

Public Disclosure Authorized

CONFORMED COPY

GRANT NUMBER H297-AF

Financing Agreement

(Civil Service Reform Project)

between

ISLAMIC REPUBLIC OF AFGHANISTAN

and

INTERNATIONAL DEVELOPMENT ASSOCIATION

Dated June 17, 2007

GRANT NUMBER H297-AF

FINANCING AGREEMENT

AGREEMENT dated June 17, 2007, entered into between ISLAMIC REPUBLIC OF AFGHANISTAN (the "Recipient") and INTERNATIONAL DEVELOPMENT ASSOCIATION (the "Association"). The Recipient and the Association hereby agree as follows:

ARTICLE I – GENERAL CONDITIONS; DEFINITIONS

- 1.01. The General Conditions (as defined in the Appendix to this Agreement) constitute an integral part of this Agreement.
- 1.02. Unless the context requires otherwise, the capitalized terms used in the Financing Agreement have the meanings ascribed to them in the General Conditions or in the Appendix to this Agreement.

ARTICLE II — FINANCING

- 2.01. The Association agrees to extend to the Recipient, on the terms and conditions set forth or referred to in this Agreement, a grant in an amount equivalent to thirteen million, five hundred thousand Special Drawing Rights (SDR 13,500,000) ("Financing") to assist in financing the project described in Schedule 1 to this Agreement ("Project").
- 2.02. The Recipient may withdraw the proceeds of the Financing in accordance with Section IV of Schedule 2 to this Agreement. The Recipient's Representative for purposes of taking any action required or permitted to be taken pursuant to this Section is the Minister of Finance.
- 2.03. The Maximum Commitment Charge Rate payable by the Recipient on the Unwithdrawn Financing Balance shall be one-half of one percent (1/2 of 1%) per annum.
- 2.04. The Payment Dates are February 15 and August 15 in each year.
- 2.05. The Payment Currency is US Dollars.

ARTICLE III — PROJECT

- 3.01. The Recipient declares its commitment to the objectives of the Project. To this end, the Recipient shall carry out the Project through IARCSC in accordance with the provisions of Article IV of the General Conditions.

- 3.02. Without limitation upon the provisions of Section 3.01 of this Agreement, and except as the Recipient and the Association shall otherwise agree, the Recipient shall ensure that the Project is carried out in accordance with the provisions of Schedule 2 to this Agreement.

ARTICLE IV — EFFECTIVENESS; TERMINATION

- 4.01. The Effectiveness Deadline is the date ninety (90) days after the date of this Agreement.
- 4.02. For purposes of Section 8.05(b) of the General Conditions, the date on which the obligations of the Recipient under this Agreement (other than those providing for payment obligations) shall terminate is twenty years after the date of this Agreement.

ARTICLE V — REPRESENTATIVE; ADDRESSES

- 5.01. The Recipient's Representative is the Minister for Finance.
- 5.02. The Recipient's Address is:

Ministry of Finance
Pashtunistan Watt
Kabul
Islamic Republic of Afghanistan

- 5.03. The Association's Address is:

International Development Association
1818 H Street, N.W.
Washington, D.C. 20433
United States of America

Cable:	Telex:	Facsimile:
INDEVAS Washington, D.C.	248423 (MCI)	1-202-477-6391

AGREED at Kabul, Islamic Republic of Afghanistan, as of the day and year first above written.

ISLAMIC REPUBLIC OF AFGHANISTAN

By

/s/ Anwar-ul Haq Ahady
Authorized Representative

INTERNATIONAL DEVELOPMENT ASSOCIATION

By

/s/ Alastair J. McKechnie
Authorized Representative

SCHEDULE 1

Project Description

The objective of the Project is to assist the Recipient's service delivery ministries in performing core functions to an acceptable level with greater accountability for the use of public resources through reorganization of core ministries and management of the civil service in accordance with clear rules and procedures.

The Project consists of the following parts:

Part 1: Organizational Reforms within Participating Line Ministries

- (a) Provision of technical advisory services to support the efforts of Participating Line Ministries to improve service delivery against identified benchmarks through organizational restructuring including, amongst other things: (i) preparing three-year strategic programs for Participating Line Ministries; (ii) completing essential revisions of organizational reforms that define functions, structure, staffing requirements and job descriptions; (iii) recruiting staff corresponding to the new structure, in line with enhanced human resource policies; (iv) identifying funding gaps in the Participating Line Ministry's strategic plan; and (iv) producing annual performance reports for the Recipient's Cabinet and Parliament.
- (b) Provision of technical advisory services to strengthen the capacity of IARCSC to facilitate and coordinate reforms across the Participating Line Ministries including through developing common re-organization templates and best practice guidance for other ministries.

