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**GRANT NUMBER TF052735-AF**

# **Afghanistan Reconstruction Trust Fund Grant Agreement**

**(Strengthening the Financial Capacity Project)**

**between**

**TRANSITIONAL ISLAMIC STATE OF AFGHANISTAN**

**and**

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

**Dated October 11, 2003**

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**GRANT NUMBER TF052735-AF**

**ARTF GRANT AGREEMENT**

AGREEMENT, dated October 11, 2003, between the TRANSITIONAL ISLAMIC STATE OF AFGHANISTAN (the "Recipient") and INTERNATIONAL DEVELOPMENT ASSOCIATION, acting as administrator (the "Administrator") of grant funds (the "Grant Funds") contributed by various donors (collectively the "Donors") to the Afghanistan Reconstruction Trust Fund ("ARTF").

WHEREAS (A) the Donors have agreed to provide the Grant Funds to the Recipient in support of its reconstruction program;

(B) the Donors have requested the Administrator, and the Administrator has agreed, to administer the Grant Funds;

(C) the Administrator has established ARTF for purposes of receiving and administering the Grant Funds; and

(D) the Grant Funds shall finance, *inter alia*, investment and/or sector programs and activities as shall, from time to time, be recommended by the Minister of Finance of the Recipient and approved by the Management Committee of ARTF.

NOW, THEREFORE, the parties hereto, hereby, agree as follows:

**ARTICLE I**

**General Conditions; Definitions**

Section 1.01. (a) The following provisions of the General Conditions Applicable to Development Credit Agreements of the Administrator, dated January 1, 1985 (as amended through October 6, 1999), with the modifications set forth in paragraph (b) of this Section (the General Conditions), constitute an integral part of this Agreement:

- (i) Article I;
- (ii) Article II;
- (iii) Section 3.01;
- (iv) Sections 4.01, 4.02, 4.05 and 4.06;

- (v) Article V;
- (vi) Sections 6.01, 6.02, 6.03, 6.04 and 6.06;
- (vii) Article VIII;
- (viii) Article IX;
- (ix) Article X; and
- (x) Article XI.

(b) The General Conditions shall be modified as follows:

- (i) the term “Borrower”, wherever used in the General Conditions, means the Recipient;
- (ii) the term “Credit” and “credit”, wherever used in the General Conditions, means the Grant;
- (iii) the term “Credit Account”, wherever used in the General Conditions, means the Grant Account; and
- (iv) the term “Development Credit Agreement”, wherever used in the General Conditions, means this ARTF Grant Agreement.

Section 1.02. Wherever used in this Agreement, unless the context otherwise requires, the several terms defined in the preamble to this Agreement shall have the respective meanings therein set forth; and the following additional terms have the following meanings:

(a) “Financial Monitoring Report” means each report prepared in accordance with Section 4.02 of this Agreement;

(b) “Project Implementation Plan” means the Project Implementation Plan referred to in Part A.1 (a) of Schedule 4 to this Agreement, as may be amended from time to time in agreement with the Administrator; and

(c) “Special Account” means the account referred to in Section 2.02 (b) of this Agreement.

## **ARTICLE II**

### **The Grant**

Section 2.01. The Administrator agrees to make available to the Recipient, on the terms and conditions set forth or referred to in this Agreement, an amount equivalent to nine million one hundred thousand United States dollars (US\$9,100,000).

Section 2.02. (a) The amount of the Grant may be withdrawn from the Grant Account in accordance with the provisions of Schedule 1 to this Agreement for expenditures made (or, if the Administrator shall so agree, to be made) in respect of the reasonable cost of consultants' services required for the Project and to be financed out of the proceeds of the Grant.

(b) The Recipient may, for the purposes of the Project, open and maintain in Dollars a special deposit account in its Central Bank on terms and conditions satisfactory to the Administrator. Deposits into, and payments out of, the Special Account shall be made in accordance with the provisions of Schedule 5 to this Agreement.

Section 2.03. The Closing Date shall be February 28, 2006 or such later date as the Administrator shall establish. The Administrator shall promptly notify the Recipient of such later date.

Section 2.04. Disbursement from the proceeds of the Grant (including deposits into the Special Account) shall be made only to the extent that resources adequate to meet such disbursement shall have been transferred from the Donors to ARTF.

## **ARTICLE III**

### **Execution of the Project**

Section 3.01. (a) The Recipient declares its commitment to the objectives of the Project as set forth in Schedule 2 to this Agreement and, to this end, shall carry out the Project through its Ministry of Finance with due diligence and efficiency and in conformity with the Project Implementation Plan and appropriate administrative, financial, and technical practices, and shall provide, promptly as needed, the funds, facilities, services and other resources required for the Project.

