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EMERGENCY PROJECT PAPER

ON A

PROPOSED GRANT

IN THE AMOUNT OF SDR 65.1 MILLION
(US$ 100 MILLION EQUIVALENT)

TO THE

THE ISLAMIC REPUBLIC OF AFGHANISTAN

FOR THE

SYSTEM ENHANCEMENT FOR HEALTH ACTION IN TRANSITION PROJECT

February 13, 2013

CURRENCY EQUIVALENTS
(Exchange Rate Effective = December 31, 2012)

Currency Unit	=	AFN
AFN 52.2	=	US$1
US$ 1.53692	=	1 SDR

FISCAL YEAR
December 21 – December 20

ABBREVIATIONS AND ACRONYMS

AFMIS	Afghanistan Financial Management Information System
AHS	Afghanistan Health Survey
AIDS	Acquired Immunodeficiency Syndrome
AMS	Afghanistan Mortality Survey
ARCS	Audit Reporting Compliance System
ARDS	Afghanistan Reconstruction and Development Services
ARTF	Afghanistan Reconstruction Trust Fund
BHC	Basic Health Center
BPET	Budget Preparation and Expenditure Tracking
BPHS	Basic Package of Health Services
BSC	Balanced Score Card
CBRF	Capacity Building for Results Facility
CHC	Comprehensive Health Center
CHW	Community Health Worker
CIDA	Canadian International Development Agency
CSO	Central Statistics Office
DA	Designated Account
DAB	Da Afghanistan Bank
DAC	Development Assistance Committee
DHS	Demographic Health Survey
DPG	Development Policy Grant
e-GP	Electronic Government Procurement
EHSRDP	Emergency Health Sector Rehabilitation and Development Project
EPHS	Essential Package of Hospital Services
EPP	Emergency Project Paper
ESMF	Environmental and Social Management Framework
EU	European Union
FD	Finance Department
FM	Financial Management
GDP	Gross Domestic Product
GRM	Grievance Redress Mechanism
GOIRA	Government of Islamic Republic of Afghanistan
HCWMP	Healthcare Waste Management Plan

HF	Health Facility
HIS	Health Information System
HIV	Human Immunodeficiency Virus
HMIS	Health Management Information System
HRCDP	Human Resources Capacity Development Project
HRITF	Health Results Innovation Trust Fund
IBRD	International Bank for Rehabilitation and Development
IA	Internal Audit
ICT	Information Communication Technologies
IDA	International Development Association
IMF	International Monetary Fund
IOC	Incremental Operating Costs
ISN	Interim Strategy Note
IYCF	Infant and Young Child Feeding
M&E	Monitoring and Evaluation
MDG	Millennium Development Goals
MICS	Multi-Indicator Cluster Survey
MOE	Ministry of Economy
MOF	Ministry of Finance
MOPH	Ministry of Public Health
NCB	National Competitive Building
NGO	Non-Governmental Organization
NMC	National Monitoring Checklist
NRVA	National Risk and Vulnerability Assessment
O&M	Operations and Maintenance
ORAF	Operational Risk Assessment Framework
PAP	Project Affected People
PEFA	Public Expenditure and Financial Accountability
PFM	Public Financial Management
PFMRP	Public Financial Management Reform Project
PHD	Provincial Health Directorate
PHO	Provincial Health Office
PPA	Performance-Based Partnership Agreements
PPU	Procurement Policy Unit
QC	Quality Control
RBF	Results-based Financing
SBD	Standard Bidding Documents
SC	Sub Center
SDU	Special Disbursement Unit
SEHAT	System Enhancement for Health Action in Transition
SHARP	Strengthening Health Activities for the Rural Poor
SOE	Statement of Expenditures
SOP	Standard Operating Procedures
SWAp	Sector-wide Approach

TA	Technical Assistance
USAID	United States Agency for International Development
WB	The World Bank
WHO	World Health Organization

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AFGHANISTAN
Afghanistan: System Enhancement for Health Action in Transition Project

CONTENTS

ISLAMIC REPUBLIC OF AFGHANISTAN

SYSTEM ENHANCEMENT FOR HEALTH ACTION IN TRANSITION PROJECT

PROJECT PAPER

SOUTH ASIA REGION

Basic Information	
Country Director: Robert J. Saum	Sectors: Health (60%), Pub admin-health (30%), Nutrition (10%)
Sector Manager/Director: Julie McLaughlin	
Team Leader: Ghulam Dastagir Sayed	Themes: Health system, food security, nutrition
Project ID: P129663	Environmental category: B-Partial Assessment
Expected Effectiveness Date: April 1, 2013	Expected Closing Date: June 30, 2018
Lending Instrument: ERL	

Project Financing Data
[ ] Loan [ ] Credit [X] Grant [ ] Guarantee [ ] Other:
Proposed terms: Standard IDA Grant

Financing Plan (US$m)	
Source	**Total Amount (US $m)**
Total Project Cost:	407
Borrower	30
IDA	100
ARTF	270
HRITF	7

Client Information
Recipient: Islamic Republic of Afghanistan
Responsible Agency: Ministry of Public Health (MOPH)
Contact Person: *Dr. Ahmad Jan Naim, Deputy Minister for Policy and Planning*
Telephone No.: +93 (0) 700 207 826
Email: PPDM.office@MOPH.gov.af

Estimated disbursements (Bank FY/US$m)						
FY	2014	2015	2016	2017	2018	2019
Annual	20	75	100	120	55	7
Cumulative	20	95	195	315	370	377

Project Development Objective and Description
The project development objectives are to expand the scope, quality and coverage of health services provided to the population, particularly to the poor, in the project areas, and to enhance the stewardship functions of the Ministry of Public Health.

Safeguard and Exception to Policies	
Safeguard policies triggered: Environmental Assessment (OP/BP 4.01) Natural Habitats (OP/BP 4.04) Forests (OP/BP 4.36) Pest Management (OP 4.09) Physical Cultural Resources (OP/BP 4.11) Indigenous Peoples (OP/BP 4.10) Involuntary Resettlement (OP/BP 4.12) Safety of Dams (OP/BP 4.37) Projects on International Waterways (OP/BP 7.50) Projects in Disputed Areas (OP/BP 7.60)	 [X]Yes [ ] No [ ]Yes [X] No [ ]Yes [X] No [ ]Yes [X] No [ ] Yes [X] No [ ]Yes [X] No [ ]Yes [X] No [ ]Yes [X] No [ ]Yes [X] No [ ]Yes [X] No
Does the project require any exceptions from Bank policies? Have these been approved by Bank management?	[ ]Yes [X] No [ ]Yes [ ] No

Conditions and Legal Covenants:		
Financing Agreement Reference	**Description of Condition/Covenant**	**Date Due**
Disbursement Condition		
Section IV, B 1(b)	MOPH to submit and adopt proposal, satisfactory to the Bank, setting forth detailed implementation plans for subcomponents c(ii), c(iii) and h(ii) of component 2.	
Legal Covenants		
Schedule 2, Section I, A2	Recipient shall establish and maintain throughout the Project implementation period, the Project Steering Committee, headed by the Deputy Minister for Policy and Planning and comprised of all Director-Generals of the MOPH, to be responsible for, *inter alia*, general Project oversight and maintaining policy dialogue with development partners.	June 30, 2013
Schedule 2, Section I, A3	Recipient shall, throughout the period of Project implementation, maintain the Service Procurement and Contract Management Directorate (SPCMD) with qualified and experienced staff to be responsible for day-to-day management of service contracts under Part 1(a), (c) and (d) of the Project.	Recurrent

Schedule 2, Section I, A4	Recipient will ensure that the Finance Department of MOPH is fully staffed and functional throughout the entire Project implementation period.	Recurrent
Schedule 2, Section I, B1(b)	Recipient shall update and adopt the Project Financial Management Manual as approved by the Association.	July 1, 2013
Schedule 2, Section I, B2	Recipient will appoint and maintain an independent third party evaluator to carry out regular evaluation of Project activities.	December 31, 2013
Schedule 2, Section I, B3	Recipient will upgrade MOPH Budget Planning and Expenditure Tracking database.	December 31, 2013
Schedule 2, Section I, D1	Recipient shall carry out Project in accordance with the Healthcare Waste Management Plan (HCWMP), Environmental and Social Managemen Framework, and the Environmental Management Plans.	Recurrent
Schedule 2, Section I, D2	Recipient shall update the HCWMP in form and substance acceptable to the Association.	December 31, 2013
Schedule 2, Section II, A1	Recipient shall prepare Project Reports covering the period of one calendar semester and furnish to the Association not later than forty five (45) days after the end of the period covered by such report.	Semi-annually

A. Introduction

1. This Emergency Project Paper (EPP) seeks the approval of the Executive Directors to provide a Grant from the International Development Association (IDA) in an amount of US$100 million to finance the Afghanistan System Enhancement for Health Action in Transition Project (SEHAT). The IDA Grant is expected to be co-financed by a multi-donor grant of US$270 million from the Afghan Reconstruction Trust Fund (ARTF). The results-based financing part of contracts for services will be financed by the Norwegian Health Results Innovation Trust Fund (HRITF) and IDA.

2. For a decade, the European Union (EU), the United States Agency for International Development (USAID) and the World Bank have been supporting health service delivery in Afghanistan, each targeting a specific set of provinces. The World Bank provides financing for 11 provinces[1] through an ongoing project, Strengthening Health Activities for the Rural Poor (SHARP), which will close on September 30, 2013. The EU finances the provision of Basic Package of Health Services (BPHS) and Essential Package of Hospital Services EPHS in 10 provinces, and USAID provides financing for the same service packages in the remaining 13 provinces. The support has been well coordinated by the Ministry of Public Health (MOPH) and the package of services provided was very similar in each of the provinces. Central functions were also supported by these three development partners in a complementary fashion. Under this arrangement, the World Bank supported a Service Procurement and Contract Management Department (SPCMD)[2], third party monitoring and results based financing for improved service delivery. Besides financing BPHS and EPHS, EU and the USAID also financed SPCMD and capacity building activities both for the MOPH and the NGOs. The present EU support to the Basic Package of Health Services (BPHS) and the Essential Package of Hospital Services (EPHS) comes to a close in May 2013, although this may be extended until the end of 2013.

3. The proposed project will finance the implementation of the BPHS and EPHS through contracting out and contracting in arrangements both in rural and urban areas in provinces now supported by the EU, the ARTF and the World Bank, covering a total of 21 provinces in the country (out of 34 provinces). SEHAT will be a platform nation-wide project, which will allow for financing health services in more provinces if additional resources become available. The project will also strengthen the national health system and MOPH's capacity at central and provincial levels, so it can effectively perform its stewardship functions in the sector.

4. **Partnership Arrangements:** As mentioned above, the project will be financed by an IDA grant and the ARTF (to be administered by the Bank). In addition, ongoing support through the HRITF for results-based financing will continue under the proposed project through an extension of the current trust fund Closing Date to June 30, 2018. SEHAT provides a great opportunity for development partners in Afghanistan to prepare their future support jointly, and in the process, to move the dialogue towards a more coordinated programmatic support or a Sector-wide Approach (SWAP). The EU will be channeling its resources for the BPHS and EPHS and technical cooperation and human resource development through the ARTF from May

[1] The provinces are Saripul, Balkh, Samangan, Parwan, Panjshir, Kapisa, Wardak, Helmand, Farah, Nimroz and Badghis

[2] This department was previously called Grant and Contract Management Unit (GCMU). It is now under procurement directorate of the MOPH.

2013 onwards, initially for a period of three years. Since the World Bank is the administrator of the ARTF, the proposed project covers support for BPHS and EPHS services in all provinces traditionally supported by the Bank as well as the 10 provinces[3] currently supported by the EU. ARTF provides a good platform for donor coordination, and other development partners may join the partnership. This joint support will build upon the currently supported programs and make them more responsive to the medium/longer term needs of the sector, by moving from an approach which was characterized by responding to emergency needs to a systems-based approach focused on the sustainable development of the sector. Given the upcoming transition in Afghanistan[4], a major realignment of foreign assistance to the country is expected over the coming years; as such, it makes even greater sense to move towards such a sectoral approach so that financing for the sectoral priorities can be better planned through a well-coordinated effort by development partners.

B. Emergency Challenge: Country Context, Recovery Strategy and Rationale for Proposed Bank Emergency Project

5. Over the last ten years, with significant international assistance and security support, momentous progress has been made in improving basic infrastructure, communications and the provision of basic social services. This progress has begun to improve the quality of life of the population although the impact varies across the country. Such gains must be maintained during the ongoing "transition" and after the withdrawal of large numbers of international military troops and the transfer of security responsibilities to Afghan institutions. Concerns about the medium to long term development of the country persist, especially as the transition may be accompanied by a reduction in overall development assistance.

6. Afghanistan spends a relatively large share of its Gross Domestic Product (GDP) (10%) on health. However, public spending is largely dependent on donor financing and is expected to remain so for the foreseeable future. Since 2003, the Bank has assisted the MOPH in building a cost-effective and results-oriented health system through lending operations and analytical work. The Bank has contributed about US$300 million[5] over this period for the health sector.

7. About 36 percent of the population lives in poverty and many more people are susceptible to becoming poor (National Risk and Vulnerability Assessment, 2007/8)[6]. The economy of Afghanistan is characterized by a high reliance on agriculture which contributes more than 50 percent to the GDP and is 60 percent of total employment. Since FY2003/4, the country has seen high economic growth rates (9.1 percent on average), but with high levels of volatility due to the agriculture sector's dependence on weather conditions. Although the fiscal situation has improved in recent years with revenues growing at an average of 20 percent per year, public spending remains highly dependent on donor assistance.

[3] EU financed provinces are: Kunar, Nangarhar, Laghman, Nooristan, Logar, Zabul, Urozgan, Ghor, Kundoz and Daikundi.
[4] Transition in the Afghan context refers to the military withdrawal of foreign troops planned for the end of 2014 and the accompanying political/governance changes in the country.
[5] Of US$300 million almost US$100 million has been mobilized from ARTF, JSDF and HRITF.
[6] The results of the next NRVA will be available by end of April 2013.

8. Data from household surveys (between 2003 and 2011) show a significant improvement in the coverage of reproductive and child health services as well as a drop in maternal, infant and under-5 mortality. However, these rates in Afghanistan are still well above the average for low income countries, indicating a need to further decrease to barriers for women in accessing services. According to the Afghanistan Mortality Survey (AMS) conducted in 2010, the under-five mortality rate is 97 per 1000 live births (it was 257 in 2002) and the maternal mortality ratio is 327 per 100,000 live births (it was 1,600 in 2002). Afghanistan also has one of the highest levels of child malnutrition in the world. About 55% of children under-five suffer from chronic malnutrition and both women and children suffer from high levels of vitamin and mineral deficiencies.

9. The Afghan health system has made considerable progress over the period of 2002 – 2012 because of MOPH leadership, sound public health policies, innovative service delivery, careful program monitoring and evaluation, and development assistance. The number of functioning health facilities has increased from 496 in 2002 to more than 2,000 in 2012, while at the same time; the proportion of facilities with female staff has much increased. Since the establishment of a new administration in 2002, the government has placed the utmost importance on addressing the high maternal and child mortality, especially in rural areas. MOPH undertook a series of critical and strategic steps: it defined a Basic Package of Health Services (BPHS) and later an Essential Package of Hospital Services (EPHS); it established a system for contracting on a large scale with international and national non-governmental organizations (NGOs) for delivery of these services. The services of BPHS have recently been expanded to include mental health, disability and nutrition services. MOPH also prioritized monitoring and evaluation (M&E) of health sector performance. Through the deployment of predominantly local consultants, MOPH addressed human resource capacity constraints in terms of managing NGO contracts, tracking health sector progress through rigorous impact level monitoring and performing its stewardship functions effectively.

10. Despite progress made, towards the end of the IDA supported Emergency Health Sector Rehabilitation and Development Project (EHSRDP) during 2003 and 2009, the year to year improvements in service coverage were actually diminishing. Therefore, under the Bank supported SHARP, a results based financing (RBF[7]) pilot was introduced as a mechanism to further improve service coverage and quality. The initial results of the RBF mechanism are very promising in terms of incentivizing health workers to increase the utilization of key maternal health services such as pre-natal and post-natal care. The MOPH plans to mainstream the RBF scheme under the proposed SEHAT operation.

11. As described above, there have been substantial achievements, though to date, little emphasis has been put on development of the institutions and routine systems of the MOPH so as to ensure the long term sustainable growth of the sector. This was justified for the years of emergency but the transition now requires MOPH to strengthen its regular structures and systems, an effort that will be supported by the project in addition to continued support for service delivery.

[7] The main purpose of RBF is to increase the utilization of key maternal and child health services by providing incentive to the health workers.

C. Bank Response: The Project

Brief description of Bank's strategy

12. The Interim Strategy Note (ISN) dated March 9, 2012 is based on supporting the delivery of some of the most important national priorities. It is also grounded in helping the government to manage the critical transition from security and development dominated by the international community to one led by the Government of Islamic Republic of Afghanistan (GOIRA) by the end of 2014. IDA support will be provided around three themes:

(a) Building the legitimacy and capacity of institutions
(b) Equitable service delivery
(c) Inclusive growth and jobs

13. The SEHAT project will build upon the current support programs of the Bank, ARTF and EU and make these more responsive to the present and future needs of the sector by focusing on the medium term system development needs of the sector in a sustainable fashion. With World Bank experience in sector wide and programmatic support, IDA will facilitate and support systems development and realignment of development assistance to the sector and move towards a sectoral approach so that financing for the sectoral priorities can be better guaranteed through a well-coordinated effort by development partners.

Project Development Objectives

14. The project development objectives are to expand the scope, quality and coverage of health services provided to the population, particularly to the poor, in the project areas, and to enhance the stewardship functions of the Ministry of Public Health.

Summary of Project Components

15. The proposed operation includes three main components, as follows. A detailed description of the project components can be found in Annex 1.

16. ***Component 1: Sustaining and improving BPHS and EPHS services (estimated total cost of US$307 million):*** This component will support the implementation of the BPHS and EPHS through performance-based partnership agreements (PPAs), i.e. contracts between MOPH and NGOs which will deliver health services as defined in these packages. It will also support the government's efforts in delivering the BPHS and EPHS through contracting in management services in designated provinces, and the implementation of an urban version of the BPHS in Kabul city and possibly to other cities. It will include support to improve access to and quality of BPHS/EPHS services, as well as training of additional community midwives and community nurses. In addition, financing will be made available for contracted services specifically for marginalized populations such as prisoners and nomads. HIV/AIDS prevention services will be contracted out for targeted population sub-groups who are at an elevated risk for HIV-infection, if funding from the Global Fund to Fight AIDS, Tuberculosis and Malaria is insufficient.

17. The RBF scheme, piloted under the current SHARP project, will be mainstreamed. This will involve the completion of ongoing pilot in 14 provinces as well as an in-depth impact evaluation to inform future direction and mainstreaming of the RBF in Afghanistan under SEHAT. This will help to further refine the performance-based contracts with NGOs. The RBF scheme has been under implementation for the past 24 months. Preliminary results are promising and show increasing coverage of key maternal and child health services, besides higher equity of service utilization and quality of services. Furthermore, the implementation arrangements for the scheme will be mainstreamed so that it is embedded in the arrangements for BPHS and EPHS implementation. As such, the contract management, monitoring and supervision of the scheme by MOPH will be within those of BPHS/EPHS. The impact evaluation under SEHAT will supplement the impact evaluation of a more limited scope to be completed under SHARP to measure the results of the RBF implementation in the selected provinces. The impact evaluations will be financed by the HRITF.

18. ***Component 2: Building the stewardship capacity of MOPH and system development (estimated total cost of US$90 million):*** This component includes*:*

(a) Strengthening Sub-national Government (provincial health departments) by supporting: i) strengthening sub-national planning and budgeting; ii) strengthening operations and maintenance; and iii) building Provincial Health Directorates' capacity to undertake their enhanced functions as envisaged in the sub-national governance policy and the provincial budgeting initiative.
(b) Strengthening the Healthcare Financing Directorate through support for the MOPH to undertake analytical work, including the development and testing of appropriate financing models for the sector.
(c) Developing Regulatory Systems and Capacities for Ensuring Quality Pharmaceuticals: Support will be provided to establish and operationalize a regulatory mechanism and quality assurance system for the pharmaceutical sub-sector.
(d) Working with the Private Sector: This will include carrying out analytical work to understand and build knowledge about the potential role for better engagement of the private sector in the provision of health services.
(e) Enhancing Capacity for Improved Hospital Performance: Based on the ongoing hospital assessment, the project will help to design a hospital provider payment mechanism that will enhance accountability of the autonomous hospitals. This sub-component will support the piloting of this new mechanism in two hospitals in Kabul.
(f) Strengthening Human Resources for Health: This sub-component will strengthen the human resources capacities within the MOPH regular civil services staff. Hence, this subcomponent is directly linked with Capacity Building for Results (CBR) program proposal with a focus on ensuring availability of female health workers.
(g) Governance and Social Accountability: This sub-component will support: i) streamlining and simplification of the MOPH internal procedures/processes and; ii) introducing a beneficiary feedback mechanism to enhance social accountability in the health sector. In addition, it will strengthen transparency of the system and communication capacity at MOPH to pro-actively reach out to the general public.
(h) Strengthening Health Information System (HIS) and Use of Information Technology: The project will support key activities such as mainstreaming HIS activities and capacity

development at central and provincial levels along with improving data utilization at different levels of the health sector.

(i) Strengthening Health Promotion and Behavioral Change: This sub-component will strengthen the Health Promotion Unit to implement behavior change campaigns targeting specific behaviors to reduce malnutrition, promoting breastfeeding and appropriate complementary feeding for the children under two years, enhanced skilled and institutional deliveries, hygiene promotion and hand washing, compliance with anti-TB drugs, etc. The final list of behavior change campaigns will be discussed and agreed during project implementation.

(j) Improving Fiduciary Systems: The project will support the MOPH in upgrading the financial management (FM) and procurement system to a web-based system. Improving fiduciary systems would include: i) simplification of payment procedures; ii) capacity building of finance and internal audit staff of the MOPH; iii) accreditation of the procurement department of the MOPH; iv) pilot e-GP (electronic Government Procurement); and v) strengthening of procurement capacity at PHDs.

19. ***Component 3: Strengthening program management (estimated total cost of US$10 million)*:** This component will support and finance cost associated with system development and stewardship functions of the MOPH. It will finance incremental operating costs of the MOPH at the central and provincial levels. In addition, it will support and finance short term technical assistance in specific areas where immediate capacity development is required. SEHAT will adhere to the Government's National Technical Assistance salary guidelines, once it is approved by the GOIRA. Until such time, the project will adhere to the CBR salary scales on the maximum level that can be paid to contracted staff. The contracted staff will be embedded in MOPH departments to transfer knowledge and further develop ministry ownership. This component will also finance a comprehensive gender assessment in the MOPH.

