such report publicly available in timely fashion and in a manner acceptable to the Bank; and

3. furnish to the Bank such other information concerning the account referred to in Section II.D.1(a) of this Schedule and their audit as the Bank shall reasonably request.

E. Excluded Expenditures.

1. The Recipient undertakes that the proceeds of the Grant shall not be used to finance Excluded Expenditures. If the Bank determines at any time that an amount of the Grant was used to make a payment for an Excluded Expenditure, the Recipient shall, promptly upon notice from the Bank, refund an amount equal to the amount of such payment to the Bank. Amounts refunded to the Bank upon such request shall be cancelled.

G. Closing Date. The Closing Date is June 30, 2021.
APPENDIX

Section I. Definitions


2. "ARD" or "Afghanistan Revenue Department" means the Recipient’s department, under the Ministry of Finance, responsible for revenue, or any successor thereto.

3. "Excluded Expenditure" means any expenditure:
   (a) for goods or services supplied under a contract which any national or international financing institution or agency other than the Bank, IBRD or IDA has financed or agreed to finance, or which the Bank, IBRD or IDA has financed or agreed to finance under another credit, grant or loan;
   (b) for goods included in the following groups or sub-groups of the Standard International Trade Classification, Revision 3 (SITC, Rev.3) published by the United Nations in Statistical Papers, Series M, No. 34/Rev.4 (1986) (the SITC), or any successor groups or subgroups under future revisions to the SITC, as designated by the Bank by notice to the Recipient:

<table>
<thead>
<tr>
<th>Group</th>
<th>Sub-group</th>
<th>Description of Item</th>
</tr>
</thead>
<tbody>
<tr>
<td>1/2</td>
<td></td>
<td>Alcoholic beverages</td>
</tr>
<tr>
<td>121</td>
<td></td>
<td>Tobacco, un-manufactured, tobacco refuse</td>
</tr>
<tr>
<td>122</td>
<td></td>
<td>Tobacco, manufactured (whether or not containing tobacco substitutes)</td>
</tr>
<tr>
<td>525</td>
<td></td>
<td>Radioactive and associated materials</td>
</tr>
<tr>
<td>667</td>
<td></td>
<td>Pearls, precious and semiprecious stones, unworked or worked</td>
</tr>
<tr>
<td>718</td>
<td>718.7</td>
<td>Nuclear reactors, and parts thereof; fuel elements (cartridges), non-irradiated, for nuclear reactors</td>
</tr>
<tr>
<td>728</td>
<td>728.43</td>
<td>Tobacco processing machinery</td>
</tr>
<tr>
<td>897</td>
<td>897.3</td>
<td>Jewelry of gold, silver or platinum group metals (except watches and watch cases) and goldsmiths' or silversmiths' wares (including set gems)</td>
</tr>
<tr>
<td>971</td>
<td></td>
<td>Gold, non-precious (excluding gold ores and concentrates)</td>
</tr>
</tbody>
</table>
(c) for goods intended for a military or paramilitary purpose or for luxury consumption;

(d) for environmentally hazardous goods, the manufacture, use or import of which is prohibited under the laws of the Recipient or international agreements to which the Recipient is a party;

(e) on account of any payment prohibited by a decision of the United Nations Security Council taken under Chapter VII of the Charter of the United Nations; and

(f) with respect to which the Bank determines that corrupt, fraudulent, collusive or coercive practices were engaged in by representatives of the Recipient or other recipient of the Grant proceeds, without the Recipient (or other such recipient) having taken timely and appropriate action satisfactory to the Bank to address such practices when they occur.

4. “HRMIS” means human resources management information system.

5. “IARCSC” or “Independent Administrative Reform and Civil Service Commission” means the Recipient’s independent commission responsible for administrative reform and civil service, or any successor thereto.

6. “Kabul Municipality” means the municipality of Kabul in the Recipient’s territory, established and operating pursuant to the laws of the Recipient, or any successor thereto.


8. “MOF” or “Ministry of Finance” means the Recipient’s ministry responsible for finance, or any successor thereto.

9. “MTO” or “Medium Taxpayers Office” means the Recipient’s office responsible for medium taxpayers and established under the Ministry of Finance, or any successor thereto.

10. “Program” means the program of objectives, policies, and actions set forth or referred to in the letter dated April 6, 2020 from the Recipient to the Bank declaring the Recipient’s commitment to the execution of the Program, and requesting assistance from the Bank in support of the Program during its execution and
comprising actions taken, including those set forth in Section I of the Schedule to this Agreement, and actions to be taken consistent with the program’s objectives.

11. “Signature Date” means the later of the two dates on which the Recipient and the Bank signed this Agreement and such definition applies to all references to “the date of the Grant Agreement” in the Standard Conditions.

12. “Single Withdrawal Tranche” means the amount of the Grant allocated to the category entitled “Single Withdrawal Tranche” in the table set forth in Part B of Section II of the Schedule to this Agreement.


14. “STO” or “Small Taxpayers Office” means the Recipient’s office responsible for small taxpayers and established under the Ministry of Finance, or any successor thereto.

Section II. Modifications to the Standard Conditions

The Standard Conditions are modified as follows:

1. Section 2.01 (Project Execution Generally), 2.07 (Financial Management; Financial Statements; Audits), 2.10 (Procurement), and 2.11 (Anti-Corruption) are deleted in their entirety, and the remaining Sections in Article II are renumbered accordingly.

2. Paragraph (a) of Section 2.03 (renumbered as such pursuant to paragraph 1 above and relating to Use of Goods, Works and Services) is deleted in its entirety.

3. Paragraph (c) of Section 2.04 (renumbered as such pursuant to paragraph 1 above) is modified to read as follows:

   “Section 2.04. Documents; Records. The Recipient shall ensure that:

   … (c) all records (contracts, orders, invoices, bills, receipts and other documents) evidencing expenditures made from the Grant proceeds are retained until two years after the Closing Date. The Recipient shall enable the World Bank’s representatives to examine such records.”

4. Paragraph (c) of Section 2.05 (renumbered as such pursuant to paragraph 1 above) is modified to read as follows:
“Section 2.05, Program Monitoring and Evaluation. The Recipient shall ensure:

... (ii) except as the Bank may reasonably determine otherwise, ensure the preparation and delivery to the World Bank, not later than six (6) months after the Closing Date, a report of such scope and in such detail as the World Bank shall reasonably request, on the execution of the Program, the performance by the Recipient and the World Bank of their respective obligations under the Grant Agreement and the accomplishment of the purposes of the Grant.”

5. Sections 3.05 (Designated Accounts) and 3.06 (Eligible Expenditures) are deleted in their entirety, and the subsequent Sections in Article III are renumbered accordingly.

7. The following terms and definitions set forth in the Appendix are modified or deleted as follows, and the following new terms and definitions are added in alphabetical order to the Appendix as follows, with the terms being renumbered accordingly:

(a) The definition of the term “Eligible Expenditure” is modified to read as follows:

“‘Eligible Expenditure’ means any use to which the Grant is put in support of the Program, other than to finance Excluded Expenditures.”

(b) The term “Financial Statements” and its definition as set forth in the Appendix are deleted in their entirety.

(c) The term “Project” is modified to read “Program” and its definition is modified to read as follows:

“‘Program’ means the program referred to in the Grant Agreement in support of which the Grant is made.” All references to “Project” throughout these General Conditions are deemed to be references to “Program”.

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