(b) Without limitation upon the provisions of paragraph (a) of this Section and except as the Recipient and the Association shall otherwise agree, the Recipient shall carry out the Project in accordance with the Implementation Program set forth in Schedule 4 to this Agreement and the Project Implementation Plan.

Section 3.02. Except as the Administrator shall otherwise agree, procurement of consultants' services required for the Project and to be financed out of the proceeds of the Grant shall be governed by the provisions of Schedule 3 to this Agreement.

Section 3.03. For the purposes of Section 9.06 (c) of the General Conditions and without limitation thereto, the Recipient shall:

(a) prepare, on the basis of guidelines acceptable to the Administrator, and furnish to the Administrator not later than six (6) months after the Closing Date or such later date as may be agreed for this purpose between the Recipient and the Administrator, a plan designed to ensure the continued achievement of the Project's objectives; and

(b) afford the Administrator a reasonable opportunity to exchange views with the Recipient on said plan.

## **ARTICLE IV**

### **Financial Covenants**

Section 4.01. (a) The Recipient shall maintain or cause to be maintained, a financial management system, including records and accounts, and prepare financial statements in accordance with consistently applied accounting standards, acceptable to the Administrator, adequate to reflect the operations, resources and expenditures related to the Project.

(b) The Recipient shall: (i) commencing with the fiscal year in which the Effective Date falls, to and including the fiscal year in which the last withdrawal from the Grant Account is made, have the financial statements referred to in paragraph (a) of this Section for each fiscal year or other period agreed to by the Administrator, audited, in accordance with consistently applied auditing standards acceptable to the Administrator by independent auditors acceptable to the Administrator; (ii) furnish to the Administrator as soon as available, but in any case not later than six (6) months after the end of each such year or such other period agreed to by the Administrator: (A) certified copies of the financial statements referred to in paragraph (a) of this Section for such year or such other period agreed to by the Administrator, as so audited, and (B) an opinion on such statements, by said auditors, in scope and detail satisfactory to the Administrator; and (iii) furnish to the Administrator such other information concerning such records and accounts, and the audit of such financial statements, and concerning said auditors, as the Administrator shall have reasonably requested.

(c) For all expenditures with respect to which withdrawals from the Grant Account were made on the basis of statements of expenditure, the Recipient shall: (i) retain, until at least one (1) year after the Administrator has received the audit report for, or covering, the fiscal year in which the last withdrawal from the Grant Account was

made, all records (contracts, orders, invoices, bills, receipts and other documents) evidencing such expenditures; (ii) enable the Administrator's representatives to examine such records; and (iii) ensure that such statements of expenditures are included in the audit for each fiscal year or other period agreed to by the Administrator, referred to in paragraph (b) of this Section.

Section 4.02. (a) Without limitation upon the Recipient's progress reporting obligations set out in part B (ii) of Schedule 4 to this Agreement, the Recipient shall prepare and furnish to the Administrator a Financial Monitoring Report, in form and substance satisfactory to the Administrator, which:

- (i) sets forth sources and uses of funds for the Project, both cumulatively and for the period covered by said report, showing separately funds provided under the Grant and explains variances between the actual and planned Project implementation;
- (ii) describes physical progress in Project implementation, both cumulatively and for the period covered by said report, and explains variances between the actual and planned Project implementation; and
- (iii) sets forth the status of procurement under the Project, as at the end of the period covered by said report.

(b) The first Financial Monitoring Report shall be furnished to the Administrator not later than forty-five (45) days after the end of the first calendar quarter after the Effective Date, and shall cover the period from the incurrence of the first expenditure under the Project through the end of such first calendar quarter; thereafter, each Financial Monitoring Report shall be furnished to the Administrator not later than forty-five (45) days after each subsequent calendar quarter, and shall cover such calendar quarter.

## **ARTICLE V**

### **Effectiveness**

Section 5.01. This ARTF Grant Agreement will be effective only after the Administrator dispatches a notice to this effect, upon receiving, on behalf of the Recipient, documentation of criteria, acceptable in form and substance by the Administrator, for selection of Recipient's key ministries, including availability of qualified counterparts.

Section 5.02. This Agreement shall continue in effect until the parties to this Agreement have fulfilled all their obligations hereunder.

