

Public Disclosure Authorized

OFFICIAL DOCUMENTS

GRANT NUMBER D2830-AF

Financing Agreement

(Modernizing Afghan State Owned Banks Project)

between

ISLAMIC REPUBLIC OF AFGHANISTAN

and

INTERNATIONAL DEVELOPMENT ASSOCIATION

GRANT NUMBER D2830-AF

FINANCING AGREEMENT

AGREEMENT dated as of the Signature Date between ISLAMIC REPUBLIC OF AFGHANISTAN (“Recipient”) and INTERNATIONAL DEVELOPMENT ASSOCIATION (“Association”). The Recipient and the Association 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, deemed by the Association to be on concessional terms, as set forth or referred to in this Agreement, in an amount equivalent to twenty-seven million five hundred thousand Special Drawing Rights (SDR 27,500,000) (“Financing”), to assist in financing the project described in Schedule 1 to this Agreement (“Project”).
- 2.02. The Recipient may withdraw the proceeds of the Financing in accordance with Section III of Schedule 2 to this Agreement.
- 2.03. The Maximum Commitment Charge Rate is one-half of one percent (1/2 of 1%) per annum on the Unwithdrawn Financing Balance.
- 2.04. The Payment Dates are March 15 and September 15 in each year.
- 2.05. The Payment Currency is Dollar.

ARTICLE III — PROJECT

- 3.01 The Recipient declares its commitment to the objective of the Project. To this end, the Recipient shall carry out the Project through MOF in accordance with the

provisions of Article V of the General Conditions and Schedule 2 to this Agreement.

ARTICLE IV — REMEDIES OF THE ASSOCIATION

- 4.01. The Additional Event of Suspension consists of the following, namely that the Principles of State-Owned Bank Reform – Strategic Vision or any provision thereof has been nullified, waived, abrogated, or modified in a way that in the opinion of the Association affects the satisfactory implementation of the Project and the achievement of its project development objective.
- 4.02. The Additional Event of Acceleration consists of the following, namely that the event specified in Section 4.01 of this Agreement occurs and is continuing for a period of sixty (60) days after notice of the event has been given by the Association to the Recipient.

ARTICLE V — TERMINATION

- 5.01. The Effectiveness Deadline is the date ninety (90) days after the Signature Date.
- 5.02. 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 Recipient's Electronic Address is:

Facsimile:

+1-202-477-6391

AGREED as of the Signature Date.

ISLAMIC REPUBLIC OF AFGHANISTAN

By


Authorized Representative

Name: H. E. Eklil Ahmad Hakimi

Title: Minister of Finance

Date: April 19, 2018

INTERNATIONAL DEVELOPMENT ASSOCIATION

By


Authorized Representative

Name: Shubham Chaudhuri

Title: Country Director

Date: April 10, 2018

SCHEDULE 1

Project Description

The objective of the Project is to enhance the corporate governance and operational efficiency of the supported Afghan state-owned banks, thereby contributing to their improved financial soundness and outreach.

The Project consists of the following parts:

Part 1: Improving MOF's Ownership Role and the Corporate Governance of SBs

Provision of technical assistance and advisory services:

- (a) to the MOF to strengthen the exercise of its ownership functions of SBs through, *inter alia*: (i) establishment of a dedicated oversight unit including its relevant policies and procedures; (ii) development of nomination process for board of supervisors; (iii) building institutional capacity within MOF to exercise ownership functions of state banks; (iv) establishment of reporting and monitoring systems; and (v) development of corporate governance policies, procedures, and guidelines; and
- (b) to the MOF, DAB, and SBs to strengthen the corporate governance of SBs through, *inter alia*: (i) implementing recommendations of a comprehensive corporate governance assessment; (ii) developing and implementing internal policies and procedures; (iii) establishing board processes and training.

Part 2: Institutional Development, Business Strategy, and Information Technology

Supporting technical assistance and capacity building activities designed to:

- (a) strengthen and modernize SBs through, *inter alia*: (i) development of a business strategy for each SB; (ii) provision of strategic management support; and (iii) conducting a diagnostic assessment of information technology infrastructure and developing an information technology strategy for SBs;
- (b) support institutional development and business model through, *inter alia*: (i) provision of consulting support for the consolidation of BMA and NKB, including addressing the legal and regulatory aspects of the merger process; and (ii) implementation of the approved business strategy for SBs; and
- (c) support modernization of information technology infrastructure and business process of SBs through: (i) upgrading of core banking systems and automation of service delivery mechanisms; (ii) setting up a modern data center; and (iii) capacity building for SB staff responsible for information technology.

