

The World BankINTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT
INTERNATIONAL DEVELOPMENT ASSOCIATION1818 H Street N.W.
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June 15, 2010

H.E. Omar Zakhilwal
Minister of Finance
Ministry of Finance
Pashtoonishtan Maidan
Kabul, Islamic Republic of Afghanistan

Excellency:

Re: Afghanistan Reconstruction Trust Fund Grant for the Preparation of the On-Farm Water Management Project - ARFT Grant No. TF096991.

In response to the request for financial assistance made on behalf of the Islamic Republic of Afghanistan ("Recipient"), I am pleased to inform you that the International Development Association ("World Bank"), acting as administrator of grant funds provided by several donors (the "Donors") under the Afghanistan Reconstruction Trust Fund, proposes to extend to the Recipient a grant in an amount not to exceed one million United States Dollars (U.S.\$1,000,000) ("Grant") on the terms and conditions set forth or referred to in this letter agreement ("Agreement"), which includes the attached Annex, to assist in the financing of the project described in the Annex ("Project"). This Grant is funded out of the abovementioned trust fund for which the World Bank receives periodic contributions. In accordance with Section 3.02 of the Standard Conditions (as defined in the Annex to this Agreement), the Recipient may withdraw the Grant proceeds subject to the availability of such funds.

The Recipient represents, by confirming its agreement below, that it is authorized to enter into this Agreement and to carry out the Project in accordance with the terms and conditions set forth or referred to in this Agreement.

Please confirm the Recipient's agreement to the foregoing by having an authorized official of the Recipient sign and date the enclosed copy of this Agreement, and returning it to the World Bank. Upon receipt by the World Bank of this countersigned copy, this Agreement shall become effective as of the date of the countersignature; provided, however, that the offer of this Agreement shall be deemed withdrawn if the World Bank has not received the countersigned copy of this Agreement within ninety (90) days after the date of signature of this Agreement by the World Bank, unless the World Bank shall have established a later date for such purpose.

Very truly yours,
INTERNATIONAL DEVELOPMENT ASSOCIATION

By/s/ Nicholas J. Krafft

Country Director, Afghanistan
South Asia Region

CONFIRMED and AGREED:
ISLAMIC REPUBLIC OF AFGHANISTAN

By/s/Omar Zakhilwal
Authorized Representative
Title Minister of Finance
Date: June 22, 2010

Enclosures:

- (1) Standard Conditions for Grants Made by the World Bank Out of Various Funds, dated July 1, 2008
- (2) Disbursement Letter dated June 15, 2010, together with World Bank Disbursement Guidelines for Projects, dated May 1, 2006

Article I

Standard Conditions; Definitions

1.01. **Standard Conditions.** The Standard Conditions for Grants Made by the World Bank out of Various Funds dated July 1, 2008 (“Standard Conditions”) constitute an integral part of this Agreement.

1.02. **Definitions.** Unless the context requires otherwise, the capitalized terms used in this Agreement have the meanings ascribed to them in the Standard Conditions or in this Agreement. Notwithstanding the foregoing, the following terms shall have the following meanings:

(a) “Incremental Operating Costs” means the reasonable costs of incremental expenditures incurred by MAIL (as defined herein below), which expenditures would not have been incurred absent the Project, including, *inter alia*: (i) rental of office space, (ii) the operation, maintenance, rental and insurance of vehicles; (iii) fuel costs; (iv) communications supplies and charges; (v) advertisement expenses; (vi) office staples; (vii) office administration and maintenance costs; (viii) bank transaction charges; (ix) utility fees; and (x) domestic travel expenses, per diem, and allowances for the Recipient’s officers and employees; but excluding salaries of officials and/or the Recipient’s civil servants; and

(b) “Project Areas” means the sites in the vicinity of the cities of Herat, Bamyan, Jalalabad, Mazir-a-Sharif and Kabul, and/or their hinterlands, selected or to be selected by the PMU (as define herein below) on the basis of their physical accessibility and security, assured irrigation water supply, synergy with other projects, coverage of agro-ecological zones, prevailing cropping systems, and presence of water management problems; said sites to be agreed with to the World Bank.