Part 2: Implementation of Human Resource Management Reforms

- (a) Provision of technical advisory services and training to qualified staff in Participating Line Ministries in revised human resource management policies and procedures including, amongst other things: (i) completing remaining regulations and procedures under the Civil Service Law and integrating them into a human resource management manual; (ii) implementation of the new regulations and procedures outlined in the human resource operations manual including training and outreach to human resource departments; and (iii) finalizing a pensions reform policy.
- (b) Provision of technical advisory services aimed at strengthening procedures of the IARCSC Civil Service Appointments Board and the IARCSC Civil Service Appeals Board in, among other things: (i) merit-based recruitment of senior positions in accordance with publicly agreed standards and targets; (ii) monitoring of junior-level appointments; and (iii) effective conduct of appeals.

- (c) Provision of technical and advisory services for implementation of the Recipient's Pay and Grade Policy reforms including, amongst other things: (i) undertaking a sustained communications plan to build understanding of the reform purpose and process; (ii) re-grading senior management positions in line with the new grade structure; (iii) developing procedures and guidance for re-grading and re-appointing lower level positions; and (iv) oversight, quality control and monitoring of the process.

Part 3: Oversight of PAR Program

- (a) Provision of technical advisory services and training to strengthen the capacity of the Program Coordination Department within the IARCSC to, amongst other things: (i) coordinate donor support and relations under the PAR Program; (ii) coordinate technical assistance providers; (iii) identify and resolve implementation bottlenecks; and (iv) implement the procurement and financial management aspects of the Project.
- (b) Provision of technical advisory services to the Administration Reform Secretariat of the IARCSC to, amongst other things, monitor and evaluate progress under the PAR program, develop policy and implement communications strategies.

SCHEDULE 2

Project Execution

Section I. Implementation Arrangements

A. Institutional Arrangements.

1. (a) The Recipient shall vest responsibility for the overall management, coordination and supervision of the Project in IARCSC.
- (b) The Recipient shall maintain IARCSC with functions, staffing, and resources satisfactory and acceptable to the Association. IARCSC shall be responsible for, amongst other things: (i) overall policy guidance and planning, coordination and monitoring of the Project; (ii) financial management, procurement, disbursement and administrative management processes under the Project; (iii) reviewing and recommending for approval to the PAR Steering Committee, applications by Participating Line Ministries for support under the Project; and (iv) overall planning, coordination and monitoring of the PAR program including coordination of donors and communicating with public and stakeholders. In carrying out its functions under the Project, IARCSC shall work closely with Participating Line Ministries.
2. The Recipient shall maintain a PAR Steering Committee comprised of, amongst others, senior representatives of IARCSC, the Ministry of Finance and the Office of the President. The PAR Steering Committee shall be responsible for, amongst other things: (i) Project implementation oversight; (ii) recommendation of policy and regulatory improvements; and (iii) approving applications by Participating Line Ministries for support under the Project.
3. For purposes of implementation of Part 1 of the Project, IARCSC shall enter into an agreement in form and with substance satisfactory to the Association, with each Participating Line Ministry, setting out the following:
 - (a) the respective responsibilities of, and expected outcomes of assistance provided to each Participating Line Ministry under Part 1 of the Project;
 - (b) the amount of resources and level of support available to each Participating Line Ministry from IARCSC under the Project to enable the Participating Line Ministry implement its portion of Part 1 of the Project;
 - (c) that each Participating Line Ministry shall promptly do all acts and things, and take all actions necessary to enable such Participating Line Ministry to carry out its portion of Part 1 of the Project; and

- (d) that each Participating Line Ministry shall carry out its respective portion of Part 1 of the Project in accordance with the provisions of the Anti-Corruption Guidelines.
- 4. IARCSC shall carry out the Project in accordance with the Operations Manual and the Financial Management Manual, and, except as the Association shall otherwise agree, shall not amend or waive any provision of the Operations Manual and the Financial Management Manual if, in the opinion of the Association, such amendment or waiver may materially and adversely affect the carrying out of the Project or the achievement of the objectives thereof.

B. Anti-Corruption

The Recipient shall ensure that the Project is carried out in accordance with the provisions of the Anti-Corruption Guidelines.

Section II. Project Monitoring, Reporting and Evaluation

A. Project Reports

- 1. (a) The Recipient shall monitor and evaluate the progress of the Project and prepare Project Reports in accordance with the provisions of Section 4.08 of the General Conditions and on the basis of the indicators set forth below in sub-paragraph (b) of this paragraph. Each Project Report shall cover the period of one calendar quarter, and shall be furnished to the Association not later than forty-five (45) days after the end of the period covered by such report.
- (b) The performance indicators referred to above in sub-paragraph (a) consist of the following:
 - (i) The number of service delivery ministries that are reporting on their achievement of sectoral objectives and their use of resources for that purpose.
 - (ii) Proportion of civil service appointments based on merit, and the rigor of the merit-based appointments process.
 - (iii) Consistency of application of the Civil Service Law and regulations to the management of civil servants.
 - (iv) The extent to which IARCSC is coordinating donor support for civil service reform, and its monitoring and reporting of the approved civil service reform implementation plan.

