

CONFORMED COPY

CREDIT NUMBER 3845-AF

Development Credit Agreement

(Emergency Irrigation Rehabilitation Project)

between

TRANSITIONAL ISLAMIC STATE OF AFGHANISTAN

and

INTERNATIONAL DEVELOPMENT ASSOCIATION

Dated January 20, 2004

CREDIT NUMBER 3845-AF

DEVELOPMENT CREDIT AGREEMENT

AGREEMENT, dated January 20, 2004, between TRANSITIONAL ISLAMIC STATE OF AFGHANISTAN (the Borrower) and INTERNATIONAL DEVELOPMENT ASSOCIATION (the Association).

WHEREAS (A) the Borrower, having satisfied itself as to the feasibility and priority of the Project described in Schedule 2 to this Agreement, has requested the Association to assist in the financing of the Project;

(B) the Borrower intends to obtain from the International Development Association, acting as the Administrator of grant funds (Grant Funds) contributed by various donors to the Afghanistan Reconstruction Trust Fund (ARTF) Grant Funds in various currencies equivalent to thirty-five million Dollars (\$35,000,000) or other international organizations and donors; and

WHEREAS (C) the Association has agreed, on the basis, *inter alia*, of the foregoing, to extend the Credit to the Borrower upon the terms and conditions set forth in this Agreement;

NOW THEREFORE the parties hereto hereby agree as follows:

ARTICLE I

General Conditions; Definitions

Section 1.01. The "General Conditions Applicable to Development Credit Agreements" of the Association, dated January 1, 1985 (as amended through October 6, 1999) (the General Conditions), constitute an integral part of this Agreement.

Section 1.02. Unless the context otherwise requires, the several terms defined in the General Conditions and in the Preamble to this Agreement have the respective meanings therein set forth and the following additional terms have the following meanings:

(a) "Environmental and Social Safeguards Framework" means the Environmental and Social Safeguards Framework furnished to the Association in 2002 which: (i) has been developed for emergency rehabilitation projects; and (ii) provides for certain environmental and social impact mitigation measures to be undertaken by the Borrower as part of the implementation of the Project, including guidelines and mitigation measures for the selection, design, contracting, construction, monitoring and

evaluation of Sub-Projects, as said Environmental and Social Safeguards Framework may be amended from time to time by agreement between the Borrower and the Association;

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

(c) “Large Irrigation Scheme” means an irrigation scheme covering an area of about 2,500 hectares with estimated rehabilitation cost of more than \$300,000 equivalent;

(d) “MAAH” means the Borrower’s Ministry of Agricultural and Animal Husbandry;

(e) “Medium Irrigation Scheme” means an irrigation scheme covering an area of about 750 hectares with estimated rehabilitation cost not exceeding \$300,000 equivalent;

(f) “Mid-Term Review” means the Mid-Term review to be carried out pursuant to paragraph 10 (b) of Part C of Schedule 4 to this Agreement;

(g) “MIWRE” means the Borrower’s Ministry of Irrigation, Water Resources and Environment;

(h) “Monitoring and Evaluation Unit” means the Monitoring Unit to be established in MIWRE pursuant to paragraph 5 of Part A of Schedule 4 to this Agreement;

(i) “PCU” means the Program Coordination Unit to be established pursuant to paragraph 3 (a) of Part A of Schedule 4 to this Agreement;

(j) “Project Implementation Manual” means the Project Implementation Manual referred to in paragraph 1 (a) of Part A of Schedule 4 to this Agreement;

(k) “Project Steering Committee” means the Project Steering Committee to be established pursuant to paragraph 6 of Part A of Schedule 4 to this Agreement;

(l) “Project Year” means the 12-month period beginning from the Effective Date and ending 12 months thereafter and each successive 12-month period following thereafter;

(m) “Regional Office” means a Regional Office of MIWRE to be established pursuant to paragraph 4 of Part A of Schedule 4 to this Agreement;

(n) "RCC" means the Regional Coordination Committee to be established pursuant to paragraph 7 of Part A of Schedule 4 to this Agreement;

(o) "Small Irrigation Scheme" means an irrigation scheme covering an area of about 100 hectares with estimated rehabilitation cost not exceeding \$50,000 equivalent;

(p) "Special Account" means the account referred to in Section 2.02 (b) of this Agreement; and

(q) "Sub-Project" means goods, works and services financed, or proposed to be financed under Part A of the Project which meet the criteria set forth in the Project Implementation Manual and the requirements of Schedule 4 to this Agreement.

ARTICLE II

The Credit

Section 2.01. The Association agrees to lend to the Borrower, on the terms and conditions set forth or referred to in the Development Credit Agreement, an amount in various currencies equivalent to twenty seven million nine hundred thousand Special Drawing Rights (SDR27,900,000).

