

**THE ISLAMIC REPUBLIC OF AFGHANISTAN  
AND  
ASIAN DEVELOPMENT BANK**

**Country Portfolio Review 2018 and First Quarterly Portfolio Review 2019**

**MEMORANDUM OF UNDERSTANDING**

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**I. INTRODUCTION**

1. The 2018 Country Portfolio Review (CPR) and first quarter Tripartite Portfolio Review (TPR) for 2019 was jointly conducted with the implementing agencies (IAs) and the executing agency— Ministry of Finance (MOF), commencing 6 February 2019.<sup>1</sup> Discussions were held to (i) review the implementation status and overall performance of the ADB-financed portfolio against expected milestones and its contribution to sector outcomes and outputs as identified in the Interim and Country Partnership Strategy (2017-2021), (ii) examine project and systemic issues affecting portfolio performance and develop appropriate remedial measures; and (iii) agree on a time-bound action plan with targets for projects and systemic issues to improve portfolio performance and government budget execution, listed in Appendix 1. The kick-off meeting was co-chaired with MOF on 6 February 2019 to discuss the objectives and process of the CPR TPR mission.

2. One-to-one meetings were held with line ministries and with cross cutting agencies including General Directorate of Land, Ministry of Urban Development (MUDL/ARAZI), National Environmental Protection Authority (NEPA), and the National Procurement Authority (NPA). A wrap-up meeting will be chaired by Mr. Zahid Hamdard, Deputy Minister of Finance, on 18 March 2019 to discuss the mission’s findings and agree on a time-bound action plan with targets for problem projects and systemic issues.

3. This memorandum of understanding (MOU) is a summary of the mission’s findings, discussions, and agreements with the IAs and the MOF, and is subject to confirmation by the Government of Afghanistan and by higher authorities of Asian Development Bank. (ADB). The second TPR for 2019 is tentatively scheduled from 1 to 8 July 2019 with a wrap-up meeting on 15 July 2019. The mission appreciates the cooperation extended by the Islamic Republic of Afghanistan and the agencies/persons listed in Appendix 4 in conducting this review.

**II. BACKGROUND AND FINDINGS**

4. As of 28 February 2019, ADB’s portfolio in Afghanistan comprised of 29 active investment projects totaling approximately \$3.63 billion financed from (i) ADF loan and ADF grants, (ii) and co-financing and Afghanistan Infrastructure Trust Fund grants. There were 7 on-going technical assistance (TA) projects valued \$18.64 million. The cumulative contract awards were \$2.22 billion, and funds disbursed from the investment projects were \$1.41 billion. These figures represent 61.2% and 38.9% of the total active portfolio. The cumulative contract awards and disbursements related to the TA portfolio were \$15.36 million and \$7.89 million, respectively.

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<sup>1</sup> The mission comprised of S. Tumiwa, Country Director, D. Dole, Deputy Country Director and Mission Leader; L. Arthur, Head, Portfolio Management, H. Momand, Senior Financial Control Officer, S. Ahmadzai, Project Officer, AFRM. A. Barseghyan, Energy Specialist, AFRM, H. Maruyama, Principal Procurement Specialist, AFRM M. H. Ayubi, Senior Project Officer, AFRM, H. Durrani, Senior Project Officer, N. Hotak, Associate Project Analyst, A. K. Shams, Associate Procurement Officer, AFRM, H. Qanet, Project Officer, AFRM, Z. Sarwari, Associate Project Analyst, AFRM.

5. As of 31 December 2019, out of 28 rated projects 18 project or 64% were rated as “on-track”, five (18%) projects were rated as “potential problem”, and five (18%) projects were rated as “actual problem” based on ADB’s project performance rating criteria. In 2017, three projects were rated as “actual problems” and three projects were rated as “potential problems”. The remaining 20 projects were “on-track”, which shows an increase in problem projects. In 2018, two projects were approved; (i) Horticulture Value Chain Development Sector Project (HVC DSP), was approved on 30 October 2019 and become effective on 19 December 2019; (ii) Energy Supply Improvement Investment Program (ESIIP), Tranche 5, was approved on 6 December 2018 and still not yet effective, the project is expected to become effective by end March 2019. In 2018, the average time taken from approval to signing in almost 3 months which is not satisfactory compare to 1 month was taken in 2017.

6. The ADB management targets for contracts to be awarded and funds to be disbursed in 2018 were \$419.0 million and \$538.0 million, respectively, which were given to the IAs in mid-February 2018. As of 31 December 2018, the actual contract awards achievement was \$130.7 million or 31% of the target. The contract award ratio has decreased to 9.9% which is much was lower than compare to 28% in 2017. The actual disbursement was \$308.9 million, which represents 57% achievement against the management target. The disbursement ratio was significantly increased to 15.6% compared to 9.6% in 2017. Although the management target was not reached, 2018 was the largest year for actual disbursements since 2002 ADB resume operation in Afghanistan.