20. MOPH will engage with the Capacity Building for Results Facility (CBR[8]), a separate civil service reform project supported by IDA and ARTF. The aim of CBR project is to assist performance of line ministries including the MOPH. The SEHAT project will be coordinated with CBR to assist the government in improving the capacity and performance of MOPH in carrying out its mandates and delivering services through the implementation of specific capacity and institution building programs. CBR finances the recruitment of managerial and professional staff, as civil servants, for key positions and support targeted training programs. The MOPH is developing a CBR program proposal to the Ministry of Finance with its service delivery priorities and system development reforms and related staffing needs. It will seek assistance from CBR to help finance managerial and certain technical staff ensuring it retains skilled manpower to effectively manage the sector and undertake its stewardship functions. These staff will not be financed by SEHAT under Incremental Operating Costs (IOC).

[8] CBR is a five year project effective from January 2012, funded through the ARTF and managed by the Ministry of Finance with Civil Service Commission. The CBR includes the following components: i) Technical Assistance Facility for Preparation and Implementation of Line Ministry Capacity Building Programs; ii) Building Human Resources; iii) Civil Service Training; and iv) Project Management, M&E.

Eligibility for Processing under OP/BP 8.00

21. According to the Interim Strategy Note, all projects in Afghanistan are eligible for processing under the Bank's Rapid Response and Emergencies policies (OP 8.00). The proposed Bank support is vital to sustain essential health services for Afghans during the period of transition which will also facilitate the Government's ability to foster peace building in the country.

Consistency with Interim Strategy Note (ISN)

22. The proposed project is in line with the second objective of the ISN which envisages support for equitable service delivery and outcomes related to improved health services and stronger systems. The ISN emphasizes the focus on long-term and sustainable systems development.

Expected Outcomes

23. The project will contribute to a healthier population and increased human capital by enhancing the use of a set of health nutrition and population services with proven cost-effectiveness in the context of Afghanistan. The project will expand the scope, quality and coverage of basic package of health services and the essential package of hospital services. In cooperation with the CBR project, support provide under the SEHAT will also lead to a stronger management structure for the health sector with better skilled and motivated staff in regular positions at various levels of the MOPH.

24. In line with the MOPH Strategic Plan[9], the results of the project will be measured by the following project development objective indicators: i) increase the proportion of births among lowest income quintile attended by skilled birth attendants; ii) increase PENTA-3[10] coverage among children 12 -23 months in lowest income quintile; iii) increase contraceptive prevalence rate; iv) increase proportion of children under age five years with severe acute malnutrition who are treated; v) improve quality of care in Sub centers (SCs), Basic Health Centers (BHCs) and Comprehensive Health Centers (CHCs) as measured through Balanced Score Card BSC and; vi) accreditation for procurement of goods and works achieved and maintained. Annex 2 contains the full Results Framework for the project.

D. Appraisal of Project Activities

25. The design of SEHAT for service delivery builds on the experience of SHARP and other health projects financed by the World Bank in the Health Sector in Afghanistan. The successful modality of contracting NGOs for service delivery will continue under SEHAT. The contracting-in mechanism, whereby MOPH provides services through its staff with support of a technical team, called MOPH Strengthening Mechanism, will also continue in selected provinces. The lessons learnt from the past ten years in terms of service delivery, contracting and monitoring

[9] Strategic Plan for the MOPH, (2011 – 2015), Government of Islamic Republic of Afghanistan

[10] PENTA-3 is the third dose of the PENTA immunization which includes vaccines against diphtheria, tetanus, whooping cough, hepatitis b and haemophilus influenza type b.

have been incorporated in SEHAT to ensure continued enhanced service delivery. To incentivize the achievement of better results, the lessons learned from service delivery contracts in SHARP and the RBF scheme will be applied to all NGO contracts thereby mainstreaming the RBF approach to service delivery in general.

26. **Economic and Financial Analysis**: The SEHAT Project is pro-poor, as both BPHS and EHPS provide highly cost-effective primary care interventions in rural and urban areas that are characterized by very high poverty rates and worse-than-average health indicators. The project envisages employing innovative strategies to improve access for the remote and underserved population, which will further enhance its pro-poor focus. The project will use performance-based contracts, combined with flexibility for NGOs to maximize access to BPHS and EPHS for the targeted population in all provinces including conflict-affected areas. The project investment in systems development is critical to build the health system's ability for effective implementation of services, monitoring results, and ensuring transparency and accountability.

27. Existing successful initiatives such as results based financing that improve key health outcomes will be scaled up and new initiatives will be introduced. These initiatives will target the system mainly at facility level. These initiatives are meant to sharpen the result focus of the project and improve the efficiency of public spending. In addition to scaling up RBF, the project supports piloting of a new provider payment system for hospitals. The pilot will be limited to a couple of hospitals in and around Kabul with the option of expansion. The payments system will be designed to complement the recently introduced policy where hospitals are provided increasing level of autonomy to run their day to day business. Such managerial autonomy coupled with a payment system that aligns incentives at the hospital level is envisaged to improve the efficiency of public spending on hospitals. This efficiency gain is expected to be significant given that at least 29 percent of the total health spending goes to hospitals.

28. **Technical Evaluation:** A key component of the project is BPHS and EPHS service delivery, which comprises a prioritized set of high-impact interventions with proven cost-effectiveness, well in line with the international health agenda to achieve the Millennium Development Goals (MDGs) 1, 4 and 5. As demonstrated in the last 10 years, BPHS and EPHS are effective ways to respond to the basic health needs of the communities, and as such, are key tools to improve the overall stability in the country. Indeed, the Afghanistan provision of BPHS and EPHS through contracting out has become a model for other fragile states trying to rebuild their health system after emerging from conflict.

29. The proposed project will finance the BPHS in line with the newly revised BPHS guidelines, including new elements (e.g., nutrition, mental health and disability services) and beneficiaries (e.g., nomadic populations and prisoners) not covered by or that were not included in the original BPHS. Currently, the MOPH is in the process of revising the EPHS guidelines so to make these consistent with those of the revised BPHS. It is understood, however, that both the BPHS and EPHS will keep their focus on primary and essential health care interventions and will be expanded in a cautious manner as to maintain the cost of the packages within reasonable limits.

30. In order to carry out project activities effectively, strong project management and coordination is essential. IDA's support to MOPH stewardship functions was critical to the

effective implementation of the previous health projects. While MOPH capacity has greatly increased over the past ten years, the presence of contractual staff in key departments is still indispensable to support MOPH in managing contracts and in supporting direct delivery of services. MOPH will review contractual staff performance on an annual basis; a staff plan will be developed yearly and the total number of contracted staff will be kept to a minimum and will decrease overtime as the CBR project picks up.

31. A strong data culture is indispensable to monitor progress in the health sector and to develop policies that can address gaps and improve performance. In this regard, SEHAT will finance a third party agency (under component 2) that will be responsible for M&E of health activities in all provinces. This arrangement, in line with the previously Bank financed health projects, will provide the M&E framework for the program to assess health outcomes and health and results across the country. By contracting out this activity to an independent agency, the project will continue to support the data culture in MOPH and will further strengthen evidence-based approaches to health policy formulation. In addition, since a portion of the payment to the NGOs will be linked with the key outputs reported through HMIS, third party monitoring will be deployed to perform six-monthly health management information system (HMIS) data verification.

32. **Environment and Social Safeguards.** SEHAT is a category B project and OP/BP 4.01 is triggered. The minor civil works including white wash, small repair and/or extension of some MOPH offices and health facilities to facilitate staff to perform required functions, under the project should not cause any significant negative environmental or social impact. Any identified potential adverse impacts would be localized in spatial extent and short in duration, and would be manageable by implementing proper mitigation measures. Since neither the details nor the location of any civil works are known yet, an Environmental and Social Management Framework (ESMF) has been prepared to provide guidelines for avoiding, reducing or mitigating negative impacts. The ESMF provides guidelines for compensation of any negative livelihood impact on affected people. Likewise, the proposed project is not expected to entail any severe negative environmental impacts related to health care waste. As per the national legislation and regulation, MOPH has the responsibility to address environmental concerns in the project. The Ministry has prepared a Health Care Waste Management Plan (HCWMP) under SHARP. The plan was partially implemented. Based on the experience of SHARP, institutional arrangements, responsibilities and technical assistance needs were agreed during appraisal to ensure the plan is implemented as envisaged. The draft HCWMP and ESMF have been translated and publicly disclosed on MOPH website and in the WB Info Shop on November 30, 2012. An updated HCWMP will be reviewed by the Bank and disclosed by December 31, 2013.

33. **Gender:** The health sector shows significant improvement in the coverage of reproductive and child health services as well as a drop in maternal and child mortality since 2002. MOPH has a comprehensive HMIS system to track these developments. However, the HMIS has not been fully utilized to assess and analyze details in terms of gender outcomes in the health sector nor in tracking gender disaggregated data in service provision. During the first year of SEHAT, the project will undertake a comprehensive gender assessment of reported health outcomes, service delivery and an overall review of MOPH staffing and employment policy at all levels and regions. On the basis of this assessment, the existing gender strategy will be

revised and the prioritized interventions will be agreed for implementation by SEHAT Mid-Term Review.

34. **Complaint Handling Management:** MOPH has a complaint handling system in place, but its scope and reach are limited. MOPH agreed during the implementation support missions for SHARP to maintain a complaint record database to enable complaint tracking and review. In addition, it was agreed to establish a complaint handling committee and involve health shura[11] members in complaint handling processes. However, despite some progress, the present systems remain limited in their ability to address communities' concerns. This will be addressed in the revised complaint handling procedures in the ESMF and in the HCWMP.

E. Implementation Arrangements and Financing Plan

35. **Institutional Arrangements:** MOPH will have overall responsibility for project oversight through its Executive Board. The Deputy Minister for Policy and Planning will be the project's coordinator and focal point. MOPH, through its central departments and provincial offices, will be responsible for the smooth implementation of the project. The actual health services will be delivered through contracted NGOs or through civil servants. The procurement and contract management for NGO services will be carried out by the SPCMD under the Directorate of Procurement of MOPH. The provision of services by NGOs will be monitored through the regular HMIS and through facility and community surveys carried out by a third party. The procurement of goods and minor civil works will be managed by the procurement departments of MOPH at central level; however, limited procurement at the provincial level will be explored in the context of the provincial budgeting initiative. Under the ongoing project, most of these functions are carried out by the SPCMD, but under SEHAT the activities will be streamlined within regular systems of MOPH. Through component 2 of the project, relevant departments of MOPH will take responsibility for their specific thematic areas in close coordination and collaboration with Provincial Health Directorates (PHD). PHD capacity will be strengthened, especially their role in monitoring and supervision.

36. A Steering Committee consisting of the Deputy Minister for Policy and Planning and all Director Generals of MOPH will be established by June 30, 2013 and will provide general oversight for SEHAT overall progress. This Steering Committee will also engage with the development partners in terms of policy dialogue and future directions of the health sector.

37. **Transition from SHARP to SEHAT:** SEHAT is expected to become effective by April 2013 and to be implemented over a period of five years until June 30, 2018. In order to ensure a smooth transition of service provision, advance procurement of NGOs for delivery of BPHS and EPHS services has been initiated in May 2012. The service contracts under the ongoing SHARP project and under EU support will end on March 31 and May 31, 2013 respectively. As the process of contracting of NGOs for SEHAT will probably be completed only towards the end of 2013, it has been agreed that the present contracts will be extended to accommodate this transition, provided satisfactory performance under these contracts. The extended contracts will include the new revised BPHS services for nutrition, disability and mental health. New large

[11] Afghan language word for a committee

contracts (above US$15 million) will be awarded first, after which the remaining contracts will be awarded in an order that will prioritize provinces that are presently supported by the EU.

38. **Financing Plan:** Table 1 summarizes the total estimated costs for SEHAT components. The project's financing requirements are estimated to be US$ 407 million. Approval by the ARTF Management Committee for the ARTF contribution is expected by June 30, 2013. A more detailed analysis of the program/project costs is presented in Annex 3.

Table 1: Financing Plan for SEHAT Supported Components (US$ million)

Components	**Total Financing requirement**	**GOIRA**	**IDA**	**ARTF**	**HRITF**
1. Sustaining and improving BPHS and EPHS services	307	20	80	200	7
2. Building the stewardship capacity of MOPH and system development	90	8	15	67	0
3. Strengthening program management	10	2	5	3	0
TOTAL	**407**	**30**	**100**	**270**	**7**

Financial Management, Disbursement and Audit Arrangements

39. A public financial management performance rating system has been recently developed for Afghanistan by the Public Expenditure and Financial Accountability (PEFA) multi-agency partnership program, which includes the World Bank, IMF, European Union, and other agencies. Afghanistan's ratings against the PFM performance indicators portray a public sector where financial resources are, by and large, being used for their intended purposes as authorized by a budget that is processed with transparency and has contributed to aggregate fiscal discipline.

40. Financial management and audit functions for the proposed project will be undertaken through agents contracted under the IDA-financed Public Financial Management Reform Project (PFMRP) II. This is the primary instrument for continuing to strengthen the fiduciary measures put in place for ensuring transparency and accountability of funds provided by the Bank and other donors. Under these contracts, two advisers – for financial management and for audit - are responsible for working with the government and line ministries to carry out these core functions. The Financial Management Agent (FMA) is responsible for helping the Ministry of Finance (MOF) maintain the accounts for all public expenditures, including IDA-financed projects and for building capacity within the government offices for these functions. The Audit Agent is responsible for providing technical assistance to the Control and Audit office in the performance of annual audits.

41. At the project level, the Finance Department (FD) of MOPH will undertake full responsibility of the financial management functions. The FD has gained enormous experience from previous and currently implemented Bank and other donor funded projects. It has in its staffing qualified and experienced national consultants. Under Component 2 of SEHAT, activities will be funded to build the capacity of civil servants through formal and on the job trainings.

42. Quarterly Interim Unaudited Financial Reports (IUFRs) will be prepared by the FD, and submitted to the Bank within 45 days from the end of the quarter. Consolidated project reports will be prepared, reviewed, and approved by the MOF, supported by the FMA.

Funds Flow

43. Fund management for the project will follow existing procedures under the current SHARP project. As with all public expenditure, payments under the project will be routed through MOF. The Financial Management Agent will assist MOF in executing and recording project payments. A Designated Account (DA) will be opened each under IDA and ARTF at Da Afghanistan Bank (DAB, Central Bank) in the name of the project on terms and conditions satisfactory to the Bank. In keeping with current practices for other projects in Afghanistan, the DAs will be operated by the Special Disbursement Unit (SDU) in the Treasury Department of MOF. MOPH will request the SDU for payments from the designated accounts. In addition to payments from DA funds, MOPH can also request SDU to make direct payments to consultants or consulting firms, and special commitments for contracts covered by letters of credit. Withdrawal applications for replenishment will be submitted monthly to the Bank. Withdrawal applications for new advances and expenditure reports will also be submitted monthly. The requests will follow World Bank procedures.

44. Advances from the DA will also be transferred to the provincial DAB accounts under the MOPH Strengthening Mechanism activity and provincial budgeting initiative (34 provinces), and such advances will be based on approved plan/estimates. Claims to the Bank against such provincial transfers will be made only on the basis of actual expenditures. All withdrawal applications to the Bank, including advances, reimbursement, and direct payment applications, will be prepared and submitted on a monthly basis by MOF.

Accounting and Reporting

45. The Finance Department (FD) of MOPH will maintain essential project transaction records using computerized accounting system/Excel spreadsheets and generate required monthly, quarterly, and annual reports. Currently the FD uses an excel-based system. However, the BPET (Budget Planning and Expenditure Tracking) database will be upgraded with funding from SEHAT. This will facilitate the FD to maintain subsidiary books of account and generate periodic reports from the database.

46. The SHARP Financial Management (FM) Manual, to be updated, approved by the Bank and adopted by the FD by July 1, 2013, will include: (a) financial management arrangements for the proposed project; (b) roles and responsibilities of FD FM staff; (c) documentation and

approval procedures for payments; (d) detailed procedures for funds transfer, payment of expenditures, acquittal and periodic reporting relating to provincial transfers; (e) project reporting requirements; and (f) quality assurance measures to help ensure that adequate internal controls and procedures are in place and are being followed.

47. The FM Manual will also establish project financial management in accordance with standard Afghan government policies and procedures, including use of the government Chart of Accounts to record project expenditures. The use of these procedures will enable adequate recording and reporting of project expenditures. Overall project accounts will be maintained centrally in SDU, which will be ultimately responsible for recording all project expenditures and receipts in the Government's accounting system. Reconciliation of project expenditure records with MOF records and DAB records will be carried out monthly by the FD.

Disbursement Method

48. Disbursements from the IDA/ARTF grants will be transaction-based, with replenishment, reimbursement, direct payment, and payments under Special Commitments including full documentation or against statements of expenditures, as appropriate.

Audit of Project Funds

49. The Auditor General, supported by the Audit Agent, is responsible for auditing the accounts of all Bank financed projects. Annual audited project financial statements will be submitted within six months of the close of GOIRA's fiscal year.

50. The Bank-funded/administered projects already implemented or currently being implemented by MOPH (SHARP, HIV AIDS Prevention Project) have no overdue audit reports, no overdue interim financial reports or ineligible expenditures. Key issues raised in the audit reports have been resolved up to Solar Year 1389. The audit reports for SY1390 are being reviewed and the observations will be communicated to MOPH shortly. However, there are no serious financial irregularities noted in the report.

51. The responsible entity for the audit report is MOPH.

Procurement

52. Procurement for the project will be administered in accordance with the World Bank's "Guidelines: Procurement of Goods, Works, and Non-Consulting Services" dated January 2011. "Guidelines: Selection and Employment of Consultants" dated January 2011 and the provisions stipulated in the Financing 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. Civil works and goods following National Competitive Bidding (NCB) procedures shall be procured using the agreed Standard Bidding Documents (SBDs) for Afghanistan. In case of conflict/contradiction between the World Bank's procurement procedures and any national rules and regulations, the 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 GOIRA and the IDA procurement/consultant guidelines shall prevail. The general description of various types of procurement under different expenditure categories is described in Annex 6. A detailed procurement plan has been prepared for the project (also in Annex 6).

53. With donor assistance, Afghanistan has made considerable efforts to establish the Legal and Regulatory Framework for public procurement over the last five years. A Procurement Law, reflecting international best practice in public procurement, was enacted in November 2005 replacing the earlier procurement regulations. While the law provides a very modern legal system for procurement, effective implementation of the law may encounter difficulties in the current weak institutional structure and capacity of the Government. A Procurement Policy Unit (PPU) has now been established under MOF to ensure implementation through the creation of secondary legislation, standard bidding documents, provision of advice, creation of the necessary information systems for advertising and data collection. "Rules of Procedure for Public Procurement," which details the better implementation of the Procurement Law, has been issued by MOF.

54. The Special Procurement Commission, comprising the Ministry of Justice (MOJ) and Ministry of Economy (MOE) and under the chairmanship of MOF, approves high-value contracts.

55. In the absence of adequate capacity to manage procurement activities effectively, some interim arrangements have been put in place to improve Afghanistan's procurement management. Specifically, a central procurement facilitation service, the Afghanistan Reconstruction and Development Services (ARDS) Procurement Unit, has been established under the supervision of MOF.

56. MOPH is the implementing agency and will be responsible for all procurement to be carried out for the project. However, it has been assessed that the capacity of the implementing agencies to handle procurement under Bank Guidelines needs to be strengthened, specifically for Goods and Works procurement. For all large value procurements of Goods and Works, ARDS will assist MOPH to ensure procurement compliance, as and when required. In addition, the PPU will embed procurement specialists in the line ministries to provide technical assistance, oversight, capacity building and assistance for complex procurements. Moreover, the Procurement Directorate will be strengthened by hiring of the Procurement Director and possibly other senior management group financed by CBR Facility project. The project foresees some small value procurement at the province level carried out by Provincial Health Directorates. Although capacity assessments were not carried out, it is quite understandable from the overall assessment of the ministry itself that the capacity of the PHDs would be very low. To mitigate the risk originating from low capacity of the PHDs, a number of risk mitigation measures are proposed in Procurement Annex (Annex 6).

Monitoring and Evaluation

57. MOPH will monitor progress against agreed targets for a set of indicators, as described in the Results Framework (see Annex 2). All of the indicators are in line with GOIRA health strategy and come directly from the MOPH Strategic Plan and its Health Information System

(HIS) Strategy. As such, the indicators for the IDA financed project conform to a programmatic approach.

58. SEHAT will support sector-wide M&E through a third party. The project will finance: (a) two household surveys to be conducted that will provide province-level estimates of many of the project indicators; and (b) annual survey of facilities delivering the BPHS and EPHS to assess quality of care, availability of inputs, and quality of supervision. Most of the data collection instruments financed by the project, such as household surveys and health facility surveys, will be nation-wide in scope, and not just focused on the geographic areas supported by the project in terms of health service delivery.

59. Since a portion of the NGO payment will be linked with the key outputs of the health facilities reported through the HMIS, there will be arrangements for third party verification of the HMIS reports. The verification of HMIS data will occur on a six-monthly basis on a random selection of Health Facilities (HFs) by the third party. There will be two stages of verification: i) assessment of consistency between health facility registers and Quarterly Reports sent to MOPH by comparing the figures submitted to MOPH with information recorded in the health facility (HF) registers for key outputs; and . ii) Visits to a random sample of households listed in the health facility registers and verification of services received by the client. The third party will also verify the status of the HF in terms of their capacity to provide BPHS/EPHS services as per MOPH guidelines.

60. **Reporting:** MOPH will, based on annual output targets, produce a semi- annual report on the performance of the sector at the end of each year. This report will contain tables of performance against indicators for SEHAT. These reports will also be used for the Joint Annual Strategic Health Planning Retreat that will review the performance of the health sector during the previous year and determine sector priorities for next year.

61. **Implementation Support:** To ensure timely and effective implementation, an experienced in-country Bank team of health, operational and fiduciary specialists will provide day to day implementation support to MOPH with additional regular support from staff of other Bank offices. In addition, joint implementation support mission will be carried by MOPH and partners on six-monthly basis. Before each joint mission, MOPH will submit the semi-annual progress report which will become the basis for the discussions between MOPH and development partners.

