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**CONFORMED COPY**

**GRANT NUMBER H498-AF**

**AMENDMENT  
GRANT NUMBER H398-AF  
GRANT NUMBER H284-AF  
CREDIT NUMBER 3845-AF**

# **Financing Agreement**

**(Third Additional Financing for the Emergency Irrigation Rehabilitation Project  
and Amendment to the Development Credit Agreement)**

**between**

**ISLAMIC REPUBLIC OF AFGHANISTAN**

**and**

**INTERNATIONAL DEVELOPMENT ASSOCIATION**

**Dated July 7, 2009**

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Public Disclosure Authorized

## **FINANCING AGREEMENT**

AGREEMENT dated July 7, 2009, entered into between ISLAMIC REPUBLIC OF AFGHANISTAN (the “Recipient”) and INTERNATIONAL DEVELOPMENT ASSOCIATION (the “Association”) for the purpose of providing additional financing for activities related to the Original Project (as defined in the Appendix to this Agreement).

This Agreement: (i) sets out the terms and conditions related to the Third Additional Financing for the Emergency Irrigation Rehabilitation Project; and (ii) amends specific provisions of the Development Credit Agreement (herein referred to as the Original Financing Agreement, as such term is defined in the Appendix to this Agreement).

The Recipient and the Association hereby agree as follows:

### **ARTICLE I — GENERAL CONDITIONS; DEFINITIONS**

- 1.01. The General Conditions (as defined in the Appendix to this Agreement) constitute an integral part of this Agreement.
- 1.02. Unless the context requires otherwise, the capitalized terms used in this Agreement have the meanings ascribed to them in the General Conditions, the Original Financing Agreement or in the Appendix to this Agreement.

### **ARTICLE II — FINANCING**

- 2.01. The Association agrees to extend to the Recipient, on the terms and conditions set forth or referred to in this Agreement, a grant in an amount equivalent to twenty two million seven hundred thousand Special Drawing Rights (SDR 22,700,000) (the “Grant” or the “Financing”) to assist in financing the project described in Schedule 1 to this Agreement (the “Project”).
- 2.02. The Recipient may withdraw the proceeds of the Grant in accordance with Section IV of Schedule 2 to this Agreement.
- 2.03. The Maximum Commitment Charge Rate payable by the Recipient on the Unwithdrawn Grant Balance shall be one-half of one percent (1/2 of 1%) per annum.
- 2.04. The Payment Dates are June 15 and December 15 in each year.
- 2.05. The Payment Currency is United States Dollars.

**ARTICLE III — PROJECT**

- 3.01. The Recipient declares its commitment to the objectives of the Project. To this end, the Recipient shall carry out the Project through MEW in accordance with the provisions of Article IV of the General Conditions.
- 3.02. Without limitation upon the provisions of Section 3.01 of this Agreement, and except as the Recipient and the Association shall otherwise agree, the Recipient shall ensure that the Project is carried out in accordance with the provisions of Schedule 2 to this Agreement.

**ARTICLE IV — EFFECTIVENESS; TERMINATION**

- 4.01. The Effectiveness Deadline is the date ninety (90) days after the date of this Agreement.
- 4.02. For purposes of Section 8.05(b) of the General Conditions, the date on which the obligations of the Recipient under this Agreement (other than those providing for payment obligations) shall terminate is twenty (20) years after the date of this Agreement.

**ARTICLE V — REPRESENTATIVE; ADDRESSES**

- 5.01. The Recipient's Representative is the Minister of Finance.
- 5.02. The Recipient's Address is:

Ministry of Finance  
Pashtunistan Watt  
Kabul  
Islamic Republic of Afghanistan

Facsimile:

93-20-210-3258

- 5.03. The Association's Address is:

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

Cable:

Telex:

Facsimile:

INDEVAS  
Washington, D.C.

248423 (MCI)

1-202-477-6391

AGREED at Kabul, Islamic Republic of Afghanistan, as of the day and year first above written.

ISLAMIC REPUBLIC OF AFGHANISTAN

By

/s/ Mohammed Omar Zakhilwal  
Authorized Representative

INTERNATIONAL DEVELOPMENT ASSOCIATION

By

/s/ Mariam J. Sherman  
Authorized Representative

## **SCHEDULE 1**

### **Project Description**

The objective of the Project is to assist the Recipient in restoring irrigated agricultural production in its rural areas, through improved and reliable water supply to rehabilitated traditional irrigation schemes.