## A. Transport

7. The transport sector is the largest sector in Afghanistan’s portfolio. The sector’s investments increased in 2018 to \$2.3 billion, 42.8% of the portfolio from 2002-2018. The active portfolio is \$1.55 billion comprised of 11 projects (14 grants). ADB’s transport program in Afghanistan includes investment projects such as reconstruction of the remaining section of the national ring road from Qaisar to Laman (233 km), and the Transport Network Development Investment Program (TNDIP) with four tranches to construct and rehabilitate 568 km of national highways. which include the Jabul Seraj – Nijrab road (50 km), Faizabad – Baharak road (44 km), Sapary- Jalalabad road (106 km), Sharan-Angor Ada (50 km), Chah-e-Anjir Gereshk (32 km), Dara-e-Suf to Yakawlang road (178 km), and Baharak –Eshkashim road (108 km), under the two Multi tranche Financing Facilities (MFFs) (i) Road Network Development Investment Program (RNDIP), and (ii) TNDIP. ADB also approved standalone projects to carry out the feasibility study of new Salang Tunnel and Road Asset Management Project for O&M of 220 km of southern national highway. TA grants and institutional support to the Ministry of Public Works (MPW) and the Afghanistan Railway Authority (ARA) were provided to ensure capacity development and future sector reform and project sustainability.

8. Contract award was only \$22.9 million which is much lower compared to \$129.7 million in 2017. The key reason of the low contract was delayed in the contract award of three civil works packages, around (\$189.5 million) under Qaisar Dari Bum Road Project (G-0555) in 2018. The bid evaluation report (BER) was completed, in September 2018, but no decision was made on the award of the contract in 2018. The disbursement achievements in 2018 was \$100.4 million, almost the same compare to \$99.0 million in 2017.

### A1. Project Issues

9. **MFF1 - Road Network Development Investment Program (RNDIP), (G-0012/G-0081/G-0244).** The civil work contract was awarded to the EMJV, a Turkish and USA joint venture, in December 2011. Due to the dispute between the contractor and MPW, the contract was terminated in September 2014. To restart the project, MPW tendered the first 82-km section in two separate contract packages. The civil works contracts were awarded on 16 September 2017 and both contractors have started work on 22 January 2018. The physical

progress of Section 1 is 25.8% against the elapsed time 44.1%, and physical progress of Section 2, is 16.7% against the elapsed time 44.1%. Both contracts are behind the schedule against the elapsed time section 1 by 18.3% and section 2 by 27.4%. The reason of slow progress of section 2, due to insufficient machinery and staff at the project site. MPW has advised the contractor to mobilize all required resources at the earliest. To avoid contract extension, both contractors should prepare the recovery plans to make sure the works will be completed within the contract period. The contract of supervision consultant was expired on 31 May 2018, hence PMO has hired individual consultants for supervision of the project on an interim basis. Significant delayed in the recruitment of a supervision consultant (replacement of Hill international), MPW has submitted the revised submission 2 on 25 February 2019 for NPA's review and further submission to ADB. The recruitment process needs to be expedited by MPW and NPA and make sure that the project supervision consultant should on board in early June 2019.

**10. Transport Network Development Investment Program (TNDIP), Tranche 1 (G0261).** The Jabul-Saraj to Nijrab road was completed in February 2019 and as per PMO there are savings around one million under Bill of quantities (BoQ). MPW should work with contractor to finalize the savings by end of March 2019. Faizabad Abad to Baharak road project work was completed on 30 April 2018, however construction of the permanent building is 80% complete and the remaining construction works will be completed within defects liability period until 30 April 2019. The recruitment of NGOs for the external monitoring of land acquisition and resettlement plans (LARPs) for both projects are in progress.

**11. TNDIP, Tranche 2 (G-0327/G-0328).**

- i. Sapary-Jalalabad Road Project: The project was descoped from 106 to 33km, however, it should be noted that progress on the secured (33km) has been very disappointing due to the contractor's weak performance at project-site. The civil work contract was extended until 31 December 2018. However, the contractor was not able to finish the remaining portion of 33km of the road within the extended time. Physical progress is approximately 80% off verses 100% planned. The contractor's bank guarantee extension is pending since signing of the supplementary agreement. PMO has so far recovered \$7.76 million against the \$16.5 million advance payment. The contract was expired on 31 December 2018 and contractor is working on documentation to request extension of time and submit for MPW's review.
- ii. Sharan-Angor Ada Road Project: Physical work progress is 87% off verses 100% planned, which is behind the schedule. ADB has approved government request for an extension of time as work will be difficult in the cold season.
- iii. Chah-e-Anjir Gereshk Road Project: Physical work progress is 64.55% and work was stopped due to military operations and recently resumed after 8km of the road was cleared by Afghan security forces. ADB approved an extension of civil works and consultancy contracts until 30 June 2019. The contractor has started the works in several security cleared sections to maximize the work and continue production of aggregates. MPW needs to closely monitor the progress and make sure that the project is completed within the extended period of 30 June 2019.