Article II

Project Execution

2.01. **Project Objectives and Description.** The objective of the Project is to assist farmers in the Project Areas to adopt improved farm practices that increase agricultural production and productivity by enhancing the efficacy of water used for raising crops in conjunction with other farm inputs. The Project consists of the following parts:

(a) Establishment of a Project management unit (“PMU”) including, *inter alia*: a Project Director, a water management specialist/irrigation engineer, an agronomist, an economist with project monitoring and evaluation skills, a governance/social specialist, and a safeguards specialist;

(b) Establishment of a Project support unit (“PSU”) for purposes of handling the Project’s fiduciary responsibilities, including, *inter alia*, specialists in procurement, financial management, administration and logistics, as well as the necessary support staff.

(c) Provision of technical support in water management, social and environmental safeguard planning, procurement and financial management;

(d) Carrying out of preparatory field work required to design of the main activities of the proposed On-Farm Water Management Project (the “OFWMP”) including, *inter alia*: (i) pre-selection of Project Areas for the OFWMP, including a subset of four Project sites to be surveyed; (ii) reconnaissance surveys; and (iii) preparation of OFWMP-specific environmental and social management framework;

(e) Development of a work plan for the first twelve (12) months of the OFWMP implementation;

(f) Assessment of working environment in the identified Project Areas and formulation of preparatory activities for establishing area teams;

(g) Preparation and furnishing of the PMU and PSU office, including provision of IT equipment; and

(h) Recruitment of a Project Director for a proposed “Improving Agricultural Inputs Delivery System Project” (“IAIDSP”) currently under preparation.

2.02. ***Project Execution Generally.*** The Recipient declares its commitment to the objectives of the Project. To this end, the Recipient shall carry out the Project through the Ministry of Agriculture, Irrigation and Livestock (“MAIL”) in accordance with the provisions of: (a) Article II of the Standard Conditions; (b) the “Guidelines on Preventing and Combating Fraud and Corruption in Projects Financed by IBRD Loans and IDA Credits and Grants”, dated October 15, 2006 (“Anti-Corruption Guidelines”), with the modifications set forth in the Appendix 1 to this Agreement; and (c) this Article II.

2.03. ***Institutional and Other Arrangements.*** The recipient shall:

(a) establish, by no later than July 15, 2010, and thereafter maintain, throughout the period of implementation of the Project, a Project Management Unit (“PMU”) within MAIL’s Program Implementation and Coordination Unit (“PICU”), headed by a qualified and experienced Project Director, acceptable to the World Bank, with terms of reference satisfactory to the World Bank, which unit shall: (i) be provided with adequate staff, with relevant qualifications and experience and under terms of reference satisfactory to the World Bank, including *inter alia* the staff referred to in the foregoing Section 2.01(a) of this Agreement; and (ii) be vested with such functions, powers, resources and competencies, satisfactory to the World Bank, as shall be required for purposes of carrying out the technical aspects of the day-to-day implementation of Project activities, and of the future implementation of the OFWMP;

(b) establish, by no later than August 1, 2010, and thereafter maintain, throughout the period of implementation of the Project, a Project Support Unit within MAIL’s PICU, headed by a qualified and experienced Operations Director, acceptable to the World Bank, under terms of reference satisfactory to the World Bank, which unit shall: (i) be provided with adequate staff, with relevant qualification and experience, including procurement, human resources, information technology and logistics, and under terms of reference satisfactory to the World Bank, and (ii) be be vested with such functions, powers, resources and competencies, satisfactory to the World Bank, as shall be required for purposes of carrying out the day-to-day fiduciary duties under Project and, eventually, under the proposed OFWMP as well as (at a later stage) the prospective IAIDSP;

