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Report No: PAD1479

AFGHANISTAN RECONSTRUCTION TRUST FUND

PROJECT PAPER

ON A

PROPOSED ADDITIONAL GRANT

IN THE AMOUNT OF US\$15 MILLION

TO THE

ISLAMIC REPUBLIC OF AFGHANISTAN

FOR

AFGHANISTAN POWER SYSTEM DEVELOPMENT PROJECT

(GRANT 093513-AF)

June 30, 2015

Energy & Extractives Global Practice
South Asia Region

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CURRENCY EQUIVALENTS

(Exchange Rate Effective MAY 31, 2015)

Currency Unit = Afghan Afghani (AFN)
AFN 57.72 = US\$1

FISCAL YEAR
December 21 – December 20

ABBREVIATIONS AND ACRONYMS

ADB	Asian Development Bank
AF	Additional Financing
AFMIS	Afghanistan Financial Management Information System
AFN	Afghan Afghani
APSDP	Afghanistan Power System Development Project
ARTF	Afghanistan Reconstruction Trust Fund
DA	Designated Account
DAB	Da Afghanistan Bank (Central Bank)
DABM	Da Afghanistan Breshna Mossesa
DABS	Da Afghanistan Breshna Sherkat (the electricity utility)
EIRR	economic internal rate of return
ESMF	Environmental and Social Management Framework
GoA	Government of Afghanistan
GRS	Grievance Redress Service
ICB	International Competitive Bidding
IDA	International Development Association
IFR	Interim Financial Reports
IOC	Incremental operating costs
IP	Implementation progress
IRR	IRR Internal Rate of Return
ISR	Implementation Status and Results Report
MEW	Ministry of Energy and Water
MoF	Ministry of Finance
NCB	National Competitive Bidding
NHRP	Naghlu Hydropower Rehabilitation Project
NPV	Net Present Value
ORAF	Operational Risk Assessment Framework
PDO	Project Development Objective
PIT	Project Implementation Team

PMO	Project Management Office
PMF	Project Management Firm
QCBS	Quality- and Cost-Based Selection
RVP	Regional Vice President
SAO	Supreme Audit Office
SORT	Systematic Operations Risk-rating Tool
TF	Trust Fund
USAID	United States Agency for International Development

Vice President:	Annette Dixon
Country Director:	Robert J. Saum
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Task Team Leader:	Fanny Missfeldt-Ringius/Jie Li

ISLAMIC REPUBLIC OF AFGHANISTAN
AFGHANISTAN POWER SYSTEM DEVELOPMENT PROJECT

ADDITIONAL FINANCING DATA SHEET

Afghanistan

Afghanistan Power System Development Project Additional Financing (P152975)

SOUTH ASIA

GEEDR

Basic Information – Parent				
Parent Project ID:	P111943	Original EA Category:	B - Partial Assessment	
Current Closing Date:	31-Jul-2015			
Basic Information – Additional Financing (AF)				
Project ID:	P152975	Additional Financing Type (from AUS):	Cost Overrun	
Regional Vice President:	Annette Dixon	Proposed EA Category:	B - Partial Assessment	
Country Director:	Robert J. Saum	Expected Effectiveness Date:	30-Sep-2015	
Senior Global Practice Director:	Anita Marangoly George	Expected Closing Date:	31-May-2017	
Practice Manager/Manager:	Julia Bucknall	Report No:	PAD1479	
Team Leader(s):	Fanny Missfeldt-Ringius/Jie Li			
Approval Authority				
Approval Authority				
RVP				
Please explain				
The Additional Financing and proposed changes (Level One Restructuring) will be formally approved by the Country Director for Afghanistan, on behalf of the World Bank and as the Chair of the Management Committee (MC) of Afghanistan Reconstruction Trust Fund (ARTF).				
Borrower				
Organization Name	Contact	Title	Telephone	Email
Islamic Republic of Afghanistan	Moheb Arsalan	Aid Coordination Specialist	0093-790850761	moheb.jabarkhail@budgetmof.gov.af

Project Financing Data - Parent (Afghanistan Power System Development Project-P111943) (in USD Million)

Key Dates

Project	Ln/Cr/TF	Status	Approval Date	Signing Date	Effectiveness Date	Original Closing Date	Revised Closing Date
P111943	TF-93513	Effective	19-Mar-2009	19-Mar-2009	19-Mar-2009	31-Jul-2012	31-Jul-2015

Disbursements

Project	Ln/Cr/TF	Status	Currency	Original	Revised	Cancelled	Disbursed	Undisbursed	% Disbursed
P111943	TF-93513	Effective	USD	60.00	60.00	0.00	56.03	3.97	93.39

Project Financing Data - Additional Financing Afghanistan Power System Development Project Additional Financing (P152975)(in USD Million)

Loan Grant IDA Grant
 Credit Guarantee Other

Total Project Cost: 15.00 Total Bank Financing: 0.00

Financing Gap: 0.00

Financing Source – Additional Financing (AF)	Amount
Borrower	0.00
Afghanistan Reconstruction Trust Fund	15.00
Total	15.00

Policy Waivers

Does the project depart from the CAS in content or in other significant respects? No

Explanation

Does the project require any policy waiver(s)? Yes

Explanation

Paragraph 29 of World Bank Operational Policy (OP) 10.00 states that “The Bank may provide additional financing to an ongoing, well-performing Project...” In the Instructions: Additional Financing For Investment Project Financing (dated November 14, 2014) “Well-performing” is defined as having Implementation Status and Results Report (ISR) ratings for implementation progress (IP) and development objectives (DO) consistently rated as Moderately Satisfactory or better over the most recent 12 months; and the project being substantially compliant with key loan covenants, including audit and financial management reporting requirements. The latest DO and IP ratings for APSDP (ISR, January 2015) are ‘Moderately

Satisfactory’ and ‘Moderately Unsatisfactory’. A waiver of said policy is required for proceeding with the Additional Financing.

Has the waiver(s) been endorsed or approved by Bank Management?	Yes
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On June 16, 2015 the Bank’s Senior Vice President of Operations provided his concurrence to approve the requested waiver to allow for the provision of the proposed Additional Financing.

Team Composition

Bank Staff

Name	Role	Title	Specialization	Unit
Fanny Kathinka Missfeldt-Ringius	Team Leader	Senior Energy Economist		GEEDR
Jie Li	Team Leader	Environmental Specialist		GSURR
Asif Ali	Procurement Specialist	Senior Procurement Specialist		GGODR
Asha Narayan	Financial Management Specialist	Sr Financial Management Specialist		GGODR
Abdul Hameed Quraishi	Team Member	Operations Officer		GEEDR
Afsana Afshar	Team Member	Jr Power Engineer		GEEDR
Juan Carlos Alvarez	Counsel	Senior Counsel		LEGES
Chau-Ching Shen	Disbursement Officer	Senior Disbursement Officer		WFALN
Dilip Kumar Prusty Chinari	Finance Analyst	Finance Analyst		WFALN
Mohammad Yasin Noori	Safeguards Specialist	Social Development Specialist		GSURR
James Orehmie Monday	Safeguards Specialist	Senior Environmental Specialist		GENDR
Obaidullah Hidayat	Safeguards Specialist	Environmental Specialist		GENDR
Sayed Mojtaba Shobair	Team Member	Environmental Specialist		GENDR
Parwana Wawreena Nasiri	Team Member	Program Assistant		SACKB
Shaukat Javed	Team Member	Program Assistant		GEEDR
Boonsri Prasertwaree Kim	Team Member	Program Assistant		GEEDR
Richard Jeremy Spencer	Team Member	Lead Energy Specialist		GEEDR

