TECHNICAL ANNEX

FOR A PROPOSED GRANT
OF SDR 13.5 MILLION
(US$ 20.4 MILLION EQUIVALENT)
TO THE
ISLAMIC REPUBLIC OF AFGHANISTAN
FOR A
CIVIL SERVICE REFORM PROJECT

April 30, 2007

Poverty Reduction and Economic Management Unit
South Asia Region

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CURRENCY EQUIVALENT
April 23, 2007
Currency Unit = Afghani
US$1.00 = AFN 50.4

GOVERNMENT FISCAL YEAR
March 21-March 20

ABBREVIATIONS AND ACRONYMS

<table>
<thead>
<tr>
<th>AB</th>
<th>Appointment Board</th>
<th>IMF</th>
<th>International Monetary Fund</th>
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<tr>
<td>ADB</td>
<td>Asian Development Bank</td>
<td>ISN</td>
<td>Interim Strategy Note</td>
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<tr>
<td>AEP</td>
<td>Afghan Expatriate Program</td>
<td>IT</td>
<td>Information Technology</td>
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<tr>
<td>AMFIS</td>
<td>Afghanistan Financial Management Information System</td>
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<td>ARDS</td>
<td>Afghanistan Reconstruction Development Services</td>
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<td>ARS</td>
<td>Administrative Reform Secretariat</td>
<td>M&amp;E</td>
<td>Monitoring and Evaluation</td>
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<td>ARTF</td>
<td>Afghanistan Reconstruction Trust Fund</td>
<td>MCP</td>
<td>Management Capacity Program</td>
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<tr>
<td>CAO</td>
<td>Control and Audit Office</td>
<td>MoE</td>
<td>Ministry of Economy</td>
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<tr>
<td>CSR</td>
<td>Civil Service Reform</td>
<td>MoF</td>
<td>Ministry of Finance</td>
</tr>
<tr>
<td>CQ</td>
<td>Consultant Qualifications</td>
<td>NCB</td>
<td>National Competitive Bidding</td>
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<tr>
<td>CQS</td>
<td>Consultant Qualifications Selection</td>
<td>NDF</td>
<td>National Development Framework</td>
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<tr>
<td>CSC</td>
<td>Civil Service Commission</td>
<td>OECD</td>
<td>Organization for Economic Co-operation</td>
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<td>CSL</td>
<td>Civil Service Law</td>
<td>PACB</td>
<td>Public Administration Capacity Building Project</td>
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<td>CSMD</td>
<td>Civil Service Management Department</td>
<td>PAR</td>
<td>Public Administration Reform</td>
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<tr>
<td>DA</td>
<td>Designated Account</td>
<td>PCD</td>
<td>Program Coordination Department</td>
</tr>
<tr>
<td>DAB</td>
<td>Da Afghanistan Bank</td>
<td>P&amp;G</td>
<td>Pay and Grading</td>
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<td>DAC</td>
<td>Development Assistance Committee</td>
<td>PEFA</td>
<td>Public Expenditure &amp; Financial Accountability</td>
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<td>DIID</td>
<td>Department for International Development</td>
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<td>EC</td>
<td>European Commission</td>
<td>PFM</td>
<td>Public Finance Management</td>
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<tr>
<td>EOI</td>
<td>Expression of Interest</td>
<td>PRR</td>
<td>Priority Reform and Restructuring</td>
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<tr>
<td>EPAP I</td>
<td>Emergency Public Administration Project I</td>
<td></td>
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<tr>
<td>EPAP II</td>
<td>Emergency Public Administration Project II</td>
<td></td>
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<tr>
<td>FM</td>
<td>Financial Management</td>
<td>QCBS</td>
<td>Quality &amp; Cost Based Selection</td>
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<td>FMA</td>
<td>Financial Management Adviser</td>
<td>QBS</td>
<td>Quality Based Selection</td>
</tr>
<tr>
<td>FMR</td>
<td>Financial Monitoring Report</td>
<td>RIMU</td>
<td>Reform Implementation Management Unit</td>
</tr>
<tr>
<td>GDP</td>
<td>Gross Domestic Product</td>
<td>RFP</td>
<td>Request for Proposals</td>
</tr>
<tr>
<td>GoA</td>
<td>Government of Afghanistan</td>
<td>SAF</td>
<td>Securing Afghanistan’s Future</td>
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<tr>
<td>HR</td>
<td>Human Resources</td>
<td>SBD</td>
<td>Standard Bidding Documents</td>
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<td>HRM</td>
<td>Human Resources Management</td>
<td>SBD</td>
<td>Special Disbursement Unit</td>
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<td>HRPD</td>
<td>Human Resource Policy Department</td>
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<tr>
<td>I-ANDS</td>
<td>Interim Afghanistan National Development Strategy</td>
<td></td>
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<tr>
<td>IARCSC</td>
<td>Independent Administrative Reform and Civil Service Commission</td>
<td></td>
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<tr>
<td>IBRD</td>
<td>International Bank for Reconstruction and Development</td>
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<tr>
<td>IDA</td>
<td>International Development Association</td>
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I. COUNTRY BACKGROUND AND STRATEGY

A. Country Background

1. Building an effective state - that can provide security and services to the people, while protecting their rights - has been at the heart of the reconstruction effort in Afghanistan. At the end of 2001, after nearly a quarter century of wars and civil strife the political system had largely collapsed. While many of the formal structures and some of the traditional practices of public administration remained in place, they lacked the human, financial and physical resources to do their job, particularly in a modern context. The new government faced enormous challenges in restoring security, taking charge of running the country, building consensus across various political factions and rebuilding the very limited capacity of the state. In this context, remarkable progress has been made in restoring institutions of governance and laying the basis for a strong economic recovery in order to improve livelihoods.

