December 27, 2010

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

Excellency:

Subject: National Emergency Rural Access Project

Amendment to the ARTF Grant Agreement (TF095297-AF)

We refer to the Afghanistan Reconstruction Trust Fund Grant Agreement dated October 20, 2009 (the “Grant Agreement”) between the Islamic Republic of Afghanistan (the “Recipient”) and the International Development Association, acting as administrator of the Afghanistan Reconstruction Trust Fund (the “Administrator”) whereby the Administrator extended a grant to the Recipient in an amount of thirty million United States dollars (US$30,000,000) for the co-financing of the National Emergency Rural Access Project (the “Project”).

We further refer to the letter dated October 5, 2010 from Dr. Mohammad Mustafa Mastoor, Deputy Minister of Finance, on behalf of the Recipient requesting additional financing to cover the Project’s financial gap and an extension of the Grant Closing Date so as to enable the Project achieve its development objectives.

In light of the foregoing, and after due consideration and approval of the proposed amendment and additional financing by the Afghanistan Reconstruction Trust Fund Management Committee, we propose to hereby amend the Grant Agreement as follows:

1. Section 1.01 of the Grant Agreement is amended to read:

   “1.01 The Standard Conditions for Grants Made by the World Bank Out of Various Funds, dated July 31, 2010 (‘Standard Conditions’) constitute an integral part of this Agreement.”

2. Section 2.01 of the Grant Agreement is amended to read:
“2.01 The Recipient declares its commitment to the objectives of the project described in Schedule 1 to this Agreement (‘Project’). To this end, the Recipient shall carry out Part A and parts of Part C of the Project through MPW and Part B and parts of Part C of the Project through MRRD, in accordance with the provisions of Article II of the Standard Conditions.”

3. Section 3.01 of the Grant Agreement is amended to read:

“3.01 The World Bank agrees to extend to the Recipient, on the terms and conditions set forth or referred to in this Agreement, a grant in an amount equal to eighty million United States Dollars (US$80,000,000) (‘Grant’) to assist in financing the Project.”

4. Schedule 1 of the Grant Agreement is amended to read:

“SCHEDULE 1

Project Description

The objective of the Project is to assist the Recipient in enabling the population living in its rural areas, to benefit from year-round access to basic services and facilities, through the rehabilitation and maintenance of rural access infrastructure under the Recipient’s National Rural Access Program.

The Project consists of the following parts:

Part A: Improvement of Secondary Roads

1. Carrying out Road Works for the rehabilitation and reconstruction of selected secondary rural roads.

2. Carrying out emergency repair work of roads and bridges following natural disasters.

3. Management, monitoring and evaluation of the implementation of the Environmental and Social Management Framework.

4. Strengthening the capacity of MPW to coordinate and manage the implementation of Part A of the Project, including provision of consultants’ services and payment of operating costs.

Part B: Improvement of Tertiary Roads

1. Carrying out Road Works for the rehabilitation and reconstruction of selected tertiary rural roads.

2. Carrying out emergency repair work of roads and bridges following natural disasters.
3. Carrying out a program for the routine maintenance of roads already rehabilitated under NEEP 1 and NEEPRA through the provision of Routine Maintenance Grants to local communities through their CDCs.

4. Management, monitoring and evaluation of the implementation of the Environmental and Social Management Framework.

5. Strengthening the capacity of MRRD to coordinate and manage the implementation of Part B of the Project, including provision of consultants’ services and payment of operating costs.

Part C: Institutional Strengthening, Project Management and Program Development

1. Development of a rural roads management system including: (i) formulation and implementation of a rural access strategy; (ii) establishing a maintenance mechanism and maintenance program for the short and medium term, and supporting its first year of implementation.

2. Strengthening the capacity of: (a) key staff of MRRD and MPW charged with managing the rural roads sector in, inter alia, road network management, public procurement, financial management, engineering skills, English and computer literacy skills, reporting and geographic information systems; and (b) national works contractors and engineering firms involved in implementing the Project in, inter alia, procurement and contract management, all through the provision of technical advisory services and formal and on-the-job training.

3. Provision of support to the entities charged with implementing the Project, including management support and operating costs of NCU, supporting monitoring and evaluation activities, audits, safeguards and fiduciary support services of MPW and MRRD, and provision of reporting and technical support to the Steering Committee.