(c) establish, by no later than December 1, 2010, and thereafter maintain, throughout the period of implementation of the Project, an Internal Control/Internal Audit Unit, reporting directly to the Director General of MAIL’s Program Implementation and Coordination Unit, which unit shall: (i) be comprised of adequate staff, with qualifications and experience in financial management, accounting, internal controls and audits, under terms of reference satisfactory to the World Bank; and (ii) be vested

with such functions, powers, resources and competencies, satisfactory to the World Bank, as shall be required for purposes of carrying out of random controls and internal audit procedures, to ensure compliance with acceptable the financial management standards and the Recipient's fiduciary obligations under this Agreement;

(d) develop and adopt, by no later than October 1, 2010, a financial management manual in form and substance satisfactory to the World Bank, setting out, *inter alia*: (i) the policies and procedures for fund and asset management, procedures for the preparation of withdrawal applications and for the settlement of payments, accounting, maintenance of records, reporting regimes, security protocols and compliance with auditing requirements; and (ii) the roles and responsibilities of the PMU financial management staff, as well as any recruitment needs and applicable deadlines; and

(e) carry out, by no later than August 15, 2010: (i) the site surveys of Project Areas provided for in Section 2.01(c)(ii) above, under term of reference satisfactory to the World Bank; and (ii) prepare and adopt the OFWMP-specific environmental and social management framework provided for in Section 2.01(c)(iii) above, under terms of reference, manner and substance, satisfactory to the World Bank.

2.04. ***Donors Visibility and Visit.*** The Recipient shall:

(a) take or cause to be taken all such measures as the World Bank may reasonably request to identify publicly the Donors' support for the Project; and

(b) for the purposes of Section 2.09 of the Standard Conditions and upon the World Bank's request, enable the representatives of the Donors to visit any part of the Recipient's territory for purposes related to the Project.

2.05. ***Project Monitoring, Reporting and Evaluation.*** (a) The Recipient shall monitor and evaluate the progress of the Project and prepare Project Reports in accordance with the provisions of Section 2.06 of the Standard Conditions and on the basis of indicators set forth below in paragraph (b) of this Section. Each Project Report shall cover the period of three month, commencing as of the first months of Project implementation, and shall be furnished to the World Bank not later than one month after the end of the period covered by each such report.

(b) The performance indicators referred to above in paragraph (a) consist of the following:

(i) by Closing Date, the PMU and PSU shall have been established and be operational;

(ii) by August 15, 2010, the site survey of Project Areas shall have been completed in terms satisfactory to the World Bank;

(iii) By August 15, 2010, an OFWMP-specific environmental and social management framework shall have been prepared and adopted by MAIL; and

(iv) By Closing Date, a work plan for the initial twelve (12) months of activities for the prospective OFWMP shall have been developed and approved by MAIL, in a manner and substance satisfactory to the World Bank.

(c) The Recipient shall prepare the Completion Report in accordance with the provisions of Section 2.06 of the Standard Conditions, which shall include, *inter alia*: (i) a description of the selected

Project Areas and project sites and the rationale therefore; (ii) an assessment of four project sites and a description of the work plan for the first twelve (12) months of the proposed OFMWP; (iii) the proposed organizational, staffing and logistical interventions for adequate functioning of project teams in the selected Project Areas; and (iv) a final OFMWP-specific environmental and social management framework. The Completion Report shall be furnished to the World Bank not later than April 30, 2011. In order to assist the Recipient in preparing the Completion Report, the Recipient may employ consultants whose qualifications, experience and terms of reference are acceptable to the World Bank in accordance with the provisions of Section 2.07 of this Agreement.

2.06. **Financial Management.** (a) The Recipient shall ensure that a financial management system is maintained in accordance with the provisions of Section 2.07 of the Standard Conditions.

(b) The Recipient shall ensure that interim unaudited financial reports for the Project are prepared and furnished to the World Bank not later than forty five (45) days after the end of each quarter, covering all activities under the said quarter in form and substance satisfactory to the World Bank, the first such quarter to commence in the month in which the first withdrawal application has been filed with the World Bank.

