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GRANT NUMBER H225 - AF

# Financing Agreement

(Urban Water Sector Project)

between

ISLAMIC REPUBLIC OF AFGHANISTAN

and

INTERNATIONAL DEVELOPMENT ASSOCIATION

Dated July 5, 2006

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**GRANT NUMBER H225 - AF**

**FINANCING AGREEMENT**

AGREEMENT dated July 5, 2006, between ISLAMIC REPUBLIC OF AFGHANISTAN (the "Recipient") and INTERNATIONAL DEVELOPMENT ASSOCIATION (the "Association"). 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 the Financing 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 twenty seven million nine hundred thousand Special Drawing Rights (SDR 27,900,000) (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 Financing Balance shall be one-half of one percent (1/2 of 1%) per annum.
- 2.04. The Payment Dates are February 15 and August 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 MOUD and, upon its establishment, through the Afghanistan Urban Water Supply and Sewerage Company (AUWSSC), 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 – REMEDIES OF THE ASSOCIATION**

- 4.01. The Additional Event of Suspension consists of the following:

Unless the Association shall have otherwise agreed, the Recipient has assigned, sold or otherwise disposed of, or pledged or otherwise encumbered any share or right in the equity capital of AUWSSC to private interests.

#### **ARTICLE V – EFFECTIVENESS; TERMINATION**

- 5.01. The Additional Condition of Effectiveness is that the Co-financing Agreement has been executed and delivered and all conditions precedent to its effectiveness or to the right of the Recipient to make withdrawals under it (other than the effectiveness of the Financing Agreement) have been fulfilled.
- 5.02. The Effectiveness Deadline is the date one hundred and twenty (120) days after the date of this Agreement.
- 5.03. For purposes of Section 8.05(b) of the General Conditions, the date on which the obligations of the Recipient under this Agreement shall terminate is twenty (20) years after the date of this Agreement.

#### **ARTICLE VI – REPRESENTATIVE; ADDRESSES**

- 6.01. The Recipient's Representative is the Minister of Finance.
- 6.02. The Recipient's Address is:

Ministry of Finance  
Kabul  
Islamic Republic of Afghanistan

6.03. 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) or 64145 (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/ Jean Mazurelle  
Authorized Representative

## **SCHEDULE 1**

### **Project Description**

The objective of the Project is to assist the Recipient in increasing access to, and reliability of, the water supply and sewerage service in its urban centers by: (i) establishing adequate institutional arrangements for the management of water supply and sewerage; and (ii) extending the water supply system in Kabul.

The Project consists of the following parts:

#### Part 1: Institutional Development of AUWSSC

(a) Reorganization of CAWSS into a public corporation to be responsible for the management and development of urban water supply and sewerage assets and for the provision of quality water supply and sewerage services in urban areas, through the provision of legal and technical advisory services.

(b) Development and enhancement of capacity in the newly formed AUWSSC, through the provision of technical assistance and training for, among other things: (i) the preparation of operations, procurement, accounting and financial management procedures; (ii) the monitoring and management of environment and social issues; (iii) human resource development; (iv) the carrying out of feasibility studies and surveys; (v) the carrying out of audits; and (vi) the carrying out of financial management, planning and design, and management and implementation of water supply and sewerage activities.

(c) Strengthening and improving the institutional capacities of SBUs through, among other things, the preparation and execution of memoranda of understandings between AUWSSC's headquarters and each SBU.

(d) Designing of a public private partnership arrangement for the management of water supply and sewerage services in selected cities.

#### Part 2: Financial Support to AUWSSC

Strengthening of the newly created AUWSSC, through the provision of financial support, including payment of: (i) operations and maintenance costs including salaries of non-managerial staff; (ii) salaries of managerial staff; and (iii) bonuses of managerial staff.

Part 3: Extension of the Kabul Water Supply System

Increasing access to and reliability of the water supply service in Kabul by developing the Logar II Water Supply Scheme through, among other things, the development and equipping of a well field, the construction of a pumping station, the supply and laying of pipes and equipment for the construction of a transmission line and the extension of the distribution network, and the construction of a reservoir.

## **SCHEDULE 2**

### **Project Execution**

#### **Section I. Institutional and Other Arrangements**

##### **A. Overall Project Implementation and Coordination**

1. (a) The Recipient shall carry out the Project in accordance with the Financial Management Manual and the Environmental and Social Management Framework.
  - (b) Except as the Association shall otherwise agree, the Financial Management Manual and the Environmental and Social Management Framework shall not be amended, varied or waived, if, in the opinion of the Association, such amendment, variation or waiver may materially and adversely affect the carrying out of the Project or the achievement of the objectives thereof.
  - (c) The Financial Management Manual shall be updated upon the establishment of AUWSSC to provide that, among other things:
    - (i) claims for advance payment of financial support under Part 2 of the Project shall be submitted at the beginning of each quarter for the following three (3) month period. Such payments shall be made upon the submission of satisfactory statements of expenditure for the previous three (3) month period provided that any unspent or unjustified amount shall be deducted from the new advance being claimed; and
    - (ii) unless the Association shall otherwise agree, adjustments to the financial support under Part 2 of the Project for each twelve (12) month period shall be made on the basis of the Financial Statements referred to in Section II paragraph B.3 of Schedule 2 to this Agreement, and shall be submitted not later than three (3) months after the end of the twelve (12) month period.
2. The Recipient shall vest responsibility for the overall management and coordination of the Project in MOUD. MOUD shall ensure that, upon its establishment, AUWSSC, shall have the overall responsibility for the day-to-day management of the Project including, financial management and reporting, disbursement, procurement, implementation, monitoring and evaluation and administration of the Project.

