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

Dear Excellency,

Re: Afghanistan Urban Water Sector Project
Amendment to Financing Agreement (Grant No. H225-AF)

We refer to the Financing Agreement for the Urban Water Sector Project (the “Project”) dated July 5, 2006 (the “Financing Agreement”) between Islamic Republic of Afghanistan (the “Recipient”) and the International Development Association (the “Association”).

We also refer to your letter dated May 30, 2010 requesting the Association to restructure the Project to: (i) cancel the Kabul Water Supply System Component; (ii) cancel and recommit an amount equivalent to US$23 million (SDR15,664,000) originally budgeted for such component; (iii) add two new activities for the preparation of a new water supply project for Kabul, and a pilot scheme for expanding water supply services by small private operators; (iv) revise the Project development objectives and Project results and indicators; and (v) extend the Financing Agreement’s Closing Date until June 30, 2012.

We are pleased to inform you that the Association hereby agrees to the requested Project restructuring and proposes that the Financing Agreement be amended as follows:

1. Article 3.01 shall read as follows:

   “3.01. The Recipient declares its commitment to the objectives of the Project. To this end, the Recipient shall carry out the Project through MOUD and, upon its establishment, through the Afghanistan Urban Water Supply and Sewerage Corporation (AUWSSC), in accordance with the provisions of Article IV of the General Conditions.”

2. The Project’s development objective and the description of Project activities reflected in Schedule 1 to the Financing Agreement (Description of the Project) shall be amended to read as set out in the Attachment 1 to this letter of amendment (the “Amendment Letter”).

3. The performance monitoring indicators for the Project referred to in Section II.A.1 of Schedule 2 to the Financing Agreement shall be amended to read as set forth in the Attachment 3 to this Amendment Letter.
4. Section II.B.2 of Schedule 2 shall be amended to read as follows:

“2. Without limitation on the provisions of Part A of this Section, the Recipient shall, and shall cause AUWSSC to, prepare and furnish to the Association not later than forty five (45) days after the end of each calendar quarter, interim un-audited financial reports for the Project and AUWSSC covering the quarter, in form and substance satisfactory to the Association.”

5. The table in Section IV.A.2 of Schedule 2 shall be replaced with the table included as Attachment 2 to this Amendment Letter.

6. Section IV.B.2 of Schedule 2 shall be amended to read as follows:

“2. The Closing Date is June 30, 2012.”

7. Paragraphs (a), (b), (c) and (d) of Section V of Schedule 2 are amended to read as follows:

“(a) The Recipient shall no later than October 31, 2010, appoint or cause to be appointed in AUWSSC, a finance manager and a deputy technical manager and, maintain throughout the duration of the Project the AUWSSC management team comprising of the general manager, finance manager, operations manager and deputy technical manager.

(b) The Recipient shall no later than October 31, 2010, appoint or cause to be appointed in each SBU, a head of the SBU.

(c) The Recipient shall maintain throughout the duration of the Project, independent external auditors with terms of reference acceptable to the Association, including carrying out of annual audits of AUWSSC’s corporate financial statements, and semi-annual audits of claims for advances for financial support under Part 2 of the Project.

(d) The Recipient shall: (i) no later than September 30, 2011, cause to be submitted to the Association for review, a first report by the auditors referred to in paragraph (c) above, of AUWSSC’s annual corporate financial statements for the Recipient’s fiscal year ending on March 20, 2011; and (ii) no later than December 31, 2010, cause to be submitted to the Association for review, a first report by the auditors referred to in paragraph (c) above, of the semi-annual audit of claims for advances for financial support under Part 2 of the Project.”

8. Paragraph 1 of the Appendix to the Financing Agreement (Definitions) shall be amended to read as follows:

“1. “Afghanistan Urban Water Supply and Sewerage Corporation” or “AUWSSC” means the water supply and sewerage entity to be established under Part 1(a) of the Project in accordance with the Presidential Decree, as the successor entity to CAWSS.”

Unless otherwise indicated in this Amendment Letter, all capitalized terms used herein shall have the same meanings assigned to them in the Financing Agreement.
All terms of the Financing Agreement not hereby amended shall remain in full force and effect.

Please confirm your agreement to the amendments proposed above by signing and dating the form of confirmation on the enclosed two copies of this Amendment Letter and returning one copy to us. This Amendment Letter shall take effect as of the date of counter-signature.