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

(b) The Borrower 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 Association. 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 September 30, 2007 or such later date as the Association shall establish. The Association shall promptly notify the Borrower of such later date.

Section 2.04. (a) The Borrower shall pay to the Association a commitment charge on the principal amount of the Credit not withdrawn from time to time at a rate to be set by the Association as of June 30 of each year, but not to exceed the rate of one-half of one percent (1/2 of 1%) per annum.

(b) The commitment charge shall accrue: (i) from the date sixty days after the date of this Agreement (the accrual date) to the respective dates on which amounts shall be withdrawn by the Borrower from the Credit Account or canceled; and (ii) at the rate set as of the June 30 immediately preceding the accrual date and at such other rates as may be set from time to time thereafter pursuant to paragraph (a) above. The rate set as of June 30 in each year shall be applied from the next date in that year specified in Section 2.06 of this Agreement.

(c) The commitment charge shall be paid: (i) at such places as the Association shall reasonably request; (ii) without restrictions of any kind imposed by, or in the territory of, the Borrower; and (iii) in the currency specified in this Agreement for the purposes of Section 4.02 of the General Conditions or in such other eligible currency or currencies as may from time to time be designated or selected pursuant to the provisions of that Section.

Section 2.05. The Borrower shall pay to the Association a service charge at the rate of three-fourths of one percent ($3/4$ of 1%) per annum on the principal amount of the Credit withdrawn and outstanding from time to time.

Section 2.06. Commitment charges and service charges shall be payable semiannually on June 15 and December 15 in each year.

Section 2.07. (a) Subject to paragraphs (b), (c) and (d) below, the Borrower shall repay the principal amount of the Credit in semiannual installments payable on each June 15 and December 15 commencing June 15, 2014 and ending December 15, 2043. Each installment to and including the installment payable on December 15, 2023 shall be one percent (1%) of such principal amount, and each installment thereafter shall be two percent (2%) of such principal amount.

(b) Whenever: (i) the Borrower's per capita gross national product (GNP), as determined by the Association, shall have exceeded for three consecutive years the level established annually by the Association for determining eligibility to access the Association's resources; and (ii) the Bank shall consider the Borrower creditworthy for Bank lending, the Association may, subsequent to the review and approval thereof by the Executive Directors of the Association and after due consideration by them of the development of the Borrower's economy, modify the repayment of installments under paragraph (a) above by:

- (A) requiring the Borrower to repay twice the amount of each such installment not yet due until the principal amount of the Credit shall have been repaid; and
- (B) requiring the Borrower to commence repayment of the principal amount of the Credit as of the first semiannual payment date referred to in paragraph (a) above falling six months or more

after the date on which the Association notifies the Borrower that the events set out in this paragraph (b) have occurred, provided, however, that there shall be a grace period of a minimum of five years on such repayment of principal.

(c) If so requested by the Borrower, the Association may revise the modification referred to in paragraph (b) above to include, in lieu of some or all of the increase in the amounts of such installments, the payment of interest at an annual rate agreed with the Association on the principal amount of the Credit withdrawn and outstanding from time to time, provided that, in the judgment of the Association, such revision shall not change the grant element obtained under the above-mentioned repayment modification.

(d) If, at any time after a modification of terms pursuant to paragraph (b) above, the Association determines that the Borrower's economic condition has deteriorated significantly, the Association may, if so requested by the Borrower, further modify the terms of repayment to conform to the schedule of installments as provided in paragraph (a) above.

Section 2.08. The currency of the United States of America is hereby specified for the purposes of Section 4.02 of the General Conditions.

ARTICLE III

Execution of the Project

Section 3.01. (a) The Borrower 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 MIWRE, with due diligence and efficiency and in conformity with the Project Implementation Manual and the Environmental and Social Safeguards Framework and appropriate administrative, financial, engineering, environmental and irrigation 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 Borrower and the Association shall otherwise agree, the Borrower shall carry out the Project in accordance with the Implementation Program set forth in Schedule 4 to this Agreement.

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

Section 3.03. For the purposes of Section 9.06 of the General Conditions and without limitation thereto, the Borrower shall:

(a) prepare, on the basis of guidelines acceptable to the Association, and furnish to the Association not later than six (6) months after the Closing Date or such later date as may be agreed for this purpose between the Borrower and the Association, a plan for the future operation of the Project; and

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

ARTICLE IV

Financial Covenants

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

(b) The Borrower shall:

(i) have the financial statements referred to in paragraph (a) of this Section for each fiscal year (or other period agreed to by the Association), audited, in accordance with consistently applied auditing standards acceptable to the Association, by independent auditors acceptable to the Association;

(ii) furnish to the Association as soon as available, but in any case not later than six months after the end of each such year (or such other period agreed to by the Association), (A) certified copies of the financial statements referred to in paragraph (a) of this Section for such year (or other period agreed to by the Association), as so audited, and (B) an opinion on such statements by said auditors, in scope and detail satisfactory to the Association; and

(iii) furnish to the Association such other information concerning such records and accounts, and the audit of such financial statements, and concerning said auditors, as the Association may from time to time reasonably request.