**12. TNDIP, Tranche 3 (G-0355).** The physical work progress is approximately 7.87% against the elapsed time of 48%, which shows significant delays in physical works at site. The designs are 100% completed and handed over to the contractor. The contractor management is weak. Design BoQ is submitted to the contractor to quote the unit price for non-BoQ items. Contractor has submitted recovery plan, but the works have stopped due to the winter season and will probably resume in May 2019. MPW should closely monitor the recovery plan

submitted by the contractor and make sure the project is completed within the current contract period.

13. **TNDIP, Tranche 4 (G-0422/G-0423)** – Baharak-Eshkashim Road Project. The physical work progress is 28.4%, against 48% planned. The designs of the road are almost completed and will be submitted for MPW's review. The 45km of the road is ready for asphalt in the coming summer season. PMO and consultant are reviewing the design and BoQ to minimize future expected variations.

14. **Preparation of CAREC Corridors 5 and 6 (Salang Corridor) (G-049/G-0491)**. Geotechnical investigation has resumed, and consultant has submitted the preliminary design to PMO/MPW. Inception report and design manual are submitted and approved. SMEC mobilized geotechnical expert. The draft feasibility study report was submitted on 24 Jan 2019 and currently being reviewed by ADB. Independent Proof Check (IPC) consultancy contract was approved and signed on 8 January 2019.

15. **Road Asset Management Project (RAMP) (G-0508)**. All O&M packages of Kabul-Jalalabad road have been awarded and section 1 (51-86=35km) is 100% completed. O&M works of Section 2 (86-140=54km) has been 14% completed. Section 1 of Kabul-Ghazni road was awarded in July 2018 and contractor has been mobilized. Contract award of Section 2 was approved by NPC on 4 March 2019 and expected to be signed by 31 March 2019. Recruitment of individual consultants for RAMS are completed, while the recruitment of additional consultants to complete data collection and system configuration are under process. The inception and midterm reports were already submitted to ADB.

16. **RAMP – Additional Financing (G-0541)**. Bids for Section 1 of Ghazni-Kandahar were opened on 22 January 2019 and bid evaluation is ongoing in NPA. Bid evaluation report submission to ADB is expected by 15 March 2019. The design work is ongoing on the other sections of Ghazni-Kandahar road.

17. **Qaisar Dari Bum Project (G-0555)**. The bid evaluation report (BER) for the civil works of sections 3 to 5 was completed in September 2018, but no decision has been made on awarding the contract. National Procurement Commission (NPC) has referred the matter to MOF and MPW for a decision on whether to proceed. The government should expedite the procurement process and submit the BERs for ADB review and approval. The supervision consultant for Qaisar Dari Bum was advertised on 28 Feb 2018; however, due to extensive delays with shortlisting, it is still at submission 1 stage. NPA has submitted revised submission 1 for ADB's review and approval on 18 February 2019. The security plan has been prepared and approved and the design consultant has been mobilized. The desk design study has been submitted and work is ongoing 35% design submittal, which is expected by 30 April 2019.

## **A2. Systemic Issues and Lessons Learned**

18. **Safeguards**. Five transport projects are safeguards non-compliant. In the CPR mission discussed these projects in detail with MPW and MUDL/ARAZI and recommended actions were agreed to bring the projects back in compliance. In most of transport projects, works have been commenced in LAR areas without having the approved LARP available and affected households paid. MPW and MUDL/ARAZI were informed that these are against ADB's safeguards policy statement and grant agreement. Although, physical displacement is minimal and economic displacement has occurred in some of the projects, but this could not be the reason and affected people should be paid before the civil works is commenced. In future, notice to proceed (NTP) will not be issued the civil works contractor until LARP is fully implemented. The detail of non-compliant projects is explained under the safeguards section of the MOU.

19. **Project design and preparation.** Poor project design was one of the several causes of implementation delays in the transport sector. The use of design-build modality created an incentive for the contractor to request time extensions, contract variations and price escalations. To address these issues, projects designed and prepared in 2017, used the design, bid and construct modality.

20. **Security arrangement.** Volatile security conditions in project sites is one of the main reasons for implementation delays. The security arrangements for the Sapary-Jalaabad road subproject was not effective through Afghan Protection Police Force (APPF) and significantly delayed the project progress. Appropriate security arrangements, which involve local communities and allow contractors to select appropriate security measures, can improve project implementation. This was demonstrated in Sharan-Angor Ada and Chah-e-Anjir Gereskh road projects, where contractors were able to work with local communities for the security of the project activities.

21. **Strengthening of Implementation Capacity.** Poor quality documents result in delays in providing no objections, as the requests submitted often lack of clarity and/or proper supporting documents. ADB is committed to working with the PMO to improve quality of documents. This practice has been useful in accelerating the approval process and issuance of no-objection.

22. **Insufficient budget allocation.** During the CPR mission, ADB raised the issue of insufficient allocations and urged the line ministries and the Ministry of Finance to rectify the situation in 2019, as it is negatively affecting portfolio implementation. In 2018, ADB received several IPCs from MPW which were processed as partial payments due to insufficient budget allocations.

