Ms. Elvan Ongun  
Acting Director General, Undersecretariat of Treasury  
General Directorate of Foreign Economic Relations  
Inonu Bulvari, no 36  
05610 Emek - Ankara  
Turkey  

Dear Madam:  

Afghanistan Reconstruction Trust Fund  
(World Bank Ref: TF050576)  
Second Amendment to Letter Agreement and Restatement of Standard Terms  
Revised Attachment 1  

We refer to our letter dated March 9, 2012 regarding the second amendment to the Letter Agreement and Restatement of the Standard Terms and Conditions governing donor contributions to the Afghanistan Reconstruction Trust Fund.  

We request you to kindly replace Attachment 1 to our March 9, 2012 letter with the version attached to this letter. For ease of reference, a comparison between both versions is enclosed as Attachment 2 to this letter. You will note that changes are merely editorial. We propose that the March 31, 2012 deadline mentioned in our March 9, 2012 letter remains unchanged.  

Sincerely,  

Josephine M. Bassinette  
Acting Country Director  
Afghanistan  
South Asia Region  

cc: Mr. Konstantin Franz Huber  
Executive Director  
The World Bank  
1818 H Street, N.W.  
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USA  

Mr. Gino Pierre Alzetta  
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Amended and Restated

Standard Terms and Conditions Governing Contributions to the Afghanistan Reconstruction Trust Fund

1. **General.**

   The following terms and conditions will govern all agreements entered into between the Bank and donor countries or agencies (individually referred to herein as the “Donors”; each a “Donor”) that provide grants to the Bank as contributions to the Trust Fund (the “Grant Funds”).

2. **Objective of the Trust Fund**

   The objective of the Trust Fund is to provide a vehicle for Donors to pool resources and coordinate their support to the programme of the Government of the Islamic Republic of Afghanistan for the reconstruction of Afghanistan.

3. **Definitions**

   Unless the context otherwise requires, the several terms defined in the Letter Agreement and in paragraph 1 above have the respective meanings therein set forth, and the following additional terms have the following meanings:

   (a) “Administration” means the Administration of the Islamic Republic of Afghanistan or any successor thereto;

   (b) “Category” means any of the categories of expenditures set forth in the table in paragraph 4 of this Annex.

   (c) “Capital Expenditures” means expenditures on account of goods, including, without limitation, office furniture and equipment, as set forth in the Administration’s budget, the eligibility for financing of which will have been approved by the Management Committee;

   (d) “Financing Strategy” means a three year rolling framework for planning the use of Grant Funds, agreed annually by the Steering Committee on the basis of a recommendation from the Strategy Working Group;

   (e) “Incentive Program” means a performance based program that allocates a certain portion of recurrent cost financing based on the Administration’s meeting of reform benchmarks, set and reviewed by the Incentive Program Working Group;
(f) "Incentive Program Working Group" means the technical advisory body whose responsibilities are described in paragraph 5(b)(ii) of this Annex, and whose membership consists of representatives of (i) the Bank; (ii) the Ministry of Finance, and (iii) representatives of no more than six Donors to be reviewed on an annual basis by the Steering Committee;

(g) "Investment and Program Activity" means activities, the purpose of which will be to meet a recognized development objective and which is part of an investment or sector program of the Administration that will have been approved by the Management Committee. Such activities will include, without limitation, activities in agriculture, infrastructure, micro-finance and the social sectors, as well as reintegration of combatants into society and programs to facilitate the return of private business to Afghanistan, together with pre-feasibility and other studies related thereto. The expression "Investment and Program Activity" includes a Law and Order Project (as this expression is hereinafter defined);

(h) "Law and Order Project" means an Investment Project, the purpose of which, in whole or in part, will be the carrying out, in connection with the civil branch of the police force of the Government of the Islamic Republic of Afghanistan, of one or more of the following activities: (i) payment of salaries and benefits; (ii) provision of uniforms; (iii) provision of non-military or non-paramilitary vehicles; (iv) provision of computer and two way communications equipment; (v) provision of fuel; and (vi) payment of operating and maintenance costs associated with said vehicles and computer and communications equipment;