(c) For all expenditures with respect to which withdrawals from the Credit Account were made on the basis of statements of expenditure, the Borrower shall:

- (i) retain, until at least one year after the Association has received the audit report for, or covering, the fiscal year in which the last withdrawal from the Credit Account was made, all records (contracts, orders, invoices, bills, receipts and other documents) evidencing such expenditures;
- (ii) enable the Association's representatives to examine such records; and
- (iii) ensure that such statements of expenditure are included in the audit for each fiscal year (or other period agreed to by the Association), referred to in paragraph (b) of this Section.

Section 4.02. (a) Without limitation upon the Borrower's progress reporting obligations set out in Part C of Schedule 4 to this Agreement, the Borrower shall prepare and furnish to the Association a financial monitoring report, in form and substance satisfactory to the Association, 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 Credit, and explains variances between the actual and planned uses of such funds;
- (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 Management Report shall be furnished to the Association not later than forty-five 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 Management Report shall be furnished to the Association not later than forty-five days after each subsequent calendar quarter, and shall cover such calendar quarter.

ARTICLE V

Termination

Section 5.01. The date one hundred and twenty (120) days after the date of this Agreement is hereby specified for the purposes of Section 12.04 of the General Conditions.

ARTICLE VI

Representative of the Borrower; Addresses

Section 6.01. The Minister of Finance of the Borrower is designated as representative of the Borrower 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 Borrower:

Ministry of Finance
Kabul
Transitional Islamic State of Afghanistan

For the Association:

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

Cable address:	Telex:	Facsimile:
INDEVAS Washington, D.C.	248423 (MCI) or 64145 (MCI)	(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 the Transitional Islamic State of Afghanistan, Kabul, as of the day and year first above written.

TRANSITIONAL ISLAMIC STATE OF AFGHANISTAN

By /s/ Abdul Salam Rahimy

Authorized Representative

INTERNATIONAL DEVELOPMENT ASSOCIATION

By /s/ William Byrd

Authorized Representative
South Asia Region

SCHEDULE 1

Withdrawal of the Proceeds of the Credit

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

<u>Category</u>	<u>Amount of the Credit Allocated (Expressed in SDR Equivalent)</u>	<u>% of Expenditures to be Financed</u>
(1) Works:		100%
(a) Part A.1 of the Project	2,100,000	
(b) Part A.2 of the Project	700,000	
(c) Part A.3 of the Project	7,000,000	
(d) Part C of the Project	700,000	
(2) Goods:		100%
(a) Hydro-meteorological Equipment	4,900,000	
(b) Survey/Office Equipment and Vehicles	1,400,000	
(3) Consultants services and training including auditing services for Parts A, B and D of the Project	7,300,000	100%
(4) Incremental Operating Costs	350,000	100%
(5) Unallocated	3,450,000	
TOTAL	<u>27,900,000</u> =====	

2. For the purposes of this Schedule, the term “Incremental Operating Costs” means the incremental expenses incurred on account of Project implementation and management, including the operation and maintenance of vehicles, office supplies, communication charges, insurance costs, temporary office structures, office administration costs, Special Account banking charges, utility charges, domestic travel and per diem allowances, salaries of incremental Project staff temporarily recruited for Project activities but excluding salaries of the officials of the Borrower’s civil service.

3. Notwithstanding the provisions of paragraph 1 above, no withdrawals shall be made in respect of:

(a) payments made for expenditures prior to the date of this Agreement, except that withdrawals, in an aggregate amount not exceeding the equivalent of SDR5,600,000, may be made in respect of Categories (1) (a), (1) (b), (1) (c), (1) (d), (2) (a), (2) (b), (3) and (4) on account of payments made for expenditures before that date but after September 30, 2003; and

(b) a Sub-Project under Category (1) unless the Sub-Project has met the eligibility criteria, and is in compliance with the procedures and other provisions, set forth or referred to in the Project Implementation Manual, the Environmental and Social Safeguards Framework and the provisions of Part B of Schedule 4 to this Agreement.

4. The Association may require withdrawals from the Credit Account to be made on the basis of statements of expenditure for expenditures under contracts for: (a) goods costing less than \$100,000 equivalent per contract; (b) works costing less than \$300,000 equivalent per contract; and (c) for services of: (i) individual consultants costing less than \$50,000 equivalent per contract; (ii) consulting firms costing less than \$100,000 equivalent per contract; and (iii) training, audits and Incremental Operating Costs, all under such terms and conditions as the Association shall specify by notice to the Borrower.

