Afghanistan Reconstruction Trust Fund Grant Agreement

(Second Public Financial Management Reform Project)

between

ISLAMIC REPUBLIC OF AFGHANISTAN

and

INTERNATIONAL DEVELOPMENT ASSOCIATION
(acting as Administrator of the Afghanistan Reconstruction Trust Fund)

Dated August 9, 2011
ARTF GRANT NUMBER TF010024

ARTF FUND GRANT AGREEMENT

AGREEMENT dated August 9, 2011, entered into between the Islamic Republic of Afghanistan ("Recipient"); and INTERNATIONAL DEVELOPMENT ASSOCIATION acting as administrator ("Administrator") of grant funds ("Grant Funds") contributed by various donors (collectively the "Donors") to the Afghanistan Reconstruction Trust Fund.

The Recipient and the Administrator hereby agree as follows:

Article I
Standard Conditions; Definitions

1.01. The Standard Conditions for Grants Made by the World Bank Out of Various Funds, dated July 31, 2010 ("Standard Conditions"), 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 Standard Conditions or in this Agreement.

Article II
The Project

2.01. The Recipient declares its commitment to the objectives of the project described in Schedule 1 to this Agreement ("Project"). To this end, the Recipient shall carry out the Project through MOF in accordance with the provisions of Article II of the Standard Conditions.

2.02. Without limitation upon the provisions of Section 2.01 of this Agreement, and except as the Recipient and the Administrator otherwise agree, the Recipient shall ensure that the Project is carried out in accordance with the provisions of Schedule 2 to this Agreement.

Article III
The Grant

3.01. The Administrator agrees to extend to the Recipient, on the terms and conditions set forth or referred to in this Agreement, a grant in an amount equal to sixty
million United States Dollars ($60,000,000) ("Grant") to assist in financing the Project.
3.02. The Recipient may withdraw the proceeds of the Grant in accordance with Section IV of Schedule 2 to this Agreement.

3.03. The Grant is funded out of the abovementioned trust fund for which the Administrator receives periodic contributions. In accordance with Section 3.02 of the Standard Conditions, the Recipient may withdraw the Grant proceeds subject to the availability of such funds.

Article IV
Recipient’s Representative; Addresses

4.01. The Recipient’s Representative referred to in Section 7.02 of the Standard Conditions is Recipient’s Minister of Finance.

4.02. The Recipient’s Address referred to in Section 7.01 of the Standard Conditions is:

Ministry of Finance
Pashtunistan Watt
Kabul
Islamic Republic of Afghanistan

Facsimile:
93-20-210-3258

4.03. The Administrator’s Address referred to in Section 7.01 of the Standard Conditions is:

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

Cable: Telex: Facsimile:
INDEVAS 248423 (MCI) or 1-202-477-6391
Washington, D.C. 64145 (MCI)
AGREED at Kabul, Islamic Republic of Afghanistan as of the day and year first above written.

ISLAMIC REPUBLIC OF AFGHANISTAN

By/s/ Hazrat Omar Zakhilwal

Authorized Representative

INTERNATIONAL DEVELOPMENT ASSOCIATION
(acting as Administrator of the Afghanistan Reconstruction Trust Fund)

By/s/ Nicholas Krafft

Authorized Representative
SCHEDULE 1

Project Description

The objective of the Project is to strengthen the Recipient’s public financial management through effective procurement, treasury and audit structures and systems, in line with sound financial management standards of monitoring, reporting and control.

The Project consists of the following parts:

Part A: Procurement Reform

1. Provision of technical assistance to ARDS to properly assess the legal and institutional frameworks, handle procurement under the Recipient’s budget, develop an action plan for enhancing the procurement environment and build human capacity of procurement staff in line ministries.

2. Improve the quality of training provided to procurement officers by developing the competency of ACSI and PCBOs to offer procurement training, support procurement controllers and build capacity in line ministries.