2. On the political front, achievements have been significant: A new Constitution was adopted in January 2004 and Afghans actively participated in elections for their first democratically elected President (former Chairman of the Afghan Transitional Administration, Hamid Karzai) in December 2004. Elections for the Wolesi Jirga (lower house of the National Assembly) and for provincial councils took place in September 2005. Female turnout in both elections was around 40 percent of the total electorate and more than a quarter of Wolesi Jirga members are female. The inauguration of the National Assembly in December 2005 marked the formal conclusion of the Bonn political transition process.

3. Afghanistan’s economy has recovered strongly from a state of collapse at the end of the Taliban rule. The real value of non-opium Gross Domestic Product (GDP) increased by 29 percent in 2002/03, 16 percent in 2003/04, 8 percent in 2004/05, and 14 percent in 2005/06. This solid performance was supported by the government’s sound macroeconomic policies. Afghanistan has successfully completed all quarterly reviews under the IMF Staff-Monitored Program and the first review of the Poverty Reduction and Growth Facility (PRGF) program. Monetary policy has been restrained, supported by the adherence to strong fiscal discipline and a no-overdraft rule that prohibits Central Bank financing of the deficit. Inflation is decelerating with year-on-year inflation declining to 5.2 percent in September 2006 (compared to 16 percent in 2004/05).

4. Despite the solid economic recovery and sound macroeconomic policies, progress in development remains patchy across the country. Continued security problems are encountered almost daily by the Afghan population and by aid workers. Sustaining gains in development outcomes, particularly in health and education, is challenging in this regard given the inability of government and donor agencies to access various communities. The opium economy, accounting for around a quarter of total (drug-inclusive) GDP, remains Afghanistan’s leading economic activity, and a key contributor to insecurity, undermining the institution-building process, and distorting economic activity. As more donor resources come on to the core budget - a key objective of Government - there are pressures on government agencies to quickly deliver results on the ground, requiring significant increases in management and implementation capacity. In the context of enormous needs, weak capacity and increasing insecurity in many areas, a sense of frustration is emerging at the ability of the government to make public institutions relevant to the lives of ordinary Afghans.
B. Government Public Administration Reform Framework

5. The Government’s Public Administration Reform (PAR) Framework, as reflected in Afghanistan’s Interim National Development Strategy (I-ANDS) has as its goal the establishment of strong state institutions at central and subnational levels capable of achieving measurable improvements in the delivery of services and the protection of rights of all Afghans. The PAR Framework flows from the I-ANDS which envisions a well functioning and affordable administration that is small and focused on core functions. Its elements can be summarized as:

- Establishing a well-performing, merit-based civil service;
- Strengthening the structure of Government: line ministries and sub-national administration; and
- Building institutions of public accountability.

6. PAR is necessarily a long term agenda, requiring sustained changes in institutional and individual norms and behavior. Nevertheless, the Government has responsibility to achieve the benchmarks for PAR set under the Afghanistan Compact (Box 1) and demonstrate specific results by the end of 2010. The PAR Framework is intended to guide and coordinate the Government and development partner interventions during the rest of the Compact period.

Box 1: Afghanistan Compact Benchmarks for Public Administration Reform

- 2.1.1 By 1389 (end-2010): Government machinery (including the number of ministries) will be restructured and rationalized to ensure a fiscally sustainable public administration; the civil service commission will be strengthened; and civil service functions will be reformed to reflect core functions and responsibilities.
- 2.1.2 A clear and transparent national appointments mechanism will be established within 6 months, applied within 12 months, and fully implemented within 24 months for all senior level appointments to the central government and the judiciary, as well as for provincial governors, chiefs of police, district administrators and provincial heads of security.
- 2.1.3 By end-2006, a review of the number of administrative units and their boundaries will be undertaken with the aim of contributing to fiscal sustainability.
- 2.1.4 By end-2006, in furtherance of the work of the civil service commission, merit-based appointments, vetting procedures and performance-based reviews will be undertaken for civil service positions at all levels of government, including central government, the judiciary and police, and requisite support will be provided to build the capacity of the civil service to function effectively. Annual performance-based reviews will be undertaken for all senior staff (Grade 2 and above) starting by end-2007.

7. To date PAR efforts have mainly focused on establishing a well-performing, merit-based civil service, under the leadership of the Independent Administrative Reform and Civil Service Commission (IARCSC). Building a capable civil service will continue to be the major thrust of the PAR Framework; but good service delivery requires more than competent civil servants. The structures of many Government organizations that employ these officials have become informal and need updating to be able to respond to the functions that these organizations are meant to deliver. Meanwhile, interactions between central ministries and sub-national administration are sometimes weak, thus raising the need to examine if

---

1The Government completed its *Interim Afghanistan National Development Strategy* (I-ANDS) and presented it, together with the *Afghanistan Compact* to the international community in Berlin in January 2006.
more functions can be delegated to provincial and district governments. Thus the second element of the Framework will be to strengthen line ministries and sub-national administration.

8. Taken together, these two elements will produce an effective civil service working within an efficient Government structure, but is still missing a critical piece: the Government's accountability to its citizens. Some of the checks and balances on government will come from the National Assembly and from the judiciary. The public and media will also have a role in monitoring Government's performance and holding it accountable. Thus, building institutions of public accountability is the third element of the PAR Framework.

C. Achievements in Civil Service Management and Remaining Agenda for Reform.

9. Continuing reforms and capacity building within the civil service is at the core of the Government's Public Administration Reform Framework. The Government has made considerable progress over the last 5 years in putting in place the basis for a modern civil service in Afghanistan (Table 1 below). This has included: (i) the establishment of the IARCSC through the IARCSC Decree and the operationalization of its departments; (ii) approval of a new Civil Service Law; (iii) some progress in functional audits leading to proposals for new structures of key ministries and agencies at the central level – through the Priority Reform and Restructuring; (iv) initial policy work on a new pay and grade structure; (v) progress on the development of a new methodology and framework for reform and restructuring; and, (vi) progress in merit based recruitment for both senior and junior level civil servants.