SCHEDULE 2

Description of the Project

The objective of the Project is to assist the Borrower in carrying out its agricultural rehabilitation program involving: the provision to farmers and their families of improved, reliable and equitably distributed irrigation water. This is expected to increase agricultural productivity and farm income; improve food security and livelihoods and reduce the vulnerability of farmers to droughts. This will assist in reducing rural poverty in rural areas; accelerating the transition of the existing agricultural system; and laying the foundation for a dynamic rural economy. The Program will be carried out through (A) the rehabilitation and improvement of the existing dilapidated irrigation infrastructure, (B) the restoration and modernization of the hydro-meteorological network, and (C) the development of the institutional capacity of public water sector institutions and the strengthening of the capacity of existing community water organizations to operate and maintain their irrigation systems in a sustainable manner.

The Project consists of the following Parts, subject to such modifications thereof as the Borrower and the Association may agree upon from time to time to achieve such objectives:

Part A: Rehabilitation of Irrigation Systems

1. Rehabilitation of about 1,100 Small Irrigation Schemes in all districts of the Borrower's territory where demand exists.
2. Rehabilitation of about 160 Medium Irrigation Schemes, with at least two such schemes being rehabilitated per province of the Borrower's territory.
3. Rehabilitation of about 20 Large Irrigation Schemes, with at least three such schemes being rehabilitated in each basin or region of the Borrower's territory.
4. Provision of technical assistance and support for the development of water users' associations, community organizations and any other community groups eligible under the Project.

Part B: Rehabilitation of Hydro-meteorological Network

1. Rehabilitation of the hydro-meteorological network in the Borrower's territory, including the installation of new equipment and the rehabilitation of the existing facilities for hydrologic measurement stations, meteorological stations, as well as snow measurement stations.

2. Provision of technical assistance and training to build capacity in data acquisition from the rehabilitated hydro-meteorological network, data communication, data storage and analysis for use in various applications in water resources management.

Part C: Preparation of Feasibility Studies

1. The provision of technical assistance to carry out strategic feasibility and/or pre-feasibility studies consisting of: (i) studies to complete unfinished irrigation structures and schemes; (ii) studies to update existing feasibility studies; and (iii) feasibility studies for identified potential dam sites of multi-purpose character.

2. The carrying out by a Monitoring and Evaluation Unit in MIWRE of Project monitoring and evaluation work (including the monitoring of physical, economic, environmental and social Project impacts) with the assistance of an international consulting firm.

Part D: Institutional Development

1. Institutional strengthening

(a) The carrying out of a human resource development program for the MIWRE staff requiring the provision of: (i) intensive courses for the professional in a variety of engineering subjects; (ii) practical training in hydro-meteorological activities; (iii) academic training in subjects such as water resources engineering, and irrigation development and management; and (iv) the provision of several short courses in subjects such as civil engineering basics (e.g., material, mechanics, hydraulics), agricultural engineering (e.g. irrigation, drainage, soils, erosion) and water resources engineering (e.g., water balance, hydrometrics, instruments, data transfer and modeling).

(b) Office rehabilitation and refurbishing requiring: (i) the provision of office space in Kabul, Mazar-e-Sharif, Herat, Kandahar, Kunduz, Jalalabad, Bamiyan and Paktia, for professional staff of MIWRE assigned to each Regional Office, and other staff of MIWRE, including sediment laboratories, meeting and store rooms and other facilities; and (ii) the rehabilitation and refurbishing in the said cities and towns of a considerable number of provincial MIWRE sub-offices.

(c) The acquisition of office and communication equipment, including computers and accessories, copy machines, mobile telephones, internet facilities and office furniture, power supply (diesel generators) for the central and Regional Offices of MIWRE as well as equipment for reconnaissance, topographic surveys and engineering designs.

2. Project Management

The provision of technical assistance to the PCU to assist it in the implementation and management of the Project.

* * *

The Project is expected to be completed by March 31, 2007.

SCHEDULE 3

Procurement

Section I. Procurement of Goods and Works

Part A: General

Goods and works shall be procured in accordance with the provisions of Section I of the "Guidelines for Procurement under IBRD Loans and IDA Credits" published by the Bank in January 1995 and revised in January and August 1996, September 1997 and January 1999 (the Guidelines) and the following provisions of Section I of this Schedule.

Part B: International Competitive Bidding

1. Except as otherwise provided in Part C of this Section, goods and works shall be procured under contracts awarded in accordance with the provisions of Section II of the Guidelines and paragraph 5 of Appendix 1 thereto.

2. The following provision shall apply to goods and works to be procured under contracts awarded in accordance with the provisions of paragraph 1 of this Part B.