(i) "Management Committee" means the committee whose responsibilities are described in paragraph 5(a)(ii) of this Annex, and whose membership will consist of representatives of the Asian Development Bank, the Islamic Development Bank, the Ministry of Finance, the United Nations Development Programme and the Bank;

(j) "Ministry of Finance" means the Administration’s Ministry of Finance or any successor thereto;

(k) "Monitoring Agent" means an independent firm to be engaged by the Bank in accordance with the provisions of paragraph 6 (a) of this Annex.

(l) "Recurrent Expenditures" means those recurrent expenditures set forth in the Administration’s budget, whose eligibility for financing hereunder will have been determined by the Management Committee, relating to wages, benefits and other payments for civil servants, pension payments, debt service obligations, including the payment of interest, fees and other charges, and operation and maintenance costs, but excluding military and
paramilitary expenditures and police-related expenditures, other than the activities contemplated under paragraph 3 (h);

(m) "Steering Committee" means the committee whose responsibilities are described in paragraph 5 (a) (iii) of this Annex, and whose membership (to be reviewed on an annual basis) consists of representatives of: (i) the Bank; (ii) each Donor; (iii) the Ministry of Finance; and which may be attended by the other members of the Management Committee as observers;

(n) "Strategy Working Group" means the technical advisory body whose responsibilities are described in paragraph 5 (b) (i) of this Annex, and whose membership (to be reviewed on an annual basis) consists of representatives of: (i) the Bank; (ii) the Ministry of Finance; (iii) Donors whose contribution to the Trust Fund equals or exceeds ten million United States dollars (US$10,000,000) per annum and that have adequate technical expertise at the local level; and (iv) any such sector Ministries of the Administration as the Strategy Working Group may decide to invite to its meetings on an ad hoc basis;

(o) "Sub-grant" means a grant made or proposed to be made by the Bank using Trust Funds allocated to Category (3), herewith to any public or private entity to carry out an Investment and Program Activity;

(p) "Sub-grant Recipient" means a public or private entity to which the Bank proposes to make, or has made, a Sub-grant; and

(q) "Sub-grant Agreement" means an agreement entered into, or proposed to be entered into, between the Bank and a Sub-grant Recipient.

4. **Categories of Expenditure**

The categories of expenditure that are eligible for financing from the Trust Fund, together with the percentages of expenditures to be financed, are as follows:

<table>
<thead>
<tr>
<th>Category</th>
<th>Percentage of Expenditures to be Financed</th>
</tr>
</thead>
<tbody>
<tr>
<td>(1) Recurrent and Capital Expenditures</td>
<td>100%</td>
</tr>
<tr>
<td>(2) Expert services and training</td>
<td>100%</td>
</tr>
<tr>
<td>(3) Sub-grants for Investment Projects</td>
<td>100%</td>
</tr>
</tbody>
</table>
5. Governance Structure of the Trust Fund

(a) The Trust Fund will have the following three-tier governance structure:

   (i) The Bank will be the administrator of the Trust Fund. In this capacity, the Bank will establish and maintain appropriate records and accounts to identify the contributions to the Trust Fund, the commitments to be financed out of the Grant Funds and the receipt and disbursement of the Grant Funds. The Bank will also be responsible to supervise the performance of the Monitoring Agent(s) subject to the proviso set forth at the end of paragraph 8 (a) of this Annex.

   (ii) The Management Committee will be responsible, inter alia, for resource allocation decisions with respect to the Trust Fund. In allocating Grant Funds, the Management Committee will be guided by the Financing Strategy. The Management Committee will be chaired by the Bank as administrator and, on a monthly basis, meet in Kabul, Afghanistan, or in such other location as the Management Committee may decide from time to time, or by teleconference and, will following such meeting, report in writing to each Donor on operations and activities financed by disbursements made by the Trust Fund and decisions taken by the Management Committee. The Management Committee will, on a quarterly basis, prepare and submit to the Steering Committee a report which will describe in detail the operations of the Trust Fund, including the receipt and use of donor contributions to the Trust Fund and the activities financed therefrom, together with minutes of the monthly meetings of the Management Committee. The Management Committee will act collectively and, to the extent practicable, make decisions by consensus.