10. Critical to the government's early reform strategy was the Priority Reform and Restructuring (PRR) program, begun in 2003. PRR enabled the staff of ministries/agencies, or those in selected departments undertaking particular key functions, to be placed on an interim additional allowance for a fixed term in return for undertaking a reform and restructuring process. The initial objective of the PRR was to restore administrative capacity in key departments based on the combination of (i) careful restructuring of such units including revisions of organizational structure and job descriptions (ii) selection of key staff through an open and competitive process, and (iii) pay increases through an interim allowance system so as to attract qualified staff into government. PRR was considered an interim measure to prepare the way for the introduction of a new grade and pay structure for the civil service.
11. In order to build upon this experience and strengthen the performance of the civil service, the Government recognizes that it will have to address a number of organizational and systemic capacity constraints related to civil service management.

12. **Incomplete Reorganization of Line Ministries.** Progress has been made in many ministries, under PRR, in putting in place a basic revised structure for their organization and undertaking some merit based recruitment. This work, however, is incomplete. As a result of a lack of time, insufficient internal capacity and technical assistance, many PRR proposals lacked proper strategic analysis of missions and functions particularly in relation to their overall service delivery objectives. Although a “whole of ministry” approach was adopted around November 2004, restructuring of functions did not allow for all departments to work as an integrated whole, especially those located at provincial and district levels. Inadequate attention to the establishment of HR departments undermined effective recruitment since staffing plans that specified numbers, job descriptions, grade-levels and qualifications of staff needed in new structures, were not sufficiently finalized. Proposals did not specify any monitorable indicators – either of process or outcomes, and once proposals were prepared most ministries lacked the capability or resources to actually implement reforms.

13. The Government is now revising its administrative reform framework to take account of the lessons learned under PRR shifting the focus away from previous asymmetric and department-centered reforms to more comprehensive reforms involving entire ministries (centre to sub-national) with a stronger focus on monitoring service delivery results.
14. Completing the Regulatory Framework for Sound Civil Service Management. The Civil Service Law, approved by Cabinet in August 2005, outlines the structure and functions of the IARCSC and provides the basic law covering the organization of the Afghan civil service. It also lays the foundation for a merit-based and professionally managed civil service. Within this legal structure, technical assistance funded by the ADB and from IDA’s EPAP II supported the drafting of priority regulations including Appointments and Appeals Regulations, Performance Appraisal and Pay & Grading Regulations. Remaining regulations now need to be drafted including on job classification, promotions, redeployment and retrenchment, attendance, contract employees, pensions, and termination, to complete the regulatory environment for the management of civil servants. Ultimately all of these regulations and the procedures for applying them need to be collated in an integrated HR operations manual, and HR staff in each agency of the public sector needs to be trained to apply this “manual”.

15. Inadequate Human Resource Management Capacity in Line Ministries. The implementation of key HR policies and procedures is dependent on the effective dissemination of these policies to qualified staff located in reasonably functioning HR units within line ministries. HR units in Ministries and government agencies have been primarily concerned with personnel administration and record keeping. The Civil Service Law now requires Ministries, agencies, provincial and district offices to assume the full range of human resources functions, including the collection of critical employee information. Assistance under EPAP II set out a theoretical organizational structure for HR units within line ministries and a training schedule in all aspects of HR policies, procedure and regulations for the estimated 1025 HR staff plus approximately 1000 line managers across the civil service.

16. Building Credibility of the Merit Based Principle in Appointments. Merit based appointments, along with a fair and reliable arbitration mechanism, is the cornerstone of the government’s civil service reform strategy. In Afghanistan, the Appointments Board (AB) is responsible for ensuring that appointments are made according to open, merit-based and competitive principles, as set out in the Civil Service Law and for making senior appointments (Grade Two and above). The AB has made significant progress towards establishing a merit based appointments system. To a large extent, there is fair and open competition with appointments made on merit. Nevertheless, the gains made are fragile and there is a need to address a widely held perception that the process for senior appointments is unfair or even corrupt. There is also a need to shift focus from quantitative targets to the quality and transparency of appointments. Under EPAP II a plan for improving the qualitative and quantitative performance of the AB was prepared. In addition, as part of IDA’s work program on anti-corruption, a vulnerability assessment was conducted of merit based appointments. As a result, the AB has adopted an action plan to improve the quality and transparency of the various stages of the appointments process as well as address weaknesses and vulnerabilities.

17. Poor Pay and Incentives for Recruitment, Retention Performance of Staff. Implementation of a new pay and grade policy to replace the ad hoc utilization of interim additional allowances under PRR is crucial to the Government’s efforts to attract and retain qualified staff and to reduce incentives for corruption within the civil service. With support funded under EPAP II, an 8-grade structure has been designed. New pay scales attached to these grades (with a minimum salary of $80 and maximum of $800) are being discussed by Cabinet, along with a sequenced implementation plan involving regrading senior positions (Grades 1 and 2) first, followed by junior grades on a ministry-by-ministry basis. Complementary policies and processes for severance, early retirement, and pensions linked to the P&G policy would be developed. Suitable good governance processes and safeguards would be built into the reform for the implementation of the new P&G system.

18. Monitoring and Oversight. The capacity of the IARCSC to manage and facilitate the implementation of critical civil service reforms has steadily increased since its establishment in June 2003, but remains weak. In particular its capacity to provide strategic oversight, coordinate and monitor
the civil service reform program and to implement corrective measures in a timely manner needs to be improved. Broader government oversight also suffered when the Ministerial Advisory Committee (MAC) was disbanded in August 2005. The Government has adopted a set of monitorable indicators for the civil service reform effort, in line with the I-ANDS Benchmarks, and the IARCSC is strengthening its capacity to undertake monitoring and communicating against these benchmarks. In addition, a recently established PAR Steering Committee will provide greater oversight of the various PAR initiatives.

