
LOAN NUMBER 2227-AFG (SF)

GRANT NUMBER 0033 - AFG (SF)

FINANCING AGREEMENT
(Special Operations)

(Western Basins Water Resources Management Project)

between

THE ISLAMIC REPUBLIC OF AFGHANISTAN

and

ASIAN DEVELOPMENT BANK

DATED 9 March 2006

FAS:AFG 36252

**FINANCING AGREEMENT
(Special Operations)**

FINANCING AGREEMENT dated 9 March 2006 between THE ISLAMIC REPUBLIC OF AFGHANISTAN (hereinafter called the Beneficiary) and ASIAN DEVELOPMENT BANK (hereinafter called ADB).

WHEREAS

(A) the Beneficiary has applied to ADB for a loan and a grant for the purposes of the Project described in Schedule 1 to this Financing Agreement (hereinafter called the Project); and

(B) ADB has agreed to provide financing by making a loan and a grant to the Beneficiary from ADB's Special Funds resources upon the terms and conditions hereinafter set forth;

NOW THEREFORE the parties agree as follows:

ARTICLE I

Loan Regulations and Grant Regulations; Definitions

Section 1.01. All provisions of the Special Operations Loan Regulations of ADB, dated 1 May 2004 (hereinafter called the Loan Regulations), are hereby made applicable to the Loan made pursuant to this Financing Agreement with the same force and effect as if they were fully set forth herein, subject, however, to the following modifications:

(a) The term "Loan Agreement", wherever it appears in the Loan Regulations, shall be substituted by the term "Financing Agreement".

(b) The term "Borrower", wherever it appears in the Loan Regulations, shall be substituted by the term "Beneficiary" as defined in the opening paragraph of this Financing Agreement.

Section 1.02. All provisions of the Special Operations Grant Regulations of ADB, dated 7 February 2005 (hereinafter called the Grant Regulations), are hereby made applicable to the Grant made pursuant to this Financing Agreement with the same force and effect as if they were fully set forth herein subject, however, to the following modifications:

(a) The term "Grant Agreement", wherever it appears in the Grant Regulations, shall be substituted by the term "Financing Agreement".

(b) The term “Recipient”, wherever it appears in the Grant Regulations, shall be substituted by the term “Beneficiary” as defined in the opening paragraph of this Financing Agreement.

Section 1.03. The definitions set forth in the Loan Regulations and Grant Regulations are applicable to this Financing Agreement, in each case unless the context requires otherwise. In addition, the following terms have the following meanings:

(a) “BWC” means the Basin Water Committee, as more fully described in paragraph 7 of Schedule 6 to this Financing Agreement;

(b) “Component” means each of Component A, B, C and D, as more fully described in paragraph 2 of Schedule 1 to this Financing Agreement;

(c) “DAB” means Da Afghanistan Bank, the central bank of the Beneficiary or any legal successor thereof, acceptable to ADB;

(d) “Executing Agency” for the purposes of, and within the meaning of, the Loan Regulations and the Grant Regulations means MOF which is responsible for the carrying out of the Project;

(e) “IEE” means an initial environmental examination prepared by the Beneficiary for the Project and agreed by ADB;

(f) “Implementing Agency” means each of MAAHF, MEW and MMI;

(g) “IWRM” means the integrated water resources management, as more fully described in Schedule 1 to this Financing Agreement;

(h) “karez” means indigenous groundwater supply systems of the Beneficiary;

(i) “MAAHF” means the Ministry of Agriculture and Animal Husbandry and Food of the Beneficiary or any legal successor thereof, acceptable to ADB;

(j) “MEW” means the Ministry of Energy and Water of the Beneficiary or any legal successor thereof, acceptable to ADB;

(k) “mirab” means a traditional community manager of an irrigation system;

(l) “MFA” means the Ministry of Foreign Affairs of the Beneficiary or any legal successor thereof, acceptable to ADB;

(m) “MMI” means the Ministry of Mines and Industry of the Beneficiary or any legal successor thereof, acceptable to ADB;

(n) “MOF” means the Ministry of Finance of the Beneficiary or any legal successor thereof, acceptable to ADB;

(o) "MRRD" means the Ministry of Rural Reconstruction and Development of the Beneficiary or any legal successor thereof, acceptable to ADB;

(p) "MWA" means the Ministry of Women Affairs of the Beneficiary or any legal successor thereof, acceptable to ADB;

(q) "O&M" means operation and maintenance;

(r) "PMU" means the Project Management Unit established for the purposes of the Project, as more fully described in paragraph 4 of Schedule 6 to this Financing Agreement;

(s) "Project area" means the western basins of the Beneficiary, which comprises Badghis, Ghowr and Herat provinces of the Beneficiary.

(t) "Project facilities" means the equipment, material, supplies and facilities provided/rehabilitated/reconstructed or to be provided/rehabilitated/reconstructed under the Project;

(u) "PSC" means the Project Steering Committee established for the purposes of the Project, as more fully described in paragraph 3 of Schedule 6 to this Financing Agreement;

(v) "PIC" means the Project Implementation Committee to be established for the purposes of the Project, as more fully described in paragraph 6 of Schedule 6 to this Financing Agreement;

(w) "RBA" means the River Basin Authority, as more fully described in paragraphs 8 and 9 of Schedule 6 to this Financing Agreement;

(x) "Resettlement Framework" means the resettlement framework prepared for the Project and agreed upon by ADB and the Beneficiary;

(y) "RP" means a resettlement plan to be prepared for the Project as more fully described in paragraph 14 of Schedule 6 to this Financing Agreement;

(z) "safeguard policies" means ADB's *Environment Policy* (2002), *Policy on Involuntary Resettlement* (1995) and *Policy on Indigenous Peoples* (1998), as amended from time to time;

(aa) "subcomponent" means subcomponent of Component, as more fully described in paragraph 2 of Schedule 1 to this Financing Agreement; and

(bb) "subproject" means any subproject financed in accordance with the provisions of this Financing Agreement.

ARTICLE II

The Loan and the Grant

Section 2.01. ADB agrees to provide to the Beneficiary from ADB's Special Funds resources, on terms and conditions set forth in this Financing Agreement:

(a) an amount in various currencies equivalent to forty two million four hundred forty six thousand Special Drawing Rights (SDR 42,446,000) (hereinafter called the Loan); and

(b) an amount of fourteen million five hundred thousand dollars (\$14,500,000) (hereinafter called the Grant).

Section 2.02. (a) The Loan proceeds shall be withdrawn from the Loan Account in accordance with the provisions of Schedule 3A to this Agreement for purposes of financing the Project expenditures; and

(b) The Grant proceeds shall be withdrawn from the Grant Account in accordance with the provisions of Schedule 3B to this Agreement for purposes of financing the Project expenditures for Component C and mirab development and O&M subcomponent of Component B of the Project.