## **B. Energy**

23. ADB's overall assistance to the energy sector from 2002 to 31 December 2018 was \$1.8 billion, covering projects implemented through Da Afghanistan Breshna Sharkat (DABS), the Ministry of Energy and Water (MEW), and the Ministry of Mines and Petroleum (MoMP). Energy Supply Improvement Investment Program (ESIIP), Tranche 5 (G-0634) for \$143.42 million was approved on 6 December 2018. The active portfolio is \$1.57 billion comprised of 11 projects (15 grants) representing 43% of the active portfolio of \$3.63 billion. ADB's energy program in Afghanistan includes (i) investment projects and TA grants to strengthen energy (electricity and gas) supply chains (generation, transmission and distribution), (ii) capacity development, and (iii) sector reforms. Contract award and disbursement achievements in 2018 were \$81.3 million and \$192.9 million, respectively, which shows decrease from 2017 contract awards of \$181.3 million, but a significant improvement in disbursement from \$100.0 million in 2017.

### **B1. Project Issues**

24. **Energy Supply Investment Development Program (ESDIP) – Tranche 1 (G-0134).** The contractor has delivered switch gears to the project site and the contractor is committed to deliver the remaining equipment by 31 March 2019. Contractor has certified the amended advance payment and performance guarantees by the local bank on 27 January 2019. The project was closed on 28 November 2018. DABS is requesting an extension of winding up period from 4-6 months to process the remaining payments under the project. DABS should ensure the delivery of the remaining equipment by 31 March 2019. Contractor of Chemtala substation has claimed additional amount of \$195,785.84 against the security services rendered. ADB and DABS are working on confirming the need for services procured by contractor to process the payment on a post facto basis.

25. **ESDIP – Tranche 2 (G-0184).** DABS has processed reimbursement of taxes and duties to the contractor. Contractor is working on the amendment of contract to cover the additional BRT and submit for DABS review and approval. The additional BRT will be paid from the government budget. DABS to process all pending payments to Siemens within the winding up period of the project.

26. **ESDIP – Tranche 3 (G-280).** The civil works contract for Gereshk hydro power was extended for five months from 28 November 2018 to 30 April 2019 to complete the installation of three turbines and hydro mechanical equipment. The progress has improved since the subcontractor has mobilized but DABS need to closely monitor the project in order to complete the project by 30 April 2019. The contract variation (\$1.3 million) for supply of additional goods for transmission line and distribution network was approved by ADB on 12 September 2018, and DABS need to ensure the VO is approved by NPC by 15 March 2019.

27. **ESDIP – Tranche 4 (G-0332).** DABS has submitted a variation order (\$1.5 million) for an additional material for 20 kV Pul-e-Alam low voltage distribution network was approved by ADB on 9 November 2018.

- i. 220/110/20kV substation at Andkhoy, Sheberghan and expansion of Mazar substation: The contractor has completed 99% of physical works. Testing and commissioning for Mazar substation is completed, however, security situation on Mazar-Sheberghan highway has delayed the deployment of Siemens team to complete commissioning of Andkhoy and Sheberghan substations. Siemens amendment no. 6 for taxes and duties was approved by NPC in February 2019.
- ii. 500kV S/C OHL TKM border to Sheberghan and 220kV D/C OHL *Sheberghan to Mazar e Sharif*: The physical work progress is 78.4%, against 86.6% planned, which is behind the schedule. The contract time is expiring in April 2019 and looking to security issues at the project site, the contractor would not be able complete the project in the existing contract period and a possible time extension would be required.

28. **North-South Power Transmission Enhancement Project (G-0374, G-0375).**

- i. 500 kV D/C OHL Dasht-e-Alwan to Arghandy Substation: The physical work progress is 49%, against 88% planned, which is behind the schedule. The delays are due to security and LARP implementation. There are severe security concerns at the project sites, especially in Baghlan province. The PMO has shared these concerns with MOI, APPF and the Governor's Office. DABS has been requested to raise a note concerning ongoing project delays due to the security situation on site.
- ii. 500kV Arghandy Substation: Variation order for additional civil works (change in slope) for the substation has been agreed between DABS and the contractor and the contractor has submitted the VO (estimated \$3.6 million) for DABS's review; however, there are insufficient funds available for such variations. DABS has committed to allocate funds to cover the shortfall.

29. **MFF2. Energy Supply Improvement Investment program (ESIIP) – Tranche 1 (G-0464, G-0465).**

- i. Analytical Studies Consultant: Delays in the recruitment of consultant for analytical studies. NPC rejected the analytical studies package and advised DABS to revise the term of reference (TOR) and split into three packages. DABS to submit the revised TOR for ADB's review and approval by 31 March 2019.