D. Government Strategy

19. Building on experiences over the last 5 years, and taking into account the remaining reform agenda, the IARCSC has now prepared a costed Civil Service Implementation Plan – including actions required and related timeline - for achieving the relevant PAR benchmarks of the Afghanistan Compact over the remaining timeframe (2010).

20. The cost of the Implementation Plan is based upon those elements in the PAR Framework that are well advanced in preparation – particularly in the area of establishing a well performing merit based civil service and strengthening the structures of line ministries. As other elements of the PAR Framework are developed the overall reform implementation plan and costing will be updated. The investments required to implement this plan have been costed at approximately $80.7 million over three years. Together with the set of actionable and monitorable indicators that have been agreed with Government, this Plan constitutes a realistic path for bringing about some changes in civil service management and performance, and tracking progress along the way.

21. Donors are now coming to agreement to align their support to civil service reform, to the Government’s program as reflected in the PAR framework, the costed Implementation Plan, and the set of monitorable indicators. Some donors have expressed a preference for channeling support to the reform program through the World Bank-administered Afghanistan Reconstruction Trust Fund (ARTF).

II. IDA’S RESPONSE

A. Bank’s Interim Strategy

22. The proposed project directly underpins the objectives of the World Bank’s updated Interim Strategy Note (ISN) 2006 for Afghanistan. Enhanced capacity and accountability within government are critical to achieving development outcomes. “Developing the capacity of the state” is one of the two broad overlapping objectives set out in the ISN, with specific attention to developing human (education, civil service etc) and financial capacity. Most specifically, under the broad state building theme, the Bank’s ISN focuses attention on achieving results under three strategic pillars one of which is to: Build the capacity of the state and its accountability to its citizens to ensure the provision of services that are affordable, accessible and of adequate quality.

23. This project makes a specific contribution to the broader state building agenda which is at the heart of the ISN, through continuing systemic administrative reforms within the civil service and strengthening the human resource management capacity of Government.

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2 This amount excludes the ARTF Management Capacity Program already approved.
B. IDA’s Previous Involvement in Public Administration Reform

24. IDA has supported a series of projects (Table 2) aiming to build capacity within government in key common functions, namely financial management, procurement, audit and human resource management. These areas were considered essential to demonstrate government capacity to manage donor resources effectively for reconstruction purposes.

<table>
<thead>
<tr>
<th>Operation</th>
<th>Amount</th>
<th>Date</th>
<th>Focus</th>
<th>Scope of Activities</th>
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<tbody>
<tr>
<td>EPAP I</td>
<td>$10 m</td>
<td>April 2002</td>
<td>Treasury, procurement,</td>
<td>Primarily operational support through large TA contracts</td>
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<td></td>
<td></td>
<td></td>
<td>, external audit –</td>
<td></td>
</tr>
<tr>
<td>EPAP II</td>
<td>$8.4 m</td>
<td>June 2003</td>
<td>Treasury, procurement, civil</td>
<td>Continued operational support. Early support for PRR and civil service mgt.</td>
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<tr>
<td></td>
<td></td>
<td></td>
<td>service management</td>
<td></td>
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<tr>
<td></td>
<td></td>
<td></td>
<td>systems, procurement, internal and external audit</td>
<td></td>
</tr>
<tr>
<td>ARTF</td>
<td>$13 m</td>
<td>Dec. 2004</td>
<td>Afghan Advisers/Line managers</td>
<td>Short term capacity injection in govt.</td>
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<tr>
<td>AEP/LEP</td>
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<tr>
<td>PSIB I and II</td>
<td>$80 m each</td>
<td>July 2004, Dec 2005,</td>
<td>Rolling support for Govt development strategy especially in PAR and fiscal management.</td>
<td>Budget support aligned to agreed policy triggers</td>
</tr>
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</table>

25. Early assistance focused on the provision of emergency capacity in critical fiduciary areas. Because of the emergency nature of this assistance, broader institutional development and capacity building activities did not proceed as quickly as expectations grew in this regard.

26. The Second Emergency Public Administration Project (EPAP II) also provided funds for the government’s emerging Public Administration Reform program. The purpose was to lay the basis for broad based civil service reform directed at increasing the efficiency with which services are delivered to the public. These funds supported activities to strengthen the core functions of the IARCSC to support the Priority Reform and Restructuring process (PRR) and other critical activities in the PAR program, including laying out the legislative agenda and strengthening merit based appointments procedures.

27. The mid term reviews of EPAP II and the ICR of EPAP I have provided a number of lessons that have been built into the proposed grant and complementary analytical work.

- For an emergency operation to be effective in a severely weakened post-conflict institutional environment, intense Bank supervision is essential;
- The expectations for capacity building and institutional strengthening need to be aligned with the availability and skills levels of government counterparts. All assumptions regarding the availability and capability of counterpart staff need to be documented and validated with great care and revisited over time;

3 EPAP – Emergency Public Administration Project; PACBP – Public Administration Capacity Building Project; PSIB – Programmatic Support for Institution Building; AEP/LEP- Afghan Expatriate Program/Lateral Entry Program
• The government will need to engage external advisers in key fiduciary areas for as long as it takes to build sufficient capacity in core public administration areas even if those advisers become increasingly transitional;

• Complementary regulatory, organizational and systems reforms (human resource management, financial management procurement etc), in addition to individual capacity building, are needed to progressively strengthen local capability over time;

• Implementation of sensitive and difficult institutional reforms requires high level leadership and commitment within line ministries – with central facilitation and oversight.