F. Key Risks and Mitigating Measures

62. The proposed project faces significant security, governance and stakeholder risks. The main risks to implementation are due to the general security situation and the military transition scheduled for 2014. Security is a critical challenge, especially in the southern and eastern provinces. Lessons learnt from the ongoing operation, such as the need to closely work with the local communities, will help mitigate these risks. The large majority of international military forces are expected to leave Afghanistan by the end of 2014. This poses not only potential additional security risks, but also the possibility of reduction in donor funding. It will be a significant challenge in case of a decrease in donor financing. Hence it would be critical for the sector to stay focused on priority areas, with proven efficient interventions with high impact and

results. The project's support for strengthening and developing systems and increasing efficiency addresses this risk. The system strengthening component will also provide data and information for MOPH to improve and address governance issues in the health sector. The proposed systems development will need buy-in and commitment of stakeholders, especially at the provincial level, to effectively implement the project. For details, please see Annex 4; Operational Risk Assessment Framework.

G. Terms and Conditions for Project Financing

63. The financing will be on standard IDA grant terms and will finance 100% of project expenditures, including taxes. There are no conditions for effectiveness. The following project covenants are agreed upon:

Disbursement Condition

(a) MOPH to submit and adopt proposal, satisfactory to the Bank, setting forth detailed implementation plans for subcomponents c(ii), c(iii) and h(ii) of component 2.

Legal Covenants

a) Recipient shall, not later than June 30, 2013, establish and maintain throughout the Project implementation period, the Project Steering Committee, headed by the Deputy Minister for Policy and Planning and comprised of all Director-Generals of the MOPH, to be responsible for, *inter alia*, general Project oversight and maintaining policy dialogue with development partners.

b) Recipient shall throughout the period of Project implementation, maintain the Service Procurement and Contract Management Directorate (SPCMD) with qualified and experienced staff to be responsible for day-to-day management of service contracts under Part 1(a), (c) and (d) of the Project.

c) Recipient will ensure that the Finance Department of MOPH is fully staffed and functional throughout the entire Project implementation period.

d) Recipient shall update and adopt the Project Financial Management Manual as approved by the Association by July 1, 2013.

e) Recipient will appoint and maintain an independent third party evaluator by December 31, 2013 to carry out regular evaluation of Project activities.

f) Recipient will upgrade MOPH Budget Planning and Expenditure Tracking database by December 31, 2013.

g) Recipient shall carry out Project in accordance with the Healthcare Waste Management Plan (HCWMP), Environmental and Social Management Framework, and the Environmental Management Plans.

h) Recipient shall update the HCWMP in form and substance acceptable to the Association by December 31, 2013.

i) Recipient shall prepare Project Reports covering the period of one calendar semester and furnish to the Association not later than forty five (45) days after the end of the period covered by such report.

Annex 1: Detailed Description of Project Components

AFGHANISTAN: System Enhancement for Health Action in Transition Project

Component 1. Sustaining and improving BPHS and EPHS services (estimated total cost of US$307 million)

64. SEHAT will support the delivery of BPHS and EPHS through (PPAs), i.e. contracts between MOPH and the implementing NGOs, as was successfully done earlier under EHSRDP and SHARP. It will also support the government's efforts delivering the BPHS and EPHS through contracting-in management services in designated provinces, and the implementation of an urban version of the BPHS in Kabul city. The urban BPHS may be extended to other cities as well. It will include support to improve access to and quality of BPHS/EPHS services, and training of additional community midwives and community nurses. In addition, BPHS services will be made available for marginalized populations such as prisoners and Kuchis (nomads). HIV/AIDS prevention services will be supported for targeted population sub-groups at elevated risk for HIV infection, if funding from the Global Fund to Fight AIDS, Tuberculosis and Malaria are insufficient for an adequate response. Additional funds may be sought from the ARTF. Building on the RBF mechanism, where health workers are incentivized for additional output, under SEHAT, the contracting of NGOs will be further refined.

65. **Contents of the BPHS:** The revised BPHS as defined by MOPH comprises: (a) preventive services such as immunization, micronutrient supplementation, and promotion of insecticide treated bed nets against malaria; (b) health promotive services such as encouraging breast-feeding and use of family planning; (c) basic curative services such as treatment of acute respiratory tract infections, diarrhea, other childhood illnesses, and tuberculosis; (d) reproductive health services such as prenatal care, emergency obstetrical care, and post-partum care; and (e) basic mental health and disability services. These services are delivered through a network of community health workers (CHW), sub-centers with 2 staff that serve 3,000 - 7,000 population, basic health centers (BHCs) with about 5 staff that serve 15,000 – 30,000 population, comprehensive health centers (CHCs) with about 12 staff serving 30,000 – 60,000 population, and through district hospitals, serving 100,000 – 300,000 population with about 35 staff. Besides fixed centers, the services will also be provided through mobile and outreach activities.

66. The BPHS guidelines have been revised recently including new elements (e.g., nutrition, mental health and disability services) and beneficiaries (e.g., nomadic populations and prisoners) that were not included in the original BPHS. The revised package contains most of key nutrition interventions necessary to address the high level of malnutrition in the country. SEHAT will finance the revised BPHS, which will be more costly compared with the original BPHS.

67. **Contents of the EPHS:** The EPHS facilities provide secondary diagnostic and treatment service and serve as the first referral point for the BPHS facilities at the province level. There is at least one provincial hospital in each province. The main services provided in the provincial hospitals include: gynecology, obstetrics, neonatal care, postpartum care and complications, nutrition, orthopedics, surgical care, respiratory and gastrointestinal care. Provincial hospitals have usually around 100 beds with around 150 staff.

68. **Performance-based Partnership Agreements:** PPAs will be signed with NGOs who are competitively selected and which will be responsible for implementing the BPHS in provinces spread over different regions of Afghanistan. To implement the PPAs, during preparation, MOPH began a competitive selection process: the winning consultant/NGO will be provided a contract for three years, which can be extended for another two years based on the performance of the NGO. The contracts will be managed by the Provincial Health Offices (PHOs) and SPCMD. The MOPH Finance Department will be responsible for prompt payments to the NGOs based on satisfactory progress.

69. **MOPH-Strengthening Mechanism (MOPH-SM):** MOPH-SM involves the contracting in of management support services for three provinces near Kabul (Kapisa, Panjshir, and Parwan and urban Kabul). Health services are provided by MOPH staff of the PHOs with significant inputs of management supervision and support by consultants recruited competitively at market rates. The provinces will be given an agreed resource envelope comparable to the amounts provided to a contracted NGO. The support for the urban BPHS will be expanded to other cities based on the results of the current urban BPHS in Kabul city.

70. **Monitoring of PPA and MOPH-SM Performance:** The M&E department of MOPH, SPCMD and PHOs will be responsible for monitoring performance. This will be done by extensive field visits, analysis of HMIS data, the results of baseline and follow-on household surveys, results of BSC from annual health facility surveys conducted by an independent firm, third party verification of the HMIS data and community feedback mechanisms. Hospitals will be monitored for progress towards agreed targets for outputs and for the implementation of clinical and management standards of quality care, through strengthened MOPH supervision and feedback using a checklist, strengthened HMIS, and a Hospital BSC. A review of the hospital HMIS and hospital BSC, with a view to simplifying reporting requirements will be carried out so that there is increasing focus on the measures of output, quality and efficiency (relative to the current focus of the hospital BSC on structure and process indicators).

71. In order to make improvements in service coverage and quality, under SHARP, RBF was introduced as a pilot and the initial results of the RBF are very promising and this mechanism will be mainstreamed under the project. This component will also finance the ongoing RBF interventions in 14 provinces as well as an in-depth impact evaluation to inform the future direction of the RBF in Afghanistan under SEHAT. To use province specific outputs for each province and measure those indictors from HMIS, data will be used for which results are collected quarterly or six-monthly. Baseline for the indicators will be set for each province and targets will be defined for all provinces in terms of percentage point increase from the baseline. Based on the experience from the RBF, third party verification of the HMIS data will be applied. The payment to NGOs will be done in 6-monthly basis as follows:

(a) 60% of each 6-monthly installment will be paid based on the submission of technical and financial progress reports accepted by MOPH. This will mean that at least 60% of funds will flow to the NGOs even if there are delays in the verification.

(b) 20% of each installment will be paid based on an easily verifiable indicator such as proportion of the active health facilities (active HF needs to be defined)

(c) 20% of each installment will be paid based on the third party verification of the HMIS data (key outputs need to be defined). Payment will be made based on proportion of target achieved. If verification is delayed beyond a certain time or if the verification was not possible due to some reason, the full installment payment will be processed.

72. It is crucial that the verification is timely, so that the payments can be processed simultaneously. In order to factor in the quality of care in the payment, the overall mean of the BSC will be used. Since the BSC is an annual exercise, the quality factor will be considered on every other payment. Since the key outputs will be more than one a composite index will be derived from all of the outputs to calculate the payment. In order to encourage the NGOs to go beyond the set target, payment of a bonus, 2% of total contract value, will be considered for extra-ordinary performance, i.e., >10% of target.

Component 2: Building the stewardship capacity of MOPH and system development (estimated total cost of US$90 million)

73. SEHAT will support systems strengthening focused on the medium term sustainable development of the sector. System strengthening and a sectoral approach will ensure financing for the sectoral priorities through a well-coordinated effort by development partners. SEHAT will build upon the ongoing Bank support, increasing the focus on systems development of the regular structures in MOPH at central and provincial level in order to be more responsive to the present and emerging needs of the sector.

74. MOPH has identified the following thematic areas to be supported under SEHAT: Decentralization and Provincial Budgeting, Governance and Accountability, Health Promotion, Private Sector, Health Care Financing, Fiduciary, Hospital Sector, Health Information System and Information Technology, Pharmaceuticals Sector and Human Resources for Health. MOPH's draft implementation plan covers all of them; however, some areas will be fully developed during the first year of implementation of the project. SEHAT would support systems development under the following sub-components:

a) Strengthening Stewardship Role of MOPH

75. Strengthening sub-national government (Provincial Health Department): The GOIRA has invested in the capacity development of sub-national governments at the provincial level so that they are more responsive to local needs and demands through the provincial budgeting initiative. SEHAT will support the implementation of Provincial Budgeting in all provinces which will finance local level initiatives, at a maximum of US$500,000 per province per year.

76. This is in line with the Tokyo Mutual Accountability Framework[12] (July, 2012) which commits the government to improve, "the capacity of line Ministries' to develop and execute budgets accountable to and incorporating, local needs and preferences".

[12] The Framework was developed in Tokyo Conference on Afghanistan in July 2012, which lays out the principles of the partnership between the international community and Afghanistan as a means of providing confidence to Afghans and international donors that the commitments they have made to each other will be monitored and honored.

77. In line with these commitments SEHAT will support the following activities related to:

(i) Strengthening Sub-national Planning and Budgeting. At present primary health care is implemented largely through NGOs. Nevertheless, Provincial departments of health need to be fully involved in planning for and monitoring of healthcare in their provinces. A more systematic approach to capacity building of sub-national levels with the defined objective of strengthening transparent and inclusive decision-making, planning and budgeting as well as implementation and monitoring of health related projects at the provincial level will be undertaken. This "learning-by-doing" approach will allow Provincial Health Directorates to better plan prioritize and manage a budget related to improving health related outputs/outcomes in their provinces. This approach, fully supported by MOPH as well as MOF, is expected to improve local level ownership of health programs as well as the maintenance of health care related assets. MOPH plans to recruit a provincial budgeting coordinator to serve as focal point for the provincial budgeting initiative. An assessment of the provincial health offices capacities along with need assessment for the additional human resources and equipment, etc. will be carried out. Two options for the procurement and financial management of the provincial budgeting exercises at the provincial level are being considered: i) the fiduciary activities are done by the provincial health office, hence SEHAT finance positions for the one procurement and one fiduciary staff or ii) the fiduciary activities are carried out by the *Mostofiate* (provincial office of the MOF). This subcomponent also includes financing for the minor civil works for the provincial health departments as well as the health facilities at the provincial level.

(ii) Operations and Maintenance (O&M). O&M budgeting at provincial level, apart from the O&M of Provincial MOPH offices, is largely undertaken through management contracts with NGOs. This is largely a function of the health care service delivery model. Nevertheless, MOPH needs to better understand the cost parameters of O&M at provincial and district levels in order to monitor O&M delivery and assess value for money through NGO contracting. In addition, MOPH provincial health directorates need to improve the HMIS where it relates to the recording and assessment of health assets. As such there is need to strengthen the planning and cost basis for O&M in the Ministry and in provincial health offices. The Ministry needs to issue clear guidance to Provincial health offices on maintaining an up to date asset inventory, and prioritizing and adequately budgeting through the NGO management contracts for O&M. This sub-activity will support the rolling out and implementation of an Asset Maintenance Strategy and guidelines. This will create a comprehensive O&M system that will eventually pre-empt the deterioration of assets in the health sector, but more importantly create a wider understanding of the benefits of a coherent O&M system nationally. The pilot will take into account best practices and experiences from the region on O&M.

(iii) Build PHDs capacity to undertake their enhanced functions expected under the provincial budgeting initiative.

b) Healthcare Financing

78. The project will support the Health Economics and Financing Department of MOPH in undertaking analytical economic work including development and testing of innovative financing models such as provider payment mechanism, for the tertiary hospitals; National Health Accounts; economic evaluations and expenditure tracking surveys.

c) Regulatory System Development for Pharmaceuticals

79. The project will support the establishment and operationalization of a regulatory mechanism and quality assurance system for the pharmaceutical sub-sector. In addition, it will strengthen institutional development ensuring an integrated approach to build an effective drug quality assurance and regulatory system. The following three priority areas have been identified by MOPH in this thematic area:

(i) Upgrading Quality Control Lab (QC lab): One critical area for MOPH to ensure quality of pharmaceuticals is upgrading the QC lab. Given the presence of technical support being provided through other partners (CIDA, USAID and WHO), who provide support on updating/developing protocols and guidelines, capacity building for the personal and provision of some equipment, SEHAT will mainly focus on financing the upgrading of infrastructure for the Quality Control Lab. Based on the available infrastructure, up to a maximum of US$300,000, as required for the refurbishment and upgrading of the original QC building.

(ii) Post Market Surveillance: Although post market surveillance and pharmaco-vigilance is an important aspect of the pharmaceutical safety, MOPH is not carrying out this duty at the moment. SEHAT will finance Technical Assistance to design of a post market surveillance plan in the first year of the project. MOPH will submit a design plan for the implementation of Post Market Surveillance for review and approval by the Bank. Once the design is in place, along with other partners, SEHAT will finance capacity building for the staff along with other inputs to make sure the post market surveillance is functional.

(iii)Enhance Inspection Capability: As of now, many departments such as law enforcement, M&E, and Director General Pharmaceutical Affairs are involved in the inspection activities without clear lines of responsibility. Hence, MOPH will submit a proposal for streamlining this activity clarifying roles and responsibilities of each department involved and enhancing the inspection capability for review and approval by the Bank.

d) Working with the Private Sector

80. The proposed project focuses on using the skills of private and non-government organizations to provide health services for the population through contracting arrangements. However, other regulatory mechanisms related to private sector, process for private health care and arrangements to work with private sector are limited. The project would improve intra ministerial coordination and working with the private sector. The project will support analytical

work to understand and build knowledge about the private sector. The assessment will also outline the way forward to increase engagement of the private sector for achieving policy objectives. The project will also strengthen the capacity of SPCMD for improving contract management and the Private Sector Unit of MOPH to engage with the private health providers for achieving policy objectives. To manage the public private partnerships (PPPs) for the big donated hospitals, the transaction advisory support of the World Bank's International Finance Corporation will be sought.

e) Enhancing Capacity for Improved Hospital Performance

81. Based on the ongoing hospital assessment, the project will help in the design of a hospital provider payment mechanism that will enhance accountability and support its piloting in two hospitals in Kabul. The project will also finance short-term TA for: i) defining a tertiary care services package; ii) development of treatment protocols for tertiary care; iii) designing hospital accreditation system; iv) bio-medical equipment operation and maintenance protocols; and v) strengthening health care waste management in the hospitals.

f) Human Resources for Health

82. The project aims to strengthen the human resources capacities within the MOPH regular civil service staff. Hence, this subcomponent is directly linked with the CBR program proposal. The MOPH is preparing a proposal for the CBR support, for selected senior management positions and professional posts through competitive civil service commission process with enhanced pay scales. This will enable the ministry to attract high quality regular staff, and reduce reliance on project staff. MOPH is in the process of filing its CBR pre-application form as the preparation of SEHAT reaches completion. The proposal will include the human resource needs for the system development for each of the subcomponents of component 2. SEHAT will continue financing the local contracted staff currently financed through SHARP; however, with the advent of SEHAT MOPH's reliance on the externally funded staff will gradually decrease, as it is anticipated that many SEHAT financed TA positions will transfer to regular CBR civil service posts.

83. Availability of female health workers: The project will finance training of community midwives and community nurses to address the shortage of female health cadres in remote areas.

g) Governance and Social Accountability

84. The project will support: i) streamlining and simplification of ministry's internal procedures; ii) strengthening and enhancing transparency in the fiduciary activities; and iii) investment on strengthening social accountability by the introduction of beneficiary feedback to enhance social accountability. In addition, it will strengthen transparency of the system and communication capacity at MOPH to pro-actively reach out the general public.

85. Strengthening of complaint handling system: MOPH has a complaint handling system in place, which is still limited in scope and reach. MOPH agreed during the implementation of SHARP to maintain a complaint record database to enable complaint tracking and review. In addition, it was agreed to establish a complaint handling committee and involve health shura

members in complaint handling processes. However, there has been limited progress and the present system remains limited in its ability to address communities' concerns. Under SEHAT MOPH will re-assess and adjust the functionality of the complaint handling system. This will be included in the revised complaint handling procedures in the proposed ESMF.

86. Use of Information Communication Technologies (ICT) to enhance social accountability: International experience suggests the strong potential to use information and communication technologies (ICT) to support monitoring, beneficiary verification, and social accountability processes under SEHAT. In particular, the project will pilot a mobile telephone-based system that collects citizen feedback on the quality and availability of services delivered under the Project. ICT and mobile tools have shown to be helpful in enrolling beneficiaries of maternal health services, monitoring the quality of service delivery quality, and streamlining data collection. The project will pilot a mechanism for receiving patients' feedback about services. The pilot may be scaled up based on lessons learnt both geographically and in scope.

h) Health Information System and Use of Information Technology

87. The project will support key activities such as institutional strengthening and capacity development at central and provincial level. It will support streamlining of the HIS functions and responsibilities which are currently spread among multiple departments with limited coordination. SEHAT support will clarify the institutional role of the third party for M&E. The project will support MOPH to improve data utilization at different levels. In addition SEHAT will also support integration of current multiple surveillance systems. Overall the following three areas have been proposed to be financed under SEHAT:

(i) Conducting Demographic Health Survey (DHS): Given other national surveys such as MICS, NRVA and possible AMS, the project will finance at least one DHS. The baseline for SEHAT project will be derived from NRVA 2011 and AHS 2012. The DHS will be conducted before the mid-term review of the project.

(ii) Integrated Disease Surveillance: Currently, WHO is providing technical support for MOPH to design workable integrated disease surveillance. It is hoped that by end of the first year of the project the design work of the surveillance will be completed. Once the MOPH submits a design proposal to the Bank and the Bank approves it, the implementation will then be financed by SEHAT, which is expected to be in the order of US$ 1.5 million.

(iii) Establishing Data Warehouse: In order to make the health data available and user-friendly, SEHAT will finance establishment of a web-based data warehouse. The data warehouse will be connected with different data sources, which makes it possible to have triangulated data in flexible formats such as tables, graphs, charts, etc. This tool for data use will assist decision makers through increased access and user-friendliness.

i) Strengthening Health Promotion and Behavioral Change

88. The project will strengthen the health promotion unit and support its program, including behavior change campaigns targeting specific behaviors to reduce malnutrition and other health problems. It will support formative research and use of data at all stages to guide health

promotion, support performance-based contracts for health promotion campaigns and support use of innovative technologies. In addition it will provide support to test approaches to incentivize healthy behaviors.

j) Improved Fiduciary Systems

(i) Financial Management: The project will support MOPH in the following areas: i) upgrading the FM system to a web based system; ii) simplification of payment procedures; and iii) capacity building of finance and internal audit staff of MOPH.

(ii) Procurement: The procurement director is yet to be recruited through CBR process. Once the director is hired, the project will provide technical support for the department to develop a plan for strengthening the procurement system both at the central and at the provincial levels. The plan will encompass needs for TA, equipment, Standard Operating Procedures (SOP), etc. The project will also finance the implementation of the plan. The financing for the additional staff, however, will be sought from the provisions of the CBR project. The procurement director is expected be appointed by February 25, 2013.

Component 3: Strengthening Program Management (estimated total cost of US$10 million)

89. This component will support and finance central and provincial management of MOPH to manage and implement the program effectively. It will finance incremental operating costs of MOPH at the central and provincial levels. In addition, it will support and finance short term technical assistance in specific areas where immediate capacity development is required. SEHAT will adhere to the Government's National Technical Assistance salary guidelines, once they are approved by GOIRA, on the maximum level that can be paid to contracted staff. Until such time, the project will adhere to the CBR salary scales. An annual ceiling for the payment of the contracted staff will be agreed with MOPH.

90. The main expenses under this component will be related to the remuneration of the contracted staff of the MOPH. SEHAT will finance around 100 contracted staff. These staff include technical, financial management, procurement and support staff. The contracted staff will be embedded in different MOPH departments, including the procurement department, financial management department, monitoring and evaluation department, international relations departments, reproductive health department, HMIS department, etc.

91. This component will also finance minor civil works at the central MOPH as well as operation and maintenance of vehicles, office supplies, communication charges, insurance costs, office administration costs, banking charges, advertising expenses, utility charges, rental charges, domestic/international travel and per diem allowances.