Extended Team					
Name		Title		Location	
Locations					
Country	First Administrative Division	Location	Planned	Actual	Comments
Afghanistan	Baghlan	Pul-e Khumri			
Afghanistan	Kabul	Kabul			
Afghanistan	Parwan	Jabul es Seraj			
Afghanistan	Parwan	Gulbahar			
Afghanistan	Parwan	Charikar			
Institutional Data					
Parent (Afghanistan Power System Development Project-P111943)					
Practice Area (Lead)					
Energy & Extractives					
Contributing Practice Areas					
Cross Cutting Topics					
[] Climate Change					
[X] Fragile, Conflict & Violence					
[] Gender					
[] Jobs					
[] Public Private Partnership					

Sectors / Climate Change				
Sector (Maximum 5 and total % must equal 100)				
Major Sector	Sector	%	Adaptation Co-benefits %	Mitigation Co-benefits %
Energy and mining	Power	91		
Public Administration, Law, and Justice	Public administration-Energy and mining	9		
Total		100		
Themes				
Theme (Maximum 5 and total % must equal 100)				
Major theme	Theme	%		
Urban development	Urban services and housing for the poor	100		
Total		100		
Consultants (Will be disclosed in the Monthly Operational Summary)				
Consultants Required? Consultants will be required				

ADDITIONAL FINANCING PROJECT PAPER

I. Introduction

1. This Project Paper seeks the approval of the Management Committee of the Afghanistan Reconstruction Trust Fund (ARTF) (i) to provide **US\$ 15 million** in additional financing (AF) grant to the *Afghanistan Power System Development Project (APSDP, P111943, Grant TF093513, AF P152975)* and (ii) to make changes in the Project Development Objectives (PDO) and implementation arrangements. The Project Paper also seeks the approval of a waiver of paragraph 29 of World Bank Operation Policy (OP) 10.00 concerning eligibility of projects to receive AF.

2. The proposed AF is to help cover the financing gap caused by cost escalations in the original project. The AF would be used to finance the following activities: (i) the supply of meter boxes and equipment for the final connections to the houses for the rehabilitation of distribution networks - 12,500 connections at Charikar, Gulbahar and Jabul-es-Seraj and 5,500 connections at Pul-e-Khumri, which were not included in the original contracts for the work; (ii) the incremental cost of the rehabilitation of the switchyards at Naghlu and Mahipar hydropower stations; and (iii) capacity building and implementation support to Da Afghanistan Breshna Sherkat (DABS), the electricity utility that would become the new implementation agency .

3. Partnership arrangements: The AF will be funded, in the same way as the parent project, by a grant from ARTF, a multi-donor trust fund which is administrated by the International Development Association (IDA).

4. In addition to providing additional resources, the following changes in the project are proposed: (i) change the PDO and revision of the results framework to update and include new project performance indicators; (ii) extension of the project closing date from July 31, 2015 to May 31, 2017; (iii) change in project implementation arrangement; (iv) change in disbursement arrangement to reflect the new implementation arrangements; (v) change in disbursement estimates to reflect the new cost structure of the project; (vi) change in financial management and procurement arrangements to reflect the new implementation arrangement; and (vii) change in implementation schedule to reflect the new project closing date. Section III presents more details.

II. Background and Rationale for Additional Financing in the amount of US\$15 million

5. **Background:** An original grant amount of US\$60 million was approved for the APSDP on October 22, 2008 from the ARTF, and it became effective on March 19, 2009. This grant was released in two tranches: US\$35 million was released on October 22, 2008 and the remaining US\$25 million was released on January 18, 2011. The project has three components: (i) distribution system rehabilitation - rehabilitation of the distribution system in Charikar, Gulbahar, and Jabul-es-Seraj (in Parwan province); and Pul-e-Khumri (in Baghlan province); (ii) rehabilitation of transmission switchyards at the Mahipar and Naghlu hydropower stations on the Kabul River; and (iii) institutional capacity building and project management – project implementation support to the Ministry of Energy and Water (MEW) and the recruitment/retention of a Project Management Firm (PMF). The project closing date is July 31, 2015.

6. **Project Development Objectives (PDO):** The original PDO was “to support increasing access to grid power and the quantity of available power to the consumers in the target areas of the urban centers at Pul-e-Khumri, Charikar, Gulbahar and Jabul-es-Seraj”. The project was

restructured in June 2013 and the original PDO was revised. The current PDO is: “to increase the number of electricity connections for the urban centers of Charikar, Gulbahar and Jabul-es-Seraj and Pul-e-Khumri in an institutionally efficient way”. The proposed new PDO is “to increase the number of electricity connections for the urban centers of Charikar, Gulbahar and Jabul-es-Seraj and Pul-e-Khumri and to improve the availability of power from Naghlu and Mahipar switchyards”.

7. **Project Implementation Status and Performance:** The project has made significant progress towards achieving its PDO by implementing key project activities, but has also faced serious challenges. As a result, the project is currently rated Moderately Satisfactory (MS) in terms of the likelihood of achieving its PDO, and Moderately Unsatisfactory (MU) for Implementation Progress (IP). By June 25 2015, the project had disbursed US\$56 million out of the total commitment of US\$60 million. The project is in full compliance with all legal covenants and audit requirements. Historic performance of the project on environmental and social safeguards has been unsatisfactory, because reporting and documentation of environmental aspects and land acquisition have been inadequate. This situation has been remedied since the PMF operating on behalf of the Ministry of Energy and Water (MEW) appointed a safeguards focal point in April, 2014 who has been providing monthly reporting on environment and social issues. The rating for Safeguards has been upgraded to the current MU but will not be Satisfactory until adequate reporting on land acquisition and related environment management activities has been done. However, it should be noted that no safeguards violations have been observed on the ground and that the measures to be completed under the AF are not expected to have any adverse environmental or social impact. The status of the various components of the project are as follows:

Component A: Rehabilitation of Distribution Systems: Construction works for medium voltage (MV) and low voltage (LV) distribution systems for Gulbahar, Charikar, Jabul-es-Seraj and Pul-e-Khumri have been completed and are being handed over to Da Afghanistan Breshna Sherkat (DABS). However, the supply and installation of meter boxes, cabling for individual consumer connections and main circuit boards were not included in the original project design, and this has delayed the completion of the physical work under this component.

Component B: Rehabilitation of Transmission Switchyards associated with Naghlu and Mahipar Hydropower Stations: Rehabilitation work at the Mahipar switchyard was completed in December 2014. Rehabilitation work at the Naghlu switchyard has not yet started. All the materials needed for this work have been delivered at the project site and when will the work start depends on being able to take parts of the switchyard out of operation at times when the station does not need them. Naghlu is normally run to the extent that water is available, and so the work has to be fitted in around periods of low water, typically during the dry season starting in August - September.

Component C: Institutional Capacity Building, Energy Efficiency, and Project Management Support: The PMF continues to provide support to MEW until June 30, 2015. The energy efficiency cell of MEW has completed all the energy efficiency activities, including the demonstration projects. Training of technical staff at the Mahipar station on the operation of the new switchyard equipment is currently ongoing.

8. **Rationale for Additional Financing:** The Government of Afghanistan requested AF through its letter dated September 13, 2014. The AF will be used to close the funding gap caused

by unanticipated cost overruns and project restructuring. The project team support this request for AF for the following reasons:

i. It will help the project to fully achieve its PDO of increasing the number of electricity connections for the selected urban centers. The objective will not be met if connections to households and businesses are not completed with the requisite line-drops and meter boxes procured and installed for all end-users of electricity. Failure to complete rehabilitation works for Naghlu switchyard would defer and make more complex the task of bringing the Naghlu hydropower plant back to its full operational capacity. In addition, the distribution lines installed under the project would risk becoming stranded assets and the equipment already supplied to Naghlu switchyard would remain uninstalled and could be damaged or stolen.

ii. The proposed restructuring and AF enables an immediate improvement in IP by providing ample time, adequate financing contingencies and by changing the implementing agency to Afghanistan's government-owned power utility DABS, which is an entity dedicated to implementing electricity projects. DABS has already been assessed as sufficiently capable to become the implementing agency for the ongoing Bank-financed CASA Project and the proposed strategic Naghlu Hydropower Plant Rehabilitation Project (NHRP), which is under preparation by the World Bank. Appraisal did not reveal any particular capacity gaps, but the AF has contingencies for training if needed.

iii. To re-affirm the World Bank's commitment to the power sector and to the government in support of its promise to improve access to electricity for the people of Afghanistan. The Bank is one of the few institutions with the capacity to make long term commitments and add value in this technically complex sector.