5. A new paragraph 3 is introduced to Section I.B of Schedule 2 to the Grant Agreement, which reads:

“3. In carrying out Parts A and B of the Project, the Recipient shall, by no later than December 31, 2011:

(i) develop, adopt and implement a roads network planning and prioritization mechanism, including basic rural access standards and roads specifications, satisfactory to the Administrator, to be consistently applied by MPW and MRRD in the selection of secondary and tertiary roads for reconstruction, rehabilitation and/or maintenance works; and

(ii) cause MPW and MRRD to establish a robust input price database and costs estimation system, satisfactory to the Administrator.”
6. A new Subsection E is added before Section I.F of Schedule 2 to the Grant Agreement, which reads:

"E. **Routine Maintenance Grants under Part B(3) of the Project**

1. (a) MRRD shall work with Facilitating Partners, identified in accordance with the provisions of the Project Implementation Manual, and/or the Implementation Consultant to assist CDCs in the implementation of Routine Maintenance Grant activities, including providing procurement support, construction quality assurance and control, monitoring and evaluation, and reporting.

(b) The MRRD PIU shall, in accordance with the criteria set out in the Project Implementation Manual, identify roads to be maintained with the support of financing from Routine Maintenance Grants.

(c) The MRRD PIU shall identify CDCs that fully satisfy the eligibility criteria specified in the Project Implementation Manual, to be responsible for implementing the identified Routine Maintenance Grant activities under the facilitation and technical guidance of Facilitating Partners and/or the Implementation Consultant. Several CDCs may combine together to carry out such maintenance activities of common interest and benefit by pooling together their Routine Maintenance Grant entitlements.

(d) The MRRD PIU shall, when evaluating each potential CDC’s eligibility to carry out Routine Maintenance Grant activities, determine, *inter alia*, whether the CDC or CDCs, with the support of Facilitating Partners and/or the Implementation Consultant, have capacity to carry out, manage and maintain the road(s) in conformity with appropriate administrative, financial, technical, environmental and managerial standards.

(e) If an activity to be financed by a Routine Maintenance Grant has been assessed to have potential large or medium scale environmental or social impacts, an Environmental Management Plan shall be prepared by the relevant Facilitating Partner and/or the Implementation Consultant jointly with the respective CDC(s) before the Routine Maintenance Grant can be awarded to the relevant CDC(s).

2. The Recipient, through MRRRD, shall make part of the proceeds of the Grant available, as Routine Maintenance Grants, to CDCs under agreements, each to be entered into by a representative of the CDC or CDCs and the Recipient, with terms and conditions set out in the Project Implementation Manual. Each such agreement shall, *inter alia*:

(i) require the CDC to carry out the activity financed by the Routine Maintenance Grant with due diligence and efficiency and in
accordance with sound administrative, financial, technical and managerial standards, and maintain adequate records for the work concerned;

(ii) require that all goods, works, and services required for the activity financed by the Routine Maintenance Grant be procured in accordance with the provisions of Section III of Schedule 2 to this Agreement;

(iii) require that all goods, works, and services be used exclusively in the carrying out of the activity approved to be financed by the Routine Maintenance Grant;

(iv) require that the Routine Maintenance Grant not finance or support the cultivation of poppy;

(v) permit the Recipient to inspect, by itself or jointly with representatives of the Association if the Association shall so request, any goods, works, plants and construction included in the activity financed by the Routine Maintenance Grant, the operation thereof, and any relevant records and documents;

(vi) require that the activities financed by the Routine Maintenance Grant comply with the environmental and social standards set forth in the Environmental and Social Management Framework; and

(viii) suspend or terminate the right of the CDC to the use of the proceeds of the Routine Maintenance Grant upon the failure by the CDC to perform any of its obligations under the legal agreement.”

7. Section I.F of Schedule 2 to the Grant Agreement is amended to read:

“F. Anti-Corruption

The Recipient shall ensure that the Project is carried out in accordance with the provisions of the ‘Guidelines on Preventing and Combating Fraud and Corruption in Projects Financed by IBRD Loans and IDA Credits and Grants’, dated October 15, 2006 (‘Anti-Corruption Guidelines’), with the modifications set forth in Section II of the Appendix to this Agreement.”