   (iii) The Steering Committee will be responsible for overseeing and supervising the performance of the Management Committee. The Steering Committee will, on a quarterly basis, meet in Kabul, Afghanistan, or in such place as the Committee may decide, to review progress in the implementation of activities financed under the Trust Fund, and approve the Financing Strategy to provide guidance to the Management Committee on Grant Fund allocation. At the start of each solar year and on the basis of a proposal from the Strategy Working Group, the Steering Committee will (A) review and assess how well funding decisions on individual projects, recurrent cost support and the Incentive program met the existing Financing Strategy, and (B) revise the Financing Strategy as needed to guide Grant Fund allocations for the upcoming annual period.

(b) The following technical advisory bodies will report to the Steering Committee:

   (i) The Strategy Working Group, which will meet from time to time in Kabul, Afghanistan, under the chairmanship of the Bank, to: (A) make recommendations to the Steering Committee on the Financing Strategy at the start of each solar year; (B) inform the annual review (by the Steering Committee) of the implementation of the Financing Strategy, and highlight issues that arose in the course of implementation; (C) hold ad-hoc review meetings as needed to discuss particular issues or bottlenecks; (D) ensure that the Financing Strategy is coordinated with the Ministry of Finance Fiscal Policy unit (and therefore the Medium Term Fiscal Framework) as well as with the Ministry of Finance
Budget Department; and (E) support the development of a results matrix for the Financing Strategy, and

(ii) The Incentive Program Working Group, which will meet from time to time in Kabul, Afghanistan, under the chairmanship of the Bank, to discuss policy benchmarks with the Administration and report thereon to the Steering Committee as part of the Incentive Program Framework.

6. Implementation of Activities under the Trust Fund

(a) The Administration will be responsible for implementing the activities to be financed under Categories (1) and (2). Implementation of the activities to be financed under Category (3) is governed by the provisions of paragraph 9 of this Annex. The Bank will engage one or more Monitoring Agents to monitor expenditures related to the activities financed under Categories (1), (2) and (3). Each Monitoring Agent will be selected and retained by the Bank on the basis of terms of reference/scope of work agreed by the Management Committee and the Bank. The responsibilities of each Monitoring Agent will include monitoring the procurement of goods, services and other items, screening and recommending withdrawal applications for the Bank’s approval and payment, monitoring all expenditures financed by the Grant Funds and pre-screening the financial management capacity of potential Sub-grant Recipients so as to ensure that Grant Funds are disbursed only for the purposes specified in paragraph 4 of this Annex and according to applicable Bank procedures.

(b) Monitoring Agents will report to the Bank. Subject to the approval of the Management Committee, the Bank will have the authority to change the terms of reference/scope of work of each Monitoring Agent and, where justified, to replace each Monitoring Agent with another firm or agency. The Bank will give advance notice to the Administration, the Management Committee and the Donors of changes to the terms of reference/scope of work of each Monitoring Agent. The Bank will perform ex-post evaluations of the activities undertaken by the Monitoring Agents, and will, upon completion of the activities financed under the Trust Fund, arrange for an independent review of the performance of the Monitoring Agents and report its findings to the Donors.

(c) The Grant Funds may be used by the Bank to: (i) pay the reasonable fees, travel and other reimbursable costs of Monitoring Agents; and (ii) pay the cost of goods, services and other items of expenditure in furtherance of the Trust Fund activities, all in accordance with the provisions of the Grant, including this Annex.

