

**FRAMEWORK FINANCING AGREEMENT**  
**(AFG: Energy Supply Improvement Investment Program)**

**Parties** This Framework Financing Agreement (“FFA”) dated 2 November 2015 is between the Islamic Republic of Afghanistan (“Afghanistan”) and Asian Development Bank (“ADB”).

**MFF Investment Program** Afghanistan is committed to and will implement the Energy Supply Improvement Investment Program (“ESIIP”), which is an integral part of Afghanistan’s National Energy Supply Program (“NESP” or “Investment Program”). Both the ESIIP and the Investment Program are described in Schedule 1 hereto.

The total cost of the ESIIP over the period 2016 to 2025 is expected to be US\$1.22 billion equivalent. The total cost of the Investment Program over the period 2013 to 2030 is expected to be US\$10.10 billion equivalent.

**Multitranche Financing Facility** The Multitranche Financing Facility (the “Facility”) is intended to finance projects, subprojects or components under the Investment Program, provided that such projects, subprojects or components comply with the criteria set out in Schedule 4 hereto and that understandings set out in this FFA are complied with.

The projects, subprojects or components would include:

- (i) Preparation of feasibility studies and designs;
- (ii) Infrastructure improvements;
- (iii) Infrastructure operation and maintenance; and
- (iv) Capacity support and institutional reforms.

Preparation of feasibility studies and designs includes development of future critical projects, subprojects or components. Infrastructure improvements will include construction, rehabilitation, upgrading, and repair of energy infrastructure programmed in the Afghanistan National Development Strategy.<sup>1</sup> The infrastructure operation and maintenance component is to increase the sustainability of the ESIIP in particular and energy infrastructure in general. The capacity support and institutional reforms component is to increase the implementation efficiency and sustainability of the physical investments under the ESIIP and to help strengthen the capacity of Da Afghanistan Breshna Sherkat (“DABS”), the Ministry of Energy and Water (“MEW”), and the Ministry of Mines and Petroleum (“MOMP”).

This FFA does not constitute a legal obligation on the part of ADB to commit any financing. At its sole discretion, exercised reasonably, ADB has the right to deny any financing request made by Afghanistan, cancel the uncommitted portion of the Facility, and withdraw Afghanistan’s right to request any financing tranche under the Facility. Financing tranches may be made available by ADB provided matters continue to be in accordance with the general understandings and expectations on which the Facility is based and which are laid out in this FFA.

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<sup>1</sup> 2008. Government of Afghanistan. *Afghanistan National Development Strategy (2008-2013). A Strategy for Security, Governance, Economic Growth and Poverty Reduction.*

This FFA does not constitute a legal obligation on the part of Afghanistan to request any financing. Afghanistan has the right not to request any financing under the Facility. Afghanistan also has the right at any time to cancel any uncommitted portion of the Facility.

Afghanistan and ADB may exercise their respective rights to cancel the Facility or any uncommitted portion thereof, and ADB may exercise its right to refuse a financing request, by giving written notice to such effect to the other party. The written notice will provide an explanation for the cancellation or refusal and, in the case of a cancellation, specify the date on which the cancellation takes effect.

### ***Financing Plan***

The financing plan for the ESIP is summarized below.

<b>Financing Source</b>	<b>Total (\$ million)</b>	<b>Share (%) of Total</b>
Afghanistan	20	0.2
Asian Development Bank	750	7.4
Afghanistan Infrastructure Trust Fund	450 <sup>2</sup>	4.5
<b>Sub Total (ESIP)</b>	<b>1,220</b>	<b>12.1</b>
Other sources of financing (which may include multilateral and bilateral financial institutions, development funds, public-private or private cofinancing, and Afghanistan counterpart funding)	8,880	87.9
<b>Total (Investment Program)</b>	<b>10,100</b>	<b>100.0</b>

### **Financing Terms**

ADB will provide grants and administer cofinancing to finance projects, subprojects and components under the Investment Program, as and when the latter are ready for financing, provided Afghanistan is in compliance with the understandings hereunder, and the projects, subprojects or components are in line with those same understandings. Each grant and administered cofinancing will constitute a tranche.

Each tranche may be financed under terms different from the financing terms of previous or subsequent tranches. The choice of financing terms will depend on the project and ADB's financing policies, all prevailing on the date of signing the legal agreement for such tranche.

Tranches may be provided in sequence or simultaneously, and some may overlap in time with each other.

There is no maximum or minimum size for a tranche.

<sup>2</sup> Discussions are ongoing with the ADB-managed Afghanistan Infrastructure Trust Fund (AITF) cofinancing partners including the governments of Australia, Belgium, Canada, Germany Japan, the Netherlands, and the United Kingdom for their contributions to the AITF. Instruments of contribution in the amount of \$75 million will be executed prior to the approval of the first tranche under the Facility.

Commitment charges or guarantee fees are not payable on the Facility.

**Amount**

The maximum financing amount available under the Facility is one billion two hundred million dollars (\$1,200,000,000). It will be provided in individual tranches from ADB's Special Funds resources, i.e., Asian Development Fund ("ADF") resources,<sup>3</sup> and from cofinancing from the Afghanistan Infrastructure Trust Fund to be administered by ADB ("AITF")<sup>4</sup> in the following manner.

Grants from ADF: \$750 million

Grants from AITF Cofinancing: \$450 million<sup>5</sup>

Financing from ADF resources will be subject to availability, allocation, and Afghanistan's access to such resources in accordance with the applicable policies and procedures of ADB prevailing from time to time.

**Availability Period**

The closing date of any grant (whether from ADF resources or AITF cofinancing under any tranche will be on or before 31 December 2025. The last financing tranche is expected to be executed no later than 30 June 2022.

**Terms and Conditions**

Afghanistan will cause the proceeds of each tranche to be applied to the financing of expenditures of the Investment Program, in accordance with conditions set forth in this FFA and the legal agreements for each tranche.

**Execution**

The Executing Agencies will be DABS, for the power component of the Investment Program; MEW for the renewable energy component of the Investment Program; and MOMP for the gas and hydrocarbon component of the Investment Program. The Executing Agencies will implement the Investment Program in accordance with the principles set forth in Schedule 1 to this FFA, and as supplemented in the legal agreements for each tranche.

**Periodic Financing Requests**

Afghanistan may request, and ADB may agree, to provide grants or administer cofinancing under the Facility to finance the Investment Program and its related projects, subprojects and components upon the submission of a Periodic Financing Request ("PFR"). Each PFR should be submitted by Afghanistan. Afghanistan will make available to one or more of the Executing Agencies the proceeds of the tranche in accordance with the related PFR, and the legal agreements for the tranche.

There will be no maximum or minimum size for a tranche. ADB will review the PFRs and, if found satisfactory, prepare the related legal agreements.

<sup>3</sup> Provisions of the Special Operations Grant Regulations applicable to grants made by ADB from its Special Funds Resources, dated 7 February 2005, will apply to each grant, subject to modifications, if any, that may be included in the grant agreement.

<sup>4</sup> Provisions of the Externally Financed Grant Regulations applicable to grants made by ADB from external cofinancing sources administered by ADB dated 8 April 2009, will apply to each grant from the AITF cofinancing, subject to modifications, if any, that may be included in the grant agreement.

<sup>5</sup> See footnote 2

The projects, subprojects or components for which financing is requested under the PFR will be subject to the selection criteria set out in Schedule 4 hereto, satisfactory due diligence, and preparation of relevant safeguards and fiduciary frameworks and other documents. The Facility will be implemented in accordance with the general framework set out in Schedule 3 to this FFA, and the Facility Administration Manual agreed between Afghanistan and ADB.

Until notice is otherwise given by Afghanistan, the Ministry of Finance will be Afghanistan's authorized representative for purposes of executing PFRs.

**General Implementation Framework**

The Facility will be implemented in accordance with the general framework set forth in Schedule 3 hereto.

**Procedures**

Tranches to be provided under the Facility will be subject to the following procedures and undertakings:

- (a) Afghanistan will have notified ADB of a forthcoming PFR in advance of the submission of the PFR;
- (b) Afghanistan will have submitted a PFR in the format agreed with ADB;
- (c) ADB may, in its sole discretion, decline to authorize the negotiation and execution of any legal agreement for a tranche; and
- (d) If ADB confirms acceptance of the PFR, the legal agreements will be negotiated and executed by the parties.

**PFR information**

The PFR will be substantially in the form attached hereto, and will contain the following details:

- (i) Grant or cofinancing amount;
- (ii) Description of projects, subprojects or components to be financed;
- (iii) Cost estimates and financing plan;
- (iv) Implementation arrangements specific to such projects, subprojects or components;
- (v) Confirmation of the continuing validity of and adherence to the understandings in this FFA;
- (vi) Confirmation of compliance with the provisions under previous Grant Agreements and Project Agreements, as appropriate; and
- (vii) Other information as may be required under the Facility Administration Manual, or reasonably requested by ADB.

**Safeguards**

Attached as Schedule 5 are the references to safeguard frameworks that will be complied with during the implementation of the Facility.

ADB's safeguards policies in effect as of the date of signing of the legal agreements for a tranche will be applied with respect to the projects, subprojects or components financed under such financing tranche.

**Procurement**

All goods and services to be financed under the Facility will be procured in accordance with ADB's *Procurement Guidelines* (2015, as amended from time to time).

**Consulting Services**

All consulting services to be financed under the Facility will be procured in accordance with ADB's *Guidelines on the Use of Consultants* (2013, as amended from time to time).