Part 3: Project Implementation and Monitoring

Supporting monitoring and coordination of Project activities and development of a monitoring and evaluation system to assess implementation progress.

SCHEDULE 2

Project Execution

Section I. Implementation Arrangements

A. Institutional Arrangements.

1. The Recipient shall, through MOF, vest responsibility of the overall implementation of the Project on its AFD and, to that end, shall establish, by not later than two (2) months after the Effective Date, and thereafter maintain throughout the implementation of the Project:
 - a. the Project Steering Committee, chaired by the Deputy Minister in charge of the AFD, with membership, mandate, composition, and terms of reference acceptable to the Association, to be responsible for overall guidance and oversight of the Project, including, *inter alia*, preparing and furnishing to the Association quarterly reports on implementation progress.
 - b. the Project Management Team within AFD, headed by a project director and provided with sufficient resources and competent staff in adequate numbers, under terms of reference satisfactory to the Association, comprising, *inter alia*, a chief technical expert and a banking expert, which Project Management Team shall be assigned with such functions and responsibilities, satisfactory to the Association, as shall be required for providing support for the implementation of the Project in accordance with the provisions of this Agreement, including *inter alia*, reporting, monitoring and evaluation, social and environmental management, procurement, financial management, and audit and disbursements.
2. To facilitate the carrying out of the Project, the Recipient shall, by no later than 2 months after the Effective Date, appoint a qualified and experienced focal staff, under terms of reference satisfactory to the Association, to support AFD in areas relating to financial management, procurement, gender and social safeguards activities of the Project.
3. The Recipient shall carry out the Project in accordance with the procedures, principles and practices set forth in the Operations Manual and the respective Annual Work Plan and Budget.
4. The Recipient shall not assign, amend, abrogate or waive the Operations Manual or any provisions thereof. Without prejudice to the foregoing, if any provision of the Operations Manual is inconsistent with this Agreement, the provisions of this Agreement shall prevail.

B. Annual Work Plan and Budget

The Recipient shall:

- (a) prepare and furnish to the Association for review and approval, by not later than end of January each year, during Project implementation, a detailed annual work plan and budget (the "Annual Work Plan and Budget") for the following Fiscal Year in a manner and substance satisfactory to the Association, which plan and budget shall identify the Project activities by component and subcomponent, together with their related expenditures and financing sources. Notwithstanding the foregoing, the first such Annual Work Plan and Budget for the first year of Project implementation shall be prepared by not later than two (2) months after the Signature Date of this Agreement; and thereafter;
- (b) carry out the Project through for the corresponding Fiscal Year pursuant to such Annual Work Plan and Budget.
- (b) cause the Project Steering Committee to undertake semi-annual reviews of forecasted and incurred expenditures to ensure compliance with governmental budgeting principles, policies and procedures and adequate budget discipline and control.

C. Grievance Redress Mechanism.

The Recipient shall [establish, by not later than two (2) months after the Effective Date, and thereafter maintain throughout Project implementation, a grievance redress mechanism for the Project, with staffing and operating procedures acceptable to the Association, 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

- 1. The Recipient shall furnish to the Association each Project Report not later than forty-five (45) days after the end of each calendar semester, covering the calendar semester.

Section III. Withdrawal of the Proceeds of the Financing

A. General

Without limitation upon the provisions of Article II of the General Conditions and in accordance with the Disbursement and Financial Information Letter, the

Recipient may withdraw the proceeds of the Financing to finance Eligible Expenditures in the amount allocated and, if applicable, up to the percentage set forth against each Category of the following table:

Category	Amount of the Financing Allocated (expressed in SDR)	Percentage of Expenditures to be Financed (inclusive of Taxes)
(1) Goods, non-consulting services, consulting services, and Incremental Operating Costs under Part 1, 2(a) and 3 of the Project	11,688,000	100%
(2) Goods, non-consulting services, consulting services, and Incremental Operating Costs under Part 2 (b) of the Project	5,500,000	100%
(3) Goods, non-consulting services, consulting services, and Incremental Operating Costs under Part 2 (c) of the Project.	10,312,000	100%
TOTAL AMOUNT	27,500,000	

