OFFICIAL DOCUMENTS

GRANT NUMBER D-4860-AF

Financing Agreement

(2019 Incentive Program Development Policy Operation)

between

ISLAMIC REPUBLIC OF AFGHANISTAN

and

INTERNATIONAL DEVELOPMENT ASSOCIATION
FINANCING AGREEMENT

AGREEMENT dated as of the Signature Date 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: (i) the actions which the Recipient has already taken under the Program and which are described in Section I.A of Schedule I to this Agreement; and (ii) 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) apply to and form 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 a grant, which is deemed as Concessional Financing for purposes of the General Conditions, in an amount equivalent to seventy-two million two hundred thousand Special Drawing Rights (SDR 72,200,000) ("Financing").

2.02. The Maximum Commitment Charge Rate is one-half of one percent (1/2 of 1%) per annum on the Unwithdrawn Financing Balance.

2.03. The Payment Dates are January 15 and July 15 in each year.

2.04. The Payment Currency is Dollar

2.05. Without limitation upon the provisions of Section 5.05 of the General Conditions, the Recipient shall promptly furnish to the Association such information relating to the provisions of this Article II as the Association may, from time to time, reasonably request.
ARTICLE III — PROGRAM

3.01. The Recipient declares its commitment to the Program and its implementation. To this end, and further to Section 5.05 of the General Conditions:

   (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, including any action specified in Section 1 of Schedule I to this Agreement or in Section 1 of Schedule I to the Grant Agreement.

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 Conditions of Effectiveness consists of the following, namely, that 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 Signature Date.

5.03. For purposes of Section 10.05 (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 Signature Date.
ARTICLE VI — REPRESENTATIVE; ADDRESSES

6.01. The Recipient's Representative is its Minister of Finance.

6.02. For purposes of Section 11.01 of the General Conditions: (a) the Recipient's address is:

Ministry of Finance
Pashtunistan Watt
Kabul, Islamic Republic of Afghanistan; and

(b) the Recipient's Electronic Address is:

Facsimile:
+93202103259

6.03. For purposes of Section 11.01 of the General Conditions: (a) The Association's address is:

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

(b) the Association's Electronic Address is:

Facsimile:
1-202-477-6391
AGREED as of the Signature Date.

ISLAMIC REPUBLIC OF AFGHANISTAN

By

Authorized Representative

Name: Zahid Hamdard
Title: Deputy Minister - Finance
Date: July 1, 2019

INTERNATIONAL DEVELOPMENT ASSOCIATION

By

Authorized Representative

Name: Shubham Chaudhuri
Title: Country Director
Date: June 25, 2019
SCHEDULE 1

Program Actions: Availability of Financing Proceeds

Section I. Actions under the Program

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

1. To support implementation of its Civil Servants Law, the Recipient's: (i) Cabinet has approved: (A) the Civil Service Pay Management Policy; (B) the Policy for Increasing Women’s Participation in Civil Service; as well as (C) the Customs Cadre Regulation and the Procurement Cadre Regulation; and (ii) Independent Administrative Reform and Civil Service Commission has approved the Procedure on Civil Servants’ Recruitment through Mass Competitive Exam.

2. To support private sector development through improved access to credit DAB has: (i) issued a circular altering collateral requirement to allow inclusion of risk guarantees from Afghan Credit Guarantee Foundation; and (ii) entered into a memorandum of understanding with OABS to allow data sharing to provide operating banks with additional information in evaluating creditworthiness of potential borrowers through the Recipient's public credit registry.

3. To strengthen management of water resources, the Recipient’s Cabinet has approved and submitted to the National Assembly a revised water law which includes: (i) clarification of MEW and MAIL's mandates; (ii) recognition of traditional water use rights; and (iii) provisions governing dam safety, pollution, and groundwater.

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 proceeds. 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>72,200,000</td>
</tr>
<tr>
<td>TOTAL AMOUNT</td>
<td>72,200,000</td>
</tr>
</tbody>
</table>

C. Withdrawal Tranche Release Conditions.

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

D. Deposit of Financing Amounts.

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

2. The Recipient, within thirty (30) days after the withdrawal of the Financing from the Financing Account, shall report to the Association: (a) the exact sum received into the account referred to in Section 2.03 (a) of the General Conditions; (b) the details of the account to which the Afghani equivalent of the Financing proceeds will be credited; (c) the record that an equivalent amount has been accounted for in the Recipient’s budget management systems; and (d) the statement of receipts and disbursement of the account referred to in Section 2.03 (a) of the General Conditions.

E. Closing Date. The Closing Date is May 31, 2020.
APPENDIX

Definitions

1. "Afghan Credit Guarantee Foundation" means the foundation established and operating pursuant to the Recipient's

2. "Afghani" means the Recipient's official currency.

3. "Cabinet" means the Recipient's cabinet under the supervisory authority of the Recipient's President and constituted of the heads of all government ministries and independent agencies/institutions/directorates as prescribed by the Recipient's Constitution, which is responsible for, inter alia, approval of the policies and regulations and approval of the draft legislative instruments and their submission to the National Assembly.


5. "Civil Service Pay Management Policy" means Recipient's policy on civil service pay management.

6. "Customs Cadre Regulation" means Recipient's regulation intended to, inter alia, establish its customs cadre based on professional criteria, ensure transparency in such cadre's recruitment, as approved by its Cabinet on December 27, 2018.

7. "DAB" means Da Afghanistan Bank, the Recipient's central bank, established and operating pursuant to the Da Afghanistan Bank Law, or any successor thereto.

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


11. "Grant Agreement" means the grant agreement for the Project between the Recipient and the International Development Association (the "World Bank" or "Association"), acting as administrator of the Afghanistan Reconstruction Trust Fund, dated the same date as this Agreement, whereby the Association agrees to provide financial support to the Program; as such grant agreement may be amended from time to time. "Grant Agreement" includes all appendices, schedules and agreements supplemental to the Loan Agreement.

12. "Independent Administrative Reform and Civil Service Commission" means the Recipient's independent commission responsible for administrative reform and civil service, or any successor thereto.


15. "Ministry of Finance" or "MOF" means the Recipient's Ministry of Finance, or any successor thereto.

16. "National Assembly" means the Recipient's national representative body having legislative powers under the Recipient's Constitution.

17. "Policy for Increasing Women's Participation in Civil Service" means Recipient's policy intended to facilitate women's increased participation in civil service, as approved by its Cabinet on February 23, 2019.

18. "Procedure on Civil Servants' Recruitment through Mass Competitive Exam" means Recipient's rules of procedure for mass recruitment of civil servants approved by IARCSC based on Civil Servants Law and published on its official website on October/November 2018 (Aqrab, 1397).

19. "Procurement Cadre Regulation" means Recipient's regulation intended to, inter alia, establish its procurement cadre, as approved by its Cabinet on May 8, 2019.
20. "Program" means: the program of objectives, policies, and actions set forth or referred to in the letter dated May 12, 2019 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 and comprising actions taken, including those set forth in Section I of Schedule I to this Agreement and Section I of Schedule I to the Grant Agreement, and actions to be taken consistent with the program's objectives.

21. "Signature Date" means the later of the two dates on which the Recipient and the Association signed this Agreement and such definition applies to all references to "the date of the Financing Agreement" in the General Conditions.

22. "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 I to this Agreement.