<b>Retroactive Financing and / or Advance Contracting</b>	Under each tranche, ADB may, subject to its policies and procedures, allow upon request advance contracting of goods, works, and consulting services. Any approval of advance contracting will not constitute a commitment by ADB to finance the project. Retroactive financing will be considered for all tranches. For each tranche, ADB management may permit retroactive financing of eligible expenditures incurred for goods, works, and consulting services no earlier than 12 months before the grant signing date and not exceeding 20% of the grant amount.
<b>Disbursements</b>	Disbursements will be made in accordance with ADB's <i>Loan Disbursement Handbook</i> (2015, as amended from time to time).
<b>Monitoring, Evaluation, and Reporting Arrangements</b>	DABS, MEW, and MOMP will develop a Facility performance monitoring system and a project performance monitoring system to monitor performance of their respective projects, subprojects or components and the ESIP acceptable to ADB. Baseline data will be collected through consultations, field observations, and measurements made by the contractors, supervision engineers, and their own personnel. Collection of data will continue during implementation, and data will be analyzed every 12 months. Results of the analyses and any corrective measures will be submitted as part of the quarterly reports. The Executing Agencies will also perform a complete analysis of related primary and secondary data on impacts and outcomes. The results of that analysis will be contained in the Project Completion Report to ADB.  Schedule 2 hereto sets out the Design and Monitoring Framework for the Facility, against which implementation effectiveness will be evaluated.
<b>Undertakings</b>	Attached as Schedule 6 are the undertakings provided by Afghanistan.
<b>Representations and Warranties</b>	<b>Energy Sector Specific</b> (a) Afghanistan is committed to the development of its energy sector and implementation of the Investment Program substantially in accordance with the financing plan and power sector road map outlined in Schedule 1 hereto. (b) A power purchase and sales agreement has been signed between Afghanistan and Turkmenistan on terms and conditions commercially viable for DABS.

Signed in counterparts and exchanged electronically on the day and year first above.

ISLAMIC REPUBLIC OF AFGHANISTAN

ASIAN DEVELOPMENT BANK

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Mr. Mustafa Aria  
Aid Management Director  
Ministry of Finance

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Thomas Panella  
Country Director  
Afghanistan Resident Mission

## SCHEDULE 1

### MFF CONSTITUENTS

#### A. Road Map

1. The National Energy Supply Program (NESP) of the Government of Afghanistan builds upon its power sector master plan (2012–2032) and gas development master plan (2015–2035), guided by the Afghanistan National Development Strategy (2008–2013). The NESP roadmap, approved in 2013, and covering a period till 2030, underpins on energy supply, transmission and distribution, energy efficiency, reinforcing institutions and private sector participation, and capacity support and regulatory strengthening.<sup>6</sup> It underscores an urgent need to construct indigenous generation<sup>7</sup> (gas, coal and hydro power). However, since domestic projects will take time to develop (footnote 4), to meet forecasted demand, high reliance on imports will continue in the medium term. Building a 500 kV transmission ring which connects major load centers would accelerate expansion of the distribution network and increase the electrification rate in 4 major cities. The roadmap also stresses phased development of renewable energy projects in 15 off-grid provinces,<sup>8</sup> development and certification of gas reserves, and rehabilitation of existing gas wells to support anchor loads and energy intensive industries, as identified in gas development master plan.<sup>9</sup> ADB is assisting the government in preparing renewable energy projects and rehabilitation of 8 gas wells to generate 2 million cubic meters of gas per day. The NESP links Afghan economy to long-term inclusive growth through sustainable energy supplies (power and gas) which underscores security, productivity, income growth, human development, and improved environment through provision of clean energy.

2. In Afghanistan, coordination of energy investment plans is challenging due to (i) uncertainty in development budget in short to medium term leads to lack of integrated planning; and (ii) more than 50% of sector investments being funded by bilateral donors and military funds bypass the government's core budget and planning systems, thereby leaving sector ministries and agencies with limited information on these donor funded projects, plans, and activities. The government's National Energy Supply Program (NESP) aims at provision of sufficient energy to support economic growth of 10% and to reduce poverty by 3% per annum under the fiscal realities of Afghanistan. By 2032, with nearly \$10.1 billion funded through government, donors, public-private partnerships and private sector, NESP envisages to (i) increase in electrification rate from 30% to 83% through an integrated transmission network; and (ii) increase domestic generation from 20% to 67% and strengthen power exchange options with neighboring systems.

#### B. Strategic Context

3. Afghanistan is among the lowest in electricity usage globally, around 100 kilowatt hours per year per capita consumption with only 30% of its population is connected to the

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<sup>6</sup> NESP comprises of a total investment of \$10.1 billion, of which, \$7.3 billion for generation and network integration, \$1.7 billion for major transmission links, and \$1.1 billion for sub-transmission and distribution in provinces.

<sup>7</sup> Gas and coal power plants are envisaged to be developed by the private sector and development partners are assisting in rehabilitating existing and constructing new hydro plants.

<sup>8</sup> ADB. 2014. *Technical Assistance for the Islamic Republic of Afghanistan for Renewable Energy Development*. Manila (TA 8808-AFG, \$1.0 million, approved on 12 December).

<sup>9</sup> ADB. 2013. *Technical Assistance to the Islamic Republic of Afghanistan for Gas Development Master Plan*. Manila (TA 8401, \$1,500,000, approved on 11 July).

grid. Peak demand in 2014 stood at 750 megawatts, although the suppressed demand is estimated at 2,500 MW. In 2014, almost 80% of power was supplied by imported power and demand in major cities is increasing annually at 25%. To meet this demand growth, Afghanistan will develop a combination of domestic fossil fuel, hydropower and renewable energy generation projects complemented by diversified import solutions. The reliability of the grid, particularly in Kabul, has improved significantly over the past few years. But load shedding and outages are still a sufficiently common occurrence that few have given up their private generators.

4. Although significant renewable energy and fossil fuel resources exist, these need to be developed through public and private investments. In 2014, nearly 97% of country's oil needs were imported. Infrastructure deficit in gas sector restricts identified reserves of 75 billion cubic meters within 150 square kilometers area only. The key challenges are: (i) lack of generation capacity, (ii) increasing constraints in transmission and distribution systems, (iii) a clear off-grid rural electrification and renewable energy strategy, (iv) policies and framework for promoting energy efficiency, (v) weak financial management and sustainability of sector entities, and (vi) inadequate corporate governance structures.

5. In Afghanistan, harmonizing energy investment plans remain challenging due to (i) uncertainty in development budget leading to lack of integrated planning; and (ii) more than 50% of sector investments being funded by bilateral donors and military funds bypass the government's core budget and planning systems, thereby leaving government with limited information on these donor funded projects, plans, and activities.<sup>10</sup> Since bilateral development partners work on annual planning cycles, with budgets available on a *use it or lose it basis*, and project priorities may change due to fragile and post conflict situation in Afghanistan, therefore ADB-assisted Inter-ministerial Commission for Energy (ICE) has been effective to streamline sector investments.<sup>11</sup> The MFF comprises of priority NESP projects which have been extensively discussed and agreed in ICE and approved by the Office of the President.

6. After security, access to energy is the highest priority of households and businesses in Afghanistan.<sup>12</sup> Growth in energy demand has been a multiple of nearly 1.8 times of economic growth during 2005–2012. Afghanistan is globally among the lowest 5% in per capita energy consumption and is a net energy importer. In 2014, more than 80% (1,000 megawatts [MW]) of its total power supply (1,247 MW) was met from Iran (17%), Tajikistan (25%), Turkmenistan (12%), and Uzbekistan (27%), with remaining 19% (237 MW) generated through indigenous hydropower and thermal sources. Lack of domestic generation remains the key challenge for energy security in Afghanistan.<sup>13</sup> Current lack of energy supplies and demand-supply imbalance constrains growth and income opportunities; creates disparities in economic development; and fuels ethnic and regional tensions, insecurity, and discontent. Although there is significant potential for renewable energy and fossil fuel reserves, these have not been developed due to financing constraints. In 2014, nearly 97% of country's oil needs were imported despite proven reserves of 80 million barrels in Amu Darya basin only. Lack of gas pricing framework inhibits private sector participation to

<sup>10</sup> More than 80% of Afghan development budget is financed through grants from development partners.

<sup>11</sup> ADB. 2013. *Technical Assistance for the Islamic Republic of Afghanistan for Supporting the Inter-Ministerial Commission for Energy*. Manila (TA 8328-AFG, \$1.5 million, approved on 22 February).

<sup>12</sup> Surveys conducted by Asia Foundation and International Finance Corporation in 2011 in Afghanistan. Households consume nearly 85% of power, followed by commercial consumers at 7%, government at 5% and others at 5%.

<sup>13</sup> Absence of water treaty with neighboring countries and reneging on their contractual obligations by international mining investors, have impeded development of hydropower plants and coal/gas to power projects respectively.

develop identified gas reserves of 75 billion cubic meters, enough to generate 400 MW of power annually for 75 years.

7. Grid power remains a growing portion of total energy consumption and connection rates have increased from 5% in 2002 to 30% in 2015, at current supply of 750 MW and power consumption at 3,700 gigawatt-hours (GWh). Power demand in four largest cities is growing by 19% annually and by 2032 demand is forecast to reach 3,500 MW and power consumption to 18,400 GWh.<sup>14</sup> Meeting this demand requires boosting all viable import options in parallel to harnessing domestic resources. The key challenges are: (i) lack of generation capacity, (ii) increasing constraints in transmission and distribution systems, (iii) weak financial management and sustainability of sector entities due to lack of cost reflective tariff frameworks, and (iv) inadequate sector regulation. The MFF will address these and under tranche 1, ADB would provide support to (i) develop a 5-year business plan for power utility, and (ii) finalize a tariff model and framework. The government resources are limited and financing from development partners, and private sector participation are needed to bridge infrastructure deficit.