C. Rationale for IDA’s Involvement in Public Administration

28. Public administration reform is essential to rebuilding the state, institutionalizing improved governance and combating, what is perceived to be, a growing corruption problem. Strengthening administrative capacity within government directly underpins the government’s I-ANDS, promotes use of government systems over time and more specifically supports effective management of IDA’s portfolio. Without a medium term strategy to build core capacities in line ministries, Afghanistan is likely to remain dependent on international technical assistance and/or donor funds flowing outside the government’s core budget for some time.

29. The proposed project is one element of a wider public administration reform agenda that has been developed by the government, with IDA support, to address these medium term issues.

• IDA’s analytical work is assisting the Government to define priorities and programs in Public Administration Reform. This will include work on: the evolution of subnational governance over time, and strengthening institutions of accountability.

• As part of defining work programs under this broader PAR framework, IDA has assisted the government in defining a realistic implementation plan for undertaking civil service reforms in line with compact benchmarks.

• IDA, with other donor support, is assisting the government develop its anticorruption strategy and identifying opportunities to limit the vulnerability to corruption, including in public administration reform;

• The IDA Programmatic Support for Institution Building (Box 2) series of Development Policy Loans supports the achievement of critical reforms in public financial management and public administration reform;

• A proposed IDA Public Financial Management Reform project is being agreed to support the strengthening of financial management, procurement and audit practices throughout government;

• The ARTF financed Management Capacity Program is supporting the interim buying-in of Afghan consultants into civil service positions to manage core common function departments while broader capacity building efforts take hold.
Box 2: Linkage with PSIB Series

Institution-building is at the core of the objectives of the PSIBs and significant achievements have been made under PSIB I and II, which are further advanced in the proposed PSIB III. The program supports improvements in the public resource management legal framework; specifically civil service, procurement and financial management laws were enacted. The PSIB series specifically supported the gazetting of the Civil Service Law, a Code of Conduct for government beneficiaries and approval of the PRR decree. Beyond the change in the regulatory framework, the program supported reforms in organizational restructuring, merit based appointments, budget management processes and budget execution.

A prior action for PSIB III is the adoption by the PAR Steering Committee of a costed implementation plan for civil service reforms, along with an actionable monitoring framework. The plan reflects priorities within the Government’s PAR Framework and five pillar strategy as prepared in November 2005. In addition, the adoption of an Action Plan to approve the performance of the Civil Service Appointments Board is a further PSIBIII trigger.

The CSR project will directly support the enhancement of these institutional reforms by taking forward the work on the regulatory framework, especially in pay and grading, the application of merit based recruitment principles through the Appointment Boards Action plan, and the monitoring and evaluation required to ensure results are achieved from donor investments in the Government’s Implementation Plan.

30. The IDA Civil Service Reform project complements the above activities by strengthening human resource management practices throughout government – through addressing the regulatory framework, organizational basis and capacity building needs surrounding better management of personnel.

III. THE PROPOSED PROJECT

A. Project Objective

31. The proposed IDA CSR project supports the implementation of critical interventions in the Government’s PAR Framework and Civil Service Implementation Plan. The project builds on the lessons learned from earlier involvement in public administration reform in Afghanistan and elsewhere. Specifically, the project recognizes that sustaining reforms in public administration, and particularly as they relate to public sector employment practices, takes time. Reforms need to be flexible to wider decision-making on the role of the state and attitudes concerning the nature of public service.

32. With this focus, the main development objective for this project is that across the time frame of the project, (by 2011), a significant proportion of service delivery ministries will be performing their functions to an acceptable level and can be held accountable for the use of public resources. This will have resulted from core ministries having been reorganized according to functions and civil servants being managed according to clear rules and procedures.

33. Indicators of the progress in meeting the development objective would include, among others,

- The number of service delivery ministries that are reporting on progress toward achieving their sectoral objectives, and the use of resources for those purposes.
- The proportion of civil service appointments based on merit, and the rigor of the merit-based appointments process.
- The consistency of application of the Civil Service Law and regulations to the management of civil servants.
• The extent to which IARCSC is coordinating donor support for civil service reform, and monitoring and reporting of the approved civil service reform implementation plan

34. The proposed IDA project has been prepared in line with the Government’s implementation plan and complementary to expected support from other donors. Some of the activities within the Government’s implementation plan, and within the proposed IDA project, could be scaled up as further funding becomes available from the ARTF or other donors.

B. Project Description

35. The project is comprised of three components designed to strengthen civil service organization and management, including: organizational reforms in line ministries; merit based human resource management policies and practices; and PAR Oversight and Monitoring.

36. This is primarily a technical assistance project. Attracting quality technical assistance to Afghanistan has been a costly and mixed experience. There are several lessons learned for going forward.

- Combining international specialists with national junior specialists who can conduct day to day liaison with counterpart civil servants (and reduce requirement for long term advisers);
- Physically locating all specialists (international and national) with civil servant counterparts;
- Utilizing the Program Coordination Department to ensure coordination of technical assistance activities under the project;
- Ensuring dedicated counterparts are identified – even if recruited in the short term through the Management Capacity Program;
- Ensuring TOR and work plans for technical advisers – both national and international - emphasize the importance of capacity transfer;
- High-level technical oversight and monitoring of TA outputs, including capacity transfer, to be reviewed quarterly by the PAR Steering Committee

1. COMPONENT 1. ORGANIZATIONAL REFORMS WITHIN CORE MINISTRIES. ($8.4 MILLION)

37. This component will provide support to a number of core ministries to improve service delivery through restructuring organization to meet functions; directed by a ministry-determined process.

38. This will support the Compact benchmark 2.1.1 By end-2010 the Government machinery will be restructured and rationalized to ensure a fiscally sustainable public administration; ..... civil service functions will be reformed to reflect core functions and responsibilities.