Sincerely,

INTERNATIONAL DEVELOPMENT ASSOCIATION

s/ Nicholas J. Krafft

_______________________
Nicholas J. Krafft
Country Director for Afghanistan
South Asia Region

CONFIRMED and AGREED:

on behalf of the

ISLAMIC REPUBLIC OF AFGHANISTAN

By s/ Hazrat Omar Zakhilwal

Name: __Hazrat Omar Zakhilwal__

Title: __Minister of Finance__

Date: __October 1, 2010__
“SCHEDULE 1

Project Description

The objective of the Project is to assist the Recipient to develop the capacity of the Afghanistan Urban Water Supply and Sewerage Corporation for operational management and investment planning and implementation.

The Project consists of the following parts:

Part 1: Institutional Development of AUWSSC

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

(b) Development and enhancement of capacity in the newly formed AUWSSC, through the provision of technical assistance and training for, among other things: (i) the preparation of operations, procurement, accounting and financial management procedures, (ii) the monitoring and management of environment and social issues; (iii) human resource development; (iv) the carrying out of feasibility studies and surveys; (v) the carrying out of audits; (vi) the carrying out of financial management, planning and design, and management and implementation of water supply and sewerage activities; (vii) the preparation of an investment program to increase water supply for Kabul; and (viii) the development and implementation of a pilot scheme to expand water supply services by small private operators.

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

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

Part 2: Financial Support to AUWSSC

Strengthening of the newly created AUWSSC, through the provision of financial support, including payment of: (i) operations and maintenance costs including salaries of non-managerial staff; (ii) salaries of managerial staff; and (iii) bonuses of managerial staff.
<table>
<thead>
<tr>
<th>Category</th>
<th>Amount of the Grant Allocated (expressed in SDR)</th>
<th>Percentage of Expenditures to be Financed (inclusive of taxes)</th>
</tr>
</thead>
<tbody>
<tr>
<td>(1) Goods, works, consultants’ services and training under Part 1 of the Project, and audit costs</td>
<td>6,914,000</td>
<td>100%</td>
</tr>
<tr>
<td>(2) Operations and maintenance costs including salaries of non-managerial staff under Part 2(i) of the Project</td>
<td>3,040,000</td>
<td>45% of expenses incurred in FY2010 (March 21, 2009 to March 20, 2010) within the limit of US$1.6 million equivalent, 40% of expenses incurred in FY2011 (March 21, 2010 to March 20, 2011) within the limit of US$1.5 million equivalent, 30% of expenses incurred in FY2012 (March 21, 2011 to March 20, 2012) within the limit of US$1.2 million equivalent, and 15% of expenses incurred in the first quarter of FY2013 (from March 21, 2012 to June 30, 2012) within the limit of US$0.3 million equivalent</td>
</tr>
<tr>
<td>(3) Salaries of managerial staff under Part 2 (ii) of the Project</td>
<td>880,000</td>
<td>100% of expenses incurred within the limit of US$400,000 equivalent per year in FY2010, FY2011 and FY2012, and US$ 100,000 for the first quarter of FY2013 (until June 30, 2012)</td>
</tr>
<tr>
<td>(4) Bonuses of managerial staff under Part 2 (iii) of the Project</td>
<td>202,000</td>
<td>100% of expenses incurred within the limit of US$100,000 equivalent per year in FY2010, FY2011 and FY2012, and US$ 30,000 for the first quarter of FY2013 (until June 30, 2012).</td>
</tr>
<tr>
<td>(5) Unallocated</td>
<td>1,200,000</td>
<td></td>
</tr>
<tr>
<td>(6) Amounts Cancelled on May 30, 2010</td>
<td>15,664,000</td>
<td></td>
</tr>
<tr>
<td><strong>TOTAL AMOUNT</strong></td>
<td><strong>27,900,000</strong></td>
<td></td>
</tr>
</tbody>
</table>
### Project Performance Indicators

#### Results Framework and Monitoring

**AFGHANISTAN: URBAN WATER SECTOR PROJECT**

**Project Development Objective (PDO):**

The PDO, as given in the Financing Agreement, was to assist the Recipient in increasing access to, and reliability of, the water supply and sewerage services in its urban centers by: (i) establishing adequate institutional arrangements for the management of water supply and sewerage; and (ii) extending the water supply in Kabul.

**Revised Project Development Objective:**

The revised project development objective is to assist the Recipient to develop the capacity of the Afghanistan Urban Water Supply and Sewerage Corporation for operational management and investment planning and implementation.

