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Report No: 48074-AF

EMERGENCY PROJECT PAPER

ON A

PROPOSED GRANT

IN THE AMOUNT OF SDR 4.9 MILLION
(US\$7.5 MILLION EQUIVALENT)

TO

THE ISLAMIC REPUBLIC OF AFGHANISTAN

FOR A

PENSION ADMINISTRATION AND SAFETY NET PROJECT

September 17, 2009

**Human Development Unit
South Asia Region**

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CURRENCY EQUIVALENTS

(Exchange Rate Effective July 31, 2009)

Currency Unit	=	Afghani (AFN)
AFN 50.16	=	US\$1
US\$1.55533	=	SDR 1

FISCAL YEAR

March 21 – March 20

ABBREVIATIONS AND ACRONYMS

ANDS	Afghanistan National Development Strategy
DA	Designated Account
EPAP II	Second Emergency Public Administration Project
FM	Financial Management
FMA	Financial Management Agent
GMU	Grant Management Unit
IARCSC	Independent Administrative Reform and Civil Service Commission
ICB	International Competitive Bidding
IDA	International Development Association
MoD	Ministry of Defense
M&E	Monitoring and Evaluation
MIS	Management Information System
MoF	Ministry of Finance
MoJ	Ministry of Justice
MoLSAMD	Ministry of Labor, Social Affairs, Martyrs & Disabled
MoWA	Ministry of Women's Affairs
MRRD	Ministry of Rehabilitation and Rural Development
NCB	National Competitive Bidding
NGO	Non-governmental Organization
P&G	Pay and Grading
PCN	Project Concept Note
PCU	Project Coordination Unit
PPF	Project Preparation Facility
PPU	Procurement Policy Unit
PSC	Project Steering Committee
SBD	Standard Bidding Document
SDR	Special Drawing Rights
SIL	Specific Investment Loan
SOE	Statement of Expenditure
TA	Technical Assistance
TOR	Terms of Reference
TWGs	Technical Working Groups
UNDP	United Nations Development Programme

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AFGHANISTAN
Pension Administration and Safety Net Project

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EMERGENCY PROJECT PAPER DATA SHEET
ISLAMIC REPUBLIC OF AFGHANISTAN
PENSION ADMINISTRATION AND SAFETY NET PROJECT (P113421)

South Asia Region

Date: September 17, 2009 Country Director: Nicholas J. Krafft Sector Manager: Mansoor Rashid Lending instrument: Emergency operation Project ID: P113421	Team Leader: Oleksiy Sluchynsky Sectors: Non-compulsory pensions, insurance and contractual savings (50%); Public Administration-Other social services (50%) Themes: Other social protection and risk management (30%); Administrative and civil service reform (35%); Social safety nets (35%) Environmental category: C					
Recipient: Islamic Republic of Afghanistan Responsible Agency: Ministry of Finance, Government of Afghanistan Implementing Agency: Ministry of Labor, Social Affairs, Martyrs and Disabled (MoLSAMD), Government of Afghanistan						
Type of Operation: New Operation <input checked="" type="checkbox"/> Additional Financing <input type="checkbox"/> Existing Financing (restructuring) <input type="checkbox"/>						
Financing type: Loan <input type="checkbox"/> Credit <input type="checkbox"/> IDA Grant <input checked="" type="checkbox"/> Other <input type="checkbox"/>						
Total Amount: US\$7.50 million	Expected implementation period: 48 months					
Expected effectiveness date: December 31, 2009	Expected closing date: December 31, 2013					
Development Objective: The project development objectives are: (i) improve the administration of the public pension schemes; and (ii) pilot a modest social safety net program as a first step to developing a sustainable approach to safety nets in the country.						
Short Description: The project will have three components: (1) pensions, with sub-components in designing new administrative arrangements for the public pension system; and modernization of the existing pension system, (2) safety nets, with sub-components of designing and implementing a pilot safety net program; and strengthening the institutional capacity of MoLSAMD, and (3) project management. For the implementation of these components, the project will provide technical assistance, training, office renovations, equipment, materials, and cash payments for safety net pilots.						
Financing Plan (USD m.)						
Source	Local	Foreign	Total			
Borrower	0.00	0.00	0.00			
Total IBRD/IDA	4.70	2.80	7.50			
Total	4.70	2.80	7.50			
Estimated disbursements (Bank FY/USD m.)						
	2010	2011	2012	2013	2014	Total
Total IBRD/IDA	1.60	3.00	2.00	0.50	0.40	7.50
Total	1.60	3.00	2.00	0.50	0.40	7.50
Does the emergency operation require any exceptions from Bank policies?					Yes <input type="checkbox"/> No <input checked="" type="checkbox"/>	
Have these been approved by Bank management?					Yes <input type="checkbox"/> No <input type="checkbox"/>	
Are there any critical risks rated "substantial" or "high"?					Yes <input checked="" type="checkbox"/> No <input type="checkbox"/>	
What safeguard policies are triggered, if any?					N/A	
Significant, non-standard conditions, if any: None						

A. Introduction

1. This Project Paper seeks the approval of the Executive Directors to provide a grant in an amount of SDR 4.9 million (US\$ 7.5 million equivalent) to the Islamic Republic of Afghanistan for a Pension Administration and Safety Net Project.

2. The proposed grant would help finance the costs associated with modernization of the public pension system administration and design and implementation of a basic safety net pilot program. The project would support specific objectives of the Afghanistan National Development Strategy (ANDS) toward implementing a modern and financially sound pension system and developing a targeted safety net scheme. It would also lay the institutional groundwork for implementing future initiatives in social protection.

3. The proposed grant would finance investments and technical assistance for (i) improving administration of the public pension system, and (ii) piloting a modest social safety net scheme as a first step in starting to develop a sustainable approach to safety nets in Afghanistan. Furthermore, the grant will contribute to strengthening program planning and administration in the Ministry of Labor, Social Affairs, Martyrs and Disabled (MoLSAMD).

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

4. Afghanistan is one of the poorest countries in the world with income per capita hovering around US\$300 and around 42 percent of the population living below the poverty line; an additional 20 percent are clustered just above the poverty line. Altogether, some 15 million people are poor or at risk of poverty. Poverty is highest in rural areas and among nomadic Kuchi tribes at 45 percent; urban poverty is 27 percent. Poverty correlates relate to education and employment of households heads, seasonality in rural areas, asset ownership and remoteness. Women and children, and the disabled, are the highest risk poverty groups. A combination of natural disasters, extreme seasonal variations in food production, security problems, and the recent global economic crisis drive the high levels of chronic and transient poverty in the country.

5. While economic growth will be the main prerequisite for poverty reduction, a well-designed social protection system with its four main pillars – safety nets, social care services, social security, and employment programs – that is suitably adapted to the country context can help households mitigate and cope with the risks of falling into poverty.

6. The Afghan formal social protection system consists largely of a pension scheme for public sector employees and uniformed servicemen of the military and police, and social safety nets encompassing a number of government and donor schemes that transfer cash and in-kind benefits to various population groups. Existing government interventions, however, remain small, both in terms of beneficiaries and spending. For example, the current spending on the public sector pension program is less than half percent of GDP (with 60,000 beneficiaries); roughly the same amount is spent on the program of benefits for families of martyrs and disabled in the conflicts (with around 220,000 survivors and 90,000 disabled beneficiaries). The main

issues with social protection program implementation include lack of well-designed targeting instruments, poor coordination across programs, and weak administrative capacity.

7. The Government has recently laid out its vision of reforms in the social protection sector in the ANDS – both in the pensions and safety net areas. In pensions, the main objective is to ensure fiscal sustainability and mitigate fiscal impact of the Pay and Grading reform on the pension program, making it consistent with the broader public sector reform agenda. The reform would ensure that scarce public resources could be used for re-distributional and development programs of the Government. Among the immediate and important priorities is the enhancement of administrative capacity of the Pension Department. The strategy also recognizes that it is critically important to develop fiscally sound and well-targeted social protection interventions, including safety nets, for improving the poverty outcomes in the country.

8. **Pensions.** The Ministry of Labor Social Affairs Martyrs and Disabled (MoLSAMD) operates the formal pension scheme that covers public sector employees, including the security sector, and pays benefits to over 60,000 beneficiaries (see Table A9.2 in Annex 9 with details on beneficiaries as of 2006). It is a defined benefit scheme that pays 40 percent of the last wage after 10 years of service at retirement and provides for up to 100 percent of the last wage for civil servants who worked for 40 years (See Table A9.7 in Annex 9 for program parameters).¹

9. While rules stipulate employee and employer contributions (3 and 8 percent correspondingly), the funding largely constitutes direct subsidies from the central budget of around US\$30 million annually. The Pay and Grading reform with changes in the scale and composition of pay as well as structural adjustments in the civil service will have serious implication for the pension liabilities (currently estimated at the range of 6 percent of GDP). Despite its low coverage, the demographics of the civil service combined with the coming wage increases may produce considerable fiscal impact in the short to medium term (see Annex 9).

10. The lack of adequate protection mechanisms in the rules and regulations of the scheme lead to deterioration of the benefit value and ad hoc payments stipulated in the Government decrees. Various recent decisions lacked proper policy context and sound financial analysis, and resulted in arbitrary disparities across cohorts of retirees.²

11. The administration of the pension system is weak, inefficient and antiquated, making it difficult to translate policy reforms into practice on the ground. Systems remain weak and financial management lacks transparency. The complete cycle of record-keeping is still a manual process. Processing of pension claims takes a long time, is cumbersome, and highly centralized. Investments in the new systems and capacity to operate the reformed scheme will be required. Administrative modernization will require analysis and some important decisions, for example, on organization of contribution collection, financial controls, payment methods,

¹ For detailed discussion of the program parameters and operations see *Public Sector Pension Scheme: From Crisis Management to Comprehensive Reform Strategy*. The World Bank. June 24, 2008.

² For example, civil servants who retired prior to 1382 (2003) receive flat pension amounts, while calculations for the new retirees incorporate length of service in accordance with the formula. Hence, two individuals retired before and after 1382 in the same rank and with the same length of service receive different pensions, with the difference primarily being the function of length of service.

information technology systems, etc. A census of beneficiaries will be required to address issues of the legacy scheme such as ineligible claims, arrears, weak monitoring capacity, etc.

12. After years of ad hoc measures, in mid-SY1386 (2007), the Government formed a senior Steering Committee on Pension Reform tasked to oversee the process of the reform policy formulation. An assessment of the parameters of the pension programs was conducted and a comprehensive draft strategy note was produced at the end of 2007. The new Pension Regulation was subsequently endorsed by the Steering Committee and recently adopted by the Government. The proposed Government reform program is a major step towards establishing a fiscally sound and modern pension program. The objective of the new regulation is to introduce a sustainable, affordable, equitable and well-administered pension scheme tailored to the context of the Pay and Grading reform. A summary of the most important reform provisions for the civil service pensions as reflected in the new Regulation is presented in Table A9.7 in Annex 9. The changes will primarily affect those who would retire under the terms of the Pay and Grading reform. Apart from introducing transparent benefit indexation provisions, the rights of the existing retirees will not be affected. In parallel to this process, there are initiatives to introduce legal revisions to the existing retirement provisions for the military and the police.

13. **The social safety nets.** Despite a high level of poverty, formal safety net programs in Afghanistan are modest, both in terms of coverage and spending (with the main public cash transfer program of benefits for families of Martyr and Disabled consuming less than half percent of GDP). These programs consist of humanitarian aid and various, largely uncoordinated, public programs (see Annex 9 for description, funding, and coverage of the public and select donor programs). Informal safety nets (kinship and community arrangements) still appear strong, although the combined effects of prolonged security, economic and environmental risks may have weakened them over time. Recent studies also suggest that informal arrangements are not able to adequately protect households from aggregate shocks, such as natural disasters (e.g., droughts and earthquakes) and economic shocks (e.g., the recent economic crisis).

14. In addition to the cash benefit program for families of martyrs (mainly close kin to persons killed in active combat) and war-related disabled – the largest public cash assistance scheme – MoLSAMD operates a number of other social protection programs, most notably skills development programs and social services (some supported by donors or implemented by NGOs).

15. At the same time, various other ministries operate programs with implications for social protection, and a number of donor-driven safety net programs transfer resources to needy households, including during emergencies. The formal programs are listed in Table A9.8 in Annex 9, with numbers for beneficiaries for some of the public programs provided below:

Public Program	Beneficiaries (2006)
Families of Martyrs	224,800
Conflict-related disability	87,700
Orphans	10,500
Children in kindergartens	25,000
Public sector pensioners (payments)	54,000
Public works and skills development	1,750,000
Microfinance	340,000

Source: ANDS

16. Coordination across programs is weak, although the ANDS provides a loose strategic framework within which programs and projects need to fit and the Ministry of Economy has been designated to develop and operate a system of monitoring and evaluation of the ANDS implementation across various sectors. Still, MoLSAMD as the line Ministry for social protection does not have a thorough understanding of social protection programs operated by other ministries, donors or NGOs. The absence of a strong coordination function coupled with weak administrative capacity in public agencies give rise to inefficiencies through duplication of effort and missing out on eventual synergies between interventions. When programs are aimed at poor groups, incompatible targeting criteria may lower overall efficiency.

17. Little is known on poverty outcomes of the specific programs. While none of the programs mentioned above and listed in Annex 9 specifically is targeted at poor households, it still is likely that the majority of recipients are poor, given high poverty levels. For example, various food aid programs attempt to prioritize needier households; and public works schemes (often in the form of food for work) have strong elements of self-selection, as well as elements of direct encouragements to members of the poorest households to participate. However, simply improving their coordination, strengthening their poverty focus, and enhancing delivery mechanisms could improve protection for the neediest population groups.

18. Developing an effective safety net program will involve decisions about inter-agency coordination, targeting criteria, award process (eligibility determination and enrollment), delivery and accountability mechanisms. Attention will need to be paid to ways of improving collaboration with donors in order to leverage assistance by building on complementarities that should offer opportunity to benefit from economies of scale. This project helps the Government to make the first but very important step towards this development goal by piloting a set of safety net interventions and operational platform(s) that when scaled up would help consolidate the poverty reduction effort and offer economies of scale in implementation.

19. **Organization.** The main responsibility for social protection lies with the Ministry of Labor, Social Affairs, Martyrs and Disabled (MoLSAMD).³ While centrally located in Kabul, the MoLSAMD has a network of local offices in all 34 provinces, as well as 11 Provincial Employment Services Centers.

20. The public pension scheme is managed by the Pension Department of MoLSAMD, with the head office in Kabul and a total staff of around 150 employees. Notably, operation of the pension program at present is heavily centralized, with 90 percent of payments processed from the center in Kabul. In future, while sanctioning authority would remain with the center, some viable decentralization strategy, for example in payment processing, would have to be devised.

21. While the cash transfer scheme for Martyrs and Disabled has been administered by a separate department, it has recently been proposed to merge its operation with the Pension Department. While operationally such an objective seems reasonable, implementing such a merger will have to be carefully planned. The scheme suffers from the absence of viable strategic planning, it has no robust mechanisms ensuring adequacy of benefits, no proper record keeping arrangements, no effective accountability mechanisms, and no clear budgeting procedures. Initially, a strategic plan will need to be developed to deal with transitional issues. Subsequently, the above-listed weaknesses will need to be addressed.

C. Bank Response: The Project

22. The World Bank has extensive experience in designing social protection reforms in a wide variety of settings – transitional and emerging economies, developing countries and conflict and post-conflict situations. It is well-placed to provide support to Afghanistan in this area.

23. **Pensions.** Over the past three years, the World Bank has been providing support to the government pension reform program in the form of technical assistance. The effort focused on fiscal analysis and financial projections of the pension program and various reform options, as well as basic operational analysis of the pension administration system. A comprehensive report “Public Sector Pension Scheme: From Crisis Management to Comprehensive Reform Strategy” was delivered in June 2008. Furthermore, under the Bank’s Emergency Public Administration Project (EPAP)-II, assistance has been provided to the Government in drafting the new Pension Regulation. No other donors have been working on the issues of pensions directly. While UNDP had developed a project proposal for assessment and reform of the pension scheme for Martyrs and Disabled back in 2005, the funding was not secured promptly. The US Government-funded effort of modernization of the Afghan security sector led to formulation of some retirement provisions for the military, although with little or no coordination with the overall fiscal framework. The work supported by the Bank has led to the formulation of the project to implement the reform of the public pension system. At the point when significant donor support is needed on the implementation side of the reform, the Bank is seen by the

³ In addition, several other ministries and government agencies play an important role in social protection. In particular the Ministries of Rehabilitation and Rural Development, Education, Agriculture and Livestock, Public Health, Women’s Affairs and Urban Development.

Government as an agency that possesses significant technical expertise needed for success of such an undertaking.

24. **Social Safety Net.** While the pension program remains focused only on a relatively small group of the population (likely composed of mainly non-poor), the needs for the social protection and capacity building in the sector are much broader. Some donors have already recognized the need and have begun providing resources to strengthening the capacity of MoLSAMD in delivery of social protection benefits and services. The European Commission, for example, has recently initiated a social protection project with the MoLSAMD to strengthen a public-private partnership for the provision of social care services at both national and sub-national levels. It focuses on the five provincial capitals and aims at developing replicable models of service delivery and improved capacity of strategic planning and implementation. Similarly, USAID has committed to supporting the reorganization and HR reform efforts within MoLSAMD as part of the broader Government effort of the public sector administration reform. There are initiatives by UNDP to support the Ministry of Economy in its mandate to implement effective monitoring and evaluation system to track implementation progress of the ANDS, although its scope would be across all the sectors covered in the ANDS.

25. At the same time, there is a need to gradually develop a well-targeted safety net and a coherent institutional framework for it. In this, the Government, as well as donors, is looking to the Bank to provide the necessary impetus. Given Bank's expertise in design and implementation of safety nets both in the region and internationally, the Bank would help the Government prepare a modest pilot safety net program for transferring resources (conditional or unconditional) to a selected subset of poor households. The fiscal sustainability and administrative arrangements of such a program and relevance to the Afghanistan context would be explored in designing the program. Consultations held with the Government and key donors in Kabul confirmed a strong demand for this program.

26. Particular attention would be paid to organizational and institutional aspects of safety nets design. International experiences suggests that safety nets are often planned and financed centrally but implemented locally as local authorities and communities are better able to identify the needy and reach them while national authorities set the rules and guidelines. Therefore, during the pilot phase, an implementation approach, which can fit into such a framework, could be developed and tested. While Afghanistan does not yet have elected local governments in connection with the implementation of the National Solidarity Program (NSP), it has developed NGO-supported representative structures in villages covered by the NSP, which might allow significant implementation authority to be divested to local levels. Given extensive support from the World Bank towards this process, there is strong rationale for developing synergies between the previous Bank's involvements and the activities of devising sustainable and coherent mechanisms for addressing the issue of poverty operating at the national scale.

Project Development Objectives

27. The project development objectives are: (i) improve the administration of the public pension schemes; and (ii) pilot a modest social safety net program as a first step to developing a sustainable approach to safety nets in the country. By doing that, the project will contribute to the broader ANDS objectives to build a fiscally sustainable pension system and an affordable

social protection system, as well as strengthen the policy capacity and institutional framework of the MoLSAMD.

Summary of Project Components

28. The project will have three components: (1) pensions, (2) safety nets, and (3) project management. The pension component has two sub-components: (a) designing new administrative arrangements for the public pension system; and (b) modernization of the existing pension system. The safety net also has two sub-components: (a) designing and implementing a pilot safety net program; and (b) strengthening the institutional capacity of MoLSAMD. For the implementation of these components and the project management component, the project will provide technical assistance, training, office renovations, equipment, materials, and cash payments for pilot. The components are as follows:

Component 1: Pensions

- (a) *Designing new administrative arrangements for the public pension system (US\$2.5 million)*. This sub-component will help implement a reform of the administrative arrangements of the public sector retirement pension program, in line with activities of the broader public sector reform.

Activities will include: (i) evaluation of existing systems and processes of the pension programs and design and implementation of new mechanisms of claims processing and benefit delivery; (ii) elaboration of operational procedures, manuals and guidelines, including training for staff; (iii) design and implementation of the new Management Information System (MIS) for the Pension Department (including software development, licenses, hardware procurement, backup system development, etc.); (iv) outsourcing of the new IT system maintenance; (v) securing basic office infrastructure and stable electricity supply for the Pension Department in Kabul; and (vi) developing a strategy for effective administrative integration of the payment systems of pensions for families of Martyrs and Disabled and the public sector retirement pensions.

The MIS procurement will be implemented in two stages, whereby at the first stage, detailed system specifications will be drawn to constitute part of the tender documents for the second stage of selection of a provider to design or customize an MIS to support the claims processing and benefit payment functions.

