GRANT NUMBER D1400-AF

Financing Agreement

(Second Additional Financing for the Financial Sector Rapid Response Project)

between

ISLAMIC REPUBLIC OF AFGHANISTAN

and

INTERNATIONAL DEVELOPMENT ASSOCIATION

Dated January 04, 2017
FINANCING AGREEMENT

AGREEMENT dated January 04, 2017, entered into between ISLAMIC REPUBLIC OF AFGHANISTAN ("Recipient") and INTERNATIONAL DEVELOPMENT ASSOCIATION ("Association") for the purpose of providing additional financing for activities related to the Original Project (as defined in the Appendix to this Agreement). The Recipient and the Association hereby agree as follows:

ARTICLE I — GENERAL CONDITIONS; DEFINITIONS

1.01. The General Conditions (as defined in the Appendix to this Agreement) constitute an integral 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 General Conditions or in the Appendix to this Agreement.

ARTICLE II — FINANCING

2.01. The Association agrees to extend to the Recipient, on the terms and conditions set forth or referred to in this Agreement, a grant in an amount equivalent to fourteen million four hundred thousand Special Drawing Rights (SDR 14,400,000) ("Financing"), to assist in financing the project described in Schedule 1 to this Agreement ("Project").

2.02. The Recipient may withdraw the proceeds of the Financing in accordance with Section IV of Schedule 2 to this Agreement.

2.03. The Maximum Commitment Charge Rate payable by the Recipient on the Unwithdrawn Financing Balance shall be one-half of one percent (1/2 of 1%) per annum.

2.04. The Payment Dates are March 15 and September 15 in each year.

2.05. The Payment Currency is Dollar.
ARTICLE III — PROJECT

3.01. The Recipient declares its commitment to the objectives of the Project. To this end, the Recipient shall cause DAB (the “Project Implementing Entity”), to carry out the Project in accordance with the provisions of Article IV of the General Conditions and the Project Agreement.

3.02. Without limitation upon the provisions of Section 3.01 of this Agreement, and except as the Recipient and the Association shall otherwise agree, the Recipient shall ensure that the Project is carried out in accordance with the provisions of Schedule 2 to this Agreement.

ARTICLE IV — REMEDIES OF THE ASSOCIATION

4.01. The Additional Events of Suspension consist of the following, namely that DAB’s Legislation has been amended, suspended, abrogated, repealed or waived so as to affect materially and adversely the ability of DAB to perform any of its obligations under the Project Agreement.

ARTICLE V — EFFECTIVENESS; TERMINATION

5.01. The Effectiveness Deadline is the date ninety (90) days after the date of this Agreement.

5.02. For purposes of Section 8.05 (b) of the General Conditions, the date on which the obligations of the Recipient under this Agreement (other than those providing for payment obligations) shall terminate is twenty (20) years after the date of this Agreement.

ARTICLE VI — REPRESENTATIVE; ADDRESSES

6.01. The Recipient’s Representative is the Minister of Finance.

6.02. The Recipient’s Address is:

   Ministry of Finance
   Pashtumistan Watt
   Kabul
   Islamic Republic of Afghanistan

   Facsimile: +93-20-210-3258
6.03. The Association’s Address is:

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

Facsimile:
+1-202-477-6391

AGREED at Kabul, Republic of Afghanistan, as of the day and year first above written.

ISLAMIC REPUBLIC OF AFGHANISTAN

By

[Signature]
Authorized Representative

Name: Ehsan Halimi
Title: Minister

INTERNATIONAL DEVELOPMENT ASSOCIATION

By

[Signature]
Authorized Representative

Name: Muhammad Chaudhry
Title: Country Director
SCHEDULE 1

Project Description

The objective of the Project is to assist DAB to develop action plans for improved banking supervision and to establish key building blocks of financial sector infrastructure, including: payment system, movable collateral registry and public credit registry.

The Project consists of the following Parts additional to the Original Project:

Part A: Strengthening of DAB’s Capacity

Supporting the upgrading of the internal audit functions to implement risk-based internal audits and the implementation of International Financial Reporting Standards (IFRS).

Part B: Development of Afghanistan financial sector infrastructure

1. Improving DAB’s internal Information and Communication Technology (ICT) systems, including the core banking applications, enterprise resource planning, internal audit systems, financial supervision department, financial intelligence unit and selected data management and security systems, to achieve full automation of core functions, improve operational reliability and enhance efficiencies.