Section 5.03. Upon effectiveness of this ARTF Grant Agreement, the Administrator shall be allowed to disclose this ARTF Grant Agreement and information regarding the Grant in accordance with the International Development Association's policy on disclosure of information.

## **ARTICLE VI**

### **Representatives of the Recipient; Addresses**

Section 6.01. The Minister of Finance of the Recipient is designated as representative of the Recipient for the purposes of Section 11.03 of the General Conditions.

Section 6.02. The following addresses are specified for the purposes of Section 11.01 of the General Conditions:

For the Recipient:

Ministry of Finance  
Kabul, Transitional Islamic State of Afghanistan

For the Administrator:

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

Cable address:	Telex:	Facsimile:
INDEVAS	MCI 24823 MCI 64145	(202) 477-6391

IN WITNESS WHEREOF, the parties hereto, acting through their duly authorized representatives, have caused this Agreement to be signed in their respective names in Kabul , Transitional Islamic State of Afghanistan, as of the day and year first above written.

TRANSITIONAL ISLAMIC STATE OF AFGHANISTAN

By /s/ Ashraf Ghani

Authorized Representative

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

By /s/ William Byrd

Authorized Representative

**SCHEDULE 1**

**Withdrawal of the Proceeds of the Grant**

1. The table below sets forth the Categories of items to be financed out of the proceeds of the Grant, the allocation of the amounts of the Grant to each Category and the percentage of expenditures for items so to be financed in each Category:

<u>Category</u>	<u>Amount of the Grant Allocated (Expressed in Dollars Equivalent)</u>	<u>% of Expenditures to be Financed</u>
(1) Consultants Services including training and audit cost	9,100,000	100%
TOTAL	<u>9,100,000</u>	

2. Notwithstanding the provisions of paragraph 1 above, no withdrawals shall be made in respect of payments made for expenditures prior to the date of this Agreement.

3. The Administrator may require withdrawals from the Grant Account to be made on the basis of statements of expenditure for expenditures for: (a) consultants' services provided by firms under contracts costing less than \$100,000 equivalent each; (b) consultants' services provided by individuals under contracts costing less than \$50,000 equivalent each; and (c) audits costs, all under such terms and conditions as the Association shall specify by notice to the Recipient.

## **SCHEDULE 2**

### **Description of the Project**

The objectives of the Project are to: (i) improve the financial management capacities of the Ministry of Finance and selected key line ministries; and (ii) increase donors' confidence regarding the Recipient's financial capability.

The Project consists of the following Parts, subject to such modifications thereof as the Recipient and the Administrator may agree upon from time to time to achieve such objectives.

#### Part A: Budget Preparation

Provision of consultants' services to assist in budget preparation processes including programming activities and preparing budget estimates of wage, non-wage and development expenditures.

#### Part B: Financial Management System

Provision of consultants' services, including procurement and installation by consultants of computers for financial management systems to assist in preparation of said systems and methods that allow for a degree of standardization between line ministries.

#### Part C: Public Sector Management Capacity Building

Provision of consultants' services to develop and carry out short in country training modules covering core financial management disciplines to key staff in selected line ministries.

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The Project is expected to be completed by April 30, 2006.

### **SCHEDULE 3**

#### **Procurement**

##### Section I. Employment of Consultants

###### Part A: General

Consultants' services shall be procured in accordance with the provisions of Sections I and IV of the "Guidelines: Selection and Employment of Consultants by World Bank Borrowers", published by the Bank in January 1997 and revised in September 1997, January 1999 and May 2002 (the Consultant Guidelines) and the following provisions of this Section.

###### Part B: Quality- and Cost-based Selection

1. Except as otherwise provided in Part C of this Section, consultants' services shall be procured under contracts awarded in accordance with the provisions of Section II of the Consultant Guidelines, paragraph 3 of Appendix 1 thereto, Appendix 2 thereto, and the provisions of paragraphs 3.13 through 3.18 thereof applicable to quality- and cost-based selection of consultants.

2. The following provisions shall apply to consultants' services to be procured under contracts awarded in accordance with the provisions of the preceding paragraph. The short list of consultants for services for the Project, estimated to cost less than \$50,000 equivalent per contract, may comprise entirely national consultants in accordance with the provisions of paragraph 2.7 of the Consultant Guidelines.

###### Part C: Other Procedures for the Selection of Consultants

###### 1. Selection Based on Consultants' Qualifications

Services estimated to cost \$200,000 equivalent or less per contract, may be procured under contracts awarded in accordance with the provisions of paragraphs 3.1 and 3.7 of the Consultant Guidelines.