Section 2.03. The Beneficiary shall pay to ADB an interest charge at the rate of one percent (1%) per annum on the amount of the Loan withdrawn from the Loan Account and outstanding from time to time.

Section 2.04. The interest charge and any other charge on the Loan shall be payable semiannually on 15 June and 15 December in each year.

Section 2.05. The Beneficiary shall repay the principal amount of the Loan withdrawn from the Loan Account in accordance with the amortization schedule set forth in Schedule 2 to this Financing Agreement.

ARTICLE III

Use of Proceeds of the Loan and the Grant

Section 3.01. The Beneficiary shall cause the proceeds of the Loan and the Grant to be applied to the financing of expenditures on the Project in accordance with the provisions of this Financing Agreement.

Section 3.02. The goods and services and other items of expenditure to be financed out of the proceeds of the Loan and the Grant and the respective allocation of amounts of the Loan and the Grant among different categories of such goods and services and other items of expenditure shall be in accordance with the provisions of Schedule 3A and Schedule 3B, respectively, to this Financing Agreement, as such Schedule 3A and

Schedule 3B may be amended from time to time by agreement between the Beneficiary and ADB.

Section 3.03. Except as ADB may otherwise agree, all goods and services to be financed out of the proceeds of the Loan and the Grant shall be procured in accordance with the provisions of Schedule 4 and Schedule 5 to this Financing Agreement.

Section 3.04. Withdrawals from the Loan Account and the Grant Account in respect of goods and services shall be made only on account of expenditures relating to

- (a) goods which are produced in and supplied from and services which are supplied from such member countries of ADB as shall have been specified by ADB from time to time as eligible sources for procurement, and
- (b) goods and services which meet such other eligibility requirements as shall have been specified by ADB from time to time.

Section 3.05. The Loan Closing Date for the purposes of Section 8.02 of the Loan Regulations and the Grant Closing Date for the purposes of Section 8.02 of the Grant Regulations shall be 30 September 2013 or, in each case, such other date as may from time to time be agreed between the Beneficiary and ADB.

ARTICLE IV

Particular Covenants

Section 4.01. In the carrying out of the Project and operation of the Project facilities, the Beneficiary shall perform, or cause to be performed, all obligations set forth in Schedule 6 to this Financing Agreement.

Section 4.02. (a) The Beneficiary shall (i) maintain, or cause to be maintained, separate accounts for the Project, including separate accounts for the Loan and the Grant; (ii) have such accounts and related financial statements audited annually, in accordance with appropriate auditing standards consistently applied, by independent auditors whose qualifications, experience and terms of reference are acceptable to ADB; (iii) furnish to ADB, as soon as available but in any event not later than 6 months after the end of each related fiscal year, unaudited Project accounts and financial statements, and (iv) furnish to ADB, as soon as available but in any event not later than 6 months after the end of each related fiscal year, certified copies of such audited accounts and financial statements and the report of the auditors relating thereto (including the auditors' opinion on the use of the Loan proceeds and the Grant proceeds and compliance with the financial covenants of this Financing Agreement as well as on the use of the procedures for imprest account/statement of expenditures), all in the English language; and (v) furnish to ADB such other information concerning such accounts and financial statements and the audit thereof as ADB shall from time to time reasonably request.

(b) The Beneficiary shall enable ADB, upon ADB's request, to discuss the Beneficiary's financial statements for the Project and its financial affairs related to the Project from time to time with the auditors appointed by the Beneficiary pursuant to Section 4.02(a) hereabove, and shall authorize and require any representative of such auditors to participate in any such discussions requested by ADB, provided that any such discussion shall be conducted only in the presence of an authorized officer of the Beneficiary unless the Beneficiary shall otherwise agree.

Section 4.03. The Beneficiary shall enable ADB's representatives to inspect the Project, the goods financed out of the proceeds of the Loan and the Grant, and any relevant records and documents.

ARTICLE V

Effectiveness

Section 5.01. A date ninety (90) days after the date of this Financing Agreement is specified for the effectiveness of the Financing Agreement for the purposes of Section 9.04 of the Loan Regulations and Section 9.04 of the Grant Regulations.

ARTICLE VI

Miscellaneous

Section 6.01. The Minister of Finance of the Beneficiary is designated as representative of the Beneficiary for the purposes of Section 11.02 of the Loan Regulations and Section 11.02 of the Grant Regulations.

Section 6.02. The following addresses are specified for the purposes of Section 11.01 of the Loan Regulations and Section 11.01 of the Grant Regulations:

For the Beneficiary

Ministry of Finance
Pashtonistan Watt, Kabul,
Afghanistan.

For ADB

Asian Development Bank
P.O. Box 789
0980 Manila, Philippines

Cable Address:

ASIANBANK
MANILA

Telex Numbers:

29066 ADB PH (RCA)
42205 ADB PM (ITT)
63587 ADB PN (ETPI)

Facsimile Numbers:

(632) 636-2444
(632) 636- 2391

IN WITNESS WHEREOF the parties hereto, acting through their representatives thereunto duly authorized, have caused this Financing Agreement to be signed in their respective names and to be delivered at the principal office of ADB, as of the day and year first above written.

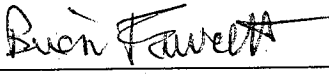
THE ISLAMIC REPUBLIC OF AFGHANISTAN

By


ANWAR-UL-HAQ AHADY
Authorized Representative

ASIAN DEVELOPMENT BANK

By


BRIAN D. FAWCETT
Country Director
Afghanistan Resident Mission

SCHEDULE 1

Description of the Project

1. The overall goal of the Project is to improve rural livelihoods in the Project area through strengthened IWRM, improved irrigation service delivery, enhanced agricultural practices and increased productivity of irrigated agriculture. The primary objectives of the Project are to (i) improve IWRM and water management at all levels; (ii) rehabilitate, upgrade and develop irrigation and water resources infrastructure; (iii) support improved agriculture productivity and rural livelihoods; and (iv) develop capacity and strengthen institutional frameworks for IWRM and irrigated agriculture.

2. The Project consists of the following four Components:
 - (a) Component A: IWRM
 - (i) Support IWRM and basin management through technical activities, which include, but not limited to surface water investigations, groundwater investigations and establishment of basin management information systems;
 - (ii) Undertake water allocation planning studies; and
 - (iii) Enhance IWRM institutional and capacity development.

 - (b) Component B: Water Resources and Irrigation Development
 - (i) Support irrigation rehabilitation and upgrading in the Hari Rud river basin of the Beneficiary;
 - (ii) Support irrigation rehabilitation and upgrading in the Murghab river basin of the Beneficiary;
 - (iii) Support water resources development; and
 - (iv) Support mirab development and strengthen mirabs' capacity for O&M.