To ensure effective implementation of the contributory mandate established under the new Pension Regulation, support will be provided to strengthening the systems of pension contribution deduction, including public information campaign and training for personnel of the budget spending units responsible for payroll processing, necessary redesigning of accounting and treasury systems, ensuring effective compliance monitoring. These activities will be implemented in coordination with the MoF Revenue and Treasury departments. The project will hire a team of consultants to develop and implement the public awareness campaign for budgetary units in support of the new contributory mandate and rules of contribution processing. The project team will also work with MoF to define needs and to provide necessary technical assistance to strengthening the contribution compliance function within the MoF, as directed to

modernization of the existing monitoring and accounting mechanisms. For this purpose, the project will provide for training and consultancy services hired by PCU. Similarly, the project will help define needs and, through the PCU, will provide required technical assistance to the Fiscal Policy Unit of MoF in strengthening budgeting and financial management of the public pension schemes.

The sub-component will provide for technical assistance; in-service training; equipment, materials and supplies related to the institution building; and some renovation works for the existing offices. Some initial preparations, e.g., on surveying operations of the existing schemes, have already been taken place under a Project Preparation Facility (PPF) advance.

- (b) *Modernization of the existing pension system (US\$0.8 million)*. This sub-component will deal with the legacy issues by systematizing and cleaning records of the old schemes. It will also enable evaluation of the project performance using beneficiary surveys.

Activities will include: (i) design and implementation of pensioners census and the life certification process; (ii) digitizing of records of the old systems; and (iii) survey of pensioners of the existing schemes to monitor reform outcomes. These activities will cover both the public sector retirement schemes (civil service, military, police, etc.) and the pension scheme for the families of martyrs and disabled.

Furthermore, the Government has expressed interest in exploring options of paying out some of the liabilities of the old public sector retirement scheme in the form of lump sums. This subcomponent will set the groundwork for this process by developing procedures of beneficiary selection for the payouts and proposing the payment mechanisms.

The sub-component will include technical assistance; in-service training; equipment, materials and supplies.

The following table depicts responsibilities of various agencies pertaining to operation of the pension programs and nature of the project support to their mandates.

Agency	Functions vis-à-vis pensions	Project support
MoLSAMD	Budgeting, planning, and oversight of the pension programs	Strengthening capacity of the program monitoring, budgeting, and planning
Pension Department	Day to day administration of the public sector retirement pension program; planned transfer of the management responsibilities over the Martyrs & Disabled scheme	Strengthening administrative and management capacity to operate both the new and legacy retirement schemes. Modernizing administration of the pension system for families of martyrs and disabled.
MoF	Budgeting and accounting of the program finances. Collection and management of the pension contributions	Strengthening capacity of the Revenue and Treasury departments of MoF in pension contribution compliance monitoring and audit. Strengthening capacity of the Ministry in the program fiscal analysis and budgeting.

Line ministries, budget spending units	Deduction of the pension contributions; support to the benefit application process	Ensuring awareness of the new contributory mandate and supporting smooth implementation of the new contribution
-----------------------------------------------	------------------------------------------------------------------------------------	-----------------------------------------------------------------------------------------------------------------

Component 2: Safety Nets

- (a) *Designing and implementing a pilot safety net program (US\$2.7 million, including US\$1.8 million benefit payments under the pilot scheme).* This sub-component will help design a pilot safety net program and implement it over a period of two years. Towards the end of the project an operational evaluation will be undertaken to determine whether, and if so, how to scale up the scheme. The design phase was launched under the PPF advance, and it will be completed early during project implementation.

The design of the pilot includes the selection of target groups and pilot areas. It is envisaged to apply the scheme in selected districts in two groups – some relatively more developed and the other poorer ones (as defined, e.g., in terms of income, infrastructure, availability of public sector services, etc.). The most recent household survey will allow detailed poverty mapping that will facilitate site selection. This approach will allow mechanisms to be tested in different circumstances.

The design of the pilot safety net program will be reflected in a Pilot Safety Net Program Plan, to be prepared by the project, and will include the definition of eligibility and targeting processes, organizational and institutional arrangements (centralized and decentralized responsibilities; benefit award and delivery) information management, and monitoring and oversight mechanisms. All will be tailored to local realities.

Whatever design is finally agreed on during the pilot design phase, implementation of that design would be closely monitored throughout the project, and an operational evaluation of the pilots would be undertaken to determine the feasibility of scaling up the scheme as well as the directions such a scaling up might take. The evaluation would focus on: institutional relationships; adequacy of operational processes (i.e., award and benefit delivery mechanisms); beneficiary and other stakeholder perceptions; costs and cost effectiveness of program delivery mechanisms; and unanticipated effects.

The sub-component will include technical assistance; in-service training; materials and supplies. A total of US\$1.8 million has been allocated for the payment of benefits under the pilot scheme.

- (b) *Strengthening the institutional capacity of MoLSAMD (\$0.5 million).* The sub-component will improve capacity in MoLSAMD to (i) plan and administer its own social protection programs, including developing policies and strategies regarding eligibility, coverage goals and benefits; and using monitoring and evaluation techniques to assess program performance; (ii) develop and maintain a simple database on ongoing social protection activities, including data exchanges with the relevant external entities; and (iii) use the data base in advancing the national social protection agenda. The sub-component

will include technical assistance and training, including study tours; and equipment, materials and supplies related to institution building.

Component 3: Project Management

Strengthening capacity for program management (\$1.0 million). This component will facilitate implementation of the project by using appropriate mechanisms of project management and proper tools of project progress monitoring. Activities will include: (i) consultancy services in the project management, financial management, procurement, etc.; (ii) design and implementation of training programs for management and staff; administration of the local/international workshop participation and study tours; and (iii) overall project implementation support. The component will provide technical assistance, training, equipment, materials and supplies.

Eligibility for Processing under OP/BP 8.0

29. All projects in Afghanistan continue to be prepared under OP/BP 8.0. Specifically, the Pension Administration and Social Safety Net Project's eligibility under OP/BP 8.0 is based on the following:

- (a) The project is an integral part of the Bank's support to the state building in Afghanistan. It contributes to establishing efficiency, transparency, and accountability in the public service delivery in the country.
- (b) By reforming administration of the Pension Department, the project will support implementation of the new Pension Regulation recently introduced to complement the on-going reform of the Civil Service in Afghanistan.
- (c) Finally, the project responds to the urgent needs of the poverty alleviation in the country. While this is the first Bank-supported project in social protection in Afghanistan, it draws on experience from other Bank's projects, in particular the community development projects, as well as field level experience of other donors and agencies that have been extensively consulted during project preparation. In addition, project design draws on Bank's experience and lessons learned in developing social insurance and assistance schemes in other parts of the world, including conflict and post-conflict areas.

Consistency with the Interim Strategy Note (ISN)

30. The proposed activities are fully in line with the current ISN for Afghanistan, specifically in supporting the Government's efforts of reducing poverty, strengthening governance, and improving service delivery. Furthermore, as part of the Safety nets component, the project will seek to build upon the previous Bank's involvement in promoting community participation to support and monitor social services provision.

31. The project is an integral part of the Bank's program and instruments as outlined in the ISN.

Expected Outcomes

32. Progress towards achieving the project development objectives will be measured by a set of the primary and intermediate outcome indicators as defined in Annex 2. In summary, by the end of the project, the following would have been achieved:

- *Pensions*

- **Outcome indicators:**

- (i) A central register provides computerized record-keeping of participants and flow of funds, (ii) improved services to beneficiaries, (iii) improved revenue and financial management of the pension programs, and (iv) streamlined monitoring, budgeting and planning of the pension program.

- **Process indicators:**

- New operational procedures, rules, and record-keeping systems would be developed; mandates for the units and staff clearly defined;
- Staff of the Pension Department would be trained in implementation and management of the programs;
- Budget units of various ministries would be trained in deducting and remitting pension contributions and transferring to the special account of the pension program; a contribution compliance monitoring function within MoF would be strengthened;
- A robust management, monitoring, and financial planning systems would be put in place both in MoLSAMD and the Fiscal Policy Unit of the MoF; regular information on pension beneficiaries would be obtained from the provincial offices and consolidated in the center;
- Arrears in pension payments would be assessed and strategy to gradually eliminate them would be defined;
- Census of pensioners would be conducted and ineligible payments be removed from the payroll; a life certification mechanisms would be introduced;
- Claim processing time (including the ones from provinces) would be shortened and system of benefit payments would be modernized;
- Strategy of integration of operation of the public sector retirement pensions and the pensions for the families of martyrs and disabled would be developed and implemented;

- *Safety net*

- **Outcome indicators:**

- Safety net framework developed and tested; evaluation of the pilot program undertaken.

- **Process indicators:**

- Criteria for selecting the households targeted under the pilots would be developed and applied;
- Targeting instrument(s) would be defined and applied;
- Beneficiary registries would be developed and applied for benefit delivery, control, audits;
- The process for benefit delivery would be defined and operational;

- Pilot schemes incorporating benefit eligibility verification, award and delivery, control and audits would be developed and implemented;
- Indicators for monitoring pilot implementation at each stage of the program cycle would be in place and in use
- Staff of MoLSAMD would be trained in safety net planning, and overall program management and implementation oversight

D. Appraisal of Project Activities

33. **Economic and financial analyses.** The proposed project will support the implementation of a new public sector pension scheme with modernization of an administrative platform to process claims, deliver benefits and monitor performance of the scheme. The reform of pension administration would contribute to better quality services delivered to the beneficiaries of the pension scheme and improved transparency.

34. Through reinforcement of the contributory mandate of the public sector pension scheme and improved planning capacity on the benefit payment side, the fiscal management of the pension program would be strengthened and financing of the scheme would gradually move away from the subsidy base to the fully sustainable contribution principle.

35. As indicated in Annex 9, if the new contributory mandate gets fully implemented, as supported by this project, and the Pay and Grading reform progresses as planned, the balances of the public sector pension scheme could be completely reversed within the timeframe of the project. Today, subsidies constitute around 80 percent of the total expenditures of the scheme or over US\$30 million annually. Within four to five years, the system could generate a temporary surplus of a similar magnitude that could be used to clear some of the accumulated liabilities of the legacy scheme.

36. The project will contribute to addressing inefficiencies of the legacy programs by enabling the census of beneficiaries and the cleanup of the legacy records. These activities will lay the groundwork for the Government to develop and assess options of partial liquidation of liabilities of the legacy schemes.

37. The safety net component would set the basis for a mechanism that would allow more efficient channeling of scarce public resources to the neediest among the population. This would be achieved through design, implementation, and subsequent assessment of a pilot safety net program with subsequent recommendations on a scaling up strategy.

38. **Technical.** The proposed project is designed to help the Government implement a reform of administration of the pension system and begin to introduce safety nets as outlined in the Social Protection program of ANDS by providing technical support otherwise not available in the country towards: (i) setting up new institutions and systems including MIS for claims processing and benefit payments of the pension programs as well as robust monitoring, budgeting and evaluation mechanisms, (ii) developing a workable program of modest but scalable social safety nets, and (iii) building capacity within MoLSAMD to plan and administer interventions in the social protection.

39. **Financial Management.** The Project will be implemented by the MoLSAMD, the nodal agency for the proposed project. A Project Coordination Unit (PCU) has been established within MoLSAMD, under direct supervision of GMU. The PCU will handle the financial management arrangements under the Project. The PCU will benefit from the existing capacity of the GMU. A dedicated Financial Management specialist will be hired by the PCU for the duration of the Project. The implementation arrangements are designed to ensure transparency and efficient fiduciary arrangements and will be adequate to account and report for project resources and expenditures.

40. **Procurement.** The key risks associated with procurement have been identified in the risk table presented below. A dedicated Procurement Specialist will be hired by the PCU for the duration of the Project. The Specialist will be responsible for procurement management under the project.

41. **Social.** During project preparation, a series of strategic consultations with government and other stakeholders was carried out to understand current status of the pension program. There is no gender or age disparity in operationalizing the pension reform as envisioned by the Government. Neither will there be a disparity associated with defining and implementing the safety nets objectives and the program, including the pilot. Ethnic and cultural considerations will be mainstreamed into the pilot design to ensure equal and culturally appropriate accessibility for minority or otherwise disadvantaged populations.

42. **Environment and safeguards.** No resettlement or land acquisition will take place in the project and the project will have no impact on the environment; only renovations of the existing offices, as minor civil works, will take place; therefore, the project is rated as environmental category C. At the same time, the Government will ensure that all such civil works carried under the Project are carried out in accordance with its Environmental and Social Safeguards Framework.

E. Implementation Arrangements and Financing Plan

43. **Institutional arrangements.** The governance structure of the project has been approved by the President and consists of a high level Steering Committee, two Technical Working Groups — one for the pension component and another one for the safety net component, and a Project Coordination Unit (PCU).

44. The Steering Committee is chaired by the Minister of MoLSAMD and includes Deputy Ministerial level members of ministries and agencies most concerned with issues of pensions and social protection (MoF, MoWA, MRRD, IARCSC and MoLSAMD). The Steering Committee oversees project implementation and addresses inter-sectoral issues that may arise during the design and implementation of the pilot scheme.

45. The Technical Working Groups also have a broad representation of ministries and agencies concerned with pensions and safety nets, respectively. The working groups are headed by Deputy Ministers of MoLSAMD and include technical staff with good knowledge of pensions and safety net issues. Their tasks are to monitor development of project design and technical aspects of its implementation, including recommendations for adjustments to project design

before they are submitted to the Steering Committee. Likewise, they review quarterly reports on project progress before they go to the Steering Committee.

46. MoLSAMD is the nodal ministry for pensions and social protection and is therefore the logical prime counterpart for project implementation.

47. MoLSAMD is assisted by a Project Coordination Unit (PCU) that has been established under supervision of the Ministry’s Grant Management Unit (GMU). The GMU has been accumulating capacity in project design and implementation (e.g., in procurement, financial management, etc.), and the proposed project will greatly benefit from this experience at the very outset. The GMU is staffed with the administration, procurement, and financial management teams, along with teams supporting project design, monitoring and evaluation, and economic and financial analysis. The M&E unit of GMU, in particular, will help with implementation of the beneficiary survey to set baseline for tracking the project performance over time.

48. The PCU is staffed with local and international consultants who will work with Ministry staff on project implementation. The MoLSAMD, through its GMU, will oversee the day-to-day work on both components. On pensions, the work is coordinated with MoF (as pertains to strengthening the systems of contribution collection monitoring and accounting as well as fiscal analysis and budgeting) and the IARCSC (as pertains to coordination with a broad set of activities of the public sector reform and implementation of HR policies). On safety nets, the PCU is responsible for ensuring that activities are coordinated with the major government agencies and donors involved in the sector.

Financing plan

49. The tables that follow show the allocation of IDA proceeds and the expected co-financing. The single category for “goods, works, consultancy services, training, and operating costs” is defined in the financing agreement to facilitate preparation of withdrawal applications and record-keeping. There is a disbursement condition for Category 2 ensuring that IDA receives the Steering Committee’s approval of the program plan(s) for the piloting of safety net programs, as set forth under the Covenants for this project.

IDA Financing by Category of Expenditure (US\$ million)

Category	Amount of the Grant Allocated	Percentage of Expenditures to be Financed (Inclusive of Taxes)
(1) Goods, works, consultants’ services and Incremental Operating Costs for the Project ⁴	4,850,000	100%
(2) Pilot Benefits under	1,800,000	100%

⁴ Incremental Operating Costs refers to operating costs of the PCU incurred on account of implementation of the Activities, including vehicle rental and other transportation costs, office rental and maintenance, utilities, telecommunications, and other incident costs, office equipment and consumable supplies, bank charges and advertising costs.

Component 2 (a) of the Project		
(3) Refund of Preparation Advance	850,000	
TOTAL AMOUNT	7,500,000	

Estimated Co-financing (US\$ million)

<u>IDA</u>	<u>ARTF</u>	<u>JSDF</u>	<u>Beneficiaries</u>	<u>Total</u>
<u>7.5</u>	-	-	-	<u>7.5</u>

50. Annex 3 summarizes cost estimates for the Project and its components. It is anticipated that the total of US\$7.5 million will be required to finance activities in support of the objectives stated for this project.

51. **Procurement.** Procurement for the proposed project would be carried out in accordance with World Bank's "Guidelines: Procurement under IBRD Loans and IDA Credits " dated May 2004, revised in October 2006 and "Guidelines: Selection and Employment of Consultants by World Bank Borrowers" dated May 2004, revised in October 2006, and the provisions stipulated in the Financing Agreement.

52. 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 GoA, the IDA Procurement/Consultant Guidelines shall prevail.

53. IDA has agreed to allow the GMU/PCU to carry out small value procurement. All large value procurement of goods (NCB/ICB), including hiring the services of consultants, will be carried out with the assistance and guidance of the Procurement Facilitation Unit of the Afghanistan Reconstruction Development Service (ARDS-PU) under the Ministry of Economy. IDA will conduct capacity building programs for MOLSA/GMU procurement staff to mitigate procurement-related risks. In addition, several capacity building programs for MoLSAMD staff have been agreed at international and in the country level. (See Annex 5 for further details.)

54. The Procurement Manual will be prepared by MoLSAMD as part of the Project Implementation Plan (PIP) to be approved by the Bank.

55. **Financial management (FM), disbursement and audit arrangements.** A PFM performance rating system has been developed for Afghanistan by the Public Expenditure and Financial Accountability (PEFA) multi-agency partnership program, which includes the World Bank, IMF, EC, 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.

56. Financial management and audit functions for the proposed project will be undertaken through the agents contracted under the IDA-financed Public Administration Capacity Building and the Public Financial Management Reform projects. These are the primary instruments 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 Financial Management Agent (FMA) is responsible for helping the 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.

57. At the project level, a Project Coordination Unit (PCU) has been established within MoLSAMD under direct supervision of its Grants Management Unit (GMU). The GMU will undertake responsibility of supervision of implementation of the financial management functions by the PCU.

58. Quarterly Financial Monitoring Reports will be prepared by the PCU every quarter and submitted to the Bank within 45 days from the end of the quarter. Corresponding consolidated annual reports will be prepared, reviewed, and approved by the MoF, supported by the FMA.

59. A Designated Account (DA) will be opened at Da Afghanistan Bank (DAB, Central Bank) in the name of the project on terms and conditions satisfactory to IDA. The DA will be maintained by the MoF. Withdrawal applications for new advances and submission of expenditure reporting will be submitted monthly. Financial management arrangements for the project are stated in details in Annex 4.

60. **Fund Flows.** Fund management for the Project will follow existing procedures. As with all public expenditure, all payments under the project will be routed through MoF. The FM Adviser will assist the MoF in executing and recording project payments. In keeping with current practices for other projects in Afghanistan, the DA will be operated by the Special Disbursement Unit (SDU) in the Treasury Department MoF. Requests for payments from DA funds will be made to the SDU by MoLSAMD. In addition to payments from DA funds, MoLSAMD can also request the SDU to make direct payments to consultants or consulting firms, and special commitments for contracts covered by letters of credit. Such requests will follow World Bank procedures. All withdrawal applications to IDA, including advances, reimbursement, and direct payment applications, will be prepared and submitted by MoF.

61. **Accounting and Reporting.** The PCU/GMU will maintain essential project transaction records using computerized accounting system and/or Excel spreadsheets and generate required monthly, quarterly, and annual reports.

62. The FM Manual, to be prepared by MoLSAMD, as part of the Project Implementation Plan (PIP), and to be approved by the Bank, will include: i) roles and responsibilities for all FM staff, ii) documentation and approval procedures for payments, iii) project reporting requirements, and iv) quality assurance measures to help ensure that adequate internal controls and procedures are in place and are being followed.

63. 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 PCU.

64. **Disbursement Method.** Disbursements from the grant will be made using advances, reimbursement, direct payment, and payments under Special Commitments including records or against reports, in the form of statements of expenditures, as appropriate.

65. **Audit of Project Funds.** The Auditor General, supported by the Audit Agent, is responsible for auditing the accounts of all IDA and ARTF-financed projects. Annual audited project financial statements will be submitted within six months of the close of GoA's fiscal year.

66. **Monitoring and evaluation** of results under the Pension component will draw on the information consolidated as part of implementation and operation of a new Management Information System (MIS) that will avail data on physical and financial progress of implementation. The MIS would produce timely reports and track achievement of selected project performance indicators. In addition, a beneficiary survey has been designed and is being implemented under the Project Preparation Facility (PPF) and with Technical Assistance from the World Bank to define and trace a set of outcome indicators associated with the pension component of the project.

67. Under the Safety nets component, monitoring and evaluation mechanisms will utilize process and impact information generated by qualitative and quantitative surveys undertaken by the PCU and the MoLSAMD units involved with implementation of the pilot. Staff at headquarters and in local offices will be trained under the project in the application of monitoring and evaluation techniques, and in the adaptation of policy and program strategies to their findings.

68. Overall, the project will be assisted by the Monitoring and Evaluation unit of the GMU.

69. To ensure timely and effective implementation, the Banks technical team will undertake supervision and implementation support missions to the country at least three visits per year.

70. It is planned that the grant would become effective on December 31, 2009 and would close on December 31, 2013.

F. Project Risks and Mitigating Measures

71. **Security Risks.** The security situation in Afghanistan remains precarious and poses a risk to all development activities, particularly those that involve working in rural areas. Operation of modernization of the pension system, however, will largely be focused on the central office of the Pension Department where most of the claims and payments are being processed. In provinces the work will be focused on the departments in the district capitals. While safety net

work will cover analysis, pilot(s), evaluation, and development activities with nation-wide implications, pilot activities will be limited to areas where the security risk is relatively low and the roll out phase for the safety net program subsequent to this project will occur with a view to the evolution of the security situation in the country.

