Financing Agreement

(Promoting Economic Growth and Fiscal Sustainability Development Policy Financing)

between

ISLAMIC REPUBLIC OF AFGHANISTAN

and

INTERNATIONAL DEVELOPMENT ASSOCIATION

Dated September 04, 2013
FINANCING AGREEMENT

AGREEMENT dated Sep 04, 2013, entered into between ISLAMIC REPUBLIC OF AFGHANISTAN ("Recipient") and INTERNATIONAL DEVELOPMENT ASSOCIATION ("Association") for the purpose of providing financing in support of the Program (as defined in the Appendix to this Agreement). The Association has decided to provide this financing on the basis, inter alia, of (a) the actions which the Recipient has already taken under the Program and which are described in Section I of Schedule 1 to this Agreement, and (b) the Recipient's maintenance of an adequate macroeconomic policy framework. The Recipient and the Association therefore 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 thirty three million three hundred thousand Special Drawing Rights (SDR 33,300,000) ("Financing").

2.02. The Recipient may withdraw the proceeds of the Financing in support of the Program in accordance with Section II of Schedule 1 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 February 15 and August 15 in each year.

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

3.01. The Recipient declares its commitment to the Program and its implementation. To this end:

(a) the Recipient and the Association 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 views, the Recipient shall furnish to the Association for its review and comment a report on the progress achieved in carrying out the Program, in such detail as the Association shall reasonably request; and

(c) without limitation upon the provisions of paragraphs (a) and (b) of this Section, the Recipient shall promptly inform the Association of any situation that would have the effect of materially reversing the objectives of the Program or any action taken under the Program.

ARTICLE IV — REMEDIES OF THE ASSOCIATION

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. The Additional Condition of Effectiveness consists of the following, namely that the Association 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. The Effectiveness Deadline is the date ninety (90) days after the date of this Agreement.

ARTICLE VI — REPRESENTATIVE; ADDRESSES

6.01. The Recipient’s Representative is its minister responsible for finance.

6.02. The Recipient’s Address is:

Ministry of Finance
Pashtunistan Watt
Kabul
Islamic Republic of Afghanistan

Faesimile:
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

Cable address: Telex: Faesimile:
INDEVAS 248423(MCI) 1-202-477-6391
Washington, D.C.

AGREED at first above written.

ISLAMIC REPUBLIC OF AFGHANISTAN

By

Authorized Representative

Name: Haarat Omar Zakhilwal
Title: Minister of Finance

INTERNATIONAL DEVELOPMENT ASSOCIATION

By

Authorized Representative

Name: Robert J. Saum
Title: Country Director
SCHEDULE 1

Program Actions; Availability of Financing Proceeds

Section I. **Actions under the Program**

**Actions Taken Under the Program** The actions taken by the Recipient under the Program include the following:

**Customs**

1. The Recipient’s Customs Department has rolled its strategic approach to risk management through the implementation of a computerized ("ASYCUDA") risk management module in daily customs operations at the Regional Customs House in Jalalabad in order to limit arbitrary controls and related integrity issues.

**Mining**

2. The Recipient’s Council of Ministers has approved and submitted to parliament a new draft minerals law which is aimed at improving security of tenure for private investors, providing guidance on licensing, tendering and mining obligations, and strengthening social and environmental safeguards.

**Land Management and Acquisition**

3. The Recipient has strengthened the institutional framework for land management and administration in Afghanistan by: (a) granting to ARAZI the status of an independent agency in accordance with the Recipient’s laws; (b) mandating ARAZI to propose amendments to the land acquisition law; and (c) transferring cadaster responsibilities from Afghan Geodesy and Cartography Head Office to ARAZI, as evidenced by the decision of the Council of Ministers dated May 27, 2013, issue CSI – 12082 minutes issued by the President’s Office of Administrative Affairs dated June 3, 2013.