2. For purposes of Section 4.08(c) of the General Conditions, the report on the execution of the Project and related plan required pursuant to that Section shall be furnished to the Association not later than six months after the Closing Date.

B. Financial Management, Financial Reports and Audits

1. The Recipient shall maintain or cause to be maintained a financial management system in accordance with the provisions of Section 4.09 of the General Conditions.
2. The Recipient shall prepare and furnish to the Association as part of the Project Report not later than forty-five (45) days after the end of each calendar quarter, interim unaudited financial reports for the Project covering the quarter, in form and substance satisfactory to the Association.
3. The Recipient shall have its Financial Statements audited in accordance with the provisions of Section 4.09(b) of the General Conditions. Each audit of the Financial Statements shall cover the period of one fiscal year of the Recipient. The audited Financial Statements for each such period shall be furnished to the Association not later than six (6) months after the end of such period.

Section III. Procurement

A. General

1. **Goods.** All goods and services required for the Project and to be financed out of the proceeds of the Grant shall be procured in accordance with the requirements set forth or referred to in Section I of the Procurement Guidelines, and with the provisions of this Section.
2. **Consultants' Services.** All consultants' services required for the Project and to be financed out of the proceeds of the Grant shall be procured in accordance with the requirements set forth or referred to in Sections I and IV of the Consultant Guidelines, and with the provisions of this Section.
3. **Definitions.** The capitalized terms used below in this Section to describe particular procurement methods or methods of review by the Association of particular contracts, refer to the corresponding method described in the Procurement Guidelines, or Consultant Guidelines, as the case may be.

B. Particular Methods of Procurement of Goods

1. **International Competitive Bidding.** Except as otherwise provided in paragraph 2 below, goods shall be procured under contracts awarded on the basis of International Competitive Bidding.

2. **Other Methods of Procurement of Goods.** The following table specifies the methods of procurement, other than International Competitive Bidding, which may be used for goods and services. The Procurement Plan shall specify the circumstances under which such methods may be used:

Procurement Method
(a) National Competitive Bidding*
(b) Shopping
(c) Direct Contracting

* **National Competitive Bidding** shall be subject to the following additional procedures:

- (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 as indicated in the bidding documents. A bidder's bid security 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 eight (8) 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.
- (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.

C. Particular Methods of Procurement of Consultants' Services

1. **Quality- and Cost-based Selection.** Except as otherwise provided in paragraph 2 below, consultants' services shall be procured under contracts awarded on the basis of Quality- and Cost-based Selection.

2. **Other Methods of Procurement of Consultants' Services.** The following table specifies methods of procurement, other than Quality and Cost-based Selection, which may be used for consultants' services. The Procurement Plan shall specify the circumstances under which such methods may be used.

Procurement Method
(a) Quality-Based Selection
(b) Single-Source Selection
(c) Selection of Individual Consultants
(d) Selection Based on the Consultants' Qualifications
(e) Selection under a Fixed Budget
(c) Least Cost Selection

D. Review by the Association of Procurement Decisions

Except as the Association shall otherwise determine by notice to the Recipient, the following contracts shall be subject to Prior Review by the Association: (a) each contract for goods procured on the basis of International Competitive Bidding regardless of value; (b) each contract for goods procured on the basis of National Competitive Bidding estimated to cost the equivalent of \$100,000 or more; (c) each contract for goods and services procured on the basis of Direct Contracting regardless of value; (d) each contract for services procured on the basis of National Competitive Bidding regardless of value; (e) each contract for consultants' services provided by a firm estimated to cost the equivalent of \$100,000 or more; and (f) each contract for consultants' services procured on the basis of Single-Source Selection regardless of value. In addition, the following prior review procedures shall apply to each contract for the employment of individual consultants (other than consultants to be selected on a sole source basis) estimated to cost the equivalent of \$50,000 or more: (i) the report on the comparison of the qualifications and experience of candidates, terms of reference and conditions of employment of the consultant shall be furnished to the Association for its prior review and approval; (ii) the contract shall be awarded only after the Association's approval shall have been given; and (iii) the provisions of paragraph 3 and 5 of Appendix 1 to the Consultant Guidelines shall apply to the contract.

All other contracts shall be subject to Post Review by the Association.

