Afghanistan Reconstruction Trust Fund
Grant Agreement

(Fiscal Performance Improvement Support Project)

between

ISLAMIC REPUBLIC OF AFGHANISTAN

and

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

Dated December 25, 2017
ARTF GRANT NUMBER TF0A6277

AFGHANISTAN RECONSTRUCTION TRUST FUND
GRANT AGREEMENT

AGREEMENT dated December 25, 2017, entered into between ISLAMIC REPUBLIC OF AFGHANISTAN ("Recipient"); and INTERNATIONAL DEVELOPMENT ASSOCIATION, acting as administrator ("World Bank"), of the grant funds ("Grant Funds") contributed by various donors (collectively the "Donors") to the Afghanistan Reconstruction Trust Fund ("ARTF" or "Trust Fund"), for the purpose of providing financing to the Project defined in Schedule 1 to this Agreement ("Project").

The Recipient and the World Bank hereby agree as follows:

Article I
Standard Conditions; Definitions


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.

Article II
The Project

2.01. The Recipient declares its commitment to the objective of the Project. To this end, the Recipient shall carry out the Project through its Ministry of Finance in accordance with the provisions of Article II of the Standard Conditions.

2.02. Without limitation upon the provisions of Section 2.01 of this Agreement, and except as the Recipient and the World Bank 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 III
The Grant

3.01. The World Bank agrees to extend to the Recipient, on the terms and conditions set forth or referred to in this Agreement, a grant in an amount equal to seventy-five
million United States Dollars ($75,000,000) ("Grant") to assist in financing the Project.

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

3.03. The Grant is funded out of the abovementioned Trust Fund for which the World Bank receives periodic contributions from the Donors to the Trust Fund. In accordance with Section 3.02 of the Standard Conditions, the World 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
Recipient's Representative; Addresses

4.01. The Recipient's Representative referred to in Section 7.02 of the Standard Conditions is its Minister of Finance.

4.02. The Recipient's Address referred to in Section 7.01 of the Standard Conditions is:

Ministry of Finance
Pashtunistan Watt
Kabul
Islamic Republic of Afghanistan

Facsimile: +93202103258

4.03. The World Bank's Address referred to in Section 7.01 of the Standard Conditions 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, Islamic Republic of Afghanistan, as of the day and year first above written.

ISLAMIC REPUBLIC OF AFGHANISTAN

By:

Authorized Representative

Name: ____________________________

Title: ____________________________

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

By:

Authorized Representative

Name: ABDULLAYE SECK

Title: ACTING COUNTRY DIRECTOR
SCHEDULE 1

Project Description

The objective of the Project is to contribute to the improvement of domestic revenue mobilization and public expenditures management, and of reinforcing a performance oriented management culture in the Ministry of Finance.

The Project consists of the following parts:

Component 1: Budget as Tool for Development

Supporting increased budget credibility through, *inter alia*: (a) improving the efficiency of budget processes; (b) realistic budget estimation and costing; (c) linking budget with policy, public investment management systems, and procurement planning; and (d) introducing medium-term budgeting.

Component 2: Revenue Mobilization

Supporting increased revenue mobilization and compliance through *inter alia*: (a) strengthening capacities of relevant domestic revenue collecting entities; and (b) strengthening capacities to effectively regulate Recipient’s minerals and hydrocarbon resources sector.

Component 3: Treasury Management, Accountability and Transparency

Supporting consolidation and strengthening of basic core PFM functions to underpin more ambitious aspects of planned PFM and budget reforms through, *inter alia*: (a) consolidation of selected financial management systems and functionalities, including AFMIS; (b) improved commitment controls; (c) production of complete and comprehensive financial accounts; (d) introduction of new payroll controls; (e) measures to improve internal and external audit quality and follow-up; (f) enabling citizen participatory audit; and (g) enhancing and implementing procurement reforms, including e-procurement roll-out.

