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## **SHEBERGHAN GAS GENERATION ACTIVITY (SGGA)**

Contract No. EPP-I-00-03-00004-00, Task Order No. AID-306-TO-12-00002

### **SGGA MoMP SGDP/IL Advice and Support Action Plan with Schedule (Option Period Deliverable 2)**

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## Acronyms and Abbreviations

AEAI	Advanced Engineering Associates International, Inc.
AFMIS	Afghanistan Financial Management Information System
DG	Director General (of MoMP)
DM	Deputy Minister (of MoMP)
E&Y	Ernst and Young
GIRoA	Government Islamic Republic of Afghanistan
Grantee	Ministry of Mines
HR	Human Resources
IL	Implementation Letter
MoF	Ministry of Finance
MoMP	Ministry of Mines
OFM	Office of Financial Management (USAID)
SGDP	Sheberghan Gas Development Project
SGGA	Sheberghan Gas Generation Activity
USAID	United States Agency for International Development
USD	United States Dollar
USG	United States Government

## 1 Executive Summary

The United States Agency for International Development (USAID) developed Implementation Letter (IL) No. 1 to delineate the conditions upon which the United States Government (USG) would transfer funding to pay for Sheberghan gas well development work conducted through contract(s) awarded by the Government of the Islamic Republic of Afghanistan (GIROA) in support of the Sheberghan Gas Development Project, Phase I (SGDP-I). The IL also requires government institutional and business reforms that will help to safeguard the funds involved and increase the capacity of the Grantee, the Ministry of Mines and Petroleum (MoMP).

A gap analysis undertaken by USAID's Contractor providing expert advice, technical assistance and capacity building support for the SGDP-I through the implementation of the Sheberghan Gas Generation Activity (SGGA) organized the fifteen (15) conditions stipulated in IL No. 1 aimed at the institutional strengthening of MoMP into three packages to facilitate their implementation by (and review of compliance by USAID) based on priority and complexity. Twelve of these conditions were required to be met in order to release USG funds for the gas development project.

The MoMP achieved the tasks necessary for implementing the seven provisions of Package 1 and submitted these to USAID for review and approval on August 7, 2012, and the second package regarding five conditions precedent to the initial disbursement of funds for SGDP-I was submitted on August 18, 2012. MoMP completed revisions and clarifications as directed by USAID for these two packages and resubmitted these on October 14, 2012. USAID has indicated its acceptance of these informally, pending amendment of the IL to formally accept them.

The Ministry has continued to finalize the conditions precedent following the revised submittals for the first 12 of 15 conditions precedent in October. In the last submittal (Third Package) dated November 26, 2012, the Ministry concluded by addressing the final three conditions precedent contained within Implementation Letter No. 1, Attachment 2, Paragraph II, (i) – (iii). The third package contains Human Resources Manual and supporting documentation six months in advance of the Implementation Letter requirement.

- 1) The quarterly basis accounting of all transactions made within recently opened Special U.S. Dollar Account at Da Afghanistan bank and monthly banks statements will be implemented as soon as the first transfer of funds takes place.
- 2) The required monthly progress reports will begin upon award of the drilling contract.
- 3) The required Human Resources Manual and supporting documentation delivered to USAID as a complete binder. The manual has been approved since last year and is in effect for the Ministry at this time. It contains materials outlining MoMP's procedures for the following:
  - a) Contents, Human Resources Procedures Analysis, and MoMP Human Resources Manual.
  - b) Procedures for: Establishing positions, employee recruitment, employee evaluation, employee promotion, and employee discipline.
  - c) Employee Code of Conduct/Conflicts of Interest and Staff Training & Development Plans.
  - d) Information about forthcoming reforms such as: Exit interviews, employee agreements, succession plan, and signed job descriptions.

These items represent the third of three packages the Ministry have submitted to satisfy the conditions precedent of Implementation Letter No. 1.

The third package of Conditions Precedent was approved via an email from Mike Jordy on 18 July 2013.

The SGGA Team will continue its support of the MoMP's implementation of the SGDP and will deepen its interface with the Ministry in coming months, under USAID's guidance and directives.