 - (c) Component C: Agriculture and Livelihood Support Services
 - (i) Assist in improving on farm water management;
 - (ii) Enhance cropping opportunities; and
 - (iii) Support livelihood opportunities for women and the landless.

 - (d) Component D: Capacity Development and Project Management
 - (i) Strengthen capacity of MEW, MAAHF, RBA and other Project participants; and

(ii) Support the establishment of PMU.

3. The Project will also provide consulting services and administrative support for overall Project implementation. The Project is expected to be completed by 31 March 2013.

SCHEDULE 2**Amortization Schedule**

(Western Basins Water Resources Management Project)

<u>Date Payment Due</u>		<u>Payment of Principal</u> (expressed in Special Drawing Rights)*
15 June 2016	SDR	424,500.00
15 December 2016		424,500.00
15 June 2017		424,500.00
15 December 2017		424,500.00
15 June 2018		424,500.00
15 December 2018		424,500.00
15 June 2019		424,500.00
15 December 2019		424,500.00
15 June 2020		424,500.00
15 December 2020		424,500.00
15 June 2021		424,500.00
15 December 2021		424,500.00
15 June 2022		424,500.00
15 December 2022		424,500.00
15 June 2023		424,500.00
15 December 2023		424,500.00
15 June 2024		424,500.00
15 December 2024		424,500.00
15 June 2025		424,500.00
15 December 2025		424,500.00
15 June 2026		848,900.00
15 December 2026		848,900.00
15 June 2027		848,900.00
15 December 2027		848,900.00
15 June 2028		848,900.00
15 December 2028		848,900.00
15 June 2029		848,900.00
15 December 2029		848,900.00
15 June 2030		848,900.00
15 December 2030		848,900.00
15 June 2031		848,900.00
15 December 2031		848,900.00
15 June 2032		848,900.00

*The figures in this column represent SDR equivalents determined as of the respective dates of withdrawal. The arrangements for payment of each maturity are subject to the provisions of Sections 3.04 and 4.03 of the Loan Regulations.

Schedule 2

<u>Date Payment Due</u>		<u>Payment of Principal</u> (expressed in Special Drawing Rights)*
15 December 2032	SDR	848,900.00
15 June 2033		848,900.00
15 December 2033		848,900.00
15 June 2034		848,900.00
15 December 2034		848,900.00
15 June 2035		848,900.00
15 December 2035		848,900.00
15 June 2036		848,900.00
15 December 2036		848,900.00
15 June 2037		848,900.00
15 December 2037		848,900.00
15 June 2038		848,900.00
15 December 2038		848,900.00
15 June 2039		848,900.00
15 December 2039		848,900.00
15 June 2040		848,900.00
15 December 2040		848,900.00
15 June 2041		848,900.00
15 December 2041		848,900.00
15 June 2042		848,900.00
15 December 2042		848,900.00
15 June 2043		848,900.00
15 December 2043		848,900.00
15 June 2044		848,900.00
15 December 2044		848,900.00
15 June 2045		848,900.00
15 December 2045		848,900.00

Total	SDR	42,446,000.00
		=====

*The figures in this column represent SDR equivalents determined as of the respective dates of withdrawal. The arrangements for payment of each maturity are subject to the provisions of Sections 3.04 and 4.03 of the Loan Regulations.

SCHEDULE 3A**Allocation and Withdrawal of Loan Proceeds**General

1. The table attached to this Schedule sets forth the Categories of goods, services and other items to be financed out of the proceeds of the Loan and the allocation of amounts of the Loan to each such Category (hereinafter called the Table). (Reference to "Category" or "Categories" in this Schedule is to a Category or Categories of the Table and reference to "Subcategory" or "Subcategories" in this Schedule is to a Subcategory or Subcategories of a Category.)

Taxes

2. No withdrawals from the Loan Account shall be made in respect of any local taxes.

Percentages of ADB Financing

3. Except as ADB may otherwise agree, the items of the Categories and Subcategories listed in the Table shall be financed out of the proceeds of the Loan on the basis of the percentages set forth in the Table.

4. Notwithstanding paragraph 5 of this Schedule, any contract awarded to a local supplier after effective international competitive bidding or international shopping pursuant to the relevant provisions of Schedule 4 to this Loan Agreement shall be financed out of the proceeds of the Loan on the following basis:

- (a) where the goods procured from a local supplier are manufactured locally, 100 percent of the ex-factory price of the goods supplied (exclusive of any taxes); and
- (b) where the goods procured from a local supplier have been entirely imported, 100 percent of the foreign-currency component of the contract price.

Interest Charge

5. The amount allocated to Category 7 is for financing the interest charge on the Loan during the implementation period of the Project. ADB shall be entitled to withdraw from the Loan Account and pay to itself, on behalf of the Beneficiary, the amounts required to meet payments, when due, of such interest charge.

Reallocation

6. Notwithstanding the allocation of Loan proceeds and the withdrawal percentages set forth in the Table and subject to paragraph 5 of this Schedule,

(a) if the amount of the Loan allocated to any Category appears to be insufficient to finance all agreed expenditures in that Category, ADB may, by notice to the

Schedule 3A

Beneficiary, (i) reallocate to such Category, to the extent required to meet the estimated shortfall, amounts of the Loan which have been allocated to another Category but, in the opinion of ADB, are not needed to meet other expenditures, and (ii) if such reallocation cannot fully meet the estimated shortfall, reduce the withdrawal percentage applicable to such expenditures in order that further withdrawals under such Category may continue until all expenditures thereunder shall have been made; and

(b) if the amount of the Loan then allocated to any Category appears to exceed all agreed expenditures in that Category, ADB may, by notice to the Beneficiary, reallocate such excess amount to any other Category.

Imprest Account: Statement of Expenditures

7. (a) Except as ADB may otherwise agree, the Beneficiary shall establish immediately after the Effective Date, an imprest account at DAB. The imprest account shall be established, managed, replenished and liquidated in accordance with ADB's "Loan Disbursement Handbook" dated January 2001, as amended from time to time, and detailed arrangements agreed upon between the Beneficiary and ADB. The initial amount to be deposited into the imprest account shall not exceed the equivalent of six months expenditures or 10 percent of the Loan and the Grant amount, whichever is lower.

(b) The statement of expenditures (SOE) procedure may be used for reimbursement of eligible expenditures and to liquidate advances provided into the imprest account, in accordance with ADB's "Loan Disbursement Handbook" dated January 2001, as amended from time to time, and detailed arrangements agreed upon between the Beneficiary and ADB. Any individual payment to be reimbursed or liquidated under the SOE procedure shall not exceed the equivalent of \$50,000.