9. Alternatives to the proposed AF were considered including: (i) preparing a new operation; and (ii) transferring the uncompleted activities to other projects in the portfolio or pipeline. These options were rejected because the proposed AF represents the best option for completing the remaining project activities and meeting the PDO in an acceptable timeframe.

10. **Waiver to World Bank OP 10.00:** The latest DO and IP ratings (January 2015) for the project are 'Moderately Satisfactory' and 'Moderately Unsatisfactory' respectively. Previous ratings over the past 12 months have been 'Satisfactory', and 'Moderately Unsatisfactory' respectively. Safeguards were also rated 'Moderately Unsatisfactory'. As such the Project does not have the ratings required under OP 10.00 to proceed with additional financing. A waiver of paragraph 29 of OP 10.00 has been authorized by Bank Management and will be submitted for approval at the same time the proposed AF is submitted to the ARTF Management Committee for approval. The paragraph proposed to be waived requires in pertinent part that additional financing only be provided to well-performing projects for completion of Project activities when there is a financing gap or cost overrun. In the "Instructions: Additional Financing For Investment Project Financing" (dated November 14, 2014) "Well-performing" is defined as having Implementation Status and Results Report (ISR) ratings for implementation progress (IP) and development objectives (DO) consistently rated as Moderately Satisfactory or better over the most recent 12 months; and the Project being substantially compliant with key loan covenants, including audit and financial management reporting requirements.

III. Proposed Changes

11. Under the additional financing the implementation of components under the original project will be completed by covering the cost overrun, and by restructuring project implementation by components as follows:

12. **Component A: Rehabilitation of Distribution Systems.** The Ministry of Energy and Water (MEW) will close these two distribution rehabilitation contracts for Charikar, Gulbahar & Jabul-es-Seraj (contract MEW-S504) and Pul-e-Khumri Distribution Systems (contract MEW-S506) which have now completed their physical work. The current Project Management Firm (PMF), GFA, whose contract ends on June 30, 2015 will support MEW with processing contract closing and system transfer to DABS till the end of their service contract.

13. DABS will be responsible for the procurement and installation of the service drops to connect the distribution networks to consumers. The equipment for 12,500 service drops for Charikar, Gulbahar and Jabul-es-Seraj and 5,500 service drops for Pul-e-Khumri will be procured together. The AF will be used to fund the goods only at an estimated cost of \$3.2 million. The installation will be undertaken by DABS with its own facilities and staff, at its own cost. PMF has prepared bidding documents for procuring the goods for the service drops. A household connection strategy has been discussed and agreed with DABS.

14. **Component B: Rehabilitation of Transmission Switchyards associated with Naghlu and Mahipur Hydropower Stations.** The Employer of the switchyard rehabilitation contract (MEW-S505) will be changed from MEW to DABS via amendment to the existing contract. The installation of Naghlu switchyard is set to be completed by early 2016. To support this contract's implementation DABS will select a supervision engineer (firm). The AF will be used to cover the remaining cost of the switchyard rehabilitation contract and the cost of the supervision consultant under the Institutional Capacity Building and Project Management component (**Component C**). Since recruitment of the firm will take time, and a supervisory consultant is urgently needed, two individual consultants will be recruited to ensure proper monitoring of project progress.

15. **Component C: Institutional Capacity Building, Energy Efficiency, and Project Management Support.** There will be no need for the PMF. The current PMF contract will end on the current contract closing date, and will not be renewed or extended. The supervision support to help monitor progress of the rehabilitation of Naghlu switchyard will be financed under this component.

16. To enable these adjustments as described for each of the project components above, the following changes in the project are proposed: (i) revision of the PDO and the results framework to change relevant project performance indicators; (ii) extension of closing date from July 31, 2015 to May 31, 2017, bringing the cumulative extension of the project's closing date to 58 months; (iii) revision of the project's legal covenants; (iv) change in project implementation arrangements; (v) change in disbursement arrangement to reflect the new implementation arrangement; (vi) change in disbursement estimates to reflect the new cost structure of the project; (vii) change in fiduciary arrangements (financial management and procurement) to reflect the new implementation arrangement; and (viii) change in implementation schedule to reflect the new project closing date. The proposed changes are explained in details below:

Summary of Proposed Changes	
Change in Implementing Agency	Yes [X] No []
Change in Project's Development Objectives	Yes [X] No []
Change in Results Framework	Yes [X] No []
Change in Safeguard Policies Triggered	Yes [] No [X]
Change of EA category	Yes [] No [X]
Other Changes to Safeguards	Yes [] No [X]
Change in Legal Covenants	Yes [X] No []
Change in Loan Closing Date(s)	Yes [X] No []
Cancellations Proposed	Yes [] No [X]
Change in Disbursement Arrangements	Yes [X] No []
Reallocation between Disbursement Categories	Yes [] No [X]
Change in Disbursement Estimates	Yes [X] No []
Change to Components and Cost	Yes [X] No []
Change in Institutional Arrangements	Yes [X] No []
Change in Financial Management	Yes [X] No []
Change in Procurement	Yes [X] No []
Change in Implementation Schedule	Yes [X] No []
Other Change(s)	Yes [] No [X]
Development Objective/Results	
Project's Development Objectives	
Original PDO	The development objective of the project is to support increasing access to grid power and the quantity of available power to the consumers in the target areas of the urban centers at Pul-e-Khumri, Charikar, Gulbahar and Jabul-Seraj.
Current PDO	The development objective of the project is to increase the number of electricity connections for the urban centers of Charikar, Gulbahar and Jabul-es-Seraj and Pul-e-Khumri in an institutionally efficient way.
Change in Project's Development Objectives	
Explanation:	The current project development objective (PDO) is to increase the number of electricity connections for the urban centers of Charikar, Gulbahar and Jabul-es-Seraj and Pul-e-Khumri in an institutionally efficient way. The original project design included the rehabilitation of Naghlu and Mahipar switchyards because

improvements at these two hydropower stations were expected to improve reliability and availability in the target urban centers. The introduction of imports from Uzbekistan means that neither Naghlu nor Mahipar contribute to supply at Charikar, Gulbahar and Jabul-es-Seraj or at Pul-e-Khumri. The reason is that due to the limits of the power grid in Afghanistan the power from Naghlu hydropower station cannot be transferred to the areas where the project did extend the distribution grid. Given that about 30 percent of grant proceeds will be used for the switchyard rehabilitation, the PDO will need to recognize the improved availability of electricity from Naghlu and Mahipar. It is also proposed to remove “in an institutionally efficient way,” from the PDO because this part of the sentence does not refer to an objective, but rather to the way in which the objective is to be reached.

Proposed New PDO - Additional Financing (AF)

The development objective of the project is to increase the number of electricity connections for the urban centers of Charikar, Gulbahar and Jabul-es-Seraj and Pul-e-Khumri and to improve the availability of power from Naghlu and Mahipar switchyards.

Change in Results Framework

Explanation:

An additional PDO indicator and one intermediate indicator will be added to evidence the contributions made by the rehabilitated switchyards at Mahipar and Naghlu. In addition, the dates of the end targets of all the indicators will be modified, since the project closing date will be extended.