(c) The Recipient shall have its Financial Statements audited in accordance with the provisions of Section 2.07 (b) of the Standard Conditions. Such audit of the Financial Statements shall cover the entire period during which withdrawals from the Grant Account were made. The audited Financial Statements for such period shall be furnished to the World Bank not later than six months after the end of such period.

2.07. **Procurement**

(a) **General.** All goods and 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:

(i) Section I of the “Guidelines: Procurement under IBRD Loans and IDA Credits” published by the World Bank in May 2004 and revised in October 2006 and May 2010 (“Procurement Guidelines”), in the case of goods; and

(ii) Sections I (excluding paragraph 1.24) and IV of the “Guidelines: Selection and Employment of Consultants by World Bank Borrowers” published by the World Bank in May 2004 and revised in October 2006 and May 2010 (“Consultant Guidelines”) in the case of consultants’ services; and

(iii) the provisions of this Section, as the same shall be elaborated in the procurement plan prepared and updated from time to time by the Recipient for the Project in accordance with paragraph 1.16 of the Procurement Guidelines and paragraph 1.24 of the Consultant Guidelines (“Procurement Plan”).

(b) **Definitions.** The capitalized terms used in the following paragraphs of this Section to describe particular procurement methods or methods of review by the World Bank of particular contracts, refer to the corresponding method described in the Procurement Guidelines, or the Consultant Guidelines, as the case may be.

(c) **Particular Methods of Procurement of Goods**

(i) Except as otherwise provided in sub-paragraph (ii) below, goods shall be procured under contracts awarded on the basis of National Competitive Bidding subject to the additional procedures set forth in the Appendix 2 to this Agreement.

(ii) The following methods, other than National Competitive Bidding, may be used for procurement of goods for those contracts which the Bank agrees meet the requirements set forth in the Procurement Guidelines for their use: (A) Shopping; and (B) Direct Contracting.

(d) Particular Methods of Procurement of Consultants' Services

(i) Except as otherwise provided in item (ii) below, consultants' services shall be procured under contracts awarded on the basis of Quality- and Cost-based Selection.

(ii) The following methods may be used for the procurement of consultants' services for those assignments which the Bank agrees meet the requirements set forth in the Consultant Guidelines for their use: (A) Selection based on Consultants' Qualifications; (B) Single-source Selection; (C) Selection of Individual Consultants; and (D) Sole Source Procedures for the Selection of Individual Consultants.

(e) Review by the World Bank of Procurement Decisions. Except as the World Bank shall otherwise determine by notice to the Recipient, the following contracts shall be subject to Prior Review by the World Bank: (a) each contract for goods estimated to cost the equivalent of US\$200,000 or more; (b) all contract for goods procured on the basis of Direct Contracting regardless its estimated value; (c) each contract for consultants' services provided by a firm estimated to cost the equivalent of US\$100,000 or more; (d) each contract for consultants' services provided by individual consultants, estimated to cost US\$50,000 or more; and (e) all contracts for consultants' services awarded to firms or individual consultants through Single Source Procedures or on a Sole-Source Selection basis, regardless its estimated value. All other contracts shall be subject to Post Review by the World Bank.

Article III Withdrawal of Grant Proceeds

3.01. ***Eligible Expenditures.*** The Recipient may withdraw the proceeds of the Grant in accordance with the provisions of: (a) the Standard Conditions; (b) this Section; and (c) such additional instructions as the World Bank may 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 World Bank and as made applicable to this Agreement pursuant to such instructions), to finance Eligible Expenditures as set forth in the following table. The table specifies 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 USD)	Percentage of Expenditures to be Financed (inclusive of Taxes)
(1) Goods	126,000	100%
(2) Consultants' Services	629,000	100%
(3) Incremental Operating Costs	245,000	100%
TOTAL AMOUNT	1,000,000	

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

3.03. **Withdrawal Period.** The Closing Date referred to in Section 3.06 (c) of the Standard Conditions is December 31, 2010.

Article IV

Additional Remedies

4.01. **Additional Event of Suspension.** The Additional Event of Suspension referred to in Section 4.02 (k) of the Standard Conditions consists of the following, namely, that a situation has arisen which shall make it improbable that the OFWMP would be carried out by the Recipient and/or financed by the World Bank.