72. **Political Risks.** While the 2009 elections may bring changes in leadership, support for the pension reform program has been diversified across the ministries of the Government given the multi-agency approach to the pension reform design work. Furthermore, Pension Regulation has recently been promulgated in the Cabinet without major changes. It is unlikely therefore that the plans for implementation of the new pension program will be reversed. With regard to the safety net, there is broad recognition of the need for initiatives to protect poor and vulnerable population groups. Moreover, there is broad consensus on piloting a poverty benefit that consolidates resources going into poverty relief and improves the targeting of such resources.

73. **Operational Risks.** The modernization effort of the Pension Department assumes building basic but robust infrastructure for benefit delivery. Without (a) proper customized software and trained staff, (b) stable electricity supply, and (c) robust communication system with the provincial offices, the new systems are not likely to be successful. All these aspects have been considered as part of the project design. With regard to the social safety net component operational risks have been minimized proposing a phased approach to implementation.

<i>Risk factors</i>	<i>Description of risk</i>	<i>Rating^a of risk</i>	<i>Mitigation measures</i>	<i>Rating^a of residual risk</i>
Sector, Governance, Policies and Institutions				
Sector Specific Risks	<ul style="list-style-type: none"> • So far, MoLSAMD has been weak in exercising leadership in social protection, and it has only partial understanding of initiatives in other ministries and of donor activities. This risks leading to inefficiencies in the SP system: Consequently, while donor resources are abundant, they may not be used well, and the impact of very limited domestic resources may be diminished. The situation is exacerbated by the relatively low capacity for planning and program management in MoLSAMD. 	Substantial	<ul style="list-style-type: none"> • The ANDS provides a strategic and policy framework that facilitates coordination of the kind envisaged under the project. The project itself will provide support to strengthening the planning and management functions within MoLSAMD. 	Substantial
Political / Country ownership	<ul style="list-style-type: none"> • The 2009 elections may bring changes in leadership across ministries involved with the pension reform effort so far. As a result, Government commitment to reforms may weaken in the transition to a new Government. 	Substantial	<ul style="list-style-type: none"> • Support for the pension reform program has been diversified across the ministries of the Government given the multi-agency approach to the pension reform design work. It is unlikely therefore that the plans for implementation of the new pension program will be reversed, even more so after the recent promulgation of 	Moderate

			the Pension Regulation. Likewise, there is broad consensus on the need for constructive action for the poor.	
Political/ Sector policies and institutions	<ul style="list-style-type: none"> • The Government focus on the need of design of a coherent national safety net program may weaken as impact of the recent food crisis wears out 	Substantial	<ul style="list-style-type: none"> • Recently adopted ANDS SP strategy indicates government commitment to instituting an affordable safety net system. Externally too, from the multiple donors involved in the sector, there is a call for a well-coordinated and targeted social protection policies. 	Moderate
Operation-specific Risks				
Technical Design	<ul style="list-style-type: none"> • Government reform proposal foresees operational integration of the schemes for retirement pensions and pension for families of Martyrs and Disabled. This may put additional stretch on the Pension Department at the time when it will involve an extensive effort of operational modernization of the retirement scheme. • In safety nets, implementation of a new scheme represents a considerable challenge in the environment with limited policy formulation and implementation capacity. 	Substantial	<ul style="list-style-type: none"> • The project implementation schedule will be developed in such way that all the critical reform activities are stages rather than approached simultaneously. Likely the first core activity will be modernization of the public sector retirement scheme, while integration with the Martyrs and Disabled scheme will follow. • A staged approach is suggested for the scaling up. At the initial stage, a stock taking exercise will recommend a particular pilot design for the policy makers; the pilot would be implemented in a limited set of communities; subsequently the pilot will be evaluated and a scale up strategy will be developed. 	Moderate
Implementati on Capacity And Sustainability	<ul style="list-style-type: none"> • Lack of capacity within the Ministry to implement the reform in the time frame envisioned. • Implementation of MIS has serious contingencies in timing, budget, and overall success • Modernization effort of the Pension Department and on-going operation of MIS will require basic but robust infrastructure of power supply, communications, etc., which are still weak in the country. 	Substantial	<ul style="list-style-type: none"> • The project has a specific component on building capacity of the implementation agency at all levels. • Staged approach will be adapted to implementation the new IT system, whereby at the first stage detailed specifications will be drawn (under the PPF) by an experienced MIS consultant and only then the shortlist of potential providers will be compiled. • The project will provide for (a) stable electricity supply in the Pension Department, and (b) redundancies of the paper and electronic document tracking, – both to ensure steady uninterrupted work flow and sustainable modernization effort. 	Substantial
Financial	<ul style="list-style-type: none"> • Administrative and fiduciary capacity 	Substantial	<ul style="list-style-type: none"> • Best practices for accountability 	Substantial

Management	of MoLSAMD is weak.		and transparency of programs will be applied. Specific lessons from the country experience will be utilized and training will be provided. The GMU within the Ministry will provide an initial support. The Project Implementation Plan (PIP) will have a separate section of Financial Management Manual.	
Procurement	• Procurement capacity is weak.	High	• Dedicated procurement officer will be recruited. The GMU will provide an initial support. Coaching and training will be provided in procurement, primarily on consultant selection and information systems, as the project will finance these categories. The Project Implementation Plan (PIP) will contain section with the Procurement Manuals detailing the procedures and standard documents to be used.	Substantial
Social and Environmental Safeguards	• No safeguard policies are expected to apply to the proposed project.	No risk		
Overall Risk	Substantial (due to country and sector-specific risks)			
^a Rating of risks on a four-point scale – High, Substantial, Moderate, Low – according to the likelihood of occurrence and magnitude of potential adverse impact.				

G. Terms and Conditions for Project Financing

75. The project is supported by an IDA Grant and will finance 100 percent, including taxes, of project activities.

76. Disbursement of the pilot benefit cash grant under Component 2 of the project will be conditional upon satisfactory furnishing to the Association of the documentary evidence of the Project Steering Committee approval of the Pilot Safety Net Program Plan containing detailed program implementation parameters for the pilot scheme(s) including principles and procedures for the selection of targeted group(s) and covered areas, determination of benefits, financial management modes, administrative arrangements, monitoring and impact evaluation mechanisms, definition of roles and responsibilities of various departments of MoLSAMD both at the central and provincial levels and other involved agencies.

77. **Condition of Effectiveness:** Prepare by the time of effectiveness of the Project, a Project Implementation Plan (PIP) acceptable to the Association. The PIP shall include: (i) an outline of the responsibilities of the staff of the PCU as well as the Project Steering Committee and the Technical Working Groups; (ii) a description of a coordination mechanism between the PCU and both the PSC and TWGs as well as external agencies; (iii) a Financial Management manual incorporating policy and procedures, acceptable to the Association, regarding accounting, reporting, disbursement, internal control and audit mechanisms and procedures; and (iv)

Procurement manual incorporating procedures and model contracts for services and goods as set forth in the Procurement Plan.

78. **Covenants.** The Government of Afghanistan shall:

- (i) maintain, throughout the period of the implementation of the Project, a Project Steering Committee (PSC) chaired by the Minister of MoLSAMD, including deputy ministerial level representation from MoF, IARCSC and other ministries to monitor the overall progress of the Project, including approving proposed annual Project implementation plans;
- (ii) maintain, throughout the period of the implementation of the Project, the Technical Working Groups (TWG) with representation of ministries/agencies concerned with pensions and safety nets, respectively, to facilitate coordination and implementation of both the pensions and the safety net components of the project;
- (iii) maintain, throughout the period of the implementation of the Project, a Project Coordination Unit (PCU), within the MoLSAMD, with terms of reference and staffing as per the PIP, acceptable to the Association, which will under the supervision of MoLSAMD and guidance of the PSC be responsible for the overall coordination and supervision of the execution of the Project, including undertaking procurement and carrying out financial management, and monitoring and evaluation of the Project;
- (iv) cause MoLSAMD through the PCU to coordinate with MoF on the implementation of activities related to strengthening contribution compliance function. In this respect the PCU shall be responsible for providing training and consultants' services to assist MoF in strengthening monitoring compliance. MoF shall remain responsible for contribution collection and compliance monitoring.
- (v) require the MoF to 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 Account, and SOEs in accordance with terms of reference agreed with the Bank;
- (vi) require the PCU to submit to the Bank un-audited project interim financial reports on a quarterly basis and a copy to SDU-MoF within 45 days after the end of each quarter;
- (vii) require MoLSAMD to ensure that key FM staff of the PCU are retained throughout the duration of the project in order to ensure smooth project implementation.

Annex 1: Detailed Description of Project Components
AFGHANISTAN: Pension Administration and Safety Net Project

79. The project development objectives are to improve administration of the public pension schemes (civil service, security sector, and families of martyrs and disabled) as well as to pilot a modest safety net program as a first step to developing a sustainable approach to safety nets in Afghanistan, including the institutional capacity to make social protection policy and deliver social protection programs. By doing that, the project will contribute to the broader ANDS objectives to build a fiscally sustainable pension system and an affordable social protection system, as well as strengthen the policy capacity and institutional framework of the MoLSAMD. To meet the objectives, the project will do the following:

- (a) improve administrative capacity of the Pension Department to operate public pension schemes; and by doing so, ensure effective implementation of the new Pension Regulation that introduces a fiscally sustainable pension system for public sector employees and improve transparency of the legacy schemes;
- (b) develop a policy framework for safety nets and on that basis implement pilot activities to transfer resources in cash and/or kind to a subset of very poor households (conditional or unconditional); and use the findings from the pilot to develop a scaled up approach to safety nets; and
- (c) develop capacity in MoLSAMD to plan and administer program implementation in pensions and safety nets.

80. The project will have three components: (1) pensions, (2) safety nets, and (3) project management. The pension component has two sub-components: (a) designing new administrative arrangements for the public pension system; and (b) modernization of the existing pension system. The safety net also has two sub-components: (a) designing and implementing a pilot safety net program; and (b) strengthening the institutional capacity of MoLSAMD. For the implementation of these components and the project management component, the project will provide technical assistance, training, office renovations, equipment, materials, and cash payments for pilot.

Component 1: Pensions

81. Within the context of the administrative reform of the public pension system, the project will have two principal sub-components. Sub-component I will deal with design and implementation of the modernized operational framework for the reformed pension schemes. Sub-component II will deal with the legacy issues by systematizing and cleaning records of the old schemes; it will also enable evaluation of the project performance using beneficiary surveys.

82. Sub-component (a): *Designing new administrative arrangements for the public pension system (US\$2.5million)*. This sub-component will help implement a reform of the administrative arrangements of the public sector retirement pension program, in line with activities of the broader public sector reform.

83. This sub-component will include provisions of technical advisory services, goods, training, and office renovation works to the MoLSAMD for the implementation of:

(i) Evaluation of existing systems and processes of the pension schemes and design of new mechanisms of claims processing and benefit delivery. This will include extensive operational survey of existing systems and processes (civil service, military/police pensions, and benefits for the martyrs and disabled), gap analysis, benchmarking and design of new processes and terms of reference for various units.

(ii) Design and implementation of the new Management Information System (MIS) for the Pension Department. This will include design of specifications for the new software and hardware (to be implemented under the PPF); software development, licenses, and testing; hardware procurement and installation; backup system development, etc. The software will deal specifically with functions of claim processing, benefit calculation and authorization, payments (both in centers and the provinces), reporting, etc. On the Pension Department side, no individualized records of contributions will be maintained.

(iii) Outsourcing of the IT system maintenance. For the duration of the project, the costs of external system maintenance will be covered. This is to ensure efficient troubleshooting and smooth system operation during the initial states of operation.

(iv) Strengthening systems of pension contribution deduction, accounting, record keeping, monitoring, and compliance enforcement. A team of technical experts, as supported by the PCU, will develop and implement public awareness campaign and provide training to the budget spending units on procedures of deduction, accounting, and reporting of the new pension contributions. The project team will also work with MoF to define needs and to provide necessary technical assistance to strengthening the contribution compliance function within the MoF, as directed to modernization of the existing monitoring and accounting mechanisms. For this purpose, the project will provide for training and consultancy services hired by PCU. Similarly, the project will help define needs and, through the PCU, will provide required technical assistance to the Fiscal Policy Unit of MoF in strengthening budgeting and financial management of the public pension schemes.

(v) Developing strategy for effective administrative integration of the record-keeping and payment system for pensions for families of Martyrs and Disabled with the civil service retirement pensions. Activities will include operational survey of the payment practices of the program and design of the new benefit delivery mechanisms in line with the principles defined for the public sector retirement pension program.

(vi) Support will be provided to upgrade the basic office infrastructure of the Pension Department in Kabul. This in particular will help ensure client friendly operational environment. Furthermore, operation of the new MIS will require provision of stable alternative electricity supply for the Pension Department in Kabul.

84. Sub-Component (b): *Modernization of the existing pension system (US\$0.8million)*. This sub-component will deal with the legacy issues by systematizing and cleaning records of the old schemes; and will enable evaluation of the project performance using beneficiary surveys. The sub-component will include provisions of technical advisory services, goods, and training to implement the following activities:

(i) Digitizing of records of the old schemes. This will cover assessment of the types, locations, and quality of the existing pension records. Furthermore, it will require development of a software utility and training of a dedicated technical team to capture records of the legacy schemes. Various data exceptions will be categorized and dealt with in systematic manner.

(ii) Design and implementation of the pensioners' census and the life certification process. Based on the record consolidated on electronic media, and process specifications to be defined, a census of retirees will be conducted (including Kabul and the provinces); it will help verify legitimacy of existing payments and clean database from the ghost payments and duplicate records; it will facilitate assessment of the outstanding stock of pension liabilities towards existing retirees and their survivors. A robust life certification mechanism will be designed and implemented in parallel to the census as a mandatory new element of the pension program to ensure quality of pension records going forward.

(iii) Survey of pensioners of the existing schemes will be conducted to monitor reform outcomes.

The above activities will cover both the public sector retirement schemes (civil service, military, police, etc.) and the pension scheme for the families of martyrs and the disabled.

Furthermore, the Government has expressed interest in exploring options of paying out some of the liabilities of the old public sector retirement scheme in form of lump sums. This subcomponent will set the groundwork for this process by developing procedures of beneficiary selection for the payouts and proposing the methods for public notification, application, verification, claim processing, amount calculation, and payments.

Component 2: Safety nets

85. Sub-component (a): *Designing and implementing a pilot safety net program (US\$2.7million, incl. US\$1.8million benefit payments under the pilot scheme)*. This sub-component will implement the pilot safety net program and assess the results, including examining alternatives for eventual scaling up. This will include technical assistance in developing mechanisms for enrollment, eligibility determination, payment, and control and accountability mechanisms. The design phase was launched under the PPF advance, and it will be completed early during project implementation.. The sub-component will include (i) award and payment of benefits in cash and/or in kind to beneficiary households; (ii) technical assistance (see above); (iii) in-service training; and (iv) equipment, materials and supplies related to the scheme.

86. In preparing the pilots for implementation, the following design work will have been undertaken: the characteristics of families that need support (the targeting mechanism) defined; the form and size of benefits to transfer or services determined; the administration modalities determined, including: beneficiary selection process; benefit delivery mechanism; verification system; monitoring and evaluation systems; management information system; inspection and technical supervision; and inter-agency coordination.

87. International experiences suggests that safety nets are often planned and financed centrally but implemented locally as local authorities are better able to identify the needy and reach them while national authorities set the rules and guidelines. Therefore, during the pilot phase, an implementation approach could be developed and tested which can fit into such a framework. While, Afghanistan does not yet have elected local governments, in connection with the implementation of the National Solidarity Program (NSP), it has developed a representative structure in villages covered by the Program that could function in the interim as facilitator of the local government function. This structure includes an elected group called the Community Development Council (CDC) and an elected District Development Assembly (DDA). An approach, which could evolve into a sustainable solution for the country, would be to use the CDCs as partners to implement the safety net pilot. In this role, they would be contracted by MoLSAMD to implement the pilot according the program criteria which would be spelled out in an agreement. CDCs would identify the beneficiaries according the targeting criteria and administer the program. MoLSAMD would plan, finance, monitor and supervise the implementation. MoLSAMD would also use services of facilitating partners. Once local governments are created, this approach could easily fit in with conditional fiscal transfers under fiscal decentralization.

88. During implementation, these mechanisms will be tested and assessed to determine the feasibility of the design, as well as adjustments to it, and cost implications – all with a view to a gradual scaling up of the scheme, if that proves feasible. To ensure that the experience will be valid, extensive technical assistance will be provided for the design, and the work will include the following:

- (i) A high level strategy and definition of the pilot program, including targeted group(s) and/or areas, principles of targeting and eligibility assessment, financial management modes, monitoring and impact evaluation provisions.
- (ii) Design and implementation of pilot schemes – administration, financing, operating procedures – for a basic safety net program that would provide support in cash or in kind to a pre-determined subset of very poor households. This will also include a rigorous impact evaluation of the pilot schemes and recommendations for expansion on a national scale. A complete and comprehensive set of operational manuals would have been prepared to put the proposed strategy of the safety net implementation in action. This will include definition of roles and responsibilities of various departments of MoLSAMD (including in the provinces) and other involved agencies as well as sharp financial management provisions to secure safe channeling of the grant money to the identified beneficiaries.

89. The design of the pilot safety net program will be reflected in a Pilot Safety Net Program Plan to be prepared by the project. This document will be submitted for review and endorsement to the government prior to the pilot roll out.

90. Sub-component (b): *Strengthening the institutional capacity of MoLSAMD (US\$0.5million)*. The sub-component will improve the capacity in MoLSAMD to (i) plan and administer its own safety net programs, including using monitoring and evaluation techniques to do so; (ii) develop and maintain a data base on ongoing social protection activities in the country;

and (iii) use the data base in advancing the national social protection agenda. The sub-component will include technical assistance and training, including study tours; and equipment, materials and supplies related to the institution building.

91. The project will in particular include a series of the workshops and training in-country and outside Afghanistan (to expose the policymakers and senior management to the regional and international practices) as well as implementation of the supporting information management systems with a longer term view to link information systems of various programs; and it will develop public information/outreach programs to ensure effective implementation of the pilot in the selected locations.

Component 3: Project Management

92. *Strengthening capacity for program management (\$1.0mil)*. This component will ensure adequate capacity in the policy analysis and program management and will facilitate implementation of the project by using appropriate mechanisms of project management and proper tools of project monitoring. It will include provisions of technical advisory services, goods, and training in support of the following activities:

- (i) Consultancy services in the project management, financial management, procurement, etc.;
- (ii) Design and implementation of training programs for management and staff in policy and reform as well as in technical aspects of the project management (planning, supervision, financial management, procurement, etc.); administration of the local/international workshop participation and study tours; and
- (iii) Overall project implementation support. (See Annex 6 for further details.)