Annex 2: Results Framework and Monitoring

AFGHANISTAN: System Enhancement for Health Action in Transition Project

Project Development Objective Indicators											
			Cumulative Target Values						Data Source/	Responsibility for	Description
Indicator Name	Unit of Measure	Baseline	YR1	YR2	YR3	YR4	End Target	Frequency	Methodology	Data Collection	(Indicator definition etc.)
Births attended by skilled health personnel among lowest income quintile	Percentage	15.6[1]	20		27		35	Every 2 years	Household Survey	Third party and Central Statistics Office (CSO)	*Numerator*: The No. of births in lowest income quintile attended by skilled health personnel (doctors, nurses, and midwives); *Denominator*: Total No. of live births in lowest income quintile in the same period
PENTA3 coverage among children aged between 12 - 23 months in lowest income quintile	Percentage	28.9[1]	35		47		60	Every 2 years	Household Survey	Third party and CSO,	*Numerator*: No. of children 12-23 months in lowest income quintile who received PENTA3 vaccine before their first birthday *Denominator*: Total No. of children 12-23 months in lowest income quintile (The data will be disaggregated by gender)
Contraceptive prevalence rate (any modern method)	Percentage	19.5[1]	22		25		30	Every 2 years	Household Survey	Third party and CSO,	*Numerator*: No. of currently married women age 15-49 years or their partner using a modern contraceptive method; *Denominator*: Total No. of

[11] MICS 2010/11

											married women age 15-49 years who are currently married.
Proportion of children under age five years with severe acute malnutrition who are treated	Percentage	TBD[1]	TBD	TBD	TBD	TBD	TBD	Annually	HMIS	HMIS department	*Numerator*: No. of children under age five treated for severe acute malnutrition; *Denominator*: Total No. of children under age five with severe acute malnutrition.
Score on the balanced scorecard examining quality of care in SCs, BHCs and CHCs	Percentage	61[2]	63	65	67	69	70	Annually	Balance Scorecard, Health facility assessment	Third party	*Composite score out of 100 on indices of quality of care as judged by third party.*
The accreditation for procurement of goods and works achieved and maintained	NA	No	Yes		Maintained		Maintained	Every 2 years	Project six-monthly report	MOPH	The accreditation is done by the MOF on a regular basis for all line ministries.
Intermediate Results Indicators											
Component I: Sustaining and improving BPHS and EPHS services											
Health Facility Utilization Rate: consultation per person per year	Proportion	1.6[3]	1.7	1.8	1.9	2.0	2.0	Annually	HMIS	HMIS department	*Numerator*: No. of Out Patient Departement clients/ patients seen at all HFs *Denominator*: Total population in same period
Score on the hospital balanced scorecard that examines quality of care in public hospitals delivering	Percentage	69[4]	70	72	74	76	77	Annually	Balance Scorecard, Health facility assessment	Third party	Composite score out of 100 on indices of quality of care as judged by third party.

[1] The baseline and target will be set after having the result of the nutrition household survey in September 2013.

[2] BPHS BSC 2011

[3] HMIS 2011

[4] EPHS BSC 2011

EPHS											
Antenatal care coverage- at least one visit among lowest income quintile	Percentage	26	28		35		40	Every 2 years	Household Survey	Third party and CSO	Numerator: No. of women aged 15-49 in lowest income quintile with a live birth in a given time period that received antenatal care provided by skilled health personnel (doctors, nurses or midwives) at least once during pregnancy Denominator: Total No. of women aged 15-49 in lowest income quintile with a live birth in the same period.
Percentage of pregnant and lactating women who received counseling on infant and young child feeding (IYCF)	Percentage	0	10	20	30	40	50	Annually	Public Nutrition Department reporting system	Public Nutrition Department	Numerator: No. of pregnant lactating and women who received counseling on infant and young child feeding Denominator: Total No. of pregnant and lactating women (Necessary tools to be developed in the first year)
NGO contract for BPHS/EPHS service delivery signed and properly managed as per agreed timeline	number	27	27	27	27	27	27	Annually	Project six-monthly report	SPCMD	Properly manage: i) payment is made to the NGO within 45 days receipt of invoice; ii) NGOs are regularly monitored (at least once per quarter by SPCMD);
TB treatment success rate	Percentage	89[1]	90	90 Maintained	90 Maintained	90 Maintained	90 Maintained	Annually	HMIS	HMIS department	Numerator: No. of TB new smear positive cases that were cured or in which a full course of treatment was completed Denominator: Total No. of new registered smear positive cases
HIV/AIDS prevention											
Percentage of IDUs	Percentage	27	30		40		50	Every 2 years	Integrated Bio-	Third party	Numerator: No. of IDUs

[1] HMIS 2011

reached by Needle Syringe Program									behavioural and Biological Surveillance		reached by needle syringe program Denominator: Total No. of IDUs
Component II: Building the stewardship capacity of the MOPH and system development											
HIS annual report prepared and disseminated	Number	1	1	1	1	1	1	Annually	Triangulate different sources (HMIS, HHS, BSC, Disease Early Warning system, etc)	HMIS department	HIS annual report which contain analysis and interpretation of key indicators (triangulate different sources, HHS, HFA, HMIS, etc.) prepared and disseminated
Number of national hospitals with full budgetary autonomy	Number	0	15	15	15	15	15	Annually	Project six-monthly report	General Directorate of Curative Medicine	
Proportion of budget from the Provincial Budgeting Initiative executed	Percentage	0	50	60	60	70	70	Annually	Project six-monthly report	Finance Department of the MOPH	*Numerator:* Total amount disbursed from Provincial Budgeting Initiative *Denominator:* Total amount of budget allocated through Provincial Budgeting Initiative for the year
Capacity of drug quality control lab developed	NA	0	Plan and operation procedures developed	At least 70% of annual plan implemented				Annually	Project six-monthly report	GDPA	
Component III: Strengthening Program Management											
Proportion of MOPH core development budget executed	Percentage	54	60	65	70	75	75	Annual	Project six-monthly report	Finance Department of the MOPH	

Annex 3: Summary of Estimated Project Costs

AFGHANISTAN: System Enhancement for Health Action in Transition Project

Component/Subcomponent	Funds Required in US$ Million (2014-2019)	GOIRA	IDA	ARTF	HRITF
Component I Sustaining and improving BPHS and EPHS services					
1.1: BPHS					
1.1.1 BPHS through NGO	205	5	40	160	0
1.1.2 BPHS through MOPH-SM	40	5	15	20	0
Subtotal (1)	**245**	**10**	**55**	**180**	**0**
1.2: EPHS					
1.2.1 EPHS through NGO	37	5	15	17	0
1.2.2 EPHS through MOPH-SM	8	2	5	1	0
Subtotal (2)	**45**	**7**	**20**	**18**	**0**
1.3 HIV/AIDS					
1.3.1 HIV/AIDS targeted interventions	10	3	5	2	0
Subtotal (3)	**10**	**3**	**5**	**2**	**0**
1.4: Testing innovations					
1.4.1 Results based financing	8	0	0	0	7
Subtotal (4)	**8**	**0**	**0**	**0**	**7**
Subtotal Component I	**307**	**20**	**80**	**200**	**7**
Component II: Building the Stewardship Capacity of MOPH and System Development	90	8	15	67	0
Subtotal Component II	**90**	**8**	**15**	**67**	**0**
Component III: Strengthening Program Management	10	2	5	3	0
Subtotal Component III	**10**	**2**	**5**	**3**	**0**
Grand Total	**407**	**30**	**100**	**270**	**7**

Annex 4: Operational Risk Assessment Framework (ORAF)

AFGHANISTAN: System Enhancement for Health Action in Transition Project
Stage: Board

Stakeholder Risk	**Rating**	**Substantial**
Description: *Political Risk:* The health program has high level political support with recent success in the health sector. The proposed program and systems development is likely to face minimal risk at present. However, any change in the political landscape especially during 2014 elections might limit this political support.	**Risk Management:** The development of well-articulated sector wide program with a focus on sustaining service delivery and systems development has strong political buy-in as its development is being actively supported by the political leadership. If there is a change in political leadership, it would be critical to work with new leadership to ensure that the current program stays on track.	
While there is a strong support and buy-in from MOPH administration, NGOs and development partners, the perception of stakeholders (other members of the government, members of the parliament and some staff of MOPH) towards the continuation of contracting out model is unclear and may hinder its continuation.	In light of strong emphasis on continuation and sustaining existing service delivery arrangements, during the preparation of the project, a series of stakeholder consultations to involve direct stakeholders have taken place. In addition, information disclosure to the general public as well as to stakeholders will be undertaken. During implementation, regular and proactive stakeholders' engagement will be ensured.	
The health sector has faced significant challenges due to lack of availability of skilled manpower, with staff turnover and vacant positions impacting negatively to service delivery need. Staff has been pushing for increases in salaries. This may hamper the implementation of sector wide program through the government system.	The MOPH is working to identify innovative options to address skilled manpower challenges including exploring options to attract staff from the region with enhanced benefits, and performance based incentives rather just salary increase.	
The private sector may oppose regulatory reforms.	The project management will ensure that the private sector will be involved in the development of the regulatory framework and its continuous engagement will be important during implementation to address the issues.	

	Resp: Client | Stage: Implementation |Due Date : None| Status: Ongoing	
Implementing Agency (IA) Risks (including Fiduciary Risks)		
Capacity	**Rating**	**Substantial (if not high)**
Description: While technical and managerial capacity at MOPH is improved with the ongoing technical support from the development partners, structural issues related to staffing and their remuneration remain as an obstacle. This will need to be addressed to retain skilled manpower to ensure continued provision of strategic leadership for a sectoral program.	**Risk Management:** The team has been in close contact with the management of MOPH and is exploring options to ensure that central level capacity is maintained during preparation and implementation. MOPH is preparing a proposal for support from CBR Facility to address these issues centrally. The proposed program will include mechanism to support provincial structure to enhance their capacity with technical support besides defining their functions and administrative powers.	
The Provincial Health Directorate capacity is weak. As the program envisages providing financial resources for the proposed provincial budgeting, it is significantly raising the risk of suboptimal use of internal controls to ensure the use of recourses for the intended objectives. The provincial level management capacity is weak and will need serious support.	The team is working on a capacity building under the existing SHARP project which envisages enhancing skills in the provincial health directorate both from management and operational perspective. The proposed project will also include mechanisms to support provincial health directorates' administration not only to enhance their capacity, but also to strengthen their FM and procurement process for effective use of the resources. **Resp: Bank | Stage: Implementation | Due Date : None| Status: Ongoing**	
Description: Procurement: MOPH has limited capacity in term of procurement and contract management. Protracted procurement process, low capacity and inadequate staffing are key issues and unless addressed it may affect performance and outputs of the proposed project. In addition, lack of implementation of reforms to restructure sector procurement structures in line with GOIRA	**Risk Management:** During implementation, the Bank team will continue to provide periodic training tailored to addressing emerging issues procurement. Strict follow-up of the agreed business standards, and regular workshops for contractors will aim to create awareness among bidders on Bank procurement guidelines and providing them access to report any mishandling	

procurement reforms limits addressing some of above concerns.	of procurement. Procurement capacity assessment is the basis on which training and staffing is being recommended. The project will support reforms in the fiduciary area, including in procurement reform. **Resp: Bank/Client | Stage: Implementation | Due Date : None| Status: Ongoing**
Governance	**Rating** **Substantial**
Description Financial Management: Although the health sector has reasonably good compliance with FM requirements, weaknesses remain in internal controls that may lead to misappropriation of funds and delay in preparation and submission of acceptable financial reports which could have consequent effects on disbursements and implementation progress. Corruption continues to be widespread and pervasive. Afghanistan's ranking in Transparency International's Corruption Perceptions Index has slipped from 176 out of 180 countries surveyed in 2008 to 179 out of 180 countries surveyed in 2009.	**Risk Management:** The Bank supported program of TA on the core PFM functions is reinforced through policy conditionality on DPG series and ARTF Incentive Program through its administration of the ARTF, which channels significant funds towards the budget. The project envisages using government systems and use of centralized accounting and payments and processing all transactions through the full set of Government budget implementation rules and systems which is likely to lower the risk of misuse and misreporting. The FM assessment during preparation has helped identify other FM bottlenecks to build upon existing systems which has been strengthened during SHARP. The project will support strengthening systems for procurement and financial management building on ongoing work but it will continue to work on governance and anti-corruption work, supporting the High Office of Oversight. In addition, the project will facilitate the establishment of grievance mechanisms at the central and provincial level to submit complaints regarding the use of funds, and will also ensure MOPH develops and implements a proactive information disclosure policy. In addition community accountability mechanism will be discussed during preparation.

	Resp: Client | Stage: Implementation | Due Date : None| Status: Not yet due	
Project Risks		
Design	**Rating**	**Moderate**
Description: The proposed program will use a sector wide program approach focusing not just on ensuring the gains from present support but will also focus on systems development. Managing design and implementation of a sector wide program will be a new experience for MOPH and the development partners and can slow project preparation and poses implementation challenges. In addition, the existing leadership might change during preparation which could derail design. In addition, the existing leadership might change during implementation after the presidential election which could require possible change in the program scope/design. The hospital sector is high on the political agenda and this could lead to rerouting ever more financing towards hospital sector with negative implications for basic and essential package of services.	**Risk Management:** The Bank team will work closely with the counterparts to ensure the understanding of sector wide program and to institutionalize its requirements. In addition, the Bank team has already organized and undertaken a workshop and discussed with various partners the SWAp agenda. The Bank team will work with counterparts to explore alternate financing for hospital services as well as the optimal relative budget which should go to primary versus secondary and tertiary care. **Resp: Client | Stage: Implementation | Due Date : None| Status: Not yet due**	
Social and Environmental	**Rating**	**Moderate**
Description : **Environmental Safeguards:** SEHAT project will be helping many hospitals dealing with biomedical wastes of TB, HIV/AIDS, etc. and there is a risk to the health personnel, patients and their relatives, the waste pickers, as well as to the general public from such biomedical wastes.	**Risk Management.** The sector wide program will give more attention to Biomedical Waste Management systems development building on ongoing work. The team will assess the HCWMP being developed in the public and private sector, in particular in the hospitals, and help MOPH to appoint dedicated staff solely for the Biomedical Waste Management and develop internal system at MOPH and at the hospital levels besides	

Complaint Handling Mechanism: A lack of complaint handling mechanism and or inefficient complaint handling mechanism may lead to dissatisfaction among beneficiaries as well as project laborers and Project Affected People (PAP).	ensuring adequate budget for the work. The project will enhance the existing Grievance Redress Mechanisms (GRM) at the central and provincial level covering a range of complaints categories and will ensure that MOPH develops and implements a proactive information disclosure policy. The strengthening of GRM will focus on multiple grievance uptake location and multiple channels for receiving grievance and establishing a grievance redress committee in each health facility and maintenance of records in a database to enable complaint tracking and review. **Resp: Client | Stage: Implementation | Due Date : None| Status: Not yet due**
Program and Donor	**Rating** **Moderate**
Description: The current commitment of the EU financing for the health sector is only for the first 3 years of the project. The uncertainty about EU's financing beyond 3 years is a potential risk. There is also uncertainty about USAID financing for the health sector, which may decrease after 2014 and hence leaving some of the provinces currently financed by the USAID without BPHS/EPHS services.	**Risk Management:** Since the EU financing is coming through ARTF, which is a multi-donor trust fund, the possible shortfalls could be covered by the rest of the donors' contributions to the ARFT. Similar, in case the financing of the USAID goes down, the project could leverage further ARTF resources to pick up financing of those previously financed USAID provinces. **Resp: Bank | Stage: Implementation | Due Date : None| Status: Ongoing**
Delivery Monitoring and Sustainability	**Rating** **Moderate/Substantial**
Description: The health sector has well designed system of monitoring and supervision. However, the key issues include; a) routine data quality; b) inordinate delays in getting results of Third Party Verification and; c) multiple structures undertaking M&E function creating confusion at the field level.	**Risk Management:** SEHAT will support the MOPH to develop internal system of data verification for improving data quality. In addition, the scope and content of Third Party Verification process will be improved to ensure timely availability of data for decision making. **Resp: Client | Stage: Implementation | Due Date : None| Status: Ongoing**

Description: Given the history of contract management in MOPH which was strengthened under SHARP, large number of contracts to be managed under the new project will put additional burden on existing arrangement and can lead to disputes with contractors and delays.	**Risk Management:** SEHAT will strengthen the contract management system in the MOPH. **Resp: Client | Stage: Implementation | Due Date : None| Status: Ongoing**
Project Team Proposed Rating Before Review	
Preparation Risk Rating: Moderate	**Implementation Risk Rating: Substantial**
The main risks to implementation are due to security and transition. It could lead to some capacity flight as skilled manpower from MOPH, NGOs and TA may leave due to security and political instability. Also, the proposed systems development will need buy-in and commitment by stakeholders especially at central level by other departments and the provincial level to effectively implement the project. However, given the system development component of the project, the team feels the risk is low.	Mitigating measures include strong communication with stakeholders throughout the implementation period and building capacity of the provincial structures. It also entails providing relevant information and collecting feedback during implementation. The Bank has had a successful partnership with MOPH over the last decade with significant achievement of results. Building on ongoing program to help develop systems for sustainable development and engagement from a sectoral perspective will need strong buy-in at the political and administrative level. The team believes that the buy-in exists which will facilitate program design and implementation. There is a strong ongoing dialogue with MOPH counterparts which is facilitating the design work.
Overall Risk: Substantial	
Explanation: The overall risk for implementation is substantial due to transition and security constraints. The upcoming Transition, where the large majority of international military forces are expected to leave Afghanistan by the end of 2014, will have additional enormous security and economic implications for the country.	

Annex 5: Financial Management and Disbursement Arrangements

AFGHANISTAN: System Enhancement for Health Action in Transition Project

Country Issues

92. The World Bank has gained substantial experience and understanding of the financial management environment in Afghanistan through the large number of projects under implementation over the past four years. The Public Financial Management Reform Project II (PFMRP II) is the primary instrument to continue and enhance the fiduciary measures put in place during the past years to help ensure transparency and accountability for the funding provided by the Bank and other donors.

93. A PFM performance rating system using 28 high-level indicators that was developed by the Public Expenditure and Financial Accountability (PEFA) multi-agency partnership program was applied in Afghanistan in June 2005, and was updated in May 2008. PEFA is comprised of the World Bank, IMF, EC, and several other agencies. The system is structured around six core dimensions of PFM performance: i) budget credibility, ii) comprehensiveness and transparency, iii) policy-based budgeting, iv) predictability and control in budget execution, v) accounting, recording, and reporting, and vi) external scrutiny and audit. Afghanistan's ratings against the PFM performance indicators generally portray a public sector where financial resources are, by and large, being used for their intended purposes. This has been accomplished with very high levels of support from international firms; this assistance will continue to be needed over the medium term if these ratings are to be maintained. There is also much room for improvement.

94. In spite of undeniable gains made in reconstruction since the end of 2001, the challenges facing Afghanistan remain immense; not least because of the tenuous security situation in the region and continued prevalence of a large illegal and illicit economy. The policy framework benchmarks have not yet been fully estimated so various priorities are funded through the annual budgeting process. The rising costs of the security sector constitute the major constraint on attainment of fiscal sustainability. With regard to executive oversight, the national assembly will play an increasingly active role. All in all, the new national strategy has created high expectations of the executive which could prove to be quite difficult to meet.

95. The public sector, in spite of considerable efforts to reform its core functions, remains extremely weak outside of Kabul. The lack of qualified staff in the civil service and the absence of qualified counterparts in the government after 30 years of war and conflicts is a binding constraint. Delays in reforming the pay structure and grading of civil servants have severely crippled the public administration of the country. Domestic revenues lag behind expenditures by a factor of ten to one. Large-scale corruption could emerge to undermine the government's efforts to enhance aid flows through national accounts. Capacities to track expenditures and monitor expenditure outcomes have improved, but they need rapid and substantial strengthening if progress toward the attainment of national development targets is to be monitored. Currently, 75% of external revenues bypass government appropriation systems.

96. The World Bank is financing a Financial Management Advisor to assist the Ministry of Finance, an Audit Advisor to assist the Control and Audit Office. Also an Internal Audit function is being developed within the Ministry of Finance with World Bank financing. USAID, and

earlier the Indian Aid Assistance Program, is financing a team of consultants and advisors to assist the Da Afghanistan Bank in local as well as foreign currency operations. The activities carried out under the existing Public Financial Management Reform projects have helped the Government to ensure that appropriate fiduciary standards are maintained for public expenditures, including those supported by the Bank and the donor community.

97. Progress has been slower than expected in shifting from operations support provided by the three Advisors to capacity development and knowledge transfer to the civil servants. Given that, is expected that the Advisors will continue to be required for the medium term. Challenges still remain in attaining the agreed upon fiduciary standards and also to further enhance them. To make matters more complex, the regulatory environment in Afghanistan has advanced significantly in the past years. Unfortunately, even mastery of basic skills in the early environment does not fully qualify the civil servants to work effectively in the new emerging environment.

Risk Assessment and Mitigation

98. The table below identifies the key risks that the project may face and indicates how these risks are to be addressed. The overall FM risk rating is high but the residual risk rating after application of the mitigating measures is substantial.

Risk	***Risk Rating***	**Risk Mitigation Measures**	**Residual Risk**	**Condition of negotiations, Board or Effectiveness (Y/N)**
Inherent Risk				
Country Inherent Risk	H	Approval of a modern Public Finance and Expenditure Law (2005) and its regulations (2006), together with the checks and controls built in the computerized systems, provides a good control framework, especially for budget monitoring and control	S	N
Project Financial Management Risk	H	Ensure Designated Accounts are not excessive and remain active with regular expenditure reporting. Key fiduciary functions to be performed by the FD of MOPH. The FD will be staffed with qualified and experienced FM consultants to be funded from the project. Simultaneously, the capacity of the civil servants will also be	S	N

Risk	*Risk Rating*	Risk Mitigation Measures	Residual Risk	Condition of negotiations, Board or Effectiveness (Y/N)
		strengthened		
Perceived Corruption	H	Government commitment, internal controls and internal audit will help to reduce the high level of perceived corruption. Improving the systems and strengthening the FM capacity in MOPH will also help to reduce the high level of perceived corruption.	S	N
Overall Inherent Risk	H		S	
Control Risk				
1. Weak Implementing Entity	H	Project will utilize the services of NGOs to implement project activities in many provinces. MOPH also has adequate staffing in SPCMD to implement the program. The FM functions will be undertaken by the FD, which will be adequately staffed to cope with this project's additional responsibilities. Oversight functions for the project shall be performed a Steering Committee consisting of Deputy Minister for Policy and Planning and all Director Generals of MOPH.	S	N
2. Funds Flow	S	Payments will be made to consultants, suppliers, etc. from the DA by SDU-MOF. In addition to payments out of DA funds, the implementing entities can also request the SDU to make (i) direct payments from the grant account to contractors, consultants or consulting firms, and (ii) special commitments for contracts covered by letters of credit. Project funds will also be transferred to the provincial health directorates through provincial	M	N

Risk	*Risk Rating*	Risk Mitigation Measures	Residual Risk	Condition of negotiations, Board or Effectiveness (Y/N)
		mastufiats (branch of MOF). These payments would only be made by SDU after due processes and proper authorization from MOPH.		
3. Budgeting	S	Ensure that project funds are allocated in the annual Government Development Budget. In addition, MOPH should also ensure that the unutilized budget amount at each year end is carried forward to the next year. Further, MOPH should ensure that approved carried forward budget are used at the beginning of the new year, and that disbursements are made while waiting for the Parliament's approval of the new year's budget. A budget committee will be appointed to coordinate the preparation of annual work plan and the derivation of annual budget there from. Representatives from SPCMD & Health Care Financing Department, Development Budget department, Provincial Health Coordination Committee, Policy and Planning, Monitoring & Evaluation Department and Afghan Public Health Institute, and shall report to the Steering Committee.	M	N
4. Accounting Policies and Procedures	S	Project will follow international standards. Project accounting procedures and details of the FM arrangements will be documented and incorporated in the FM Manual to be updated by MOPH and to be approved by the Bank	M	N
5. Internal Audit	H	The internal audit unit of MOPH will review MOPH internal control systems. This unit will be strengthened through the hiring of	S	N

Risk	*Risk Rating*	Risk Mitigation Measures	Residual Risk	Condition of negotiations, Board or Effectiveness (Y/N)
		two national internal auditors under the project.		
6. External Audit	H	Will be audited by Supreme Audit Office with support from Audit Advisor	S	N
7. Reporting and Monitoring	H	Strengthening the SDU is a priority under the FM Advisor contract, to provide information that will comply with agreed format of financial reports. This will be facilitated by the computerized accounting system that will be utilized by the FD/MOPH to maintain records and generate required reports.	S	N
OVERALL CONTROL RISK	H		S	
DETECTION RISK	S	Adequate accounting, recording, and oversight will be provided in project procedures. Accounting/ Recording/ oversight by SDU – MOF of all advances/M-16 supported by Financial Management Advisor.	M	N
Risk rating: H=high risk; S=substantial risk; M=modest risk; L-low risk				

Strengths and Weaknesses

Strengths

99. The Government provides assurance to the Bank and other donors that the measures in place to ensure appropriate utilization of funds will not be circumvented. The Government strongly supports reforms through the Public Financial Management Reform Projects to enhance financial management in Treasury operations, public procurement, internal audit in the public sector, and external audit by the Auditor General.