###### 2. Single Source Selection

Services which are estimated to cost less than \$100,000 equivalent per contract may, with the Administrator's prior agreement, be procured in accordance with the provisions of paragraphs 3.8 through 3.11 of the Consultant Guidelines.

3. Individual Consultants

Services for tasks that meet the requirements set forth in paragraph 5.1 of the Consultant Guidelines shall be procured under contracts awarded to individual consultants in accordance with the provisions of paragraphs 5.1 through 5.3 of the Consultant Guidelines.

Part D: Review by the Administrator of the Selection of Consultants

1. Selection Planning

A plan for the selection of consultants, which shall include contract cost estimates, contract packaging, and applicable selection criteria and procedures, shall be furnished to the Administrator for its review and approval prior to the issuance to consultants of any requests for proposals. Selection of all consultants' services shall be undertaken in accordance with such selection plan as shall have been approved by the Administrator.

2. Prior Review

(a) With respect to each contract for the employment of consulting firms estimated to cost the equivalent of \$100,000 or more, the procedures set forth in paragraphs 2, 3 and 5 of Appendix 1 to the Consultant Guidelines shall apply.

(b) With respect to each contract for the employment of individual consultants estimated to cost the equivalent of \$50,000 or more, the qualifications, experience, terms of reference and terms of employment of the consultants shall be furnished to the Administrator for its prior review and approval. The contract shall be awarded only after the said approval shall have been given.

3. Post Review

With respect to each contract not governed by paragraph 2 of this Part, the procedures set forth in paragraph 4 of Appendix 1 to the Consultant Guidelines shall apply.

## **SCHEDULE 4**

### **Implementation Program**

#### **A. General**

1. (a) The Recipient shall maintain a Project Implementation Plan in form and substance satisfactory to the Administrator. The Project Implementation Plan shall set out details of all procedures, guidelines, timetables and criteria required for the Project, including the financial, administrative and operational arrangements relating to the carrying out of the Project.

(b) The Recipient shall carry out the Project, in accordance with the Project Implementation Plan and, except as the Administrator shall otherwise agree, the Recipient shall not amend or waive any provision of the Project Implementation Plan if, in the opinion of the Administrator, such amendment or waiver may materially and adversely affect the carrying out of the Project or the achievement of the objectives thereof.

#### **B. Progress Reports and Mid-Term Review**

The Borrower shall:

- (i) maintain policies and procedures adequate to enable it to monitor and evaluate on an ongoing basis, in accordance with indicators acceptable to the Administrator, the carrying out of the Project and the achievement of the objectives thereof;
- (ii) prepare, under terms of reference satisfactory to the Administrator, and furnish to the Administrator: (a) on a quarterly basis, commencing not later than forty-five (45) days after the end of the first calendar quarter after the Effective Date, a report on the progress achieved in the implementation of the Project and the achievement of the objectives thereof; and (b) on or about January 15, 2005, a report, to constitute the basis upon which the mid-term review shall take place, integrating the results of the monitoring and evaluation activities performed pursuant to paragraph (i) of this Section and consolidating the results of the reports referred to under sub-paragraph (ii) (a) of this Section, on the progress achieved in the carrying out of the Project during the period preceding the date of said report and setting out the measures recommended to ensure the efficient carrying out of the Project and the achievement of the objectives thereof during the period following such date; and

- (iii) review with the Administrator, by February 15, 2005 or such later date as the Administrator shall request, the report referred to in subparagraph (ii) (b) of this paragraph, and, thereafter, take all measures required to ensure the efficient completion of the Project and the achievement of the objectives thereof, based on the conclusions and recommendations of the said report and the Administrator's views on the matter.