Annex 2: Results Framework and Monitoring
AFGHANISTAN: Pension Administration and Safety Net Project

Results Framework

Project Development Outcomes	Project Outcome Indicators	Use of Project Outcome Information
<p>1. Administrative capacity of the Pension Department to operate public pension schemes improved</p> <p>2. A modest safety net program as a first step to developing a sustainable approach to safety nets in Afghanistan piloted</p>	<ul style="list-style-type: none"> • A central register provides computerized record-keeping of participants and flow of funds; • Improved services to beneficiaries • Improved revenue and financial management of the pension programs • Streamlined monitoring, budgeting and planning of the pension program • Safety net framework developed and tested. An evaluation of the pilot program undertaken 	<ul style="list-style-type: none"> • Assess efficiency of business processes in the Pension Department; monitor capacity to operate the program and legitimacy of benefits • Monitor service quality and user satisfaction • Monitor fiscal position of the public pension programs • Monitor capacity to do planning and budgeting • Use the framework and pilot test for dialogue towards a sustainable national safety net program including appropriate institutions to develop and implement social protection.
Intermediate Outcomes	Intermediate Outcome Indicators	Use of Intermediate Outcome Monitoring
<p>Component One:</p> <ul style="list-style-type: none"> • The Pension Department has efficient and transparent administration • Improved services to beneficiaries • Contribution compliance monitoring and enforcement within MoF strengthened; 	<ul style="list-style-type: none"> • Developed new operational procedures and rules, record-keeping systems (hardware and software), TORs for the departments and staff, and fully trained staff of the Pension Department • Legacy schemes modernized. Eligibility verification procedures defined, pensioners census conducted • Claims processing and benefit payment time shortened • Contribution compliance section within MoF established and proper monitoring systems introduced 	<ul style="list-style-type: none"> • Rate of development of central register to identify bottlenecks in processes, procedures, training • Monitor implementation of the eligibility rules • Progress with implementation of the contributory mandate of the new scheme

<p>Component Two:</p> <ul style="list-style-type: none"> • The safety net pilot program has been successfully implemented in a limited number of provinces • MoLSAMD has capacity to undertake knowledge-based policy formulation 	<ul style="list-style-type: none"> • Parameters of a safety net program defined. • Mechanisms to award and deliver benefits in place. Computerized implementation tracking system in place and operational 	<ul style="list-style-type: none"> • Determine feasibility and effectiveness of a comprehensive safety net program • Evaluate outcomes and determine if and how to scale up the pilot
<p>Component Three:</p> <ul style="list-style-type: none"> • Project management ensures professional implementation of the project 	<ul style="list-style-type: none"> • Project implementation according to schedule • Fiduciary obligations fulfilled 	<ul style="list-style-type: none"> • Determine bottlenecks in project implementation

Arrangements for results monitoring

Project Outcome Indicators	Baseline	Target Values				Data Collection and Reporting		
		YR1	YR2	YR3	YR4	Frequency and Reports	Data Collection Instruments	Responsibility for Data Collection
1. A central register provides computerized record-keeping of participants and flow of funds	Legacy paper based mechanisms	Program of institutional and administrative reform defined.	n/a	New systems piloted and implemented	All systems in Pension Department fully operational	Ongoing tracking	Pension Department	Pension Dpt
2. Improved services to beneficiaries.	n/a	Beneficiary survey designed and conducted; baseline defined	n/a	n/a	Survey indicates improved beneficiary satisfaction	YR1/YR4	Beneficiary survey	Pension Dpt/ PCU
3. Improved revenue and financial management of the pension programs.	n/a	Requirements for the revenue administration and monitoring function defined	Public information campaign designed	On-going training for the budget spending units	Financial management and compliance monitoring systems in place	Annual	Reports from MoF Revenue and Treasury departments	PCU
4. Streamlined monitoring, budgeting and planning of the pension programs.	Highly aggregate reports	Mechanisms and formats of data exchange and consolidation (including provinces) developed	1/3 of provincial offices covered with new data consolidation and reporting process	2/3 of provincial offices covered with new data consolidation and reporting process	all provincial offices covered with new data consolidation and reporting process	Annual	Records in Pension Department	Pension Dpt
5. Safety net framework developed and tested. An evaluation of the pilot program undertaken	None	Baseline parameters of the pilot defined and agreed; training initiated	Pilot in select locations initiated; evaluation team trained	Pilot implementation completed;	Evaluation activities conducted and scaling up strategy defined	Semiannual	MoLSAMD M&E team	MoLSAMD/ PCU

Intermediate Outcome Indicators	Baseline	YR1	YR2	YR3	YR4	Frequency and Reports	Data Collection Instruments	Responsibility for Data Collection
6. Developed new operational procedures and rules, record-keeping systems, TORs for the departments and staff, and fully trained staff of the Pension Department	None	Departmental structure and TOR of staff defined	New operational procedures and rules defined	MIS system implemented and fully aligned with the new procedures and rules	Staff fully trained in new procedures and uses of the MIS	Quarterly	Operational survey	Pension Dpt
7. Legacy scheme modernized. Eligibility verification procedures defined and pensioners census conducted	Weak verification mechanisms; No census conducted	Census procedures defined; staff trained; census initiated	Census completed for public pension program. Necessary data consolidated, records cleaned	Census completed for the martyrs and disability pension program. Necessary data consolidated, records cleaned	MIS systems fully cover management of the legacy programs	Ongoing tracking	Pension Department	Pension Dpt
8. Claims processing and benefit payment time shortened	n/a	New procedures defined	Training provided; implementation of new procedures initiated	Claim processing time in Kabul shortened	Claim processing time in provinces shortened	Annual	Records in Pension Department	Pension Dpt
9. Contribution compliance function within MoF strengthened	n/a	Necessary changes in the existing monitoring and accounting mechanism introduced.	Training on deduction processing and reporting provided to half of institutions	Training on deduction processing and reporting provided to all institutions	Regular contribution compliance reports produced by MoF	Ongoing tracking	Reports from MoF Revenue and Treasury	MoF / PCU

10. Parameters of a safety net program defined	None	Pilot Safety Net Program Plan prepared	Pilot in select locations initiated	Pilot implementation completed	n/a	On-going tracking	Record in PCU	MoLSAMD/PCU
11. Mechanisms to award and deliver benefits in place. Computerized implementation tracking system in place and operational	None	Operational manuals prepared, implementation roles defined. MIS specifications drawn.	Staff trained in implementation of the pilots. MIS developed and tested.	n/a	n/a	On-going tracking	Record in PCU	MoLSAMD / PCU
12. Project implementation according to schedule	None	PIP Schedule defined and approved	n/a	n/a	n/a	Quarterly	Record in PCU	PCU
13. Fiduciary obligations fulfilled	None	Operational Manual outlines all fiduciary provisions	n/a	n/a	n/a	Quarterly	Records in PCU	PCU

Annex 3: Summary of Estimated Project Costs

AFGHANISTAN: Pension Administration and Safety Net Project

AFGHANISTAN
Pension Administration/Social Protection Project
Components Project Cost Summary

	(Afghani Million)			(US\$ Million)			%	% Total
	Local	Foreign	Total	Local	Foreign	Total	Foreign Exchange	Base Costs
A. PENSION								
1. Systems and Institution Building for the Reformed Pension System	39.8	78.5	118.3	0.8	1.6	2.4	66	32
2. Modernization of Legacy Pension Provisions	35.8	4.0	39.8	0.7	0.1	0.8	10	11
Subtotal PENSION	75.6	82.5	158.1	1.5	1.7	3.2	52	43
B. SAFETY NET								
1. Pilot Safety Nets	113.0	21.0	134.0	2.3	0.4	2.7	16	37
2. Institution Building	20.3	4.0	24.3	0.4	0.1	0.5	16	7
Subtotal SAFETY NET	133.3	25.0	158.3	2.7	0.5	3.2	16	43
C. PROGRAM MANAGEMENT	22.9	25.0	47.9	0.5	0.5	1.0	52	13
Total BASELINE COSTS	231.7	132.5	364.2	4.6	2.7	7.3	36	100
Physical Contingencies	1.2	1.7	2.8	0.0	0.0	0.1	59	1
Price Contingencies	3.0	4.0	7.4	0.1	0.1	0.1	54	2
Total PROJECT COSTS	235.9	138.2	374.5	4.7	2.8	7.5	37	103

AFGHANISTAN
Pension Administration/Social Protection Project
Expenditure Accounts Project Cost Summary

	(Afghani Million)			(US\$ Million)			%	% Total
	Local	Foreign	Total	Local	Foreign	Total	Foreign Exchange	Base Costs
I. Investment Costs								
A. Minor Civil Work	10.5	-	10.5	0.2	-	0.2	-	3
B. Goods	13.0	10.0	23.0	0.3	0.2	0.5	43	6
C. Consultants								
Technical Assistance	77.5	117.5	195.0	1.6	2.4	3.9	60	54
Local consultant	30.0	-	30.0	0.6	-	0.6	-	8
Subtotal Consultants	107.5	117.5	225.0	2.2	2.4	4.5	52	62
D. Training	9.0	5.5	14.5	0.2	0.1	0.3	38	4
E. Grant for Pension Liabilities	90.0	-	90.0	1.8	-	1.8	-	25
Total Investment Costs	230.0	133.0	363.0	4.6	2.7	7.3	37	100
II. Recurrent Costs								
Total BASELINE COSTS	230.0	133.0	363.0	4.6	2.7	7.3	37	100
Physical Contingencies	1.2	1.7	2.8	0.0	0.0	0.1	59	1
Price Contingencies	3.0	4.0	7.4	0.1	0.1	0.1	54	2
Total PROJECT COSTS	234.2	138.7	373.3	4.7	2.8	7.5	37	103

AFGHANISTAN
Pension Administration/Social Protection Project
Expenditure Accounts by Components - Totals Including Contingencies
(US\$ Million)

	PENSION						Total
	Systems and Institution Building for the Reformed Pension System		Modernization of Legacy Pension Provisions	SAFETY NET			
	Building for the Reformed Pension System	Institution Building		Pilot			
			Safety Nets	Institution Building	PROGRAM MANAGEMENT		
I. Investment Costs							
A. Minor Civil Work	0.2	-	-	-	-	-	0.2
B. Goods	0.3	-	-	-	-	0.1	0.5
C. Consultants							
Technical Assistance	1.5	0.8	0.8	0.3	0.5	0.5	4.1
Local consultant	0.2	0.0	0.1	-	0.3	0.3	0.6
Subtotal Consultants	1.8	0.8	0.9	0.3	0.8	0.8	4.7
D. Training	0.2	-	-	0.2	0.0	0.0	0.3
E. Grant for Pension Liabilities	-	-	1.8	-	-	-	1.8
Total Investment Costs	2.5	0.8	2.7	0.5	1.0	1.0	7.5
II. Recurrent Costs							
Total PROJECT COSTS	2.5	0.8	2.7	0.5	1.0	1.0	7.5
Taxes	-	-	-	-	-	-	-
Foreign Exchange	0.7	0.1	0.2	0.2	0.5	0.5	0.4

Annex 4: Financial Management and Disbursement Arrangements
AFGHANISTAN: Pension Administration and Safety Net Project

A. Country Issues

93. The 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 years. The Public Administration Capacity Building Project (PACBP) and the Public Financial Management Reform Project (PFMR) are the primary instruments 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.

94. 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. 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.

95. 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 costed 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.

96. 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 percent of external revenues bypass government appropriation systems.

97. 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, and a Procurement Advisor to assist in Procurement-related activities. 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 Administration 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.

98. 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, it 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. And to make matters more complex, the regulatory environment in Afghanistan has advanced significantly in the past three 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.

B. Risk Assessment and Mitigation

99. 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.

<i>Risk</i>	<i>Risk Rating</i>	<i>Risk Mitigation Measures</i>	<i>Residual Risk</i>	<i>Condition of negotiations, Board or Effectiveness (Y/N)</i>
1. Inherent Risk				
Country Inherent Risk	M	Source - PFM study	M	N
Project Financial Management Risk	H	Ensure Designated Account not excessive and remains active with regular expenditure reporting; FM and procurement functions to be performed by the Project Coordination Unit (PCU) in coordination with the Grant Management Unit (GMU)	S	N
Perceived Corruption	H	Government commitment, internal controls and internal audit will help to reduce the high level of perceived corruption	S	N
<i>Overall Inherent Risk</i>	H		S	
2. Control Risk				
1. Weak Implementing Entity	S	A Project Coordination Unit (PCU) has been set up under of GMU (Grant Management Unit) of MoLSAMD to	M	N

		<p>handle FM functions in addition to other relevant functions. This unit will be staffed by international and national consultants. PCU along with GMU will be responsible for overall control and coordination of project activities.</p> <p>Oversight functions will be performed by a Project Steering Committee, chaired by the Minister of MoLSAMD and including Deputy Ministerial level members from MoF, MoWA, MRRD and IARCSC.</p>		
2. Funds Flow	S	<p>Payments will be made to contractors, consultants and suppliers from the Designated Account (DA) by SDU-MoF. In addition to payments out of DA funds, PCU 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.</p> <p>These payments would only be made by SDU after due processes and proper authorization from the PCU/ GMU.</p>	M	N
3. Budgeting	S	<p>There will be a Budget Committee comprised of representatives from the PCU/GMU and the relevant units of MoLSAMD, which will coordinate the budget process. This Committee will report to the Project Steering Committee. The composition of the Budget Committee will be detailed in the FM Manual.</p>	M	N
4. Accounting Policies and Procedures	S	<p>Will follow international standards. Project accounting procedures and details of the FM arrangements will be documented in an FM Manual to be prepared by the PCU and approved by the Bank</p>	M	N
5. Internal Audit	H	<p>Internal audit department of MoF and that of MoLSAMD will review project internal control systems</p>	S	N
6. External Audit	H	<p>Will be audited by CAO with support from Audit Advisor</p>	S	N
7. Reporting and Monitoring	H	<p>Strengthening the SDU is a priority under the FM Advisor contract, to provide information that will comply with agreed format of financial reports.</p> <p>This will be facilitated by the accounting system that will be utilized by the PCU/GMU to maintain records and generate required reports.</p>	S	N
Overall Control Risk	H		S	
3. Detection Risk	S	<p>Adequate accounting, recording, and oversight will be provided in project procedures.</p>	M	N

		Accounting/Recording/oversight by SDU – MoF of all advances/M-16 supported by Financial Management Advisor.		
<i>RISK RATING: H=HIGH RISK; S=SUBSTANTIAL RISK; M=MODEST RISK; L-LOW RISK</i>				

C. Strengths and Weaknesses

Strengths

100. 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 support for PACBP and PFMR is strength in itself to enhance financial management in Treasury operations, public procurement, internal audit in the public sector, and external audit by the Auditor General. The implementing line ministry, MoLSAMD has implemented a Bank-funded project prior to this, and is currently implementing another one, so the agency has experience in implementing Bank projects and following Bank procedures.

Weaknesses and Action Plan

101. The main weakness in this project, as in many others in Afghanistan, is the ability to attract suitably qualified and experienced counterpart staff especially for Financial Management. The establishment of the Project Coordination Unit, staffing of the PCU with consultants to be funded by the project and availability of FM staff in GMU are expected to strengthen the fiduciary arrangements.

D. Action Plan – To be reviewed at Supervision

Significant Weaknesses	Action	Responsible Agent	Completion Date
Project internal controls and procedures need to be defined	Financial Management Manual developed	PCU	By December 31, 2009
Interim reports need to include required information	Un-audited interim financial report formats confirmed	IDA/MoF/PCU	Before negotiations

E. Implementing Entity

102. The project will be implemented by the Ministry of Labor and Social Affairs, Martyrs and Disabled (MoLSAMD). A Project Coordination Unit (PCU) has been established under the GMU (Grant Management Unit) to coordinate and supervise the implementation of the project. This unit will be headed by a manager and staffed with technical (international and national) and FM staff, and will work closely with the GMU in performance of relevant functions.

103. The PCU finance staff in coordination with GMU finance staff will carry out day-to-day financial management operations of the project, preparation of M-16 forms (payment orders), project coding sheet, B27 allotment form and overall contract and project management. Detailed working relationships between the PCU and GMU, PCU's FM reporting requirements, staffing, systems and other FM arrangements will be included in the Financial Management Manual.

104. *Project oversight.* A Project Steering Committee (PSC), chaired by the Minister of Labor and Social Affairs, Martyrs and Disabled (or his representatives), and including Deputy Ministerial level members from MoF, MOWA, MRRD and IARCSC will be responsible for the overall policy, strategic planning and project oversight.

105. *Project coordination and monitoring.* The PCU along with GMU has responsibility for the overall project implementation, coordination and monitoring. The PCU will report to the Project Steering Committee on the consolidated progress of the project. It is also responsible for (a) assuring steady progress of execution in accordance to an implementation schedule reviewed and approved by the World Bank, (b) regular reporting to the PSC, (c) to ensure adequate and smooth transfer of skills to the national staff, and (d) ensuring that a high ethical standard and transparency is maintained throughout the process.

F. 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 the PCU/GMU and other relevant units of MoLSAMD, and shall report to the Project 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. The budgeting process and the key role of periodic budget reviews will be detailed in the FM Manual. The annual work plans and the annual budgets will be submitted to the Bank for review and approval, not later than three months before the end of the fiscal year (i.e. December 20th)

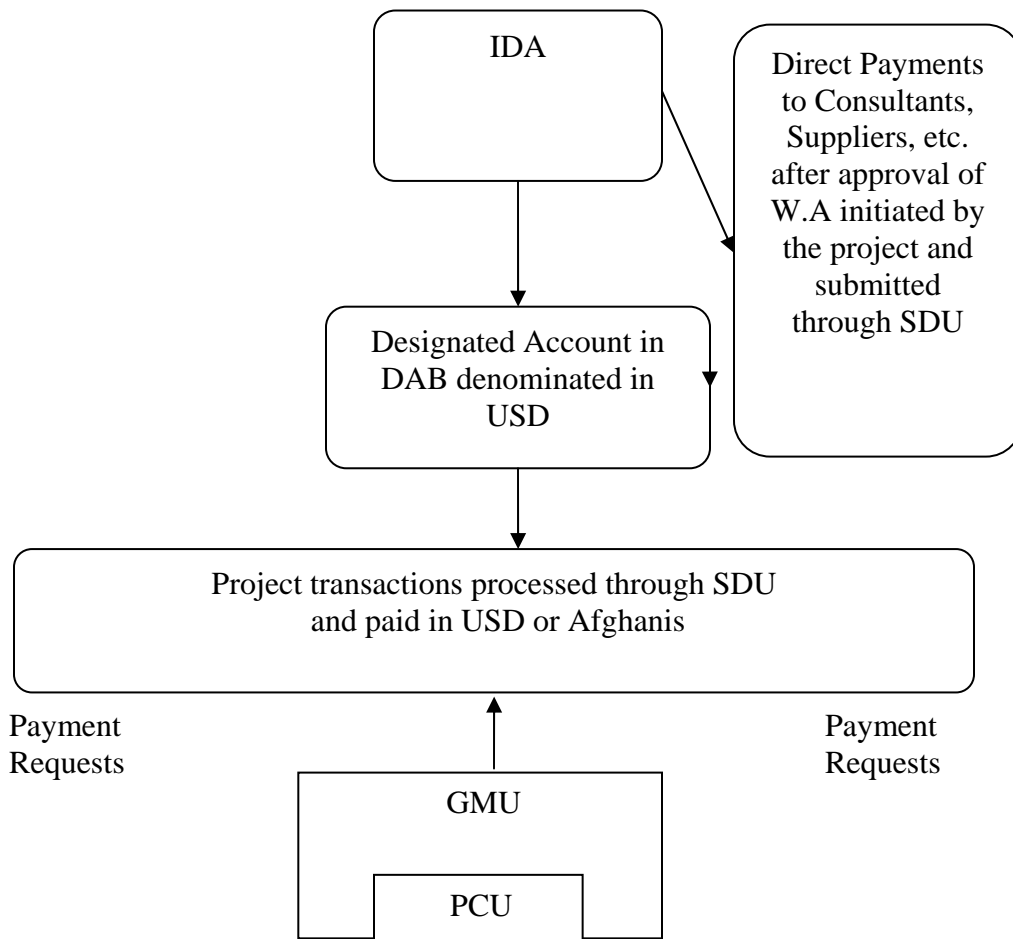
G. Funds Flow

107. The standard funds flow mechanism in Afghanistan will be followed in this project. Project funds will be deposited in the Designated Account (DA) to be opened and maintained at the Da Afghanistan Bank (DaB). The DA, in keeping with current practices for other projects in Afghanistan, will be operated by the Special Disbursement Unit (SDU) in the Treasury Department of MoF. Requests for payments from the DA will be made to the SDU by the PCU when needed.

108. In addition to payments out of DA funds, the PCU can also request the SDU to make i) direct payments from the Grant Account to consultants, consulting firms or suppliers, and ii) 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.

Expenditures for each component will be paid after relevant approvals from the component implementing entity and in accordance with the approval mechanisms documented in the project FM Manual.

109. A PPF in the amount of US\$ 850,000 has been provided to MoLSAMD to facilitate the preparatory activities for the project. This amount will be part of the total IDA Grant for the project and the PPF will close once the project becomes effective. The PPF shall be used for the specific activities mentioned in the PPF Agreement.



H. Legal requirements for authorized signature

110. Ministry of Finance has authorization to disburse funds from the Grant. If necessary, specimen signatures of authorized signatories in MoF will be submitted to the Bank prior to commencing disbursements.

I. Accounting

111. The SDU will maintain a proper accounting system of all expenditures incurred along with supporting documents to enable IDA to verify these expenditures. The FM staff of the PCU and GMU will: i) supervise preparation of supporting documents for expenditures, ii) prepare payment orders (Form M16), iii) obtain approval for M-16s from the relevant authority depending on the payment amount, and iv) submit them to the Treasury Department in MoF for verification and payment. Whilst original copies of required supporting documents are attached to the Form M16, the project is required to make and keep 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.

112. The PCU and GMU FM staff will maintain essential project transaction records using accounting system/Excel spreadsheets and generate required monthly, quarterly, and annual reports.

113. The FM Manual, to be prepared by the PCU by December 31, 2009, and to be approved by the Bank, will include: (i) roles and responsibilities for all FM staff, (ii) documentation and approval procedures for payments, (iii) project reporting requirements, (iv) quality assurance measures to help ensure that adequate internal controls and procedures are in place and are being followed, and (v) coordination and reporting between PCU and GMU with respect to FM functions.

114. 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 PCU/ GMU.

J. Internal Control & Internal Auditing

115. 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.

116. The PCU will be responsible for coordinating FM activities for the project with GMU and SDU.

117. 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.

118. The project financial management systems will be subject to review by the internal audit directorate of MoLSAMD, with support, where required from the internal audit directorate of the

MoF, according to programs to be determined by the Director of Internal Audit using a risk-based approach.

K. External Audit

119. 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 Association 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 IDA records retention policy.

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

Responsible Agency	Audit	Auditors	Date
MoF, supported by Special Disbursement Unit	SOE, Project Accounts and Designated Account	Auditor General	Sep 22

L. Financial Reporting

121. Financial Statements and Project Reports will be used for project monitoring and supervision. Based upon the FM arrangements of this project Financial Statements and Project Reports will be prepared monthly, quarterly, and annually by the PCU/GMU. These reports will be produced based on records kept on the PCU’s accounting system after due reconciliation to expenditure statements from SDU (as recorded in AFMIS) and bank statements from DAB.