100. The implementing line ministry, MOPH, has implemented and is implementing other Bank funded projects, so the agency has experience in implementing Bank projects and following Bank procedures. For the fund transfers to 34 provinces under the provincial budgeting initiative, the fiduciary responsibility for accounting and reporting of expenditures will largely

rest on the finance officers in the mastufiats who are already being trained under the HRCDP (Human Resource Capacity Development Project) component of the Public Financial Management Reform Project II.

Weaknesses and Action Plan

101. The main weakness in this project, as in many others in Afghanistan, is the limited capacity within the civil service staff of MOPH, and the inability to attract and retain suitably qualified and experienced counterpart staff especially for financial management. The utilization of the FD, additional staff to be funded by the project to handle the expanded scope of duties under SEHAT, provision of a computerized financial management system for FD, together with initiatives included in this project under the systems development component to train and build the capacity of the civil service staff are expected to strengthen the fiduciary arrangements in MOPH.

102. Due to the weak capacity in the provincial health directorates, the fiduciary responsibility for accounting and reporting of provincial expenditures under the provincial budgeting initiative will largely rest on the finance officers in the mastufiats. Their capacity is currently being strengthened under PFMR II. After project approval, MOF will organize a workshop for the mastufiat finance officers to provide an orientation about the initiative and the requirements for periodic accounting, reporting, acquittal and reconciliation. Relevant finance/administrative staff from the MOPH PHDs and FD will also be part of this training.

103. There is a need for significant capacity building of the finance staff of the provincial line directorates. Currently the Sub National FM Capacity Building project funded through an IDF grant is piloting this initiative in the four provinces of Panjshir, Bamyan, Helmand and Laghman. The results from the project will form the basis for possible future expansion to other provinces.

Action Plan – To be reviewed at 'Initial Supervision'

Significant Weaknesses	Action	Responsible Agent	Completion Date
Inadequate financial management system within the implementing agency	Usage of the central Afghanistan Financial Management Information System (AFMIS) system that will be rolled out to all line ministries. BPET database to be upgraded to facilitate maintenance of subsidiary books of accounts and generation of periodic reports	MOPH	Exists December 31, 2013
Weak FM capacity at the provincial level	Reliance on the finance officers at the mastufiats	MOF	Exists
Shortage of qualified and experienced FM staff	Utilization of the Development Budget department of MOPH that is staffed with experienced consultants	MOPH	Exists

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Weak FM capacity at the provincial level	Reliance on the finance officers at the mastufiats	MOF	Exists
Shortage of qualified and experienced FM staff	Utilization of the Development Budget department of MOPH that is staffed with experienced consultants	MOPH	Exists
Project internal controls and procedures need to be defined	SHARP Financial Management Manual to be updated, furnished to the Bank for approval and adopted by FD	FD/MOPH	July 1, 2013
Interim reports need to include required information	Un-audited interim financial report formats confirmed	IDA/MOF/ MOPH	Before negotiations

Implementing Entity

104. The project will be implemented by the MOPH. MOPH at the central level will have overall responsibility for project oversight and supervision through its Executive Board. The Deputy Minister for Policy and Planning will be the project's coordinator and focal point. MOPH through its central departments and provincial offices will be responsible for the smooth implementation of the project. Through the systems strengthening component of the project, relevant departments of MOPH will take responsibility for their specific thematic areas in close coordination and collaboration with Provincial Health Directorates (PHD). PHD capacity will be strengthened, especially their role in monitoring and supervision.

105. Development Budget Department: The FD will be responsible for the financial management activities of the program. FD will carry out the day-to-day financial management operations of the project, preparation of M-16 forms (payment orders), preparation of summary reports/simplified statements of expenditures. This department is adequately staffed with FM personnel who are efficiently managing all external grants including Bank funded projects. This unit will be further strengthening partly through additional staffing required for SEHAT and through capacity building initiatives for the civil service staff.

Budgeting

106. A budget committee will be appointed to coordinate the preparation of annual work plan

and the derivation of annual budget. This committee will be made up of representatives from SPCMD & Health Care Financing Department, Development Budget department, Provincial Health Coordination Committee, Policy and Planning, Monitoring & Evaluation Department and Afghan Public Health Institute, and shall report to the Steering Committee. The Budget Committee shall also coordinate quarterly budget reviews to ensure adequate budget discipline and control. The committee will be responsible for ensuring that project expenditures for each fiscal year are captured in the Governmental Development budget of that fiscal year, approved carried forward budgets are used at the beginning of the new year, and ensure disbursements are made while waiting for Parliament approval of the new year's budget.

107. The budgeting process and the key roles and responsibilities of the Budget Committee on periodic budget reviews will be detailed in the FM Manual. Annual work plans and annual budgets will be submitted to the Bank for review and approval, not later than three months before the end of the fiscal year.

Funds Flow

108. The standard funds flow mechanism in Afghanistan, similar to other ongoing projects, will be followed in this project. Project funds may be advanced to the Designated Accounts (DA – one each for IDA and ARTF) to be opened at the DAB and operated by the SDU in the Treasury Department of MOF. Requests for payments from the DAs will be made to the SDU by MOPH when needed.

109. In addition to payments out of DAs funds, the project can also request the SDU to make (a) direct payments from the Grant Account to consultants, consulting firms or suppliers; and (b) special commitments for contracts covered by letters of credit. These payments will follow World Bank procedures. All project payments will be made to either international firms or local firms that have bank accounts in DAB, a local commercial bank, or an overseas bank. All payments will be made either through bank transfers into the account of such firms or by check. All expenditures will be processed centrally by FD and after relevant approval.

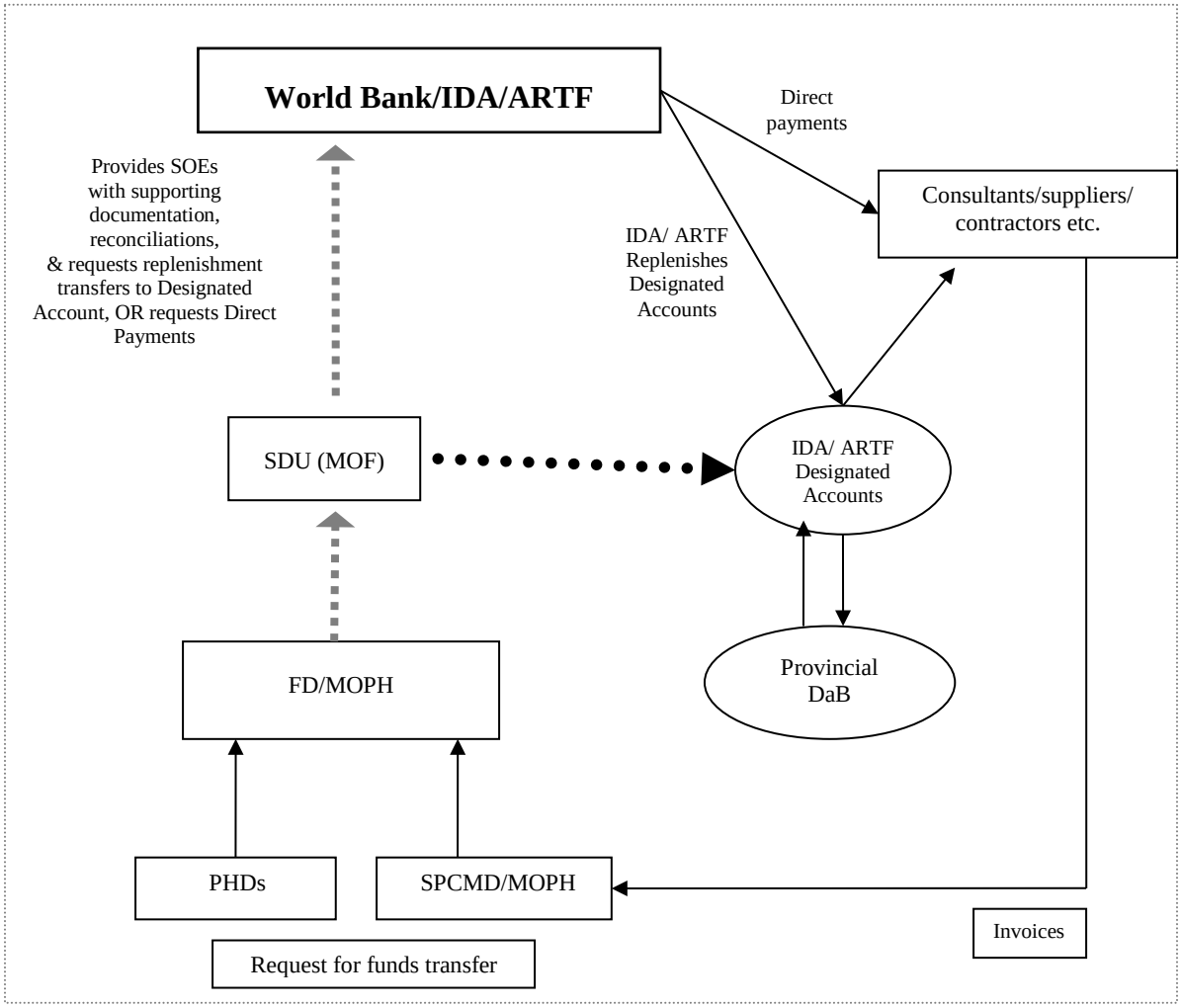
110. Payments to NGOs will be based on the approved performance agreement as stipulated in the contracts for each participating NGO. Release of first tranche payments will be based on the terms of the contract and subsequent release of funds will be dependent on the achievement of performance milestones stated in the agreement. All payments to the NGOs will be centralized in Kabul through the FD. Procurement of supplies for the delivery of BPHS and EPHS packages by the NGOs will be handled by the NGOs directly as also the associated inventory management.

111. In the provinces of Parwan, Kapisa and Panjshir where the component 1 activities are implemented through the MOPH Strengthening Mechanism offices, funds will be transferred to the MOPH provincial DAB account in advance from the DA on a quarterly basis to cover the incremental operating costs and minor procurement. These advances will be transferred through the provincial mastufiats based on the quarterly plan and approved allotment. Each of the 3 provincial SM offices has an FM consultant responsible for the accounting, reporting, and acquittal of expenditures to the mastufiats and monthly reconciliation. The central MOPH SM coordination office is staffed with a finance consultant and an accountant who will coordinate

with the provincial offices for the acquittal and reporting of expenditures, and they will thereafter report to the FD on the monthly basis. Any funds left unutilized at the provinces end of the year will be returned back to the DA.

112. SEHAT will also finance the provincial budgeting initiative. Under this initiative, each of the 34 provinces in Afghanistan will receive funding of US$500,000 per year to meet the needs of the PHD. Such advances will be based on approved plans and will be transferred from the DAs to the provincial DaB accounts through the mastufiats. As the financial management capacity in the PHDs are weak, the fiduciary arrangements in terms of accounting and reporting to MOPH and MOF central level will rest with the mastufiats. There is a finance officer in each of the 34 mastufiats who will be responsible to report to the central level on a monthly basis on the usage and acquittal of funds. Any funds unutilized at the end of the year will be returned back to the ARTF DA.

FUNDS FLOW CHART



Legal requirements for authorized signature

113. Ministry of Finance has authorization to disburse from the Grants. Specimen signatures of authorized signatories in MOF are on file with the Bank.

Accounting

114. The SDU will maintain a proper accounting system of all expenditures incurred along with supporting documents to enable the World Bank to verify these expenditures. The FM staff of the FD will: (i) supervise preparation of supporting documents for expenditures; (ii) prepare payment orders (Form M16); (iii) obtain approval for M-16s by the Minister or Deputy Minister depending on the payment amount; and (iv) submit them to the Treasury Department in MOF for verification and payment. While original copies of required supporting documents are attached to the Form M16, the project is required to maintain photocopies of these documents for records retention purposes. The FM Advisor in the MOF/SDU will use the government's computerized accounting system, AFMIS, for reporting, generating relevant financial statements, and exercising controls.

115. Currently, the FD maintains essential project transaction records using excel, and generate required monthly, quarterly, and annual reports. With support from this project, the BPET database currently in use in MOPH to track budget information will be upgraded to include additional functionalities. This will facilitate FD to maintain subsidiary books of records segregated by funding source and generate periodic reports from the database.

116. The FM manual, to be updated, approved by the Bank, and adopted by the FD/MOPH by July 1, 2013, will include: (i) financial management arrangements for the proposed project; (ii) roles and responsibilities of FD FM staff; (iii) documentation and approval procedures for payments; (iv) detailed procedures for funds transfer, payment of expenditures, acquittal and periodic reporting relating to provincial transfers; (v) project reporting requirements; and (vi) quality assurance measures to help ensure that adequate internal controls and procedures are in place and are being followed.

117. The FM manual will also establish project financial management in accordance with standard Afghan government policies and procedures including use of the government Chart of Accounts to record project expenditures. The use of these procedures will enable adequate recording and reporting of project expenditures. Overall project accounts will be maintained centrally in SDU, which will be ultimately responsible for recording of all project expenditures and receipts in the Government's accounting system. Reconciliation of project expenditure records with MOF records will be carried out monthly by the FD.

Internal Control & Internal Audit

118. The FD will be responsible for coordinating FM activities for the project with the SDU. Project-specific internal control procedures for requests and approval of funds will be described in the FM manual including segregation of duties, documentation reviews, physical asset control, and cash handling and management.

119. Annual project financial statements will be prepared by SDU/MOF detailing activities pertaining to the project as separate line items with adequate details to reflect the details of expenditures within each component.

120. There are no robust arrangements for internal audit at MOPH due to weak capacity in the internal audit department. However, the internal controls for approval and payment of expenditures in MOPH and MOF are satisfactory. As a measure to build the capacity of the MOPH internal audit department, two national internal auditors will be funded under the project. These internal auditors will be housed within the internal audit department and work closely with the department staff in performing the audits and building capacity. The auditors will report to the head of the Internal Audit department. Internal audit to be conducted by the department will be according to programs to be determined by MOPH's Director of Internal Audit using a risk-based approach. Internal audit TORs will be included in the FM manual, required to be reviewed and approved by the Bank.

121. The Bank also reserves the right to conduct review of the project activities and financial flows.

External Audit

122. The project accounts will be audited by the Auditor General, with the support of the Audit Advisor, with terms of reference satisfactory to the Association. The audit of the project accounts will include an assessment of the: (a) adequacy of the accounting and internal control systems; (b) ability to maintain adequate documentation for transactions; and (c) eligibility of incurred expenditures for Bank financing. The audited annual project financial statements will be submitted within six months of the close of fiscal year. All agencies involved in implementation and maintaining records of expenditures would need to retain these as per the World Bank records retention policy.

123. The following audit reports will be monitored each year in the Audit Reports Compliance System (ARCS):

Responsible Agency	**Audit**	**Auditors**	**Date**
MOPH	SOE, Project Accounts & Designated Account	Auditor General	June 20

124. The Bank-funded/administered projects already implemented or currently being implemented by MOPH (Strengthening Health Activities for the Rural Poor and HIV AIDS Prevention Project) have no overdue audit reports, no overdue IUFR or ineligible expenditures. Key issues raised in the audit reports have been resolved up to Solar Year 1389. The audit reports for SY1390 are being reviewed and the observations will be communicated to MOPH shortly. However, there are no serious financial irregularities noted in the report.

Financial Reporting

125. Financial Statements and Project Reports will be used for project monitoring and supervision. Based upon the FM arrangements for this project, financial statements and project reports will be prepared monthly, quarterly, and annually by the FD. These reports will be produced based on records from three sources: (a) FD's accounting system; (b) expenditure statements from SDU (as recorded in AFMIS) and reconciled with the FD records; and (c) bank statements from DAB.

126. In addition, FD will also report on the funds transferred to the provinces, amount expended and acquitted, and balance of funds available. This centralized reporting will be facilitated through monthly reporting from the provinces, both from the provincial mastufiats and the line directorates.

127. The quarterly project Interim Financial Reports will show: (a) sources and uses of funds by project components, reconciled with Bank records; (b) DA advances reconciled with Bank records; (c) funds transfer, utilization, acquittal and balance of funds relating to provincial transfers; and (d) expenditures consolidated and compared with government budget heads of account. The project will forward the relevant details to SDU/Development Budget and External Relation, with a copy to the Bank within 45 days of the end of each quarter. Government and the Bank have agreed on a pro forma report format for all Bank projects; a final customized format for the SEHAT project will be provided before project negotiations.

128. The annual project accounts to be prepared by SDU from AFMIS after due reconciliation to records maintained at the project, will form part of the consolidated Afghanistan Government Accounts for all development projects. This is done centrally in the Ministry of Finance Treasury Department, supported by the Financial Management Advisor.

Disbursement Arrangements

129. Disbursements procedures will follow the World Bank procedures described in the World Bank Disbursement Guidelines and the Disbursement Handbook for World Bank Clients (May 2006). Table 1 below shows the allocation of IDA/ARTF proceeds among the three expenditure categories. The closing date of the project will be June 30, 2018 with a final disbursement deadline (i.e. grace period) up to six months after the closing date.

130. During this grace period, project-related expenditures incurred prior to the closing date are eligible for disbursement or documentation against advances to the designated accounts.

Table 1: IDA and ARTF Financing by Category of Expenditure (US$ 370 million)

Expenditure Category	Amount of the Grant Allocations (in US$ M)		Financing Percentage
	IDA	ARTF	
(1) Goods, works, non-consulting services, consultants' services, training, and Incremental Operating Costs[19] for the project (excluding Parts 1(d); (2)(c)(ii) and (iii); and 2(h)(ii) of the Project)	98.5	268.0	**100 %**
(2) Goods, non-consulting services, consultants' services and works for Part 2(c)(ii) and (iii) of the Project	1.0	1.0	**100%**
(3) Goods, non-consulting services, consultants' services and works for Part 2(h)(ii) of the Project	0.5	1.0	**100%**
Total	**100**	**270**	**-**

131. **Disbursement Conditions.** No withdrawal shall be made under Category (2) and Category (3), unless a satisfactory proposal setting forth detailed a implementation plan for Part 2(c)(ii), (c)(iii) and (h)(ii) of the Project, in form and substance satisfactory to the Association has been: (i) prepared by the Recipient and submitted to the Association for its approval; and (ii) thereafter adopted by the Recipient.

132. The project will be financed by IDA of $100 million, ARTF of $270 million, HRITF of at least $7 million and contributions from the GOIRA of $30 million. The HRITF funding of US$7 million will be added to the existing HRBF grant TF095691 that will be extended up to September 30, 2015. This grant was set up under the Strengthening Health Activities for Rural Poor project for results-based financing, but will continue under the new SEHAT project with additional funding.

133. The IDA and ARTF will both fund all activities under SEHAT at 100%, inclusive of taxes. However, there will be a tracking system that will be utilized by MOPH to prevent 'double dipping' (i.e. payment of same expenditures from IDA as well as ARTF). There are also controls within MOF that will prevent this occurrence. Any project expenditure can be made only on the basis of approved allotments from MOF in a particular year, and all allotments are linked to specific funding source. For example when a contract is signed, at the time of requesting allotment, MOPH will have to assign a funding source and subsequently the payment will be made from the same funding source. Similarly, quarterly allotments based on detailed estimates

[19] "Incremental Operating Costs" means the incremental expenses incurred on account of Project implementation and management, including the operation and maintenance of vehicles, office supplies, communication charges, insurance costs, office administration costs, banking charges, advertising expenses, utility charges, rental charges, domestic/international travel and per diem allowances, and remuneration of MOPH contracted staff other than consultants included in Procurement Plan, but excluding salaries of officials of the Recipient's civil service.

have to be obtained for non-contract expenditures, such as incremental operating costs, and the same control as detailed above will apply.

134. The government funding of US$30 million will cover operations and maintenance (O&M) and other reimbursable costs for the Provincial Health departments, central ministry and health facilities of the MOPH-SM provinces. This will mainly include the electricity costs, heating costs, stationary costs, salaries of the civil servants, and per diem for the civil servants for the oversight of the health activities.

135. **Summary Reports**. Summary reports in the form of Summary Sheet will be used for expenditures on contracts valued at USD 500,000 or more for civil works, US$ 200,000 or more for goods, US$ 100,000 or more for consulting firms and US$ 50,000 or more for individual consultants. Supporting documents, such as invoices or receipts, etc., will be required for claims of these project expenditures. Project expenditures on contracts below the above thresholds, training programs and operating costs will be claimed through the Statement of Expenditures.

136. **Designated Accounts.** The legal agreement will contain provisions for the designated accounts (one each under IDA and ARTF) that may be opened at DAB in US dollars for a ceiling of advance to the designated account up to four (4) months' worth of project expenditures to be financed out of the funds in the designated account. The SDU will manage payments from and new advances/reimbursements to the DAs. Cash advances for routine day to day operating expenses may be taken from the Designated Accounts, and held and managed by MOPH. These agencies' controls for holding, accounting, and preparation of Statements of Expenses (SOEs) have been satisfactorily assessed. New cash advances will only be made when all other prior cash advances have been justified through submission of SOEs to the SDU. Monthly expenditure reporting for payments made from the designated account is required. Further, advances to the provinces will be made under the Strengthening Mechanism component and the provincial budgeting initiative. However, such amounts can be claimed from the Bank only on the basis of actual expenditures paid out of such advances.