- ii. Program Management and Implementation Consultant: The contract was signed on 29 January 2019.
  - iii. Preparation of future projects: A framework agreement will be used, hence DABS agreed to consult with NPA in this regard.
  - iv. Construction of 12Km 220kV transmission line and substation for interconnection of Mazar IPP in Mazar- e-Sharif to existing grid: NPA has submitted revised bidding documents for ADB's review on 17 February 2019. ADB is currently reviewing the bidding documents and ADB's NOL is expected by 20 March 2019.
30. **ESIP – Tranche 2 (G-0521/G-0522/G-0523).** The three Bamyan packages for transmission line from Dasht-e-Alwan to Bamyan, substation and distribution network in Bamyan were awarded on 22 April 2018. The IFB for 500 MW high voltage back to back convertor station was advertised on 14 November 2018 and the deadline for submission of bids is 18 March 2019. DABS to start bids evaluation immediately after the bid opening and make sure the contract is awarded in Q3, 2019.
31. **ESIP – Tranche 3 (G-0545).** Delays in the procurement for construction of 20MW Solar Power Project in Naghlu was carried out in 2018. The first-ranked bidder has been disqualified for failure to submit verified documents. The second-ranked bidder was not able to provide the required clarifications/documentations within the given deadline of 45 days. The post qualification report was prepared and submitted for DABS senior management group (SMG) to advise whether to proceed with contract award or rebid. In a joint ADB, NPA and DABS meeting, it was decided to provide similar period to the first ranked bidder and the first rank bidder was advised by DABS to submit the verified documents of similar work experience by 16 Mar 2019. DABS to expedite post qualification report after the submission of verified documents.

## **B2. Systemic Issues and Lessons Learned**

32. **Security.** There has been no assessment of ADB funded energy and transport sector projects regarding the recruitment of appropriate project security personnel, i.e., uniformed APPF, non-uniformed local police, private security, or local populace. In some energy project sites, such as the 500kv transmission line from Andkhoy to Mazar, and distribution networks in Logar, Gardez, and Khost, the uniformed APPF were not recommended, but contractors have still deployed them for their site camp and use the local community for the project sites. ADB has conveyed the message in tripartite review meetings in 2017 and 2018 that Government needs to provide a comprehensive security plan for ADB projects, with specific provisions for the location of projects. ADB undertook a study on project security, which involves document analysis and interviews with line ministries, PMOs, and other stakeholders. The report with recommendations already has been draft and shared internally within ADB for comments, and this report will be shared with the Government in early Q2 2019.
33. **Land Acquisition and Resettlement.** Two energy projects are safeguards non-compliant. In the CPR mission discussed these projects in detail with MPW and MUDL/ARAZI and recommended actions were agreed to bring the projects back in compliance.

## **C. Agriculture and Natural Resources (ANR):**

26. ADB's overall assistance from 2002-2018 to the ANR sector, as of 31 December 2018, was \$737.2 million. The active portfolio is \$508.9 million, comprising of 13 grants and one loan, which represents 14% of the active country portfolio. The implementing agencies for sector investments are Ministry of Energy and Water (MEW), Ministry of Agriculture, Irrigation

and Livestock (MAIL) and, the Ministry of Rural Rehabilitation and Development (MRRD). The sector focuses on increasing agricultural productivity and improving the livelihood of the rural population through: (i) agriculture modernization, (ii) water resources management, (iii) capacity building, and (iv) modernization and upgrading of irrigation infrastructure. Contract awards and disbursement in 2018 were \$26.5 million and \$15.7 million, respectively, indicating a decline from 2017, where contract awards and disbursements were \$27.1 million and \$37.3 million, respectively. The key reason of the low contract awards and disbursements was mainly from MEW side. Two packages 3 and 4 around \$25.0 million under Water Resources Development Investment Program-Tranche 2 (G-0362) were not awarded in 2018.

## C1. Project Issues

27. **Agriculture Market Infrastructure Project (G-0126, G-0437).** The first slaughterhouse in Reshkor, Kabul was completed and inaugurated in 2018, while the second slaughterhouse in Kabul will be completed in April 2019. The slaughterhouses in Herat and Balkh are planned to be completed by end of May 2019, and the one in Kunduz will be completed by June 2019. MAIL needs to expedite the PPP portion of the project and make sure the remaining slaughterhouses will be completed by 30 June 2019. Social monitoring reports (SMRs) and environmental monitoring reports (EMRs) of safeguards were submitted on 16 January 2019 and currently under review in ADB.

28. **MFF: Water Resources Development Investment Program (WRDIP), Tranche 1 (G-0167, G-0170).** Most of the activities under the project have been completed, while two packages for a total of \$2.7 million are under procurement process. Bid evaluation for procurement of civil works for rehabilitation of 14 irrigation structures have been finalized and bid evaluation report (BER) is expected to be submitted for ADB's review on 10 March 2019. ADB has provided comments on BER for procurement of machinery for NVDA in January 2019 and revised BER is expected by 10 March 2019. The award of these packages is expected by end of Q1, 2019. Restructuring of NVDA canal is ongoing and the charter has been prepared and approved. Organizational structure and business plan have been developed and soon will be presented for president office for approval. The position of director has been advertised and recruitment is ongoing. The discussion for master's degree program of MEW staff between MEW and Kabul Polytechnic University is ongoing. The contract is expected to be signed by 31 March 2019.