**Information and Communication Technology**

4. The Recipient has, (a) through its Ministry of Communication and Information Technology, approved the Open Access Policy that grants open access to the AFTEL fiber-optic network to all licensed telecommunications service providers at transparent cost-based price as evidenced through its open access policy dated July 25, 2013; and (b) through the Afghanistan Telecom Regulatory Authority, implemented its policy to engage private investment and establish a level playing field for competition among existing GSM providers, and facilitated the introduction of advanced wireless services as evidenced by the issuance of
mobile telecommunications service licenses for existing GSM providers with uniform terms and conditions.

**Infrastructure Sharing**

5. The Recipient’s Council of Ministers has, in order to improve the efficiency of public spending and promote infrastructure investment, approved an infrastructure sharing policy requiring coordination among relevant Ministries in the availability of existing rights of way and passive infrastructures associated with telecommunications, roads, and electric power networks as evidenced through the policy dated July 5, 2013.

6. The Recipient, through its Ministry of Finance, has amended the budget circulars for relevant Ministries to reflect the arrangements under infrastructure sharing policy directive as evidenced by the budget circular dated March 11, 2013.

**Section II. Availability of Financing Proceeds**

A. **General.** The Recipient may withdraw the proceeds of the Financing 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 Financing Amounts.** The Financing is allocated in a single withdrawal tranche, from which the Recipient may make withdrawals of the Financing. The allocation of the amounts of the Financing to this end is set out in the table below:

<table>
<thead>
<tr>
<th>Allocations</th>
<th>Amount of the Financing Allocated (expressed in SDR)</th>
</tr>
</thead>
<tbody>
<tr>
<td>(1) Single Withdrawal Tranche</td>
<td>33,300,000</td>
</tr>
<tr>
<td>TOTAL AMOUNT</td>
<td>33,300,000</td>
</tr>
</tbody>
</table>

C. **Withdrawal Tranche Release Conditions**

No withdrawal shall be made of the Single Withdrawal Tranche unless the Association is satisfied (1) with the Program being carried out by the Recipient, and (2) with the adequacy of the Recipient’s macroeconomic policy framework.

D. **Deposits of Financing Amounts.**

1. Except as the Association may otherwise agree:
(a) all withdrawals from the Financing Account shall be deposited by the Association into an account designated by the Recipient and acceptable to the Association; and

(b) the Recipient shall ensure that upon each deposit of an amount of the Financing into this account, an equivalent amount is accounted for in the Recipient’s budget management system, in a manner acceptable to the Association.

2. For the purposes of paragraph 1 of this Section D, prior to furnishing to the Association the request for withdrawal from the Financing Account, the Recipient shall:

(a) open and thereafter maintain a deposit account in Dollars at the DA Afghan Bank (“Foreign Currency Deposit Account”); and

(b) maintain a central treasury account in the Recipient’s local currency used to finance budgeted expenditures (“Local Currency Deposit Account”);

in each case on terms and conditions satisfactory to the Association, and shall also provide written confirmation to the Association of the name and number of the Foreign Currency Deposit Account and the Local Currency Deposit Account.

3. Promptly following the withdrawal of the Single Withdrawal Tranche, the Recipient shall provide written confirmation to the Association of:

(a) the Dollar amount deposited into the Foreign Currency Deposit Account and the date of such deposit; and

(b) the Dollar amount withdrawn from the said Foreign Currency Deposit Account and the equivalent amount in local currency deposited into the Local Currency Deposit Account, and the dates of such withdrawal and deposit.

E. Audit. Upon the Association’s request, the Recipient shall:

1. have the Deposit Accounts audited by independent auditors acceptable to the Association, in accordance with consistently applied auditing standards acceptable to the Association;

2. furnish to the Association as soon as available, but in any case not later than four (4) months after the date of the Association’s request for such audit, a certified copy of the report of such audit, of such scope and in
such detail as the Association shall reasonably request, and make such report publicly available in a timely fashion and in a manner acceptable to the Association; and

3. furnish to the Association such other information concerning the Deposit Accounts and their audit as the Association shall reasonably request.

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

G. Closing Date. The Closing Date is June 15, 2015.
APPENDIX

Section I. Definitions


2. "ARAZI" means the Afghan Land Authority.