Component 4: Institutional Capacity Building and Performance Management

Supporting effective functioning of the MoF, and reinforcing overall performance management and coordination of the Fiscal Performance Improvement Plan through, *inter alia*: (a) strengthening MoF’s corporate and shared services’ capacity, business processes, and systems; (b) upgrading information technology infrastructure and systems; and (c) enhancing collaborative leadership skills and strengthening the cohesiveness and effectiveness of leadership teams, including the PMT.
SCHEDULE 2

Project Execution

Section I. Implementation Arrangements

A. Institutional Arrangements.

The Recipient shall establish and maintain throughout the implementation of the Project:

(i) the Leadership Team within the MoF, headed by its Minister of Finance, with mandate, composition, staffing and terms of reference agreed to between the Recipient and the World Bank, to be responsible for overall governance of the Project; and

(ii) the Core Reform Group, chaired by its Deputy Minister for Finance, with mandate, composition, staffing and terms of reference agreed to between the Recipient and the World Bank for providing strategic guidance and reviewing implementation progress of the Project.

(iii) the Performance Management Team within MoF’s current structure, reporting to its Deputy Minister for Finance, with mandate, composition, staffing and terms of reference agreed to between the Recipient and the World Bank, and provided with sufficient resources, functions and powers and shall serve as secretariat to the Leadership Team and Core Reform Group and be responsible for coordination across the Project beneficiary departments.

B. Anti-Corruption

The Recipient shall ensure that the Project is carried out in accordance with the provisions of the Anti-Corruption Guidelines.

C. Donor Visibility and Visit

1. The Recipient shall take or cause to be taken all such measures as the World Bank may reasonably request to identify publicly the Donors' support for the Project through the ARTF.

2. For the purposes of Section 2.09 of the Standard Conditions, the Recipient shall, upon the World Bank’s request, enable the representatives of the Donors to visit any part of the Recipient’s territory for purposes related to the Project.
D. **Grievance Redress Mechanism**

The Recipient shall maintain throughout Project implementation, a grievance redress mechanism for the Project, with staffing and operating procedures acceptable to the World Bank, for monitoring and addressing the concerns of people affected by the Project and building public and stakeholder support for the Project.

**Section II. Project Monitoring, Reporting and Evaluation**

A. **Documents; Records**

In addition, and without limitation to the obligations set forth in Section 2.05 of the Standard Conditions, the Recipient shall ensure that:

(a) all records evidencing expenditures under the Project are retained for seven years and six months after the Closing Date, such records to include:
   (i) this Agreement, all addenda thereof, and any amendments thereto; (ii) the Recipient's financial and narrative progress reports submitted to the World Bank; (iii) the Recipient's financial information related to the Grant, including audit reports, invoices and payroll records; (iv) the Recipient's implementation documentation (including sub-agreements, procurement files, contracts, purchase orders); and (v) the corresponding supporting evidence referred to in Section 3.04 of the Standard Conditions; and

(b) the representatives of the World Bank are: (i) able to examine all records referred to above in paragraph (a); (ii) provided all such information concerning such records as they may from time to time reasonably request; and (iii) able to disclose such records and information to the Donors.

B. **Project Reports; Completion Report**

1. The Recipient shall monitor and evaluate the progress of the Project and shall prepare Project Reports in accordance with the provisions of Section 2.06 of the Standard Conditions and on the basis of indicators acceptable to the World Bank. Each Project Report shall cover the period of one (1) calendar quarter, and shall be furnished to the World Bank not later than forty-five (45) days after the end of the period covered by such report.

2. The Recipient shall, prepare the Completion Report in accordance with the provisions of Section 2.06 of the Standard Conditions. The Completion Report shall be furnished to the World Bank not later than six (6) months after the Closing Date.
C. Financial Management; Financial Reports; Audits

1. The Recipient shall ensure that a financial management system is maintained in accordance with the provisions of Section 2.07 of the Standard Conditions.

2. The Recipient shall ensure that interim unaudited financial reports for the Project are prepared and furnished to the World Bank not later than forty-five (45) days after the end of each calendar semester, covering the semester, in form and substance satisfactory to the World Bank.