137. **Direct Payments.** Third-party payments (direct) and Special Commitments will be permitted for amounts exceeding US$250,000. All such payments require supporting documentation in the form of records (copies of invoices, bills, purchase orders, etc.).

138. **Preparation of Withdrawal Applications.** MOPH will prepare Summary Reports (Summary Sheet or Statements of expenditures) for expenditures paid from the DAs and forward those reports to the SDU for further processing and consolidation into a withdrawal application. The SDU will review withdrawal applications for quality and conformity to Treasury procedures, and then obtain signature. Selected FD and SDU finance staff will be registered as users of the World Bank Web-based Client Connection system, and take an active hand in managing the flow of disbursements.

Financial Management Covenants

139. MOPH shall submit audited financial statements for the project within six months of the end of each fiscal year. The Project’s audit report will cover the financial statements, the

Designated Accounts, and SOEs, in accordance with terms of reference agreed with the Association.

140. Consolidated project IUFR will be submitted by the FD on a quarterly basis to the World Bank and a copy to SDU-MOF within 45 days after the end of each quarter.

141. **Special financial management covenant.** MOPH will ensure that key FM staff of its finance department is retained throughout the duration of the project in order to ensure smooth project implementation.

Regular Supervision Plan

142. During project implementation, the Bank will supervise the project's financial management arrangements. The team will:

- Review the project's quarterly interim financial reports as well as the project's annual audited financial statements and auditor's management letter.

- Review the project's financial management and disbursement arrangements (including a review of a sample of SOEs and movements on the Designated Accounts and bank reconciliations) to ensure compliance with the Bank's minimum requirements.

- Review agency’s performance in managing project funds to ensure that it is timely, accurate, and accountable. Particular supervision emphasis will be placed on asset management and supplies.

- Review of financial management risk rating, compliance with all covenants, and follow up on the action plan.

Conclusion

143. The FM arrangements, including the systems, processes, procedures, and staffing are adequate to support this project- subject to implementation of the action plan.

Annex 6: Procurement Arrangements

AFGHANISTAN: System Enhancement for Health Action in Transition Project

144. The Bank has gained substantial experience and understanding of the procurement environment in Afghanistan through its involvement in the interim procurement arrangements put in place under the Emergency Public Administration Project (2002) and though working with the institutions currently responsible for procurement functions, including the Afghanistan Reconstruction and Development Services. As part of the broader review of Afghanistan's Public Finance Management (PFM) system, the Bank carried out two assessments, in June 2005 and September 2007, of the procurement environment in the country based on baseline and performance indicators developed by a group of institutions led by the World Bank and OECD/Development Assistance Committee.

145. The first key issue identified through the procurement assessments was lack of ownership and lack of a procurement champion in the Government, which is a serious impediment to reform and to inter-ministerial dialogue. A second, related issue is the lack of capacity in the line ministries, as evidenced by their inability to define and communicate effectively their desired functional specifications/terms of reference in their procurements. The lack of capacity is also evident in the local private sector—while the number of bids is reasonably high, there is a lack of understanding about how to apply public procurement rules.

Government Reforms

146. A new Procurement Law (PL) was adopted in November 2005 that radically transforms the legal and regulatory framework. In accordance with the law, GOIRA established a Procurement Policy Unit (PPU) under the Ministry of Finance to provide oversight for the PL's implementation. PPU has issued several circulars regarding implementation of the PL including "Rules of Procedures for Public Procurement" (Circular: PPU/C005/1386 of April 12, 2007) and "Procurement Appeal and Review Mechanism" (Circular: PPU/N001/1385 of March 18, 2007). PPU and MOF have developed several standard bidding documents (SBDs), standard requests for proposal (SRFPs), standard requests for quotation (RFQs) for national and international procurement of goods/works and consulting services following national procedures as per the PL's Glossary of Procurement Terms in English and Dari. MOF has now mandated the use of: (i) SBDs for Goods and Works (Circular PPU/C024/1388 of June 10, 2009); (ii) SRFQs (Circular PP/C026/1388); and (iii) SRFPs (Circular PPU/C029/1388 of January 13, 2010). A Procurement Management Information System (PMIS) has been developed and is being piloted in three line ministries. In addition, a PPU Web site will facilitate publication of procurement notices and contract awards in addition to similar action being done under the ARDS-Web site and the Web sites of the line ministries, as applicable.

147. In the absence of adequate capacity to manage procurement activities effectively, a central procurement facilitation unit (ARDS–PU) has been established under Ministry of Economy to support line ministries and project implementing agencies. The Bank and the Government have agreed on a program for country-wide procurement reform and capacity building, leading to the transition from centralized to decentralized procurement services. The above was implemented by an international consultant under the supervision of PPU/MOF and

financed under the Public Administration Capacity Building Project (PACBP) and the Public Finance Management Reform Project (PFMRP). The consultant has conducted several basic, intermediate, and advanced level training programs. The implementation of the procurement reform component of the PACBP/PFMRP should be considered with due priority to ensure that fiduciary standards are further enhanced and that capacity is developed in the Government to maintain these standards.

148. The Procurement Law has been revised in July 2008 and amended in January 2009 and issued as a new Law by the Ministry of Justice and was published in the Official Gazette Number 957, 29.10.1387 (18 January 2009). The revised "Rules of Procedures for Public Procurement" have been issued as circular PPU/C027/1387 of November 18, 2009.

General Procurement

149. Procurement for the project will be administered in accordance with the World Bank's Guidelines: Procurement under IBRD Loans and IDA Credits dated January 2011 Guidelines: Selection and Employment of Consultants by World Bank Borrowers dated January 2011 and the provisions stipulated in the Financing 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 revised in January 2011 has been shared with the recipient. The World Bank's Standard Bidding Documents, Requests for Proposals, and Forms of Consultant Contract will be used. Civil works and goods following National Competitive Bidding (NCB) procedures shall be procured using the agreed Standard Bidding Documents (SBDs) for Afghanistan. It has been agreed by both parties that in the event of a conflict between IDA Procurement/Consultant Guidelines, as per Article 4 (2) of the Procurement Law July 2008 (Amendments in January 2009 incorporated) of the GOIRA, the IDA Procurement/Consultant Guidelines shall prevail.

150. The MOPH is the implementing agency and is responsible for all procurement activities. Most of the large value procurement would be carried out centrally at the ministry. However discussions are ongoing for some small value procurement of goods, works and services at provincial level to be carried out by Public Health Directorate (PHD). Although procurement capacity assessment of the PHDs was not carried out at the appraisal, it is easily understandable that having major procurement responsibility at the line ministries, the provinces would have very low procurement capacity. If it is agreed some of the procurement may be carried out at provincial level, it would be appropriate that all procurement are carried out under close supervision of the ministry. The detailed plan of action for fiduciary safeguard for procurement at provincial level are outlined in Procurement Capacity Building paragraph of this Annex.

Procurement of Works

151. Procurement of the works contracts will be carried out using Bank's SBD for Works for all contracts following International Competitive Bidding (ICB) procedures. National SBDs agreed with IDA, or satisfactory to IDA, will be used for the procurement of works following National Competitive Bidding (NCB) procedures. Shopping shall be in accordance with paragraph 3.5 of the Bank's Guidelines. Any contract estimated costing more than or equal to US$5,000,000 shall be procured following ICB procedures. Any contract estimated to cost more

than US$50,000 equivalent and less than US$5,000,000 may be procured following NCB procedures. Any contract estimated to cost less than or equal to US$50,000 equivalent shall be procured following shopping procedures. Works that meet the requirements of paragraph 3.7 (a) and (e) of the World Bank Procurement Guidelines may be procured following direct contracting procedures with prior agreement with IDA. The Procurement Plan shall set forth the specific procurement method and the requirement of prior review by the Bank depending upon the circumstances, procurement method used and the threshold.

152. The procurement plan shall determine the method and review threshold for all Works contract packages.

Procurement of Goods and Non Consulting Services

153. . Procurement of Goods will be done using the World Bank's SBD for Goods for all contracts following International Competitive Bidding (ICB) procedures. National SBDs agreed with, or satisfactory to IDA, will be used for the procurement of goods following National Competitive Bidding (NCB) procedures. Shopping shall be in accordance with paragraph 3.5 of the Bank's Guidelines. Any contract estimated costing more than US$200,000 shall be procured following ICB procedures. Any contract estimated to cost more than US$50,000 equivalent and less than US$200,000 shall be procured following NCB procedures. Any contract estimated to cost less than US$50,000 equivalent shall be procured following shopping procedures. Goods that meet the requirements of paragraph 3.7 of the World Bank Procurement Guidelines may be procured following direct contracting procedures with prior agreement with IDA. For procurement of vaccines, drugs and pharmaceuticals, preventive health and contraceptive devices, and biomedical equipment may be procured following Para 3.10 of the Bank's Guidelines.

154. The procurement plan shall determine the method and review threshold for all Goods contract packages.

Selection of Consultants

155. A major portion of the grant (estimated to US$ 280 million) shall be spent on performance based partnership agreement to deliver the BPHS (18 individual packages for 18 provinces) and EPHS (9 individual packages for 9 provinces) under Component 1. Advance activities are already underway for selection of NGOs for these procurement packages started from the Inception stage. All selections are expected to be completed through competitive method.

156. The selection process has given importance to Government's operation risk mitigation strategy by not relying on a single NGO for more than two provinces for both BPHS and EPHS. In doing so, there has been modification of contracting strategy keeping the competition but also adopting some risk mitigation strategies. To foster competition, some NGOs who expressed interest for more than one contract package and were found to have capability were short-listed to a maximum of four contract packages, as appropriate. However at the stage of contract award, if multiple proposals of an NGO are found to have secured the highest ranked, that particular NGO shall only receive a maximum of two contract packages based on the priority sequence of

contract packages award as mentioned in the Request for Proposals. This limitation is not applicable for EPHS, where one NGO was short-listed for a maximum of two EPHS contract packages. The contracting strategy is approved by the Regional Procurement Office of the World Bank.

157. Under the Strengthening Program Management (Component 3 of the project), there is likely to be a number of consultancy packages which will be identified during project supervision.

158. Individual consultants: There is likely to be a number of individual consultants required for the project under Component 3.

159. **Short lists of consultants:** For services estimated to cost less than US$300,000 equivalent per contract may be composed entirely of national consultants in accordance with the provisions of paragraph 2.7 of the Consultant Guidelines. The selection methods applicable for consultants are Quality- and Cost- Based Selection, Quality-Based Selection, Selection Based on Consultant's Qualification, Least-Cost Selection, Fixed Budget Selection, and Single-Source Selection for firms and as per Section V of the Bank's Guidelines for Individuals. The threshold for Selection Based on Consultant's Qualification will be less than US$200,000 equivalent per contract. The procurement plan shall determine the method and review threshold for all consultancy contract packages.

Incremental Operating Costs

160. The costs which would be financed by the project would be procured using the implementing agency's administrative procedures, which were reviewed and found acceptable to the Bank. The incremental operating costs are incremental expenses incurred on account of Project implementation and management, including the operation and maintenance of vehicles, office supplies, communication charges, insurance costs, office administration costs, banking charges, utility charges, rental charges, advertisement charges, domestic/international travel and per diem allowances, remuneration of MOPH contracted staff other than consultants included in Procurement Plan, but excluding salaries of officials of the Recipient's civil service.

Assessment of the Agency's Capacity to Implement Procurement

161. MOPH will have overall responsibility for all procurement under the project.

162. A preliminary assessment of the capacity of MOPH to implement procurement actions for the project has been carried out. The assessment reviewed the organizational structure for implementing the project and interactions.

163. The SPCMD, entrusted to carry out the procurement of consultancy services for MOPH, is mostly run by consultants and has been found to have reasonable capacity. SPCMD is accredited by the Procurement Policy Unit enabling the unit to carry out procurement of services without routing the procurement documents through ARDS.

164. The procurement capacity of goods and works is relatively week in the procurement department. The international procurement TA will help with capacity assessment/capacity development of the procurement of goods and works. Once the procurement director comes on board, s/he with the support of the international TA will develop a comprehensive plan for reforming/strengthening of the procurement department especially on the goods and works procurement. SEHAT will finance the implementation.

165. Discussions are ongoing for the procurement of goods and works at the provincial level for small value goods and works contracts. There are practical difficulties to carry out procurement capacity assessment at the provincial level (34 provinces). However it is easily understandable that having major procurement responsibility at the line ministries, the provinces would have very low procurement capacity.

Procurement Capacity Development

166. In consideration of the capacity development in the Line Ministries and Provinces already being undertaken through the Public Financial Management Reform Project II (PFMRII) under MOF, close co-ordination between MOPH and MOF is envisaged during the project implementation. It is expected that by the end of the project, the MOPH will have enough capacity to carry out its own procurement without reliance on external assistance. A comprehensive procurement capacity development plan will be developed for procurement of Goods and Works, leading to the Procurement Accreditation of MOPH by the Procurement Policy Unit of MOF. The capacity development plan shall take into consideration the training and procurement assistance provided by Public Financial Management Reform II.

167. Procurement Training: Through PFMRII, the Afghanistan Civil Service Institute (ACSI) is conducting 3 levels of training (Basic, Intermediate and Advanced) on public procurement. During the project, the procurement staff of the MOPH shall gradually complete all the three levels of training. Staff who successfully complete the Basic and Intermediate training will be eligible for appropriate international training on Procurement. However before any international training, the staff shall also be required to complete English language training.

168. Staffing: Appropriate staffing plan shall be developed along with a Capacity Development Plan. By end of the second year of the project, national and international consultants will complete on the job training for the procurement departments of MOPH.

169. It is agreed some small value procurement may be carried out at provincial level by PHDs. Given the low procurement capacity of the PHDs, it would be appropriate that all procurement is carried out under close supervision of the ministry. To mitigate the high fiduciary risk of procurement at the provincial level by PHD, the following capacity building activities are planned: (a) At least one staff from each PHD completes the Basic and Intermediate training offered by Procurement Policy Unit of the MOF by February 28, 2013; (b) by March 31, 2013, the MOPH shall hire “Procurement Capacity Building Consultants” for a cluster of provinces with specific assignment of developing Shopping and NCB Guidelines in Dari and Pashto with step by step process and checklist for fiduciary compliance, help PHDs to set up procurement documentation and filing system; (c) prepare a complaint handling mechanism available to bidders and PHD staffs; (c)and, (c) incorporate in the project procurement plan

provision for audit firm to conduct procurement performance review of each provinces for each year until the end of project. The detail plan of action for fiduciary safeguard for procurement at provincial level shall be adjusted after periodic assessment of procurement capacity during the supervision missions.

Procurement Plan

170. The procurement plan has outlined the contract packages of goods, consultants (individual/firm), and non-consulting services. Contracted staff who are not consultants will not be part of the procurement plan. Those individuals will be hired in line with the Operations Manual which will be developed by the project and be agreed by the Bank. All contracts not prior reviewed by the Bank will be subject to Post Review as per the provisions of the Procurement and Consultant Guidelines of the Bank.

Frequency of Procurement Supervision

171. In addition to the prior review, supervision shall be carried out from Bank offices. There will be two Implementation Support Missions per annum.

172. Procurement Audit: In addition to prior review, Bank staff or Bank appointed consultants shall carry out post procurement audit once per annum.

General

Project Information:

- Country/Borrower: Islamic Republic of Afghanistan
- Project Name: System Enhancement for Health Action in Transition Project
- Implementing Agency: MOPH
- Grant No:
- Bank's approval Date of the Procurement Plan [Original]: January 14, 2013
- Date of General Procurement Notice:
- Period covered by this procurement plan is: first 18 months of the project

Annex 7: Implementation and Monitoring Arrangements

AFGHANISTAN: System Enhancement for Health Action in Transition Project

173. The Project's design supports a flexible sector-wide approach, providing financing for priority programs and functions of the Ministry on a need basis. The content and scope of the components may be revised if annual reviews reveal shifting needs and changes in development partners' support. GOIRA will be able to use Bank funding for the underfunded parts of its priority programs.

174. The Deputy Minister for Policy and Planning will be the project's coordinator and focal point. The Deputy Minister will be responsible for project management, its execution and implementation through various units of the MOPH and PHDs, coordination within MOPH, Ministry of Finance and other Ministries of the GOIRA and with Development Partners and the Bank, overall monitoring and evaluation, financing and financial management. MOPH will execute and implement the project through its central departments and PHDs to ensure smooth service delivery. A Steering Committee headed by the Deputy Minister for Policy and Planning and consisting of all Director Generals of MOPH will provide policy and strategic direction and general oversight. This Steering Committee will also engage with the development partners in terms of policy dialogue and future directions of the health sector.

175. Service Delivery Management and Implementation: The actual health services will be delivered through contracted NGOs or through civil servants. The procurement and contract management for NGO services will be done by the SPCMD under the Directorate of Procurement of MOPH. The NGOs will be selected on competitive basis following Bank procurement guidelines. SPCMD will undertake these responsibilities in close coordination with PHDs and relevant units of the MOPH. The provision of services by NGOs will be monitored through the regular HMIS on quarterly basis and through facility assessment carried out by an independent third party on annual basis. The provision of services will be supervised by the SPCMD, relevant departments of MOPH and PHDs. Under the ongoing project, most of these functions are carried out by the SPCMD, but under SEHAT the activities will be streamlined within regular systems of MOPH. Support will be provided to relevant departments and PHDs to undertake these functions and their capacity will be strengthened, especially their role in monitoring, supervision, reporting and financial management. The procurement of goods and minor civil works will be managed by the procurement departments of MOPH at provincial and central levels.

176. Similar to the previous health project, SEHAT will finance the provision of BPHS in the three provinces of Parwan, Kapisa and Panjshir through MOPH-SM as well as in Kabul city. Technical assistance will be provided to both central MOPH and the Provincial Health Officer(s) (PHOs) to smoothly carry out the project. The service delivery in MOPH-SM provinces will be managed through MOPH regular structures. At the central level the MOPH-SM coordinator will be overall responsible for these provinces. The services will be executed and implemented through PHDs who would be responsible for management implementation, monitoring and supervision reporting and financial management. Monitoring of provision of services in these provinces will be as practiced for NGO contracted provinces i.e. through the regular HMIS on quarterly basis and through facility assessment carried out by an independent third party on

annual basis. The PHDs will take prime responsibility for supervision, monitoring and ensure effective implementation and provision of services in close coordination and working with the relevant Directorates of MOPH and SPCMD.

177. As outlined above the project will be implemented by the regular structures of MOPH at central and provincial level. For the last ten years, the Ministry has functioned with the technical support of externally financed technical assistance. The part of externally financed TA worked under the authority of line directors. This also included SPCMD, which worked under the Procurement Directorate. In the past SPCMD used to take care of Financial Management, Procurement of Goods and services as well as donor coordination. As an effort to make sure regular departments of MOPH are strengthened and take responsibility of the main functions, SPCMD will take care of the procurement of the NGO contracts and contract management during implementation. The rest of the activities will be carried out by the concerned regular departments within MOPH. For example the oversight of M&E activities will be taken care by the M&E department of MOPH and the financial management will be carried by the finance department of MOPH. The regular Departments responsible for these functions include Procurement Directorate, M&E Department, Policy and Planning, Human Resources Development, Preventive Medicine General Directorate, Curative Medicine General Directorate, Pharmaceutical Affairs General Directorate, Afghanistan Public Health Institute General Directorate and Provincial Liaison Directorate.

178. Procurement: SEHAT will strengthen the capacity of the MOPH to handle procurement under Bank Guidelines specifically for Goods and Works. The Procurement Directorate will be overall responsible for all procurement under the project including goods, services and works. For all large value procurements of Goods and Works, ARDS will assist the procurement directorate of MOPH to ensure procurement compliance, as and when required. In addition, the PPU will embed procurement specialists in the line ministries to provide technical assistance, oversight, capacity building and assistance for complex procurements. Moreover, the Procurement Directorate will be strengthened by hiring of the procurement and possibly other senior management group financed by Capacity Building for Results Facility project.

179. The SPCMD will manage procurement of all technical assistance under the Project. The main contracts under the various components of the project are: (a) consultancy services for provision of BPHS/EPHS in the selected provinces through a competitive selection process of the NGO and non-state firms; and (b) services to monitor and evaluate the performance of the Ministry and NGO in the delivery of BPHS. Besides managing the procurement of services, the SPCMD will also be responsible for the day-to-day management of those service contracts, which will involve regular site visits by the SPCMD members to the project sites at least once per quarter.

180. The project foresees some small value procurement at the province level carried out by Provincial Health Directorates. Although capacity assessments and were not carried out it is quite understandable from the overall assessment of the ministry itself, the capacity of the PHDs would be very low, which will need to be strengthened. The finance department will ensure that contractors and suppliers are paid on time, and that transfer of resources to the PHOs takes place efficiently and in a timely manner. It will prepare the withdrawal applications to be sent to the Bank.

181. Monitoring and Evaluation: The M&E/HMIS department of the MOPH will provide oversight for the monitoring of the implementation of all contracted services and technical assistance. As for the previous health project, the PHD along with the SPCMD will supervise the performance of PPA and MOPH-SM through regular supervision and the analysis of data collected by a third party. The following approaches will be used for the health information management:

a) Health Management Information System (HMIS): Through HMIS on routine basis, qualitative and quantitative information will be collected, processed, analyzed, interpreted, disseminated, and used to improve the provision of health services according to the MOPH priorities and ultimately to improve the health of the population. In addition, the information generated can be used for research and training purposes. As part of a larger Health Information System (HIS), the HMIS proper mainly addresses the periodic routine reports, including the data collection tools needed to compile the reports. The following HMIS tools will be used under SEHAT: a) Monthly Aggregated Activity Report from all health posts in the catchment area of each health facility; b) monthly Integrated Activity Reports for outpatient department of all health facilities; c) Facility Status Report for health facilities on quarterly basis; d) Hospital Monthly Inpatient Report (Hospitals and larger facilities with inpatient care); and e) Hospital Status Report on quarterly basis.

b) National Monitoring Check List (NMC) Purpose: The NMC will provide support to MOPH monitors, NGO managers, Provincial Health Office staff, and central level MOPH staff to collect and analyze data from health facilities being monitored by the MOPH and NGO staff. The information collected via NMC will be entered in a central database in the MOPH. A copy of NMC database has been given to all provinces to enter, maintain and analyze their provincial data. A copy of synchronized data will be sent to the MOPH for consolidation in NMC hub or main database on quarterly basis, which will contain updates on the health facility monitoring at the national level. The PHO staff will visit each health facility in their respective province at least once per quarter. The staff of M&E department of the MOPH as well as the staff of the SPCMD will visit each province at least once per quarter.