39. Activities taken up under this component will result in a number of core ministries being able to perform their sector specific functions more effectively, and with greater transparency for the use of public resources. More specifically assistance will be provided to the following two subcomponents.

(a) Line Ministry Reorganization. Building on the experiences under PRR, the project will provide technical assistance, training and limited equipment support to core ministries as they take charge of their own reorganization efforts. At the end of the project period, line ministries, whose reorganization has been supported by this Component, will be functioning systematically according to their own work programs, instead of undertaking ad hoc activities responding to donor demands. They will be able to justify to Cabinet and Parliament the use of public and donor resources. Some of the steps towards this end will be:
• Preparing the ministry’s three year strategic program including articulating the specific sectoral deliverables and means of monitoring;
• Consolidating results of PRR and completing the restructuring of non PRR’d departments including at subnational levels;
• Recruiting staff corresponding to the new structure and applying enhanced HR policies and procedures to the ministry as a whole – including new grade structures;
• Identifying funding gaps in the ministry’s strategic plan and coordinating donor support for those;
• Producing an annual performance report for Cabinet and Parliament that specifies progress in achieving results.

40. While ministry restructuring will address core technical service functions, establishing common functions such as finance, administration, and human resource management, is equally important. Each ministry may set up a Reform Implementation Management Unit (RIMU) to lead its restructuring.

41. Determination of which ministries are supported under the project will be finalized in consultation with the Government, (through the PAR Steering Committee) according to agreed criteria. These criteria are likely to include: relative importance of the ministry’s work in terms of service delivery and national interest; leverage over financial and human resources; commitment to undertaking a real reform demonstrated by, progress already made under PRR; existence of a clear vision; some monitoring of performance/results; and, intent to invest (with donor support) in a major reform of its technical or service delivery activities. Under this grant, 4-5 ministries should be able to be supported. Support for other ministries would be provided by other donors and/or ARTF in line with guidance provided by the IARCSC. (Estimated Cost $7.1m)

(b) IARCSC Facilitation and Coordination. The component will support technical assistance and capacity building for the IARCSC to facilitate reforms across line ministries, ensuring consistency in approach. This will involve developing common re-organization templates and best practice guidance, and coordinating the efforts in selected ministries. It is expected that the IARCSC would enter into an agreement with the relevant ministry which would specify the resources to be provided and the results the ministry expected to achieve with those resources. The emphasis will be on the IARCSC facilitation and coordination of reforms, not implementing the reforms themselves. The PAR Implementation Department of the IARCSC will be supported with technical assistance to guide this program to sufficient standards. (Estimated cost $1.3m)

ii. COMPONENT 2. IMPLEMENTATION OF MERIT BASED HUMAN RESOURCE MANAGEMENT REFORMS IN GOVERNMENT ($8.7 MILLION)

42. This component will support the establishment and implementation across government of modern merit based HR policies and practices.

43. It will specifically support achievement of Compact Benchmark 2.1.4: By end-2010, in furtherance of the work of the civil service commission, merit-based appointments, vetting procedures and performance-based reviews will be undertaken for civil service positions at all levels of government, including central government ... Annual performance-based reviews will be undertaken for all senior staff (grade 2 and above) starting by end-2007.

44. As a result of activities supported under this component, a critical mass of the civil service will be managed, predictably and consistently, according to updated civil service management rules and procedures. This will have resulted from implementing a modern grading structure and pay levels; merit-
Based appointments and vetting procedures undertaken across the civil service; annual performance-based reviews undertaken for all senior staff; and training to implement the policies throughout government.

45. More specifically assistance will be provided through three sub components:

(a) Establishing and extending HR policies and practices to line ministries. This will involve preparation of remaining regulations and development of procedures under the civil service law. Technical assistance will be provided to line ministries in the establishment of HR departments, including their functions, size, job descriptions and competencies; and in the application of new HR policies and procedures. As this is done, an extensive program of training and mentoring will be provided for the estimated 2000 HR staff and line managers in revised human resource management procedures. This program of training may be conducted in conjunction with the Civil Service Training Institute with a view to making HR Management a core module of civil service training. Support will also be provided for finalization of a pension reform policy. Assistance will be provided to the Human Resources Policy Department of the IARCSC to carry out this program to sufficient standards. (Estimated Cost $3.5m).

(b) Strengthening the Appointments Procedures, according to the agreed action plan, so that merit based recruitment for senior positions proceeds according to publicly agreed standards and targets and so that monitoring of appointments at junior levels is improved; and strengthen the Appeals Board to ensure effective conduct of appeals, including those likely to arise from the pay and grading reform. (Estimated Cost $1.4m)

(c) Implementing the government's pay and grade reform in line with fiscal parameters and ministry implementation readiness. This will involve: undertaking a sustained communications plan (funded under component 3 of this project) in order to build understanding of the new reform; re-grading senior management positions onto the new 8 grade structure; developing procedures and guidance for regrading and reassessing level 3 and below positions, and supporting this in line ministries; and oversight, quality control and monitoring of process. (Estimated Cost $3.8m)

iii. COMPONENT 3. OVERSIGHT AND MONITORING OF THE PAR PROGRAM ($3.3 MILLION).

46. This component of the project will support the IARCSC in carrying out its stewardship role under the Civil Service Law to “lead, regulate, formulate and implement structure policies of the public administration system” (Article 5).

47. As a result of support provided under this project the Government should have in place a fully funded, regularly monitored and well coordinated and communicated Civil Service Reform program. Assistance under the project will support two related sub components.