3. "ASYCUDA" means the Automated System for Customs Data which provides a computerized customs clearance system.

4. "Afghanistan Telecom Regulatory Authority" means the authority, established and operating under the Recipient’s Ministry of Communication and Information Technology.

5. "Council of Ministers" means the Recipient’s Cabinet.

6. "Customs Department" means the department within the Recipient’s Ministry of Finance.

7. "Da Afghanistan Bank" means the Recipient’s central bank or any successor thereto.

8. "Deposit Accounts" means both the Foreign Currency Deposit Account and the Local Currency Deposit Account.

9. "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 Association or the Bank has financed or agreed to finance, or which the Association or the Bank 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 Association 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>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-monetary (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[, and any other goods designated as environmentally hazardous by agreement between the Recipient and the Association];

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

10. “Foreign Currency Deposit Account” means the account referred to in subparagraph D.2(a) of Section II of Schedule 1 to this Agreement.

11. “General Conditions” means the “International Development Association General Conditions for Credits and Grants”, dated July 31, 2010 with the modifications set forth in Section II of this Appendix.

12. “GSM” means global system for mobile telecommunications.

13. “Local Currency Deposit Account” means the account referred to in subparagraph D.2(b) of Section II of Schedule 1 to this Agreement.

14. “Ministry of Finance” means the recipient’s Ministry responsible for finance or any successor thereto.

15. “Ministry of Communication and Information Technology” means the Recipient’s ministry responsible for communication and information technology, or any successor thereto.

16. “Open Access Policy” means the Recipient’s policy designed to ensure that retail telecommunications providers have access to technologies such as high speed fiber as elaborated in the policy dated July 25, 2013.

17. “Program” means the program of actions, objectives and policies designed to promote growth and achieve sustainable reductions in poverty and set forth or referred to in the letter dated June 12, 2013 from the Recipient to the Association declaring the Recipient’s commitment to the execution of the Program, and requesting assistance from the Association in support of the Program during its execution.

18. “Single Withdrawal Tranche” means the amount of the Financing allocated to the category entitled “Single Withdrawal Tranche” in the table set forth in Part B of Section II of Schedule 1 to this Agreement.
Section II. Modifications to the General Conditions

The modifications to the General Conditions are as follows:

1. The last sentence of paragraph (a) of Section 2.03 (relating to Applications for Withdrawal) is deleted in its entirety.

2. Sections 2.04 (Designated Accounts) and 2.05 (Eligible Expenditures) are deleted in their entirety, and the remaining Sections in Article II are renumbered accordingly.

3. Sections 4.01 (Project Execution Generally), and 4.09 (Financial Management; Financial Statements; Audits) are deleted in their entirety, and the remaining Sections in Article IV are renumbered accordingly.

4. Paragraph (a) of Section 4.05 (renumbered as such pursuant to paragraph 3 above and relating to Use of Goods, Works and Services) is deleted in its entirety.

5. Paragraph (c) of Section 4.06 (renumbered as such pursuant to paragraph 3 above) is modified to read as follows:

   "Section 4.06. Plans; Documents; Records

   ... (c) The Recipient shall retain all records (contracts, orders, invoices, bills, receipts and other documents) evidencing expenditures under the Financing until two years after the Closing Date. The Recipient shall enable the Association’s representatives to examine such records."

6. Section 4.07 (renumbered as such pursuant to paragraph 3 above) is modified to read as follows:

   "Section 4.07. Program Monitoring and Evaluation

   ... (c) The Recipient shall prepare, or cause to be prepared, and furnish to the Association not later than six months after the Closing Date, a report of such scope and in such detail as the Association shall reasonably request, on the execution of the Program, the performance by the Recipient and the Association of their respective obligations under the Legal Agreements and the accomplishment of the purposes of the Financing."
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 Financing is put in support of the Program, other than to finance expenditures excluded pursuant to the Financing 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 Financing Agreement in support of which the Financing is made.” All references to “Project” throughout these General Conditions are deemed to be references to “Program”.