<table>
<thead>
<tr>
<th>PDO Level Results Indicators</th>
<th>Core</th>
<th>D=Dropped C=Continue N= New R=Revised</th>
<th>Unit of Measure</th>
<th>Baseline</th>
<th>Cumulative Target Values</th>
<th>Frequency</th>
<th>Data Source/ Methodology</th>
<th>Responsibility for Data Collection</th>
</tr>
</thead>
<tbody>
<tr>
<td>Indicator One: People in project areas with access to Improved Water Sources (CORE)</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>YR 1 (FY10)</td>
<td>YR 2 (FY11)</td>
<td>YR 3 (FY12)</td>
<td></td>
</tr>
<tr>
<td>Indicator One: People in project areas with access to Improved Water Sources (CORE)</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>12,000</td>
<td>32,000</td>
<td>89,000</td>
<td>Quarterly</td>
</tr>
<tr>
<td>Indicator Two: Improved community water points constructed or rehabilitated under the project (CORE)</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>0</td>
<td>Nil</td>
<td>22</td>
<td>Quarterly</td>
</tr>
<tr>
<td>Indicator Three: New piped household water connections that are resulting from the project intervention (CORE)</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>0</td>
<td>2,000</td>
<td>7,015</td>
<td>Quarterly</td>
</tr>
<tr>
<td>Indicator Four: Piped household water connections that are benefitting from rehabilitation</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>0</td>
<td>675</td>
<td>1,675</td>
<td>Quarterly</td>
</tr>
<tr>
<td>Indicator Five: Number of water utilities that the project is supporting (CORE)</td>
<td>Continue</td>
<td>Number</td>
<td>1</td>
<td>1</td>
<td>1</td>
<td>1</td>
<td>Progress Report</td>
<td>AUWSSC</td>
</tr>
<tr>
<td>Indicator Six: Number of new connections built in District-4 of Kabul</td>
<td>Dropped</td>
<td>Number</td>
<td>Nil</td>
<td>Nil</td>
<td>2,000</td>
<td>7,015</td>
<td>Quarterly</td>
<td>Progress Report</td>
</tr>
<tr>
<td>Indicator Seven: AUWSSC is fully corporatized and took over operation in urban areas</td>
<td>New</td>
<td>AUWSSC took over operation in all urban areas where CAWSS was operating</td>
<td>Quarterly</td>
<td>Progress Report</td>
<td>AUWSSC</td>
<td></td>
<td></td>
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<tr>
<td>Indicator Eight: Number of household connections in Kabul provided by small scale local providers</td>
<td>New</td>
<td>Number</td>
<td>Nil</td>
<td>200</td>
<td>500</td>
<td>Quarterly</td>
<td>Progress Report</td>
<td>AUWSSC</td>
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</tbody>
</table>

**INTERMEDIATE RESULTS**

**Intermediate Result (Component One):** CAWSS is liquidated

**Revised Intermediate Result (Component One):** Improved financial performance achieved by AUWSSC

**Intermediate Result indicator One: Financial statements of AUWSSC is produced and audited**

| New | Number | AUWSSC is a new entity | 2 | 2 | 2 | Semi Annual | AUWSSC’s financial management system | AUWSSC |

**Intermediate Result indicator Two: Accounts receivable**

| Continue | Month | 3.5 | 3.5 | 3.0 | 2.5 | Semi Annual | AUWSSC’s financial management system | AUWSSC |

**Intermediate Result indicator Three: Working Ratio: collection/ Operation and maintenance expenses**

| Continue | Ratio | 0.53 | 0.53 | 0.60 | 0.70 | Semi Annual | AUWSSC’s financial management system | AUWSSC |

**Intermediate Result (Component Two):** NA

**Revised Intermediate Result (Component Two):** Improved service performance in Kabul

**Intermediate Result indicator One: Average per connection collections**

<p>| Continue | Afg/year | NA | 940 | 1125 | 1400 | Quarterly | AUWSSC’s commercial information | AUWSSC |</p>
<table>
<thead>
<tr>
<th>Intermediate Result indicator Two: Percentage of samples tested meeting residual chlorine standards</th>
<th>Continue</th>
<th>Percent</th>
<th>NA</th>
<th>NA</th>
<th>90%</th>
<th>95%</th>
<th>Quarterly</th>
<th>Progress Report</th>
<th>AUWSSC</th>
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