TABLE

ALLOCATION AND WITHDRAWAL OF LOAN PROCEEDS				
(Western Basins Water Resources Management Project)				
CATEGORY				ADB FINANCING
Number	Item	Amount Allocated		Basis for Withdrawal from the Loan Account
		[SDR/\$] Category	Subcategory	
1	Civil Works	24,205,000		
1A	Rehabilitation & Upgrade		23,433,000	100 percent of total expenditure*
1B	Project Offices		772,000	100 percent of total expenditure*
2	Vehicle & Machinery	2,035,000		81 percent of total expenditure*
3	Equipment	912,000		59 percent of total expenditure*
3A	Project Equipment		912,000	100 percent of total expenditure*
4	Training/Fellowships	2,666,000		84 percent of total expenditure*
5	Consulting Services	6,244,000		67 percent of total expenditure*
6	Project Implementation	4,280,000		70 percent of total expenditure*
7	Interest Charge	1,333,000		100 percent of amounts due
8	Unallocated	771,000		
	Total	42,446,000		

* Exclusive of local taxes

SCHEDULE 3B**Allocation and Withdrawal of Grant Proceeds**General

1. The table attached to this Schedule sets forth the Categories of goods, services and other items to be financed out of the proceeds of the Grant and the allocation of amounts of the Grant to each such Category (hereinafter called the Table). (Reference to "Category" or "Categories" in this Schedule is to a Category or Categories of the Table and reference to "Subcategory" or "Subcategories" in this Schedule is to a Subcategory or Subcategories of a Category.)

Taxes

2. No withdrawals from the Grant Account shall be made in respect of any local taxes.

Percentages of ADB Financing

3. Except as ADB may otherwise agree, the items of the Categories and Subcategories listed in the Table shall be financed out of the proceeds of the Grant on the basis of the percentages set forth in the Table.

Reallocation

4. Notwithstanding the allocation of Grant proceeds set forth in the Table,

(a) if the amount of the Grant allocated to any Category appears to be insufficient to finance all agreed expenditures in that Category, ADB may, by notice to the Beneficiary, (i) reallocate to such Category, to the extent required to meet the estimated shortfall, amounts of the Grant which have been allocated to another Category but, in the opinion of ADB, are not needed to meet other expenditures; and (ii) if such reallocation cannot fully meet the estimated shortfall, reduce the withdrawal percentage applicable to such expenditures in order that further withdrawals under such Category may continue until all expenditures thereunder shall have been made; and

(b) if the amount of the Grant then allocated to any Category appears to exceed all agreed expenditures in that Category, ADB may, by notice to the Beneficiary, reallocate such excess amount to any other Category.

Imprest Account; Statement of Expenditures

5. (a) Except as ADB may otherwise agree, the Beneficiary shall use the imprest account established in accordance with paragraph 7 of Schedule 3A to this Financing Agreement. The initial amount to be deposited into the imprest account shall not exceed the equivalent of six months expenditures or 10 percent of the Grant and the Loan amount, whichever is lower.

(b) The statement of expenditures (SOE) procedure may be used for reimbursement of eligible expenditures and to liquidate advances provided into the imprest

Schedule 3B

account, in accordance with ADB's "Loan Disbursement Handbook" dated January 2001, as amended from time to time, and detailed arrangements agreed upon between the Beneficiary and ADB. Any individual payment to be reimbursed or liquidated under the SOE procedure shall not exceed \$50,000.

TABLE

ALLOCATION AND WITHDRAWAL OF GRANT PROCEEDS				
(Western Basins Water Resources Management Project)				
CATEGORY				ADB FINANCING
Number	Item	Amount Allocated		Percentage* of Total
		Category	\$ Subcategory	
1	Vehicles & Machinery	700,000		19 percent
2	Equipment	900,000		91 percent
2A	Mirab Development		900,000	100 percent
3	Training/Fellowships	700,000		16 percent
4	Materials	4,600,000		100 percent
5	Consulting Services	4,300,000		33 percent
6	Project Implementation	2,600,000		30 percent
7	Unallocated	700,000		
	Total	14,500,000		

* Exclusive of local taxes

SCHEDULE 4

Procurement

1. Except as ADB may otherwise agree, the procedures referred to in the following paragraphs of this Schedule shall apply in the procurement of goods and services to be financed out of the proceeds of the Loan and the Grant. In this Schedule and the Attachment hereto, the term "goods" includes equipment and materials; the term "services" does not include consulting services.

2. Procurement of goods and services shall be subject to the provisions of the "Guidelines for Procurement under Asian Development Bank Loans" dated November 2004 (hereinafter called the Guidelines for Procurement), as amended from time to time, which have been furnished to the Beneficiary and the Executing Agency.

3. Procurement of goods and services shall be made without any restriction against, or preference for, any particular supplier or contractor or any particular class of suppliers or contractors, except as otherwise provided in paragraph 6 below.

International Competitive Bidding

4. (a) Each civil works contract estimated to cost the equivalent of more than \$1,000,000 and each supply contract for equipment or materials estimated to cost the equivalent of more than \$500,000 shall be awarded on the basis of international competitive bidding as described in Chapter II of the Guidelines for Procurement.

(b) For contracts to be awarded on the basis of international competitive bidding, there shall be submitted to ADB, as soon as possible, and in any event not later than 90 days before the issuance of the first invitation to bid for the Project, a General Procurement Notice (which ADB will arrange to publish separately) in such form and detail and containing such information as ADB shall reasonably request.

(c) For contracts to be awarded on the basis of international competitive bidding, procurement actions shall be subject to review by ADB in accordance with the procedures set forth in Chapter IV of the Guidelines for Procurement. Each draft invitation to bid, to be submitted to ADB for approval under such procedures, shall reach ADB at least 21 days before it is issued and shall contain such information as ADB shall reasonably request to enable ADB to arrange for the separate publication of such invitation.

International Shopping

5. (a) Each supply contract for equipment or materials estimated to cost the equivalent of \$500,000 but more than \$300,000 (other than minor items) shall be awarded on the basis of international shopping as described in Chapter III of the Guidelines for Procurement.

(b) Each draft invitation to bid and related bid document shall be submitted to ADB for approval before they are issued.

(c) Notwithstanding paragraph 3.03(b) of the Guidelines for Procurement, any award of contract shall be subject to prior ADB approval.

Domestic Preference

6. In comparing bids under international competitive bidding, a margin of preference may be provided, at the option of the Beneficiary and in accordance with the provisions of the Attachment to this Schedule, for

(a) goods manufactured in the territory of the Beneficiary, provided that the bidder offering such goods shall have established to the satisfaction of the Beneficiary and ADB that the domestic value added equals at least 20 percent of the ex-factory bid price of such goods; and

(b) civil works to be carried out by eligible domestic contractors, as defined by ADB.