The Project consists of the following parts:

#### Part A: Rehabilitation of Irrigation Systems

1. Rehabilitation of about 740 Medium or Lesser Irrigation Schemes in all districts of the Recipient's territory where demand exists.
2. Rehabilitation of about 22 Large Irrigation Schemes, including schemes for operation and maintenance of completed Large Schemes in various districts of the Recipient's territory where demand exists.
3. Provision of training and building the capacity of local communities for the operation and maintenance of rehabilitated schemes.

#### Part B: 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; (iii) feasibility studies for identified potential dam sites of multi-purpose character; and (iv) preparation of projects for future implementation, including preparation of detailed engineering designs.
2. The carrying out by a Monitoring and Evaluation Unit in MEW 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 or individual consultants.

#### Part C: Institutional Development

1. **Institutional strengthening**
  - (a) The carrying out of a human resource development program for the MEW staff requiring the provision of: (i) intensive courses for the professionals in a variety of engineering and other related subjects; (ii) practical training in hydro-meteorological activities; (iii) academic training in subjects such as water resources engineering, irrigation

development and management, and social and environmental assessments; (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); and (v) provision of academic and practical training in monitoring and evaluation.

- (b) Office rehabilitation and refurbishing, construction of new facilities, and completion of partly completed buildings including: (i) the provision of office space in Kabul, Mazar-e-Sharif, Herat, Kandahar, Kunduz, Jalalabad, Bamiyan and Paktia, for professional staff of MEW assigned to each Regional Office, and other staff of MEW, including sediment laboratories, meeting and store rooms and other facilities; (ii) the rehabilitation and refurbishing in the said cities and towns of a considerable number of provincial MEW sub-offices; (iii) the construction of guard rooms at various sites where hydro-meteorological stations are installed; (iv) completion of the WAPECA building at Kabul; (v) construction of new office buildings for MEW at Panjsher, Norestan, Zabul and Konarha; and (vi) construction of boundary walls of existing office buildings of MEW at Laghman, Khost, Daikundy, Kandahar, Paktia and Bamiyan.
- (c) The acquisition of vehicles, office and communication equipment, including computers and accessories, copy machines, mobile telephones, digital cameras and multimedia projectors, internet facilities and office furniture, power supply (diesel generators) for the central and Regional Offices of MEW as well as equipment for reconnaissance, topographic surveys, engineering designs, and GPS devices.

## 2. **Project Management**

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

### Part D: Rehabilitation of Hydro-meteorological Network

- 1. Rehabilitation of the hydro-meteorological network in the Recipient's territory, including the installation of new equipment, rehabilitation of the existing facilities for hydrologic measurement stations and installation of new facilities, including meteorological stations, as well as snow measurement stations, cableways, bridge booms, motor boats, rubber boats, current meters for flow measurement, echo sounders, and equipment for sediment testing laboratories.

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.

## **SCHEDULE 2**

### **Project Execution**

#### **Section I. Implementation Arrangements**

##### **A. Institutional Arrangements**

1. The implementation arrangements contained in Schedule 4 to the Original Financing Agreement constitute an integral part of this Agreement with the additional provision set out below in Section I.A(2) of this Schedule 2.
2. The Recipient shall ensure that: (a) all aspects of the Project including the rehabilitation of irrigation schemes under Part A of the Project, be carried out on already existing land or irrigation schemes; (b) any land that may be required for the Project be made available on a voluntary basis from the community or from available government land; and (c) the proceeds of the Grant shall not be used for the purchase of land except with the prior agreement of the Association and in accordance with the Abbreviated Resettlement Framework.

##### **B. Anti-Corruption**

The Recipient shall ensure that the Project is carried out in accordance with the provisions of the Anti-Corruption Guidelines.

#### **Section II. Project Monitoring, Reporting and Evaluation**

##### **A. Project Reports**

1. The Recipient shall monitor and evaluate the progress of the Project and prepare Project Reports in accordance with the provisions of Section 4.08 of the General Conditions and on the basis of the indicators agreed with the Association. Each Project Report shall cover the period of one calendar semester, and shall be furnished to the Association not later than one month after the end of the period covered by such report.
2. For purposes of Section 4.08(c) of the General Conditions, the report on the execution of the Project and related plan required pursuant to that Section shall be furnished to the Association not later than six (6) months after the Closing Date.