Section IV. Withdrawal of the Proceeds of the Financing

A. General

1. The Recipient may withdraw the proceeds of the Financing in accordance with the provisions of Article II of the General Conditions, this Section, and such additional instructions as the Association shall specify by notice to the Recipient (including the “World Bank Disbursement Guidelines for Projects” dated May 2006, as revised from time to time by the Association and as made applicable to this Agreement pursuant to such instructions), to finance Eligible Expenditures as set forth in the table in paragraph 2 below.
2. The following table specifies the categories of Eligible Expenditures that may be financed out of the proceeds of the Financing (“Category”), the allocations of the amounts of the Financing to each Category, and the percentage of expenditures to be financed for Eligible Expenditures in each Category:

Category	Amount of the Financing Allocated (expressed in SDR)	Percentage of Expenditures to be Financed (inclusive of Taxes)
(1) Goods, Consultants’ services and Training for Parts 1, 2(a), 2(b) and 3 of the Project	11,000,000	100%
(2) Goods, Consultants’ services and Training for Part 2(c) of the Project	2,500,000	100%
TOTAL AMOUNT	13,500,000	

B. Withdrawal Conditions; Withdrawal Period

1. Notwithstanding the provisions of Part A of this Section, no withdrawal shall be made:
 - (a) for payments made prior to the date of this Agreement.
 - (b) under Category 2, for purposes of Part 2(c) of the Project, until the Association has received evidence that the Recipient has adopted a Pay and Grade Policy, in form and substance satisfactory to the Association.

2. The Closing Date is July 31, 2011.

Section V. Other Undertakings

1. IARCSC shall, by no later than August 31, 2007 engage the services of a financial management specialist under terms and conditions satisfactory to the Association to be responsible for overall financial management of the Project.
2. The Recipient shall, by no later than August 31, 2007 prepare and adopt the Operations Manual and Financial Management Manual in form and substance satisfactory to the Association.

APPENDIX

Definitions

1. “Administrative Reform Secretariat” means the unit in IARCSC responsible for monitoring the implementation of the PAR, established and operating in accordance with the Civil Service Law.
2. “Anti-Corruption Guidelines” means the “Guidelines on Preventing and Combating Fraud and Corruption in Projects Financed by IBRD Loans and IDA Credits and Grants”, dated October 15, 2006.
3. “Category” means a category set forth in the table in Section IV of Schedule 2 to this Agreement.
4. “Civil Service Law” means the Recipient’s Civil Service Law, No. 861 dated September 11, 2005, as amended from time to time.
5. “Consultant Guidelines” means the “Guidelines: Selection and Employment of Consultants by World Bank Borrowers” published by the Bank in May 2004 and revised in October 2006.
6. “Financial Management Manual” means the financial management manual setting out the financial management arrangements for the Project, to be prepared by the Recipient, as referred to in Section V.2 of Schedule 2 to this Agreement, as the same may be updated from time to time in agreement with the Association.
7. “General Conditions” means the “International Development Association General Conditions for Credits and Grants”, dated July 1, 2005 (as amended through October 15, 2006).
8. “IARCSC Civil Service Appeals Board” means the IARCSC Appeals Board operating pursuant to the Civil Service Law.
9. “IARCSC Civil Service Appointments Board” means the IARCSC Appointments Board operating pursuant to the Civil Service Law.
10. “IARCSC” means the Recipient’s Independent Administrative Reform and Civil Service Commission established and operating under the Civil Service Law, No. 861 dated September 11, 2005, as amended from time to time.
11. “Operations Manual” means the Recipient’s manual to be prepared and adopted in a form and substance satisfactory and acceptable to the Association, which includes guidelines and procedures for the operational and administrative management of the Project, including any updates made from time to time with

the Association's approval as referred to in Section V.2 of Schedule 2 to this Agreement, as the same may be updated from time to time in agreement with the Association.

12. "PAR" means the Recipient's Public Administrative Reform program.
13. "Participating Line Ministries" means ministries of the Recipient which are taking part in the implementation of the Project in accordance with the Operations Manual.
14. "Pay and Grade Policy" means the Recipients Pay and Grade Policy to be approved and furnished to the Association for purposes of Part 2(c) of the Project.
15. "Procurement Guidelines" means the "Guidelines: Procurement under IBRD Loans and IDA Credits" published by the Bank in May 2004, and revised in October, 2006.
16. "Procurement Plan" means the Recipient's procurement plan for the Project, dated April 2, 2006, and referred to in paragraph 1.16 of the Procurement Guidelines and paragraph 1.24 of the Consultant Guidelines, as the same shall be updated from time to time in accordance with the provisions of said paragraphs.
17. "Program Coordination Department" means the Program Coordination Department of IARCSC.
18. "PAR Steering Committee" means the steering committee of the Recipient's Public Administrative Reform program.