



SHUBHAM CHAUDHURI
Country Director, Afghanistan
South Asia Region

30 July, 2017

His Excellency Eklil Ahmad Hakimi
Minister of Finance
Ministry of Finance
Kabul, Islamic Republic of Afghanistan

Re: Afghanistan: Advance Agreement for Preparation of Proposed
Modernizing Afghan State Owned Banks
Project Preparation Advance No.V0820-AF

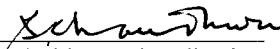
Excellency:

In response to the request for financial assistance made on behalf of Islamic Republic of Afghanistan ("Recipient"), I am pleased to inform you that the International Development Association ("World Bank") proposes to extend to the Recipient an advance out of the World Bank's Project Preparation Facility in an amount not to exceed four million eight hundred and fifty thousand Dollars (\$4,850,000) ("Advance") on the terms and conditions set forth or referred to in this letter agreement ("Agreement"), which includes the attached Annex, to assist in financing the activities described in the Annex ("Activities"). The objective of the Activities is to facilitate the preparation of a proposed project designed to contribute to the modernization, transparency and efficiency of the Recipient's state-owned banks ("Project"), for the carrying out of which the Recipient has requested the World Bank's financial assistance.

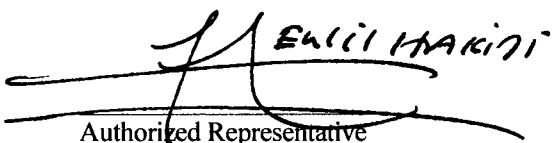
The Recipient represents, by confirming its agreement below, that: (a) it understands that the provision of the Advance does not constitute or imply any commitment on the part of IBRD or IDA to assist in financing the Project; and (b) it is authorized to enter into this Agreement and to carry out the Activities, repay the Advance and perform its other obligations under this Agreement, all in accordance with the provisions of this Agreement.

Please confirm the Recipient's agreement to the foregoing by having an authorized official of the Recipient sign and date the enclosed copy of this Agreement, and returning it to the World Bank. Upon receipt by the World Bank of this countersigned copy, this Agreement shall become effective as of the date of the countersignature.

Very truly yours,
INTERNATIONAL DEVELOPMENT ASSOCIATION

By 
/Shubham Chaudhuri
Country Director for Afghanistan
South Asia Region

AGREED:
ISLAMIC REPUBLIC OF AFGHANISTAN

By: 
Authorized Representative
Name: _____
Title: Minister
Date: 16 Aug 2017

Enclosures:

- (1) "Standard Conditions for Advances Made by the World Bank under its Project Preparation Facility", dated July 31, 2010; and
- (2) Disbursement Letter for the Advance of the same date as this Agreement, together with the "Disbursement Guidelines for Investment Project Financing", dated February 2017.

Article I
Standard Conditions; Definitions

1.01. **Standard Conditions.** The Standard Conditions for Advances Made by the World Bank under its Project Preparation Facility dated July 31, 2010 (“Standard Conditions”), constitute an integral part of this Agreement.

1.02. **Definitions.** 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 as follows:

- (a) “Incremental Operating Costs” means the reasonable costs for implementation and management of the Activities on the account of, *inter alia*, operations and maintenance of equipment and vehicles, office rent, costs of consumables, fuel, office utilities and supplies, bank charges, advertising expenses, salaries and salary supplements of local contractual and temporary staff (other than consultants procured under the Activities) and travel and per diem for staff, but excluding salaries, allowances, bonuses or honoraria of members of the Recipient’s civil service.
- (b) “MOF” means the Recipient’s Ministry of Finance, or any successor thereto.
- (c) “Training” means the reasonable costs incurred by the Recipient for training under the Activities and directly attributable to seminars and workshops, along with travel and subsistence allowances for training participants, course fees, services of trainers, rental of training facilities, preparation, acquisition, distribution and reproduction of training materials, and other activities directly related to course preparation and implementation.
- (d) “World Bank Safeguard Policies” means the World Bank’s operational policies and procedures set forth in the World Bank’s Operational Manual and identified as OP/BPs 4.01, 4.04, 4.09, 4.10, 4.11, 4.12, 4.36, 4.37, 7.50 and 7.60 as said manual is published under www.WorldBank.org/opmanual.

Article II
Execution of the Activities

2.01. **Description of the Activities.** The Activities for which the Advance is provided consist of the following parts:

- (a) **Part A.** Provision of technical assistance for preparation of a long-term strategy for state-owned banks and to propose actions to strengthen its effective implementation; due diligence of the corporate governance and risk management practices of the three selected state-owned banks; and a detailed diagnostic study of the information technology infrastructure of the three selected state-owned banks and a gap assessment.
- (b) **Part B.** Provision of institutional support of short-term technical specialists to establish the institutional structure required for the implementation of key preparatory activities.
- (c) **Part C.** Provision of technical and operational assistance to MOF to carry out the day-to-day execution of the Activities, including, *inter alia*: planning, execution, financial

management, procurement, environmental and social safeguards management, and monitoring and evaluation of the Activities, and training.