29. **WRDIP – Tranche 2 (G-0362).** The large civil works contract of LKIS projects has been sliced into eight packages. Due to significant delay in repackaging, slow procurement and low disbursements, the project performance is not satisfactory. The first two civil works contracts around \$14.3 million were awarded in December 2018. The procurement of the remaining six packages are ongoing and in different stages of procurement; (i) The BER for package 3, was submitted on 15 January 2019 for ADB's review and approval. ADB completed its review and comments were provided. MEW has responded on 21 February 2019, and the bid is currently under ADB's review; (ii) package 4, the bids were opened on 22 December 2018, and the BER was prepared and submitted on 25 February 2019 for NPA's review and further submission to ADB; (iii) package 5 and 6, the IFB was advertised on 19 February 2019. The deadline for submission of bids are 3 and 6 April 2019 respectively; and (iv) package 7 and 8, bid documents are being prepared and expected to be submitted by 31 March 2019, for ADB's review and approval.

30. **Panj-Amu River Basin Sector Project (G-0506, G-0507).** Three out of six civil works NCB packages were awarded in 2018, while the procurement of the remaining three civil works is ongoing. The designs of 26 watersheds have been completed and six out of 26 watersheds were awarded in 2018 and the remaining watersheds are expected to be awarded in Q2, 2019. The design of the remaining watersheds are planned to be completed by end of



Q1, 2019. Establishment of 105 irrigation association is in progress and all irrigation association will be established by Q3, 2019. Construction of river basin building in Kunduz was awarded in December 2018, and the contractor will be mobilized once the due diligence report (DDR) is approved and disclosed in March 2019. Rehabilitation and construction of Qulbars and Shorab canals in Takhar was awarded in December 2018, and the contractor will be mobilized once the LARP is implemented. MEW is working to establish the working group for Panj-Amu River Basin by end April 2019, once the working group is established then the discussion on the transboundary agreement will be started with Tajikistan. Both line ministries (MEW and MAIL) are working to prepare a recovery plan for 2019. The recovery plan should be finalized by 31 March 2019. MEW to expedite its plans, through FSDD to complete the surveys, detailed designs, and prepare civil works bidding documents for all irrigation schemes by Q2 2109.

### **Systemic Issues and Lessons Learned**

31. The main challenges in the ongoing portfolio are security, weak technical and institutional capacity of line ministries, the government's long process of document review and approvals, which have affected sector performance in the areas of contract awards and disbursements, as well as project implementation.

30. The ANR projects' success rate has remained high but there have been two cases of delays: Grant 0362, where the main package was split into 8 small packages; Grant 0506/0507, where the two main consultancies; (i) feasibility study and detailed design (FSDD); and (ii) implementation supervision consultant (ISC) contracts anticipated for award in Q4 2017, but both contracts were awarded in June 2018. Thereby, affecting preparation of the next civil works packages, and both contract awards and disbursements performance have been remained low, that resulted project rating at risk.

31. Progress over the past year was below expectation in the ANR sector, thus, much work is required with close follow-up on issues with relevant agencies and stakeholders involved. ADB has observed that many layers of review affected the contract awards, disbursements rate and overall performance in the ANR sector. Hence, ADB recommends reaching agreement on appropriate mechanisms for review of procurement documents, contract management, and PMO performance. During 2018, several ANR sector PMOs were merged into one central program management office (CPMO) structure at MAIL. Where the CPMO approach not yet implemented in MEW, that affected portfolio implementation.

#### **D. Cross Cutting Issues:**

32. **Procurement.** Submission of poor quality BERs to NPA and ADB remains a major concern which causes back and forth between NPA and PMOs. In response to this, the ADB/AFRM Procurement Unit has conducted a series of procurement capacity development training sessions and clinics during 2018 to improve the quality of submissions as well as contract management capacity, which has direct impact on disbursement and timely completion of projects.

- Consultant Selection sessions– February 2018
- Consultant Selection sessions– March 2018
- Contract Management Seminar sessions – March 2018
- Contract Management Seminar sessions – June 2018
- Contract Management Seminar sessions – July 2018

33. In addition, ADB/AFRM procurement unit also conducted a seminar for Afghanistan Builders Association on 04 April 2018 in Kabul.

34. The Mission held a meeting with NPA on 17 February 2019. ADB raised the issue of delays in the procurement process, and ADB's procurement tracking sheet was shared with NPA to track the status of each package and minimize delays. NPA explained the presidential decree no. 100 dated 11 November 2018, the decree will become effective from new AFY 1398 (21 March 2019) to better manage, streamline, and accelerate the procurement processes, the decree also includes some additional authority and responsibility delegated to NPA; (i) the entire procurement process from bid opening until contract signing will be taken place in NPA; (ii) DG, NPA is authorize to endorse/approve each stages of the procurement according to the procurement law of the country; (iii) according to the decree Independent Administrative Reform and Civil Service Commission (IARCSC) in coordination with NPA will assess the procurement TASHKEEL and evaluate the procurement staff of government ministries and agencies.