2. Supporting the implementation of a sustainability plan for AIBF.

3. Modernizing the Recipient’s payment system by supporting: (a) the implementation of the APS to support the settlement of card transactions and mobile payment; and (b) the implementation of a sustainability plan for APS.

Part C: DAB Skill Development, Technical Assistance and Project Implementation

1. Rolling-out a skills development program for technical and operational DAB staff

2. Strengthening DAB’s institutional capacity of relevant departments at DAB and the PIC to facilitate Project implementation.
SCHEDULE 2
Project Execution

Section I. Implementation Arrangements

A. Subsidiary Grant Agreement

1. To facilitate the carrying out of the Project, the Recipient shall make the proceeds of the Financing available to the Project Implementing Entity under a subsidiary grant agreement between the Recipient and the Project Implementing Entity, under terms and conditions approved by the Association (the “Subsidiary Grant Agreement”), which shall include the following:

(a) the proceeds of the Financing shall be made available by the Recipient to the Project Implementing Entity on a grant basis;

(b) the Project Implementing Entity shall undertake to: (i) carry out the Project with due diligence and efficiency and in accordance with appropriate management, financial and social standards acceptable to the Association; and (ii) provide, promptly as needed, the funds, facilities and other resources required for this purpose;

(c) the Recipient shall have the right to suspend or terminate the right of the Project Implementing Entity to the use of the proceeds of the Financing made available under the Subsidiary Grant Agreement upon failure by the Project Implementing Entity to perform its obligations thereunder; and

(d) in the event that any portion of the proceeds of the Financing provided to the Project Implementing Entity is not used for Eligible Expenditures or is otherwise used in breach of this Agreement, the Project Agreement, or the Subsidiary Grant Agreement, the Project Implementing Entity shall, upon notice from the Recipient or from the Association, refund the notified amount to the account provided in such notice.

2. The Recipient shall exercise its rights under the Subsidiary Grant Agreement in such manner as to protect the interests of the Recipient and the Association and to accomplish the purposes of the Financing. Except as the Association shall otherwise agree, the Recipient shall not assign, amend, abrogate or waive the Subsidiary Grant Agreement or any of its provisions.

B. Anti-Corruption

The Recipient shall ensure that the Project is carried out in accordance with the provisions of the Anti-Corruption Guidelines.
Section II.  Project Monitoring, Reporting and Evaluation

A.  Project Reports

1. The Recipient shall, and/or shall cause the Project Implementing Entity to, monitor and evaluate the progress of the Project and prepare Project Reports in accordance with the provisions of Section 4.08 of the General Conditions and on the basis of indicators acceptable to the Association. Each Project Report shall cover the period of one (1) calendar quarter, and shall be furnished to the Association not later than forty-five (45) days after the end of the period covered by such report.

2. Notwithstanding the foregoing, the Recipient shall, and/or shall cause the Project Implementing Entity to, furnish to the Association on a monthly basis, commencing the month following the Effective Date, individual reports covering the calendar month preceding the issuance of each such report, containing desegregated audited data on the commercial banks' balance sheets, and/or any other indicator requested from time to time by the Association.

B.  Financial Management, Financial Reports and Audits

1. The Recipient shall, and shall cause the Project Implementing Entity to, maintain or cause to be maintained a financial management system in accordance with the provisions of Section 4.09 of the General Conditions.

2. Without limitation on the provisions of Part A of this Section, the Recipient shall, and shall cause the Project Implementing Entity to, prepare and furnish to the Association not later than forty-five (45) days after the end of each calendar quarter, interim unaudited financial reports for the Project covering the quarter, in form and substance satisfactory to the Association.

3. The Recipient shall have its Financial Statements audited in accordance with the provisions of Section 4.09(b) of the General Conditions. Each audit of the Financial Statements shall cover the period of one Fiscal Year of the Recipient. The audited Financial Statements for each such period shall be furnished to the Association not later than six (6) months after the end of such period.

Section III.  Procurement

A.  General

1. Goods and Non-consulting Services. All goods and non-consulting services required for the Project and to be financed out of the proceeds of the Financing shall be procured in accordance with the requirements set forth or referred to in Section I of the Procurement Guidelines, and with the provisions of this Section.
2. **Consultants' Services.** All consultants’ services required for the Project and to be financed out of the proceeds of the Financing shall be procured in accordance with the requirements set forth or referred to in Sections I and IV of the Consultant Guidelines, and with the provisions of this Section.