2.02. **Execution of the Activities Generally.** The Recipient declares its commitment to the objectives of the Activities. To this end, the Recipient shall carry out the Activities in accordance with the provisions of: (a) Article II of the Standard Conditions; (b) this Article II; and (c) 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.

2.03. **Institutional and Other Arrangements.** (a) In the carrying out of the Activities, the Recipient shall vest the overall responsibility for the implementation in MOF, and, to that end, shall not later than forty-five (45) days from the date of this Agreement, establish and maintain throughout the period of implementation of the Activities, a Project Coordination Unit within MOF with functions, staffing, and resources satisfactory to the World Bank, for the purposes of overseeing the day-to-day coordination, monitoring, implementation and administration of the Activities, including the financial management, procurement, and environmental and social safeguards management.

(b) without limitation upon the provision of Section 2.02 above and in order to ensure proper implementation of the Activities in an environmentally and socially responsible manner, ensure that the terms of reference for any consultancies related to any studies, technical assistance and capacity building activities under this Agreement shall be satisfactory to the World Bank following its review thereof, and, to that end, such terms of reference shall duly incorporate the requirements of the World Bank’s Safeguard Policies, then in force, as applied to any consultations, information gathering and advice conveyed through such studies, technical assistance and capacity building activities.

2.04. **Monitoring, Reporting and Evaluation of the Activities.** The Recipient shall monitor and evaluate the progress of the Activities in accordance with the provisions of Section 2.08 of the Standard Conditions.

2.05. **Financial Management.** (a) The Recipient shall ensure that a financial management system is maintained in accordance with the provisions of Section 2.09 of the Standard Conditions.

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

(c) The Recipient shall have its Financial Statements audited in accordance with the provisions of Sections 2.09(b) of the Standard Conditions. Each such audit of the Financial Statements shall cover the period of one fiscal year of the Recipient, or any other period as agreed in writing with the World Bank, commencing with the fiscal year in which the first withdrawal under the Advance was made. The audited Financial Statements for such period shall be furnished to the World Bank not later than six (6) months after the end of such period.

2.06. **Procurement**

All goods, non-consulting services, and consulting services required for the Activities and to be financed out of the proceeds of the Advance shall be procured in accordance with the requirements set forth or referred to in the “World Bank Procurement Regulations for

Borrowers under Investment Project Financing” dated July 1, 2016 (“Procurement Regulations”) and the provisions of the Recipient’s procurement plan for the Activities dated June 14, 2017 (“Procurement Plan”) provided for under Section IV of the Procurement Regulations, as the same may be updated from time to time in agreement with the World Bank.

**Article III
Withdrawal of the Advance**

3.01. **Eligible Expenditures.** The Recipient may withdraw the proceeds of the Advance 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 following table. The table specifies each category of Eligible Expenditures that may be financed out of the proceeds of the Advance (“Category”), the amount of the Advance allocated to each Category, and the percentage of expenditures to be financed for Eligible Expenditures in each Category:

Category	Amount of the Advance Allocated (expressed in Dollars)	Percentage of Expenditures to be Financed (inclusive of Taxes)
(1) Goods, non-consulting services and consultants’ services, Training and Incremental Operating Costs under the Activities	4,850,000	100%
TOTAL AMOUNT	4,850,000	

3.02. **Withdrawal Conditions.** Notwithstanding the provisions of Section 3.01 of this Agreement, no withdrawal shall be made for payments made prior to the date of countersignature of this Agreement by the Recipient.

3.03. **Refinancing Date.** The Refinancing Date is June 20, 2018.

**Article IV
Terms of the Advance**

4.01. **Refinancing under the Refinancing Agreement:** If, on or before the Refinancing Date, a Refinancing Agreement has been executed by all of its parties, then the full amount of the Withdrawn Advance Balance shall be paid to the World Bank as soon as the Refinancing Agreement becomes effective, by means of a withdrawal by the World Bank of such amount of the Refinancing Proceeds, in accordance with the provisions of the Refinancing Agreement.

4.02. **No Repayment in the absence of a Refinancing Agreement:** Notwithstanding any provision to the contrary in the Standard Conditions, if, on or before the Refinancing Date, no Refinancing Agreement has been executed by all of its parties, or if, by such date or at any time thereafter, it has been so executed but terminates without becoming effective, then the Recipient shall not be obligated to repay the Withdrawn Advance Balance.

Article V
Recipient's Representative; Addresses

5.01. ***Recipient's Representative.*** The Recipient's Representative referred to in Section 9.02 of the Standard Conditions is its Minister of Finance.

5.02. ***Recipient's Address.*** The Recipient's Address referred to in Section 9.01 of the Standard Conditions is:

Ministry of Finance
Pashtunistan Watt
Kabul
Islamic Republic of Afghanistan

Facsimile:

93-20-210-3258

5.03. ***World Bank's Address.*** The World Bank's Address referred to in Section 9.01 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