December 8, 2019

H.E. Mohammad Humayon Qayoumi
Acting Minister of Finance
Ministry of Finance
Islamic Republic of Afghanistan
Kabul, Afghanistan

Excellency:

Re: Afghanistan Reconstruction Trust Fund No. B0377, 2019 Incentive Program Development Policy Operation Amendment No. 2 to the Grant Agreement

We refer to the Afghanistan Reconstruction Trust Fund ("ARTF") Grant Agreement dated July 1, 2019 between the Islamic Republic of Afghanistan (the "Recipient") and the International Development Association (the "World Bank"), acting as administrator of the ARTF, (the "Grant Agreement") for the above referenced operation (the "Operation").

We also refer to the: (i) Operation's Agreed Minutes of Negotiations, which reflect the understanding that, whereas the Grant Agreement provides a grant in an amount equivalent to sixty million United States Dollars ($60,000,000) out of the three hundred million United States Dollars ($300,000,000) allocated by the ARTF for the Operation, the Grant Agreement may be amended from time to time to provide additional grant, which shall accumulate to not more than the total grant amount allocated by the ARTF for the Operation; and (ii) Amendment No. 1 to the Grant Agreement, dated October 05, 2019, which amended the Grant Agreement to provide additional grant out of the total grant amount allocated by the ARTF for the Operation.

In light of the above, we are pleased to inform you that the World Bank proposes to further amend the Grant Agreement as set forth below.

I. Section 3.01 is amended to read as follows:

"The Bank agrees to extend to the Recipient a grant in an amount not to exceed three hundred million United States Dollars ($300,000,000) ("Grant")."

II. Section 1A of Schedule 1 is hereby amended by adding sub-sections 6, 7, 8, 9, and 10 as follows:

6. To improve tax administration, the Tax Dispute Resolution Board is equipped with five board members and a secretariat.

7. To strengthen tax policy, Recipient’s Cabinet approves value added tax regulations, including proposed exemptions by harmonized system code and refund procedures.

8. To reduce the costs and time requirements of accessing electricity, DABS’ Senior Management Group: i) approves simplified subscription procedures for commercial and industrial customers; ii) establishes a fast-track center for large customers in Kabul; and iii) approves a formal written procedure to regularly review and manage domestic and international power purchase agreements, including through the establishment of a multi-disciplinary team with the mandate of managing such contracts.
9. To strengthen transparency, MoF publishes fortnightly revenue reports on its website that: i) provide full disaggregated tax, customs, and non-tax performance data at the level of collection points; and ii) track progress against government revenue targets.

To improve accountability and quality of cash management, the cash management committee meets at least every twenty-one (21) days and publishes minutes of its decisions taken at such meetings on its website not later than seven (7) days after the date of such meetings.

III. Section II.B of Schedule 1 is amended to read as follows:

**B. Allocation of the Grant Amounts.** The Grant is allocated in ten (10) withdrawal tranches, for 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>(3) Third Withdrawal Tranche</td>
<td>30,000,000</td>
</tr>
<tr>
<td>(4) Fourth Withdrawal Tranche</td>
<td>30,000,000</td>
</tr>
<tr>
<td>(5) Fifth Withdrawal Tranche</td>
<td>30,000,000</td>
</tr>
<tr>
<td>(6) Sixth Withdrawal Tranche</td>
<td>30,000,000</td>
</tr>
<tr>
<td>(7) Seventh Withdrawal Tranche</td>
<td>30,000,000</td>
</tr>
<tr>
<td>(8) Eight Withdrawal Tranche</td>
<td>30,000,000</td>
</tr>
<tr>
<td>(9) Ninth Withdrawal Tranche</td>
<td>30,000,000</td>
</tr>
<tr>
<td>(10) Tenth Withdrawal Tranche</td>
<td>30,000,000</td>
</tr>
<tr>
<td>TOTAL AMOUNT</td>
<td>300,000,000</td>
</tr>
</tbody>
</table>

IV. Section II.C.1 of Schedule 1 is hereby amended by adding subsections (c), (d), and (e) as follows:

"(f) Sixth Withdrawal Tranche unless the Bank is satisfied, after an exchange of views as described in Sections 2.01 (a) and (b) of this Agreement: (i) with the evidence submitted to demonstrate fulfillment of the action referred to in Section I.A.6. 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.

(g) Seventh Withdrawal Tranche unless the Bank is satisfied, after an exchange of views as described in Sections 2.01 (a) and (b) of this Agreement: (i) with the evidence submitted to demonstrate fulfillment of the action referred to in Section I.A.7. 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.

(h) Eight Withdrawal Tranche unless the Bank is satisfied, after an exchange of views as described in Sections 2.01 (a) and (b) of this Agreement: (i) with the evidence submitted to demonstrate fulfillment of the action referred to in Section I.A.8. 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.

(i) Ninth Withdrawal Tranche unless the Bank is satisfied, after an exchange of views as described in Sections 2.01 (a) and (b) of this Agreement: (i) with the evidence submitted to demonstrate fulfillment of the action referred to in Section I.A.9. 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.

(j) Tenth Withdrawal Tranche unless the Bank is satisfied, after an exchange of views as described in Sections 2.01 (a) and (b) of this Agreement: (i) with the evidence submitted to demonstrate fulfillment of the action referred to in Section I.A.10. 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.

V. Section I of the Appendix is hereby amended by adding definition of the following terms in the appropriate alphabetical order and by renumbering the remaining definitions accordingly:

“4. “DABS” means Da Afghanistan Breshna Sherkat, a government owned corporation established and operating in accordance with its Articles of Incorporation approved by the Recipient’s Cabinet on March 17, 2008, or any successor thereto.

5. “Eight Withdrawal Tranche” means the amount of the Grant allocated to Category (8) 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.8. of Schedule 1 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.8. of Schedule 1 to this Agreement remains unfulfilled by said date.”

13. “Ninth Withdrawal Tranche” means the amount of the Grant allocated to Category (9) 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.9. of Schedule 1 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.9. of Schedule 1 to this Agreement remains unfulfilled by said date.

16. “Sixth Withdrawal Tranche” means the amount of the Grant allocated to Category (6) 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.6. of Schedule 1 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.6. of Schedule 1 to this Agreement remains unfulfilled by said date.

18. “Sixth Withdrawal Tranche” means the amount of the Grant allocated to Category (6) 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.6. of Schedule 1 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.6. of Schedule 1 to this Agreement remains unfulfilled by said date.

21. “Tenth Withdrawal Tranche” means the amount of the Grant allocated to Category (10) 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.10. of Schedule 1 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.10. of Schedule 1 to this Agreement remains unfulfilled by said date.

Except as specifically amended in this letter, all other terms and conditions of the Grant Agreement shall remain in full force and effect.
Please confirm your agreement to the foregoing on behalf of the Recipient by countersigning and dating the form of confirmation set forth below and returning one fully countersigned original of this amendment letter to us and retaining one original for your records.

Upon receipt by the World Bank of the countersigned original of this amendment letter, this amendment letter shall become effective as of the date of the countersignature.

Sincerely,

[Signature]

Homa-Zahra Fotouhi
Acting Country Director for Afghanistan
South Asia Region

AGREED
ISLAMIC REPUBLIC OF AFGHANISTAN

By: [Signature]
Authorized Representative

Name: [Name]
Title: [Title - Deputy Minister Finance]
Date: [Dec. 9, 2019]