## 2 Background

It has been long known that the country of Afghanistan has vast natural resources which could greatly benefit the people of Afghanistan, but that have not been able to be commercially developed in recent decades. Among these resources are significant natural gas fields in the area of Sheberghan. To exploit the natural gas and utilize it to increase badly needed power generation capacity in Afghanistan, the United States Agency for International Development – which has been a key agent in restoring and modernizing the energy sector since 2004 as a lynchpin for the country's peaceful development – crafted Implementation Letter (IL) No. 1 to delineate the conditions upon which the USG would transfer funds to pay for gas well development work conducted through contract(s) competitively awarded by the GIRoA in support of the Sheberghan Gas Development Project, Phase I. USAID contracted with Advanced Engineering Associates International, Inc. (AEAI, or Contractor) to provide expert advice, technical assistance and capacity building support for the SGDP-I through the implementation of the complementary Sheberghan Gas Generation Activity (SGGA).

USAID employed the IL as a tool to accomplish far more than the gas field development work at Sheberghan. While gas field development is central to bringing the indigenous energy resources to play in the country's economic development and energy security, the IL also requires the GIRoA to implement government institutional business reforms that will help to safeguard the funds involved and increase the capacity of MoMP as the Grantee and primary agency of GIRoA for the development of the Sheberghan gas fields. A number of conditions in the IL are required to be fulfilled in order to release transfer of funds by the USG, which require active attention from MoMP.

AEAI is executing the SGGA, through which USAID continues to assist MoMP in many different ways, particularly in satisfying the IL conditions precedent to release of funds for SGDP, including fifteen important actions or reforms to prepare MoMP for greater responsibilities.

A gap analysis methodology was performed by the SGGA to assist MoMP in completing some of the more complex conditions required to be met in the IL. Using a status quo measurement of MoMP and a desired end state, the shortfall or "gap" was defined and worked aggressively over the Spring/Summer of 2012.

Based upon the initial gap analysis, the fifteen conditions precedent were subdivided into three groups to simplify submissions to USAID by MoMP. These groupings ensured that long-lead items wouldn't slow down those items that could be completed more quickly. Each grouping shows compliance with the conditions precedent and efficient resource allocation by MoMP to achieve the requirements of the conditions through a focused effort:

- **Package 1:** Seven of the 15 conditions precedent were fairly straightforward and were processed in the first package, submitted to USAID for compliance review on a priority basis in early August 2012 and subsequently revised and resubmitted in October 2012;

- **Package 2:** Five of the 15 conditions were more complex and were processed in a follow-up second package submitted to USAID by MoMP for compliance review and approval in late August 2012. In October, revisions were provided and both packages 1 and 2 were informally ready for acceptance in October 2012;
- **Package 3:** Three of the 15 conditions were non-precedent to the first distribution of funds and were submitted to USAID for compliance review on November 26, 2012. That review is pending as of the date of this report.

Fortunately, MoMP and SGGA were able to begin analyzing MoMP processes and start work on reforms months earlier than scheduled based upon information provided in the Ernst and Young (E&Y) Pre-Award Assessment. This head start allowed for setting an aggressive compliance schedule to expedite MoMP compliance with the IL. In turn, breaking MoMP submissions demonstrating achievement of IL conditions into three manageable packages made it easier for USAID to review and assess MoMP compliance with the IL. In fact, all conditions precedent to the first disbursement, as contained in Packages 1 and 2 were submitted within 84 days of IL signature, even though many allowed for up to 180 days to submit. The early submittal allowed for receiving review feedback from USAID on the two packages, revising cover letters and a few documents, and resubmitting the two finalized packages, demonstrating compliance prior to the 180 day deadline.