Compliance

Covenants - Additional Financing (Afghanistan Power System Development Project Additional Financing - P152975)

Source of Funds	Finance Agreement Reference	Description of Covenants	Date Due	Recurrent	Frequency	Action
				<input type="checkbox"/>		

Covenants - Parent (Afghanistan Power System Development Project - P111943)

Ln/Cr/TF	Finance Agreement Reference	Description of Covenants	Date Due	Status	Recurrent	Frequency	Action
TF-93513	Grant Agreement: Schedule 2, Section II B1	Submission of Quarterly Progress Report to the Administrator within forty-five (45) days after the end of the period covered by the report.		After delay complied with	<input type="checkbox"/>	Quarterly	Revised

TF-93513	Grant Agreement: Schedule 2, Section II B2	Submission of the Completion Report to the Administrator within six months after the closing date.		Not yet due	11/30/2017		Revised
TF-93513	Grant Agreement: Schedule 2, Section II C2	Preparation and Submission to the Administrator the Interim unaudited Financial Reports not later than forty five (45) days after the end of each calendar quarter, covering the quarter		Complied with	<input type="checkbox"/>	Quarterly	Revised
TF-93513	Grant Agreement: Schedule 2, Section II C3	Submission to the Administrator the annual audited financial statements of the project within six (6) months of the end of financial year		Not yet due	<input type="checkbox"/>	Yearly	No Change
TF-93513	Grant Agreement, Schedule 2, Section II.B.1	The Recipient shall monitor and evaluate the progress of the Project and prepare Project		Not yet due	31-May-2017		Revised

		Reports in accordance with the provisions of Section 2.06 of the Standard Conditions and on the basis of indicators acceptable to the World Bank.					
TF-93513	Schedule 1, A 1 of Project Agreement	The PIT shall be headed by a Project Director and adequately staffed with professional and administrative staff (including procurement, financial management, environmental, social and Project related technical staff), with the necessary experience and qualifications acceptable to the World Bank.		Not yet due	<input type="checkbox"/>	Continuous	New
Conditions							

Source Of Fund	Name	Type			
Description of Condition					
Risk					
Risk Category		Rating (H, S, M, L)			
1. Political and Governance		Substantial			
2. Macroeconomic		High			
3. Sector Strategies and Policies		Substantial			
4. Technical Design of Project or Program		Moderate			
5. Institutional Capacity for Implementation and Sustainability		High			
6. Fiduciary		Substantial			
7. Environment and Social		Substantial			
8. Stakeholders		Moderate			
9. Other					
OVERALL		Substantial			
Finance					
Loan Closing Date - Additional Financing (Afghanistan Power System Development Project Additional Financing - P152975)					
Source of Funds		Proposed Additional Financing Loan Closing Date			
Afghanistan Reconstruction Trust Fund		31-May-2017			
Loan Closing Date(s) - Parent (Afghanistan Power System Development Project - P111943)					
Explanation: The Grant Closing Date is proposed to be extended to May 31, 2017.					
Ln/Cr/TF	Status	Original Closing Date	Current Closing Date	Proposed Closing Date	Previous Closing Date(s)
TF-93513	Effective	31-Jul-2012	31-Jul-2015	31-May-2017	31-Jul-2013, 31-Jan-2015, 31-Jul-2015
Change in Disbursement Arrangements					
Explanation: The Implementation Agency will be changed from MEW to DABS. As a result, disbursement will also be arranged with DABS through a project Designated Account (DA).					

Change in Disbursement Estimates (including all sources of Financing)										
Explanation: Disbursement estimates will change as a result of the Additional Financing and closing date extension.										
Expected Disbursements (in USD Million)(including all Sources of Financing)										
Fiscal Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Annual	5.17	2.54	0.88	18.30	16.30	12.81	10.00	9.00	0.00	0.00
Cumulative	5.17	7.71	8.59	26.89	43.19	56.00	66.00	75.00	0.00	0.00
Allocations - Additional Financing (Afghanistan Power System Development Project Additional Financing - P152975)										
Source of Fund	Currency	Category of Expenditure	Allocation (in USD)				Disbursement %(Type Total)			
			Proposed				Proposed			
ARTF		(1) Goods, works, training, consultants' services, and Incremental Operational Costs for the Project.	15,000,000.00				100.00			
		Total:	15,000,000.00							
Components										
Change to Components and Cost										
Explanation: There will be no change in the project component names or the activities under each of the component except for the addition of an explicit category for contingencies. The proposed Additional Financing will be used to cover the incremental costs of the same components. Therefore, there will only be a minor reallocation of costs across project components.										
Current Component Name	Proposed Component Name	Current Cost (US\$M)	Proposed Cost (US\$M)	Action						
Distribution System Rehabilitation	Component A: Distribution System Rehabilitation	31.00	31.00	Revised						
Rehabilitation of Transmission Switchyards associated with Naghlu and Mahipur Hydropower Stations	Component B: Rehabilitation of Transmission Switchyards associated with Naghlu and Mahipur Hydropower Stations	13.00	19.00	Revised						
Institutional Capacity Building, Energy Efficiency and Project Management Support	Component C: Institutional Capacity Building, Energy Efficiency, and Project Management Support	16.00	24.00	Revised						

	Contingency	0.00	1.00	New
	Total:	60.00	75.00	
Other Change(s)				
Change in Implementing Agency				
Explanation: The implementation responsibility of the project is proposed to be moved from the current implementing agency, the Ministry of Energy and Water (MEW) to Afghanistan's power utility Da Afghanistan Breshna Sherkat (DABS). At the time of preparation of the original project and until 2009, DABS was still part of MEW as a dedicated department called Da Afghanistan Breshna Mossesa (DABM). Subsequently, DABM was converted into DABS, which is now focused on developing into a government-owned power utility while remaining under state ownership. Transfer of the executed activities to DABS is necessary since only DABS can ensure satisfactorily completion and handover of the equipment to its units responsible for operations and maintenance. Moving the contracts while they are still under implementation means just slightly advancing the transition that would happen naturally. In addition, DABS, as an independent and autonomous company, has much good autonomous capacity in financial management, procurement, and supervision of implementation of supply and install contracts. DABS is therefore well positioned to be the implementation agency and should even be able to improve overall project performance. With DABS in charge of implementing the project, the Project Management Firm (PMF) will no longer be needed. This in turn leads to cost savings. DABS will only need to hire supervising engineers to help monitor contract implementation.				
Implementing Agency Name	Type	Action		
Da Afghanistan Breshna Sherkat (DABS)	Implementing Agency	New		
Change in Institutional Arrangements				
Explanation: Since the responsibility for implementation of the project is being transferred to DABS, and there will no longer be a dedicated PMF. DABS has identified a project implementation team (PIT) to oversee the management of the project. The team includes a project manager/power engineer, a procurement specialist, a financial management specialist, a safeguards specialist, and a project transfer coordinator based at MEW with qualifications acceptable to the Bank. The role of the project transfer coordinator will be to act as the focal point between DABS and MEW for any pending technical and contractual issues under the project. Meanwhile, it has been agreed that MEW's finance department will introduce a focal point responsible for processing any pending payments under the project for MEW, carrying out Designated Account (DA) reconciliation, preparing and submitting documentation application(s), coordinating refund of any unspent balance in the DA, and providing needed support for annual audit that will be carried out in MEW premises.				
Change in Financial Management				
Explanation: The Implementation Agency will be changed from MEW to DABS. As a result, the responsibility of financial management will be transferred to DABS.				
Change in Procurement				
Explanation: As the Implementation Agency will be changed from MEW to DABS, procurement will be directly handled by DABS going forward.				