(a) Grouping of contracts

To the extent practicable, contracts for goods shall be grouped in bid packages estimated to cost \$200,000 equivalent or more each.

Part C: Other Procurement Procedures

1. National Competitive Bidding

Works estimated to cost less than \$500,000 equivalent per contract may be procured under contracts awarded in accordance with the provisions of paragraphs 3.3 and 3.4 of the Guidelines and the procedures set out in the Annex to this Schedule.

2. International or National Shopping

Goods estimated to cost less than \$200,000 equivalent per contract may be procured under contracts awarded on the basis of international or national shopping procedures in accordance with the provisions of paragraphs 3.5 and 3.6 of the Guidelines.

3. Direct Contracting

Goods which must be purchased from the original supplier to be compatible with existing equipment or are required to carry out urgent repairs, replacement or

recommissioning work and are estimated to cost \$10,000 equivalent or less per contract, up to an aggregate amount not to exceed \$50,000 equivalent, may, with the Association's prior agreement, be procured in accordance with the provisions of paragraph 3.7 of the Guidelines.

4. Force Account

In case of emergencies or in order to complete unfinished works, works which meet the requirements of paragraph 3.8 of the Guidelines, and are estimated to cost \$500,000 equivalent or less in the aggregate, may, with the Association's prior agreement, be carried out by force account in accordance with the provisions of said paragraph of the Guidelines.

5. Procurement of Small Works

Works estimated to cost less than \$100,000 equivalent per contract may be carried out by: (i) direct contracting to Non-governmental Organizations (NGOs) and community organizations; or (ii) obtaining quotations from at least three qualified domestic contractors. The invitation for quotations shall include a detailed description of the works, including basic specifications, the required completion date, a basic form of agreement acceptable to the Association, and relevant drawings, where applicable. The award shall be made to the contractor who offers the lowest price quotation for the required work, and who has the experience and resources to complete the contract successfully.

Part D: Review by the Association of Procurement Decisions

1. Procurement Planning

Prior to the issuance of any invitations to prequalify for bidding or to bid for contracts, the proposed procurement plan for the Project shall be furnished to the Association for its review and approval, in accordance with the provisions of paragraph 1 of Appendix 1 to the Guidelines. Procurement of all goods and works shall be undertaken in accordance with such procurement plan as shall have been approved by the Association, and with the provisions of said paragraph 1.

2. Prior Review

(a) The procedures set forth in paragraphs 2 and 3 of Appendix 1 to the Guidelines shall apply to the following:

- (i) all contracts for works estimated to cost the equivalent of \$300,000 or more; and

- (ii) all contracts for goods estimated to cost the equivalent of \$100,000 or more.

(b) With respect to each contract for goods estimated to cost the equivalent of \$100,000 or more and to be procured through shopping, the following procedures shall apply:

- (i) prior to the selection of any supplier or execution of any contract under shopping procedures, the Borrower shall provide to the Association a report on the comparison and evaluation of quotations received; and
- (ii) the procedures set forth in paragraphs 2(f), 2(g) and 3 of Appendix 1 to the Guidelines shall apply.

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 Guidelines shall apply.

Section II. 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), paragraph 1 of Appendix 1 thereto, Appendix 2 thereto and the following provisions of Section II of this Schedule.

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, and the provisions of paragraphs 3.13 through 3.18 thereof applicable to quality- and cost-based selection of consultants.

Part C: Other Procedures for the Selection of Consultants

1. Quality-based Selection

Services for the carrying out of: (i) Project monitoring and evaluation; and (ii) feasibility studies may be procured under contracts awarded in accordance with the provisions of paragraphs 3.1 through 3.4 of the Consultant Guidelines.

2. Selection Based on Consultants' Qualifications

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

3. Single Source Selection

Services to support MIWRE in Project management, scheme preparation, engineering design, construction supervision, procurement, financial management and institutional development, may, with the Association's prior agreement, be procured in accordance with the provisions of paragraphs 3.8 through 3.11 of the Consultant Guidelines.

4. Individual Consultants

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

Part D: Review by the Association 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 Association 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 Association.

2. Prior Review

The procedures set forth in paragraphs 2, 3 and 5 of Appendix 1 to the Consultant Guidelines shall apply to the following:

(i) each contract for the employment of consulting firms estimated to cost the equivalent of \$100,000 or more;

(ii) each contract for the employment of individual consultants estimated to cost the equivalent of \$50,000 or more. The report on the comparison of the qualifications and experience of candidates, the qualifications, experience, terms of reference and terms of employment of the consultants shall be furnished to the

Association for its prior review and approval. The contract shall be awarded only after the said approval shall have been given. The provisions of paragraph 3 of Appendix 1 to the Consultant Guidelines shall also apply to such contracts; and

(iii) each contract for services to be procured under single source selection procedures.

