Afghanistan Reconstruction Trust Fund
Grant Agreement

(2019 Incentive Program Development Policy Operation)

between

ISLAMIC REPUBLIC OF AFGHANISTAN

and

INTERNATIONAL DEVELOPMENT ASSOCIATION
acting as administrator of the Afghanistan Reconstruction Trust Fund
ARTF GRANT NUMBER 00377

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 this Agreement (including the Appendix thereto).

Article II
The 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;

(b) prior to each such exchange of view, the Recipient shall furnish to the Bank for its review and comment a report on 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 Schedule I to this Agreement or in Section I of Schedule I to the Financing Agreement.

Article III
The Grant

3.01. The Bank agrees to extend to the Recipient a grant in an amount not to exceed sixty million United States Dollars ($60,000,000) ("Grant").

3.02. The Recipient may withdraw the proceeds of the Grant in support of the Program in accordance with Section II of Schedule I 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 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. This Agreement shall not become effective until 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 the Grant Account if 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  
Pashtunistan Watt  
Kabul  
Islamic Republic of Afghanistan; and

(b) the Recipient's Electronic Address is:

Facsimile:  
+93-20-210-3259

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

Authorized Representative

Name: Zahid Hamdard
Title: Deputy Minister - Finance
Date: July 1, 2019

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

By

Authorized Representative

Name: Shubham Chaudhuri
Title: Country Director
Date: June 25, 2019
SCHEDULE I
Program Actions; Availability of Grant Proceeds

Section I. Actions under the Program

A. Actions to be Taken Under the Program. The actions to be taken by the Recipient under the Program include the following:

1. To develop a regulatory framework for e-money and digital payments: (i) DAB issues a circular to operating banks and MOF issues a circular to tax and customs directorates and provincial offices allowing for electronic payment of customs and tax dues; and (ii) DAB issues a circular requiring participation of all mobile money providers, payment card issuers, and acquiring banks in Afghanistan Payment System to enable interoperability.

2. To improve tax administration, MOF issues a circular to make fast-track tax filing mandatory for banking and telecommunication sectors in LTO and available for optional use in MTO.

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 Bank may specify by notice to the Recipient.

B. Allocation of Grant Amounts. The Grant is allocated in two (2) withdrawal tranches, 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>(1) First Withdrawal Tranche</td>
<td>30,000,000</td>
</tr>
<tr>
<td>(2) Second Withdrawal Tranche</td>
<td>30,000,000</td>
</tr>
<tr>
<td><strong>TOTAL AMOUNT</strong></td>
<td><strong>60,000,000</strong></td>
</tr>
</tbody>
</table>

C. Withdrawal Tranche Release Conditions.

1. No withdrawal shall be made of the:
(a) First Withdrawal Tranche unless the Bank is satisfied, after an exchange of views as described in Sections 3.01 (a) and (b) of this Agreement: (i) with the evidence submitted to demonstrate fulfillment of the action referred to in Section I.A.1. of this Schedule 1; (ii) with the Program being carried out by the Recipient; and (iii) with the adequacy of the Recipient’s macroeconomic policy framework;

(b) Second Withdrawal Tranche unless the Bank is satisfied, after an exchange of views as described in Sections 3.01 (a) and (b) of this Agreement: (i) with the evidence submitted to demonstrate fulfillment of the action referred to in Section I.A.2. of this Schedule 1; (ii) with the Program being carried out by the Recipient; and (iii) with the adequacy of the Recipient’s macroeconomic policy framework;

D. Deposit of Grant Amounts.

1. The Recipient shall ensure that: (a) all withdrawals from the Grant Account shall be deposited by the Bank into an account designated by the Recipient and acceptable to the Bank; and (b) upon each deposit of an amount of the Grant into said account, an equivalent amount is accounted for in the Recipient’s budget management system, in a manner acceptable to the Bank.

2. The Recipient, within thirty (30) days after the withdrawal of the Grant from the Grant Account, shall report to the Association: (a) the exact sum received into the account; (b) the details of the account to which the Afghani 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 of receipts and disbursement of the account.

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.

F. Closing Date. The Closing Date is May 31, 2020.
APPENDIX

Section I. Definitions

1. "Afghanistan Payment System" means a regulated payment system under DAB established and operating under the Recipient’s relevant legal framework with the registration No. D-37351.

2. "DAB" means Da Afghanistan Bank, the Recipient’s central bank, established and operating pursuant to the Da Afghanistan Bank Law, or any successor thereto.


4. “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.3 (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>112</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>Code</td>
<td>Description</td>
<td></td>
</tr>
<tr>
<td>------</td>
<td>-------------</td>
<td></td>
</tr>
<tr>
<td>667</td>
<td>Pearls, precious and semiprecious stones, unworked or worked</td>
<td></td>
</tr>
<tr>
<td>718</td>
<td>Nuclear reactors, and parts thereof; fuel elements (cartridges), non-irradiated, for nuclear reactors</td>
<td></td>
</tr>
<tr>
<td>728</td>
<td>Tobacco processing machinery</td>
<td></td>
</tr>
<tr>
<td>897</td>
<td>Jewelry of gold, silver or platinum group metals (except watches and watch cases) and goldsmiths' or silversmiths' wares (including set gems)</td>
<td></td>
</tr>
<tr>
<td>971</td>
<td>Gold, non-monetary (excluding gold ores and concentrates)</td>
<td></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.

5. "First Withdrawal Tranche" means the amount of the Grant allocated to Category I in the table set forth in Part B of Section II of Schedule 1 to this Agreement, which amount will: (a) decrement by 10% per month, in the event the action referred to Section I.A.1. of Schedule 1 to this Agreement is not fulfilled by November 15, 2019; and (b) reach a zero balance by the Closing Date.
the action referred to Section I.A.1. of Schedule I to this Agreement remains unfulfilled by said date.

6. "LTO" means Recipient’s Large Taxpayers Office within MOF, or any successor thereto.

7. “Ministry of Finance” or “MOF” means the Recipient’s Ministry of Finance, or any successor thereto.

8. "MTO" means Recipient’s Medium Taxpayers Office within MOF, or any successor thereto.

9. “Program” means: the program of objectives, policies, and actions set forth or referred to in the letter dated May 12, 2019 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 to be taken, including those set forth in Section I of Schedule I to this Agreement or to the Financing Agreement, and actions to be taken consistent with the Program’s objectives.

10. “Second Withdrawal Tranche” means the amount of the Grant allocated to Category 2 in the table set forth in Part B of Section II of Schedule I to this Agreement, which amount will: (a) decrement by 10% per month, in the event the action referred to Section I.A.2. of Schedule I to this Agreement is not fulfilled by November 15, 2019; and (b) reach a zero balance by the Closing Date, in the event the action referred to Section I.A.2. of Schedule I to this Agreement remains unfulfilled by said date.

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.

Section II. Modifications to the Standard Conditions

The Standard Conditions are hereby modified as follows:

1. Sections 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:

   \(\text{(c)}\) all records (contracts, orders, invoices, bills, receipts and other documents) evidencing expenditures under the Grant are retained until two years after the Closing Date. The Recipient shall enable the 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:

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

5. Paragraph (b)(iv) of Section 2.06 (renumbered as such pursuant to paragraph 1 above) is deleted in its entirety.
6. 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. Paragraphs 19 (Procurement Plan) and 20 (Procurement Regulations) in the Appendix are deleted in their entirety and the subsequent paragraphs are renumbered accordingly.

8. 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 expenditures excluded pursuant to the Grant Agreement.”

(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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