(d) The selection and recruitment of Monitoring Agents by the Bank, and the procurement and financing of expenditures for goods and services to be carried out by the Administration, in connection with goods and services financed under Categories (1) and (2), and by each Monitoring Agent, will take place on an untied basis, in accordance with the Bank’s "Guidelines for Procurement under IBRD Loans and IDA Credits" and the "Guidelines for the Use of Consultants by World Bank Borrowers and by the World Bank as Executing Agency".
7. The Bank’s Use of Grant Funds and Administrative Cost Recovery

(a) The Grant Funds will be accounted for as part of a single Trust Fund which will be kept separate and apart from other funds of the Bank. Donor contributions to the Trust Fund may not be earmarked for one or more specific Categories and will instead be allocated among all Categories in accordance with the decisions of the Management Committee. A Donor may state a preference that its contribution be used to finance one or more Categories, or certain activities in a given sector, with the understanding that neither the Management Committee nor the Bank will be in a position to guarantee that total spending with respect to any given Category or sector will match or exceed the level of the contribution in connection with which a preference will have been stated. Undesignated contributions will be allocated among Categories in accordance with the decisions of the Management Committee. No contribution to the Trust Fund will be accepted unless it equals or exceeds two hundred thousand United States dollars (US$200,000).

(b) The Bank may invest the Grant Funds pending their disbursement in any instrument in which the Bank is authorized to invest its own funds. The investment income earned on the Grant Funds pending disbursement will be added to the account to be used for purposes of the Trust Fund.

(c) In order to assist in the defrayment of its administrative costs, the Bank may, as of February 18, 2011 following deposit of the Grant Funds, deduct from the T-Account and transfer to itself an amount equivalent to two percent (2.0%) of the amount of the Grant Funds. The Bank may also deduct from the T-Account and transfer to itself the actual costs of the Bank’s contract with the Monitoring Agent(s), as well as the cost of the independent review of the Monitoring Agent(s)’s performance referred to under paragraph 6(b) of this Annex.

8. Fiduciary Responsibilities of the Bank

(a) The Bank will be responsible only for performing those functions specifically set forth in this Letter Agreement, including this Annex, and will not be subject to any other duties or responsibilities to Donors, including, without limitation, any duties or obligations that might otherwise apply to a fiduciary or trustee under general principles of trust or fiduciary law. Nothing in this Letter Agreement will be considered a waiver of any privileges or immunities of the Bank under its Articles of Agreement or any applicable law, all of which are expressly reserved. The Bank will have no responsibility to Donors with respect to the performance of the Monitoring Agent(s) and will have no obligation to reimburse the Trust Fund or provide any compensation to any Donor if the Grant Funds are not disbursed for the purposes specified in this Annex as a result of actions of the Monitoring Agent(s).

(b) Unless otherwise provided in this Letter Agreement, the Bank will apply its normal financial management procedures to the Trust Fund. Such procedures
applicable to the operation of the Trust Fund will be communicated to the Donors without delay.

(c) Unless otherwise provided in this Letter Agreement, the Bank will apply to the Trust Fund its framework to prevent and combat fraud and corruption and its screening procedures to prevent the use of Bank resources to finance terrorist activity, in line with the Bank’s obligations to give effect to the relevant decisions of the Security Council, taken under Chapter VII of the Charter of the United Nations. The Donor acknowledges that this provision does not create any obligations of the Bank under the anti-terrorist financing and asset control laws, regulations, rules and executive orders of an individual member country that may apply to the Donor, nor will it be deemed a waiver, express or implied, of any of the privileges and immunities of the Bank.

9. Terms and Conditions Governing Sub-Grants Under Category (3)

In the event that the Bank deems it necessary execute a sub-grant to carry out an Investment and Program Activity eligible for financing under Category (3), the following provisions will apply:

(a) The Bank will conclude a Sub-grant Agreement with each “Sub-grant Recipient”.