##### **B. Financial Management, Financial Reports and Audits**

1. The Recipient shall maintain or cause to be maintained a financial management system in accordance with the provisions of Section 4.09 of the General Conditions.



2. The Recipient shall prepare and furnish to the Association not later than forty-five (45) days after the end of each calendar quarter, interim unaudited financial reports for the Project covering the quarter, in form and substance satisfactory to the Association.
3. The Recipient shall have its Financial Statements audited in accordance with the provisions of Section 4.09(b) of the General Conditions. Each audit of the Financial Statements shall cover the period of one fiscal year of the Recipient. The audited Financial Statements for each such period shall be furnished to the Association not later than six (6) months after the end of such period.

### **Section III. Procurement**

#### **A. General**

1. **Goods and Works.** All goods and works required for the Project and to be financed out of the proceeds of the Grant shall be procured in accordance with the requirements set forth or referred to in Section I of the Procurement Guidelines, and with the provisions of this Section.
2. **Consultants' Services.** All consultants' services required for the Project and to be financed out of the proceeds of the Grant shall be procured in accordance with the requirements set forth or referred to in Sections I and IV of the Consultant Guidelines, and with the provisions of this Section.
3. **Definitions.** The capitalized terms used below in this Section to describe particular procurement methods or methods of review by the Association of particular contracts, refer to the corresponding method described in the Procurement Guidelines, or Consultant Guidelines, as the case may be.

#### **B. Particular Methods of Procurement of Goods and Works**

1. **International Competitive Bidding.** Except as otherwise provided in paragraph 2 below, goods and works shall be procured under contracts awarded on the basis of International Competitive Bidding.
2. **Other Methods of Procurement of Goods and Works.** The following table specifies the methods of procurement, other than International Competitive Bidding, which may be used for goods and works. The Procurement Plan shall specify the circumstances under which such methods may be used:

<b>Procurement Method</b>	
(a)	National Competitive Bidding*
(b)	Shopping
(c)	Direct Contracting
(d)	Community Participation**

**\*National Competitive Bidding** procedures shall be subject to the following additional procedures:

- (i) Standard bidding documents approved by the Association shall be used.
- (ii) Invitations to bid shall be advertised in at least one (1) widely circulated national daily newspaper and bidding documents shall be made available to prospective bidders, at least twenty-eight (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.
- (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 or a bid security declaration form as indicated in the bidding documents. A bidder's bid security or the declaration form 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 (2) 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 four (4) 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.
- (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.

**\*\*Community Participation** shall be carried out in accordance with paragraph 3.17 of the Procurement Guidelines.

**C. Particular Methods of Procurement of Consultants' Services**

1. **Quality- and Cost-based Selection.** Except as otherwise provided in paragraph 2 below, consultants' services shall be procured under contracts awarded on the basis of Quality- and Cost-based Selection.

2. **Other Methods of Procurement of Consultants' Services.** The following table specifies methods of procurement, other than Quality- and Cost-based Selection, which may be used for consultants' services. The Procurement Plan shall specify the circumstances under which such methods may be used.

<b>Procurement Method</b>	
(a)	Quality-Based Selection
(b)	Single-Source Selection
(c)	Least-Cost Selection
(d)	Selection Based on the Consultants' Qualifications
(e)	Selection under a Fixed Budget
(f)	Selection of Individual Consultants

**D. Review by the Association of Procurement Decisions**

Except as the Association shall otherwise determine by notice to the Recipient, the following contracts shall be subject to Prior Review by the Association: (a) all contracts for goods or works procured on the basis of International Competitive Bidding regardless of value; (b) each contract for goods estimated to cost the equivalent of \$200,000 or more; (c) each contract for works estimated to cost the equivalent of \$500,000 or more; (d) all contracts for goods or works procured on the basis of Direct Contracting regardless of value; (e) each contract for consultants' services provided by a firm estimated to cost the equivalent of \$100,000 or more; (f) each contract for consultants' services provided by an individual estimated to cost the equivalent of \$50,000 or more; and (g) all contracts for consultants' services by firms and individuals procured on the basis of Single-Source Selection regardless of value. All other contracts shall be subject to Post Review by the Association.

**Section IV. Withdrawal of the Proceeds of the Grant**

**A. General**

1. The Recipient may withdraw the proceeds of the Grant in accordance with the provisions of Article II of the General Conditions, this Section, and such additional instructions as the Association shall specify by notice to the Recipient (including the "World Bank Disbursement Guidelines for Projects" dated May 2006, as revised from time to time by the Association and as made

applicable to this Agreement pursuant to such instructions), to finance Eligible Expenditures as set forth in the table in paragraph 2 below.