182. Based on HMIS reports and findings of the monitoring visits, the MOPH will organize quarterly BPHS/EPHS implementation progress workshop with the participation of all the implementers including MOPH-SM, different MOPH departments, UN agencies and other partners. This quarterly workshop will enable the partners to review the progress, find out implementation bottlenecks and prepare an action plan accordingly. The follow up on the agreed action plan will be done during subsequent quarterly implementation progress workshops.

183. Besides routine data collection and monitoring, the following methods will be used through deployment of a third party for M&E:

(a) Balanced Score Card (BSC): Through utilization of the BSC, the performance of each province in terms of BPHS and EPHS service delivery will be summarized in one page as color coded for different levels of activities. The BSC provides the policymakers, health managers and other decision makers with evidence about the health service delivery in each province highlighting strengths and areas to be improved. The BSC provides a framework

to quickly review multiple areas of the health service delivery called domains. Each domain contains an array of indicators. This allows the MOPH and other stakeholders in the health sector to visualize the performance of various provinces as well as the service delivery trends overtime at country level. A third party will be recruited competitively to collect data from a representative sample of 600-800 health facilities and provide reports on annual basis.

(b) Demographic and Health Survey (DHS): SEHAT will finance at least one DHS to provide information on maternal and child health, child survival, family planning, health care utilization and related expenditures in rural Afghanistan as well as some demographic information. The DHS will be coordinated with MICS, NRVA and other ad hoc household surveys to ensure complementarities. The results of the DHS will instrumental in evaluating the outcome of SEHAT at the community level. The DHS will use a nationally representative sample along with the provincial level estimates of the key SEHAT outcomes such as institutional deliveries, child immunization, contraceptive prevalence rate, etc.

(c) HMIS Verification: Since a portion of the NGO payment will be linked with the key outputs of the health facilities reported through the HMIS, there will be arrangements for third party verification of the HMIS reports. The verification of HMIS data will occur on a six-monthly basis on a random selection of HFs by the third party. There will be two stages of verification: i) assessment of consistency between health facility registers and Quarterly Reports sent to MOPH by comparing the figures submitted to MOPH with information recorded in the HF registers for key outputs; and . ii) Visits to a random sample of households listed in the health facility registers and verification of services received by the client. The third party will also verify the status of the HF in terms of their capacity to provide BPHS/EPHS services as per MOPH guidelines.

184. International experience suggests the strong potential to use information and communication technologies (ICT) to support monitoring, beneficiary verification, and social accountability processes under SEHAT. In particular, the project will pilot a mobile telephone-based system that collects citizen feedback on the quality and availability of services delivered under the Project. ICT and mobile tools have shown to be helpful in enrolling beneficiaries of maternal health services, monitoring the quality of service delivery quality, and streamlining data collection. The project will pilot receiving patients' feedback about services. The pilot may be scaled up based on lessons learnt both geographically and in scope to support project needs. A consultant will be hired to help the MOPH with the design of a pilot for the use of ICT in a limited number of provinces.

185. Reporting: MOPH will, based on annual output targets, produce a semi- annual report on the performance of the sector at the end of six months. The report will contain tables of performance against indicators for SEHAT. These reports will be used for the Joint Annual Strategic Health Planning Retreat that will review the performance of the health sector during the previous year and determine sector priorities for next year. A simple template with limited number of pages will be developed to capture the updates on the progress on each project components and activities, budget execution as well as projections for the future.

186. Financial Management: Financial management and audit functions for SEHAT will be undertaken through agents contracted under the IDA-financed Public Financial Management

Reform Project II. This is the primary instrument for continuing to strengthen the fiduciary measures put in place for ensuring transparency and accountability of funds provided by the Bank and other donors. Under these contracts, two advisers - Financial Management and Audit - are responsible for working with the government and line ministries to carry out these core functions. The former, the FM Agent is responsible for helping MOF maintain the accounts for all public expenditures, including IDA-financed projects and for building capacity within the government offices for these functions. The latter, the Audit Agent is responsible for providing technical assistance to the Control and Audit office in the performance of annual audits.

187. The standard funds flow mechanism in Afghanistan, similar to other ongoing projects, will be followed in this project. Project funds may be advanced to the Designated Accounts (DA – one each for IDA and ARTF) to be opened at the Da Afghanistan Bank (DaB) and operated by the Special Disbursement Unit (SDU) in the Treasury Department of MOF. Requests for payments from the DAs will be made to the SDU by MOPH when needed.

188. In addition to payments out of DAs funds, the project can also request the SDU to make (a) direct payments from the Grant Account to consultants, consulting firms or suppliers; and (b) special commitments for contracts covered by letters of credit. These payments will follow World Bank procedures. All project payments will be made to either international firms or local firms that have bank accounts in DAB, a local commercial bank, or an overseas bank. All payments will be made either through bank transfers into the account of such firms or by check. All expenditures will be processed centrally by FD and after relevant approval.

189. Payments to NGOs will be based on the approved performance agreement as stipulated in the contracts for each participating NGO. Release of first tranche payments will be based on the terms of the contract and subsequent release of funds will be dependent on the achievement of performance milestones stated in the agreement. All payments to the NGOs will be centralized in Kabul through the FD. Procurement of supplies for the delivery of BPHS and EPHS packages by the NGOs will be handled by the NGOs directly as also the associated inventory management.

190. In the provinces of Parwan, Kapisa and Panjshir where the component 1 activities are implemented through the MOPH Strengthening Mechanism offices, funds will be transferred to the MOPH provincial DaB account in advance from the DA on a quarterly basis to cover the incremental operating costs and minor procurement. These advances will be transferred through the provincial mastufiats based on the quarterly plan and approved allotment. Each of the 3 provincial SM offices has an FM consultant responsible for the accounting, reporting, and acquittal of expenditures to the mastufiats and monthly reconciliation. The central MOPH SM coordination office is staffed with a finance consultant and an accountant who will coordinate with the provincial offices for the acquittal and reporting of expenditures, and they will thereafter report to the FD on the monthly basis. Any funds left unutilized at the provinces end of the year will be returned back to the DA.

191. SEHAT will also finance the provincial budgeting initiative. Under this initiative, each of the 34 provinces in Afghanistan will receive funding of US$500,000 per year to meet the needs of the provincial health directorates (PHD). Such advances will be based on approved plans and will be transferred from the DAs to the provincial DaB accounts through the mastufiats. As the

financial management capacity in the PHDs are weak, the fiduciary arrangements in terms of accounting and reporting to MOPH and MOF central level will rest with the mastufiats. There is a finance officer in each of the 34 mastufiats who will be responsible to report to the central level on a monthly basis on the usage and acquittal of funds. Any funds unutilized at the end of the year will be returned back to the ARTF DA.

192. Transition from SHARP to SEHAT: SEHAT is expected to become effective by April 2013 and to be implemented over a period of 5 years up to June 2018. In order to ensure a smooth transition of service providers, advance procurement of NGOs for delivery of BPHS and EPHS services has been initiated in May 2012. The service contracts under the ongoing SHARP project and under EU support will end on March 30, 2013 and on May 31, 2013 respectively. As the process of contracting of NGOs for SEHAT will probably be completed only towards the end of 2013, it has been agreed that the present contracts will be extended to accommodate this transition. The extended contracts will include the new revised BPHS services for nutrition, disability and mental health services. New large contracts (above US$ 15 million) will be awarded first, after which the remaining contracts will be awarded in an order that will prioritize provinces that are presently supported by the EU.

193. SEHAT will finance the provision of BPHS in the three provinces of Parwan, Kapisa and Panjshir through MOPH-SM as outlined above. The MOPH-SM team will develop a comprehensive proposal for the implementation of BPHS and EPHS in the mentioned provinces. The proposal is going to outline the implementation arrangements in terms; technical considerations, fiduciary arrangements, monitoring and evaluation, budget, etc. After Bank's concurrence with the proposal, the actual implementation will be undertaken by the MOPH from October 1, 2013.

194. Implementation Support: To ensure timely and effective implementation, an experienced in-country Bank team of health and fiduciary specialists will provide day to day implementation support to MOPH. The in-country team will be strengthened by addition of a senior operational staff to provide operational support to the team due to increased scope and complexity of the proposed support. In addition, the team will have regular support from senior technical staff of SASHN based in Islamabad and headquarters. The team will also seek input of Bank staff with specialized area of work, e.g. pharmaceutical policy and quality control and engage competent consultants in some areas to provide support to the MOPH.

195. Supervision and implementation support provided by the Bank will be carried out in close coordination with other development partners such as EU, USAID, CIDA and UN agencies. The team will undertake joint implementation support mission with the MOPH and development partners on six-monthly basis. Before each joint mission, MOPH will draft a progress report which will become the basis for the discussions between MOPH and development partners. Each joint review will prepare an aide-memoire which will document the findings of the joint review in terms of implementation achievements, challenges as well as the agreed actions with the MOPH to strengthen the implementation of SEHAT.

A. Responsibility for Implementation and Supervision

Project Activities	Implementers	Primary Supervisor	Secondary Supervisor
PPA (BPHS, EPHS)	NGO	MOPH-HIS departments, SPCMD and Provincial Health Directors	3rd party Evaluation firm
MOPH Strengthening mechanism (BPHS, EPHS)	Provincial offices of MOPH (PHO)	SM Coordinator through Director General Health Services	Auditing firm and 3rd party Evaluation firm
Training of CHW, CHCs, community mid-wives and community nurses	NGO and MOPH-SM	MOPH-Human Resource department and SPCMD	3rd party evaluation firm
Strengthening Health System thematic areas	Relevant departments	MOPH- Deputy Minister Policy and Planning	
Household and Health facility Surveys	3rd party evaluation firm	MOPH- M&E and HMIS Departments	
HMIS verifications	3rd party firm	MOPH-HMIS department and Provincial Health Directors	

Annex 8: Project Preparation and Appraisal Team Members

AFGHANISTAN: System Enhancement for Health Action in Transition Project

Team Composition				
Bank Staff				
Name	**Title**	**Specialization**	**Unit**	**UPI**
Ghulam Dastagir Sayed	Senior Health Specialist	Health	SASHN	314213
Kees Kostermans	Lead Public Health Specialist	Health	SASHN	73482
Inaam Haq	Senior Health Specialist	Health	SASHN	155288
Tekabe Ayalew Belay	Senior Health Economist	Economics	SASHN	247140
Mohammad Tawab Hashemi	Health Specialist	Health	SASHN	347624
Luc Laviolette	Senior Nutrition Specialist	Nutrition	SASHN	349697
Asif Qurishi	Team Assistant	Admin	SASHD	354324
Mariam Haidary	Program Assistant	Admin	SASHD	244106
Julie-Anne Graitge	Program Assistant	Admin	SASHD	23279
Toufiq Ahmed	Procurement Specialist	Procurement	SARPS	330898
Aimal Sherzad	Procurement Analyst	Procurement	SARPS	370967
Mohammad Arif Rasuli	Senior Environmental Specialist	Environment	SASDS	283994
Mohammad Yasin Noori	Social Development Specialist	Social Development	SASDS	349321
Asta Olesen	Senior Social Development Specialist	Social Development	SASDS	239085
Marjorie Mpundu	Senior Counsel	Legal	LEGES	289323
Chau-Ching Shen	Senior Finance Officer	Disbursement	CTRLN	186455
Asha Narayan	Financial Management Specialist	Financial Management	SARFM	224585
Mohammad Wali Ahmad Zai	Financial Management Analyst	Financial Management	SARFM	300381
Aimal Ashrati	Disbursement	Disbursement	SARFM	362460
Abdul Raouf Zia	Senior Communications Officer	External Affairs	SAREX	247931
Lori Geurts	Operations Analyst	Operations	SASHN	97174
Non-Bank Staff				
Name	**Title**	**Office Phone**		**City**
Kristian Orsini	Deputy Head of Operations European Union	Mobile: 0799 322 545		Kabul
D. Sefatullah Habib	Project Officer Health, EU	Mobile: 0700216427		Kabul

Annex 9: Environmental and Social Safeguards Framework

AFGHANISTAN: System Enhancement for Health Action in Transition Project

196. SEHAT is a category B project and OP/BP 4.01 (Environment Assessment) is triggered. The minor construction work under the project is not expected to cause any significant negative environmental impact. The location and details of the planned physical works are not known at the time of project appraisal and therefore a framework approach has been adopted to address potential social and environmental issues and ensure consistent treatment of social and environmental issues during its implementation. The Environmental and Social Management Framework (ESMF) has been developed specifically for the proposed operations to avoid, reduce or mitigate adverse social or environmental impact. Consistent with existing national legislation and the World Bank Operational Policies on environmental and social safeguard, the objective of the Framework is to help ensure that activities under the project would:

- Protect human health;
- Prevent or compensate any loss of livelihood;
- Prevent environmental degradation as a result of either individual subprojects or their cumulative effects;
- Minimize impacts on cultural property;
- Enhance positive environmental and social outcomes, and
- Comply with the National and World Bank Safeguards policies

197. The Ministry has prepared a HCWMP under SHARP. The plan was partially implemented. The plan is being updated and strengthened. Based on the experience of SHARP, institutional arrangements, responsibilities and technical assistance needs were agreed during appraisal to ensure the plan is implemented as envisaged. An updated HCWMP will be approved by the Bank and disclosed by December 31, 2013. The draft HCWMP and ESMF have been translated and publicly disclosed including on MOPH website and in the World Bank Info Shop on November 30, 2012.

198. The project will finance minor civil works, such as, modification or rehabilitation of existing health infrastructure. New constructions are not foreseen under the project. No land acquisition will be funded under the project, and in case of new constructions, these will either be built on existing health facility land or on other government or public land – or in rare cases, on minor land plots donated voluntarily or against community contribution. Adverse social impacts of construction works may thus only arise in case of informal settlers or other uses of the government/public land in question. Since the location of any new facility is not known at appraisal, a framework approach is being applied to address environmental and social impacts. The ESMF includes guidelines for compensation in the rare case that negative livelihood impact is suffered by project affected people.

199. The selection, design, contracting, M&E of subprojects will be consistent with the following guidelines, codes of practice and requirements:

- A negative list of characteristics that would make a proposed subproject ineligible for support, as indicated in Annex 1
- Draft Terms of Reference For Health Care Waste Management Expert, Annex 2
- Guidelines for livelihood and compensation for loss of assets, presented in Annex 3 (i) and 3 (ii)
- Relevant elements of the codes of practice for the mitigation of potential environmental and social impacts, Annex 4
- The requirement that confirmation is received through the Regional Mine Action Center that areas to be accessed during reconstruction and rehabilitation activities have been demined, see Guidelines in Annex 5
- Environmental Guidelines for Contractors, Annex 6
- Grievance Redress Mechanism, Annex 7

Complaint Handling Management

200. MOPH has a complaint handling system in place, which is still limited in scope and reach. During the implementation of SEHAT, MOPH will maintain a complaint record database to enable complaint tracking and review and establish a complaint handling committee and involve health shura members in complaint handling processes. The revised complaint handling procedures are included in the ESMF.

Disclosure

201. The ESMF has been disclosed by MOPH/SEHAT in Dari and Pashto languages as well as English on the MOPH website and in relevant places in the country places as required by law for information and comments. Public notice in the media should be served for that purpose. The English version of the ESMF was disclosed at the World Bank's Info Shop on November 30, 2012. The GOIRA intends to make all project documentation publicly available to the relevant stakeholders and through the Afghan Information Management System (AIMS).

Annex 10: Economic and Financial Analysis

AFGHANISTAN: System Enhancement for Health Action in Transition Project

202. **Context:** Afghanistan has made impressive progress in the health sector in the past decade. A clear separation of functions between service provision and its financing is one of the factors contributing to the success story. This separation was made possible through contracting, primarily, of health services primary care services to NGOs by MOPH such that the latter assumed full responsibility for service delivery and the government "purchases" health services from the NGOs and exercises its stewardship functions over the sector.

203. Such separation of functions proved useful in terms efficiency in resource allocation and utilization. This was realized through several mechanisms including: i) *market orientation of the purchasing function*: the government exploited the advantage that competitive markets provide to get value for money. As NGOs need to compete to win a contract, prices are determined competitively in the market. As a result, the cost of primary care services are much lower than in countries with comparable national economy; ii) *capitalizing on MOPH comparative advantage*: by freeing up the ministry of the time and effort in organizing and delivering services, it enabled the ministry to focus on ensuring services are made available to the public and on critical activities of regulation, monitoring, policy formulation etc.,; and iii) *benchmarking*: provided the government a service delivery performance benchmarking tool against which it can compare service delivery in different parts of the country and levels of the health system.

204. **Spending on Health:** As a share of GDP, Afghanistan spends large share of its GDP on health. At 10% it represents a higher spending on health compared to South Asian countries including Pakistan 3%, India 4%, Nepal 5%, and its Central Asian neighbors. Similarly the per capita spending also is higher at US$45 per capita, than in Pakistan (US$18), India (US$29), Sri Lanka (US$44), and Nepal (US$18). Such high spending, however, is mainly driven by private spending.

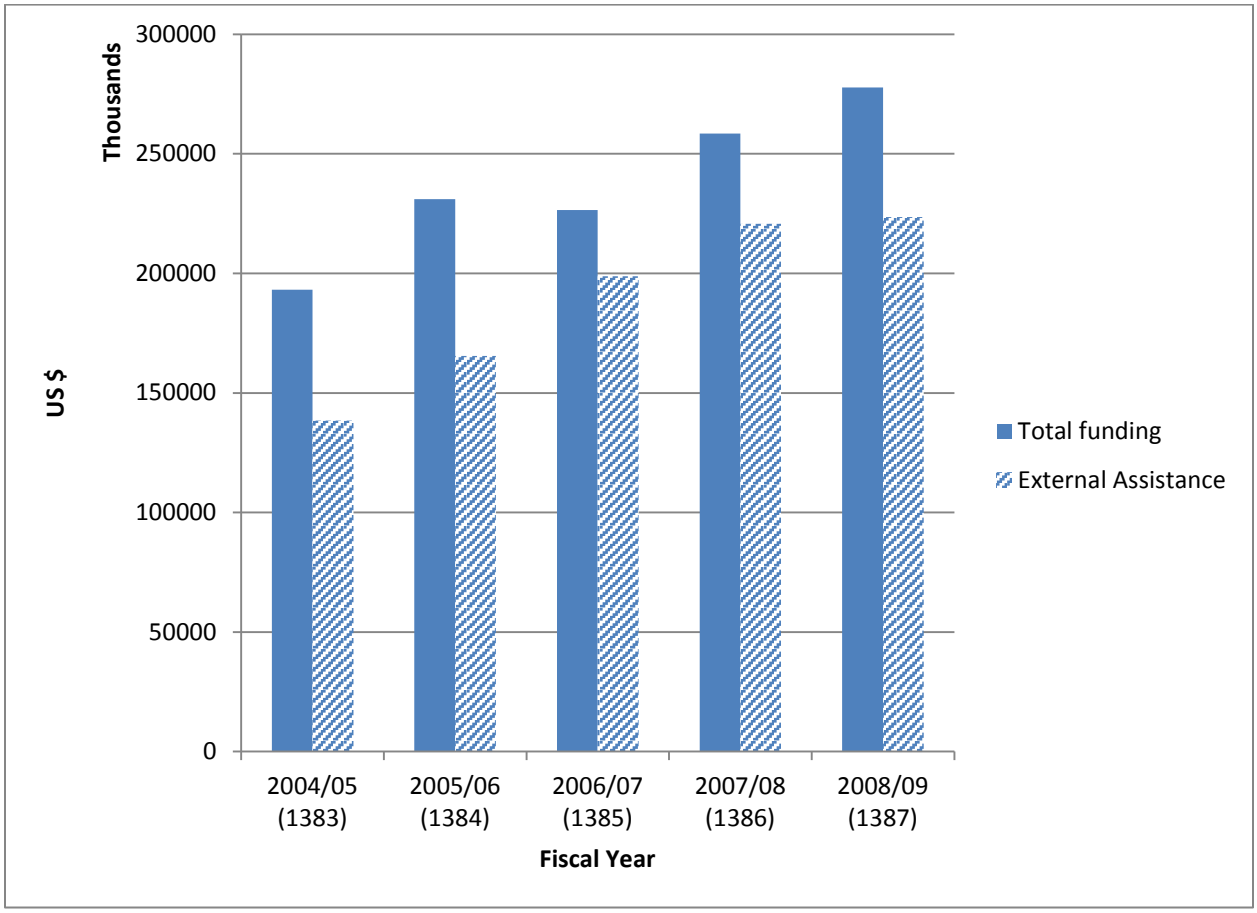
205. *Composition of spending:* In terms of the composition of total health expenditure (THE), 76 percent is contributed by private spending and remaining 24 percent by public sources. Of the private sources, more than 90 percent is from out of pocket spending at the time of service use. This amounts to more than 6 percent of the per capita income. Of the public sources, 75 percent is from external sources of which the government contribution is only 24 percent.[20] Government remains a small player in terms of financing by contributing a mere 6 % of THE; the share of health in total government spending is even lower at 4 %.

206. **Fiscal Sustainability and External Support:** Significant work remains before Afghanistan attains fiscal sustainability (i.e. domestic revenues fully covering operating expenditures). Fiscal sustainability ratio (i.e. domestic revenue over operating expenditure) has declined in the past years from 66 percent in 2007/08 to 60 percent in 2008/09, and then slightly improved to 67 percent in FY2012. This is partly due to increase in operating budget and increase in domestic revenue which marginally exceeded the revenue targets agreed with IMF[21].

[20] Afghanistan National Health Accounts 2008-09, MOPH.
[21] See Afghanistan Public Expenditure Review 2010. And Afghanistan Economic Update, October 2012.

Donor grants continue to finance the deficit which also covers about 85 percent of the development budget.[22] In the coming years, it is likely that donor financing continues to play a crucial role in bridging the financing gap. This is critical for health where donor support ranges between 70 and 88 percent of total public spending on health (Figure_1).