(b) Except as provided in paragraph (c) below, responsibility for the accounting and administration of Grant Funds made available by the Bank to Sub-grant Recipients will be decided upon on a case-by-case basis by the Management Committee, considering, inter alia, the recommendations made by the Monitoring Agent(s). Accordingly, the Management Committee will review proposals to carry out activities eligible for financing under Category (3) and award Sub-grants in connection with proposals deemed by the Management Committee to be suitable for financing and consistent with the Financing Strategy. Proposals for financing under Category (3) will be submitted for approval to the Administration which, when approved, will forward them to the Management Committee for consideration. Only proposals vetted by the Administration in the manner described in this sub-paragraph will be considered by the Management Committee. A proposal submitted to the Management Committee, through the Administration, will include an appraisal of the Investment and Program Activity sought to be financed. For those proposals that do not include an appraisal of the Investment Project sought to be financed, the Bank will carry out the appraisal of the Investment Project. The representative of a member organization of the Management Committee will recuse him or herself from deliberations over the suitability of proposal(s) submitted or co-financed by the organization that he or she represents.

(c) Notwithstanding the provisions of sub-paragraph (b) of this paragraph 9, proposals to carry out a Law and Order Project may only be made and carried out by the United Nations Development Programme. The latter will be the sole organization authorized to carry out Law and Order Projects financed hereunder. Sub-grants to finance Law and Order Projects will be made in accordance with terms and conditions acceptable to the Bank including, without limitation, those set forth in sub-paragraphs (a),
(d) Sub-grants will be used to finance expenditures for goods, works and services, as the case may be, in accordance with the Bank's "Guidelines for Procurement under IBRD Loans and IDA Credits" and the "Guidelines for the Use of Consultants by World Bank Borrowers and by the World Bank as Executing Agency", as in effect at the date of the relevant Sub-grant agreement (hereinafter collectively referred to as the "Bank's Guidelines"). Any departure from the Bank's Guidelines will have to be pre-approved by the Bank.

(e) The fiduciary arrangements for an Investment and Program Activity to be financed under Category (3) will be carried out in accordance with the guidelines and procedures specified in paragraph 8 (b) including but not limited to an environmental and social screening and assessment framework approved by the Bank. Any departure from the guidelines contained in said framework will have to be pre-approved by the Bank.

(f) As required under regular Bank lending operations, a Sub-grant Agreement will obligate a Sub-grant Recipient, among other things, to maintain an appropriate and adequate financial management system, including records and accounts, and prepare financial statements adequate to separately reflect the operations, resources and expenditures related to the Investment and Program Activity financed under the Sub-grant. Within ninety (90) days of each June 30 and December 31, the Sub-grant Recipient will prepare unaudited financial statements with respect to such Sub-grant and forward a copy to the Bank. All financial statements appropriate to the size and purpose of the Sub-grant, as indicated in the Sub-grant agreement will be expressed in the currency in which the Sub-grant is made, as indicated in the Sub-grant Agreement, and will show the allocation of such funds among the activities financed by the Sub-grant. In addition, the Sub-grant Recipient will: (i) have the above-mentioned records, accounts and financial statements audited, in accordance with auditing standards acceptable to the Bank, by independent auditors acceptable to the Bank; (ii) furnish to the Bank, as soon as available, but in any case not later than six (6) months after the end of each calendar year: (a) certified copies of the financial statements referred to above for such year as so audited, and (b) an opinion on such statements, records and accounts and report of such audit, by said auditors, of such scope and in such detail as the Bank will have reasonably requested; and (iii) furnish to the Bank such other information concerning said records and accounts, and the audit thereof, as the Bank will from time to time reasonably request. In such cases where the Sub-grant is ≤ US$100,000 the Bank has the discretion to specify in the Sub-grant agreement that attestation from the Monitoring Agent will be sufficient to comply with the audit procedures above.

(g) The Bank will report quarterly to the Donors on the status of Grant Funds made available to a Sub-grant Recipient under a Sub-grant Agreement. In addition, at a Donor's request, the Bank will also make available, in accordance with its Policy on...
Access to Information, audited and unaudited financial statements of Sub-grant Recipients furnished under paragraph (f) above.