Article V Recipient's Representative; Addresses

5.01. **Recipient's Representative.** The Recipient's Representative referred to in Section 7.02 of the Standard Conditions is the Recipient's Ministry of Finance.

5.02. **Recipient's Address.** The Recipient's Address referred to in Section 7.01 of the Standard Conditions is:

Ministry of Finance
Pashtunistan Watt
Kabul
Islamic Republic of Afghanistan

Facsimile:

93-20-210-3258

5.03. **World Bank's Address.** The World Bank's Address referred to in Section 7.01 of the Standard Conditions 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

APPENDIX 1
Modifications to the Anti-Corruption Guidelines

The modifications to the Anti-Corruption Guidelines are as follows:

1. Section 5 is re-numbered as Section 5(a) and a new Section 5(b) is added to read as follows:

“...(b) These Guidelines also provide for the sanctions and related actions to be imposed by the Bank on Borrowers (other than the Member Country) and all other individuals or entities who are recipients of Loan proceeds, in the event that the Borrower or the individual or entity has been debarred by another financier as a result of a determination by such financier that the Borrower or the individual or entity has engaged in fraudulent, corrupt, coercive or collusive practices in connection with the use of the proceeds of a financing made by such financier.”

2. Section 11(a) is modified to read as follows:

“... (a) sanction in accordance with prevailing Bank’s sanctions policies and procedures (fn13) a Borrower (other than a Member Country) (fn 14) or an individual or entity, including (but not limited to) declaring such Borrower, individual or entity ineligible publicly, either indefinitely or for a stated period of time: (i) to be awarded a Bank-financed contract; (ii) to benefit from a Bank-financed contract, financially or otherwise, for example as a sub-contractor; and (iii) to otherwise participate in the preparation or implementation of the project or any other project financed, in whole or in part, by the Bank, if at any time the Bank determines (fn 15) that such Borrower, individual or entity has engaged in corrupt, fraudulent, collusive, coercive or obstructive practices in connection with the use of loan proceeds, or if another financier with which the Bank has entered into an agreement for the mutual enforcement of debarment decisions has declared such person or entity ineligible to receive proceeds of financings made by such financier or otherwise to participate in the preparation or implementation of any project financed in whole or in part by such financier as a result of a determination by such financier that the Borrower or the individual or entity has engaged in fraudulent, corrupt, coercive or collusive practices in connection with the use of the proceeds of a financing made by such financier.”

Footnotes:

“13. An individual or entity may be declared ineligible to be awarded a Bank financed contract upon completion of sanctions proceedings pursuant to the Bank’s sanctions policies and procedures, or under the procedures of temporary suspension or early temporary suspension in connection with an ongoing sanctions proceeding, or following a sanction by another financier with whom the Bank has entered into a cross debarment agreement, as a result of a determination by such financier that the firm or individual has engaged in fraudulent, corrupt, coercive or collusive practices in connection with the use of the proceeds of a financing made by such financier.”

“14. Member Country includes officials and employees of the national government or of any of its political or administrative subdivisions, and government owned enterprises and agencies that are not eligible to bid under paragraph 1.8(b) of the Procurement Guidelines or participate under paragraph 1.11(c) of the Consultant Guidelines.”

“15. The Bank has established a Sanctions Board, and related procedures, for the purpose of making such determinations. The procedures of the Sanctions Board sets forth the full set of sanctions available to the Bank. In addition, the Bank has adopted an internal protocol outlining the process to be followed in implementing debarments by other financiers, and explaining how cross-debarments will be posted on the Bank’s website and otherwise be made known to staff and other stakeholders.”

APPENDIX 2
Agreed Additional Procedures for
National Competitive Bidding

- I. Standard bidding documents approved by the World Bank 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 World Bank.
- XI. Bids shall not be rejected merely on the basis of a comparison with an official estimate without the prior concurrence of the World Bank.
- 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 World Bank.
- 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 World Bank (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 World Bank'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.