Change in Implementation Schedule

Explanation:

The implementation schedule is changed to reflect the delays in both the rehabilitation of the distribution systems and the hydropower station switchyards. To complete the rehabilitation of the distribution systems, goods for service drops and meter boxes will need to be procured and installed for the two distribution systems. This will take about 12-18 months from when the AF is approved, expected by 31 July 2015, and becomes effective. With respect to the switchyards, at Mahipar, the testing and commissioning work has been completed. Formal handover to DABS and operator training are in process. At Naghlu, rehabilitation work will start in the next dry season and is expected to be completed by early 2016. The proposed extension of project closing date to May 31, 2017 will allow all activities to be fully implemented and contracts closed out.

IV. Appraisal Summary**Economic and Financial Analysis**

Explanation:

The economic and financial analysis remains the same as that used in the original project. However, the assumptions and indicators used in the original project were reviewed to ensure that they reflect the current project realities. One of the rationales for additional financing is that if the project is not fully financed to enable the completion of pending works and become operational, the economic and financial benefits would be significantly reduced. Although lower than the baseline returns, the results of economic and financial benefits remain robust at an economic internal rate of return (EIRR) of 17 percent for the distribution component, and an EIRR of 14 percent for the transmission component. Based on the sensitivity cases of further delay of two years or 20 percent cost escalation, it can be expected that the distribution rehabilitation and Naghlu and Mahipar switchyard investments will remain economically and financially viable with an EIRR clearly above the threshold of the traditional opportunity cost of capital of 10 percent.

Technical Analysis

Explanation:

The technical assessment remains the same as that of the parent project. The project supports conventional investments on the distribution network to enhance delivery of electricity services that will include the installation of distribution systems and rehabilitation of transmission switchyards aiming at increasing connections of new customers, including low-income households. The project presents no unusual construction or operational challenges. The equipment and technology involved in construction and operation of the distribution networks and the switchyards are well known and proven. In addition, the investments undertaken under the project will be implemented according to internationally accepted technical criteria and standards.

Social Analysis

Explanation:

There is no change to the social assessment. The AF activities are not expected to involve land acquisition or to affect livelihoods.

The Environmental and Social Management Framework (ESMF) has been updated to reflect that the responsibility for implementation is transferred from MEW to DABS. The ESMF has been publicly disclosed locally and at the World Bank InfoShop on June 22, 2015. DABS has assigned a safeguards specialist with qualifications acceptable to the World Bank to oversee the compliance of all obligations related to social safeguards.

Environmental Analysis

Explanation:

The original project activities did not have any significant negative environmental impacts. Most potential environmental impacts were related to siting of facilities (such as substations), construction activities related to laying of underground cables, reception of poles and possible presence of mines. The World Bank's operational policy on Environmental Assessment OP 4.01 was triggered to identify the impact of the project activities and provide mitigation measures to avoid or minimize the risk of the negative impacts. An ESMF was prepared by MEW which covered all activities under this project and outlined the potential negative impact and the mitigation measures to be implemented. The ESMF required that potential impacts be addressed through the application of environmental code of practice, risk and safety measures. Safeguards performance during implementation of the current project was consistently rated as poor due to lacking compliance on reporting obligations pertaining to environmental safeguards, therefore further attention is required for the activities to be undertaken under the AF.

Under the proposed AF the project site will remain the same as under the original project and no additional World Bank safeguards policies will be triggered.

The ESMF has been updated to reflect that the responsibility for implementation is transferred from MEW to DABS. The ESMF has been publicly disclosed locally and at the World Bank InfoShop on June 22, 2015. DABS has assigned a safeguards specialist with qualifications acceptable to the World Bank to oversee the compliance of environmental safeguards.

Risk

Explanation:

Risks were reassessed using the Operational Risk Assessment Framework (ORAF) during the restructuring of the project in June 2013. They were also updated during the regular supervision of the project, and the findings were recorded in the Implementation Status and Results Report (ISR) with the new Systematic Operations Risk-rating Tool (SORT). The assessment in the latest ISR is that the project has an overall *Substantial* implementation risk.

Since DABS has limited experience in the management of World Bank projects, the risk rating for "Institutional Capacity for Implementation and Sustainability" is upgraded from *Substantial* to *High* to reflect the inherent risk that the selection of a new implementing entity bears. The fiduciary assessment, however, indicates that with some additional training support DABS should be well qualified to take on this new assignment. For procurement specifically it has been agreed that a dedicated consultant be recruited to assist with procurement of large contracts and to provide training to the staff of DABS. For the same reason the fiduciary risk is rated as *Substantial*. To help reinforce DABS' capacity, DABS may benefit from training on an "as needed" basis. To mitigate the risks in implementation, DABS has nominated a team with qualified staff satisfactory to the World Bank including Project Director, financial management specialist, procurement specialist, and safeguards specialist. MEW has also assigned a project transfer specialist to the team to ensure seamless hand-over across teams.

Since the performance of safeguards has been rated Moderately Unsatisfactory due to lack of reporting on safeguards, the risk rating for safeguards is *Substantial*. However, it should be noted that no safeguards violations have been observed on the ground and that the measures to be completed under the AF are not expected to have any adverse environmental or social impact. The drop-lines and meter box installations will have no land acquisition implications and will benefit the connected customers' livelihoods by providing access to electricity. The site for the Naghlu switchyard rehabilitation does not require additional land, but rehabilitation will have to be closely monitored for respecting adequate safety procedures, waste management procedures, and any potential issues pertaining to leakage of hazardous substances.

V. World Bank Grievance Redress

17. Communities and individuals who believe that they are adversely affected by a World Bank (WB) supported project may submit complaints to existing project-level grievance redress mechanisms or the WB's Grievance Redress Service (GRS). The GRS ensures that complaints received are promptly reviewed in order to address project-related concerns. Project affected communities and individuals may submit their complaint to the WB's independent Inspection Panel which determines whether harm occurred, or could occur, as a result of WB non-compliance with its policies and procedures. Complaints may be submitted at any time after concerns have been brought directly to the World Bank's attention, and Bank Management has been given an opportunity to respond. For information on how to submit complaints to the World Bank's corporate Grievance Redress Service (GRS), please visit <http://www.worldbank.org/GRS>. For information on how to submit complaints to the World Bank Inspection Panel, please visit www.inspectionpanel.org.

ANNEX-1 REVISED RESULTS FRAMEWORK AND MONITORING INDICATORS

Project Name:	Afghanistan Power System Development Project Additional Financing (P152975)	Project Stage:	Additional Financing	Status:	DRAFT
Team Leader(s):	Fanny Missfeldt-Ringius/Jie Li	Requesting Unit:	SACKB	Created by:	Jie Li on 05-May-2015
Product Line:	Recipient Executed Activities	Responsible Unit:	GEEDR	Modified by:	Fanny Missfeldt-Ringius on 19-June-2015
Country:	Afghanistan	Approval FY:	2016		
Region:	SOUTH ASIA	Lending Instrument:	Investment Project Financing		
Parent Project ID:	P111943	Parent Project Name:	Afghanistan Power System Development Project (P111943)		

Project Development Objectives

Original Project Development Objective - Parent:

The development objective of the project is to support increasing access to grid power and the quantity of available power to the consumers in the target areas of the urban centers at Pul-e-Khumri, Charikar, Gulbahar and Jabul-Seraj.

Current Project Development Objective - Parent:

The development objective of the project is to increase the number of electricity connections for the urban centers of Charikar, Gulbahar and Jabul-es-Seraj and Pul-e-Khumri in an institutionally efficient way.

Proposed Project Development Objective - Parent:

The development objective of the project is to increase the number of electricity connections for the urban centers of Charikar, Gulbahar and Jabul-es-Seraj and Pul-e-Khumri and to improve the availability of power from Naghlu and Mahipar switchyards.

Proposed Project Development Objective - Additional Financing (AF):

The development objective of the project is to increase the number of electricity connections for the urban centers of Charikar, Gulbahar and Jabul-es-Seraj and Pul-e-Khumri and to improve the availability of power from Naghlu and Mahipar switchyards.