Local Competitive Bidding

7. (a) Each civil works contract estimated to cost the equivalent of \$1,000,000 or less shall be awarded on the basis of local competitive bidding among prequalified contractors in accordance with the standard procurement procedures of the Beneficiary and acceptable to ADB. Civil works estimated to cost the equivalent of less than \$500,000 may be implemented by communities through an in-kind contribution to subprojects to be coordinated through PMU.

(b) For the first 3 contracts to be awarded on the basis of local competitive bidding, selection and engagement of contractors shall be subject to the approval of ADB. As soon as the bids received have been evaluated, the proposal for award of contract shall be submitted to ADB for approval. For this purpose, ADB shall be furnished with three copies of (i) an account of the public opening of bids; (ii) a summary and evaluation of the bids; (iii) the proposal for award; and (iv) a draft contract or a draft letter of acceptance. Promptly after each contract is awarded, ADB shall be furnished with three copies of the contract as executed.

(c) For the subsequent contracts, bid evaluation and award of contracts shall be subject to post review by ADB. However, if the award or terms of any such contract are not subsequently approved by ADB, the Beneficiary shall be required to refund to ADB any payment made from the Loan or the Grant to finance such contract and to provide the financing from its own or other resources.

Direct Purchase

8. Civil works contract estimated to cost the equivalent of \$100,000 or less, and certain minor or off-the-shelf goods and materials estimated to cost, in the aggregate, the equivalent of \$100,000 or less, may be procured through direct purchase in accordance with

procedures acceptable to ADB. After award, three copies of each contract for such items shall be furnished to ADB.

Rehabilitation works

9. Rehabilitation works involving numerous structures or activities on subprojects may be bundled into contract packages for procurement either through international competitive bidding or local competitive bidding in accordance with paragraphs 4 and 7 of this Schedule, respectively.

Industrial or Intellectual Property Rights

10. (a) The Beneficiary shall ensure that all ADB-financed goods and services procured (including without limitation all computer hardware, software and systems, whether separately procured or incorporated within other goods and services procured) do not violate or infringe any industrial property or intellectual property right or claim of any third party.

(b) The Beneficiary shall ensure that all ADB-financed contracts for the procurement of goods and services contain appropriate representations, warranties and, if appropriate, indemnities from the contractor or supplier with respect to the matters referred to in subparagraph (a) of this paragraph.

Preference for Domestically Manufactured Goods

1. In the procurement of goods through international competitive bidding, goods manufactured in the territory of the Beneficiary may be granted a margin of preference in accordance with the following provisions, provided that the bidder shall have established to the satisfaction of the Beneficiary and ADB that the domestic value added equals at least 20 percent of the ex-factory bid price of such goods. The 20 percent domestic value added applies to the total ex-factory bid price of the goods and not only to one item in a list.

- (a) For application of domestic preference, all responsive bids shall first be classified into the following three categories:

Category I -- bids offering goods manufactured in the territory of the Beneficiary which meet the minimum domestic value added requirement;

Category II -- bids offering other goods manufactured in the territory of the Beneficiary; and

Category III -- bids offering imported goods.

- (b) The lowest evaluated bid of each category shall then be determined by comparing all evaluated bids in each category among themselves, without taking into account customs duties and other import taxes levied in connection with the importation, and sales and similar taxes levied in connection with the sale or delivery, pursuant to the bids, of the goods.
- (c) Such lowest evaluated bids shall next be compared with each other and if, as a result of this comparison, a bid from Category I or Category II is found to be the lowest, it shall be selected for the award of contract.
- (d) If, however, as a result of the comparison under subparagraph (c) above, the lowest bid is found to be from Category III, it shall be further compared with the lowest evaluated bid from Category I. For the purpose of this further comparison only, an upward adjustment shall be made to the lowest evaluated bid price of Category III by adding either
- (i) the amount of customs duties and other import taxes which a nonexempt importer would have to pay for the importation of the goods offered in such Category III bid; or
 - (ii) 15 percent of the CIF bid price of such goods if the customs duties and import taxes referred to above exceed 15 percent of the CIF bid price.

If, after such further comparison, the Category I bid is determined to be the lowest, it shall be selected for the award of contract; if not, the lowest evaluated bid from Category III shall be selected for the award.

2. (a) Bidders applying for the preference shall provide evidence necessary to establish the eligibility of a bid for the preference, including the minimum domestic value added.

(b) The bidding documents shall clearly indicate the preference to be granted, the information required to establish the eligibility of a bid for the preference claimed, and the procedures to be followed in the comparison of bids, all as set forth above.

Domestic Preference for Turnkey Contracts and
Supply-and-Installation Contracts

3. In single-responsibility turnkey (including design-build) contracts and supply-and-installation contracts for large and complex packages, procured through international competitive bidding and in which discrete items of goods are grouped into one contract package and where the CIF cost of goods to be used for or in the permanent works under such contracts is estimated, prior to bidding, to equal or exceed 60 percent of the total cost of such works, a margin of preference shall be applied to the domestically manufactured goods in accordance with the following provisions, provided that the bidder shall have established to the satisfaction of the Beneficiary and ADB that the domestic value added equals at least 20 percent of the ex-factory bid price of such goods. The 20 percent domestic value added applies to the total ex-factory bid price of the goods and not only to one item in a list.

- (a) The margin of preference shall not be applied to the whole package but only to the domestically manufactured goods within the package.
- (b) Goods offered from outside the territory of the Beneficiary shall be quoted CIF and goods offered domestically shall be offered ex-factory or ex-works (free of sales and similar taxes).
- (c) All other cost components, such as design as well as works installation and supervision, shall be quoted separately.
- (d) In the comparison of bids (which should not be classified into Categories I, II or III as with the domestic preference for goods), only the CIF price in each bid of the goods offered from outside the territory of the Beneficiary shall be increased by the applicable duty and other taxes payable by a nonexempt importer or by 15 percent, whichever is less.
- (e) If duties vary from item to item within a package, the appropriate tariff for each item shall apply.
- (f) No margin of preference shall be applied to any associated services or works included in the package.
- (g) Bidders will not be permitted or required to modify the mix of domestic and foreign goods after bid opening.

4. (a) Bidders applying for the preference shall provide evidence necessary to establish the eligibility of a bid for the preference.

(b) The bidding documents shall clearly indicate the preference to be granted, the information required to establish the eligibility of a bid for the preference claimed, and the procedures to be followed in the comparison of bids, all as set forth above.