### C. Policy Framework

8. The government is implementing the energy sector roadmap, policy framework, and envisaged investment plan as confirmed in its power sector master plan (2012–2032) and gas development master plan (2015–2035), which build upon the Afghanistan National Development Strategy (2008–2013) and integrated as NESP.<sup>15</sup> The recently approved Electricity Services Law provides legal and regulatory framework, and transparent structure for private sector participation.<sup>16</sup> NESP envisages an investment of \$10.1 billion by 2030 to (i) increase in electrification rate from 30% to 83%, (ii) increase domestic generation from 20% to 67%, and (iii) strengthen power exchange and trade options. However due to limited fiscal space in government finances, dismal private investment outlook, and directives from International Monetary Fund to the government against borrowing, grant funding from development partners will be the major source of NESP financing.

9. **Sector challenges.** The energy sector of Afghanistan faces tremendous physical and non-physical challenges.

- (i) **Generation.** The total installed generation capacity in Afghanistan is only about 520 MW including 254 MW (49%) from hydropower resources, 200 MW (39%) from thermal sources (fuel, diesel and gas), and 65 MW (12%) from distributed generators. Import constitute nearly 80% of the total power balance, capacity comprising 326 MW (33%) from Uzbekistan, 164 MW (16%) from Iran, 433 MW (43%) from Tajikistan, and 77 MW (8%) from Turkmenistan. Cost of imported energy has increased by 14 times from \$16 million to nearly \$224 million during 2007 to 2015. Afghanistan has an estimated 23,000 MW of hydropower resource potential, 67,000 MW of wind potential, and 222,000 MW of solar potential. In addition, country has significant gas and coal resources. Development of such resources will not only improve the energy mix, but also enhance energy security of the country. With regional energy and natural

<sup>14</sup> ADB. 2010. *Technical Assistance to Afghanistan for the Power Sector Master Plan*. Manila (TA 7637-AFG, for \$1.5 million approved on 6 November 2010).

<sup>15</sup> Due to fiscal challenges, government is expected to finance less than 5% (\$500 million) of NESP.

<sup>16</sup> Under the law, Ministry of Energy and Water will initially act as regulator. ADB will provide support to strengthen tariff determination framework and assistance to develop grid code, under the MFF.

resources cooperation and optimal development, this potential can be harnessed timely for the benefit of the entire region. Enabling policies and sound regulatory framework complemented with investment from public and private sectors would underpin this growth.

- (ii) **Transmission.** Afghanistan's power grid consists of 4 larger isolated systems and 6 smaller local islands. North East Power System (NEPS) consisting of a grid linking 17 load centers (Kabul, Mazar-i-Sharif, Jalalabad, etc) with Uzbekistan and Tajikistan (high Voltage transmission line [HVTL] 220 kV, 110 kV, 35 kV); South East Power System (SEPS) consisting of Kandahar and Helmand linking Kajaki (HVTL 110 kV); Herat system linking the Herat Zone with Iran and Turkmenistan (HVTL 132 kV, 110 kV); and Turkmenistan system linking Herat, Faryab, Jawzjan, Sar-e-Pul and Andkhoy district. (HVTL 110 kV). Major focus of energy sector development efforts is now directed towards transforming Afghanistan's electricity grid from isolated islands into an integrated and unified national transmission grid.
- (iii) **Distribution.** Currently there are nearly 1.2 million customers connected to grid, which make nearly 30% of the country's population. The Government in assistance with development partners is funding major distribution expansion programs across major load centers of the country. Currently nearly 200,000 new distribution connections are under implementation and another 100,000 connections are in planning phase.
- (iv) **Energy infrastructure constraints.** Of the total 519 MW of installed capacity, 51% is thermal (diesel and furnace oil) with a generation cost of \$0.25–\$0.35 per kilowatt hour (KWh), nearly 4 to 5 times of the imported power. Remaining 49% (254 MW) is from hydropower, which is seasonal with capacity factor of less than 40%. No new hydropower, gas or coal generation has been added since 1980s.<sup>17</sup> Afghanistan power system is not synchronized with any of the four countries that it imports from, the national power network is split into 10 power islands thereby increasing costs and reducing reliability of supply. The individual networks operate asynchronously and cannot be interconnected due to differences in operational phase angles and frequency variations. Lack of transmission and distribution infrastructure suppresses available latent demand of nearly 2,500 MW. A unified grid will allow Afghanistan to secure power supply from a balanced energy mix, achieve diversification and share reserve capacity within the country, as well as strengthen it to be an electricity transit corridor between energy-rich Central Asia and energy-poor South Asia. Afghanistan is an anchor in the regional power interconnection Turkmenistan-Uzbekistan-Tajikistan-Afghanistan-Pakistan (TUTAP) project.<sup>18</sup> The government, in May 2015, has agreed on a 2015–2028 power purchase and sales agreement (PPSA) with Turkmenistan for year round power supply (initially 300 MW with an increase upto 500 MW) at a very competitive tariff compared to existing imports. The PPSA will be renewed thereafter. The PPSAs with Uzbekistan (300 MW), Tajikistan (300 MW) and Iran (150 MW) are effective and renewed annually.
- (v) **Technical and commercial losses.** The current level of losses is estimated to

<sup>17</sup> The World Bank and the United States' Government are providing assistance to rehabilitate 3 hydropower plants.

<sup>18</sup> TUTAP is a regional power project under Central Asia South Asia Regional Electricity Markets framework. Phase 1 of TUTAP (Afghanistan-Uzbekistan 220-kilovolt [kV] line) is operational since 2009. Phase 2 (Afghanistan-Tajikistan 220 kV line) is operational since 2011. Phase 3 of TUTAP will be completed under Tranches 1 and 2 on the MFF. TUTAP meet Afghan power needs and all TUTAP energy imports till 2030 will be consumed in Afghanistan.

be about 23.5%, reduced from 54% in 2008. Assuming 10% is an acceptable level of technical and commercial losses, the balance of 13.5% is estimated to be worth \$71.2 million a year at US\$ 0.12/kWh. Reduction of technical and commercial losses is important both in terms of financial sustainability of DABS and supplying more power to the consumers. Currently DABS is rolling out its annual assets maintenance plan, bulk metering plan, and computerized maintenance management system to address the issues related to technical and commercial losses.

- (vi) **Rural energy and electrification.** The flagship initiative for rural electrification is the multi-donor funded National Solidarity Program (NSP) under the Ministry of Rural Rehabilitation and Development (MRRD). However, the NSP primarily supports electrification schemes typically below 25 kW, while larger schemes are planned and implemented in an uncoordinated manner. The Renewable Energy Subcommittee has been established under the Inter-Ministerial Commission for Energy (ICE) in September since 2008 to enhance coordination.
- (vii) **Natural gas.** According to recent studies conducted by the United States Geological Survey and the Afghan Ministry of Mines and Petroleum (MOMP), the total estimated undiscovered technically recoverable natural gas reserves in Afghanistan stand at 444 billion cubic meters (m<sup>3</sup>), in addition to already identified reserves of 75 billion m<sup>3</sup>. Moreover, Afghanistan is also exploring gas importation options with neighboring Turkmenistan and Iran. The governments priority is to enhance the supply of natural gas to industrial and commercial enterprises, on a prioritized basis, beginning with electric power generation, fertilizer production and other industries and enterprises that use or incorporate natural gas as a fuel or, directly or indirectly, a raw material.
- (viii) **Coal.** The coal industry is operating at low production rates due to devastation by more than two decades of war and years of neglect. Until the end of 2006, coal operations were primarily contained in two state enterprises with oversight of the MOMP. Some recent lease arrangements to private operators have since been put in place. No programmatic assistance has been provided to the Afghan coal sector.
- (ix) **Legal and regulatory framework.** An array of institutions engaged in different aspects of energy operations and lack of clear legal and regulatory framework leaves energy sector operations vulnerable to technically deficient planning and design, fiscally uncertain project selection and corrupt practices. In the power sector in particular, considerable assistance will be required to develop the capacity within DABS to develop their planning and financial functions in order to develop and present tariff petitions.
- (x) **Donor coordination.** The lack of integrated planning so far has caused more than 65% of sector investments to bypass the government's core budget and planning systems, leaving sector ministries and agencies with limited information on donors' funded projects, plans, and activities. There is also high diversity of stakeholders in the country's emerging energy sector—five ministries, 10 key development partners, and several private sector participants and civil society organizations. Thus, harmonizing and sequencing investment plans remains very difficult. The Inter-Ministerial Commission for Energy (ICE) has proved to be the most effective and coherent mechanism to brainstorm and agree on an investment and governance agenda.
- (xi) **Human resources.** Lack of civil service, contractual nature of staff, and the loss of operational and technical skills during the conflict have left the operations of the industry in a poor state. The current salary structure of engineers at DABS is

catching up with market rates at DABS. The high turnover makes capacity development a challenge.

10. **National Energy Supply Program.** The sector strategy, prepared under the framework of Afghanistan Power Sector Masterplan (2012–2032) and Afghanistan Gas Development Masterplan (2015–2035) and reinforced by National Energy Supply Program (NESP), is to be materialized through enhancing four focus areas.