3. Strengthen the institutional development of PPU by operationalizing the procurement legal framework and oversight functions, establishing procurement departments in line ministries, developing a communication and awareness strategy for accountability and monitoring information systems.

Part B: Financial Management Reform

1. Provision of technical assistance to Treasury Department to: (i) maintain and improve timely transaction processing, accounting and financial reporting; (ii) implement organizational change and payment processing; (iii) prepare for business continuity; (iv) establish a dedicated support center; (v) introduce improved management reporting and expand access of AFMIS budgetary units in province offices of MOF; (vi) integrate operation systems with other government systems and applications of AFMIS; (vi) assist staff in the preparation, monitoring and implementation of individual training plans, as well as annual performance appraisals.

2. Develop the human resource capacity of MOF staff and line ministries through: (i) preparation of training modules on MOF processes and systems and certifiable accounting skills under the certified accounting technician courses provided by the Association of Certified Chartered Accountants (UK); (ii) provision of job specific, certifiable finance skills and general skills training; and (iii) design and
implementation of a communication plan in Treasury Department laying out the internal control framework and financial procedures

3. Establishment and operationalization of a national steering committee for developing and regulating an accounting and auditing profession, and the training of professional accountants

4. Conduct a public finance management assessment of seven line ministries.

Part C: Audit Reform and Performance

1. Develop the internal audit capacity of MOF by establishing a program to train trainers and staff of line ministries to meet the needs of IAD.

2. Coordinating internal audit activities by forming an internal audit forum, and preparing an internal audit charter and audit manuals.

3. Acquisition of IT infrastructure and supporting computer system to follow up internal audit findings and record internal audit processes and results.

4. Develop the external audit capacity of the CAO by providing technical assistance to meet the requirements for annual Project audits under ARTF and IDA operations, and other key bilateral on-budget projects and on-the-job training for auditors.

5. Assist CAO to implement the new audit methodology to support regulatory audits conducted under international auditing standards and provision of basic capacity training to selected staff to develop the required competencies in the application of the new methodology

6. Develop the capacity of the Recipient’s Auditor General by providing advice on policy and operational matters, coordinating technical assistance in CAO, supporting the implementation of new audit legislation, monitoring Project implementation, overseeing the strategic development plan for CAO, coordinating training activities in CAO and international relations and overseeing the public accounts committee.

7. Providing training support for staff at CAO at the SAI of India for specialized and more advanced audits courses.
8. Provision of office equipment and infrastructure for CAO offices including an information technology center, database systems for audit management, office furnishings and online access to AFMIS.

9. Providing support to the PAC in carrying out its duties, conducting workshops, and study visits to similar committees in selected countries.

Part D: Reform Management

1. Provision of monitoring and evaluation support to MOF by establishing a structure, job descriptions, providing training for staff in the monitoring and evaluation department, and revising the MOF’s existing monitoring and evaluation manual.

2. Improving the operations of the HRMD to enable it to carry out its functions efficiently.

3. Provision of support in Project implementation by assisting: (i) RIMU in the overall coordination of the Project, preparation of the Project’s annual budget, implementation plans, procurement plan, financial monitoring reports, performance monitoring reports and Project asset registration; and (ii) implementing units in administrative matters and providing secretariat services for the Project’s Steering Committee.

4. Provide for future requests for assistance on the design and delivery of public financial management technical assistance across government and broad-based training for MOF and line ministries staff.
SCHEDULE 2

Project Execution

Section I. Institutional and Other Arrangements

A. Project Implementation Bodies

1. The Recipient shall vest the overall responsibility for Project implementation in MOF, and to that end shall:

   a) maintain, throughout the period of implementation of the Project, a Project Steering Committee within MOF, responsible for, inter alia: (i) overseeing project implementation; (ii) maintaining focus on results; (iii) coordinating Project activities; (iv) making decisions on issues arising during Project implementation; (v) approving Project annual implementation plans and budget; and (vi) providing reports on Project progress and results. PSC shall be chaired by the Recipient’s Minister of Finance, and consist of the Director General Treasury, Director General Internal Audit, Auditor General, Head of Procurement Policy Unit, Head of Afghanistan Reconstruction & Development Services and the Reform Implementation Management Unit Coordinator with secretariat services provided by RIMU.