3. **Definitions.** The capitalized terms used below in this Section to describe particular procurement methods or methods of review by the Association of particular contracts, refer to the corresponding method described in the Procurement Guidelines, or Consultant Guidelines, as the case may be.

### B. Particular Methods of Procurement of Goods and Non-consulting Services

1. **International Competitive Bidding.** Except as otherwise provided in paragraph 2 below, goods and non-consulting services shall be procured under contracts awarded on the basis of International Competitive Bidding.

2. **Other Methods of Procurement of Goods and Non-consulting Services.** The following table specifies the methods of procurement, other than International Competitive Bidding, which may be used for goods and non-consulting services. The Procurement Plan shall specify the circumstances under which such methods may be used:

<table>
<thead>
<tr>
<th>Procurement Method</th>
</tr>
</thead>
<tbody>
<tr>
<td>(a) National Competitive Bidding (subject to the additional procedures agreed to, from time to time, between the Project Implementing Entity and the Association and set forth in the Procurement Plan)</td>
</tr>
<tr>
<td>(b) Shopping</td>
</tr>
<tr>
<td>(c) Direct Contracting</td>
</tr>
</tbody>
</table>

### C. Particular Methods of Procurement of Consultants' Services

1. **Quality- and Cost-based Selection.** Except as otherwise provided in paragraph 2 below, consultants’ services shall be procured under contracts awarded on the basis of Quality and Cost-based Selection.

2. **Other Methods of Procurement of Consultants' Services.** The following table specifies methods of procurement, other than Quality and Cost-based Selection, which may be used for consultants’ services. The Procurement Plan shall specify the circumstances under which such methods may be used.
**Procurement Method**

- (a) Quality-Based Selection
- (b) Selection based on Consultants’ Qualifications
- (c) Least-Cost Selection
- (d) Selection under a Fixed Budget
- (e) Single Source Selection of consulting firms
- (f) Procedures set forth in paragraphs 5.2 and 5.3 of the Consultant Guidelines for the Selection of Individual Consultants

**D. Review by the Association of Procurement Decisions**

The Procurement Plan shall set forth those contracts which shall be subject to the Association’s Prior Review. All other contracts shall be subject to Post Review by the Association.

**Section IV. Withdrawal of the Proceeds of the Financing**

**A. General**

1. The Recipient may withdraw the proceeds of the Financing in accordance with the provisions of Article II of the General Conditions, this Section, and such additional instructions as the Association shall specify by notice to the Recipient (including the “World Bank Disbursement Guidelines for Projects” dated May 2006, as revised from time to time by the Association and as made applicable to this Agreement pursuant to such instructions), to finance Eligible Expenditures as set forth in the table in paragraph 2 below.

<table>
<thead>
<tr>
<th>Category</th>
<th>Amount of the Grant Allocated (expressed in SDR)</th>
<th>Percentage of Expenditures to be Financed (inclusive of Taxes)</th>
</tr>
</thead>
<tbody>
<tr>
<td>(1) Goods, non-consulting services and consultants’ services, Training and Incremental Operating Costs for Parts A, B1, B2 and C of the Project</td>
<td>13,600,000</td>
<td>100%</td>
</tr>
<tr>
<td>(2) Goods, non-consulting services and consultants’ services, Training and Incremental Operating Costs for Part B3 the Project</td>
<td>800,000</td>
<td>100%</td>
</tr>
<tr>
<td><strong>TOTAL AMOUNT</strong></td>
<td><strong>14,400,000</strong></td>
<td></td>
</tr>
</tbody>
</table>
B. Withdrawal Conditions; Withdrawal Period

1. Notwithstanding the provisions of Part A of this Section, no withdrawal shall be made:

   (a) for payments made prior to the date of this Agreement for Eligible Expenditures; or

   (b) for payments made for Eligible Expenditures under Category (2) unless:

      (i) DAB and APS have entered into the APS Sub-Grant Agreement in accordance with the provisions of Section I.C.1 of the Schedule to the Project Agreement; and

      (ii) the APS Sustainability Plan has been submitted to, and found to be satisfactory by, the Association.

2. The Closing Date is October 31, 2019.
APPENDIX

Definitions

1. “Additional Financing Agreement” means the financing agreement for the Additional Financing for the Financial Sector Rapid Response Project between the Recipient and the Association, dated March 10, 2014 (Grant No.H893-AF).