- (i) **Efficient operation of infrastructure.** Recognizing the high rates of technical and commercial losses in the power sector, the Strategy emphasizes the importance of rehabilitating existing energy infrastructures and institutional reform. The continued commercialization of DABS is aimed at improving operational efficiency to reduce losses. The government aims to develop adequate infrastructure to allow delivery of natural gas to the prioritized industrial and commercial enterprises. In addition, it plans to finalize gas pricing structures for the short-term so as to enable profitable operation of the natural gas system during the period and with respect to the prioritized users.
- (ii) **Sector governance.** The Strategy stresses importance of sector governance, enabling laws, policies and regulations to attract private sector participation. It also stresses institutionalization of regulatory reforms with clear role and responsibility for each ministry and agency in the sector.
- (iii) **Rural and renewable energy.** The Strategy recognizes the overlapping function of MEW and MRRD with respect to rural energy, and points out to the importance of establishing a clear demarcation while also enhancing collaboration. It asserts the need to develop a rural-remote energy policy and a rural energy master plan, while admitting capacity building through donor assistance is required to accelerate the development of rural and renewable energy.
- (iv) **Expand Supply.** Expansion of supply focuses on indigenous generation through hydropower, gas and renewable energy resources, and identifies priority development of the load dispatch center and the NEPS. The strategy also highlights the need to increase import from neighboring countries and highlights importance of concluding favorable power purchase agreements (PPAs) to maximize supply.

11. For power sector, government envisages current demand of 3,500 megawatt hours to reach 18,400 megawatt hours with a corresponding increase in peak load from 800 MW to 3,500 MW by 2032. This entails an average annual growth rate of 8.7% with an increase by a factor 5.7, extending average connection rate from 30% to 83%. To meet this, DABS has developed a 3 staged investment plan. Stage 1 (2016–2020) projects an investment of \$3.8 billion in generation, transmission and distribution systems which will increase the total installed capacity to 710 MW, electrification rate to 65%, and share of Afghan own generation to 38%. Stage 2 (2021–2025) envisages an investment of \$3.9 billion in power supply chain infrastructure, which will increase the total installed capacity to 1,210 MW, electrification rate to 76%, and share of Afghan own generation to 53%. Stage 3 (2026–2032) envisages an expenditure of \$2.2 billion that will increase the total installed capacity to 3,600 MW, electrification rate to 83%, and share of Afghan own generation to 67%. These stages underpin investments in hydropower, hydrocarbons and renewable energy sector.

12. For hydrocarbons sector, government aims to undertake coal reserves appraisal study and finalize pricing methodology and pricing policy for gas to power (as help consumers and producers as guidance for price negotiations) and resolution of upstream

contract issues. This would provide enabling environment for private sector participation for gas availability to anchor industries including power, cement, fertilizers, as well as transportation.

#### D. Investment Program

13. To meet its growing demand and electrification rate targets by 2032, the NESP needs an estimated amount of \$10.1 billion.<sup>19</sup> The government has requested an MFF to help finance a portion of this investment program worth \$1.22 billion. The MFF is projected to have 4 tranches from 2015 to 2024. Tranche 1 is expected to be executed in 2015. Table 1 shows the portion of the investment program to be financed by the MFF. In addition to ADB-assisted ongoing energy portfolio of close to \$840 million, ADB will provide financing, as and when necessary between 2016 and 2025, for physical and non-physical components of projects (Projects). The proposed allocation of funds is shown in Table 1. Each Project will include one or more of the following components of the energy sector, which are described below: (i) feasibility studies and designs, (ii) infrastructure improvements, (iii) infrastructure maintenance, and (iv) human resource development and institutional reform.

**Table 1: Priority Listing of Potential Projects for ADB Facility**  
(\$ million)

No	Subproject Name	Tranche 1	Tranche 2	Tranche 3	Tranche 4
1	500 kV Transmission Line from Sheberghan to Dashte Alwan	150.0			
2	220 kV Transmission Line from Sheberghan to Andkhoy	50.0			
3	Program Management Consulting Services	20.0			
4	Preparation of Future Projects & Analytical Studies	20.0			
5	Project Security and Demining	10.0			
6	Land Acquisition and Resettlement	5.0			
7	Contingency for Tranche 1	25.0			
8	HVDC B2B Converter Station at Dashte Alwan		250.0		
9	Renewable Energy Development Projects TAPI Equity Component		60.0 15.0		
10	Sheberghan Gas Wells Rehabilitation				35.0
11	Project Security and Demining		10.0	10.0	10.0
12	500 kV Transmission Line (Torghundi to Kandahar)			360.0	
13	Expansion of Distribution Networks				190.0
	<b>Tranche Subtotal</b>	<b>280.0</b>	<b>335.0</b>	<b>370.0</b>	<b>235.0</b>
	<b>Investment Program Total</b>			<b>1,220.0</b>	

B2B = Back-to-Back, HVDC = High Voltage Direct Current, kV = kilovolt, MW = Megawatts, TAPI = Turkmenistan, Afghanistan, Pakistan- India.

Note : Projects under Tranches 2, 3 and 4 are indicative in terms of size, sequence and scope.

Note : The counterpart financing of \$5 million from the government will include land acquisition and resettlement costs, as well as interest during construction (DABS only)

Source: Asian Development Bank, Government of Afghanistan.

#### E. Financing Plan

14. The government has requested an MFF in an amount up to \$1.2 billion to help finance a portion of the investment program. The MFF comprises an amount of up to \$750 million from ADB's Special Funds resources, i.e., Asian Development Fund (ADF) resources, and an

<sup>19</sup> The NESP was jointly endorsed by the Government of Afghanistan and international development partners in 2013.

amount of up to \$450 million as joint cofinancing from the AITF to be administered by ADB.<sup>20</sup> Any ADF allocation will be subject to (i) the availability of ADF resources, (ii) Afghanistan's access to such resources pursuant to ADB's then applicable Graduation Policy<sup>21</sup> and the requirements of ADF donors, and (iii) the availability of such resources to Afghanistan given ADB's then applicable policy on performance-based allocation of ADF resources.<sup>22</sup> Cofinancing will be front-loaded for disbursement purposes. The ADF and the AITF financing under the MFF constitute 100% grant funding to Afghanistan.

15. The MFF will consist of several tranches, subject to the government's submission of related periodic financing requests, execution of the related grant and project agreements for each tranche, and fulfillment of terms and conditions and undertakings set forth in the framework financing agreement. For tranche 1 of the MFF, the government has requested (i) a grant of \$200 million from ADB's Special Funds resources,<sup>23</sup> and (ii) a grant of \$75 million from cofinancing from AITF to be administered by ADB.<sup>24</sup> Financing extended under the MFF will cover local taxes and duties, including the business receipt tax.<sup>25</sup> ADB and AITF have been financing local taxes and duties in Afghanistan since 2011. The government will finance all land acquisition and resettlement costs, and interest during construction

**Table 2: Financing Plan<sup>26</sup>**

Source	Tranche 1	Tranche 2	Tranche 3	Tranche 4	MFF	Share of Total (%)
	Amount (\$ million)	Amount (\$ million)	Amount (\$ million)	Amount (\$ million)	Amount (\$ million)	
Asian Development Bank	200.0	165.0	205.0	180.0	750.0	61.4
Afghanistan Infrastructure Trust Fund	75.0	165.0	160.0	50.0	450.0	36.8
Others (Executing agencies)	5.0	5.0	5.0	5.0	20.0	1.6
<b>Total</b>	<b>280.0</b>	<b>335.0</b>	<b>370.0</b>	<b>235.0</b>	<b>1,220.0</b>	<b>100.0</b>

MFF = multitranches financing facility.

Source: Asian Development Bank estimates.

<sup>20</sup> Discussions are ongoing with the ADB-managed Afghanistan Infrastructure Trust Fund (AITF) cofinanciers including the governments of Australia, Belgium, Canada, Germany, Japan, the Netherlands, and the United Kingdom to the AITF cofinancing. Instruments of contribution in the total amount of \$75 million will be executed prior to the approval of the first tranche under the Facility.

<sup>21</sup> Currently, ADB. 2008. *Review of the 1998 Graduation Policy of the Asian Development Bank*.

<sup>22</sup> Currently ADB. 2004. *Review of the Asian Development Bank's Policy on the Performance-Based Allocation of Asian Development Fund Resources*. Manila; and ADB. 2008. *Refining the Performance-Based Allocation of Asian Development Fund Resources*. Manila.

<sup>23</sup> A country's eligibility for ADF grants under the revised grant framework is determined by its risk of debt distress. The latest debt sustainability analysis determined that Afghanistan had a high risk of debt distress and was therefore eligible to receive 100% of its ADF allocation as grants.

<sup>24</sup> Footnote 19.

<sup>25</sup> Taxes and duties costs do not represent an excessive share of the financing plan and are within applicable country partnership strategy parameters. ADB. 2005. *Innovation and Efficiency Initiative, Cost Sharing and Eligibility of Expenditures for ADB Financing: A New Approach*. Manila. This is in line with ADB's OM (H3 on cost-sharing arrangements and eligible expenditures). This practice is also followed by the World Bank in Afghanistan.

<sup>26</sup> The financing plan is indicative with respect to the total amount of the AITF cofinancing. See footnote 20.