122. The quarterly Project Reports will show: (i) sources and uses of funds by project component, and (ii) expenditures consolidated and compared to governmental budget heads of accounts, the project will forward the relevant details to SDU/DBER with a copy to IDA within 45 days of the end of each quarter. The government and IDA have agreed on a pro forma report format for all Bank projects; a final customized format for PASNP will be provided after project effectiveness.

123. 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.

M. Disbursement Arrangements

124. 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 shows the allocation of IDA proceeds and Table 2 presents the expected co-

financing. The single category for “goods, works, consultancy services, training, and operating costs” is defined in the financing agreement to facilitate preparation of withdrawal applications and record-keeping. A final disbursement deadline is six months after the closing date. There is a disbursement condition for Category 2 ensuring that IDA receives the Steering Committee’s approval of the program plan(s) for the piloting of safety net programs, as set forth under the Covenants for this project.

125. During this additional 6-month grace period, project-related expenditures incurred prior to the closing date are eligible for disbursement.

Table 1: IDA Financing by Category of Expenditure (US\$ million)

Category	Amount of the Grant Allocated	Percentage of Expenditures to be Financed (Inclusive of Taxes)
(1) Goods, works, consultants’ services and Incremental Operating Costs for the Project ⁵	4,850,000	100%
(2) Pilot Benefits under Component 2 (a) of the Project	1,800,000	100%
(3) Refund of Preparation Advance	850,000	
TOTAL AMOUNT	7,500,000	

Table 2: Estimated Co-financing (US\$ million)

<u>IDA</u>	<u>ARTF</u>	<u>JSDF</u>	<u>Beneficiaries</u>	<u>Total</u>
<u>7.5</u>	-	-	-	<u>7.5</u>

126. **Summary Reports.** Summary reports in the form of Statements of Expenditure will be used for expenditures on contracts below US\$25,000 and for all training programs and operating costs -- regardless of whether Bank procurement prior review is required or not.

127. For all other expenditures, Government will provide records (supporting documentation) to substantiate expenditures.

⁵ Incremental Operating Costs refers to operating costs of the PCU incurred on account of implementation of the Activities, including vehicle rental and other transportation costs, office rental and maintenance, utilities, telecommunications, and other incident costs, office equipment and consumable supplies, bank charges and advertising costs.

128. **Designated Account.** A single designated account will be opened at DAB in US dollars for a maximum amount of US\$ 400,000 representing 3 months of estimated expenditures. The SDU in MOF will manage payments from and new advances/replenishments to this account. Other transfers in the form of cash advances may be taken from the Designated Account, and held and managed by MoLSAMD. This agency's controls, 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. Expenditure reporting on the designated account will be submitted on a monthly basis and requests for fresh advances will be made as needed.

129. **Direct Payments.** Third-party payments (direct) and Special Commitments will be permitted for amounts exceeding 20 percent of the advance in the Designated Account (US\$ 80,000). All such payments require supporting documentation in the form of records (copies of invoices, bills, purchase orders, etc.).

130. **Preparation of Withdrawal Applications.** MoLSAMD will prepare Summary Reports and forward those reports to the SDU for further processing as a reimbursement application. The SDU will review withdrawal applications for quality and conformity to Treasury procedures, and then obtain signature. Selected PCU, GMU 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.

N. Financial Management Covenants

- MoF 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 Account, and SOEs, in accordance with terms of reference agreed with the Association.
- Un-audited project interim financial reports will be submitted by PCU on a quarterly basis to the World Bank and a copy to SDU-MoF within 45 days after the end of each quarter.
- MoLSAMD will ensure that key FM staff of the PCU and GMU are retained throughout the duration of the project in order to ensure smooth project implementation.

O. Regular Supervision Plan

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

- Review the project's quarterly un-audited 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 Account and bank reconciliations) to ensure compliance with the Bank's minimum requirements.

- Review agencies' 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 financial management risk rating and compliance with all covenants.

P. Conclusion

132. The FM arrangements, including the systems, processes, procedures, and staffing are adequate to support this project, subject to implementation of the items listed in the action plan.

Annex 5: Procurement Arrangements

AFGHANISTAN: Pension Administration and Safety Net Project

A. Country Context

133. The Bank has gained substantial experience and understanding of the procurement environment in Afghanistan. This has been through its involvement in the interim procurement arrangements put in place under the Emergency Public Administration Project. In addition experience gained working with the institutions with current responsibility for procurement functions including 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 of the procurement environment in the country based on the baseline and performance indicators developed by a group of institutions led by the World Bank and OECD/DAC in June 2005 and September 2007.

134. The first key issue identified through the procurement assessment is lack of ownership and a procurement champion in the Government. This 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 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 on application of public procurement rules.

135. A new Procurement Law (PL) has been adopted in November 2005, which radically transforms the legal and regulatory framework. As per the Law a Procurement Policy Unit (PPU) was established to provide oversight for implementation of the Law. PPU has issued several circulars regarding implementation of the Procurement Law including issuance of "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 has currently developed several SBDs/SRFPs/RFPs for national and international procurement of goods/works and consulting services following national procedures as per the PL.

136. 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 has agreed on a program for country wide procurement reform and capacity building, leading to the transition from centralized to decentralized procurement services. The above is implemented by an international consultant under the supervision of PPU/MoF and financed under Public Administration Capacity Building project (PACBP)/ Public Finance Management Reform Project (PFMRP). There has been several training programs conducted by the consultant at Basic and Intermediate level. The implementation of the procurement reform component of the PACBP 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.

137. The Procurement Law was revised in July 2008, amended in January 2009, issued as a new Law by the Ministry of Justice and published in the Official Gazette Number 957, 29.10.1387 (18 January 2009).

General

138. Procurement for the proposed project would be carried out in accordance with the World Bank's "Guidelines: Procurement under IBRD Loans and IDA Credits" dated May 2004; revised in October 2006 and "Guidelines: Selection and Employment of Consultants by World Bank Borrowers" dated May 2004, revised in October 2006, and the provisions stipulated in the Financing Agreement. The general description of various items under different expenditure categories are described below. For each contract to be financed by the grant, the different procurement methods or consultant selection methods, the need for prequalification, estimated costs, prior review requirements, and time frames are agreed between the Borrower and the Bank project team in the Procurement Plan. The Procurement Plan will be updated at least annually or as required to reflect the actual project implementation needs and improvements in institutional capacity.

139. 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 GoA, the IDA Procurement/Consultant Guidelines shall prevail.

Procurement of Works

140. Works to be procured under the project would include upgrading Offices of Pension Department. The procurement will be done using the Bank's Standard Bidding Documents (SBD) for all ICB and National SBD agreed with (or satisfactory to) the Bank. Threshold for ICB civil works will be equivalent or more than US\$5,000,000; threshold for NCB works will be less than US\$5,000,000. All civil works contract estimated to cost US\$50,000 or less per contract can be procured through shopping procedure of paragraph 3.5 of the procurement guidelines.

Procurement of Goods

141. Goods to be procured under this project would include Office furniture, Office equipment, Generators, vehicle, and IT equipments. Procurement of the goods will be done using Bank's SBD for Goods and IT systems for all contracts following International Competitive Bidding (ICB) procedures. National SBDs agreed with IDA or satisfactory to IDA will be used for procurement of Goods following National Competitive Bidding (NCB) procedures. Shopping shall be in accordance with paragraph 3.5 of Bank's Guidelines. All contracts estimated to cost more than US\$200,000 per contract shall be procured following ICB procedures. Contracts estimated to cost more than US\$50,000 equivalent per contract and less than US\$200,000 per contract shall be procured following NCB procedures. All contracts estimated to cost less than US\$50,000 equivalent per contract shall be procured following Shopping procedures.

Selection of Consultants:

142. The proposed Grant would finance several consultancy assignments as follows:

- *Consultant firms:* (i) Support to Payroll Deduction implementation (firm), (ii) Design and Implementation of M&E framework (firm), (iii) Training for SN Pilot roll out (firm), (iv) Pension Beneficiary Survey (Firm), (v) Design of Data Entry Utility (firm), (vi) Data Entry Management (firm), (vii) Conducting Pensioners Census (firm), (vii) Service for facilitating partners (firms), (viii) software design and development for the Pension Department, and (ix) software design and development for the Safety nets pilot.
- *Individual Consultants:* (i) Project Manager, (ii) Project Advisor, (iii) Pension System Expert, (iv) MIS Specialist, (v) Lead Safety Net Expert, (vi) Safety Net Expert, (vii) Pension Regulation Expert, (viii) Treasury/Tax Systems Expert, (ix) Pension Systems Project Officer, (x) Safety Net Project Officer, (xi) MIS Project Officer, (xii) Pension Regulation Officer, (xiii) Accountant/Cashier, (xiv), Procurement Specialist, (xv) Financial Management Specialist, (xvi) Scoping of renovation activities of Pension Department.
- Short lists of consultants for services estimated to cost less than US\$100,000 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 QCBS, QBS, CQS, LCS, FBS and SSS for firms and Section V of the Bank's Guidelines for Individuals. Threshold for CQS will be less than US\$200,000 per contract.
- *Operating Costs:* The cost 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 operating costs will include operations and maintenance of equipment and vehicles, hiring of vehicles, office rent, costs of consumable, fuel, office utilities and supplies, Bank charges, and advertising expenses but exclude any salaries and allowances of civil servants.

B. Assessment of the agency's capacity to implement procurement

143. MoLSAMD will have overall responsibility for all procurement under the project.

144. The Procurement activities under this project will be carried out through the Grant Management Unit (GMU) of the MoLSAMD.

145. An assessment of the capacity of GMU, the Implementing Agency to implement procurement actions for the project, has been carried out by Rahimullah Wardak, Procurement Specialist, on June 18, 2009. The assessment reviewed the organizational structure for implementing the project and interactions.

146. The GMU is a unit established by MoLSAMD to implement projects funded by government and donor budget on behalf of the MoLSAMD.

147. The agency has a general directorate and three sub-directorates, (i) Project Design & Formulation, (ii) Administration, Finance and Procurement, and (iii) M&E and Reporting. All the staff members hired under the GMU are consultants and their contracts are funded by donors.

148. The Administration, Finance and Procurement directorate is staffed with three procurement officers. During the assessment it was revealed that the GMU procurement staff do not have experience in procurement under Bank-financed projects.

149. As stated above the procurement staff does not have adequate experience in procurement. Hence, the procurement risk is “High”.

150. The following mitigation measures are proposed: (a) competent procurement specialist will be hired under the project. The Procurement Specialist will be responsible for managing procurement for the project based on technical specifications/TOR provided by the technical team of the Ministry, (b) Bank staff to carry out an intensive training program for MoLSAMD/GMU staff both in English/Dari to carry out small value procurement and selection of individual consultants both local and international; (c) the staff of the MoLSAMD/GMU to attend training programs conducted by PPU/MoF at Basic and intermediate level to begin with; and (d) ARDS-PU to support MoLSAMD/GMU for large value procurement following NCB/ICB procedures and selection of firms regardless of value. With such arrangements in place the procurement risk could be rated as “medium”.

151. MoLSAMD will ensure that all invitations for bid, EOIs are given wide publicity using its own website, Afghanistan Reconstruction and Development Services (ARDS), United Nations Development Business (UNDB)/DG market and national newspapers. Further for individual consultants the REOI/vacancy notice will be published on the following websites www.acbar.org, www.devnetjobs.org and www.reliefweb.int

152. With regard to procurement complaints, MoLSA/GMU will be guided by Article 71-72 of Procurement Law -2008 and Bank Guidelines. MoLSAMD will inform IDA as soon as the procurement complaint is received and the final outcome subsequently. MoLSAMD should have system to register and monitor the receipt and resolving of complainants. The progress of such action will be reviewed by IDA during supervision missions.

153. MoLSAMD will prepare a Procurement Monitoring/Activity Schedule for Procurement of goods and Selection Monitoring Activity Schedule for consultants and update the schedules on a monthly basis. The above schedules will facilitate to monitor the time taken for procurement/selection activities and take remedial actions for delays. It has been agreed that all bid/proposal evaluations will be completed within: (i) 5-7 working days following shopping procedure; (ii) 15 – 20 working days following NCB/ICB procedures; (iii) 10 working days for individual consultants; and (iv) 15 working days for firms for REOI evaluation, 21 working days for Technical Evaluation Report (TER) and 20 working days to conclude the contract negotiations.

154. The framework of the procurement risk mitigation monitoring plan as given below has been agreed with the MoLSAMD. This will be updated during implementation

support/supervision missions (at least once in six months) and will be part of each mission's aide memoire.

S No	Procurement Process/step	Process Indicator	Sources of Information and means of verification	Use of information for risk mitigation	Performance target to be achieved.
1	General Procurement Notice	GPN Published	Documentary evidence filled in GMU	To ensure GPN is widely published to increase transparency	100%
		Number of responses received against GPN	Existence of updated responses registration file in GMU	To increase competition.	100%
2	REOI/Invitation for Bids and Bidding process	REO/IFB Published	Copy to be available in the file. 10% of the procurement files will be verified	To ensure SPN/REOI is widely published to increase transparency	100%
		Minimum bidding time provided [4 weeks in NCB and RFP and 6 weeks in ICB and RFP with complex assignments]	Deviations to be collected from procurement files	To ensure competition	100%
		Attention of the firms/individuals who expressed interest against GPN while issuing REOI/SPN was called	Copy to be available in the file. 10% of the procurement files will be verified	To ensure competition	100%
		Number of Bid Documents sold and Number of firms confirmed participation against RFP issued	Sale of bid documents register and confirmation from consultants about receipt of RFP. 10% procurement files will be verified	To ensure competition	100%
		Clarifications/addendums issued	Copy to be available in the file. 10% of the procurement files will be verified	To ensure transparency	100 %
3	Preparation of Bid Documents/ RFPs	Cleared by IDA without seeking clarifications/comments	Number of cases to be collected from procurement files	Capacity building measures initiated by international procurement specialist	Continued progress
4	Bid Submission	Bid opening minutes sent to all bidders	Timeliness to be verified from procurement files 10% of the procurement files will be verified	To ensure transparency	100%
5	Bid Evaluation/REOI and	Formation of bid evaluation committee before bid closing.	Deviations to be collected from procurement files	To expedite finalizing of bids/proposa	100%

S No	Procurement Process/step	Process Indicator	Sources of Information and means of verification	Use of information for risk mitigation	Performance target to be achieved.
	proposal evaluation	Timeliness of Evaluation: (a) 5-7 working days following shopping procedure; (b) 15-20 working days following NCB/ICB procedures; (c) 10 working days for individual consultants; and (d) 15 working days for firms for REOI evaluation, 21 working days for TER and 20 working days to conclude the contract negotiations after commencement of contract negotiations.	Deviations to be collected from Procurement Activity Schedule	Finalizing of bids/proposal evaluation in timely manner.	20% reduction during every six months period
		Number of Re-bids	Procurement files		20% reduction during every six months period
6	Bid Evaluation Report and Technical Evaluation Report	Cleared by IDA without seeking clarifications/comments	Data to be collected from procurement files	To improve procurement process.	
7	Contract Award	Contract award within the original bid validity	Deviations to be collected from Procurement Activity Schedule	To improve procurement process.	100%
		(a) Contract award published within 14 days of NOA (b) Average time taken for publication of award (c) Number of cases award not published	Data to be collected from procurement files	To ensure transparency	100%
8	Delivery/ Completion	Delivery time: Percentage of Contracts completed/ delivered within the original schedule as mentioned in Contract	Data to be collected from procurement files	To improve procurement process.	
		Liquidated damage: Percentage of Contracts having liquidated damage imposed for delayed delivery/completion	Data to be collected from procurement files	To improve procurement process.	60%
		Completion rate: Percentage of Contracts fully completed and accepted	Data to be collected from procurement files	To improve procurement process.	90%

S No	Procurement Process/step	Process Indicator	Sources of Information and means of verification	Use of information for risk mitigation	Performance target to be achieved.
9	Payment	Average number of days taken to release payment	Data to be collected from procurement files	To improve procurement process.	15 days
		Late payment: Percentage of cases (considering each installment as a case) with delayed payment	Data to be collected from procurement files	To improve procurement process.	20%
10	Complaints	Procurement complaints pending over 60 days	Complaint register	To ensure transparency	90%
		Resolution of complaints resulted in modification of contract award	Complaint register and Procurement files	To ensure transparency	0%
		Resolution of complaints within 15 working days	Complaint register	To ensure transparency	70%
		Complaints forwarded to MoF for independent review	Complaint register	To ensure transparency	100%
11	Contract dispute resolution	Unresolved Disputes over 60 days	Procurement files	To ensure transparency	10%
12	Procurement Capacity Building	Number of procurement staff trained in Civil Service Institute	Procurement training plan	To improve procurement process.	80% staff to be trained during first year and 100% by second year.
		Number of staff trained outside Afghanistan		To improve procurement process.	One staff during first 18

155. **Governance and Anticorruption (GAC) agenda** All the contract opportunities and contract awards will be widely published in the internet, ARDS website, MoLSAMD website and when required in DG Market/UNDB. The MoLSAMD will set up a system to ensure that the staff/consultants who handled the procurement process/contract management/contract execution does not join the consultants/contractors. This will be reviewed during supervision missions.

C. Procurement Plan

156. The Borrower, at appraisal, developed a Procurement Plan for project implementation which provides the basis for the procurement methods. This plan has been agreed between the Borrower and the Project Team on August 17, 2009, and is available at the GMU offices of the MoLSAMD. It will also be available in the Project's database and in the Bank's external website. The Procurement Plan will be updated in agreement with the Project Team annually or as required to reflect the actual project implementation needs and improvements in institutional capacity.

D. Frequency of Procurement Supervision

157. In addition to the prior review supervision to be carried out from Bank offices, the capacity assessment of the Implementing Agency has recommended two supervision missions per year.

158. *Procurement Audit:* In addition to prior review, Bank staff or Bank appointed consultant shall carryout post procurement audit.

Attachment A5.1

1. Details of Procurement arrangements involving International Competition (covering period of first 18 months, including PPF)

(a) Goods and Non Consulting Services

(i) List of contract packages which will be procured following ICB and Direct Contracting procedures:

1	2	3	4	5	6	7	8	9
Ref. No.	Contact	Estimated	Procurement	Prequalification	Preference	by Bank	Bid-	Comm
	(Description)	Cost (US\$)	Method	Yes/No	(Yes/No)	Prior/Post	Opening Date	ents
Goods and Works								
There will be no ICB for goods and works during first year of the project								

All ICB contracts for goods and works regardless of value and all Direct Contracting regardless of value shall be subject to prior review by IDA.

(b) List of consulting Assignments with shortlist of international firms or individuals

1	2		3	4	5	6	7
Ref. No.	Description of Assignment	Period	Estimated Cost	Selection Method	Review by Bank (Prior / Post)	Expected Proposals Submission Date	Expected Contracts Completion Date
SPP/C-1a	Project Advisor	PPF	80,000	IC	Prior	15.05.2009	31.12.2009
SPP/C-1b		1 st Year	200,000	IC	Prior	30.11.2009	31.12.2011
SPP/C-2a	Pension System Expert	PPF	60,000	IC	Prior	15.05.2009	31.12.2009
SPP/C-2b		1 st Year	130,000	IC	Prior	30.11.2009	31.12.2011
SPP/C-3a	MIS Specialist	PPF	40,000	IC	Prior	15.09.2009	31.12.2009
SPP/C-3b		1 st Year	100,000	IC	Prior	30.11.2009	31.12.2011
SPP/C-4a	Lead Safety Net Expert	PPF	50,000	IC	Prior	15.05.2009	31.12.2009
SPP/C-4b		1 st Year	120,000	IC	Prior	30.11.2009	31.12.2011
SPP/C-5a	Safety Net Expert (Pilot development)	PPF	60,000	IC	Prior	15.09.2009	31.12.2009
SPP/C-5b		1 st Year	150,000	IC	Prior	30.11.2009	31.12.2011
SPP/C-11a	Pension Regulation Expert	PPF	40,000	IC	Prior	15.09.2009	31.12.2009
SPP/C-11b		1 st Year	80,000	IC	Prior	30.11.2009	31.12.2011
SPP/C-12a	Tax/Treasury Expert	PPF	30,000	IC	Prior	15.09.2009	31.12.2009
SPP/C-12b		1 st Year	70,000	IC	Prior	30.11.2009	31.12.2011

Procurement Plan

I. GENERAL

Project information

Country/Borrower: Government of Afghanistan

Project Name: Afghanistan Pension Administration and Safety Net

Implementing Agency: Ministry of Labor, Social Affairs, Martyrs and Disabled

Update as of: August 8, 2009

Bank's approval Date of the procurement Plan August 17, 2009 (*original*)

Date of General Procurement Notice: August 2, 2009

Period covered by this procurement plan: 18 months, including PPF

Notes:

(i) Presented estimates cover only the first year expenditures of the project (including the PPF).