Preference for Domestic Contractors

5. In the selection of civil-works contractors, single-responsibility turnkey (including design-build) contractors or supply-and-installation contractors where the CIF cost of goods to be used for or in the permanent works under such contracts is less than 60 percent of the total cost of such works, eligible domestic contractors, as defined below, through international competitive bidding may be granted a margin of preference in accordance with the following provisions.

- (a) For application of domestic preference, all responsive bids shall first be classified into the following two categories:

Category I -- bids offered by domestic contractors and joint ventures eligible for the preference in accordance with the applicable criteria as set forth in paragraph 6 below; and

Category II -- bids offered by other contractors.

- (b) The lowest evaluated bid of each category shall then be determined by comparing all evaluated bids in each category among themselves.
- (c) Such lowest evaluated bids shall next be compared with each other and if, as a result of this comparison, a bid from Category I is found to be the lowest, it shall be selected for the award of contract.
- (d) If, however, as a result of the comparison under subparagraph (c) above, the lowest bid is found to be from Category II, it shall be further compared with the lowest evaluated bid from Category I. For the purpose of this further comparison only, an upward adjustment shall be made to the lowest evaluated bid price of Category II by adding an amount equal to seven-and-one-half percent of the bid price. If, after such comparison, the Category I bid is determined to be the lowest, it shall be selected for the award of contract; if not, the lowest evaluated bid from Category II shall be selected.

6. (a) To be eligible for the preference set forth in paragraph 5 above, domestic contractors must meet the following criteria:

- (i) firms are registered in the territory of the Beneficiary;
- (ii) firms have majority ownership by nationals of the Beneficiary; and
- (iii) firms will not subcontract more than 50 percent of the total value of their work to foreign contractors.

(b) A joint venture between a domestic contractor and its foreign partner shall be eligible for the preference only if it meets the following criteria:

- (i) the domestic partner(s) is individually eligible for the preference according to the criteria stated above;
- (ii) the domestic partner(s) would not qualify for the contract works on technical or financial grounds without the foreign participation; and
- (iii) the domestic partner(s) will, under the arrangements proposed, carry out at least 50 percent of the contract works measured in terms of value.

(c) Contractors applying for the preference shall be required to provide, as part of the data for qualification, necessary information, including details of ownership, for determining whether, according to the applicable criteria, a particular firm or group of firms qualifies for the preference.

7. The bidding documents shall clearly indicate the preference to be granted, the information required to establish the eligibility of firms for the preference claimed, and the procedures to be followed in the comparison of bids, all as set forth above. Bidders applying for the preference shall provide such additional information in support of such eligibility as may be requested by the Beneficiary and ADB.

SCHEDULE 5

Consultants

1. The services of consultants shall be utilized in the carrying out of the Project. The terms of reference of the consultants shall be as determined by agreement between ADB and the Beneficiary.

2. The selection, engagement and services of the consultants shall be subject to the provisions of this Schedule and the provisions of the "Guidelines on the Use of Consultants by Asian Development ADB and Its Borrowers" dated January 2005 (hereinafter called the Guidelines on the Use of Consultants), as amended from time to time, which have been furnished to the Beneficiary.

3. Selection and engagement of the consultants shall be made without any restriction against, or preference for, any particular consultants or any particular class of consultants.

4. The consultants shall be selected and engaged as a firm by the Beneficiary using the quality-and-cost-based selection (QCBS) method in accordance with the following procedures.

(a) Invitation for technical and financial proposals. The invitation to submit technical and financial proposals (hereinafter called the Request for Proposals or RFP) and all related documents shall be approved by ADB before they are issued. For this purpose, three copies of the draft RFP, the names of consultants to be short-listed, the proposed criteria for evaluation of both proposals, a draft consultancy contract, and other related documents shall be submitted to ADB. A period of at least 45 days shall be allowed for submission of both proposals for full technical proposals and at least 35 days for simplified technical proposals. A copy of the final RFP as issued, together with all related documents, shall be furnished to ADB for information promptly after issuance. The validity period for the technical and financial proposals as provided in the RFP shall usually not exceed three months from the date specified for submission of the technical and financial proposals. The approval of ADB shall be obtained for any request to extend such validity period. Except as ADB may otherwise agree, the validity period, including any extensions, shall not exceed a maximum total period of six months. If the contract is not signed within the validity period in accordance with the Guidelines on the Use of Consultants, the selection shall be invalid and the selection and engagement process as provided in this paragraph shall be followed again.

(b) Evaluation and scoring of technical proposals. Immediately after the technical proposals have been evaluated and scored, approval of ADB shall be obtained to the evaluation and scoring of the technical proposals. For this purpose, ADB shall be furnished with three copies of the technical proposals.

(c) Public opening of financial proposals. The financial proposals of the firms whose technical proposals meet the minimum qualifying technical score shall be opened publicly after adequate notice is given to such firms or their representatives to attend the opening of the financial proposals.

(d) Evaluation and scoring of financial proposals and ranking of technical and financial proposals. After the financial proposals have been evaluated and scored, the

Schedule 5

ranking of the technical and financial proposals shall be made. Before negotiations are started with the first-ranked consultants, approval of ADB shall be obtained to the evaluation and scoring of the financial proposals and the ranking of the technical and financial proposals. For this purpose, ADB shall be provided with three copies of (i) the evaluation and scoring of the financial proposals and (ii) the ranking of the technical and financial proposals.

(e) Execution of contract. After the conclusion of negotiations but before the signing of the contract, ADB shall be furnished with the contract as negotiated for approval. Promptly after the contract is signed, ADB shall be furnished with three copies of the signed contract. If any substantial amendment of the contract is proposed after its execution, the proposed changes shall be submitted to ADB for prior approval.

5. Individual consultants shall be selected and engaged by the Beneficiary in accordance with the following procedures.

(a) A list of the candidates together with their qualifications and their ranking and a draft contract shall be furnished to ADB for approval before the selection of consultants.

(b) Promptly after the contract is negotiated, ADB shall be furnished with a copy of the draft negotiated contract for approval. As soon as the contract is signed, ADB shall be furnished with three copies of the signed contract.

(c) If any substantial amendment of the contract is proposed after its execution, the proposed changes shall be submitted to ADB for prior approval.

6. Non-governmental organizations (NGOs) may be engaged to support activities related to Component C and mirab development, O&M subcomponent of Component B, and other activities necessary for implementation of the Project. Selection and engagement of prequalified NGOs may be done in accordance with procedures acceptable to ADB. If there is a limited number of NGOs, direct negotiation may be used in selection and engagement of NGOs, subject to prior approval of ADB.

7. The Beneficiary shall ensure that all ADB-financed contracts with consultants contain appropriate representations, warranties and, if appropriate, indemnities from the consultants to ensure that the consulting services provided do not violate or infringe any industrial property or intellectual property right or claim of any third party.