10. **Accounting and Financial Reporting Responsibilities of the Bank**

(a) The Bank will maintain separate records and ledger accounts in respect of the aggregate Grant Funds for the agreed activities and disbursements made therefrom to the Monitoring Agent(s). Within one hundred eighty (180) days of the completion of the activities financed by the Grant Funds, the Bank will prepare unaudited financial statements in United States dollars with respect to the Grant Funds and forward a copy to each Donor. The Bank will provide the Donors annually with a management assertion together with an attestation from the Bank's external auditors on the satisfactory performance of the procedures and controls used by the Bank in administering the Grant Funds.

(b) If a Donor wishes to request, on an exceptional basis, a financial statement audit by the Bank's external auditors of the Trust Fund, the Donor and the Bank shall first consult as to whether such an external audit is necessary. The Bank and the Donor shall agree on the appropriate scope and terms of reference of such audit. Following agreement on the scope and terms of reference, the Bank shall arrange for such external audit. The costs of any such audit, including the internal costs of the Bank with respect to such audit, shall be paid by the requesting Donor.

11. **Progress Reporting Responsibilities of the Bank**

(a) The Bank will maintain close consultation and coordination with the Donors. The Bank will provide each Donor with quarterly reports on its quarterly ex-post evaluation of the activities undertaken by the Monitoring Agent(s) including disbursements made out of the Grant Funds. Within (6) six months of the completion of the activities, or of full disbursement of the Grant Funds, whichever comes later, the Bank will provide a final progress report to each Donor, together with a copy of the independent review of the performance of the Monitoring Agent(s). Upon request by any Donor, the Bank will send to such Donor the draft and final reports received by the Bank from each Monitoring Agent on the activities financed by the Grant Funds.

(b) Any Donor may review or evaluate activities financed by the Trust Fund. The Donor and the Bank shall agree on the scope and conduct of such review or evaluation and the Bank shall provide all relevant information within the limits of its policies and procedures. All associated costs shall be borne by the Donor. It is understood that any such review or evaluation will not constitute a financial, compliance or other audit of the Trust Fund and will be separate from any independent evaluation of the Trust Fund to be arranged by the Bank.
12. **Termination**

Unless otherwise agreed by the Donors and the Bank, the Trust Fund arrangement provided for under the Letter Agreement and this Annex will expire on June 30, 2020. If at any time, either party determines that the purposes of the Letter Agreement and this Annex can no longer be effectively or appropriately carried out, this Letter Agreement may be terminated at the initiative of either party by giving the other party thirty (30) days prior notice to this effect. Upon termination, unless otherwise agreed by the Donors and the Bank: (i) any agreement entered into among the Bank, the Monitoring Agent(s), and/or other third parties will not be affected by the termination, and the Bank will be entitled to continue permitting withdrawals of Grant Funds in respect of such agreements as if this arrangement had not been so terminated; and (ii) any remaining Grant Funds will be returned to the Donors on a pro-rata basis, and the Bank’s functions pursuant hereto will be considered terminated. Within six (6) months following such termination, the Bank will furnish to the Donors an unaudited financial statement with respect to the aggregate amount contributed by all Donors.

13. **Legal Documentation**

For purposes of channeling Grant Funds to their intended beneficiaries in accordance with the terms and conditions of the Letter Agreement and this Annex, the Bank will enter into a grant agreement with the Administration concerning Trust Funds allocated to Categories (1) and (2). Grant Funds allocated to Category (3) will be governed by separate sub-grant agreements to be entered into between the Bank, on the one part, and sub-grant Recipients, on the other part, with each such agreement relating to one or more Investment and Program Activity. Without prejudice to the foregoing, Grant Funds allocated to Category (3) for the specific purpose of financing Law and Order Projects will be governed by one or more grant agreements, as the case may be, to be entered into between the Bank, on the one part, and the United Nations Development Programme, on the other part.