   b) maintain, throughout the period of implementation of the Project, a Reform Implementation and Management Unit provided with sufficient resources and competent staff in adequate numbers, under terms of reference satisfactory to the Administrator, responsible for inter alia: (i) preparation of the Project annual budget, (ii) preparation of the Project implementation plan, (iii) preparation and updating of the Project procurement plan, (iv) monitoring progress, evaluating intended results and reporting to Project Steering Committee and the Administrator, and (v) preparation of Project financial monitoring report.

2. To facilitate the carrying out of the Project, the Recipient shall:

   a) maintain, throughout the period of Project implementation, a procurement facilitation consultant under terms of reference satisfactory to the Administrator, to provide support in carrying out Part A.1 of the Project.

   b) by no later than December 31, 2011 employ and thereafter maintain throughout the period of Project implementation, a financial management consultant under terms of reference satisfactory to the Administrator, to provide support in carrying out Part B.1 of the Project.
c) by no later than December 31, 2011 employ, and thereafter maintain throughout the period of Project implementation, a consulting firm under terms of reference satisfactory to the Administrator, to provide support in carrying out Part C.4 of the Project.

d) maintain, throughout the period of Project implementation, qualified and experienced financial management staff, under terms of reference satisfactory to the Administrator.

B. Project Manuals

The Recipient shall:

(a) update and thereafter adopt, by no later than July 31, 2011, the PFMRP financial management manual, in form and substance satisfactory to the Administrator;

(b) ensure that the Project is carried out in accordance with the Financial Management Manual, and, except as the Administrator shall otherwise agree, not amend or waive any provision of the Financial Management Manual without the prior written consent of the Administrator.

C. Anti-Corruption

The Recipient shall ensure that the Project is carried out in accordance with the provisions of the “Guidelines on Preventing and Combating Fraud and Corruption in Projects Financed by IBRD Loans and IDA Credits and Grants”, dated October 15, 2006 and revised in January 2011 (“Anti-Corruption Guidelines”).

D. Donor Visibility and Visit

1. The Recipient shall take or cause to be taken all such measures as the Administrator may reasonably request to identify publicly the Donors’ support for the Project.

2. For the purposes of Section 2.09 of the Standard Conditions, the Recipient shall, upon the Administrator’s request, enable the representatives of the Donors to visit any part of the Recipient’s territory for purposes related to the Project.
Section II. Project Monitoring, Reporting and Evaluation

A. Project Reports; Completion Report

1. The Recipient shall monitor and evaluate the progress of the Project and prepare Project Reports in accordance with the provisions of Section 2.06 of the Standard Conditions and on the basis of the indicators acceptable to the Administrator. Each Project Report shall cover the period of six months, and shall be furnished to the Administrator not later than forty-five days (45) after the end of the period covered by such report.

2. The Recipient shall prepare the Completion Report in accordance with the provisions of Section 2.06 of the Standard Conditions. The Completion Report shall be furnished to the Administrator not later than six months after the Closing Date.

B. Financial Management; Financial Reports; Audits

1. The Recipient shall ensure that a financial management system is maintained in accordance with the provisions of Section 2.07 of the Standard Conditions.

2. The Recipient shall ensure that interim unaudited financial reports for the Project are prepared and furnished to the Administrator not later than forty-five (45) days after the end of each calendar quarter covering the quarter, in form and substance satisfactory to the Administrator.

3. The Recipient shall, upon the Administrator's request, have its Financial Statements for the Project audited in accordance with the provisions of Section 2.07 (b) of the Standard Conditions. Each audit of the Financial Statements shall cover the period of one fiscal year of the Recipient. The audited Financial Statements for each period shall be furnished to the Administrator not later than six months after the end of such period.