II. GOODS AND WORKS AND NON-CONSULTING SERVICES

1. Procurement Method and Threshold

	Procurement Method	Threshold for Methods, USD	Comment
1.	ICB (Goods)	200,000	Equivalent or more
2.	NCB (Goods)	200,000	Equivalent or less
3.	Shopping (Goods)	50,000	Equivalent or less
4.	ICB (Non-Consultant Services)	200,000	Equivalent or more
5.	ICB (Works)	5,000,000	Equivalent or more
6.	NCB (Works)	5,000,000	Equivalent or less
7.	Shopping (Works)	50,000	Equivalent or less

2. **Prior Review Threshold:** Procurement Decisions subject to Prior Review by the Bank as stated in Appendix 1 to the Guidelines for Procurement:

	Procurement Method	Prior Review Threshold, USD	Comment
1.	ICB (Goods)	All Contracts	Regardless of value
2.	NCB (Goods)	200,000	Equivalent or more
3.	ICB (Non-Consultant Services)	200,000	Equivalent or more
4.	ICB (Works)	All Contracts	Regardless of value
5.	NCB (Works)	500,000	Equivalent or more
6.	Direct Contracting	All Contracts	Regardless of value

3. **Prequalification.** NIL

4. Procurement Packages with Methods and Time Schedule

List of contract Packages that will be procured following ICB, NCB and direct contracting:

1	2	3	4	5	6	7	8	9	10
Ref. No.	Contract (Description)	Period	Estimated Cost	Procurement Method	P-Q Yes/No	Domestic Preference (yes/no)	Review by Bank (Prior / Post)	Expected Bid-Opening Date	Expected contract Completion Date
SPP/W-1	Upgrading Offices of Pension Department	PPF	-	-	-	-	-	-	-
		1 st Year	150,000	NCB	No	No	Post	1.06.2010	30.11.2010
SPP/G-1	Basic office furniture and equipment (PCU)	PPF	12,000	Shopping	No	No	Prior	30.09.2009	-
		1 st year	-	-	-	-	-	-	-
SPP/ G-4	Car Purchase (PCU)	PPF	60,000	NCB	No	No	Prior	30.09.2009	-
		1 st Year	-	-	-	-	-	-	-
Total			222,000						

III. SELECTION OF CONSULTANTS

1. Selection Methods and Thresholds

	Selection Method	Threshold	Comments
1.	CQS for Firms	US\$ 200,000 equivalent or less	
2.	QCBS,QBS, FBS, LCS	depending on the nature of assignment	

2. **Prior Review Threshold:** Selection decisions subject to Prior Review by Bank as stated in Appendix 1 to the Guidelines Selection and Employment of Consultants:

	Selection Method	Prior Review Threshold	Comments
1.	Competitive Methods (Firms)	\$100,000 or more	
2.	Competitive methods (individuals)	\$50,000 or more	
3	Single Source (Firms)/Individuals	All irrespective of value	

3. **Short list comprising entirely of national consultants:** Short list of consultants for services, estimated to cost less than US\$100,000 equivalent per contract, may comprise entirely of national consultants in accordance with the provisions of paragraph 2.7 of the Consultant Guidelines.

4. Consultancy Assignments with Selection Methods and Time Schedule

List of Consulting Assignments with short-list of international and national firms or individuals

1	2	3	4	5	6	7
Ref. No.	Description of Assignment	Estimated Cost	Selection Method	Review by Bank (Prior / Post)	Expected Proposals Submission Date	Expected Contracts Completion Date
SPP/C-1	Project Advisor	280,000	IC	Prior	15.05.2009	31.12.2011
SPP/C-2	Pension System Expert	190,000	IC	Prior	15.05.2009	31.12.2011
SPP/C-3	MIS Specialist	140,000	IC	Prior	15.09.2009	31.12.2011
SPP/C-4	Lead Safety Net Expert	170,000	IC	Prior	15.05.2009	31.12.2011
SPP/C-5	Safety Net Expert (Pilot Development)	210,000	IC	Prior	15.09.2009	31.12.2011
SPP/C-11	Pension Regulation Expert	120,000	IC	Prior	15.09.2009	31.12.2011
SPP/C-12	Tax/Treasury Expert	100,000	IC	Prior	15.09.2009	31.12.2011
SPP/C-6	Project Manager	65,000	IC	Prior	15.09.2009	31.12.2011
SPP/C-7	System Project officer	52,000	IC	Prior	16.05.2009	31.12.2011
SPP/C-8	Safety Net Project officer	52,000	IC	Prior	10.05.2009	31.12.2011
SPP/C-9	MIS Project Officer	51,000	IC	Prior	15.09.2009	31.12.2011
SPP/C-14	Pension Regulation Officer	46,000	IC	Prior	15.09.2009	31.12.2011
SPP/C-10	Accountant/Cashier	43,000	IC	Prior	27.05.2009	31.12.2011
SPP/C-13	Procurement Specialist	41,000	IC	Prior	15.09.2009	31.12.2011
SPP/C-15	Financial Management Specialist	41,000	IC	Prior	15.10.2009	31.12.2011
SPP/C-17	Scoping of renovation activities of Pen Dep.	10,000	IC	Prior	15.10.2009	31.12.2009
SPP/C-18	Support to Payroll Deduction implementation (firm)	90,000	QCBS	Prior	15.10.2009	31.12.2011
SPP/C-22	Design and Implementation of M&E framework (firm)	30,000	LCS	Post	31.01.2010	31.07.2010
SPP/C-23	Training for SN Pilot roll out (firm)	60,000	QCBS	Prior	28.02.2010	31.12.2010
SPP/C-19	Pension Beneficiary Survey (Firm)	80,000	QCBS	Prior	15.10.2009	31.10.2010
SPP/C-16	Design of Data Entry Utility (firm)	20,000	LCS	Prior	15.09.2009	31.12.2009
SPP/C-20	Data Entry Management (firm)	40,000	LCS	Prior	15.11.2009	31.09.2010
SPP/C-21	Conducting Pensioners Census (firm)	200,000	QCBS	Prior	15.11.2009	31.12.2010
SPP/C-16	Service for facilitating partners (firms)	150,000	QCBS	Prior	30.06.2010	31.12.2012
Total		2,281,000				

Capacity Building

The following programs are proposed to enhance the knowledge of the staff of PCU/GMU.

Expected outcome/Activity Description	Estimated Cost	Estimated Duration	Start date	Comments
Familiarity of PCU/GMU staff in procurement of goods following shopping procedures/selection of consultants	Bank Budget	4 days	August/September 2009	Bank staff attached Kabul office will conduct in English/Dari
Familiarity of staff with Procurement under Bank Financed Projects	PPU/MoF	As per standard of PPU/MoF	TBD	
Familiarity of staff with Procurement under Bank Financed Projects	US\$ 10,000	Two weeks	TBD	By ASCI or NIFM in India

Agreed Procedures for National Competitive Bidding

- (i) Standard bidding documents approved by the Association shall be used;
- (ii) Invitations to bid shall be advertised in at least one (1) widely circulated national daily newspaper and bidding documents shall be made available to prospective bidders, at least twenty eight (28) days prior to the deadline for the submission of bids;
- (iii) Bids shall not be invited on the basis of percentage premium or discount over the estimated cost;
- (iv) Bidding documents shall be made available, by mail or in person, to all who are willing to pay the required fee;
- (v) Foreign bidders shall not be precluded from bidding;
- (vi) Qualification criteria (in case pre-qualifications were not carried out) shall be stated on the bidding documents, and if a registration process is required, a foreign firm determined to be the lowest evaluated bidder shall be given reasonable opportunity of registering, without any hindrance;
- (vii) Bidders may deliver bids, at their option, either in person or by courier service or by mail;
- (viii) All bidders shall provide bid security or a bid security declaration form as indicated in the bidding documents. A bidder's bid security or the declaration form shall apply only to a specific bid;
- (ix) Bids shall be opened in public in one place preferably immediately, but no later than one hour, after the deadline for submission of bids;

- (x) Evaluation of bids shall be made in strict adherence to the criteria disclosed in the bidding documents, in a format, and within the specified period, agreed with the Association;
- (xi) Bids shall not be rejected merely on the basis of a comparison with an official estimate without the prior concurrence of the Association;
- (xii) Split award or lottery in award of contracts shall not be carried out. When two (2) or more bidders quote the same price, an investigation shall be made to determine any evidence of collusion, following which: (A) if collusion is determined, the parties involved shall be disqualified and the award shall then be made to the next lowest evaluated and qualified bidder; and (B) if no evidence of collusion can be confirmed, then fresh bids shall be invited after receiving the concurrence of the Association;
- (xiii) Contracts shall be awarded to the lowest evaluated bidders within the initial period of bid validity so that extensions are not necessary. Extension of bid validity may be sought only under exceptional circumstances;
- (xiv) Extension of bid validity shall not be allowed without the prior concurrence of the Association (A) for the first request for extension if it is longer than four (4) weeks, and (B) for all subsequent requests for extensions irrespective of the period;
- (xv) Negotiations shall not be allowed with the lowest evaluated or any other bidders;
- (xvi) Re-bidding shall not be carried out without the Association's prior concurrence; and
- (xvii) All contractors or suppliers shall provide performance security as indicated in the contract documents. A contractor's or a supplier's performance security shall apply to a specific contract under which it was furnished.

Annex 6: Implementation and Monitoring Arrangements

AFGHANISTAN: Pension Administration and Safety Net Project

159. Figure A6 presents an outline of the institutional setup for the project. What follows is a concise presentation of the institutional and implementation arrangements for the project.

160. **Governance framework.** The Governance structure of the project consists of a high level Steering Committee, two Technical Working Groups – one for the pension component and another for the safety net component – and Project Coordination Unit (PCU).

161. *The Project Steering Committee (PSC)* has been established by the Government and it will oversee project implementation: it approves annual project implementation plans and reviews quarterly progress reports from a Project Coordination Unit that has been established under the MoLSAMD Grant Management Unit (see below). More frequent briefings reports will be required from the PCU by the Grants Management Unit (GMU) and the MoLSAMD senior management. The Steering Committee is chaired by the MoLSAMD Minister and includes Ministerial or Deputy Ministerial level members of ministries and agencies most concerned with issues of pensions and social protection. The Committee will meet not less than once every quarter.

162. *The Technical Working Groups (TWG)* also have a broad representation of ministries/agencies concerned with pensions and safety nets, respectively. The TWGs are headed by Deputy Ministers of MoLSAMD and include technical staff with good knowledge of pension and safety net issues. Their tasks are to monitor development of project design and technical aspects of implementation, and review reports and recommendations on eventual adjustments to the project before these are submitted to the Steering Committee. Their particular focus is on the feasibility of project elements in implementation and on the consistency of results with government development strategy, as reflected in the ANDS. The TWGs will meet periodically (but not less than once every two month during the first two years of the project implementation; the meetings may be less frequent during the subsequent years of implementation) and on ad-hoc basis as may be required by the project needs.

163. A similar two-tier institutional structure was in place to oversee the process of pension reform concept formulation for the past few years. It proved to be efficient in ensuring clear separation of tasks, greater focus, and ownership of the reform.

164. **Implementation Agency.** The Ministry of Labor, Social Affairs, Martyrs and Disabled (MoLSAMD) will be a nodal ministry that is responsible for management of the two major government cash benefit programs – public sector employee pensions and pensions for the families of martyrs and disabled. For the past three years it also has been a leading ministry in developing the pension reform concept. As such, it is the logical prime counterpart for the project. It is also assigned responsibility for safety nets through its Department for Social Protection. MoLSAMD would be responsible for implementing the project on behalf of the Government of Afghanistan.

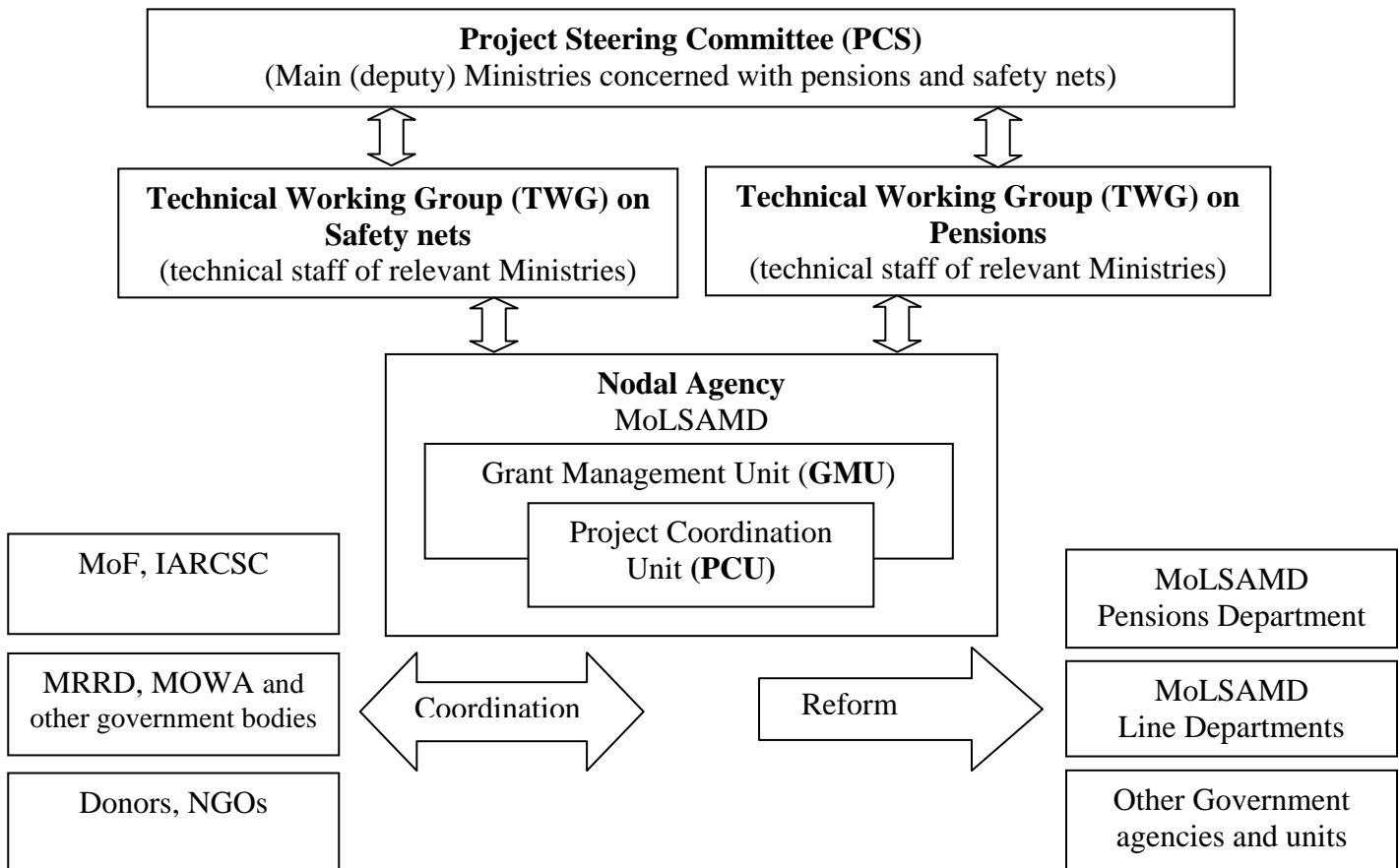
165. **Implementation Team.** A Project Coordination Unit (PCU) has been established within the MoLSAMD, initially under the direct supervision of the Grant Management Unit (GMU) of

the MoLSAMD. The GMU has been accumulating capacity in the project design and implementation (e.g., in procurement, financial management, etc.), of which the new project is anticipated to be a beneficiary. The GMU is staffed with the administration, procurement, and financial management teams, along with teams supporting project design, monitoring and evaluation, and economic and financial analysis.

166. The PCU is staffed with both the local and international consultants who will work with Ministry staff on project implementation. The MoLSAMD, through its GMU, will oversee the day-to-day work on both components. It is anticipated that some significant sub-components of the project (like IT design and implementation, etc.) would be outsourced to firms rather than individuals. PCU will directly interact with the Pensions Department and the Social Protection Department of MoLSAMD and other relevant department of MoLSAMD in achieving the project objectives and managing its tasks.

167. **Coordination.** On Pensions, under leadership of the Steering Committee, the work is coordinated with MoF (as pertains to strengthening the systems of contribution collection and accounting) and the IARCSC (as pertains to coordination of activities in implementation of the pay and grading reform and new HR requirements). On safety nets, PCU will be responsible to coordinate activities with the Government Agencies involved in the sector (e.g., MRRD, MOWA, Ministry of Economy), and various donor agencies.

Figure A6: Institutional setup for the project



168. In strengthening the systems of contribution compliance within the MoF, the PCU, in close consultations with the Revenue and Treasury Departments of the MoF, will define needs and will arrange and fund the required training and consultancy services. Similarly, the PCU will work with the Fiscal Policy Unit of the MoF to define the work program of strengthening the budgeting and financial management of the pension schemes and will engage necessary technical assistance in form of consulting services and training. The Project Implementation Plan (PIP) will further detail the coordination mechanisms and the responsibilities of the MoLSAMD and the MoF.

169. On the **Monitoring and Evaluation (M&E)**, the project will be assisted by the Monitoring and Evaluation unit within the GMU.

170. M&E under the Pension component will draw on the information consolidated as part of implementation and operation of a new Management Information System (MIS) that will avail data on physical and financial progress of implementation. The MIS would produce timely reports and track achievement of selected project performance indicators. In addition, a beneficiary survey is being designed and implemented, with the Technical Assistance from the World Bank, to define and trace a set of outcome indicators associated with the pension component of the project.

171. Special auditing arrangements will be designed to ensure quality of the beneficiary selection and payment process under the pension payouts sub-component.

172. Under the Safety nets component, M&E mechanisms will utilize process and impact information generated by the Technical Working Groups and the PCU, and by qualitative and quantitative surveys undertaken by the MoLSAMD on the impact of project interventions on the beneficiary population, as well as information gathered by the Ministerial units involved with implementation of the pilot. Staff at headquarters and in local offices will be trained under the project in the application of monitoring and evaluation techniques, and in the adaptation of policy and program strategies to their findings.

Annex 7: Project Preparation and Appraisal Team Members
AFGHANISTAN: Pension Administration and Safety Net Project

	Planned	Actual
PCN review	December 16, 2008	December 15, 2008
Initial PID to PIC	December 18, 2008	December 15, 2008
Initial ISDS to PIC	December 18, 2008	January 8, 2009
Appraisal	May 26, 2009	July 12, 2009
Negotiations	August 3, 2009	
Board/RVP approval	September 15, 2009	
Planned date of effectiveness	December 31, 2009	
Planned date of mid-term review		
Planned closing date	December 31, 2013	

Key institutions responsible for preparation of the project:

Ministry of Labor, Social Welfare, Martyrs & Disabled

Bank staff and consultants who worked on the project included:

Name	Title	Unit
Oleksiy Sluchynsky	Sr. Economist	SASHD
Qaiser Khan	Lead Human Development Specialist	SASHD
Sheila Braka Mussiime	Sr. Counsel	LEGES
Martin Serrano	Counsel	LEGES
Nagaraju Duthaluri	Sr. Procurement Specialist	SARPS
Deepal Fernando	Sr. Procurement Specialist	SARPS
Kenneth O. Okpara	Sr. Financial Management Specialist	SARFM
David Freese	Sr. Finance Officer	LOAFC
Thao Le Nguyen	Sr. Finance Officer	LOAFC
Birgit Hansl	Economist	SASEP
Rahimullah Wardak	Procurement Specialist	SARPS
Laura Kiang	Operations Officer	SASHD
Asha Narayan	Financial Management Analyst	
Gertrude Cooper	Program Assistant	SASHD
M. Edrees Sahak	Team Assistant	SACAF
Hjalte Sederlof	Consultant	SASHD
Jorge Luis Alva Luperdi	Consultant	LEGES

Annex 8: Environmental and Social Safeguards Framework
AFGHANISTAN: Pension Administration and Safety Net Project

Environment:

173. As the project is expected to have minimal or no adverse environmental impacts, it is classified as Category C requiring no further EA action. This classification is the result of the environmental screening based on consultations with the regional safeguards team (SARDE).

Safeguards:

174. No safeguard policies are triggered by this Category C project.

Annex 9: Economic and Financial Analysis

AFGHANISTAN: Pension Administration and Safety Net Project

A. Country and Sector Background

175. After more than two decades of conflict, Afghanistan has begun an enormous political, economic, and social transformation since it was catapulted onto the world stage in 2002. Progress to date has been encouraging, but tremendous challenges remain: despite the progress in improving macroeconomic stability, poverty remains the biggest problem for Afghanistan.

176. Afghanistan is one of the poorest countries in the world with income per capita hovering around US\$300 and an over 40 percent the population living below the national poverty line; an additional 20 percent are clustered just above the poverty line. Altogether, some 15 million people are poor or at risk of poverty. Poverty is highest in rural areas and among nomadic populations (Kuchis) at 45 percent; urban poverty is 27 percent. Poverty correlates relate to education and employment of households heads, seasonality in rural areas, asset ownership and remoteness. Women and children, and the disabled, are the highest risk poverty groups. A combination of natural disasters, extreme seasonal variations in food production, security problems and consequent economic risks drive the high levels of poverty and family dysfunction. For many years to come, the majority of Afghan households will be poor or exposed to external risks that result in chronic or temporary bouts of poverty.