3. For purposes of Part 1(a) of the Project, the Recipient shall:
  - (a) maintain the working group that has been established pursuant to the Presidential Decree and is comprised of, among others, representatives of MOF and MOUD, to work together with a team of experts in formulating AUWSSC's legal and operational structure. This will include analyzing the operations, assets and liabilities of CAWSS, selecting management and technical assistance teams for AUWSSC following a transparent and competitive process, assisting in the appointment of the board of directors and performing all the legal processes required to establish AUWSSC, including approval of AUWSSC's memorandum and articles of association; and
  - (b) ensure that AUWSSC is incorporated as a public corporation by December 31, 2006.
4. For purposes of Part 1(c) of the Project, the Recipient shall ensure that memoranda of understanding, in form and substance acceptable to the Association, are entered into between AUWSSC, and each SBU, providing for, among other things: (i) AUWSSC's investment program and the additional production and distribution capacities to be created; (ii) the minimum service standards which the SBU shall be held to, including water production, water sales, permanence of service, pressure, metering, billing and collection; (iii) the minimum financial standards, including working ratio and accounts receivable that the SBU shall be held to; (iv) the financial assistance AUWSSC is committed to provide to complement revenue from user charges; and (v) the format and frequency of the reporting by SBU on its technical, commercial and financial operations to AUWSSC.

**B. Environment and Social Safeguards**

1. Without prejudice to the generality of paragraph A.1 above, the Recipient shall ensure that all civil works under the Project, shall be undertaken in accordance with the relevant provisions of the Environmental and Social Management Framework, and shall not take or permit to be taken any action which would prevent or interfere with such implementation.
2. The Recipient shall ensure that activities financed under the Project shall not involve any land acquisition or involuntary resettlement of the local population and/or businesses. In the event that any land is required for the Project or any resettlement is to be carried out, the Recipient shall, in consultation with the Association, ensure that such land shall be obtained and such resettlement carried out in accordance with plans agreed with the Association and the provisions

of the resettlement framework set out in the Environmental and Social Management Framework.

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

**A. Project Reports**

1. The Recipient shall, and shall cause AUWSSC to, 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 indicators agreed with the Association. Each Project Report shall cover the period of one (1) calendar semester, and shall be furnished to the Association not later than one (1) 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, and shall cause AUWSSC to, maintain or cause to be maintained a financial management system in accordance with the provisions of Section 4.09 of the General Conditions.
2. Without limitation on the provisions of Part A of this Section, the Recipient shall, and shall cause AUWSSC to, prepare and furnish to the Association not later than one (1) month after the end of each calendar quarter, interim un-audited financial reports for the Project covering the quarter, in form and substance satisfactory to the Association.
3. The Recipient shall, and shall cause AUWSSC to, 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 Schedule.

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 Schedule.
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) Shopping
(b) Limited International Bidding
(c) National Competitive Bidding*

\*The National Competitive Bidding procurement method 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 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 (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; 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.

**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) Selection Based on the Consultants' Qualifications
(b) Selection of Individual Consultants
(c) Single Source Selection

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

Except as the Association shall otherwise determine by notice to the Recipient, all contracts for goods, works and consultants' services shall be subject to Prior 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 this Section and such additional instructions as the Association may specify by notice to the Recipient, 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</b>
(1) Goods, works, consultants’ services and training under Parts 1 and 3 of the Project, and audit costs	18,500,000	100%
(2) Operations and maintenance costs including salaries of non-managerial staff under Part 2(i) of the Project	3,060,000	45% of expenses incurred in FY2007 within the limit of US\$1.9 million equivalent, 30% of expenses incurred in FY2008 within the limit of US\$1.5 million equivalent and 15% of expenses incurred in FY2009 within the limit of US\$1 million equivalent
(3) Salaries of managerial staff under Part 2 (ii) of the Project	630,000	100% of expenses incurred within the limit of US\$300,000 equivalent per year in FY2007, FY2008 and FY2009
(4) Bonuses of managerial staff under Part 2 (iii) of the Project	210,000	100% of expenses incurred within the limit of US\$100,000 equivalent per year in FY2007, FY2008 and FY2009.
(5) Unallocated	5,500,000	
<b>TOTAL AMOUNT</b>	<b>27,900,000</b>	

**B. Withdrawal Conditions; Withdrawal Period**

1. Notwithstanding the provisions of Part A of this Section no withdrawal shall be made under the Project:

- (a) for payments made prior to the date of this Agreement;
- (b) unless AUWSSC has been incorporated and a general manager appointed for it in accordance with this Agreement; and
- (c) unless a disbursement protocol has been entered into among the treasury department of MOF, MOUD and the newly established AUWSSC.