**SCHEDULE 2**  
**DESIGN AND MONITORING FRAMEWORK FOR THE INVESTMENT PROGRAM**

**Impact the Program is aligned with:**  
Improved access to sustainable energy supplies across Afghanistan aligned with the targets of National Energy Supply Program of the Government of Afghanistan (program-defined)

<b>Results Chain</b>	<b>Performance Indicators with Targets and Baselines</b>	<b>Data Sources and Reporting</b>	<b>Risks</b>
<p><b>Outcome</b> Increased supply of imported and indigenous power.</p>	<p>a. Power grid capable of transmitting and distributing 1,500 MW of power by 2028 from 450 MW in 2015.</p> <p>b. Electrification rate increased to 50% by 2028 from 30% in 2015.</p>	<p>a. DABS annual report</p> <p>b. Quarterly reports by Interministerial Commission for Energy</p>	<p>Power purchase and sales agreements are not enforced and implemented.</p> <p>Political stability and security deteriorate resulting in lower demand and non-availability of grant funds for Afghanistan.</p>
<p><b>Outputs</b></p> <p>1. New 500 kV and 220 kV power transmission lines, power distribution networks, and high-voltage direct-current back-to-back convertor commissioned</p> <p>2. Renewable energy projects constructed.</p> <p>3. Domestic gas production and imported volume of natural gas from TAPI gas pipeline increased.</p> <p>4. Project preparation and management capacity of energy ministries and agencies improved.</p>	<p>1a. NEPS transmission capacity increased from 300 MW in 2015 to 1,200 MW of connected load by 2025.</p> <p>2a. Domestic generation installed capacity increased from 519 MW in 2015 to 530 MW in 2025.</p> <p>3a. Domestic gas production increased from 1.2 million cubic meters/day in 2015 to 2.5 million cubic meters/day in 2025.</p> <p>3b. Annual gas imports increased from 0 to 0.25 billion cubic meters in 2025.</p> <p>4a. DABS managed projects and network O&amp;M without external assistance (funds and contractors) starting from 2025.</p>	<p>1a. DABS annual report</p> <p>2a. Quarterly reports by Interministerial Commission for Energy</p> <p>3a-b. Afghanistan CSO publications</p> <p>4a-b. DABS annual report</p>	<p>Availability of power supply from Turkmenistan and demand potential in Afghanistan.</p> <p>Delays in procurement and implementation leading to cost overruns.</p> <p>Costs overruns related to security, social safeguards and project implementation become unsustainable.</p> <p>Governance and capacity issues could negatively affect the project.</p> <p>Associated NEPS infrastructure is not funded, well maintained, and kept operational.</p>

Results Chain	Performance Indicators with Targets and Baselines	Data Sources and Reporting	Risks
5. Business plan and tariff model and framework developed for DABS.	5a. DABS to establish its investment, financing and operating costs and requirements starting from 2019.	5a-b. DABS annual report	DABS unable to retain professional workforce
<p><b>Key Activities with Milestones</b></p> <p>Tranche 1</p> <p>1.1 Implementation consultants for tranche 1 projects recruited and mobilized (Q3 2016).  1.2 Future projects preparation consultants recruited and mobilized (Q4 2016).  1.3 Bidding documents for 2 turnkey contracts issued (Q1 2016).  1.4 Contractors mobilized (Q4 2016).  1.5 Program management consultants mobilized (Q4 2016).  1.6 Projects for Tranche 2 prepared along with bidding documents (Q2 2017)  1.7 Projects for Tranche 3 prepared along with bidding documents (Q2 2018)  1.8 Projects for Tranche 2 prepared along with bidding documents (Q2 2020)  1.9 Commissioning of Tranche 1 projects (Q2 2020).</p> <p>Tranche 2</p> <p>2.1 Tranche 2 (PFR 2) approved (Q2 2017).  2.2 Bidding documents issued for Tranche 2 projects (Q4 2017).  2.3 Contractors mobilized for Tranche 2 projects (Q2 2018).  2.4 Commissioning of Tranche 2 projects (Q4 2022).</p> <p>Tranche 3</p> <p>3.1 Tranche 3 (PFR 3) approved (Q2 2018).  3.2 Bidding documents issued for Tranche 3 projects (Q4 2018).  3.3 Contractors mobilized for Tranche 3 projects (Q3 2019).  3.4 Commissioning of Tranche 3 projects (Q4 2023).</p> <p>Tranche 4</p> <p>4.1 Tranche 4 (PFR 4) approved (Q2 2020).  4.2 Bidding documents issued for Tranche 4 project (Q4 2020).  4.3 Contractors mobilized for Tranche 4 project (Q1 2021).  4.4 Commissioning of Tranche 4 project (Q2 2025).</p> <p><b>Project Management Activities</b></p> <p>Procuring goods, recruiting consultants, reporting, monitoring, accounting, and auditing</p>			
<p><b>Inputs</b></p> <p>Multitranche Financing Facility:  ADB: \$750 million (ADF Grant)  Government: \$20 million  Afghanistan Infrastructure Trust Fund: \$450 million grant <sup>1</sup></p> <p><b>Tranche 1:</b></p> <p>ADB: \$200 million (ADF Grant)  Government: \$5 million  Afghanistan Infrastructure Trust Fund: \$75 million grant</p>			

<sup>1</sup> Discussions are ongoing with the ADB-managed Afghanistan Infrastructure Trust Fund (AIF) cofinanciers including the governments of Australia, Belgium, Canada, Germany, Japan, the Netherlands, and the United Kingdom to the

Results Chain	Performance Indicators with Targets and Baselines	Data Sources and Reporting	Risks
<b>Assumptions for Partner Financing</b> Development partners remain interested in infrastructure financing for Afghanistan.			

ADB = Asian Development Bank, ADF = Asian Development Fund, AITF = Afghanistan Infrastructure Trust Fund, CSO = Central Statistical Organization, DABS = Da Afghanistan Breshna Sherkat (Afghanistan's state-owned power utility), kV = kilovolt, MW = megawatt, NEPS = North East Power System, O&M = operation and maintenance, PFR = periodic financing request, Q = quarter, TAPI = Turkmenistan-Afghanistan-Pakistan-India natural gas pipeline project.

Source: Asian Development Bank.

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AITF cofinancing. Instruments of contribution in the total amount of \$75 million will be executed prior to the approval of the first tranche under the Facility.

## SCHEDULE 3

### IMPLEMENTATION FRAMEWORK

1. Unless otherwise provided in the legal agreements for an individual tranche, the Program and Projects will be implemented as follows:

#### A. Management of the Investment Program

2. DABS will be responsible for the overall implementation of the power component of the Investment Program except for Sheberghan gas fields rehabilitation project for which MOMP will be the EA. MEW will be responsible to execute investment related to renewable energy sector. A Program Management Office (PMO) is already established within DABS under Energy Sector Development Investment Program, to manage the implementation of the projects and to perform due diligence for projects to be implemented in subsequent tranches. MOMP has also an operational Project Management Unit (PMU) for ADB-assisted Sheberghan gas fields rehabilitation project.<sup>2</sup> A Project Implementation Unit (PIU) will be established in MEW on the similar lines as was formed during 2004–2013.

3. Considering the evolving capacity and resources in the EAs, additional assistance will be required to implement the Investment Program and its projects in a timely manner. A team of project management consultants (PM Consultants) will be recruited to assist the PMO operations and to provide training. In order to give the sense of ownership to the EAs and to realize efficient operations, the Director will be a senior management staff of DABS and the Deputy Director will be the team leader of the PM Consultants. Tranche 1 has \$2 million allocated as recurrent costs to help support the PMO. The Deputy Director will be in charge of the day-to-day operations, while the Director will have overall responsibility of the performance of the PMO. The Director will report to the Chief Executive Officer of DABS. MOMP will continue to run a 5 member PMU for the Sheberghan gas fields' rehabilitation project, headed by a PMU Director, reporting to the Minister. The PIU in MEW will also be reporting to the Deputy Minister (Energy), Minister of Energy and Water.

4. The DABS PMO will continue to have six divisions: (i) finance and administration, (ii) legal, (iii) project supervision and procurement, (iv) technical, (v) safeguard (including gender issues), and (vi) evaluation, monitoring and reporting. Provided that EAs, and therefore the PMO, has limited capacity, PM Consultants will assume key positions in the PMO at the beginning of the Investment Program.

5. One of the first tasks of the PM Consultants is to establish a Management Information System (MIS) for the PMO. The MIS will compile information on all PMO responsibilities including contract awards, disbursement, imprest account, progress projection and monitoring, project performance and monitoring, financial statements of projects, Investment Program and of PMO, safeguard monitoring, consultant recruitment and management, procurement, technical data and specifications, asset inventory, reports and communication logs.

6. The PMO will prepare quarterly progress reports and will submit them to ADB within two weeks from the end of the subject quarter. The quarterly progress reports prepared will provide

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<sup>2</sup> ADB. 2008. *Report and Recommendation of the President to the Board of Directors: Proposed Multitranche Financing Facility and Administration of Grant Energy Sector Development Investment Program*. Manila (MFF 0026-AFG, \$570 million, approved on 2 December).

(i) a narrative description of progress made during the period (including progress on compliance with all safeguard requirements), (ii) changes in the implementation schedule, (iii) problems or difficulties encountered, and (iv) work to be carried out in the next period. The progress reports will also include a summary of financial account for the project components, consisting of project expenditures during the period, total expenditure to date, and project performance monitoring in accordance with procedures and details acceptable to ADB.

7. It will also submit safeguards monitoring reports twice a year. Annual Report on the Investment Program will be submitted within one month from the end of the subject year, and an annual audit report will be submitted within six months from the end of the subject year. Overall progress and compliance with conditions of the Grant Agreement will be monitored regularly and reviewed by ADB.

## **B. Implementation Period**

8. The Investment Program is scheduled for 10 years inclusive of procurement and construction activities and is expected for completion at the latest by 30 June 2025. Period of availability is until 30 June 2025. The physical implementation of Tranche 1 is expected by 30 June 2020. The implementation schedule for the projects under the subsequent tranches will be prepared during implementation of Tranche 1. The Implementation Schedule can be found in Annex 1 at the end of this schedule.

9. **Implementation plan.** There is a risk that the PM Consultants will not be able to be mobilized in a timely manner given the volatile security situation and limited qualified consultants active in Afghanistan to perform the project management role. In such case, ADB will provide support to commence the project-wise recruitment process from headquarters with close coordination with the Afghanistan Resident Mission.

10. An indicative implementation plan with contract awards and disbursement projections have been prepared to serve as a guide during the start-up period of the Investment Program. The indicative implementation plan should be interpreted together with the indicative implementation schedule showing detailed activities.