2. “Afghanistan Institute of Banking and Finance” and the acronym “AIBF” mean the institute established and operating as a non-for-profit organization under the Law for Non-Governmental Organization (2005), Ministry of Economy of Islamic Republic of Afghanistan, pursuant to Registration No. 2214, dated 05/05/1390.

3. “Annual Work Plan” means the time-bound plan of Project activities to be prepared by the Project Budget Committee pursuant to the provisions of Section I.D of the Schedule to the Project Agreement.


6. “APS Sub-Grant Agreement” means the agreement referred to in Section I.C of the Schedule to the Project Agreement pursuant to which the Project Implementing Entity shall make the proceeds of the Financing allocated to Category (2) available to APS, in kind and/or cash, for purposes of carrying out Parts B.3 of the Project.

7. “APS Sustainability Plan” means a plan prepared by APS, in form and substance satisfactory to the Association, to ensure the sustainability of APS, which plan shall include, inter alia: (a) key potential sources of revenue, expenditures and capital of APS; and (b) key activities and operations of APS for at least the following three years to ensure it operates on a commercially viable basis.

8. “Category” means a category set forth in the table in Section IV of Schedule 2 to this Agreement.


12. “Financial Management Manual” means DAB’s financial management manual, adopted in April 2009 for purposes of carrying out the Financial Sector Strengthening Project (IDA Grant H484-AF), as such manual shall be updated in accordance with the provisions of Section I.A.2(b) of the Schedule to the Project Agreement.

13. “Fiscal Year” means the Recipient’s fiscal year which commences on December 22, of each calendar year, and closes on December 21 of the next following calendar year.


15. “Incremental Operating Costs” means the reasonable costs of incremental expenditures incurred either by DAB, by AIBF or by APS in relation to the implementation of their respective parts of the Project which expenditures would not have been incurred absent the Project, including, inter alia: (a) office rental and utilities fees; (b) office supplies; (c) office equipment operation and maintenance; (d) vehicles rental, operation and maintenance; (e) in-country travel per diem and allowances for the PIC staff; (f) banking services and insurance costs; (g) advertisement, communication, and dissemination expenses; (h) translation and printing costs; (i) salaries and allowances of incremental Project staff. However, the term “Incremental Operating Costs” shall not include salaries or salary supplements of the Recipient’s civil servants.

16. “MoF” means the Recipient’s Ministry of Finance, or any successor thereof.


18. “Original Project” means the Project described in Schedule 1 to the Original Financing Agreement and in Schedule 1 of the Additional Financing Agreement.


20. “Procurement Manual” means DAB’s procurement manual adopted on June 18, 2011, for purposes of the implementation of the Financial Sector Strengthening Project (IDA Grant H484-AF), and to be updated for the Project pursuant to Section III.2 of the Schedule to the Project Agreement.
21. "Procurement Plan" means the DAB's procurement plan for the Project, dated September 27, 2016 and referred to in paragraph 1.18 of the Procurement Guidelines and paragraph 1.25 of the Consultant Guidelines, as the same shall be updated from time to time in accordance with the provisions of said paragraphs.

22. "Project Budget Committee" means the committee to be maintained by DAB pursuant to Section I.A.3 of the Schedule to the Project Agreement.

23. "Project Implementation Cell" and the acronym "PIC" means the unit established within DAB under the Financial Sector Strengthening Project (IDA Grant H484-AF) for purposes of carrying out said project, and to be maintained throughout Project implementation in accordance with Section I.A.1(b) of the Schedule to the Project Agreement.

24. "Project Implementing Entity" means DAB.

25. "Project Steering Committee" and the acronym "PSC" means the committee established by DAB under the Financial Sector Strengthening Project (IDA Grant H484-AF), as membership of said committee shall be extended in accordance with the provisions of Section I.A.1(a) of the Schedule to the Project Agreement.

26. "Subsidiary Grant Agreement" means the agreement referred to in Section I.A of Schedule 2 to the Financing Agreement pursuant to which the Recipient shall make the proceeds of the Financing available to the Project Implementing Entity for purposes of carrying out the Project.

27. "Training" means the reasonable costs of training, workshops and conference relevant for the Project and carried out in the territory of the Recipient, or, subject to the prior approval of the Association, attended abroad by selected officials and staff related/relevant to the Project, including the purchase and publication of materials, rental of facilities, course fees and travel and subsistence of trainers and trainees.