35. The implementation of the decree will reduce the back-and-forth communications between the line ministries and NPA, and all steps will be completed in NPA. Based on the decree a new work flow will be developed and will be shared with all stockholders, including development partners. As per NPA assessment the new work flow through the decree is reducing 100 days for civil works procurement packages and 45 days for goods procurement packages.

36. **Land Acquisition and Resettlement (MUDL/ARAZI).** In December 2018, ARAZI was merged with Ministry of Urban Development (MUDL) to further increase the efficiency of works under one roof. The Mission held a meeting with Director General, ARAZI, MUDL, on 18 February 2019, and discussed the outstanding LAR issues of ADB funded projects in the ANR, energy and transport. The 8 non-compliant projects were discussed in detail.

#### **Safeguards issues under transport**

37. **MFF1 – RNDIP (G-0081/G-0012/G-0244).**

- i. Bala Murghab to Laman – *Section 1(37km)*. LARP is already approved by ADB and fund allocation is also approved by the cabinet. Out of 465 affected households, 400 households received payments. The remaining 65 not yet receive their payments due to deactivation of their bank accounts. MPW has issued letter to commercial bank to re-activate their accounts. Some, of the accounts, have been activated and the rest will be activated by mid- Mar 2019, and then transfers of the fund will start, once activation of all accounts is completed.
- ii. Bala Murghab to Laman – *Section 2 (48 km)*. Total 280 affected households in 24 km section. Preparation of draft LARP is under process by MPW and supervision consultant. The verified land ownership documents have been endorsed and approved by the provincial committee and will be submitted on 2 Mar 2019 to central ARAZI/MUDL for final approval. MPW should coordinate with MOF to accelerate the budget allocation process and get the budget approval by 31 March 2019.

38. **TNDIP, Tranche 2 (G-0327/G-0328).** Under this project, three roads have LARPs pending issues divided into four LARPs.

2026 Households affected (this number to be verified – potential cut-off date issue)

- i. Sapary-Jalalabad – *Section 1 (22 km)*. 2026 Households affected (this number to be verified) on 15 Jan 2019 MPW has submitted the LARP for ADB's review and approval.

CWOD-PSG and AFRM provided its comments, and MPW has incorporated those comments. Final review of the LARP is ongoing by CWOD-PSG. The approval of the budget by the Cabinet is expected by 15 Mar 2019.

- ii. Sapary-Jalalabad – Section 1B (11 km). The preparation of draft LARP is under process by MPW and supervision consultant. The verification and approval process of land ownership document by the provincial committee of ARAZI was completed. The final approval of documents by central ARAZI/MUDL is expected by 10 Mar 2019. MPW should coordinate with ARAZI and submit the LAPR by 31 March 2019 for ADB's review and approval.
  - iii. Sharan-Angor Ada road project (50 km). Total 9 households were affected. The preparation of draft LARP is under process by MPW and supervision consultant. Out of 50 km only 8 km of road is in LAR affected area. The verified package of ownership documents has been endorsed and approved by the provincial committee and will be submitted on 15 Mar 2019 to central ARAZI/MUDL for approval. MPW should expedite the process and submit the LAPR by 31 March 2019 for ADB's review and approval.
  - iv. Chah-e-Anjir Gereshk road project (32 km). Total 32 households were affected – Non-Land assets. The preparation of draft LARP is under process by MPW and supervision consultant. Out of 31.6km only 12.2 km of road is in LAR affected area. The consultant has prepared the LARP, and submitted to the provincial ARAZI office, for review and endorsement. Further submission to central ARAZI/MUDL for final approval is expected by 15 Mar 2019.
39. **TNDIP, Tranche 3 (G-0355).**
- i. Dara-e-Suf Yakawlang road project (Section Bamyān- 99 km). Total 45 households were affected. The final LARP is currently under review, at MPW and will be submitted, for ADB's review and approval by 10 Mar 2019.
  - ii. Dara-e-Suf Yakawlang road project (Section Samangan – 87 km). Total 1200 households were affected. The preparation of draft LARP is under process by MPW and supervision consultant. Out of 178 km only 63 km of road is in LAR affected area. Provincial committee verified 80% of lands ownership documents and the remaining 20% will be completed by 31 Mar 2019. The delay was due to heavy snow at the project site. Once the weather changed, MPW should immediately starts the verification process and completed by 31 March 2019.
40. **TNDIP, Tranche 4 (G-0422).** Total 1400 households were affected by both sections. Baharak Eshkasham- Section 1 (32 km) and Section 2 (76 km). Out of 108 km only 95 km of road is in LAR affected area. The final LARPs for both sections 1 and 2 have been submitted for ADB's review and approval on 24 and 27 Feb 2019 respectively. ADB should expedite the review process and submit its comments or approval by 15 March 2019.
41. **TNDIP, Tranche 1 (G-0261)** LARP has been implemented and the preparation of compliance report verified by external monitoring consultant needs to be submitted to ADB. The recruitment of the external monitoring consultant firm commenced and will on board by 1 April 2019.