11. **Procurement plan.** Procurement of works and goods to be financed under the Investment Program will be implemented in accordance with ADB's procurement guidelines<sup>3</sup> (Procurement Guidelines) as amended from time to time. International competitive bidding (ICB) will generally be used for supply contracts estimated to cost over \$0.5 million and for works over \$2 million.

12. The procurement plan (Annex 2) will be updated at least annually covering the next 18 months of procurement activity. NCB Annex in Section 3 of the procurement plan summarizes necessary modifications or clarifications to the Borrower's procedures to carry out NCB under financed the Facility.

## **C. Consulting Services**

13. Consultants will be selected and engaged in accordance with the Consultant Guidelines,<sup>4</sup> as amended from time to time. Quality-and Cost-based selection method (QCBS) with 90:10 weightage will generally be used to attract interest of qualified firms, since qualified

<sup>3</sup> ADB. 2013. *Procurement Guidelines* (2013). Manila.

<sup>4</sup> ADB. 2013. *Guidelines on the Use of Consultants* (2013). Manila.

firms tend to avoid cost competition in a volatile environment. ADB has had experience with weak consultants being recruited through the conventional quality- and cost-based selection method (90:10) which had resulted in poor quality, delays and cost overruns. Controlling progress, quality, cost and safety of construction works in Afghanistan is widely recognized to be an extremely difficult task. As the performance of the consultant has a significant impact on the quality of the output and further entails downstream impacts to the community, environment and project sustainability, the quality of the consulting services is prioritized over cost.

#### **D. Disbursement Arrangements**

14. Grant disbursements will be in accordance with ADB's Loan Disbursement Handbook<sup>5</sup> (Disbursement Manual), as amended from time to time. Direct payment procedures will generally be used for large civil works contracts, turnkey contracts and consulting services. Commitment procedures may be used for large turnkey contracts, and supply and delivery contracts.

15. Separate imprest accounts should be established for ADF and AITF grants and maintained by the EAs. The currency of the imprest accounts is the U.S. dollar. The total outstanding advance to the imprest accounts should not exceed the estimate of ADF or AITF's share of expenditures to be paid through the imprest accounts for the forthcoming 6 months. EAs may request for initial and additional advances to the imprest accounts based on an Estimate of Expenditure Sheet setting out the estimated expenditures to be financed through the accounts for the forthcoming six (6) months. Supporting documents should be submitted to ADB or retained by DBAS in accordance with ADB's Loan Disbursement Handbook (2015, as amended from time to time) when liquidating or replenishing the imprest accounts.

#### **E. Anticorruption Policy**

16. ADB's *Anticorruption Policy* (1998, as amended to date) was explained to and discussed with the Government including the EAs. 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 projects under the Investment Program. To support these efforts, relevant provisions of ADB's *Anticorruption Policy* are included in the grant regulations and the bidding documents for the Investment Program. In particular, all contracts financed by ADB in connection with the Investment Program shall include provisions specifying the right of ADB to audit and examine the records and accounts of the EAs, and all contractors, suppliers, and consultants and other service providers as they relate to the Investment Program.

#### **F. Financial Accounting and Auditing**

17. The EAs will independently (i) maintain separate accounts for each of their projects under the Investment Program in accordance with International Public Sector Accounting Standards (IPSAS) on cash basis, (ii) have such project accounts audited annually, in accordance with appropriate international auditing standards (IAS) applied by independent auditors whose qualifications, experience, and terms of reference are acceptable to ADB, (iii) furnish certified copies of such audited project accounts, audited financial statements of the entity and the auditors' opinion (including the opinions on the use of the grant proceeds and compliance with the financial covenants of the grant agreement, and (iv) such other information

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<sup>5</sup> ADB. *Loan Disbursement Handbook* (2015). Manila.

concerning the audit requested. The independent auditors will be engaged and financed by the Government or EAs.

### **G. Project Performance and Monitoring**

18. The PMO will establish a project performance monitoring system after the commencement of the Investment Program and collect data for performance monitoring. The key indicators and assumptions outlined at the impact and outcome levels in the Investment Program's DMF will be the primary data required for analysis. ADB Management will prepare periodic reports to inform the ADB Board of Directors of overall progress. A Board information report will be submitted annually, and progress reports will be submitted to inform the Board of the approval of grant agreements.

### **H. Project Review**

19. ADB will field an inception mission within 3 months after signing of the FFA and grant agreement for Tranche 1. The Government will cause the EAs, through the PMO Director, to submit to ADB quarterly progress reports within 2 weeks of the subject quarter, and semiannual performance and monitoring reports. ADB will review quarterly and semiannual reports during its annual reviews. A joint mid-term review will be carried out 2 years after grant effectiveness. The mid-term review will focus on the engineering, environmental and social safeguards of the projects, compliance to grant covenants, and review compliance with the undertakings set out in the FFA. The review will allow for any necessary mid-course corrections to ensure successful implementation and the achievement of objectives of the Investment Program and the projects. A project completion report will be submitted by the EAs within 3 months of the completion of each project under their review.

20. ADB's Afghanistan Resident Mission in Kabul will monitor the Investment Program in a joint venture with the teams at headquarters. Staff will be deployed to Kabul as and when it is necessary. A fuller review will be carried out 1 year after grant effectiveness. Every year an annual report of the Investment Program will be produced. The review report will cover issues related to each of the components. It will report on inputs and outputs and start generating information for the outcome and impact indicators of the DMF. All compliance matters will be covered under the review, including warranties and representations, covenants and adherence to ADB policies and procedures. These undertakings are set out in the FFA and grant agreement. These reviews will allow for any necessary correction to ensure successful implementation and the achievement of objectives. The Project Performance Report will be updated every month and reported to the front office within CWRD.

21. The midterm review will focus on the engineering, environmental and social safeguards of the projects; compliance with grant covenants; and review compliance with the undertaking set out in the FFA. The reviews will allow for any necessary midcourse corrections to ensure successful implementation and the achievement of objectives of the Investment Program and the projects. A project completion report will be submitted by the EAs within 3 months of the completion of the respective projects

## ANNEX 1: INDICATIVE IMPLEMENTATIONS SCHEDULE OF PROGRAM FOR ALL TRANCHE-1 SUBPROJECTS

INDICATIVE IMPLEMENTATION SCHEDULE OF TRANCHE 1 SUB-PROJECT S																																																																																										
Projects and Activities	2015												2016												2017												2018												2019												2020																													
	7	8	9	10	11	12	1	2	3	4	5	6	7	8	9	10	11	12	1	2	3	4	5	6	7	8	9	10	11	12	1	2	3	4	5	6	7	8	9	10	11	12	1	2	3	4	5	6	7	8	9	10	11	12	1	2	3	4	5	6																														
	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18	19	20	21	22	23	24	25	26	27	28	29	30	31	32	33	34	35	36	37	38	39	40	41	42	43	44	45	46	47	48	49	50	51	52	53	54	55	56	57	58	59	60	61	62	63	64	65	66	67	68	69	70	71	72																		
<b>1 = 500-kV Transmission Line from Shebergha to Dashte A hwan</b>																																																																																										
1.1 Preparation of Bidding Documents																																																																																										
1.2 Bidding Process																																																																																										
1.3 Contract Award																																																																																										
1.4 Implementation of Contract																																																																																										
1.5 Commissioning of Projects																																																																																										
<b>2 = 220-kV Transmission Line from Shebergha to Andk hoy</b>																																																																																										
2.1 Preparation of Bidding Documents																																																																																										
2.2 Bidding Process																																																																																										
2.3 Contract Award																																																																																										
2.4 Implementation of Contract																																																																																										
2.5 Commissioning of Projects																																																																																										
<b>3 = Program Management and Consulting Services</b>																																																																																										
3.1 Preparation of Request for Proposal																																																																																										
3.2 Recruitment Process																																																																																										
3.3 Contract Award																																																																																										
3.4 Implementation of Contract																																																																																										
3.5 Completion of Contract																																																																																										
<b>4 = Preparation of Future Projects</b>																																																																																										
4.1 Preparation of Bidding Documents																																																																																										
4.2 Bidding Process																																																																																										
4.3 Contract Award																																																																																										
4.4 Implementation of Contract																																																																																										
4.5 Completion of Contract																																																																																										

**INDICATIVE IMPLEMENTATION SCHEDULE OF TRANCHE 2 TO TRANCHE 4**

Projects and Activities	2017				2018				2019				2020				2021				2022				2023				2024				2025					
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2				
	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18	19	20	21	22	23	24	25	26	27	28	29	30	31	32	32	34				
<b>TRANCHE 2</b>																																						
1.1 Approval of Tranche 2																																						
1.2 Bidding Process of Tranche 2 Projects																																						
1.3 Contracts Award																																						
1.4 Implementation of Projects																																						
1.5 Commissioning of Projects																																						
<b>TRANCHE 3</b>																																						
1.1 Approval of Tranche 3																																						
1.2 Bidding Process of Tranche 3 Projects																																						
1.3 Contracts Award																																						
1.4 Implementation of Projects																																						
1.5 Commissioning of Projects																																						
<b>TRANCHE 4</b>																																						
1.1 Approval of Tranche 4																																						
1.2 Bidding Process of Tranche 4 Projects																																						
1.3 Contracts Award																																						
1.4 Implementation of Projects																																						
1.5 Commissioning of Projects																																						

## Annex 2: Procurement Plan

MFF-AFG: Energy Supply Improvement Investment Program	Grant Number: 47282-001
Amount: \$1,200 million No Maximum or Minimum Size of Any Tranche	Executing Agency: Da Afghanistan Breshna Sherkat (DABS).
Date of first Procurement Plan ( <i>grant approval date</i> )	Date of this Procurement Plan: <u>2 November 2015</u>

### Section 1. Process Thresholds, Review, and 18 Month Procurement Plan

#### A. Project Procurement Thresholds

1. Except as ADB may otherwise agree, the following process thresholds shall apply to procurement of goods and works.

Procurement of Goods and Works	
Method	Threshold
International Competitive Bidding for Works	> US\$ 2,000,000
International Competitive Bidding for Goods	> US\$ 500,000
National Competitive Bidding for Works	Beneath that stated for ICB
National Competitive Bidding for Goods	Beneath that stated for ICB
Shopping for Works	</= US\$ 100,000
Shopping for Goods	</= US\$ 100,000

#### B. ADB Prior or Post Review

2. Except as ADB may otherwise agree, the following prior or post review requirements apply to the various procurement and consultant recruitment methods used for the project.