8. Paragraph 1 in Section III.A of Schedule 2 to the Grant Agreement is amended to read:

“1. Procurement and Consultant Guidelines. All goods, works and services required for the Project and to be financed out of the proceeds of the Grant shall be procured in accordance with the requirements set forth or referred to in:
(a) Section I of the “Guidelines: Procurement under IBRD Loans and IDA Credits” published by the World Bank in May 2004 and revised in October 2006 and May 2010 (‘Procurement Guidelines’) in the case of goods and works, and Sections I and IV of the “Guidelines: Selection and Employment of Consultants by World Bank Borrowers” published by the World Bank in May 2004 and revised in October 2006 and May 2010 (‘Consultant Guidelines’) in the case of consultants’ services; and

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

9. The table in paragraph 2 of Section IV.A of the Grant Agreement is amended to read:

<table>
<thead>
<tr>
<th>“Category”</th>
<th>Amount of the Grant Allocated (expressed in USD)</th>
<th>Percentage of Expenditures to be Financed (inclusive of Taxes)</th>
</tr>
</thead>
<tbody>
<tr>
<td>(1) Goods, works consultants’ services, training, Routine Maintenance Grants and Incremental Operating Costs under the Project</td>
<td>80,000,000</td>
<td>100%</td>
</tr>
<tr>
<td>TOTAL AMOUNT</td>
<td>80,000,000</td>
<td></td>
</tr>
</tbody>
</table>

10. The paragraph underneath the table set out in paragraph 2 of Section IV.A of Schedule 2 to the Grant Agreement is amended to read:

“For purposes of the above table of Eligible Expenditures, the following terms have the following meaning:

(a) ‘Incremental Operating Costs’ means incremental expenses incurred on account of Project implementation, support and management including the rental of office space, the operation, maintenance, rental and insurance of vehicles, fuel costs, communications supplies and charges, advertisement expenses, books and periodicals, office administration and maintenance costs, bank transaction charges, utility charges, domestic travel and per diem, and incremental salaries of MRRD and MPW staff on account of Project implementation;

(b) ‘Routine Maintenance Grants’ means grants made available by the Recipient to CDCs to finance the cost of goods, works and services for road maintenance under Part B(3) of the Project; and
(c) ‘Training’ means the reasonable costs of trainings, workshops and conferences conducted in the territory of the Recipient or, subject to the prior no-objections of the Administrator, attended overseas by MPW’s and MRRD’s staff, including the purchase and publications of material, rental of facilities, course fees and travel and subsistence allowances for trainees.

11. Paragraph 2 in Section IV.B of Schedule 2 to the Grant Agreement is amended to read:

“2. The Closing Date referred to in Section 3.06(c) of the Standard Conditions is December 31, 2013.”

12. The new title “Section I Definitions” is introduced in the first line of the Appendix to the Grant Agreement and two new definitions are incorporated to the Appendix, which read:

“24. ‘Community Development Council’ and the acronym ‘CDC’ mean a community-based decision making body that includes a chairperson, vice-chairperson, secretary, and treasurer, and its responsible for, inter alia, preparing proposals for, and implementing works financed by, Routine Maintenance Grants.

25. ‘Facilitating Partners’ means national or international non-governmental organizations, agencies and/or consultants that will assist the Recipient in carrying out Routine Maintenance Grant activities under Part B(3) of the Project.”

13. A new “Section II” is introduced to the Appendix to the Grant Agreement after definition 25, which reads:

“Section II. The modifications to the Anti-Corruption Guidelines are as follows:

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

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

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

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

Footnotes:

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

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

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

Unless the context otherwise requires, and except where otherwise defined in this letter of amendment (the “Amendment Letter”), all capitalized terms contained herein shall have the meaning given to them in the Grant Agreement.

All of the terms and conditions of the Grant Agreement that have not been amended pursuant to this Amendment Letter shall remain unchanged and in full force and effect.

Please confirm your agreement to the amendments set forth above by signing and dating the form of confirmation on the enclosed two copies of this Amendment Letter, returning one fully executed original to us at your earliest convenience, and retaining one original for your records.

This Amendment Letter shall enter into effect as of the date of countersignature by the duly authorized representative of the Recipient, upon the Administrator’s receipt of the above referred fully executed original.

Sincerely,

INTERNATIONAL DEVELOPMENT ASSOCIATION

/s/ Usman Qamar
Usman Qamar
Acting Country Director for Afghanistan
South Asia Region

CONFIRMED and AGREED on behalf of
the ISLAMIC REPUBLIC OF AFGHANISTAN

/s/ Omar Zakhilwal
Name: Dr. Omar Zakhilwal
Title: Minister of Finance
Date: December 27, 2010