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.

**ANNEX
to
SCHEDULE 3**

Procedures for National Competitive Bidding

In order to ensure economy, efficiency, transparency and broad consistency with the provisions of Section I of the Guidelines, the following criteria shall be followed in procurement under National Competitive Bidding procedures:

- (i) Standard bidding documents approved by the Association shall be used.
- (ii) Invitations to bid shall be advertised in at least one widely circulated national daily newspaper and bidding documents shall be made available to prospective bidders, at least 28 days prior to the deadline for the submission of bids.
- (iii) Bids shall not be invited on the basis of percentage premium or discount over the estimated cost.
- (iv) Bidding documents shall be made available, by mail or in person, to all who are willing to pay the required fee.
- (v) Foreign bidders shall not be precluded from bidding and no preference of any kind shall be given to national bidders.
- (vi) Qualification criteria (in case pre-qualifications were not carried out) shall be stated on the bidding documents, and if a registration process is required, a foreign firm determined to be the lowest evaluated bidder shall be given reasonable opportunity of registering, without any hindrance.
- (vii) Bidders may deliver bids, at their option, either in person or by courier service or by mail.
- (viii) All bidders shall provide bid security as indicated in the bidding documents. A bidder's bid security shall apply only to a specific bid.
- (ix) Bids shall be opened in public in one place preferably immediately, but no later than one hour, after the deadline for submission of bids.
- (x) Evaluation of bids shall be made in strict adherence to the criteria disclosed in the bidding documents, in a format, and within the specified period, agreed with the Association.

- (xi) Bids shall not be rejected merely on the basis of a comparison with an official estimate without the prior concurrence of the Association.
- (xii) Split award or lottery in award of contracts shall not be carried out. When two or more bidders quote the same price, an investigation shall be made to determine any evidence of collusion, following which: (A) if collusion is determined, the parties involved shall be disqualified and the award shall then be made to the next lowest evaluated and qualified bidder; and (B) if no evidence of collusion can be confirmed, then fresh bids shall be invited after receiving the concurrence of the Association;
- (xiii) Contracts shall be awarded to the lowest evaluated bidders within the initial period of bid validity so that extensions are not necessary. Extension of bid validity may be sought only under exceptional circumstances.
- (xiv) Extension of bid validity shall not be allowed without the prior concurrence of the Association (A) for the first request for extension if it is longer than eight weeks; and (B) for all subsequent requests for extensions irrespective of the period.
- (xv) Negotiations shall not be allowed with the lowest evaluated or any other bidders.
- (xvi) Re-bidding shall not be carried out without the Association's prior concurrence; and
- (xvii) All contractors or suppliers shall provide performance security as indicated in the contract documents. A contractor's or a supplier's performance security shall apply to a specific contract under which it was furnished.

SCHEDULE 4

Implementation Program

A. Overall Project Management

1. (a) The Borrower shall prepare a Project Implementation Manual in form and substance satisfactory to the Association setting out details of all procedures, guidelines, timetables and criteria required for the Project, including: (i) the financial, administrative and operational arrangements relating to the carrying out of the Project; and (ii) criteria for the selection of irrigation schemes for rehabilitation under the Project.

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

(c) The Borrower shall: (i) carry out the Environmental and Social Safeguards Framework in accordance with the objectives, policies, procedures, time schedules and other provisions set forth in the said Framework; and (ii) refrain from taking any action which is likely to prevent or interfere with the carrying out of the Environmental and Social Safeguards Framework.

2. The Borrower shall assign responsibility for the overall management of the Project to MIWRE and to that end shall maintain MIWRE in a form and with functions, staffing and resources satisfactory to the Association.

3. (a) The Borrower shall no later than March 1, 2004 establish and thereafter maintain in MWIRE a PCU in a form and with functions, staffing and resources satisfactory to the Association. PCU shall be responsible for: (i) the coordination of all donor activities relating to the Project, including individual Project implementation activities; and (ii) the overall Project management, including technical/engineering design, construction supervision, financial management, procurement, disbursement, monitoring and evaluation and institutional development.

(b) PCU shall consist of a Director assisted by a small group of technical and administrative staff in Kabul and organized into the following four groups:

- (i) Technical Group of about five to be assigned responsibility for PCU's survey, design, quality control, hydrology, social and environment functions;

- (ii) Procurement Group consisting of a procurement specialist and two procurement analysts to be assigned responsibility for the procurement of works, goods and services under the Project;
- (ii) Financial Management Group consisting a financial management specialist, who shall be employed no later than March 1, 2004 under adequate qualification and experience, satisfactory to the Association; and two book keepers/cashiers to be assigned responsibility for the making of payments, financial management, and the maintenance of the Project accounts and Project audits; and
- (iv) Institutional Development Group of three to be assigned responsibility for institutional strengthening, support to the regional offices, the strengthening of (A) the MIWRE staff, and (B) community water users' organizations.