Figure 1. Donor Financing for Health 2004/5-2008/9



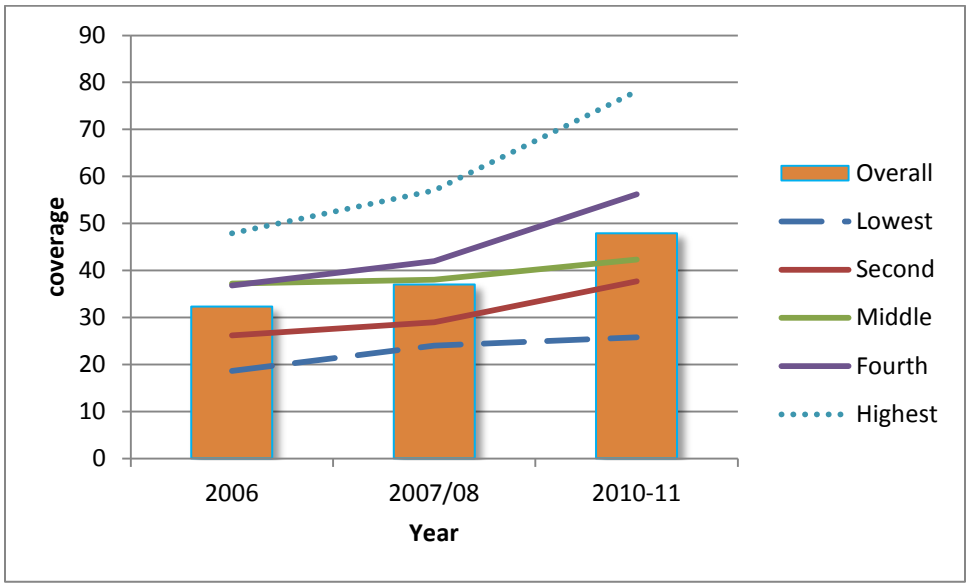
Source: Biulding on early gains in Afghanistan's health sector, 2010.

207. **Equity:** In the past five years coverage of maternal and child health service has increased. Although the rate of increase varies, it has increased for almost all key indicators (see Figures 2-6). Despite this increase, the disparity among wealth groups continues to persist. This is mainly because the rate of increase is higher in most cases for the higher wealth groups than for the rest (Figures 2, 3, 5 and 6). As a result, in most cases inequality either has remained the same or has increased. When it has declined, it is accompanied by a decrease in coverage among the highest income group (Figure 3).

[22] Afghanistan Economic Update, October 2012.

208. Furthermore, the poor face relatively higher out of pocket payments than the non-poor. According to 2006 household survey, the median out of pocket payments (OOP) among the lowest wealth quintile is 500Afs against 420Afs for those in the highest quintile. Such exposure to high OOP is more distressful to the poor. As such more than 51 percent of those in the lowest wealth quintile reported to be financially distressed compared to only 21 percent in the highest quintile[23]. Public expenditure on health needs to address these inequalities. The practice has been allocating budget based on the distribution of facilities. Such resource allocation approaches tend to maintain the inequalities and needs to be revisited.

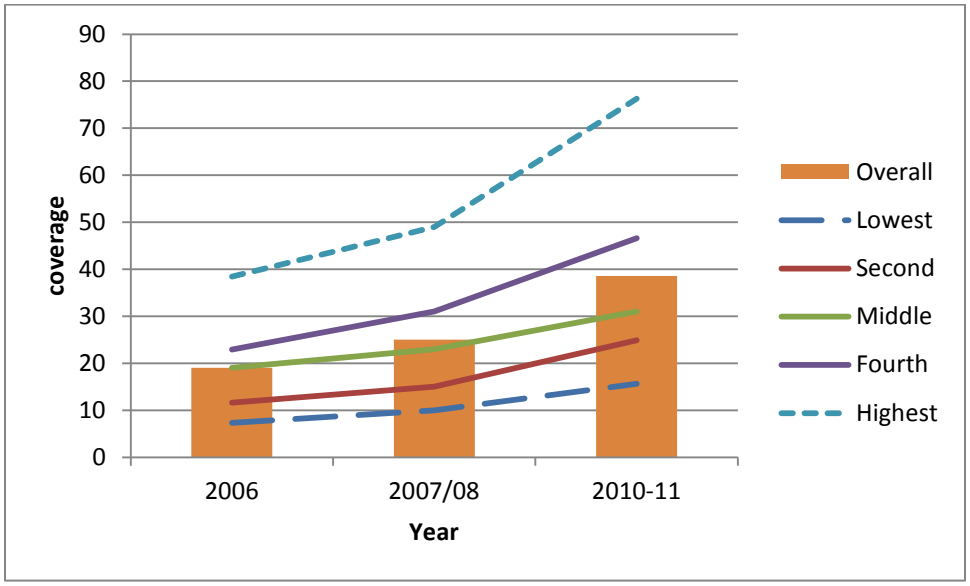
Figure 2. Skilled ANC utilization by wealth status[24]



Data sources: AHS 2006, NRVA 2007/08, and MICS2010-11

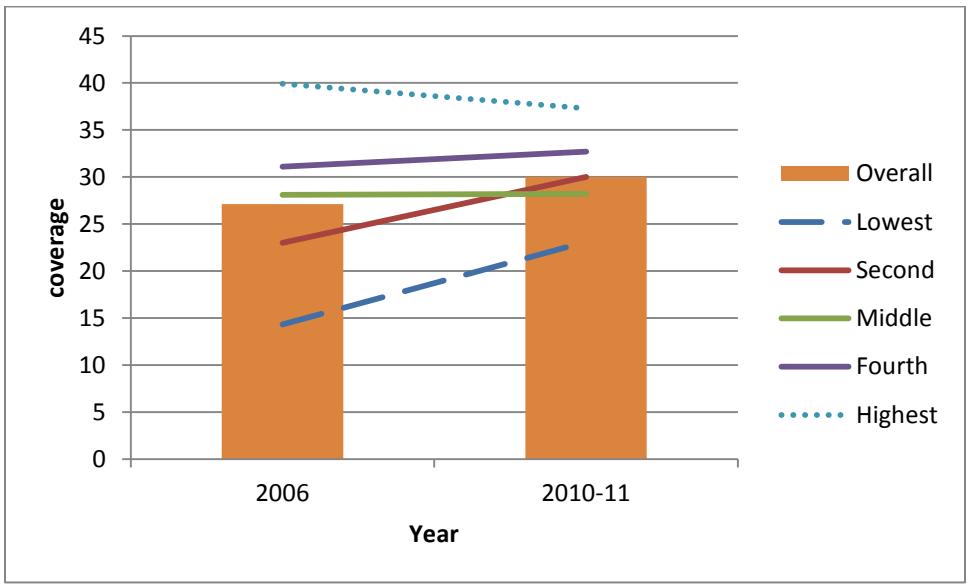
[23] Afghanistan Household Survey 2006.
[24] Data sources: AHS 2006, NRVA 2007/08, and MICS2010-11

Figure 3. Skilled birth attendance utilization by wealth status



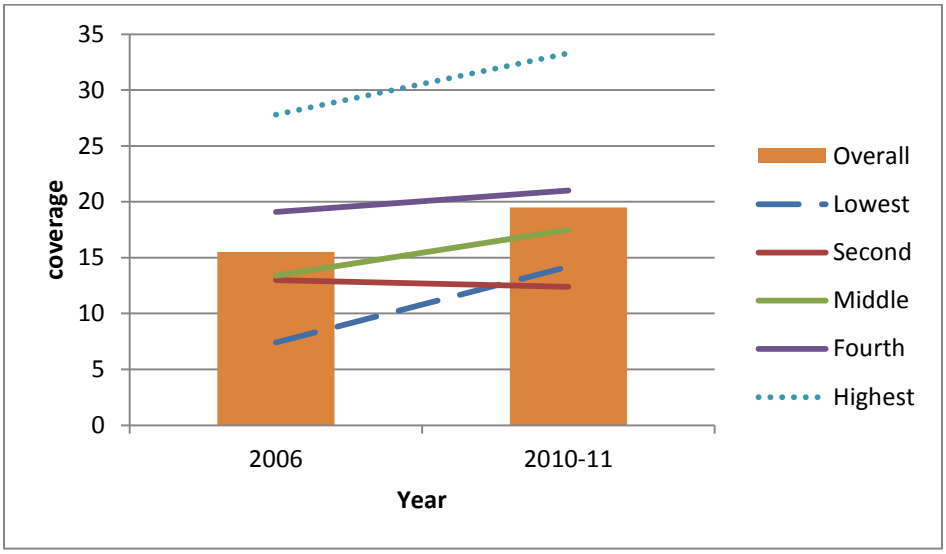
Data sources: AHS 2006, NRVA 2007/08, and MICS2010-11

Figure 4. Full Immunization by wealth status



Data sources: AHS 2006, NRVA 2007/08, and MICS2010-11

Figure 5. Modern family planning utilization by wealth status



Data sources: AHS 2006, NRVA 2007/08, and MICS2010-11

209. **Efficiency** in healthcare financing comprises efficiency in resource mobilization and efficiency in utilization of resources. Resource mobilization through pre-payment mechanisms is much more efficient than when made at the time of service utilization. The fact that a large share of THE in Afghanistan is OOP shows the inefficiency of the system in resource mobilization. In terms of use of existing resources however, the program is likely to be more efficient as it finances provision of a free basic package of health services that are highly cost-effective. Moreover these services cover rural areas with high burden of diseases and high poverty. The project also supports reforms in the hospital sector to enhance the performance of the sub sector. This will be done through designing a provider payment system supported by analytical work which will improve the efficiency of spending on hospitals.

210. **Innovative Financing:** Existing successful initiatives such us results based financing that improve key health outcomes will be scaled up and new initiatives will be introduced. These initiatives will target the system mainly at facility level. These initiatives are meant to sharpen the result focus of the project and improve the efficiency of public spending. In addition to scaling up RBF, the project supports piloting of a new provider payment system for hospitals. The pilot will be limited to a couple of hospitals in and around Kabul with the option of expanding to more. The payments system will be designed to complement the recently introduced policy where hospitals are provided increasing level of autonomy to run their day to day business. Such managerial autonomy coupled with a payment system that aligns incentives at the hospital level is envisaged to improve the efficiency of public spending on hospitals. This efficiency gain is expected to be non-trivial given that at least 29 percent of the total spending goes to hospitals.

211. **The Rational for Public Intervention**: Public interventions, as outlined in the project, are justified on the grounds of both efficiency and equity. Efficiency reasons derive from situations where market failures means that even rationally behaving individuals do not coordinate their actions well resulting in a less than optimal outcome. Most of the services

financed by the project are preventive public health services in nature (e.g. immunization, TB treatment etc.). The consumption of these services will benefit not only the individual but the society at large. Left to the market such positive externality will result in under consumption of preventive public health services as individuals will not take into account when making decision. Public intervention (either in financing or provision) can result in socially optimal consumption of preventive public health services. The equity reason for government intervention is that it would lead to a more equitable distribution of consumption of health service than would have resulted through market allocation. Given the level of inequality in the consumption services in Afghanistan, government intervention could lead to increased utilization of services by the poor and marginalized.

212. **Bank's Contribution:** The fact that out of pocket spending accounts for such a large share of total spending remains a major source of concern for the government. Similarly there is growing concern about the sustainability and volatility of external financing for health, which accounts to three-quarter of total public financing for health. Moreover, the government is keen to address the growing demand for quality hospital services. The project will support government's effort to explore alternatives in order to address these and other emerging problems identified jointly with the government including:

i) *High level of out of pocket (OOP) expenditure*: a large body of evidence is emerging which shows consistently large OOP. Estimates range from 70 to 80 percent of the total health expenditure. The project will support analytical work to understand better the drivers of such large OOP so that the negative consequences can be mitigated.

ii) *Increasing demand for quality hospital health services and reaching the unreached population*: Afghans are increasingly demanding better quality hospital level services. This is partly a reflection of the success of Bank's support in expanding BPHS to large section of the population. After a decade of rapid expansion of basic package of health service throughout the country, the focus now is to reach the unreached and to improving the quality of hospital services. To meet these demands, the project will support efforts to improve quality of service in hospitals and expansion of BPHS services to the unreached population. The support includes piloting of a provider payment system in national hospitals in Kabul that will facilitate reforms aimed at improving quality of care. The project has special focus in expanding basic services to the unreached population.

iii) *Low absorption capacity*: Although MOPHs budget execution rate is among the highest within the GOIRA, the rate remains low especially for operating budget. This provides ample opportunity for the Ministry to effectively increase resources available to the sector. Improving absorption capacity is thus one critical challenge facing the sector, which is being addressed by the project.

213. Furthermore, the project aims to improve predictability of external financing by pooling and channeling resources from the two major donors through the government system. Under the project EU and IDA support will be pooled to finance BPHS and EPHS services in the 21 of the 34 provinces. This number may further increase if more ARTF funding for the sector becomes available from other development partners.

Annex 11: Documents in Project Files

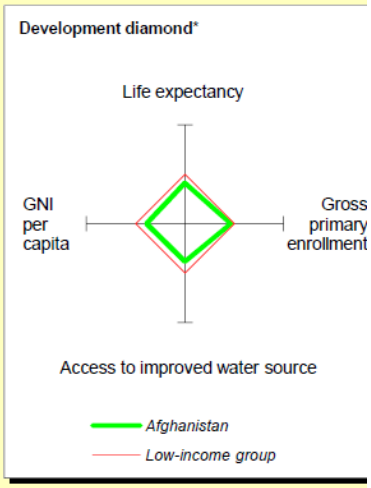
AFGHANISTAN: System Enhancement for Health Action in Transition Project

1. Strategic Plan for the Minister of Public Health, (2011 – 2015), Government of Islamic Republic of Afghanistan
2. National Priority Program (NPP)-5, Health For All Afghans
3. Project Concept Note
4. Minutes of Project Concept Note review meeting, February 2012
5. Statement of Business Objectives, Preparation Mission, June 2012
6. Aide Memoire, Preparation Mission, June 2012
7. Statement of Business Objectives, Pre-appraisal Mission, October 2012
8. Aide Memoire, Pre-appraisal Mission, October 2012
9. Statement of Business Objectives, Appraisal Mission, December 2012
10. Appraisal Completion Note, December 2012
11. Program Implementation Plan 2012

Annex 12: Country at a Glance

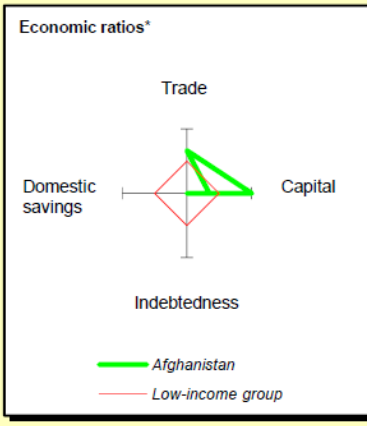
AFGHANISTAN: System Enhancement for Health Action in Transition Project

POVERTY and SOCIAL	Afghanistan	South Asia	Low-income
2010			
Population, mid-year *(millions)*	34.4	1,633	796
GNI per capita *(Atlas method, US$)*	410	1,176	528
GNI *(Atlas method, US$ billions)*	14.3	1,920	421
Average annual growth, 2004-10			
Population *(%)*	2.8	1.5	2.1
Labor force *(%)*	3.5	1.1	2.6
Most recent estimate (latest year available, 2004-10)			
Poverty *(% of population below national poverty line)*	36	..	..
Urban population *(% of total population)*	25	30	28
Life expectancy at birth *(years)*	48	65	59
Infant mortality *(per 1,000 live births)*	103	52	70
Child malnutrition *(% of children under 5)*	33	33	23
Access to an improved water source *(% of population)*	50	90	65
Literacy *(% of population age 15+)*	..	61	61
Gross primary enrollment *(% of school-age population)*	97	110	104
Male	114	113	108
Female	79	107	101

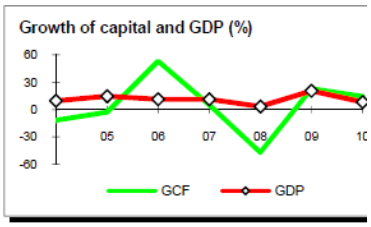


KEY ECONOMIC RATIOS and LONG-TERM TRENDS	1990	2000	2009	2010
GDP *(US$ billions)*	..	..	14.2	17.2
Gross capital formation/GDP	..	..	15.4	16.3
Exports of goods and services/GDP	..	..	17.0	15.5
Gross domestic savings/GDP	..	..	-27.5	-21.8
Gross national savings/GDP	..	..	..	..
Current account balance/GDP	..	..	-3.7	0.0
Interest payments/GDP	..	..	0.0	0.0
Total debt/GDP	..	..	15.6	13.3
Total debt service/exports	..	..	..	..
Present value of debt/GDP	..	..	..	4.2
Present value of debt/exports	..	..	..	..

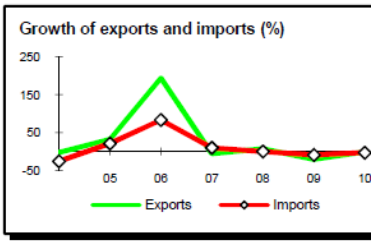
	1990-00	2000-10	2009	2010	2010-14
(average annual growth)					
GDP	..	11.3	20.4	8.2	..
GDP per capita	..	8.2	17.1	5.2	..
Exports of goods and services	..	13.7	-21.0	-1.6	..



STRUCTURE of the ECONOMY	1990	2000	2009	2010
(% of GDP)				
Agriculture	..	..	31.2	29.9
Industry	..	..	21.2	22.2
Manufacturing	..	..	12.7	13.1
Services	..	..	47.6	47.9
Household final consumption expenditure	..	..	117.4	111.1
General gov't final consumption expenditure	..	..	10.1	10.7
Imports of goods and services	..	..	59.9	53.6



	1990-00	2000-10	2009	2010
(average annual growth)				
Agriculture	..	6.3	27.5	5.2
Industry	..	14.5	1.8	18.1
Manufacturing	..	9.5	10.4	13.1
Services	..	14.2	24.2	6.5
Household final consumption expenditure	..	13.3	8.8	2.3
General gov't final consumption expenditure	..	15.4	43.6	15.6
Gross capital formation	..	2.3	22.7	14.3
Imports of goods and services	..	12.1	-9.2	-3.3



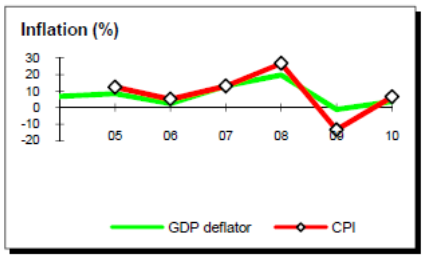
Note: 2010 data are preliminary estimates.

This table was produced from the Development Economics LDB database.

* The diamonds show four key indicators in the country (in bold) compared with its income-group average. If data are missing, the diamond will be incomplete.

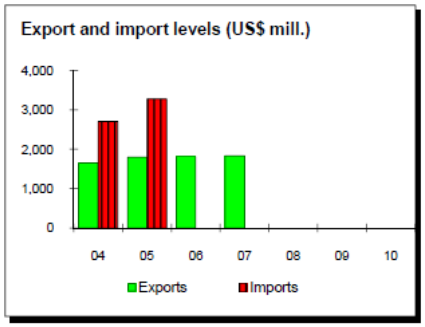
PRICES and GOVERNMENT FINANCE

	1990	2000	2009	2010
Domestic prices				
(% change)				
Consumer prices	..	..	-13.5	6.5
Implicit GDP deflator	..	..	-1.2	3.7
Government finance				
(% of GDP, includes current grants)				
Current revenue	..	..	17.7	20.1
Current budget balance	..	..	5.4	6.3
Overall surplus/deficit	..	..	-1.2	0.7



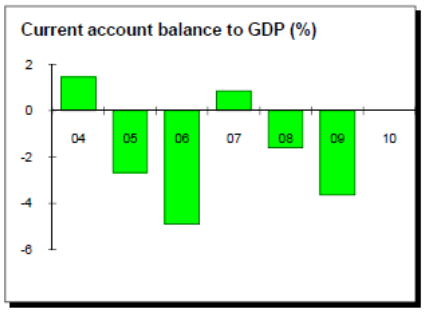
TRADE

	1990	2000	2009	2010
(US$ millions)				
Total exports (fob)	..	..	..	..
Fresh fruits	..	4	..	..
Dried fruits	..	23	..	..
Manufactures	..	..	..	..
Total imports (cif)	..	1,697	..	..
Food	..	214	..	..
Fuel and energy	..	12	..	..
Capital goods	..	512	..	..
Export price index *(2000=100)*	..	..	..	..
Import price index *(2000=100)*	..	..	..	..
Terms of trade *(2000=100)*	..	..	..	..



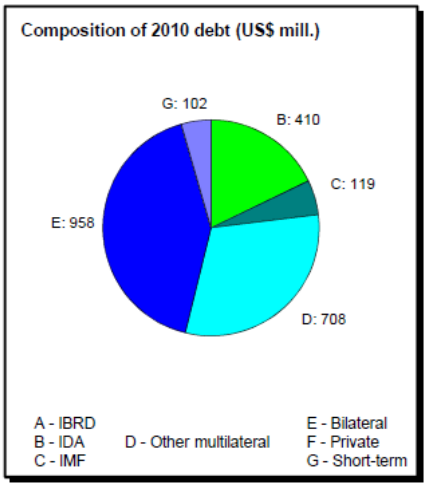
BALANCE of PAYMENTS

	1990	2000	2009	2010
(US$ millions)				
Exports of goods and services	..	..	2,012	2,512
Imports of goods and services	..	..	8,694	9,169
Resource balance	..	..	-6,681	-6,656
Net income	..	..	63	12
Net current transfers	..	..	6,564	6,911
Current account balance	..	..	-519	0
Financing items (net)	..	..	838	..
Changes in net reserves	-21	..	-319	..
Memo:				
Reserves including gold *(US$ millions)*	638	..	..	..
Conversion rate *(DEC, local/US$)*	50.6	67.7	50.2	46.5



EXTERNAL DEBT and RESOURCE FLOWS

	1990	2000	2009	2010
(US$ millions)				
Total debt outstanding and disbursed	..	..	2,223	2,297
IBRD	..	0	0	0
IDA	..	0	466	410
Total debt service	..	..	10	9
IBRD	..	0	0	0
IDA	..	0	2	2
Composition of net resource flows				
Official grants	82	120	5,157	5,476
Official creditors	..	..	106	78
Private creditors	..	..	0	0
Foreign direct investment (net inflows)	..	..	185	76
Portfolio equity (net inflows)	..	..	0	0
World Bank program				
Commitments	..	..	0	0
Disbursements	..	0	27	8
Principal repayments	..	0	0	0
Net flows	..	0	27	8
Interest payments	..	0	2	2
Net transfers	..	0	25	7



Note: This table was produced from the Development Economics LDB database. 3/29/12

AFGHANISTAN

SYSTEM ENHANCEMENT FOR HEALTH ACTION IN TRANSITION PROJECT

- SEHAT MOPH-SM PROVINCES
- SEHAT NGO PROVINCES
- USAID NGO PROVINCES
- PROVINCE CAPITALS
- NATIONAL CAPITAL
- DISTRICT BOUNDARIES
- PROVINCE BOUNDARIES
- INTERNATIONAL BOUNDARIES

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NOVEMBER 2012

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