Procurement of Goods and Works		
Procurement Method	Prior or Post	Comments
ICB Works	Prior	
ICB Goods	Prior	
NCB Works	First use, Prior	
NCB Goods	First use, Prior	
Shopping for Works	Post	
Shopping for Goods	Post	
Direct Contracting	Prior	

<b>Recruitment of Consulting Firms</b>		
Quality and Cost Based Selection (QCBS)	Prior	
Quality Based Selection (QBS)	Prior	
Other selection methods: Consultants Qualifications (CQS), Least Cost Selection (LCS), Fixed Budget (FBS), and Single Source (SSS)	Prior	
<b>Recruitment of Individual Consultants</b>		
Individual Consultants	Prior	

**C. Goods and Works Contracts Estimated to Cost More Than US\$ 1 Million**

3. The following table lists goods and works contracts for which procurement activity is either ongoing or expected to commence within the next 18 months.

<b>General Description</b>	<b>Contract Value (\$ million)</b>	<b>Procurement Method</b>	<b>Prequalification Of Bidders (y/n)</b>	<b>Advertisement Date (quarter/year)</b>	<b>Comments</b>
500-kV Transmission Line from Sheberghan to Dashte Alwan	150.0	ICB	N	Q1 2016	Roadshows could be required to showcase the project
220-kV Transmission Line from Sheberghan to Andkhoy	50.0	ICB	N	Q1 2016	

Note: Domestic preference is not applicable for any of the contract packages.

**D. Consulting Services Contracts Estimated to Cost More Than US\$ 100,000**

4. The following table lists consulting services contracts for which procurement activity is either ongoing or expected to commence within the next 18 months.

<b>General Description</b>	<b>Contract Value (\$ million)</b>	<b>Recruitment Method</b>	<b>Advertisement Date (quarter/year)</b>	<b>International or National Assignment</b>	<b>Comments</b>
Program Management Consulting Services	20.0	QCBS (FTP)	Q2 2016	International and National	
Preparation of Future Projects and Analytical Studies	18.0	QCBS (FTP)	Q2 2016	International and National	
	2.0	Individual	Q4 2016	International and National	

FTP= Full Technical Proposal, QCBS = Quality-and Cost-Based Selection.

**E. Goods and Works Contracts Estimated to Cost Less than US\$ 1 Million and Consulting Services Contracts Less than US\$100,000**

5. The following table groups smaller-value goods, works and consulting services contracts for which procurement activity is either ongoing or expected to commence within the next 18 months.

General Description	Value of Contracts (cumulative)	Number of Contracts	Procurement / Recruitment Method	Comments
External Monitoring Agency	80,000	1	LCS (BTP)	Indicative
External Auditor	50,000	1	LCS (BTP)	Indicative

BTP = Biodata Technical Proposal, LCS = Least Cost Selection

## Section 2: Program Procurement Plan

### F. Indicative List of Packages Required Under Tranche 1

6. The following table provides an indicative list of all procurement (goods, works and consulting services) over the life of Tranche 1. Contracts financed by the Borrower and others should also be indicated, with an appropriate notation in the Comments section.

#### Indicative Procurement Packages

	Subproject	Contract Type	Procurement Mode	Estimated Value (\$ million)	Remarks
1	500 kV Transmission Line from Sheberghan to Dashte Alwan	Turnkey	ICB without PQ	150.0	
2	220 kV Transmission Line from Sheberghan to Andkhoy	Turnkey	ICB without PQ	50.0	
3	Program Management Consulting Services for tranches 1 and 2	Consulting Services	QCBS (FTP)	20.0	
4	Preparation of Future Projects and Analytical Studies	Consulting Services	QCBS (FTP)	20.0	
5	External Monitoring Agency	Consulting Services	LCS (BTP)	0.08	
6	External Auditor	Consulting Services	LCS (BTP)	0.05	

BTP= Biodata Technical Proposal, AFG=Afghanistan, FTP=Full Technical Proposal, ICB=International Competitive Bidding, kV=Kilovolt, Least-cost Selection, PQ=Pre-qualification, QCBS=Quality- and Cost-Based Selection.

Note 1: Domestic preference is not applicable for any of the contract packages.

Note 2: International and national assignments for all consulting services packages.

### 7. Registration and Other Pre-Bid Requirements

- (a) Bidding shall not be restricted to Shortlists or Standing Lists.
- (b) No bid shall be declared as ineligible on the grounds of debarment without ADB's prior concurrence.
- (c) No bid shall be declared ineligible on the grounds of government regulations that restrict sources without ADB's prior concurrence.

- (d) Foreign suppliers and contractors from ADB member countries shall be allowed to bid, without registration, licensing, and other government authorizations. However, in case these foreign suppliers and contractors are declared winning bidders, the requirements may be completed after award and before signing of contract, without unreasonable costs or additional requirements.
8. **Prequalification.** Post qualification shall be used unless prequalification is explicitly provided for in the grant agreement/procurement plan. Irrespective of the procedure applied (whether prequalification or post qualification), no domestic or foreign contractor shall be precluded from participation.
9. If prequalification is undertaken, the prequalification criteria should include "Eligibility Requirements," "Financial Situation," "Pending Litigation," and "Experience". Technical Capacity (personnel and equipment) should not be part of the prequalification criteria.
10. Interested bidders shall be given a minimum period of 28 days for the preparation and submission of prequalification applications.
11. **Advertising.** Bidding of NCB contracts estimated at \$500,000 or more for goods and related services and NCB contracts estimated at \$1,000,000 or more for works shall be advertised on ADB's website via the posting of the Procurement Plan.
12. **Bidding documents.** Procuring entities shall use standard bidding documents acceptable to ADB, based ideally on the standard bidding documents issued by ADB.
13. **Bidding period.** Procuring entities shall allow for a minimum of four weeks for submission of bids.
14. **Bid security.** Where required, bid security shall be in the form of a bank guarantee or check from a reputable bank and should not be more than two percent of the estimated value of contract to be procured.
15. **Preferences.** No preference of any kind shall be given to domestic bidders or for domestically manufactured goods.
16. **Evaluation.** No bid shall be rejected on the grounds of price, or for any other reason(s) not related to the evaluation and qualification criteria, without ADB's prior concurrence. Prompt payment discounts offered by bidders shall not be considered in bid evaluation.
17. **Price negotiations.** Price negotiation shall be allowed only after receiving ADB's prior concurrence.
18. **Advance payments.** No advance payment shall be made without an advance payment security in the form of a bank guarantee or check from a reputable bank.
19. **Government-owned enterprises.** Government-owned enterprises in Afghanistan shall be eligible to participate only if they can establish that they are legally and financially autonomous, operate under commercial law, and are not a dependent agency of the procuring entity, or the Project Executing Agency, or the Implementing Agency.

20. **Right to inspect/audit.** A provision shall be included in all NCB works and goods contracts financed by the Bank (ADB) requiring suppliers and contractors to permit ADB to inspect their accounts and records and other documents relating to the bid submission and the performance of the contract, and to have them audited by auditors appointed by ADB.

21. **Anti-Corruption Policy**

- (i) The Borrower shall reject a proposal for award if it determines that the bidder recommended for award has, directly or through an agent, engaged in corrupt, fraudulent, collusive, or coercive practices in competing for the contract in question; and
- (ii) ADB will declare a firm or individual ineligible, either indefinitely or for a stated period, to be awarded a contract financed by ADB, if it at any time determines that the firm or individual has, directly or through an agent, engaged in corrupt, fraudulent, collusive, or coercive practices in competing for, or in executing, ADB-financed contract, as indicated in paragraph 1.14 (a) of ADB's Procurement Guidelines.

22. **Disclosure of decision on contract awards.** At the same time that notification of award of Contract is given to the successful bidder, the results of bid evaluation shall be published in a local newspaper, or well-known freely accessible website identifying the bid and lot numbers and providing information on (i) name of each bidder who submitted a Bid, (ii) bid prices as read out at bid opening, (iii) name of bidders whose bids were rejected and the reasons for their rejection, and (iv) name of the winning bidder, and the price it offered, as well as duration and summary scope of the contract awarded. The executing agency/implementing agency/contracting authority shall respond in writing to unsuccessful bidders who seek explanations on the grounds on which their bids are not selected.

23. **Member country restriction.** Bidders must be nationals of member countries of ADB, and offered goods, works, and related services must be produced in and supplied from member. This condition will not be applicable in case of Universal Procurement.

## SCHEDULE 4

### SELECTION CRITERIA AND APPROVAL PROCESS FOR PROJECT COMPONENTS AND SUBCOMPONENTS

#### I. Introduction

1. The Da Afghanistan Breshna Sherkat (DABS), Ministry of Energy and Water (MEW) and Ministry of Mines and Petroleum (MOMP) will be responsible for the selection and appraisal of respective energy sectors components (herein after called subprojects) to be improved under a project (Project) financed from grant provided from the multitranches financing facility (Facility) for the Energy Supply Improvement Investment Program (Program). Staff and consultants of the Program Management Office (PMO), the Project Management Unit (PMU) and the Project Implementation Unit (PIU) will assist DABS, MOMP and MEW respectively to prepare the Periodic Financing Requests (PFRs) and supporting documents for submission to the Ministry of Finance (MOF), which will submit to ADB and agree on the financing terms.