177. At present, Afghanistan social protection landscape is composed of (i) a wide variety of social assistance and social services programs supported by international agencies; (ii) development programs that play indirectly the role of safety nets, such as the National Solidarity Program (NSP); and (iii) some limited public cash benefit programs, including a scheme for families of martyrs and disabled and the public sector pension scheme (See Table A9.1 and for greater details, Table A9.8).

Table A9.1: Coverage of the public programs with implications for social protection (2006)

Families of Martyrs	224,800
Conflict-related disability	87,700
Orphans	10,500
Children in kindergartens	25,000
Public sector pensioners (payments)	54,000
Public works and skills development	1,750,000
Microfinance	340,000

Source: ANDS

178. There are a number of schemes run by the NGOs, supported by the United Nations and bilateral agencies, which have provided **humanitarian support** over the years and helped prevent mass destitution and hunger (including food-for-work and cash-for-work type programs). At the same time, food, cash and housing have also been provided to returning refugees, and relief food aid has been provided to internally displaced persons, female-headed households and disabled persons. (For details, see Table A9.9).

179. Among the **development programs**, the National Solidarity Program (NSP) is providing jobs and improving infrastructure throughout the country. The World Bank is the largest international source of funds for the NSP which finances small projects based on the priorities of the rural population. The program has financed over 47,000 community projects in more than 20,000 villages in all 34 provinces. About 80 percent of the projects involve infrastructure such as irrigation, rural roads, electrification, and drinking water supply, all critical for the recovery of the rural economy. The program also encompasses education, health, and livelihood, but these components receive less attention. Other important programs include the National Emergency Rural Access Program (NERAP) and the Expanding Microfinance Outreach and Sustainability Project that has disbursed 1.3 million loans worth around US\$570 million.

180. MoLSAMD manages the scheme of **pensions for families of martyrs and disabled** that consume budget resources equivalent to the public sector pension program. Since 1992, around 300,000 individuals applied, including around 220,000 survivors of martyrs and 90,000 disabled. Actual figures for payment cases, however, are not available. It appears that some cases may not be eligible anymore, e.g., due to death, while others may remain pending. The eligibility process for disability involves verification by local community, government office, and special health commission. Payments used to be made quarterly but annual payments are becoming a norm. There are concerns with both the restricted definition of disability and potential increase in the required funding if those restrictions are to be lifted. At present, eligible disability and survivorship must be war-related⁶, which defines highly sensitive political context of the program. Furthermore, there are likely no robust mechanisms to substantiate evidence of war-related casualty, and discretion of community or authorities would have to direct the eligibility assessment process. Considerations have been given to introducing a more general disability definition (most recent estimates put the number of individuals with general disability at around 800,000⁷) but such measure will likely be prohibitive at the moment. At the same time, it is feared that even under the current conditions, there are a considerable number of individuals in the remote communities who have not yet been given a fair opportunity to apply. The program management has rather evolved around the ad-hoc approach. With lack of knowledge on actual eligibility cases, the planned number of recipients seems to have become an endogenous parameter. For instance, with the 2006 budget allocation and the new adopted benefit rate of Afs 400, it was expected that around 201,000 payments will be made in the current year.

⁶ It is possible that only selected conflicts and/or selected categories of the fighters and their families are eligible for benefits.

⁷ The estimate comes from the National Disability Survey in Afghanistan (NDSA) implemented in 2005 by Handicap-International in cooperation with government agencies and co-funded by a group of donors. In particular, it indicates that only 17% of all disabilities are war related (or between 126,000 and 146,000 cases), including up to 60,000 cases of landmine and UXO survivors. It is not clear if the latter category qualifies under the eligibility definitions of the cash program of the Ministry.

181. The main **public sector pension scheme** is a PAYG type scheme paying benefits to over 60,000 beneficiaries and providing insurance against the old age, disability, work-related injury or illness, and death for the public sector employees. It is funded by the contributions and transfers from the state budget. According to the Pension Rules, employers and employees contributions are correspondingly 8 and 3 percent of the basic pay. (The latter is only a component of the total take-home pay that includes various allowances). In practice, employee contributions constitute only a small share of all the receipts, while employers largely provide no matching amount at all. The direct budget allocations provide major source of funding⁸.

Table A9.2: Beneficiaries of the public sector pension scheme (2006)

Categories	Registered	Payments	Total payments, Afs 000
Civil Pensioners	33,500	20,000	298,500
Civil Survivors	14,800	7,900	140,800
Military Pensioners	17,900	15,400	490,000
Military Survivors	5,800	2,600	76,000
Beneficiaries in provinces	11,100	8,500	103,700
Total:	83,100	54,400	1,109,000

Source: ANDS, MoLSAMD 2007.

Note: The difference between the registered pensioners and actual payments is due to several factors, including: (a) outdated nature of accounting of the pensioner cases and double-counting in cases of death, (b) missing pensioners, (c) claims pending processing, (d) possible short-term shortages of funds to cover all outstanding claims. For more details, see: *Afghanistan: Public Sector Pension Scheme: From Crisis Management to Comprehensive Reform Strategy*, The World Bank. June 24, 2008.

182. By 1382 (2003) benefit value deteriorated significantly, so that only few seemed to be willing to claim eligibility and collected benefit. As an interim measure, Government announced a benefit increase. The new provisions stipulated flat but grade-specific benefit payments to all those who retired in the past (both civil servants and military), without connection to their length of service. Civil servants who retired in or after 1382 (2003) continued to be subject to the normal rules of benefit calculation based, however, on the new salary scale (a 7-fold increase from 1382). The interim measure introduced by the Government created some visible disparities. Two principal sources of differences in the pay for the old and the new retirees are lack of length of service consideration for those retired prior to 1382 (2003), and narrow definition of the pensionable base for the new retirees. Basically, two individuals retired before and after 1382 in the same rank and with the same length of service receive different pensions, with the difference primarily being the function of length of service. Disparities are significant, especially for the employees in the lower ranks, as those on average accumulate smaller number of years by the time of retirement. For the new retirees, however, the gap between the flat benefits and the new benefits supposedly is shrinking as the public sector wages are subject to constant increases. Furthermore, this gap will be completely reversed as the pay and grading

⁸ Historically, the scheme used to have reserves, invested both in physical assets (shops, buildings, cinemas, etc.) and bank deposits. In early 1980s, these assets were taken away from the pension system by the communist government. Discussions have been ongoing over the return of the control over the assets to the Pensions Department but ability to implement such a decision would be questionable given challenges of identifying legitimacy of ownership claims.

reform progresses and new retirees will be retiring with pensions calculated on the wages significantly higher than those that were paid in the past.

183. The Government is seeking to (partially) liquidate liabilities of the legacy scheme by introducing one off payments for some members of the scheme, with preference given to the survivors of those retired prior to 1382 (2003). See Section B of this Annex for discussion of options and financial impact. As part of this process, the Pensioners Census will be conducted and records of the legacy system will be cleaned and digitized.

184. At the same time, the Government has developed a comprehensive reform program based on parametric reform of the existing scheme. The parameters reflected in the Government proposal take into account key policy recommendations as to bringing the scheme back to balance. The reformed program will reinforce the contributory principle of the new scheme, whereby employees with their new higher wages will have to make (higher) contributions towards ensuring better pension in future. Incentives are also in place to defer early retirement and a longer span of the pensionable wage measure (3 years versus last wage in the past) helps prevent wage manipulations to gain the retirement system.

185. The choice of the combination of the benefit rate and contribution rate (as well as adjustment for early retirement) was made based on the fair actuarial calculations. The objective was to have a 50 percent replacement rate with the 25 years of service (an average for the retiring civil servants in Afghanistan). This resulted in the accrual rate of 2 percent and the contribution rate of around 14 percent. This contribution would fund the old age and pre-retirement survivorship pension. An additional 2 percent contribution was calculated as required to fund the post-retirement survivorship. The total contribution of 16% is proposed to be split equally between the employer and employee. See table A9.7 for summary of the parametric reform measures.

186. In order to successfully implement the reform, administrative capacity of the Pension Department will need to be upscaled. Current operation is completely paper based. No automated system of records exists. This makes the job of enforcing the rules and monitoring performance of the system extremely difficult. Clearly, investments in the new systems and capacity to operate the reform scheme will be required. Investments will have to go into automation of the benefit processing operation with computerized work-stations installed in application processing points. No manual calculation should be allowed anymore to avoid mistakes reported so far. The software should be able to incorporate all the rules introduced as part of the reform, including new accrual rates and lump sum conversions. This effort will considerably improve the quality of operation of the Pension Department.

187. Proper enforcement of the new contributory mandates will require expenses on the building capacity in monitoring and enforcement. Today, capacity to enforce and monitor collection of pension contributions within the MoF Tax Administration remains weak. There seems to be lack of managerial focus on the issues of pension contributions. A very passive role of accounting and monitoring is assumed. This project will facilitate building of such capacity (under Component 1).

B. Fiscal analysis of the pension program and reform options

188. Over the past few years, a concern has been growing about the impact of various public sector reform initiatives on liabilities of the pension system. Pay and grading reform with changes in the scale and composition of pay as well as structural adjustments in the civil service will have serious implication for the pension liabilities. In 1385/2006, under a Bank's TA, for the first time assessment of the outstanding pension liabilities of the public sector pension scheme was conducted. Results of that analysis as well as analysis of the short to medium term effect of the reform options is presented in this Annex.

189. Tables A9.1-2 provides details of components of the pension liabilities accrued on the system up to year 1385 (2006), with total estimate standing at around 6.2 percent of GDP (using a conservative 3 percent discount factor). International comparison with other civil service schemes (Table A9.3) indicates that Afghanistan still has quite low pension debt-to-GDP ratio. However, changes both in structure of the civil service and the military/policy as well in the compensation package have not been reflected here.

Afghanistan: outstanding pension debt, by categories, US\$⁹

Table A9.3: Active Employees

Category	Headcount	Present value of pension debt	
		3% discount rate	5% discount rate
		Current	Current
CS – Regular	69,500	46,000,000	32,000,000
CS – Ajirs	67,500	30,000,000	22,000,000
SOEs – Regular	8,500	5,000,000	3,000,000
SOEs – Ajirs	13,500	6,000,000	4,000,000
Teachers	110,000	28,000,000	20,000,000
Police officers	21,000	57,000,000	36,000,000
Military & Security officers	17,500	101,000,000	63,000,000
Total	307,500	\$ 273,000,000	\$ 180,000,000
Share of GDP		3.8%	2.5%
Share of domestic revenues		59%	39%

Source: Authors' estimates.

Notes: Teachers headcount was taken prior to recent significant new hires. Assuming most new hires are new employees of the public sector, impact on pension liabilities must be negligible.

We do not account for 1384 mid-year salary review, which added Afs350, supposedly to base pay.

For military and police, we did not apply any change in the pay scale post pay reform.

Pay reform assumes new scales as provided by MoF

Calculations assumed:

The rules of current DB formula

Eligibility to benefit based on rights accumulated thus far but at future times when current employee reached the normal retirement age (65/55).

Mortality table to assess age-specific duration of periods in receipt of benefit

No change in benefit in real terms over time.

⁹ Source: Public Sector Pension Scheme: From Crisis Management to Comprehensive Reform Strategy. The World Bank. June 24, 2008.

Table A9.4: Retirees

	Headcount	Present value of pension debt	
		3% discount rate	5% discount rate
Civil Service and Ajirs			
Retirees	18,700	49,000,000	43,000,000
Survivors	7,050	33,000,000	27,000,000
Military and Police			
Retirees	13,100	79,000,000	68,000,000
Survivors	2,350	10,000,000	8,000,000
Total	41,200	\$ 171,000,000	\$ 146,000,000
Share of GDP		2.4%	2.1%
Share of domestic revenues		37%	32%

Source: Authors' estimates.

Notes: Liabilities vis-à-vis individuals who separated from the civil service or military at anytime in the past but have not yet applied remain unaccounted.

For civil service and adjirs, flat pension amounts were imputed based on rank/grade at retirement.

For military and police, actual awarded pension amounts were used.

For retirees, mortality table was used to assess age-specific duration of periods in receipt of benefit.

For survivors, assumed on average 25 years of payments in each case.

Assumed no change in benefit in real terms over time.

We did not account for possible pension increase for *current* retirees following the pay reform.

Table A9.5: International comparison of outstanding pension debt of civil service schemes

	Year	Outstanding pension debt, % of GDP	Current spending, % of GDP
Afghanistan ¹	2005	6	0.3
Bhutan ²	2004	22	NA
Brazil	1998	92	1.7
Iran	2001	38	0.5
Korea	1995	7	0.2
Nepal ³	2002	14	0.5
Philippines	1997	17	0.2
Sri Lanka ⁴	2002	60	1.8
Turkey	1997	75	1.7

Sources: For Afghanistan: authors' estimates (using 3% discount rate).

Other sources include:

Robert Palacios and Edward Whitehouse, "Civil-service pension schemes around the world", The World Bank, 2006.

Robert Palacios, "Civil service pensions in South Asia: A rising tide of reform", The World Bank, 2004.

Notes: 1- All civil servants, teachers, police & military

2 - All civil servants and military

3 - Pension debt: CS only. Pension spending: includes military & police

4 - All civil servants and military

190. The situation will change dramatically as the pay reform progresses. The effect would be a corresponding multi-fold increase in pension liabilities. To counterbalance the pay reform effect, parametrical reforms have been suggested, which we discuss further below.

191. At the same time, the government faces the challenge of addressing existing obligations to those that have been covered by the old system and to start paying possibly higher pensions as the pay reform progresses. At the same time, direct budget subsidies remain a principal source of the program revenues:

Table A9.6: Funding sources of the pension scheme (million Afs),

Revenues,	1383/2004	1384/2005
MoF net allocation ¹	382.3	870.1
Other sources ²	127.3	190.9
Total	509.6	1,061

Source: MoF Monitoring Agent.

Notes: ¹ After netting out of funds returned to the MoF.

² Includes employee contributions from government and SOEs.

192. Analysis of the short-to-medium term fiscal needs indicates growing burden for the budget. With the pay and grading reform measures, even the less generous benefit formula would provide for a growing fiscal gap. Analysis of various scenarios indicated that important choices had to be made. The final recommendation was to reduce the benefit accruals, increase the contribution rates, and make all allowances pensionable, among others (see Table A9.7 in this Annex). The anticipated result is streamlined finances and gradual shift away from the deficit financing (as indicated under option 3 in Table A9.10).

193. At the same time, Government has decided to use some project money to pay out some liabilities of the legacy scheme. Analysis of options in terms of coverage, mode of payment, amount, and fiscal feasibility of such payments has been conducted and it follows here.

194. Advantage of the lump sum payments is that it frees up administration of the pension program to focus on the needs of modernizing the operation and servicing retirees of the new reformed scheme better. It also can help reduce operational risks of continuous illegitimate payments to certain groups of beneficiaries (e.g., survivors).

195. However, a lump sum replacing periodic pensions could be spent too quickly or used for non-productive investment. Such individuals could find themselves in need of public assistance. Blame could be put on the Government.

196. While mandatory conversion may be neither feasible nor desirable, voluntary conversion could help to somewhat avoid the adverse effects. Different individuals will have different preferences for conversion (some will value today's cash vs. tomorrow's cash more than others). Voluntary conversion, would allow individuals to exercise their choice given information on the conversion method. Conversion to lump sum payments mandatory for some (say, survivors) and voluntary for the others could be a reasonable compromise that addresses both the needs of administration and the fiscal constraints.

197. The following three potential categories of beneficiaries of that program were defined: (a) some old age beneficiaries, (b) survivors, (c) some early retirees (forced to retire as part of the

Pay and Grading Reform). The broader the coverage, the more funds would be required, however. The amount of individual lump sum payment would depend upon several factors: the monthly pension amount received by a pensioner, the age of the pensioner, and the discount factor. Age, for example, is very important because the younger the individual is the longer s/he would receive a stream of pension payments. In addition, once a pensioner dies his/her family members who are the survivors normally continue collecting pensions while they are eligible. Three years of payments, therefore, have been added for survivors to make the lump-sum payments more generous and attractive. The three-year figure was chosen keeping in mind the affordability factor for the government and provisions of the new Pension Regulation whereby surviving family would receive 36 months worth of pensionable pay or pension. Results of the calculations follow:

- **Option A.** Amounts of payouts to the regular **old-age retirees** would be quite significant:

At 5 % discount rate

At 10% discount rate

Coverage option	Total LS Pay-Out
86+ Age group	\$233,000
81+ Age group	\$4,050,000
All pensioners	\$311,760,000

Coverage option	Total LS Pay-Out
86+ Age group	\$217,000
81+ Age group	\$3,557,000
All pensioners	\$235,140,000

- **Option B.** If lump-sum payments made only to the **survivors**, with the current average survivor annual pension of around \$450 and the total of approximately 15,000 active survivor cases, the total lump sum payouts could be **between \$20,000,000 and \$34,000,000** depending on the decision on whether the lump sum compensation is to be equal 3 or 5 years of equivalent payments (with no further obligations).
- **Options C.** With the anticipated roughly 10,000 of the layoffs as result of the Pay and Grading reform, the **early retirement** package could be financed in part under this project. Under certain assumptions on the scheme design¹⁰, the total cost of the early retirement package can be as follows:

Covered cohorts	Discount rate	
	<i>10 %</i>	<i>5 %</i>
45-54 Age group	\$23,500,000	\$32,000,000
55-64 Age group	\$2,500,000	\$3,000,000
Total	26,000,000	35,000,000

198. Given limited funding, options B or C would be the most appropriate in terms of addressing some of the urgent related policy issues. Option B (current Government's preference) would allow discontinuing survivors' payments, at least in part, and achieving measurable savings in the medium term, while option C would help finance part of the cost of the civil service reform. Under either approach, however, the currently provided IDA funding under the project is not sufficient to cover all the expenses. If the new contributory pension scheme is fully implemented, some anticipated short-to-medium term surplus (as indicated in fiscal projections under option 3 in Table A9.10) could be utilized to cover the funding gap.

¹⁰ Those between 55 and 64 receive present value of the payments until they reach age 65, at which point they return to the regular pension rolls; and those below 55 receive full compensation of their accumulated pension rights.

199. Definition of the category of beneficiaries of the legacy scheme for the lump sum payments still remains open. While the government has agreed in principle to this approach and has strongly favored survivors (of pre-1382 scheme) as a target group, further elaboration of options and costing under this project will be required and will be supported under sub-component II of Component 1 of this project (including capturing and digitizing past records, census of current beneficiaries, procedures, financial arrangements, etc).

Table A9.7: Comparative chart of key provisions of the new Pension Regulation¹¹

Provision	<u>New Scheme</u>	<u>Old Scheme</u>
Normal retirement age	65	65
<i>Annual pension accrual rate</i>	2.0%	Sliding schedule of 4 % to 2.5% (2.5% for maximum service)
<i>Pensionable wage</i>	Average of last 3 years, including allowances	Last wage at retirement. Allowances excluded.
<i>Maximum pension</i>	80% of the Pensionable Wage	100% of the last wage
<i>Pension indexation</i>	Based on average index of public wage increases	Not clear
<i>Min early retirement age</i>	55 in all cases	Not specified
<i>Voluntary early retirement</i>	25 years of service <i>and</i> 55 years old	25 years of service
<i>Early retirement penalty</i>	3% decrease in pension for each year below normal retirement	None
<i>Employee survivors benefit</i>	36 months of Pensionable wage in a lump sum or installments	Benefit for unspecified/unlimited period of time to eligible family members
<i>Retiree survivors benefit</i>	36 months of pension in a lump sum or installments	Benefit for unspecified/unlimited period of time to eligible family members
<i>Disability benefit</i>	Differentiation on full vs. partial and work-related (more generous benefit) vs. normal disability.	Not clear
<i>Financing</i>	Contributions of 8% (Employer) + 8% (Employee); budget will cover the deficit.	Contributions 3% (Employee); budget covers the deficit.
<i>Transition</i>	Those retiring before Pay & Grading reform retire under the current pension rules Those retiring after Pay & Grading reform benefit from the new rules Previous years of service under the old scheme are fully recognized Accrual rate will be phased-in gradually over the five year period	

¹¹ Source: Based on the new Pension Rules covering non-uniform public sector employees.