B. Withdrawal Conditions; Withdrawal Period

1. Notwithstanding the provisions of Part A above, no withdrawal shall be made:
 - (a) for payments made prior to the Signature Date; except that withdrawals up to an aggregate amount not to exceed \$150,000 may be made for payments made prior to this date but on or after April 30, 2017, for Eligible Expenditures under Category (1);
 - (b) under Category (2) until and unless to the satisfaction of the Association:

- i. the Recipient shall have issued a Presidential decree to: (A) define the state ownership policy for SBs; (B) set up an ownership unit within MOF with clearly defined core functions; (C) define terms of reference of boards of supervisors and executive management of SBs; (D) promulgate guidelines for the nomination, appointment, removal and remuneration of members of the board of supervisors and key executive management positions in SBs in line with relevant DAB and banking laws and regulations;
 - ii. the Recipient, through MOF, shall have properly staffed the ownership unit referred to in this Section III.B.1 (i) above, including at least one full-time banking expert, one full-time financial expert and one legal expert;
 - iii. the Recipient, through MOF, shall have appointed at least five (5) members to serve on the board of supervisors for each SB, in full compliance with the Presidential decree referred to in this Section III.B.1(i) above and relevant regulations of DAB; and
 - iv. performance contracts for senior management of SBs, as defined in the Operations Manual, shall have been executed.
- (c) under Category (3) until and unless:
- i. the Recipient through MOF shall have issued a policy, satisfactory to the Association, for modernizing information technology infrastructure of the SBs in accordance with the recommendations of the diagnostic assessment carried out under Part 2(a) of the Project; and
 - ii. the Recipient shall have caused the general assembly of each SB to approve a business plan, satisfactory to the Association, in alignment with the Principles of State-Owned Bank Reform – Strategic Vision.
2. The Closing Date is March 28, 2023.

APPENDIX

Definitions

1. “AFD” means the Administration and Finance Directorate within MOF.
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. “BMA” means Bank Milli Afghan, which is one of the SBs, or any successor thereto.
4. “Category” means a category set forth in the table in Section III.A of Schedule 2 to this Agreement.
5. “DAB” means Recipient’s central bank, Da Afghanistan Bank, or any successor thereto.
6. “Fiscal Year” means the fiscal year of the Recipient beginning on December 22 of a calendar year and ending on December 21 of the following calendar year.
7. “General Conditions” means the “International Development Association General Conditions for IDA Financing, Investment Project Financing”, dated July 14, 2017.
8. “HEC” means the Recipient’s High Economic Council within its Cabinet, or any successor thereto.
9. “Incremental Operating Costs” means the 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.
10. “MOF” means Recipient’s Ministry of Finance, or any successor thereto.
11. “NKB” means the Newai Kabul Bank, which is one of the SBs, or any successor thereto.
12. “NPA” means the Recipient’s National Procurement Authority, or any successor thereto.

13. “Operations Manual” means the manual adopted by the Recipient on February 21, 2018 for purposes of carrying out the Project, in form and substance satisfactory to the Association, which shall include detailed implementation arrangements necessary for the effective implementation of the Project; as such manual may be amended from time to time by agreement between the Recipient and the Association.
14. “Pashtany Bank” means the Pashtany Bank, which is one of the SBs, or any successor thereto.
15. “Principles of State-Owned Bank Reform – Strategic Vision” means the Recipient’s long-term strategy for SBs, approved by Recipient’s HEC in December 2017, which outlines the vision and the overall objective of the Recipient’s presence in the financial sector, and the strategic business and operating frameworks for the institutions over the next five years.
16. “Project Management Team” or “PMT” means the project management team at MOF to be established for the purpose of managing the implementation of the Project, as such team is referred to in Section I.A.1(b) of Schedule 2 to this Agreement.
17. “Project Steering Committee” means the Recipient’s entity dedicated to the implementation of this Project, to be established and operating as defined in the Project Operations Manual, and which committee will be chaired by the MOF.
18. “Procurement Regulations” means, for purposes of paragraph 87 of the Appendix to the General Conditions, the “World Bank Procurement Regulations for IPF Borrowers”, dated July 2016, revised November 2017.
19. “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.
20. “SBs” means banks owned by the Recipient, namely NKB, BMA, and Pashtany Bank, or any other bank which may be added during the implementation of the Project by agreement between the Recipient and the Association.