Results

Core sector indicators are considered: Yes

Results reporting level: Project Level

Project Development Objective Indicators

Status	Indicator Name	Core	Unit of Measure		Baseline	Actual(Current)	End Target
Revised	Distribution lines constructed or rehabilitated under the project	<input checked="" type="checkbox"/>	Kilometers	Value	0.00	411.00	626.00
				Date	30-Mar-2009	31-Aug-2014	31-May-2017
				Comment			
Revised	Distribution lines rehabilitated under the project	<input checked="" type="checkbox"/>	Kilometers Sub Type Breakdown	Value	0.00	411.00	626.00
				Date	30-Mar-2009	31-Aug-2014	31-May-2017
				Comment			
Revised	The number of households that are connected to the grid through this project in the target area of Charikar, Gulbahar and Jabul-es-Seraj	<input type="checkbox"/>	Number	Value	0.00	0.00	12500.00
				Date	30-Mar-2009	31-Dec-2014	31-May-2017
				Comment			
Revised	The number of households that are connected to the grid through this project in the target area of Pul-e-Khumri	<input type="checkbox"/>	Number	Value	0.00	0.00	5500.00
				Date	30-Mar-2009	31-Dec-2014	31-May-2017
				Comment			
Revised	Satisfactory completion of project activities and closing of contracts on time and within budget	<input type="checkbox"/>	Yes/No	Value	No	No	Yes
				Date	30-Mar-2009	31-Dec-2014	31-May-2017
				Comment			
New	Total power supply outages in a year as a result of Naghlu switchyard.	<input type="checkbox"/>	Number	Value	18.00	18.00	3.00
				Date	31-Dec-2014	31-Dec-2014	31-May-2017
				Comment			

Intermediate Results Indicators

Status	Indicator Name	Core	Unit of Measure		Baseline	Actual(Current)	End Target
Revised	Progress in installation work at Charikar, Gulbahar and Jabul-es-Seraj	<input type="checkbox"/>	Kilovolt-Amphere(KVA)	Value	0.00	17224.00	23000.00
				Date	30-Mar-2009	31-Aug-2014	31-May-2017
				Comment			
Revised	Progress in installation work at Pul-e-Khumri	<input type="checkbox"/>	Kilovolt-Amphere(KVA)	Value	0.00	14982.00	17000.00
				Date	30-Mar-2009	31-Aug-2014	31-May-2017
				Comment			
Revised	Timely submission of quarterly progress reports and quarterly interim unaudited financial management reports acceptable to the Bank	<input type="checkbox"/>	Yes/No	Value	No	Yes	Yes
				Date	30-Mar-2009	31-Dec-2014	31-May-2017
				Comment			
New	Switchyards rehabilitated with all equipment installed	<input type="checkbox"/>	Number	Value	1.00	1.00	2.00
				Date	31-Dec-2014	31-Dec-2014	31-May-2017
				Comment			

ANNEX-2 REVISED ESTIMATE OF PROJECT COSTS

2.1. Following project appraisal in June 2015, the revised project costs are estimated at **US\$75 million**. This is US\$15 million higher than the original grant amount of US\$60 million, which was approved under the parent project (P111943). The cost overrun comes mainly from activities under Component B and Component C and is essentially due to implementation delays, including as a result of the continuously difficult security situation in Afghanistan. The component costs of the current project and the proposed changes are provided in the table below.

2.2. The total costs of Component A activities in mid-June 2015 are around US\$ 27.7 million, reflecting some cost savings under the component. However, the original project did not include the cost of meter boxes or service drops, and this is now proposed to be financed under the additional financing. With US\$3.2 million more needed for the procurement of service drops and meter boxes to connect the distribution stations with the users, the total cost of Component A is slightly rounded up to a total of **US\$ 31 million**.

2.3. The original amount earmarked under Component B for the rehabilitation of Mahipar and Naghlu switchyards was US\$13 million, but the procured contract was about US\$15.4 million. In addition, work on the two switchyards suffered a number of early delays including challenges of raising a letter of credit in favor of the contractor and in Ministry of Finance issuing the customs duty exemption certificates necessary for the import of materials and equipment. As a result, the materials were not available in line with the schedule agreed with the contractor, triggering penalties to be paid by the employer. The contract was also amended to require the contractor to reinstate the switchyard at Mahipar, which had earlier been dismantled in anticipation of the rehabilitation, so that DABS could avoid further loss of generation. In the light of its experience at Mahipar, DABS has required that the contractor works on only one power station at a time to control outages and limit the loss of low cost energy generated at either station. However, this requirement also reduces the efficiency that would have been possible had the work on the two switchyards gone ahead in parallel. To cover the incremental cost of the contract plus the gap from the original cost underestimate, the contract value and cost of this component is adjusted to **US\$19 million**.

2.4. The substantial cost overrun of Component C was mainly due to the significant increase of cost of the contract for PMF which has been extended and amended due to the delay of project implementation. PMF's contract is a time-based contract. Although MEW has been the implementing agency, it has almost wholly relied on the PMF to undertake the fiduciary, safeguards and project management tasks needed to implement the project. The original estimates for project management were around US\$5 million, but this amount has now reached US\$17 million and has absorbed the US\$8 million in contingencies included in the original project financing. There has been some compensating reduction in other activities notably to the energy efficiency pilot program and training of MEW staff. Experience suggests that supervision costs are weakly linked to project progress; periods of slow implementation often require additional project management effort to overcome the difficulties that cause it.

2.5. In addition, the PMF contract included management of contracts under two closed World Bank projects, the "Emergency Power Rehabilitation Project" (P083908), and the "Kabul, Aybak and Mazar-e-Sharif Power Project" (P106654). Although the Bank financing for these projects had closed, some of the contracts have required continued management on behalf of MEW, adding further to the PMF costs. DABS has the capacity to conduct general project management including

procurement, financial management, and safeguards etc. Although PMF will no longer be needed, DABS will still need to hire a consultant to support the technical supervision of the implementation of the rehabilitation of Naghlu switchyard. With the AF, **US\$24 million** is suggested to be allocated to Component C to cover the cost overrun of the current PMU contract and the new technical supervision consultant for DABS.

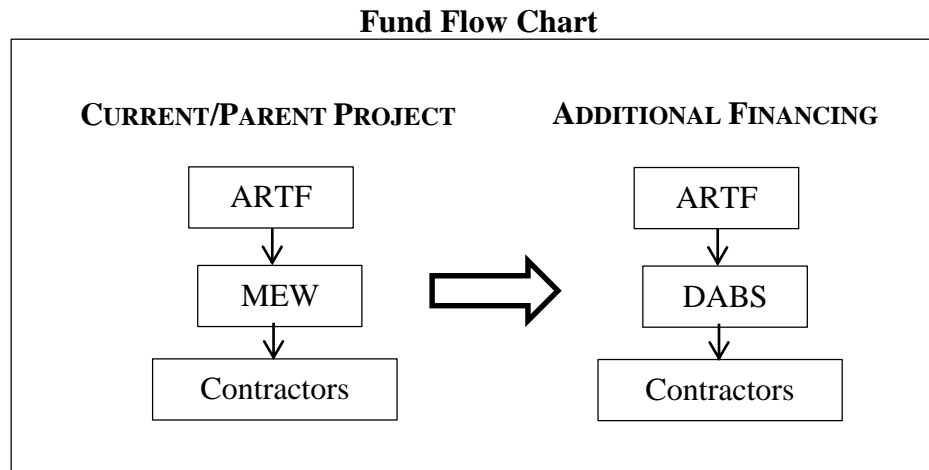
2.6. The overall costs for the AF of US\$15 million also include US\$1 million in contingencies to allow for any further unexpected expenditures. See Table 2.1 below for a detailed breakdown.