Table A9.8: Public Social Risk Management Arrangements in Afghanistan¹²

<p>Direct cash transfers</p> <p>Martyrs’ families from war and individuals with war and land mine related disabilities are entitled to monthly cash transfers that range from US\$3 to US\$10, depending on the number of martyr family members and the level of disability. In 2006 this benefit was paid to 224,850 martyr’s families and to 87,717 disabled. The annual amount spent on this was around US\$20 million.</p>
<p>Support to orphanages and kindergartens</p> <p>In 2006, the Government allocated some US\$2.6 million to finance the operating cost of 32 orphanages sheltering around 10,500 orphans. The Government is also responsible for operating 365 kindergartens with around 25,000 children. The social protection character of the kindergartens system is in doubt, since most of the enrolled children come from civil servants and military families which in most instances are unlikely to be vulnerable or poor.</p>
<p>Public works</p> <p>Public works schemes are of two kinds:</p> <ul style="list-style-type: none"> • Cash-for-Work Programs, including a National Solidarity Program (NSP) and a National Rural Accessibility Program (NRAP); and • Food aid Programs: a Food for Work Program (FFW), and an Iodized Salt Program <p>Neither category of programs appears to capture well the poor or very poor.</p>
<p>Skills development</p> <p>A National Skills Development program (NSDP), introduced in 2004, targets unemployed and underemployed individuals. It has trained some 10,000 people since its inception – 42 percent of them women and 5 percent disabled. Some 82 percent of participants have found employment. The NSDP target is to provide training for 150,000 people by 2010, of which women should comprise at least 35 percent and the disabled at least 10 percent.</p>
<p>Other formal (public) arrangements:</p> <ul style="list-style-type: none"> • Targeted land distribution: land (and apartment) distribution for war-related disabled and martyr families; • Distribution of humanitarian aid and conditional payments in kind: humanitarian aid reached around 5.2 million people in 2004. School attendance, especially by girls, is encouraged through payments in kind; while “food for training” is used to encourage teachers; • Lump-sum payments support families who lost their breadwinners in the ongoing war against anti-government groups, civilian victims of conflict and victims of natural disaster; • Public subsidies: the cost of electricity, particularly for consumers in Kabul, has been heavily subsidized (in 1385/2006 with US\$50 million). Pensions are subsidized from the general budget to make up for weak collections – in 2006; some US\$21 million were transferred.

¹² Source: Afghanistan National Social Protection Strategy, 1.17.2008

Table A9.9: Select donor initiatives in social protection¹³

<p>EC will provide Euro 24m towards policy design, capacity development, and building delivery system for social services covering 5 urban areas.</p>
<p>SIDA support to social integration of PWDs via Swedish Committee to Afghanistan (anticipated 2008-11, value unknown), largely north-eastern and central provinces.</p>
<p>Denmark (US\$0.80m) and Finland (US\$0.12m) support to 'gender justice' including violence against women (2007/8), at central level (capacity building of legal entities) and UNIFEM-supported Women's Provincial Development Centres.</p>
<p>Norway (US\$0.60m), Germany and Japan (US\$0.06m) support gender mainstreaming (2007/8) - Kabul technical support</p>
<p>Belgium (US\$1.00m), Germany and Japan (US\$0.06m) support to chronically poor women (2007/8) - addresses an AC/MDG benchmark via technical support at central MoWA and selected provincial DoWAs, plus urban and rural direct service interventions in various provinces.</p>
<p>CIDA (US\$2.16m) support to urban and rural widows (2007/8 via CARE programme in Kabul Province</p>
<p>UNICEF (US\$1.98m) to Child Protection, Labour and Trafficking (2007/8) including TA to 11 departments of MoLSAMD.</p>
<p>Germany, CIDA, Japan support to vocational training, including extremely vulnerable groups and with whom proposed service providers already collaborate.</p>

¹³ Source: European Commission "ACTION FICHE FOR AFGHANISTAN, SOCIAL PROTECTION"

Tables A9.10: Medium Term Fiscal Projections for the Reformed Civil Service Pension Scheme

Summary of Scenarios:

Scenario	Definitions/Assumptions	Findings
#1 (Baseline)	All new wages, excluding allowances, are pensionable; less generous benefit formula with full effect phased-in gradually; lump sum payments to survivors; but <i>same old contribution rates</i> (3% from employees).	Significant and growing deficit requires permanent subsidies
#2 (Higher contributions)	Same as Baseline but <i>new contribution rates</i> (16% combined employer and employee contributions)	Deficit disappears in the medium term
#3 (All allowances are pensionable)	Same as Baseline but new contribution rates and allowances are pensionable	Improved fiscal situation in the short-to-medium term (revenues grow faster than expenditures). <u>The most preferable option</u>

Assumptions:

(MOY)	1386 2007	1387 2008	1388 2009	1389 2010	1390 2011	1391 2012
Actual Pensionable Headcount						
Total pensionable non-uniform	302,000	302,000	301,300	320,600	330,000	329,400
Civil Service (CS)	130,000	130,000	130,000	130,000	130,000	130,000
Teachers (TE)	150,000	150,000	150,000	170,000	180,000	180,000
SOEs	22,000	22,000	21,300	20,600	20,000	19,400
flow of retrenched as result of P&G reform (CS+TE)		2,500	2,500	2,500	2,500	0
flow of normally retired (CS+TE+SOEs) - includes dead		8,106	6,490	4,016	2,128	539
new hires (CS+TE)		0	9,847	29,067	18,502	8,010
CS+TE after P&G reform and (re-)appointed with new salary		30,000	80,000	70,000	70,000	20,000
Police officers (including gen, officers, sergeants)	25,000	26,000	28,000	30,000	32,000	34,000
Military officers (including officers, sergeants, an	27,000	26,500	26,000	25,500	25,000	25,000
Actual Pensionable Wagebill, \$						
<i>Avg CS+TE+SOEs base wage</i>	\$38	\$45	\$52	\$59	\$66	\$74
<i>Avg post-PG CS+TE total wage</i>		\$147	\$142	\$144	\$148	\$151
<i>Avg Police Wage</i>	\$200	\$205	\$210	\$215	\$220	\$225
<i>Avg Military Wage</i>	\$230	\$235	\$240	\$245	\$250	\$255
Pre-PG non-uniform wage bill	\$138,655,849	\$164,025,193	\$163,488,405	\$122,109,840	\$75,926,997	\$1,600,328
Post-PG non-uniform wage bill	\$0	\$0	\$67,694,970	\$256,318,087	\$414,847,391	\$598,242,750
Police and Military Officers Payroll	\$138,575,641	\$138,690,000	\$144,027,101	\$150,905,215	\$157,942,316	\$167,159,751

Scenario #1

	1386	1387	1388	1389	1390	1391
Contributions (at 95% compliance)						
<i>Pre-PG</i> Civil Service Employees	3,952,000	4,674,950	4,659,750	3,479,850	2,164,100	45,600
<i>Post-PG</i> Employees						
Civil Service			1,328,100	5,004,600	8,078,800	11,661,250
Police&Military	3,949,150	3,952,950	4,104,950	4,300,650	4,501,100	4,764,250
<i>Post-PG</i> Government						
Civil Service			-	-	-	-
Police&Military		-	-	-	-	-
Total	7,901,150	8,627,900	10,092,800	12,785,100	14,744,000	16,471,100
Expenditures						
<i>Old scheme</i>						
Old age benefits (not indexed)	28,000,000	30,200,000	32,000,000	33,300,000	34,200,000	34,400,000
Survivors benefits (not indexed)	7,000,000	8,900,000	10,100,000	10,900,000	11,200,000	11,200,000
<i>New Scheme</i>						
Old age benefits		2,200,000	4,200,000	6,900,000	9,800,000	12,700,000
Survivors benefits (lump sums)		4,000,000	5,500,000	12,200,000	16,500,000	24,500,000
Total	35,000,000	45,300,000	51,800,000	63,300,000	71,700,000	82,800,000
Balance	-27,098,850	-36,672,100	-41,707,200	-50,514,900	-56,956,000	-66,328,900

Scenario #2

	1386	1387	1388	1389	1390	1391
Contributions (at 95% compliance)						
<i>Pre-PG</i> Civil Service Employees	3,952,000	4,674,950	4,659,750	3,479,850	2,164,100	45,600
<i>Post-PG</i> Employees						
Civil Service			3,542,550	13,344,650	21,544,100	31,096,350
Police&Military	3,949,150	10,540,250	10,945,900	11,468,400	12,003,250	12,704,350
<i>Post-PG</i> Government						
Civil Service			3,729,000	14,047,000	22,678,000	32,733,000
Police&Military		11,095,000	11,522,000	12,072,000	12,635,000	13,373,000
Total	7,901,150	26,310,200	34,399,200	54,411,900	71,024,450	89,952,300
Expenditures						
<i>Old scheme</i>						
Old age benefits (not indexed)	28,000,000	30,200,000	32,000,000	33,300,000	34,200,000	34,400,000
Survivors benefits (not indexed)	7,000,000	8,900,000	10,100,000	10,900,000	11,200,000	11,200,000
<i>New Scheme</i>						
Old age benefits		2,200,000	4,200,000	6,900,000	9,800,000	12,700,000
Survivors benefits (lump sums)		4,000,000	5,500,000	12,200,000	16,500,000	24,500,000
Total	35,000,000	45,300,000	51,800,000	63,300,000	71,700,000	82,800,000
Balance	-27,098,850	-18,989,800	-17,400,800	-8,888,100	-675,550	7,152,300

Scenario #3

	1386	1387	1388	1389	1390	1391
Contributions (at 95% compliance)						
<i>Pre-PG</i> Civil Service Employees	3,952,000	4,674,950	4,659,750	3,479,850	2,164,100	45,600
<i>Post-PG</i> Employees						
Civil Service			5,145,200	19,479,750	31,528,600	45,466,050
Police&Military	3,949,150	10,540,250	10,945,900	11,468,400	12,003,250	12,704,350
<i>Post-PG</i> Government						
Civil Service			5,416,000	20,505,000	33,188,000	47,859,000
Police&Military		11,095,000	11,522,000	12,072,000	12,635,000	13,373,000
Total	7,901,150	26,310,200	37,688,850	67,005,000	91,518,950	119,448,000
Expenditures						
<i>Old scheme</i>						
Old age benefits (not indexed)	28,000,000	30,200,000	32,000,000	33,300,000	34,200,000	34,400,000
Survivors benefits (not indexed)	7,000,000	8,900,000	10,100,000	10,900,000	11,200,000	11,200,000
<i>New Scheme</i>						
Old age benefits		2,200,000	4,300,000	7,200,000	10,300,000	13,600,000
Survivors benefits (lump sums)		4,000,000	6,000,000	14,800,000	20,700,000	31,200,000
Total	35,000,000	45,300,000	52,400,000	66,200,000	76,400,000	90,400,000
Balance	-27,098,850	-18,989,800	-14,711,150	805,000	15,118,950	29,048,000

Annex 10: Documents in Project Files

AFGHANISTAN: Pension Administration and Safety Net Project

Bank Staff Assessments

Aide Memoire, Pre-appraisal Mission, June 18, 2009

Aide Memoire, Preparation Mission, January 2, 2009

Back-to-Office Report, September 10, 2008.

Back-to-Office Report, December 12, 2008

Back-to-Office Report, April 9, 2009

Project Concept Note, December 4, 2008.

Project Information Document, June 2007.

Afghanistan Interim Strategy Note, April 12, 2006

Public Sector Pension Scheme: From Crisis Management to Comprehensive Reform Strategy, June 24, 2008

Semi-Annual Economic Brief, Economic Policy and Poverty Team, South Asia Region, The World Bank. Mimeo. 2009

Regional Social Protection Policy Review in South Asia, Human Development, South Asia Region, The World Bank. Draft. 2009

Other

Afghanistan National Development Strategy, Social Protection Sector Strategy, January 2008.

Strategy Note on Public Employee Pensions in Afghanistan. Ministry of Labor, Social Affairs, Martyrs and Disabled. December 2007

Islamic Republic of Afghanistan: Poverty Reduction Strategy Paper - Progress Report, IMF Country Report No. 08/73. 2008

Annex 11: Statement of Loans and Credits
AFGHANISTAN: Pension Administration and Safety Net Project

Project ID	FY	Purpose	Original Amount in US\$ Millions				Cancel.	Undisb.	Difference between expected and actual disbursements	
			IBRD	IDA	SF	GEF			Orig.	Frm. Rev'd
P107921	2009	Afg Strengthening Institutions DPG	0.00	35.00	0.00	0.00	0.00	36.39	0.00	0.00
P110644	2009	AF Financial Sector Strengthening Proj	0.00	8.00	0.00	0.00	0.00	8.49	0.00	0.00
P112446	2009	Strengtheng.Health Activts.for Rural Poor	0.00	30.00	0.00	0.00	0.00	28.03	-2.85	0.00
P101502	2008	Afghanistan HIV/AIDS Prevention Project	0.00	10.00	0.00	0.00	0.00	6.83	1.43	0.00
P102573	2008	Afghanistan Skills Development Project	0.00	20.00	0.00	0.00	0.00	17.12	2.23	0.00
P103343	2008	National Emergency Rural Access Project	0.00	112.00	0.00	0.00	0.00	73.13	-35.59	0.00
P104301	2008	AF Microfinance Project	0.00	30.00	0.00	0.00	0.00	11.91	-7.65	0.00
P106259	2008	Education Quality Improvement Program II	0.00	30.00	0.00	0.00	0.00	21.10	-4.96	0.00
P102288	2007	NSP II	0.00	195.00	0.00	0.00	0.00	78.35	-4.54	0.00
P100935	2007	Avian Flu	0.00	8.00	0.00	0.00	0.00	6.35	3.39	0.00
P099980	2007	AF: Public Financial Management Reform	0.00	33.40	0.00	0.00	0.00	29.08	0.30	0.00
P097030	2007	Civil Service Reform Project	0.00	20.40	0.00	0.00	0.00	18.40	6.98	0.00
P090928	2007	AF PSD Support Project	0.00	25.00	0.00	0.00	0.00	21.90	5.30	0.00
P098256	2006	AF: Hort. & Livestock Project	0.00	20.00	0.00	0.00	0.00	8.01	1.72	0.00
P098118	2006	Afghanistan: Natural Resources Devt	0.00	40.00	0.00	0.00	0.00	31.69	12.48	0.00
P087860	2006	Urban Water Sector	0.00	40.00	0.00	0.00	0.00	42.25	31.28	0.00
P083919	2005	Kabul Urban Reconstruction Project	0.00	25.00	0.00	0.00	0.00	14.66	13.37	0.00
P088719	2005	Investment Guarantee Facility	0.00	5.00	0.00	0.00	0.00	2.71	2.55	0.00
P089040	2005	Strengthening Higher Education Program	0.00	40.00	0.00	0.00	0.00	18.58	2.19	0.00
P083908	2004	Emergency Power Rehabilitation Project	0.00	105.00	0.00	0.00	0.00	35.28	29.47	2.95
P083906	2004	Emergency Customs and Trade Facilitation	0.00	37.81	0.00	0.00	0.00	7.11	-1.15	0.00
P083720	2004	AF: Emergency Communications Development	0.00	22.00	0.00	0.00	0.00	0.41	-0.65	0.00
P078936	2004	AF: Emer Irrig Rehab	0.00	126.50	0.00	0.00	0.00	65.27	-24.41	-24.41
P078324	2003	Afghanistan Health Sector Emergency Reha	0.00	109.60	0.00	0.00	0.00	1.02	-55.20	-26.56
P078284	2003	Emergency Transport Rehabilitation	0.00	153.00	0.00	0.00	1.25	0.73	-52.82	-12.45
Total:			0.00	1,280.71	0.00	0.00	1.25	584.80	- 77.13	- 60.47

COUNTRY
STATEMENT OF IFC's
Held and Disbursed Portfolio
In Millions of US Dollars

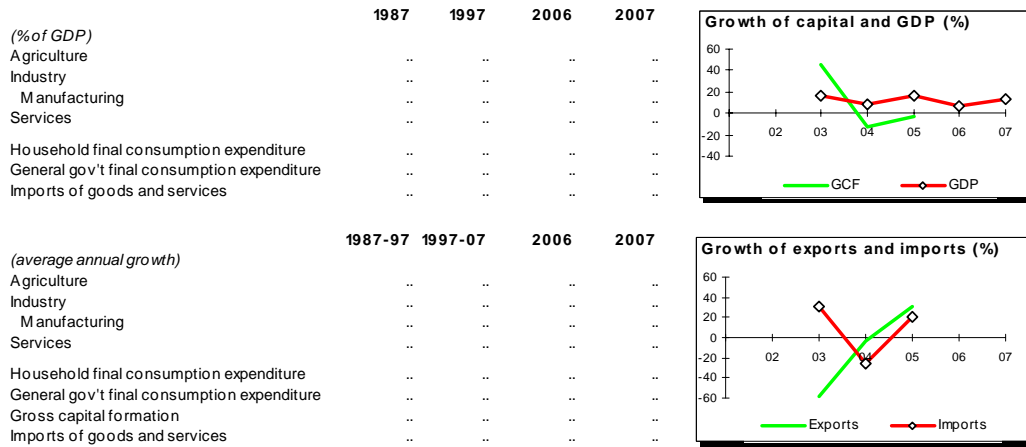
FY Approval	Company	Committed				Disbursed			
		IFC				IFC			
		Loan	Equity	Quasi	Partic.	Loan	Equity	Quasi	Partic.
2006	Areeba Afg. LTD	40.00	5.00	0.00	0.00	0.00	0.00	0.00	0.00
2003	FMBA	0.00	0.85	0.00	0.00	0.00	0.85	0.00	0.00

2006	FMBA	3.50	0.00	0.00	0.00	0.00	0.00	0.00	0.00
2004	TPS (A)	0.00	0.00	7.00	0.00	0.00	0.00	7.00	0.00
Total portfolio:		43.50	5.85	7.00	0.00	0.00	0.85	7.00	0.00

		Approvals Pending Commitment			
FY Approval	Company	Loan	Equity	Quasi	Partic.
Total pending commitment:		0.00	0.00	0.00	0.00

Annex 12: Country at a Glance

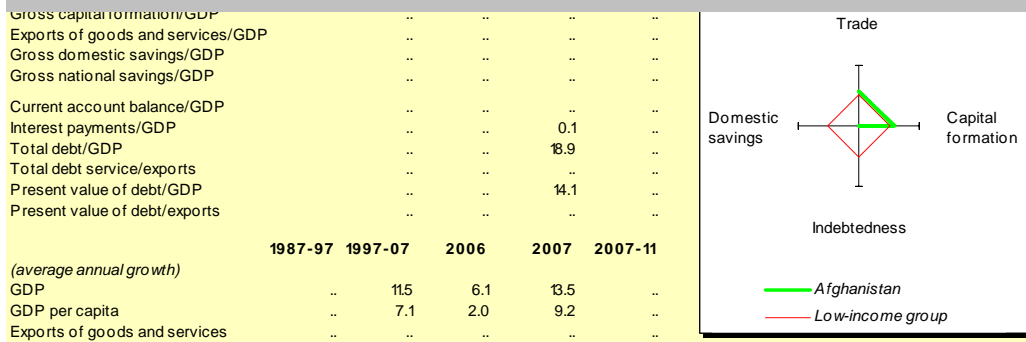
AFGHANISTAN: Pension Administration and Safety Net Project



Note: 2007 data are preliminary estimates.

This table was produced from the Development Economics LDB database.

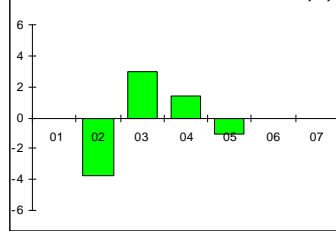
* The diamonds show four key indicators in the country (in bold) compared with its income-group average. If data are missing, the diamond will be incomplete.



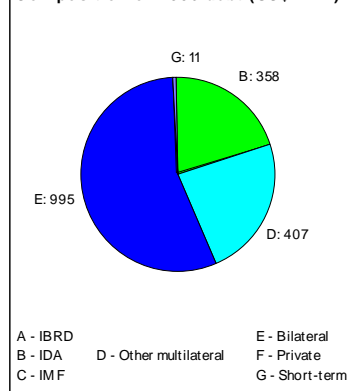
STRUCTURE of the ECONOMY

BALANCE of PAYMENTS

	1987	1997	2006	2007
<i>(US\$ millions)</i>				
Exports of goods and services	574	..	..	..
Imports of goods and services	1061	..	..	..
Resource balance	-487	..	..	..
Net income	8	..	..	..
Net current transfers	..	..	..	..
Current account balance	..	..	..	..
Financing items (net)	..	..	..	..
Changes in net reserves	-11	..	..	..
Memo:				
Reserves including gold <i>(US\$ millions)</i>	747	..	..	..
Conversion rate <i>(DEC, local/US\$)</i>	50.6	..	37.5	37.6

Current account balance to GDP (%)

EXTERNAL DEBT and RESOURCE FLOWS

	1987	1997	2006	2007
<i>(US\$ millions)</i>				
Total debt outstanding and disbursed	1,771	..
IBRD	0	0
IDA	358	411
Total debt service	9	..
IBRD	0	0
IDA	5	7
Composition of net resource flows				
Official grants	0	..
Official creditors	143	..
Private creditors	0	..
Foreign direct investment (net inflows)
Portfolio equity (net inflows)	0	..
World Bank program				
Commitments	0	0
Disbursements	39	56
Principal repayments	3	3
Net flows	37	54
Interest payments	3	5
Net transfers	34	49

Composition of 2006 debt (US\$ mill.)


Note: This table was produced from the Development Economics LDB database.

9/24/08