4. The Recipient shall, upon the Administrator's request, for any year of the Project for which Financial Statements referred in paragraph 3 are prepared, commission a separate Financial Statement for the CAO's implemented activities (the "CAO Financial Statements"), which Financial Statements shall be audited by independent auditors acceptable to the Administrator (other than the CAO), in accordance with the provisions of Section 2.07(b) of the Standard Conditions. The CAO Financial Statement shall be furnished to the Administrator jointly with the Financial Statement referred to in paragraph 3 above.
Section III.  Procurement

A.  General

1.  **Procurement and Consultant Guidelines.** 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:


(b)  the provisions of this Section III, as the same shall be elaborated in the procurement plan prepared and updated from time to time by the Recipient for the Project in accordance with paragraph 1.18 of the Procurement Guidelines and paragraph 1.25 of the Consultant Guidelines (“Procurement Plan”).

2.  **Definitions.** The capitalized terms used below in this Section to describe particular procurement methods or methods of review by the Administrator 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 and Non-consulting Services**

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

2.  **Other Methods of Procurement of Goods and Non-consulting Services.** The following methods, other than International Competitive Bidding, may be used for procurement of goods and non-consulting services for those contracts specified in the Procurement Plan: (a) National Competitive Bidding subject to the additional provisions set forth in the Annex to this Schedule; (b) Shopping; and (c) Direct Contracting.
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 methods, other than Quality- and Cost-based Selection, may be used for procurement of consultants’ services for those assignments which are specified in the Procurement Plan: (a) Quality-based Selection; (b) Selection under a Fixed Budget; (c) Least Cost Selection; (d) Selection based on Consultants’ Qualifications; and (e) Single-source Selection.

D. **Review by the Administrator of Procurement Decisions**

1. The Procurement Plan shall set forth those contracts which shall be subject to the Administrator’s Prior Review. All other contracts shall be subject to Post Review by the Administrator.

Section IV. **Withdrawal of Grant Proceeds**

1. The Recipient may withdraw the proceeds of the Grant in accordance with the provisions of: (a) Article III of the Standard Conditions; (b) this Section; and (c) such additional instructions as the Administrator may 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 Administrator 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 Grant (“Category”), the allocations of the amounts of the Grant to each Category, and the percentage of expenditures to be financed for Eligible Expenditures in each Category:
Amount of the Percentage of Expenditures to be Grant Financed
Category Allocated (inclusive of Taxes)
(expressed in USD)

<table>
<thead>
<tr>
<th>Category</th>
<th>Amount of the Grant Allocated (expressed in USD)</th>
<th>Percentage of Expenditures to be Financed (inclusive of Taxes)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Goods, non-consulting services, consultants’ services, Incremental</td>
<td>60,000,000</td>
<td>100%</td>
</tr>
<tr>
<td>Operating Costs and Training and Workshops under the Project</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>TOTAL AMOUNT</strong></td>
<td>60,000,000</td>
<td></td>
</tr>
</tbody>
</table>

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.

2. The Closing Date referred to in Section 3.06 (c) of the Standard Conditions is December 31, 2014.
ANNEX TO SCHEDULE 2

Additional Provisions for National Competitive Bidding

National Competitive Bidding shall be carried out in accordance with the Recipient’s Procurement Law published in Official Gazette No. 865 of October 25, 2005, as amended on January 19, 2009, and the following additional procedures:

(i) Standard bidding documents approved by the Association will be used.

(ii) Invitations to bid will be advertised in at least one (1) widely circulated national daily newspaper and bidding documents will be made available to prospective bidders, at least twenty-eight (28) days prior to the deadline for the submission of bids.

(iii) Bids will not be invited on the basis of percentage premium or discount over the estimated cost.

(iv) Bidding documents will be made available, by mail or in person, to all who are willing to pay the required fee.

(v) Foreign bidders will not be precluded from bidding.