## **SCHEDULE 5**

### **Special Account**

1. For the purposes of this Schedule:
  - (a) the term “eligible Categories” means Category (1) set forth in the table in paragraph 1 of Schedule 1 to this Agreement;
  - (b) the term “eligible expenditures” means expenditures in respect of the reasonable cost for consultants’ services required for the Project and to be financed out of the proceeds of the Grant allocated from time to time to the eligible Categories in accordance with the provisions of Schedule 1 to this Agreement; and
  - (c) the term “Authorized Allocation” means an amount equivalent to nine hundred thousand Dollars \$900,000 to be withdrawn from the Grant Account and deposited into the Special Account pursuant to paragraph 3 (a) of this Schedule.
2. Payments out of the Special Account shall be made exclusively for eligible expenditures in accordance with the provisions of this Schedule.
3. After the Administrator has received evidence satisfactory to it that the Special Account has been duly opened, withdrawals of the Authorized Allocation and subsequent withdrawals to replenish the Special Account shall be made as follows:
  - (a) For withdrawals of the Authorized Allocation, the Recipient shall furnish to the Administrator a request or requests for deposit into the Special Account of an amount or amounts which do not exceed the aggregate amount of the Authorized Allocation. On the basis of such request or requests, the Administrator shall, on behalf of the Recipient, withdraw from the Grant Account and deposit into the Special Account such amount or amounts as the Recipient shall have requested.
  - (b)
    - (i) for replenishment of the Special Account, the Recipient shall furnish to the Administrator requests for deposits into the Special Account at such intervals as the Administrator shall specify.
    - (ii) prior to or at the time of each such request, the Recipient shall furnish to the Administrator the documents and other evidence required pursuant to paragraph 4 of this Schedule for the payment or payments in respect of which replenishment is requested. On the basis of each such request, the Administrator shall, on behalf of the Recipient, withdraw from the Grant Account and deposit into the Special Account such amount as the Recipient shall have requested and as shall have been shown by said documents and

other evidence to have been paid out of the Special Account for eligible expenditures.

4. For each payment made by the Recipient out of the Special Account, the Recipient shall, at such time as the Administrator shall reasonably request, furnish to the Administrator such documents and other evidence showing that such payment was made exclusively for eligible expenditures.

5. Notwithstanding the provisions of paragraph 3 of this Schedule, the Administrator shall not be required to make further deposits into the Special Account:

(a) if, at any time, the Administrator shall have determined that all further withdrawals should be made by the Recipient directly from the Grant Account in accordance with the provisions of Article V of the General Conditions and paragraph (a) of Section 2.02 of this Agreement;

(b) if the Recipient shall have failed to furnish to the Administrator, within the period of time specified in Section 4.01 (b) (ii) of this Agreement, any of the audit reports required to be furnished to the Administrator pursuant to said Section in respect of the audit of the records and accounts for the Special Account;

(c) if, at any time, the Administrator shall have notified the Recipient of its intention to suspend in whole or in part the right of the Recipient to make withdrawals from the Grant Account pursuant to the provisions of Section 6.02 of the General Conditions; or

(d) once the total unwithdrawn amount of the Grant allocated to the eligible Categories, minus the total amount of all outstanding special commitments entered into by the Administrator pursuant to Section 5.02 of the General Conditions with respect to the Project, shall equal the equivalent of twice the amount of the Authorized Allocation.

Thereafter, withdrawal from the Grant Account of the remaining unwithdrawn amount of the Grant allocated to the eligible Categories shall follow such procedures, as the Administrator shall specify by notice to the Recipient. Such further withdrawals shall be made only after and to the extent that the Administrator shall have been satisfied that all such amounts remaining on deposit in the Special Account as of the date of such notice will be utilized in making payments for eligible expenditures.

6. (a) If the Administrator shall have determined at any time that any payment out of the Special Account: (i) was made for an expenditure or in an amount not eligible pursuant to paragraph 2 of this Schedule; or (ii) was not justified by the evidence furnished to the Administrator, the Recipient shall, promptly upon notice from the Administrator: (A) provide such additional evidence as the Administrator may request; or (B) deposit into the Special Account (or, if the Administrator shall so request, refund

to the Administrator) an amount equal to the amount of such payment or the portion thereof not so eligible or justified. Unless the Administrator shall otherwise agree, no further deposit by the Administrator into the Special Account shall be made until the Recipient has provided such evidence or made such deposit or refund, as the case may be.

(b) If the Administrator shall have determined at any time that any amount outstanding in the Special Account will not be required to cover further payments for eligible expenditures, the Recipient shall, promptly upon notice from the Administrator, refund to the Administrator such outstanding amount.

(c) The Recipient may, upon notice to the Administrator, refund to the Administrator all or any portion of the funds on deposit in the Special Account.

(d) Refunds to the Administrator made pursuant to paragraphs 6 (a), (b) and (c) of this Schedule shall be credited to the Grant Account for subsequent withdrawal or for cancellation in accordance with the relevant provisions of this Agreement, including the General Conditions.

## **SCHEDULE 6**

### **Performance Indicators**

The performance indicators for the Project shall include the following, indicators being subject to modification by agreement between the Recipient and the Administrator:

1. Increase in the number of staff who can perform targeted financial management functions by ministries.
2. Improvement in timeliness and accuracy of payments to consultants, suppliers and contractors.
3. Improvement in quality and timeliness of financial reports by selected ministries.