3. The Recipient shall have its Financial Statements for the Project audited in accordance with the provisions of Section 2.07(b) of the Standard Conditions. Each such 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 World Bank not later than six (6) months after the end of such period.

Section III. Procurement

All goods, non-consulting services and consulting services required for the Project and to be financed out of the proceeds of the Grant shall be procured in accordance with the requirements set forth or referred to in the Procurement Regulations and the provisions of the Procurement Plan.

Section IV. Withdrawal of Grant Proceeds

A. General

1. The Recipient may withdraw the proceeds of the Grant in accordance with the provisions of: (a) Article III of the Standard Conditions; (b) this Section; and (c) such additional instructions as the World Bank may specify by notice to the Recipient (including the "Disbursement Guidelines for Investment Project Financing, dated February 2017 as revised from time to time by the World Bank 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.

2. The following table specifies the categories of Eligible Expenditures that may be financed out of the proceeds of the Grant ("Category"), the allocations of the amounts of the Grant to each Category, and the percentage of expenditures to be financed for Eligible Expenditures in each Category:
<table>
<thead>
<tr>
<th>Category</th>
<th>Amount of the Grant Allocated (expressed in USD)</th>
<th>Percentage of Expenditures to be Financed (inclusive of Taxes)</th>
</tr>
</thead>
<tbody>
<tr>
<td>(1) Goods, non-consulting services, consultants’ services, Training and Incremental Operating Costs for the Project</td>
<td>75,000,000</td>
<td>100%</td>
</tr>
<tr>
<td><strong>TOTAL AMOUNT</strong></td>
<td>75,000,000</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 for payments made prior to the date of this Agreement.

2. The Closing Date referred to in Section 3.06 (c) of the Standard Conditions is December 28, 2022.
APPENDIX

Definitions

1. "AFMIS" means the Afghanistan Financial Management Information System, administered by the Treasury Department.

2. "Anti-Corruption Guidelines" means, for purposes of paragraph 5 of the Appendix to the General Conditions, the "Guidelines on Preventing and Combating Fraud and Corruption in Projects Financed by IBRD Loans and IDA Credits and Grants", dated October 15, 2006 and revised in January 2011 and as of July 1, 2016.

3. "Category" means a category set forth in the table in Section III.A of Schedule 2 to this Agreement.

4. "Core Reform Group" means the core reform group established by the Recipient, and referred to in Section I.A (ii) of Schedule 2 to this Agreement.

5. "Fiscal Performance Improvement Plan" means the Government of the Islamic Republic of Afghanistan’s Five Year Rolling Plan to implement its PFM Road Map.

6. "Incremental Operating Costs" means Project-related incremental expenses incurred on account of Project implementation support and management, including the rental of office space; the operation, maintenance, rental and insurance of vehicles; fuel; communications supplies and charges; advertisements; books and periodicals; office administration and maintenance costs; bank transaction charges; utility charges; domestic travel and per diem.

7. "Leadership Team" means the leadership team established by the Recipient, and referred to in Section I.A (i) of Schedule 2 to this Agreement.

8. "Ministry of Finance" or "MoF" means the Recipient’s Ministry of Finance, or any successor thereto.

9. "PFM" means the public financial management.

10. "PFM Road Map" means Recipient’s Public Financial Management Roadmap, consisting of reform targets for transparent and accountable public financial management.

11. "Performance Management Team" or "PMT" means the performance management team established by the Recipient, and referred to in Section I.A (iii) of Schedule 2 to this Agreement.
12. "Procurement Plan" means the MoF's procurement plan for the Project dated November 19, 2017, as the same shall be updated from time to time in accordance with the provisions of the said paragraphs.


15. "Training" means the reasonable costs of training, workshops and conferences and field visits conducted in the territory of the Recipient or, subject to the prior no-objection of the World Bank, attended overseas by Project staff, including the purchase and publication of materials, rental of facilities, course fees and travel and subsistence allowances for trainers and/or trainees.