#### II. Selection Process

2. The following steps will be followed in the selection of energy sectors, or parts thereof, for financing from the Facility:

- (i) In consultation with relevant ministries, national and provincial agencies, and ADB, DABS and/or MEW/MOMP will carry out an annual review, and if necessary revise, priority energy sectors and prepare (or update) a medium term program; and
- (ii) The PMO will ensure that they meet the criteria outlined below, and prepare a summary appraisal report (in the format outlined in the FAM) and a draft PFR for funding from the Facility for repairing, rehabilitating, reconstructing or constructing energy sectors (physical investments) as well as necessary capacity development and institutional reforms (non-physical investments)

#### III. Eligibility Criteria

##### Infrastructure Improvement

3. To be eligible for financing from the Facility under this component, the energy sector infrastructure or part thereof:

- (i) must have the objective to attain the goals set forth in the National Energy Supply Program for construction or improvement.<sup>32</sup> Preference will be given, when selecting, to the highest-ranking projects energy sectors. The list and rankings will be updated annually by the Planning Unit of DABS and/or MEW/MOMP so that priorities can be revised with due regard to the condition of the network, energy sectors improved outside of DABS and/or MEW's/MOMP 's program, or changes in development or strategic priorities of the government;

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<sup>32</sup> The name of National Energy Supply Program (NESP) may change in the coming years – however the projects identified under the NESP will remain priority projects under the new Program.

- (ii) has been studied and fully designed in accordance with the requirements stipulated in the environmental assessment and review framework (EARF), and the land acquisition and resettlement framework (LARF), and found to be compliant with SPS (2009) requirements and socially, environmentally and economically viable; and
- (iii) has been cleared by the national, provincial, and local government agencies responsible for the environment and technical standards, or approvals could be obtained in time for the project or the Program implementation schedules to be maintained.

#### **IV. Approval Process**

4. The following sequence will be followed to obtain ADB's approval of periodic financing request:

- (i) DABS and/or MEW/MOMP, through the Ministry of Finance, will submit the appraisal report and the PFR for review by ADB;
- (ii) ADB will review the proposal and PFR, and suggest, if necessary, revisions to be incorporated by DABS and/or MEW/MOMP in its final submission;
- (iii) DABS and/or MEW/MOMP, will ensure that the PFR is modified and revised, as required by ADB, and submit to ADB through the Ministry of Finance for presentation for approval to ADB's management.

#### **V. Monitoring During Implementation**

5. DABS and/or MEW/MOMP, with the assistance of the construction supervision consultants, will ensure the adherence of projects to guidelines, policies, and other requirements of ADB, and monitor impacts throughout implementation.

## SCHEDULE 5

### SOCIAL DIMENSIONS AND SAFEGUARD REQUIREMENTS

1. Afghanistan will ensure that all the requirements prescribed in this Schedule, and the following safeguard frameworks and plans that have been prepared with respect to the Facility and the first tranche and of which ADB has been provided full copies, and which are deemed incorporated herein by reference, are complied with during the processing and implementation of the projects under the Facility.

- (i) environmental assessment and review framework (EARF), dated 15 October 2015,
- (ii) land acquisition and resettlement framework (LARF) dated 15 October 2015,
- (iii) EMP and LARP related to the 500 kV Transmission Line from Sheberghan to Dashte Alwan dated 5 October 2015 for the first tranche,
- (iv) EMP and LARP related to the 220 kV Transmission Line from Sheberghan to Andkhoy dated 5 October 2015 for the first tranche.

2. The frameworks cover the Facility-specific information and requirements in accordance with ADB's safeguard policies: (i) the general anticipated impacts of the components or projects likely to be financed under the MFF on the environment, involuntary resettlement, and indigenous peoples; (ii) the safeguard criteria that are to be used in selecting components, projects; (iii) the requirements and procedure that will be followed for screening and categorization, impact assessments, development of management plans, public consultation and information disclosure, and monitoring and reporting; and (iv) the institutional arrangements (including budget and capacity requirements) and the client's and ADB's responsibilities and authorities for the preparation, review and clearance of safeguard documents.

3. Prior to the preparation of each PFR, the applicability and relevance of each safeguard framework for environmental assessment, involuntary resettlement, and indigenous people will be reviewed by DABS and/or MOM and updated to ensure relevance and consistency with applicable country legal frameworks and ADB's safeguard policies, as amended from time to time.

4. In all cases, for each new PFR preparation, the client will renew ongoing projects to check on the status of compliance with the safeguard plans and frameworks, and submit the review reports to ADB, together with other required safeguard documents relevant to the projects included in the tranche being processes. In any case if major noncompliance is discovered in the course of the review of ongoing projects, a corrective action plan will be prepared and submitted to ADB.

## SCHEDULE 6

### Undertakings

Afghanistan undertakes as follows:

The Government and its Executing Agencies (DABS, MEW and MOMP) have agreed to the following specific undertakings, in addition to the standard undertakings agreed to in the FFA, which will be incorporated in the legal documents.

**Electricity Services Law.** The government of Afghanistan will approve the Electricity Services Law by 31 December 2016 to (i) clarify roles of MEW and DABS, and (ii) provide legal and regulatory framework for private sector participation in energy sector. In addition, a competitive gas development framework including tariff structure is approved to facilitate private sector participation in gas to power generation.

**DABS Business Plan.** The Recipient shall ensure that the Board of Directors of DABS finalizes and approves the specific components of the business plan by 31 December 2017, and approves and adopts the final business plan by 30 June 2018.

**Tariff Model and Framework.** The Recipient shall cause DABS to prepare, approve and adopt a tariff model and framework which shall specify tariff structures; identify and define consumer categories; assign cost components (including energy imports, indigenous generation, transmission, distribution, losses and other costs); and arrive at end-user tariffs. The Recipient shall cause DABS to finalize the key elements of the tariff model and framework, and the tariff determination methodology, by 31 December 2017. The Recipient shall ensure that the Board of Directors of DABS approves and adopts the tariff model and framework by 30 June 2018.

**Cost Reflective Consumer Tariff.** The Recipient shall cause DABS to continually adjust tariff levels so as to ensure recovery of generation, transmission, distribution, power systems, fixed utility and other costs, through the tariff. After the tariff model and framework developed above, that has been approved and adopted, DABS shall adjust tariff levels and ensure cost recovery in accordance with the tariff model and framework, including the information included therein or generated thereby.

**Policy Dialogue.** The Government will keep ADB informed about the Government's policies and projects related to the energy sector that will materially affect the financial viability of each project under the Program, and in particular the power generation and transmission policies, laws and regulations.

**Operations and Maintenance.** The Government will finalize and operations and maintenance (O&M) strategy for energy infrastructure by 31 December 2016. Implementation of this strategy will begin from 30 June 2017.

**Project Selection Criteria.** All projects proposed for financing under the Facility are selected in accordance with the agreed criteria set out in the FFA, which adhere to the relevant requirements of the power transmission investment plan and other applicable guidelines for project implementation. DABS will monitor the implementation of projects through to their completion of each project.

**Capacity Development.** The Government will ensure that key managerial positions on projects financed under the Facility are competitively selected and remunerated, free and clear of any restrictions applicable to Afghanistan's public servants.

**Auditing and Accounting.** The EAs will ensure that separate project accounts and records are maintained in a timely manner to adequately identify the use of tranche proceeds in such a manner and details as may be specified in each financing agreement for relevant tranche. Audited financial reports of Facility-financed activities will be submitted to ADB within 6 months of fiscal year end.

**Financial Governance.** The EAs will ensure that its internal controls are in accordance with the National Accounting Standards and an independent and autonomous internal audit department will be set up within DABS. DABS financial statements shall be audited annually in accordance with International Financial Reporting Standards by an external auditor acceptable to ADB.

**Environment and Social Safeguards.** Afghanistan shall ensure and cause DABS, MEW and MOMP to ensure that the implementation of projects, subprojects and components under the Energy Supply Improvement Investment Program and Facility is in compliance with (i) all applicable laws, rules and regulations of Afghanistan, and (ii) all undertakings and assurances concerning ADB's Safeguard Policy Statement (2009), gender policy, labor standards, and prohibited investments as set out in Schedule 5 and in the legal agreements for each tranche under the Facility.

**Security.** The Government will ensure that its armed forces and police provide in project areas protection required for smooth and uninterrupted implementation of each project financed under the Facility. In addition, it is required that service and works providers in each project submit security plans in consultation with ADB and the contractors/consultants that would ensure uninterrupted implementation of their respective project activities, and include them as part of the contracts and contract price.

**Anticorruption.** Afghanistan will comply, and will ensure that the EAs complies, with ADB's *Anticorruption Policy* (1998, as amended to date). Afghanistan, consistent with its commitment to good governance, accountability and transparency, acknowledges and agrees (a) that ADB reserves the right to investigate, directly or through its agents, any alleged corrupt, fraudulent, collusive or coercive practices relating to any

project financed under the Facility; and (b) to cooperate fully with any such investigation and to extend all necessary assistance, including providing access to all relevant books and records, as may be necessary for the satisfactory completion of any such investigation. In particular, the Government will (c) conduct periodic inspections on the contractors' activities related to fund withdrawals and settlements; (d) ensure that all contracts financed by ADB in connection with the Facility include provisions specifying the right of ADB to audit and examine the records and accounts of all contractors, suppliers, consultants and other service providers as they relate to the Facility; and (e) the construction supervision consultant shall verify the contractors' invoices in accordance with working drawings and contract specifications.