Table 2.1: Current and Proposed Costs by Component (US\$M)

Current Component Name	Proposed Component Name	Current Costs (US\$M)	Proposed Cost (US\$M)
Distribution System Rehabilitation	Component A: Distribution System Rehabilitation	31.00	31.00
Rehabilitation of Transmission Switchyards associated with Naghlu and Mahipar Hydropower Stations	Component B: Rehabilitation of Transmission Switchyards associated with Naghlu and Mahipar Hydropower Stations	13.00	19.00
Institutional Capacity Building, Energy Efficiency, and Project Management Support	Component C: Institutional Capacity Building, Energy Efficiency, and Project Management Support	16.00	24.00
	Contingency	0.00	1.00
	Total:	60.00	75.00

ANNEX-3 REVISED IMPLEMENTATION ARRANGEMENTS AND SUPPORT

3.1. Under the original APSDP project design, the Ministry of Energy and Water (MEW) is the project implementation agency. Under the Additional Financing (AF), these responsibilities are proposed to be transferred to DABS. Accordingly, the shift of implementation agency will cause changes in implementation arrangements and support, including disbursement, procurement, financial management, and safeguards. The simple flow chart below shows how the fund flow changes from the current/parent project to the proposed AF.



A. Institutional Arrangements

3.2. Rehabilitation of Charikar, Gulbahar & Jabul-es-Seraj (contract MEW-S504) and Pul-e-Khumri Distribution Systems (contract MEW-S506). Ministry of Energy and Water (MEW) will close these two distribution rehabilitation contracts. The current Project Management Firm (PMF), whose contract ends on June 30, 2015 will support MEW with processing contract closing and system transfer to DABS till the end of its service contract. The installed networks will be transferred to DABS. DABS will then be responsible for the procurement and installation of the service drops to connect the distribution networks to households. Service drops will be procured for Charikar, Gulbahar and Jabul-es-Seraj and Pul-e-Khumri together. The AF will be used to fund the goods only, and the installation will be conducted by DABS with its own facilities and at its own cost. PMF is helping DABS prepare the bidding documents for procuring the goods for the service drops till its current contract ends.

3.3. Rehabilitation of Naghlu and Mahipar Switchyards (contract MEW-S505). The switchyard rehabilitation contract (MEW-S505) will be handed over to DABS to complete the installation of Naghlu switchyard, through contract amendment. DABS will need to select a consultant to support the technical supervision/monitoring of the implementation of the rest of the contract which may last till early 2016. The AF will be used to cover the incremental cost of this rehabilitation contract and the cost of the engineering supervision consultant. To bridge the time until a new firm can be recruited, it has suggested that two individual consultants will be recruited to ensure proper monitoring of project progress.

3.4. Since the responsibility for implementation of the project is being transferred to DABS, and there will no longer be a dedicated PMF, DABS has identified a project implementation team

(PIT) to oversee the management of the project. The team includes a Project Director/power engineer, a procurement specialist, a financial management specialist, a safeguards specialist, and a project transfer coordinator based at MEW with qualifications acceptable to the Bank. The role of the project transfer coordinator will be to act as the focal point between DABS and MEW for any pending technical and contractual issues under the project.

3.5. Meanwhile, it has been agreed that MEW's finance department will introduce a focal point responsible for processing any pending payments under the project for MEW, carrying out Designated Account (DA) reconciliation, preparing and submitting documentation application(s), coordinating refund of any unspent balance in the DA, and providing needed support for annual audit that will be carried out in MEW premises.

B. Procurement

3.6. Procurement for the proposed project will be carried out in accordance with the *World Bank's Guidelines: Procurement of Goods, Works, and Non-Consulting Services under IBRD Loans and IDA Credits & Grants*, January 2011, Revised July 2014, *Guidelines: Selection and Employment of Consultants under IBRD Loans & IDA Credits & Grants by World Bank Borrowers*, January 2011, Revised July 2014, and the provisions stipulated in the *Amended and Restated ARTF Grant Agreement*. For contracts to be financed by the Grant, the different procurement methods or consultant selection methods, the need for pre-qualification, estimated costs, prior review requirements, and time frame are agreed between the Recipient and the Bank team and reflected in the Procurement Plan. The Procurement Plan is updated at least every six months or based on actual project implementation needs and improvements in institutional capacity.

3.7. DABS will have overall responsibility for all procurement under the Project. An assessment of the capacity of DABS to implement procurement actions for the project has been carried out by the World Bank in April 2015. The assessment reviewed the organizational structure for implementing the project, which led to comprehensive/in depth interactions with the management team, which led to the identification of prevailing risks that need to be addressed.

3.8. DABS is a state-owned company that has good management committed to best practice and capacity building. There is an established procurement department with clear lines of responsibility and clearly documented procurement processes including service standards for various types of procurement. The assessment shows a reasonable setup of procurement processes of DABS. There is a Procurement Manual which includes a complaint handling mechanism and regular staff training is carried out. Currently there is close assistance from USAID and ADB for institutional development of DABS – which includes a procurement and inventory management system. DABS does not have much direct experience of procuring or managing large and complex projects and relies mainly on donor-provided consultants to execute and supervise such projects. This will also need to be the approach adopted for the purposes of this project. The assessment also found some gaps in staff competencies, understanding of the market for power equipment, internal audit system and decentralization.

3.9. Based on a review of the proposed arrangements, the risk is rated as ***Substantial***. Review of the risks will be carried out in subsequent Implementation Support Missions with a view to adjusting the rating if necessary.

3.10. To mitigate some of the risks presented to the smooth implementation, DABS will acquire the services of an international consultant to build capacity of staff and to provide training of staff within 60 days of negotiation. The procurement plan is enclosed in Annex-4.

C. Financial Management

3.11. The additional financing and the restructuring indicate a change in the implementing agency from MEW to DABS. DABS will handle the financial management within its own capacity. PMF will no longer be needed. Given that DABS is relatively new to implementing Bank projects, the FM risk is *Substantial*. The Bank will provide needed support to help familiarize DABS staff to Bank FM and disbursement procedures. A fiduciary assessment of DABS was concluded in April 2015 for the proposed DABS Technical Assistance project. The financial management (FM) arrangements as agreed for the DABS TA project will also apply to the APSDP Additional Financing. These arrangements are detailed below.

3.12. The FM arrangements are at two levels – the central level and the implementing agency level. Country systems are used for budgeting, accounting, disbursements, internal audit and external audit. At the central level, accounting and audit functions will be undertaken by the Ministry of Finance (MoF) and Supreme Audit Office (SAO) respectively, with technical assistance supported under the ARTF-financed Public Financial Management Reform project II. At the implementing agency level (DABS), the overall responsibility for project financial management will rest with the Chief Financial Officer (CFO), and the day to day functions will be carried out through the Project Management Office (PMO) that is already established within DABS. The PMO is adequately staffed by finance personnel from DABS’s finance department, and they have sufficient experience working on an ADB funded project that has similar requirements and procedures as under World Bank funded projects. PMO finance staff will work under the guidance of the CFO. The current capacity is sufficient to carry out the FM functions under this project.

3.13. All payments under the project after the approval of additional financing will be processed by DABS, including any pending payments for activities completed prior to approval of AF. MEW’s finance department will introduce a focal point who will be responsible to coordinate the preparation and submission of final DA documentation application/s and refund of any unspent balance in the current DA. The focal point will also provide needed support for annual audit that will be carried out in MEW premises.

3.14. All project transactions will continue to be recorded in Afghanistan Financial Management Information System (AFMIS) by MoF. Simultaneously, the PMO finance staff will maintain necessary subsidiary books of records for the expenditures managed by it, and will prepare Interim Financial Reports (IFRs) on a quarterly basis to be submitted to the Bank within 45 days from the end of the quarter. At MEW, projects records and supporting documents for expenditures already paid under the project by MEW will be maintained by the finance department of MEW. All books of records and documents so far maintained by the PMF shall be properly handed over to MEW at contract closure.