(c) PCU shall also be assisted by: (i) a group of international consultants; and (ii) consultants domiciled in the Borrower's territory, all of whom shall be employed on terms and conditions satisfactory to the Association including terms and conditions set forth in the provisions of Section II of Schedule 3 to this Agreement. The assistance provided by the group of international consultants shall include assistance in the areas of irrigation engineering, hydrology, procurement, financial management and institutional development.

(d) The Borrower shall no later than March 1, 2004 employ and assign to PCU a Safeguards Focal Officer, satisfactory to the Association, to oversee the carrying out of the Environmental and Social Safeguards Framework.

4. PCU shall establish and thereafter maintain, in a form and with functions, staffing and resources satisfactory to the Association, a regional office in each of the following towns, namely Kandahar, Herat, Mazar-e-Sharif, Jalalabad, no later than June 30, 2004; and Bamiyan, Paktia and Kunduz no later than December 31, 2004. Each such regional office shall serve as the Regional Office of MIWRE.

5. The Borrower shall no later than March 1, 2004 establish in MIWRE and thereafter maintain a Monitoring and Evaluation Unit in a form and with functions, staffing and resources satisfactory to the Association.

6. The Borrower shall no later than March 1, 2004 establish and thereafter maintain in a form and with functions, staffing and resources satisfactory to the Association, a PSC to be responsible for: (i) the supervision of the Project; (ii) the provision of overall guidance for water resources management under the Project; (iii) the coordination of Project activities at the highest level, including the inter-ministerial level; (iv) the review of monitoring and evaluation reports prepared under the Project; and (v) the

recommendation of necessary remedial measures to resolve problems indicated in the said reports. PSC shall consist of the Minister of Irrigation, Water Resources and Environment (who shall serve as the Chairman of PSC) and the PCU Director (who shall serve as the Secretary of PSC) and other members who shall be representatives of the Ministry of Finance (MOF), the Ministry of Agriculture and Animal Husbandry (MAAH) and MIWRE and the heads of the Regional MIWRE Departments.

7. The Borrower shall no later than June 30, 2004 establish and thereafter maintain in a form and with functions, staffing and resources satisfactory to the Association a RCC for each of the Borrower's river basin regions. Each RCC shall in its respective area of authority be responsible for: (i) the supervision and coordination of Project implementation; (ii) the review and monitoring of Project progress; and (iii) the recommendation of remedial actions to resolve any problems that may arise in the course of Project implementation. A RCC shall consist of (A) the Head of the Regional MIWRE Department who shall serve as Chairman of the RCC, (B) local representatives of MIWRE and MAAH, (C) representatives of local authorities at the provincial level, and (D) representatives of farmers.

B. Sub-Projects

8. (a) The Borrower shall ensure that, except as the Association shall otherwise agree, Sub-Projects shall be selected, promoted, identified, appraised, approved, carried out and monitored in accordance with the procedures and other provisions set forth or referred to in the Project Implementation Manual and the Environmental and Social Safeguards Framework.

C. Progress Reports and Mid-Term Review

9. The Borrower shall:

(a) maintain policies and procedures adequate to enable it to monitor and evaluate on an ongoing basis, in accordance with indicators set forth in Schedule 6 to this Agreement, the carrying out of the Project and the achievement of the objectives thereof;

(b) prepare, under terms of reference satisfactory to the Association, and furnish to the Association: (i) on a quarterly basis, commencing not later than three weeks 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 (ii) on or about August 31, 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 sub-paragraph (a) above and consolidating the results of the reports referred to under sub-paragraph (b) (i) of this paragraph, 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

(c) carry out the Mid-Term Review with the Association, by September 30, 2005, or such later date as the Association shall request, of the report referred to in sub-paragraph (b) (ii) above, 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 Association's views on the matter.

10. (a) PCU shall no later than January 31 of each Project Year furnish through MIWRE, PSC and the Association annual reports covering the implementation of the Project. Each such report shall include two sections, namely: (i) the Annual Progress Section covering the progress of each component of the Project achieved during the last preceding Project Year, key performance indicators, operation of Project facilities, and financial statements; and (ii) the Annual Work Plan Section setting out a plan for the implementation of the Project during the next following Project Year, updated disbursement profile, planned actions for mitigating negative effects during construction, and target indicators for the next following Project Year.

(b) PCU shall: (i) carry out a semi-annual performance review of the Project; and (ii) furnish to MIWRE, PSC and the Association a report of the said review no later than January 31 and July 31 each year.