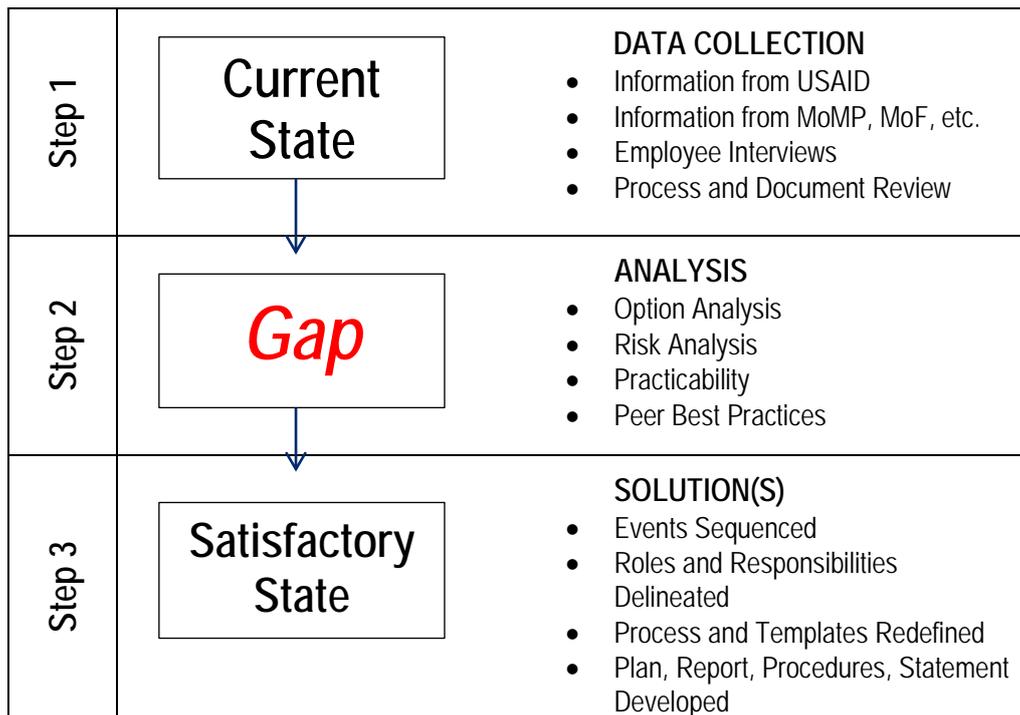
### 3 Gap Analysis Methodology

After a review of the IL's conditions precedent, it was determined that it would be best to use a structured approach to satisfy them. As a result, a gap analysis methodology was utilized by SGGA to assist MoMP in organizing/approaching fulfillment of some of the more complex conditions precedent.

- First, MoMP processes were mapped and analyzed to determine the current state of each MoMP business process and then compared to the requirement of the IL. This was achieved by reviewing documents, interviewing employees, monitoring operations, and assessing effectiveness of the resulting outcomes.
- Next, a satisfactory end state for each process and the synergistic interface between processes were projected based upon the requirements of the IL, recommendations of the E&Y Pre-Award Assessment, and expert advice.
- The delta between the two was the "gap" which needed to be bridged in order to attain the satisfactory process outcome. Options to achieve the targeted outcomes were evaluated in light of risk and efficiency, applicable best practices were studied, and a practical implementation path optimizing the desired results was chosen.

The gap analysis process applied to MoMP is illustrated in Figure 1.

Figure 1 – Gap Analysis Illustration



#### 4 Implementation Letter Conditions Precedent

USAID is utilizing IL No. 1 to accomplish several important functions. The conditions serve both as a tool for ensuring safeguards for USAID funds provided to GIRoA for a specific purpose, and as an influence for critically needed institutional reforms within MoMP. The reform aspect of the IL is often overlooked by other Sheberghan stakeholders focusing on the issue of awarding a gas drilling contract as quickly as possible. However, the reforms are very important and result from issues identified as obstacles to ultimate success by E&Y’s October 2011 Pre-Award Assessment. Through this third-party risk assessment, E&Y highlighted key areas where improvement was necessary or desirable relating to the MoMP’s business operations.

