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

Financing Agreement

**(Second 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 15, 2008

Public Disclosure Authorized

FINANCING AGREEMENT

AGREEMENT dated July 15, 2008, 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 Second 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 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 seventeen million one hundred thousand Special Drawing Rights (SDR 17,100,000) (the “Grant”) 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/ Anwar-ul Haq Ahady
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 654 Medium or Lesser Irrigation Schemes in all districts of the Recipient's territory where demand exists.
2. Rehabilitation of about 14 Large Irrigation Schemes in various districts of the Recipient's territory where demand exists.
3. Provision of technical assistance and support for the development of water users' associations, community water organizations and any other community groups eligible under the Project.

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 professional 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; 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 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; and (iii) the construction of guard rooms at various sites where hydro-meteorological stations are installed.
- (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 MEW 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.

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 cableways, 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.

SCHEDULE 2

Project Execution

Section I. Implementation Arrangements

A. The implementation arrangements contained in Schedule 4 to the Original Financing Agreement constitute an integral part of this Agreement.

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:

Procurement Method	
(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 eight (8) 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.

Procurement Method	
(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) each contract for goods estimated to cost the equivalent of \$200,000 or more; (b) each contract for works estimated to cost the equivalent of \$500,000 or more; (c) all contracts for goods or works procured on the basis of Direct Contracting regardless of value; (d) each contract for consultants' services provided by a firm estimated to cost the equivalent of \$100,000 or more; (e) each contract for consultants' services provided by an individual estimated to cost the equivalent of \$50,000 or more; and (f) 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:

Category	Amount of the Grant Allocated (expressed in SDR)	Percentage of Expenditures to be Financed (inclusive of Taxes)
(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	2,180,000 2,130,000 360,000 0	100%
(2) Goods (a) Hydro-meteorological Equipment (b) Survey equipment, construction quality control equipment, office equipment and vehicles	3,770,000 70,000	100%
(3) Consultants services and training including auditing services for Parts A, B and C of the Project	7,680,000	100%
(4) Incremental Operating Costs	220,000	100%
(5) Unallocated	690,000	
TOTAL AMOUNT	17,100,000	

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 1,220,000 equivalent may be made for payments made prior to this date but on or after March 1, 2008, for Eligible Expenditures.
2. The Closing Date is March 31, 2011.

APPENDIX

Section I. Definitions

1. “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.
2. “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.
3. “General Conditions” means the “International Development Association General Conditions for Credits and Grants”, dated July 1, 2005, (as amended through October 15, 2006).
4. “Large Irrigation Scheme” means an irrigation scheme covering an area of greater than 750 hectares and up to 2,500 hectares with estimated rehabilitation cost of more than \$300,000 equivalent.
5. “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.
6. “MEW” means the Recipient’s Ministry of Energy and Water, or any successor thereto.
7. “Monitoring and Evaluation Unit” means the Monitoring Unit established in MEW pursuant to paragraph 5 of Part A of Schedule 4 to the Original Financing Agreement.
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 (Credit No. 3845 and Grant No. H284).
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 26, 2008, 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. "PCU" means the Program Coordination Unit established pursuant to paragraph 3(a) of Part A of Schedule 4 to the Original Financing Agreement.
13. "Regional Office" means a Regional Office of MEW established pursuant to paragraph 4 of Part A of Schedule 4 to the Original Financing Agreement.

Section II. Amendments to the Original Financing Agreement

The Original Financing Agreement is amended as follows:

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. The Closing Date as set out in Section 2.03 of the Original Financing Agreement is hereby extended to March 31, 2011.
3. The definitions of "Large Irrigation Scheme" and "Medium or Lesser Irrigation Scheme" as set out in the Original Financing Agreement are amended to read as set out in paragraphs 8 and 9 of Section I of the Appendix to this Agreement.

All other terms of the Original Financing Agreement remain the same.