SCHEDULE 5

Special Account

1. For the purposes of this Schedule:

(a) the term “eligible Categories” means Categories (1) (a), (1) (b), (1) (c), (1) (d), (2) (a), (2) (b), (3) and (4) 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 of goods, works and services required for the Project and to be financed out of the proceeds of the Credit 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 \$2,500,000 to be withdrawn from the Credit Account and deposited into the Special Account pursuant to paragraph 3 (a) of this Schedule, provided, however, that unless the Association shall otherwise agree, the Authorized Allocation shall be limited to an amount equivalent to \$500,000 until the aggregate amount of withdrawals from the Credit Account plus the total amount of all outstanding special commitments entered into by the Association pursuant to Section 5.02 of the General Conditions shall be equal to or exceed the equivalent of SDR3,500,000.

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 Association 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 Borrower shall furnish to the Association 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 Association shall, on behalf of the Borrower, withdraw from the Credit Account and deposit into the Special Account such amount or amounts as the Borrower shall have requested.

(b) (i) For replenishment of the Special Account, the Borrower shall furnish to the Association requests for deposits into the Special Account at such intervals as the Association shall specify.

(ii) Prior to or at the time of each such request, the Borrower shall furnish to the Association 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 Association shall, on behalf of the Borrower, withdraw from the Credit Account and deposit into the Special Account such amount as the Borrower 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. All such deposits shall be withdrawn by the Association from the Credit Account under the respective eligible Categories, and in the respective equivalent amounts, as shall have been justified by said documents and other evidence.

4. For each payment made by the Borrower out of the Special Account, the Borrower shall, at such time as the Association shall reasonably request, furnish to the Association 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 Association shall not be required to make further deposits into the Special Account:

(a) if, at any time, the Association shall have determined that all further withdrawals should be made by the Borrower directly from the Credit 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 Borrower shall have failed to furnish to the Association, 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 Association pursuant to said Section in respect of the audit of the records and accounts for the Special Account;

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

(d) once the total unwithdrawn amount of the Credit allocated to the eligible Categories, minus the total amount of all outstanding special commitments entered into by the Association 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 Credit Account of the remaining unwithdrawn amount of the Credit allocated to the eligible Categories shall follow such procedures as the Association shall specify by notice to the Borrower. Such further withdrawals shall be made only after and to the extent that the Association 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 Association 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 Association, the Borrower shall, promptly upon notice from the Association: (A) provide such additional evidence as the Association may request; or (B) deposit into the Special Account (or, if the Association shall so request, refund to the Association) an amount equal to the amount of such payment or the portion thereof not so eligible or justified. Unless the Association shall otherwise agree, no further deposit by the Association into the Special Account shall be made until the Borrower has provided such evidence or made such deposit or refund, as the case may be.

(b) If the Association 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 Borrower shall, promptly upon notice from the Association, refund to the Association such outstanding amount.

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

(d) Refunds to the Association made pursuant to paragraphs 6 (a), (b) and (c) of this Schedule shall be credited to the Credit 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, said indicators subject to modifications by agreement between the Borrower and the Association:

I. Input Indicators

A. Rehabilitation of Irrigated Schemes

1. Food and Agriculture Organization of the United Nations (FAO) contract signed.
2. Other consultants hired.
3. Equipment procured.
4. Number of surveys carried out.
5. Number of designs completed.

B. Rehabilitation of Hydro-meteorological Network

1. Consultants recruited.
2. Equipment procured.
3. Equipment installation completed.
4. Staff recruited.
5. Training carried out.

C. Feasibility Studies and Monitoring

1. Consultants hired.

D. Institutional Development

1. Construction contracts for rehabilitation of premises signed.
2. Contract for equipment procurement signed.

3. Consultants hired.
4. Number of courses identified.
5. Training needs assessment carried out.

II. Output Indicators

A. Rehabilitation of Irrigated Schemes

1. Amount of hectares/*jeribs* of irrigable land rehabilitated.
2. Number and type of beneficiaries.
3. Contribution to irrigation scheme rehabilitation by the beneficiaries.
4. Balanced geographical distribution of rehabilitated irrigation schemes.

B. Rehabilitation of Hydro-meteorological Network

1. Number of hydro-meteorological stations rehabilitated.
2. Number of rating curves at hydrological stations established.
3. Number of river sub-basins with water balance calculated using at least one year new stream flow data to adjust long-term series.

C. Feasibility Studies and Monitoring

1. Number of feasibility strategic studies prepared.
2. Amount of hectares/*jeribs* of irrigable land covered.
3. Reservoir volume (cubic meters) of water stored for irrigation purposes.
4. Percentage of “modern” existing and previously planned irrigation schemes studied.

D. Institutional Development

1. Number of MIWRE staff trained in various subjects.
2. Offices (square meters) equipped and used for Project implementation.

3. Satisfactorily and timely Project implementation.