2. The Closing Date is June 30, 2010.

**Section V. Other Undertakings**

- (a) The Recipient shall no later than December 31, 2006, appoint or cause to be appointed in AUWSSC, a management team comprising of a general manager, a finance manager and a technical manager.
- (b) The Recipient shall no later than December 31, 2007, appoint or cause to be appointed: (i) in AUWSSC, an operations officer in charge of assistance to smaller towns; and (ii) in each SBU, a head of the SBU, a financial management specialist and a technical manager.
- (c) The Recipient shall no later than June 30, 2007, appoint or cause to be appointed for the Project, independent external auditors with terms of reference acceptable to the Association, such terms of reference to include, carrying out of annual audits of AUWSSC's corporate financial statements, and semi-annual audits of claims for advances for financial support under Part 2 of the Project.
- (d) The Recipient shall: (i) no later than September 30, 2008, cause to be submitted to the Association for review, a first report by the auditors referred to in paragraph (c) above, of AUWSSC's annual corporate financial statements; and (ii) no later than September 30, 2007, cause to be submitted to the Association for review, a first report by the auditors referred to in paragraph (c) above, of the semi-annual audit of claims for advances for financial support under Part 2 of the Project.
- (e) The Recipient shall ensure that AUWSSC reviews the amount and conditions of financial support being provided to AUWSSC under Part 2 of the Project, no later than six (6) months after the incorporation of AUWSSC and submit to the Association recommendations for revision of such financial support if necessary.
- (f) The Recipient shall ensure that AUWSSC takes measures necessary, including adjustment of user charges, to ensure that the financial support provided for under Part 2 of the Project, together with user charges

collected by AUWSSC, shall cover 100% of AUWSSC's operations and maintenance costs.

## APPENDIX

### Definitions

1. “Afghanistan Urban Water Supply and Sewerage Company” or “AUWSSC” means the water supply and sewerage entity to be established under Part 1(a) of the Project in accordance with the Presidential Decree, as the successor entity to CAWSS.
2. “CAWSS” means the Recipient’s Central Authority for Water Supply and Sewerage, a centralized authority within MOUD responsible for water supply and sewerage in Afghanistan, operating under the State-owned Enterprise Law of the Recipient.
3. “Co-financier” means Kreditanstalt für Wiederaufbau (“KfW”), a development bank incorporated under the laws of Germany.
4. “Co-financing” means an amount of twenty four million five hundred thousand dollars equivalent to be provided by the Co-financier directly to the Recipient to assist in financing the Project.
5. “Co-financing Agreement” means the agreement to be entered into between the Recipient and the Co-financier providing for the Co-financing.
6. “Consultant Guidelines” means the “Guidelines: Selection and Employment of Consultants by World Bank Borrowers” published by the Bank in May 2004.
7. “Environmental and Social Management Framework” means the Recipient’s environment and social framework for the Project, dated March 28, 2006, which includes: (i) key policy principles for social and environmental management under the Project; (ii) measures to guide the screening of activities for significant social and environmental impacts, and to assist in the mitigation of such impacts; (iii) procedures to ensure that these principles and measures are appropriately applied; (iv) guidelines for capacity building and monitoring; (v) a framework for dealing with resettlement issues; and (vi) guidelines for dealing with cultural property issues, as the same shall be amended from time to time with the agreement of the Association.
8. “Financial Management Manual” means CAWSS’s financial management manual for the Project, dated July 29, 2005, as the same shall be updated upon the establishment of AUWSSC in agreement with the Association, setting out the financial management arrangements for the Project.
9. “FY” means the Recipient’s fiscal year beginning on March 21 of any given calendar year and ending on March 20 of the following calendar year.

10. “General Conditions” means the “International Development Association General Conditions for Credits and Grants”, dated July 1, 2005.
11. “Kabul” means the capital city of the Recipient.
12. “MOF” means the Recipient’s Ministry of Finance or any successor thereto.
13. “MOUD” means the Recipient’s Ministry of Urban Development or any successor thereto.
14. “Logar II Water Supply Scheme” means a well field in an aquifer located in the south of Kabul.
15. “Presidential Decree” means Decree No. 130 dated 05/11/1384 (January 25, 2006) of the President of the Recipient governing the reorganization of the Central Authority for Water Supply and Sewerage into the Afghan Urban Water Supply and Sewerage Company.
16. “Procurement Guidelines” means the “Guidelines for Procurement under IBRD Loans and IDA Credits” published by the Bank in May 2004.
17. “Procurement Plan” means the Recipient’s procurement plan for the Project, dated April 8, 2006 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.
18. “SBU” means Strategic Business Unit, a unit of AUWSSC, to be responsible at the sub-national level for the management of water supply and sewerage operations.