The 15 primary conditions precedent delineated in the Implementation Letter and its attachments cross the entire business spectrum MoMP, dealing with its relevant functional areas such as finance, procurement, legal frameworks, human resources, and management. They are most clearly explained in Attachment 2 to the IL. Twelve of the 15 conditions are requisite to release of the first disbursement of funds to the SGDP. The remaining three conditions are not precedent to the first disbursement. The “Grantee” depicted within the below Table grouping the IL’s conditions by package 1 – 3.

Table 1: IL No. 1 – Conditions Precedent

Status of Conditions Precedent and Other Requirements for Funding Phase I, SGDP, under Implementation Letter No. 1 (as of 5 July 2013) ("Not due" indicates future requirement)			
Conditions Precedent, Attachment 2			
Reference (Paragraph)	Condition/Requirement	Delivery to USAID	USAID Approval/Consent Received (SGGA as of 31 January)
I(a)	Establish Special USD Account for SGDP	August 18, 2012 (1)	Approved by USAID via IL 45-04 dated 17 Jan 13
I(b)	Incorporate SGDP into GIRoA's Annual Budget	August 7, 2012 (2)	Approved by USAID via IL 45-04 dated 17 Jan 13
I(c)(i)	Establish Monitoring and Evaluation Committee Within MoMP	August 7, 2012 (2)	Approved by USAID via IL 45-04 dated 17 Jan 13
I(c)(ii)	Develop Monitoring, Evaluation, & Reporting Plan for SGDP	August 7, 2012 (2)	Approved by USAID via IL 45-04 dated 17 Jan 13
I(d)(i)	Develop Sustainability Operations/Maintenance Plan for SGDP	August 18, 2012 (1)	Approved by USAID via IL 45-04 dated 17 Jan 13
I(d)(ii)	Certification that MoMP will budget & allocate funds for I(d)(i)	August 18, 2012 (1)	Approved by USAID via IL 45-04 dated 17 Jan 13
I(e)(ii)	Provide evidence of establishment of a procurement committee	August 7, 2012 (2)	Approved by USAID via IL 45-04 dated 17 Jan 13
I(e)(iii)	Submit MoMP Procurement Manual to USAID for approval	August 18, 2012 (1)	Approved by USAID via IL 45-04 dated 17 Jan 13
I(f)(i)	Develop a plan to transition to computer-based AFMIS	August 7, 2012 (2)	Approved by USAID via IL 45-04 dated 17 Jan 13
I(f)(ii)	Procedures for cash control system	August 7, 2012 (2)	Approved by USAID via IL 45-04 dated 17 Jan 13
I(g)	Report explaining staff assigned to SGDP and recruiting plan for vacancies	August 18, 2012 (1)	Approved by USAID via IL 45-04 dated 17 Jan 13
I(h)	Certification MoMP will not use funds to pay for certain commodities; must also be included in contracts and subcontracts	August 7, 2012 (2)	Approved by USAID via IL 45-04 dated 17 Jan 13
II(i)	Quarterly report of financial transactions & monthly bank statements	Not due	
II(ii)	Monthly Progress reports on all business & technical aspects of work	Not due	
II(iii)	Evidence of MoMP HR Manual implementing assessment concerns	November 25, 2012 (3)	None received

Additional Conditions			
Reference IL1	Condition	Delivery to USAID	USAID Determination Notice
Section III. D(iii),(vi)	Access for Works, inspection	Not due (7)	
Section III.D(iv)	Required GIROA approvals for Works	Not due (7)	
Section III.D(vii)	Tax, customs, registration assistance to contractors	Not due (7)	
Section VI.A.	USAID consent to solicitation document (final draft tender for Phase I Works)	November 28, 2012 (4)	No consent received; comments received from USAID 28 November and revisions to tender completed 29 November
Section VI.	USAID consent to solicitation document (tender amendment)	January 15, 2013 (5)	None received
Section VI.B.	USAID consent to prime contract prior to execution	Not due	
Section VI.B.	USAID consent to signed prime and subcontracts	Not due	
Section VI.C.	USAID consent to prime, subcontract amendments and change order per subsequent Implementation Letters	Not due	
Section VI.D.	Other procurement documents on request	Not due	
Section VII.	USAID vetting of organizations and key individuals	Not due	
Section VIII.	Environmental compliance (a. Final TOR for environmental assessment; b. NEPA certificate of compliance )	a. January 23, 2013 (6) b. Not due	a. None received
Section VIII.	Well rehabilitation and construction standards compliance	November 28, 2012 (4)(7)	None received