2. The following table specifies the categories of Eligible Expenditures that may be financed out of the proceeds of the Grant (“Category”), the allocations of the amounts of the Grant to each Category, and the percentage of expenditures to be financed for Eligible Expenditures in each Category:

<b>Category</b>	<b>Amount of the Grant Allocated (expressed in SDR)</b>	<b>Percentage of Expenditures to be Financed (inclusive of Taxes)</b>
(1) Works  (a) Part A.1 of the Project (b) Part A.2 of the Project (c) Part C.1(b) of the Project (d) Part C of the Project prior to the Amendment of the Original Financing Agreement dated November 19, 2006	10,230,000 2,960,000 2,140,000 0	100%
(2) Goods  (a) Hydro-meteorological Equipment (b) Survey equipment, construction quality control equipment, office equipment and vehicles	1,980,000 680,000	100%
(3) Consultants services and training including auditing services for Parts A, B and C of the Project	2,080,000	100%
(4) Incremental Operating Costs*	135,000	100%
(5) Unallocated	2,495,000	
<b>TOTAL AMOUNT</b>	<b>22,700,000</b>	

\*For the purposes of this Agreement, 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, bank 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 Recipient’s civil service.

**B. Withdrawal Conditions; Withdrawal Period**

1. Notwithstanding the provisions of Part A of this Section, no withdrawal shall be made for payments made prior to the date of this Agreement, except that withdrawals up to an aggregate amount not to exceed SDR 2,040,000 equivalent may be made for payments made prior to this date but on or after January 26, 2009, for Eligible Expenditures.
2. The Closing Date is March 31, 2011.

## APPENDIX

### Section I. Definitions

1. “Abbreviated Resettlement Framework” means the Recipient’s resettlement framework dated January 14, 2008, which sets out the policies and procedures to be followed by the Recipient in the event of resettlement of less than 200 Project affected people in order to restore housing and provide compensation for loss of land and livelihood.
2. “Anti-Corruption Guidelines” means the “Guidelines on Preventing and Combating Fraud and Corruption in Projects Financed by IBRD Loans and IDA Credits and Grants”, dated October 15, 2006.
3. “Consultant Guidelines” means the “Guidelines: Selection and Employment of Consultants by World Bank Borrowers” published by the Bank in May 2004, and revised in October 2006.
4. “General Conditions” means the “International Development Association General Conditions for Credits and Grants”, dated July 1, 2005, (as amended through October 15, 2006).
5. “Large Irrigation Scheme” means an irrigation scheme covering an area of greater than 750 hectares with estimated rehabilitation cost of more than \$300,000 equivalent.
6. “Medium or Lesser Irrigation Scheme” means an irrigation scheme covering an area of up to 750 hectares with estimated rehabilitation cost not exceeding \$300,000 equivalent.
7. “MEW” means the Recipient’s Ministry of Energy and Water, or any successor thereto.
8. “Original Financing Agreement” means the Development Credit Agreement for the Emergency Irrigation Rehabilitation Project between the Recipient (therein referred to as the “Borrower”) and the Association, dated January 20, 2004, as amended to date (Credit No. 3845, Grant No. H284 and Grant No. H398).
9. “Original Project” means the Project described in Schedule 2 to the Original Financing Agreement as amended to date.
10. “Procurement Guidelines” means the “Guidelines: Procurement under IBRD Loans and IDA Credits” published by the Bank in May 2004, and revised in October, 2006.

11. “Procurement Plan” means the Recipient’s procurement plan for the Project, dated March 24, 2009, and referred to in paragraph 1.16 of the Procurement Guidelines and paragraph 1.24 of the Consultant Guidelines, as the same shall be updated from time to time in accordance with the provisions of said paragraphs.
12. “WAPECA” means the Water And Power Engineering Company of Afghanistan.

**Section II. Amendment to the Original Financing Agreement**

1. The Project description in Schedule 2 to the Original Financing Agreement is amended to read as set out in Schedule 1 to this Agreement.
2. Section I.A(2) of Schedule 2 to this Agreement is added to the Original Financing Agreement as a new Paragraph A.1(d) of Schedule 4, to provide for the procedures to be followed in the event of resettlement under the Project.

All other terms of the Original Financing Agreement not hereby amended remain the same.