SCHEDULE 6

Execution of Project and Operation of Project Facilities; Financial Matters

Executing Agency and Implementing Agencies

1. MOF shall be the Executing Agency for the Project. MEW, MAAHF and MMI shall be the Implementing Agencies for the Project. MEW shall be responsible for all water resources management activities and irrigation rehabilitation and upgrading. MAAHF shall be involved in delivery of the agricultural support services. MMI in collaboration with MEW, shall be responsible for carrying out groundwater activities.

2. MEW and MAAHF, with assistance from ADB and the Project consultants, shall identify and depute professional and technical staff to not only support the Project, but to establish and sustain the Irrigation Department and RBA after the Project completion. In the event that MEW and MAAHF cannot identify and depute the above-mentioned staff, then within 3 years of the Effective Date, MEW and MAAHF shall sanction the posts and engage professional and technical staff as permanent employees for the purposes described in the preceding sentence. The Beneficiary shall ensure that staff hired for the Project and who receive international training through the Project will remain through the Project's duration and remain with MEW and MAAHF for an adequate period of time to ensure the sustainability of the Project benefits.

PSC

3. The Beneficiary shall establish in Kabul PSC, co-chaired by the Minister or Deputy Minister of MEW and MOF, and comprised of representatives of MFA, MAAHF, MMI, MRRD and other relevant ministries at deputy-minister or equivalent level. PSC shall meet at least once a year or more frequently at the request of the Chair to provide policy guidance and review Project performance.

PMU and Project offices

4. Within 3 months of the Effective Date, MEW shall establish PMU in Herat comprised of representatives of MEW, MOF, MAAHF, MMI, the Governor of Herat's Office, and the Project consultants. PMU shall be headed by a Project Director, appointed by MEW. The Project Director shall report to the Deputy Minister of MEW (Head of Irrigation) and shall be responsible for overall Project activities. PMU shall be responsible for day-to-day management of the Project, including, but not limited to, consultants/NGO recruitment, procurement, compliance of subprojects with ADB's safeguard policies, financial management, monitoring and evaluation. PMU shall provide overall inter-agency coordination for the Project activities. Unless otherwise agreed between PSC and ADB, PMU will have about 30 professional staff, 43 technical staff and 54 support staff.

5. Within 1 year of the Effective Date, PMU shall establish a Project Office in Obe, Herat province, to support Project activities in the upper Hari Rud river basin. PMU shall also establish another Project Office in Kabul within 1 year of the Effective Date, to coordinate activities with MOF and MEW headquarters until MEW has the capacity to manage activities under the Project. Within 3 months of opening the Project Offices in Obe

and Kabul, MEW shall appoint Deputy Project Directors for each of the Project Offices, respectively.

PIC

6. Within 3 months of the Effective Date, a PIC, chaired by the representative of the Governor's Office of Herat and comprising high-ranking technical officers from line agencies (MEW, MOF, MAAHF, MMI, MRRD, MWA), provincial authorities, and development partners shall be formed by the Project Director to coordinate Project implementation and technical issues. PIC shall have the Project Director as its secretary and shall meet at least twice a month or more frequently at the request of its secretariat or its chair. PIC shall be responsible for overall resettlement, while PMU shall manage day-to-day Project activities and develop and implement RPs. PIC shall be responsible for selection of subprojects, while evaluation of subprojects shall be done by PMU.

7. Within 1 year of the Effective Date, MEW with assistance from PMU shall establish a management cell in Herat, supported by a BWC comprising representatives from MEW, MOF, MMI, MAAHF, MRRD, provincial and municipal authorities of the Beneficiary, mirabs and other stakeholders to plan and execute technical functions associated with Component A. MEW staff shall be trained for technical and planning functions to serve as a secretariat to BWC and RBA.

RBA

8. Within 6 years of the Effective Date, MEW shall establish and develop the RBA funded with an adequate flow of resources to support its sustainability. RBA shall be responsible for management of the Beneficiary's water resources.

9. Within 5 years of the Effective Date, MEW with PMU support shall have completed a study and proposed a funding mechanism to support the RBA based on cost recovery from all Hari Rud basin water users.

Groundwater Regulatory Framework

10. Within 7 years of the Effective Date, the Beneficiary shall ensure that a groundwater regulatory framework consistent with the Beneficiary's government policy is developed to manage sustainable development of basin groundwater and to protect karez and spring water supplies.

Subprojects

11. Selection of the subprojects shall be undertaken by PIC and approved by MEW in Kabul. Selection of the first 5 subproject shall be approved by ADB, and if found acceptable, further subproject selection will not require ADB approval. However, if ADB determines that a subproject did not meet the agreed selection criteria, the Beneficiary shall be required to refund to ADB any payment made from the Loan or the Grant to finance such subproject and to provide the financing from its own or other resources.

Schedule 6

12. Except as ADB may otherwise agree, all subprojects shall meet the agreed selection criteria, which includes, but not limited to, the following:

- (a) subprojects focus on (i) irrigation and some flood protection; (ii) weirs for control of diversions of ephemeral flows and increased groundwater recharge; (iii) other flood control activities; (iv) rural water supply systems; (v) small storages filled from direct runoff or water harvesting of diverted flows for domestic and irrigation supply purposes; and (vi) development and exploitation of groundwater resources by use of infiltration galleries or pumping technology; and
- (b) approximately \$3.5 million will be invested in non irrigation works, flood protection, small storage, weirs, and water supply. However, if these subprojects are not viable, funds will be reinvested in irrigation rehabilitation.

13. The Beneficiary shall ensure that an exclusionary approach is used versus a ranking or weighting system. The Beneficiary shall ensure that, where appropriate, in addition to the criteria listed in paragraph 12 of this Schedule, the following screening criteria is used in selection of subprojects:

Economic and Financial

- (a) the subproject meets the ADB requirement of at least 12% economic internal rate of return (EIRR);
- (b) the projected incremental increases in farm income exceed the projected incremental increase in annual recurrent costs; and
- (c) the subproject will have adequate financial benefits to ensure the subproject's financial sustainability.

Technical

- (d) the site is suitable for the rehabilitation or construction of new irrigation infrastructure using technologically simple structures or other simple and appropriate technology;
- (e) the soils and topography are suitable for constructing irrigation works and supporting irrigated agriculture, including adequate natural drainage, and not subject to the risk of excessive settlement, poor stability or severe erosion; and
- (f) the seasonal water supply is reliable enough to satisfy farmers' risk tolerance.