**Notes:**

USAID confirmed receipt on:

- 4) August 18, 2012
- 5) August 7, 2012
- 6) November 24, 2012
- 7) November 29, 2012
- 8) January 15, 201
- 9) January 23, 2013
- 10) Ministry's obligations to carry out requirements are set out in the drilling/re-entry contract requirements included in the tender bidding documents.

The amount of time that the IL allocated to MoMP to successfully address these conditions precedent for the first or for subsequent disbursements ranged from a minimum of 90 days to a maximum of 365 days. Most deadlines were set for either 90 days or 180 days. Ideally, there would have been a larger gap between the first and second package submissions, but due to the rigorous travel schedule of MoMP leadership the first submittal was submitted a little later than anticipated, so in the end the two submittals were made less than two weeks apart, rather than a month as originally planned. The third submittal was made in November, as planned.

There are a number of additional smaller requirements within the IL. However, simple compliance instructions such as requiring review and approval of tender and contract documents prior to release or paying invoices one at a time are instructive in nature and do not require special analysis and implementation in order to comply.

## 5 Submittal Strategy

In order not to overwhelm USAID, the SGGA worked with MoMP to develop a three-pronged submittal strategy. For this, all conditions precedent were analyzed and assigned into three packages based upon similarity, complexity, and required level of research or effort to achieve compliance and its proof of such for submission to USAID. Another factor for the groupings was whether or not they were conditions applicable to the release of the first disbursement. By breaking MoMP's compliance submissions into three packages, it was also expected that USAID's process for reviewing these would be facilitated. Following is a basic description of the characteristics for the conditions precedent for each of the three packages.

### 5.1 Straightforward

These were the seven simpler conditions and in general those that required an obvious or direct action without a lot of (multidisciplinary) research. The Ministry of Mines and Petroleum gave initial priority to achieving these conditions in order to present an expedited compliance submission package for USAID.

### 5.2 Comple

These were the five conditions which required greater analysis, development, and implementation efforts. They took longer to research and resolve, and required multidisciplinary skills to complete.

### 5.3 Non-Precedent

These three conditions were non-precedent in regards to the first disbursement and therefore could be somewhat delayed. Composed of one complex and two straightforward conditions, these were reserved for completion after the first two submissions were made, to avoid overburdening staff and to focus on achieving the requisite conditions for initial disbursement first.

## 6 Revised Conditions Precedent

All Conditions Precedent are submitted. See Section 4.

## 7 Compliance Schedule

IL 45-01 Completed. See Section 4

## 8 Path Forward

It is possible that some of the conditions may, in the opinion of USAID, require additional due diligence in follow up reviews in 2013 or 2014. In those cases, there are several options going forward:

- If urgent action is required or the MoMP approach is far from expected results, the SGGA can assist MoMP in reworking and resubmitting the materials, process, or actions, as was already accomplished for the first three packages.
- In instances where MoMP has a long path to full implementation, such as the case with AFMIS, and additional due diligence is required to ensure future milestones are achieved, a new IL condition precedent could be established through an amendment to the IL and possibly added to a future SGDP-Phase II IL to ensure compliance.

On behalf of USAID, the SGGA continues to work closely with MoMP and has plans to more deeply systematize/entrench its interface and relationship with MoMP in the future. SGGA will structure its engagement with MoMP to accomplish the primary objectives including developing a gas gathering system, gas processing plant, gas reservoir, while building MoMP's professional engineering capabilities. The SGGA has interfaced weekly with USAID to provide feedback on the status of IL compliance/implementation progress, not only from a conditions precedent perspective, but also regarding preparation of/assistance on tendering and capacity development. The SGGA stands ready to assist USAID and MoMP on all future requirements regarding SGDP and the IL.