

CONFORMED COPY

GRANT NUMBER H298-AF

Financing Agreement

(Public Financial Management Reform Project)

between

ISLAMIC REPUBLIC OF AFGHANISTAN

and

INTERNATIONAL DEVELOPMENT ASSOCIATION

Dated June 17, 2007



GRANT NUMBER H298-AF

FINANCING AGREEMENT

AGREEMENT dated June 17, 2007, entered into between Islamic Republic of Afghanistan (“Recipient”) and INTERNATIONAL DEVELOPMENT ASSOCIATION (“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 this Agreement have the meanings ascribed to them in the General Conditions.

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 Twenty two million and one hundred thousand Special Drawing Rights (SDR 22,100,000) (“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 United States 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 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 - EFFECTIVNESS; 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 (20) years after the date of this Agreement.

ARTICLE V - REPRESENTATIVE; ADDRESSES

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

Ministry of Finance
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 objectives of the Project are to: (i) develop an efficient and effective public financial management system; and (ii) develop the human resource capacity of the MoF and CAO to ensure better operation of public financial management.

The Project consists of the following parts, subject to such modification thereof as the Recipient and the Association may agree upon in writing from time to time to achieve such objectives:

Part A: Strengthening Institutional Development

Support the MoF and the CAO by: (i) strengthening the Recipient's procurement related institutional arrangements and promoting social accountability; (ii) expanding the automated treasury systems and rolling them out to selected line ministries and Mustofiats; (iii) developing internal audit practices and establishing an anti-fraud unit; and (iv) developing external audit policy and procedures, and providing the CAO with office equipment.

Part B: Strengthening Human Resources Capacity Development

Support human resource capacity building activities: (a) of the MoF and line ministries in the areas of: (i) procurement, (ii) financial management, and (iii) internal audit; and (b) of the CAO in the area of external audit.

Part C: Strengthening Reform Management

Support the RIMU in ensuring coordination in the implementation of the MoF functions and monitoring implementation of said functions across departments and Mustofiats.

Part D: Operational Support for Public Financial Management

Operational assistance to the Recipient, through the provision of goods and consultants' services, to maintain high fiduciary standards in procurement and treasury operations, as well as in the external audit of these operations.

SCHEDULE 2

Project Execution

Section I. Implementation Arrangements

A. Institutional Arrangements

The Recipient shall vest the responsibility for the implementation of the Project with the MoF under the authority of the Minister. The Minister of Finance shall be assisted by a PFM Reform Steering Committee.

The Recipient shall vest the responsibility of organizing and coordinating the daily operations of the Project in the RIMU which shall consist of a director and a monitoring and evaluation officer. The Recipient shall maintain the director throughout the implementation of the Project. The MoF shall employ an individual as monitoring and evaluation officer, not later than six (6) months as of the Effective Date of the Agreement under terms of reference satisfactory to the Association. The RIMU shall provide, not later than, nine (9) months as of effective date of the Agreement, a technical advisor with expertise in the organization and management of large financial institutions and a technical advisor with expertise in human resource management for the duration of the Project implementation.

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. 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 indicators agreed with the Association. Each Project Report shall cover the period six months and shall be furnished to the Association not later than forty-five (45) days after the end of the period covered by such report.
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 (6) 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. Without limitation on the provisions of Part A of this Section, the Recipient shall prepare and furnish to the Association not later than forty-five (45) days after the end of each three months period, interim unaudited financial reports for the Project covering the period, in form and substance satisfactory to the Association.
3. The recipient shall cause the RIMU to prepare a financial management manual documenting the financial management arrangements for the Project including outlining guidelines for project activities with specific requirements for each component implementing entity and establish a project financial management system in accordance with the Recipient standard government policies and procedures.
4. 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, commencing with the fiscal year in which the first withdrawal under the Project Preparation Advance was made. 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 required for the Project and to be financed out of the proceeds of the Financing 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 Financing 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. 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 procedures 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; 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.

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. The short list 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.
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) Selection Based on Consultants' Qualifications.
(c) Least-Cost Selection.
(d) Selection under a Fixed Budget.
(e) Single Source Selection.
(f) Individual Consultants.

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 estimated to cost the equivalent of \$200,000 or more procured on the basis of International Competitive Bidding, Limited International Bidding or National Competitive Bidding;
- (b) each contract for goods or services procured on the basis of Direct Contracting and Single Source;
- (c) each contract for consultants' services provided by a firm estimated to cost the equivalent of \$100,000 or more; and
- (d) each contract for the employment of individual consultants estimated to cost the equivalent of \$50,000 or more.

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 1, 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 Grant Allocated (expressed in SDR)	Percentage of Expenditures to be Financed (Inclusive of Taxes)
(1) Goods, consultants’ services, training costs and Incremental Operating Costs* for the Project	22,100,000	100%
TOTAL AMOUNT	22,100,000	

*For purposes of this Agreement “Incremental Operating Costs” means expenses incurred on account of Project implementation support and management including the rental of office space; the operation, maintenance, rental and insurance of vehicles; fuel; communications, supplies and charges; advertisements; books and periodicals; office administration and maintenance costs; bank transaction charges; utility charges; domestic travel and per diem but excluding salaries of officials and staff of the Recipient’s civil service.

B. Withdrawal Conditions; Withdrawal Period

1. Notwithstanding the provisions of Part A of this Section, no withdrawal shall be made: for payments made prior to the date of this Agreement, except that withdrawals up to an aggregate amount not to exceed SDR 1,300,000 (US\$2,000,000 equivalent) may be made for payments made prior to this date but on or after April 15, 2007, for Eligible Expenditures.
2. The Closing Date is December 31, 2010.

APPENDIX

Section I. Definitions

1. “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.
2. “CAO” means the Recipient’s Control and Audit Office
3. “Category” means a category set forth in the table in Section IV of Schedule 2 to this Agreement.
4. “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.
5. “General Conditions” means the “International Development Association General Conditions for Credits and Grants”, dated July 1, 2005 (as amended through October 15, 2006).
6. “MoF” means the Ministry of Finance of the Recipient.
7. “Mustofiats” means the decentralized treasury offices of the Recipient.
8. “PFM Reform Steering Committee” means the steering committee chaired by the Minister of Finance comprising deputy ministers, senior MOF departmental managers, a representative of the Ministry of Economy of the Recipient and a representative of the CAO.
9. “Procurement Guidelines” means the “Guidelines: Procurement under IBRD Loans and IDA Credits” published by the Bank in May 2004 and revised in October, 2006.
10. “Procurement Plan” means the Recipient’s procurement plan for the Project, dated March 1, 2007 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.
11. “RIMU” means the Reform Implementation Management Unit of the MoF.