3.15. The quarterly reporting by DABS will begin with the quarter when the additional financing is approved. The last IFRs that will be prepared by MEW under the project will be shared with DABS, to enable DABS to consolidate reporting in the future. DABS will follow the Afghan fiscal year (December 21 to December 20) for project accounting and reporting.

3.16. The DABS finance department uses “Great Plains” accounting software, which will also be used for project accounting. The PMO finance staff will have responsibility to facilitate the internal and external audit process, provide necessary documentation for review and respond to audit queries.

3.17. Project funds under the additional financing will be channeled through a segregated Designated Account (DA) in USD to be opened at the Da Afghanistan Bank (DAB, Central Bank). The DA will be maintained and controlled by the MoF, however DABS PMO will manage the DA and carry out periodic reconciliation. Disbursements from the grant will be made using advances, reimbursements, direct payments and special commitments. All withdrawal applications to the Bank, including advances, reimbursement, direct payment, and Special Commitment issuance applications will be prepared by DABS and submitted by MoF. Copies of supporting documentation for all project payments will be maintained at DABS.

3.18. ARTF funds of \$60 million under the original financing and \$15 million under the additional financing, or a total of \$75 million, will be used to finance at 100%, inclusive of taxes, of goods, works, consulting services, training and incremental operating costs, except for Component A under the additional financing where ARTF will finance only goods.

3.19. The existing DA for MEW will be gradually closed after approval of additional financing. MEW will submit the final documentation application/s and refund any unspent balance to the Bank. No payments will be made from the MEW DA after approval of AF.

3.20. Internal audit for the project will be done by the Internal Audit unit of MoF, similar to the arrangement for other World Bank funded/ administered projects. The annual project audit will be carried out by the SAO with technical assistance from the Audit Agent. Annual audited project financial statements will be submitted within six months of the close of GoA’s fiscal year.

3.21. There are no outstanding IFRs and no ineligible expenditures under Bank projects implemented by DABS. However, there is an outstanding audit report and management letter under the PPG (Project Preparation Grant TF 14861) for Naghlu Hydropower Rehabilitation Project. The audit reports and management letters for all Bank funded/ administered projects in Afghanistan for FY1393 (year ended Dec 20, 2014) were due by June 21, 2015. The audit work was progressing well, however a recent security incident in May 2015 resulted in two auditors (contracted under the TA to SAO) losing their lives and few other auditors leaving the country temporarily. This caused delay in meeting the deadline of June 21 which was beyond the control of the implementing agency. The Bank is coordinated closely with MoF and SAO on the audits and it is expected that the audit report and management letter for the PPG will be received by June 30, 2015. Approval from PMFM and WFAFO manager to proceed to negotiations notwithstanding the overdue audit report has been obtained.

D. Monitoring and Reporting

3.22. The PMO of DABS, consolidates the financial and physical progress reports for the different activities and is responsible for overall monitoring and reporting to ARTF. The World Bank task team conducts regular supervision missions, and the project status reports are submitted to ARTF every three months/a quarter. As appropriate and as required, an independent monitoring and evaluation of specific component activities may be carried out to assess the implementation progress and outcome of some components of the project.

E. Social and Environmental Safeguards

3.23. DABS, as government-owned power utility, has much higher capacity than MEW in environmental and social safeguards management. As part of the PIT under this AF, an environmental and social safeguard specialist acceptable to the Bank has been assigned by DABS to manage and monitor the compliance of all safeguard obligations under the project, including the responsibility for overseeing the implementation of the ESMF provisions.

3.24. The Chief Operating Officer (COO) of DABS will have overall responsibility for ensuring compliance with the requirements set out in the revised ESMF for AF. The NHRP's safeguards officers have benefitted from several training events organized by the Bank office in Kabul, including training in Management of Land Acquisition, Resettlement and Rehabilitation organized by BRAC University and the World Bank. The current findings from NHRP show the NHRP's safeguards capacity to implement the ESMF properly for the AF activities is fully adequate.

ANNEX-4 PROCUREMENT PLAN

A. General

4.1 Procurement for the project will be administrated in accordance with the World Bank's *Guidelines: Procurement of Goods, Works and Non-Consulting Services under IBRD Loans and IDA Credits & Grants* dated January 2011, and as revised July 2014 (the Procurement Guidelines), and *Guidelines: Selection and Employment of Consultants under IBRD Loans and IDA Credits & Grants by World Bank Borrowers* dated January 2011, and as revised July 2014 (the Consultant Guidelines), and the provisions stipulated in the Grant Agreement. In addition, the World Bank's Guidelines on Preventing and Combating Corruption in Projects Financed by IBRD Loans and IDA Credits and Grants dated October 15, 2006 has been shared with the Recipient. The World Bank's Standard Bidding Documents, Requests for Proposals, and Forms of Consultant Contract will be used. Goods following National Competitive Bidding (NCB) procedures shall be procured using the agreed Standard Bidding Documents (SBDs) for Afghanistan.

4.2 In case of conflict/contradiction between the World Bank's procurement procedures and any national rules and regulations, the World Bank's procurement procedures will take precedence as per the Article 4 (2) of the Procurement Law July 2008 (Amendments in January 2009 incorporated) of the Government of Afghanistan (GoA).

B. Project Information

Country:	Afghanistan
Project Name:	Additional Financing of the Afghanistan Power System Development Project (APSDP)
Project ID:	P152975
Grant No:	093513-AF
Project Implementing Agencies:	Da Afghanistan Breshna Sherkat (DABS)

Bank's approval Date of the Procurement Plan for Additional Financing: June 24, 2015

Date of General Procurement Notice: August 25, 2008

Period covered by this procurement plan: 9 months

C. Goods and Works and non-consulting Services

4.3 Under this Additional Financing goods will be procured according to the information provided in Table 4.1 below. Contract MEW-S505 is a supply and installation contract that is under implementation and was originally procured following World Bank Guidelines applicable at the time.

Table 4.1 Selection Plan: Supply of Goods for DABS

Contract (Description)	Estimated Cost (US\$)	Selection method	Review by Bank (prior/post)	Expected Contract Start Date
<i>Supply of Meter Boxes and Drop-lines for the Distribution Works of Charikar and Pulikhumri as per BoQ</i>	3,200,000	ICB	Prior	November 1, 2015

D. Selection of Consultants

4.4 The thresholds for selection decisions subject to Prior Review by the Bank as stated in Appendix 1 to the Consultant Guidelines are set out in Table 4.2.

Table 4.2 Thresholds for Prior Review for Consultants

Selection Method	Prior Review Threshold in US\$
Individual Consultants	More than 50,000 or equivalent
Single Source (Individual)	All

4.5 Table 4.3 sets out the expected consultant selection by DABS during the period of the Additional Financing. Both individual consultants and a firm are expected to be selected.

Table 4.3 Selection Plan: Supply of Consulting Services for DABS

Contract (Description)	Estimated Cost (US\$)	Selection method	Review by Bank (prior/post)	Expected Contract Start Date
<i>Supervisory Engineer for Naghlu Switchyard Rehabilitation (Firm)</i>	950,000	QCBS	Prior	December 1, 2015
<i>International Electrical Consultant to Supervise Switchyard Contract (4 months, including reimbursables)</i>	80,000	IC	Prior	August 1, 2015
<i>International Civil Works Consultant to Supervise Switchyard Contract (4 months, including reimbursables)</i>	80,000	IC	Prior	August 1, 2015

E. Incremental Operating Costs (IOC)

4.6 Incremental operating costs (IOC) mean the incremental operating expenses incurred by DABS on account of project implementation and management, including domestic workshops, travel and per diem allowances as per the GoA Guidelines, but excluding salaries or other staff costs. IOC are not anticipated, but could be covered under the additional financing in case of demonstrated need.