## Safeguards issues under Energy

### 42. **ESIP – Tranche 4 (G-0332).**

- i. 500kV S/C OHL TL border to Sheberghan. Total 49 affected households were affected. Out of 49 affected households 44 were paid, 4 in process and 1 has land dispute over ownership in court. Escrow account should be established for AP with dispute over ownership. Documents of 4 households have been reviewed and processed by DABS. The transfer of compensation amount to their accounts will be completed by mid-Mar 2019.
- ii. 220kV D/C OHL TL Sheberghan to Mazar-e-Sharif. Final LARP prepared and approved. Total 263 households were affected in 3 districts: Sheberghan, Chemtal and Charbolak. 93 out of 263 households have been verified in Sheberghan district, but security is an issue in Chemtal & Charbolak districts. CEO, DABS is closely working with the Independent Department of Local Governance (IDLG), and Governor of Balkh and CEO has requested the Governor to advise the LAR committee to expedite the verification and complete the process by 30 April 2019.

### 43. **North-South Power Transmission Enhancement Project (G-0374, G-0375).** The final LARP was submitted on 5 February for ADB's approval.

- i. Section 1 – Parwan province. Total 37 Households were affected on tower locations. 31 out of 37 were paid – 6 to be paid. A consent letter was signed, between DABS and APs for using the land.
- ii. Section 2 – Kabul province. Total 119 households were affected. LAR committee has completed 65% of the documents verification the remaining 35% will be completed by mid-April 2019.
- iii. Section 3 – Baghlan province. Final LARP is not yet submitted and expected to be submitted by mid-April 2019. Approximately 116 Households affected by 367 tower locations. The survey of towers locations was completed. The entire LARP process will be completed by 15 April 2019.

### 44. **WRDIP, Tranche 1 (G-0167, G-0170).** LARP of Bangala Weir – Total 5 Households were affected, the LARP was approved by ADB. The Cabinet has approved the budget, and the compensation process to the APs will be completed by 15 March 2019.

## E. Conclusion and recommendations:

34. **Safeguards.** The land acquisition and resettlement plan (LARP) is a major concern that delays contract awards and implementation. To better manage the land acquisition and resettlement process, IAs need to closely work with MUDL/ARAZI and involve them during project design stage. MOF in close coordination with line ministries should streamline the budget approval process upon approval of final LARP as land acquisition cost is paid by the government as part of counterpart funding. More importantly, government should not award any Works contract which involves involuntary resettlement impacts as ADB is prioritizing compensation to affected households at the earliest.

35. **Slow Procurement.** The long procurement process is mainly due to (i) poor quality of bid documents and bid evaluation reports (BERs) requiring several revisions; (ii) absence of procurement service standards and limited accountability for delays; and (iii) weak procurement and contract management capacity of PMOs. Many of these issues are systemic

across sectors and hence require more substantive remedial measures instead of conventional follow-up.

36. **Security.** The project security is main concern for smooth projects implementation, therefore, to address this; (i) project security should be part of Standard Bidding Documents and TORs should stipulate that all contractors and consultants may deploy professional security personnel for all ongoing contracts where there are serious security problems; (ii) for all future projects, it should be mandatory for the contractor to provide a draft security plan/security assessment with the bidding documents; (iii) national contractors for smaller contract packages should be considered more often in order that can quickly deploy local community representatives to provide security, which may be an appropriate approach; (iv) IAs to prepare estimated cost of project security for the bidding documents; and (v) changing the security budget modality from the noncompetitive provisional sum to a competitive item in the Bill of Quantity (BoQ) with payment linked to the physical progress, and this could be a suitable option to make the contractor fully responsible for managing the security cost within the approved contract ceiling.

37. **Project Readiness.** Advance detailed designs through the Project Design Advance modality, will help to prepare sound technical designs and construction drawings, actual cost estimates, and minimum contingencies due to reduced uncertainties and timely award and completion of contracts. Design-Build contracts have generally not worked well and should be discontinued in favor of separate design and construction packages in future projects.

38. **PMO Capacity.** PMOs improvements are necessary to execute timely and effective project implementation. PMOs vacancies and staff turnover; lack of experience in managing contractors, poor quality documents submission, contract variations and BERs continued to be implementation constraints. To replace ineffective key PMO staff/consultants, and to adhere strictly to merit based appointments a joint panel of IAs, MoF and ADB to be adopted, especially for key positions. More generally, performance of PMOs staff should be reviewed by ADB and IA/EA on an annual basis, linked with contract awards and disbursements performance and non-performing staff can easily be replaced.

39. ADB again thanks the Government of Afghanistan for its cooperation and participation during this CPRM and Q1 TPR Mission.

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Afghanistan Resident Mission  
Asian Development Bank  
27 March 2019

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Ministry of Finance  
Government of Afghanistan  
27 March 2019

#### Appendices

1. Detailed Action Plan
2. Summary of Portfolio Performance
3. Contract Award and Disbursement Performance
4. List of Participants