(vi) Qualification criteria (in case pre-qualifications were not carried out) will be stated on the bidding documents, and if a registration process is required, a foreign firm determined to be the lowest evaluated bidder will 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 will provide bid security or a bid security declaration form as indicated in the bidding documents. A bidder’s bid security or the declaration form will apply only to a specific bid.

(ix) Bids will 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 will be made in strict adherence to the criteria disclosed in the bidding documents, in a format, and within the specified period, agreed with the Administrator.
(xi) Bids will not be rejected merely on the basis of a comparison with an official estimate without the prior concurrence of the Administrator.

(xii) Split award or lottery in award of contracts will not be carried out. When two (2) or more bidders quote the same price, an investigation will be made to determine any evidence of collusion, following which: (A) if collusion is determined, the parties involved will be disqualified and the award will then be made to the next lowest evaluated and qualified bidder; and (B) if no evidence of collusion can be confirmed, then fresh bids will be invited after receiving the concurrence of the Administrator.

(xiii) Contracts will 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 will not be allowed without the prior concurrence of the Administrator: (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 in case of prior review.

(xv) Negotiations will not be allowed with the lowest evaluated or any other bidders.

(xvi) Re-bidding will not be carried out without the Administrator’s prior concurrence in case of prior review.

(xvii) All contractors or suppliers will provide performance security as indicated in the contract documents. A contractor’s or a supplier’s performance security will apply to a specific contract under which it was furnished.
APPENDIX

Definitions

1. "ACSI" means the Afghanistan Civil Service Institute established pursuant to Civil Service Law dated September 6, 2005, operating within the Afghanistan Independent Reform and Civil Service Commission.

2. "AFMIS" means the Afghanistan Financial Management Information System, administered by the Treasury Department.

3. "ARDs" means the Afghanistan Reconstruction Development Services, a unit within the Recipient's Ministry of Economy, responsible for procurement facilitation and oversight.

4. "CAO" means the Control and Audit Office, the supreme audit institution of the Recipient responsible for the external audit of public finances.

5. "Financial Management Manual" means the manual to be prepared by MOF for approval by the Administrator pursuant to the provisions of Section I.B (a) of Schedule 2 of this Agreement, setting out: i) roles and responsibilities for the Project's financial management 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.

6. "HRMD" means the MOF's Human Resource Management Department.

7. "Incremental Operating Costs" means Project-related incremental 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.

8. "IAD" means MOF's Internal Audit Department, responsible for ensuring a systematic, disciplined approach to evaluating and improving the effectiveness of risk management, control and governance processes.

9. "MOF" means the Recipient's Ministry of Finance and/or any successor thereto.
10. "National Steering Committee" and "NSC" mean a committee of key stakeholders from the public and private sector, including higher education representatives, to coordinate, supervise and direct reforms aimed at establishing and regulating accounting and auditing, building capacity and infrastructure to develop capacity and regulate the accounting and auditing practices.

11. "PAC" means the Public Accounts Committee to be established within the legislative branch of government to review CAO's and the annual financial statements presented by MOF.

12. "PCBOs" means Procurement Capacity Building Officers to be trained with a view to implementing training programs of procurement officers in line ministries.

13. "PPU" means MOF's Procurement Policy Unit responsible for developing policy and guidance on public procurement and monitoring application of the Recipient's procurement laws.

14. "PFMRP" means the Recipient's Public Financial Management Reform Project financed by the Administrator pursuant to a Financing Agreement entered into between the Administrator and the Recipient dated July 17, 2007 (IDA H298-AF).

15. "RIMU" means MOF's Reform Implementation Management Unit responsible for implementing, monitoring and evaluating reforms and technical assistance.

16. "SAI of India" means the Supreme Audit Institute of India.

17. "Training" means the reasonable costs of training, workshops and conferences conducted in the territory of the Recipient or, subject to the prior approval by the Administrator, attended abroad by representatives of the Recipient and nongovernmental organizations in connection with the Project, including the purchase and publication of materials, rental of facilities, course fees and travel and subsistence of trainees.

18. "Treasury Department" means the treasury department of the MOF.