(a) Program Coordination and Management. The PAR framework and Civil Service Implementation Plan provide an opportunity for greater coordination of donor support. The Program Coordination Department (PCD) of the IARCSC is responsible for coordinating donor responses in support of the Government’s civil service reform program. Assistance will be provided to enable the PCD to take charge of coordinating donor investments around this agreed framework and implementation plan. The PCD will be responsible for translating the priority needs of Government into investment programs that could be submitted to ARTF, or other sources, for funding. With respect to IDA and other donor financed projects, the PCD would also ensure coordination across technical assistance providers as well as adherence to grant agreements, identify bottlenecks in terms of implementation and suggest solutions. The project will provide technical assistance in program management and donor relations in addition to financial management and procurement to support these tasks. (Estimated Cost $1.6m)
(b) Monitoring and Evaluation, and Communication. Strengthening monitoring of outcomes of civil service reform efforts and reporting regularly to the executive, to Parliament and to the wider community is critical for managing expectations and building support for such reforms. The government has adopted a set of actionable indicators for monitoring progress in Afghanistan’s civil service reform program. These complement the ongoing monitoring of benchmarks under the I-ANDS.

48. The Administrative Reform Secretariat of the IARCSC is responsible for developing policy relating to public administration reform, communicating this across government and to the public, and monitoring the implementation of administrative reform activities. Assistance will be provided to enable the ARS to periodically monitor and evaluate progress on civil service reforms, identify lessons learned, support informed decision making and identify areas where changes in direction are needed. It will also support ARS’ efforts in guiding line ministries with establishing clear monitoring indicators. The M&E outputs should be used to build a stronger understanding by political representatives and senior officials, including the Office of the President, of the role of PAR. Assistance will also be provided to conduct a clear communication strategy and outreach program to policy makers and key stakeholders. (Estimated Cost $1.7m)

49. Cost Estimates. The cost estimated for each component is based upon the level of work estimated to be needed in specific areas and the expected effort required to complete certain tasks. Experience under earlier operations has also provided a guide to unit rates on contracts.

<table>
<thead>
<tr>
<th>Component</th>
<th>US$</th>
</tr>
</thead>
<tbody>
<tr>
<td>Organizational Reforms within core Ministries</td>
<td>8,400,000</td>
</tr>
<tr>
<td>Implementation of Merit Based Human Resource Management</td>
<td>8,700,000</td>
</tr>
<tr>
<td>Practices in Government</td>
<td></td>
</tr>
<tr>
<td>Oversight of the PAR Program</td>
<td>3,300,000</td>
</tr>
<tr>
<td>Total</td>
<td>20,400,000</td>
</tr>
</tbody>
</table>

IV. PROJECT IMPLEMENTATION AND OVERSIGHT ARRANGEMENTS

A. Implementation Arrangements

50. The CSR project will be implemented over a period of 48 months, under the following arrangements

Governance and Management Structure

51. The project would be implemented under the authority of the Independent Administrative Reform and Civil Service Commission (IARCSC). The responsibility would be delegated to the Chairman of the IARCSC. Oversight of the program would be provided by the PAR Steering Committee comprising senior representatives of the IARCSC, the Ministry of Finance, the Office of the President and other ministries as required, to maintain focus on results, good communications and a consolidated view of the program and to discuss and recommend any necessary policy and regulatory improvements.

52. Coordination of the various activities under the project would be the responsibility of the Program Coordination Department (PCD). The specific role of the PCD would be to plan, coordinate, and monitor, in liaison with the Director General of the Civil Service Management Department and the Director of the ARS, the overall project work program and the achievement of its intended results. It
would be responsible for ensuring that all requirements under the grant agreement are met with regard to timely reporting and progress monitoring.

Specific Implementation Arrangements for Project Components

53. Each unit responsible for implementing a component and sub-component would establish its own daily implementation arrangements (and are further outlined in the annexes). The PCD Director would convene periodic meetings of these working level authorities to identify and resolve implementation issues that were outside the scope of their individual authorities.

54. The PCD would be the focal point for organizing procurement under the project although setting technical specifications, terms of reference and qualifications of prospective contractors would be shared with the relevant departments within IARCSC. With the relevant employing departments, which would supervise the technical performance of contractors, the PCD would also be the focal point for administering these technical assistance contracts and for compiling and managing payments in liaison with the Finance Department of the IARCSC, accounting for disbursements of project funds and for conducting any subsequent component and sub-component procurement. The PCD would prepare project-wide financial reporting from the project accounts maintained in the SDU and be responsible for responding to project audits. They will work closely with the finance department in this regard.

55. The PCD would also coordinate establishing priorities for selecting the line ministries to be assisted under the program, with guidance from the PAR Steering Committee. These assessments would include a technical assessment (by the PAR Implementation Department and the HR Department) of the readiness of the respective line ministry to undertake further restructuring activities, as well as an assessment of the value of improving HR capacity in the context of the importance of the ministry/agency with regard to budget and staff management responsibilities.

56. Component 1 would be managed by the PAR Implementation Department of the IARCSC. Resources under this component, dedicated for line ministry reform would effectively be passed on to selected line ministries through an agreement between the ministry and the IARCSC. This agreement would set out the level of resources and assistance that the project would provide to the ministry and the results expected from the ministry in return. Component 2 would be managed by the Human Resources Policy Department of the IARCSC. Component 3 activities would effectively be managed by the Administrative Reform Secretariat and the Program Coordination Department.

Coordination with Other Donors and the Public Financial Management Project

57. The project is being closely coordinated with the efforts of other donors. The Program Coordination Department of the IARCSC will facilitate coordination of donor activities and investments around the Civil Service Implementation Plan. In this regard, it will hold regular program reviews and support the submission of proposals for funding for additional activities to donors and/or ARTF, as required. It will also ensure coordination across technical assistance providers, and along with the ARS, consistency in approach. Several other donors such as EC, DFID, UNDP, USAID and ADB already have funds committed to undertake organizational and institutional reforms within key line ministries, in line with guidance developed under this project.

