Excellency,

We refer to the Financing Agreement ("Financing Agreement") between the Islamic Republic of Afghanistan ("Recipient") and the International Development Association ("Association"), dated April 24, 2016 for the Additional Financing for Second Customs Reform and Trade Facilitation Project ("Project").

We also refer to the Recipient’s letter dated May 17, 2016 requesting the waiving of the Effectiveness condition related to the Management Service Agreement and the subsequent restructuring of the Project, involving certain amendments to the Financing Agreement.

We are pleased to inform you that the Association concurs with the request and proposes to amend the Financing Agreement as follows:

1. **Article III.** Section 3.01 is amended and replaced to read in its entirety as follows:

   "3.01. The Recipient declares its commitment to the objectives of the Project. To this end, the Recipient shall carry out the Project through ACD in accordance with the provisions of Article IV of the General Conditions."

2. **Article IV.** Article IV is amended and replaced to read in its entirety as follows:

   "**ARTICLE IV — EFFECTIVENESS; TERMINATION**

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

   4.02. 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 years after the date of this Agreement."

3. **Schedule 2.** Section I.A. of Schedule 2 is amended and replaced to read in its entirety as follows:
1. The Recipient shall vest the overall responsibility for Project implementation in ACD. Without prejudice to the foregoing, the Recipient shall:

(a) continue to maintain, throughout the period of implementation of the Project, a Project Steering Committee ("PSC") headed by the Minister of Finance (or his/her nominee), and comprised of the Deputy Minister of Finance for Customs and Revenue, the Director General of ACD, the Director Technical of ACD, Director of Support and Development of ACD, the Director of Enforcement of ACD, the Director of Operations of ACD, the Director General of Budget of the Ministry of Finance, and the Director General of Treasury of the Ministry of Finance, which steering committee shall be vested with such functions, powers, resources and competencies, satisfactory to the Association, as shall be required for purposes of providing overall policy guidance, and ensuring inter-agency cooperation and general oversight of Project implementation, including approving the Annual Work Plans, and ensuring compliance with the legal covenants set out in this Agreement; and

(b) continue to maintain, throughout the period of implementation of the Project, a Budget Committee ("PBC"), chaired by the Director General of ACD, and comprised of the representatives of MOF, as detailed in the Financial Management Manual, which committee shall be vested with such functions, powers, resources and competencies, satisfactory to the Association, as shall be required for purposes of overseeing the overall budgeting process for the Project, including quarterly reviews of incurred and forecasted expenditures, preparation of Annual Work Plans for approval by the PSC, and compliance with governmental budgeting principles, policies and procedures.

(c) continue to maintain, throughout the period of implementation of the Project, a Project Implementation Unit within ACD ("PIU"), headed by Recipient’s Director General for Customs as Project Director, and assisted by a Project General Manager, and provided with sufficient resources and competent staff with qualifications and experience acceptable to the Association, in adequate numbers and under terms of reference satisfactory to the Association, comprising, inter alia, technical subject matter specialists, overall project management staff, financial management, procurement and safeguard specialists (including a safeguards focal officer); which unit shall be assigned with such functions and responsibilities, satisfactory to the Association, as shall be required for the day-to-day implementation of the Project, including: (i) monitoring and reporting on the physical and financial progress of the Project; (ii) carrying out of all procurement and financial management activities under the Project; (iii) implementing, and monitoring compliance with, the Environmental and Social Management Framework, and, when applicable, each Environmental and Social Management and Resettlement Action Plan; (iv) assessing the extent to which the Project’s developmental objectives are being achieved.

4. Schedule 2. Section IV.B is amended and replaced to read in its entirety as follows:

"1. Notwithstanding the provisions of Part A of this Section, no withdrawal shall be made for payments made prior to the date of this Agreement, except that withdrawals up to an aggregate amount not to exceed US$7,000,000 may be made
for payments made prior to this date but on or after October 1, 2015, for Eligible Expenditures.

2. The Closing Date is December 31, 2017"

5. Appendix. Paragraphs 13 and 19 are deleted in their entirety and the remaining paragraphs, including the definitions added in the paragraphs below, are renumbered accordingly.

6. Appendix. Paragraph 10 is amended and replaced to read in its entirety as follows:

“10. “Financial Management Manual” means the manual dated July 17, 2012 prepared by the Recipient and adopted by ACD, setting out, inter alia: (i) the policies and procedures for fund and asset management, procedures for the preparation of withdrawal applications and for the settlement of payments, accounting, maintenance of records, reporting regimes, security protocols and compliance with auditing requirements; (ii) the terms of reference and composition of the Budget Committee; and (iii) the roles and responsibilities of ACD’s financial management staff, as well as any recruitment needs and applicable deadlines, as said manual may be amended from time to time by agreement between the Recipient and the Association.”

7. Appendix. Paragraph 12 is amended and replaced to read in its entirety as follows:

“12. Incremental Operating Costs” means the reasonable costs of incremental expenditures incurred by ACD, which expenditures would not have been incurred absent the Project, including, inter alia: (i) rental of office space; (ii) the operation, maintenance, rental and insurance of vehicles; (iii) fuel costs; (iv) communications supplies and charges; (v) advertisement expenses; (vi) books and periodicals; (vii) office administration and maintenance costs; (viii) bank transaction charges; (ix) utility fees; (x) domestic and international travel expenses and per diem for the Recipient’s officers and employees; and (xi) Performance-based Incentives; but excluding salaries of officials and/or the Recipient’s civil servants.”

8. Appendix. A new definition is added as paragraph 16 to read as follows:

“16. Performance-based Incentives means incentives to be paid to eligible ACD staff based on a performance-based mechanism (including selection criteria) agreed with the Association and set forth in the FM manual.

9. Appendix. A new definition is added as paragraph 17 to read as follows:

17. “Project Implementation Unit” and the acronym “PIU” mean the unit established pursuant to Section I.A.1(c) of Schedule 2 to this Agreement

Except as specifically amended in this letter, all other terms and conditions of the Financing Agreement shall remain in full and effect. The Association will disclose this letter of amendment and related information in accordance with the Association’s Policy on Access to Information. By entering into this letter of amendment, the Recipient consents to such disclosure.

Please confirm your agreement to the foregoing by signing the form of confirmation set forth below, and returning one fully executed original of this amendment letter to us and retaining one original
for your records. This amendment letter shall become effective upon receipt by the Association of duly countersigned originals of this amendment letter.

Sincerely yours,

Robert J. Saum
Country Director, Afghanistan
South Asia Region

AGREED
AFGHANISTAN

By: ________________________________

Name: Shafiq Ahmad Garizada
Title: Deputy Minister (Customs & Revenue) and Acting Ministry of Finance
Date: 28 June 2016

cc: 