Social

- (g) communities have pledged to abstain from poppy cultivation;
- (h) the intended communities have indicated enthusiasm for the project and a willingness to operate and manage it in a cohesive fashion as demonstrated through willingness to contribute cash or in-kind labor to the subproject

Schedule 6

- development and through willingness to develop and commit to execution of an operation and maintenance plan;
- (i) the community(s) have an adequate decision making structure for identifying needs; accessing resources; and distributing benefits in an equitable manner to all members of the irrigation community;
 - (j) the subproject will have a positive impact on a significant portion of the local community;
 - (k) the subproject will not negatively affect communities not involved in execution of the subproject; and
 - (l) resettlement or compensation impacts are acceptable to the community and in accordance with ADB's safeguard policies.

Agriculture

- (m) the subproject has the technical potential to produce higher yields through improved irrigation facilities and cultivation practices, and suitable terrain and soils;
- (n) the subproject provides the opportunity for an increase in cropping intensity; and
- (o) the subproject provides the possibility for co-implementation of other Project components: including on-farm water management techniques, agricultural support services, and innovative irrigation technology.

Environment

- (p) the subproject will not have a significant negative effect on established water or land users in the watershed;
- (q) the subproject is clear of encroachment or negative impacts upon existing or proposed protected areas, historical, cultural or religious sites;
- (r) the subproject be clear of encroachment or negative impacts upon any existing biodiversity sites and/or endangered species of flora and fauna;
- (s) the subproject is free from any significant negative effects on surface water hydrology and/or natural drainage; and
- (t) the subproject is free from any significant negative environmental effects such as catchment degradation, increased silt loads, water pollution, among others.

Security

- (u) the subproject free from any known exceptional security risk.

14. The Beneficiary shall ensure in working with the local communities that poppy cultivation does not take place in the subproject areas.

Land Acquisition, Involuntary Resettlement, Environment and Indigenous Peoples

15. The Beneficiary shall ensure that, to the extent possible, subprojects do not entail any land acquisition and/or involuntary resettlement. In the event land acquisition and/or involuntary resettlement are unavoidable for any subproject, then the Beneficiary shall ensure that an RP for such subproject is prepared in accordance with (i) the Beneficiary's

Schedule 6

applicable laws and regulations, (ii) *ADB's Policy on Involuntary Resettlement* (1995), as amended from time to time, and agreed Resettlement Framework; and (iii) detailed design of the subproject. The Beneficiary shall ensure that there is a reporting from the external monitor on implementation of the RPs. The RPs shall be disclosed to affected persons and project reporting shall provide information on resettlement.

16. The Beneficiary shall ensure that adequate environmental mitigation measures, in accordance with (i) ADB's *Environment Policy* (2002), and (ii) the Beneficiary's environmental laws and regulations are incorporated into all subproject designs, and that these measures are incorporated during subproject implementation. The Beneficiary shall ensure that all subprojects which require an IEE, shall include IEE in the proposal.

17. The Beneficiary shall ensure that subprojects do not negatively affect indigenous peoples. In the event of involvement of indigenous people into any of subprojects, the Beneficiary shall take all necessary actions required under ADB's *Policy on Indigenous Peoples* (1998).

Local Consultations and Gender

18. The Beneficiary shall ensure that a specific plan for local consultations to address safety, social, and cultural issues, during Project implementation, is included in the bidding documents. The Beneficiary shall further ensure that civil works contractors provide men and women equal employment opportunities without any differentiation of wages for equal work. The mechanisms for maximizing local employment benefits will be included in the Project design and bidding documents.

19. The Beneficiary shall ensure that, in accordance with ADB's *Policy on Gender and Development* (1998), (a) project interventions take into account different impacts and needs of women and men; (b) special features are built into subprojects to facilitate and encourage women's participation and to ensure tangible benefits to women; (c) project reporting reflects gender specific issues and gender disaggregated data, where applicable.

20. The Beneficiary shall ensure that during implementation of water resources and irrigation development component, women are consulted and confirm the positioning and design of non-irrigation infrastructure such as bridges.

Security

21. The Beneficiary shall provide adequate security for the smooth and uninterrupted implementation of the Project. The Beneficiary shall be responsible for removal of mines and unexploded ordnance, as necessary, in the subproject area.

Anticorruption

22. The Beneficiary acknowledges that consistent with its commitment to good governance, accountability, and transparency, ADB reserves the right to investigate, directly or through its agents, any alleged corrupt, fraudulent, collusive or coercive practices relating to the Project. The Beneficiary shall ensure that all contracts financed by ADB in connection with the Project include provision specifying the right of ADB to audit and examine the

records and accounts of MOF and each of the Implementing Agency, and all contractors, suppliers, consultants and other service providers as the relate to the Project. All external costs related to the audits and investigations shall be borne by the Project.

Accounts, Audits and Reports

23. MOF, MEW and PMU shall maintain separate records and accounts in accordance with generally accepted accounting principles, consistently applied, and adequate to identify (i) goods and services financed from the loan proceeds, (ii) expenditures incurred for the Project and subprojects, and (iii) use of local funds. The accounts and related financial statements will be audited annually in accordance with sound auditing standards by independent auditors acceptable to ADB. In addition, ADB may conduct spot audits and random checks on the flow of funds and their use at any time during the Project implementation.

24. MEW and PMU shall prepare monthly financial statements and quarterly progress reports on (i) physical and financial progress of activities against the targets, (ii) progress on the institutional and capacity aspects, (iii) issues affecting project implementation and their corrective measures, and (iv) other agreed upon monitoring parameters. MEW and PMU will prepare a comprehensive annual report and submit all reports to ADB through the MOF not later than 2 months after the reporting period. Within 3 months of physical completion of the Project, the Beneficiary will submit a comprehensive project completion report in ADB's standard format with additional details as may be requested by ADB.

Project Performance Monitoring and Evaluation

25. The Beneficiary shall ensure that within 4 months of the Effective Date, MEW and PMU establish performance Monitoring and Evaluation (M&E) procedures acceptable to ADB. M&E parameters shall be developed as a part of the project administration memorandum (PAM) with assistance from ADB and shall be consistent with ADB's Project Performance Management System (PPMS).

Project Reviews

26. During the initial 3 years of the Effective Date, ADB and the Beneficiary will carry out at least semi-annual reviews to (i) determine if implementation arrangements are in place and appropriate, (ii) assess progress in capacity development, (iii) review subproject selection and implementation, (iv) ensure compliance with ADB safeguard policies, and (v) assess any unforeseen impacts. ADB and the Beneficiary shall undertake a comprehensive mid-term review (MTR) by December 2009 to identify problems in implementation arrangements and define needed changes to achieve the Project objectives. The Beneficiary shall ensure that 2 months prior to MTR, PMU submits a detailed progress report on Project implementation to ADB.