58. The project will closely coordinate with the reforms under the PFM project. Support for reorganizing common functions within key line ministries and strengthening the application of HR practices will directly support the efforts within the PFM project to transfer financial management and procurement responsibilities steadily to line ministries and agencies.
**Procurement Arrangements**

59. With donor assistance, Afghanistan has made considerable efforts to establish the Legal and Regulatory Framework for procurement during the last five years. A new Procurement Law, reflecting best international practice in public procurement, was enacted in November 2005 replacing the earlier Procurement Regulations. The Afghanistan Procurement Regulations and Procedures are awaiting clearance from the Ministry of Justice and the Cabinet of Ministers. A Special Procurement Commission will be operational in April 2007, and will be responsible to review the contract award recommendations for contracts exceeding US$ 500,000. A Manual of Procedures for Procurement Appeal and Review has been prepared and the system will begin to be operational by April 2007. Afghanistan specific bidding/proposal documents will be prepared by December 2007. Bidding opportunities for all major contracts and the contract awards are published on the ARDS website under the Ministry of Economy. ARDS-PU is currently issuing the bidding documents to all the potential bidders electronically free of charge. The above actions will increase the transparency and the confidence of the business community.

60. Much still needs to be completed to improve dissemination of the new Law, Regulations, Procedures and Appeals mechanism throughout government and with the business community. An IDA-funded technical assistance project is in place to carry out an intensive and extensive capacity building program. Action will be simultaneously taken to develop procurement proficient personnel in line ministries, with an accreditation system. In addition, the Government is seeking opportunities to get civil society involved in providing oversight in the adherence to transparency in the process.

61. Procurement will be carried out in accordance with the World Bank’s “Guidelines: Procurement under IBRD Loans and IDA Credits” (dated May 2004) and revised in October 2006; “Guidelines: Selection and Employment of Consultants by World Bank Borrowers” (dated May 2004) and revised in October 2006; and the provisions stipulated in the Financing Agreement. The Bank’s Standard Bidding Documents, Requests for Proposals, and Forms of Consultant Contract will be used. In case of conflict/contradiction between the Bank’s procurement procedures and any national rules and regulations, the Bank’s procurement procedures will take precedence.

62. Most of the procurement under the project will be for the provision of technical assistance through firms/individuals. ARDS-PU will assist IARCSC to carry out procurement of major consultancies including high value individual assignments and all goods following ICB/NCB procedures. IARCSC will provide technical inputs in preparation of TORs/specifications and take the lead in carrying out technical evaluations. The Director (Finance and Administration) of IARCSC will be responsible for procurement of small value goods contracts following Shopping and Direct Contracting procedures. A summary of procurement methods is given in Annex IV. The Program Coordination Department (PCD) would be responsible for contract administration, and with the user section, shall monitor compliance with terms of reference etc.

**Financial Management Arrangements.**

63. A Public Financial Management (PFM) performance rating system has recently 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.
Financial management and audit functions for the proposed project will be undertaken through the agents contracted under the Public Administration Capacity Building project. This is the primary instrument for continuing to strengthen the fiduciary measures put in place for ensuring transparency and accountability of funds provided by the Bank and other donors. Under these contracts, two advisers—Financial Management and Audit—are responsible for working with the government and line ministries to carry out these core functions. The Financial Management Adviser (FMA) is responsible for helping the MoF maintain the accounts for all public expenditures, including IDA-financed projects and for building capacity within government offices for these functions.

At the project level, financial management will be coordinated by the Program Coordination Department (PCD) of the IARCSC, in liaison with the Finance Department of the IARCSC.

A Financial Management Specialist will be recruited at the IARCSC with responsibility for financial management activities of the project, which will include processing of consultants and suppliers invoices for payments i.e. preparation of M-16 forms (payment orders), maintaining relevant accounting records, preparation of required monthly, quarterly and annual reports, coordination with other component implementing entities to ensure that adequate financial management requirements are met, liaising with SDU to ensure that the Designated Account is replenished as at when due and be responsible for responding to project audits.

Quarterly Financial Monitoring Reports will be prepared by the IARCSC’s accounting unit. Consolidated project reports will be prepared, reviewed, and approved by the MoF, supported by the FMA. A Designated Account (DA), will be opened at Da Afghanistan Bank (DAB, Central Bank). The DA will be maintained by the MoF. Withdrawal applications for replenishment will be submitted monthly. Financial management arrangements for the project are detailed in Annex V.

Fund management for the Project will follow existing procedures. As with all public expenditures, 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 IARCSC. In addition to payments from DA funds, IARCSC 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 replenishment, reimbursement, and direct payment applications, will be prepared and submitted by MoF.

A Financial Management Manual will be prepared by IARCSC documenting the financial management arrangements for the project. The manual will outline guidelines for project activities including specific requirements for each component implementing entity, and establish a project financial management system in accordance with standard Afghan government policies and procedures. This will include use of the Chart of Accounts developed by the Treasury to record project expenditure. Project accounts will be consolidated centrally in MoF, through the SDU and supported by the FMA. Consolidated Project Financial Statements will be prepared for all sources and uses of project expenditures.

Disbursements from the IDA grant will be made in accordance with the Bank’s Disbursement Handbook for World Bank Clients (May 2006) using advances, reimbursement, direct payment, and payments under Special Commitments including records (source documentation) or against reports (statements of expenditures), as appropriate.
Audit Arrangements

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

B. Monitoring and Evaluation

72. Responsibility for assuring that the results of the project are achieved would be vested in the PAR Steering Committee, which reports to the GoA on all matters related to the reform of public administration. The results framework including component-by-component progress benchmarks is given in Annex II.

73. Operationally, the IARCSC has responsibility for developing monitoring and evaluations of PAR performance that would extend to the project results. It is also responsible for providing the PAR Steering Committee with diagnosis of issues, analysis of options for resolving them, and recommended courses of action. The IARCSC is organized to perform this function through its Administration Reform Secretariat (ARS) which reports to the Chairman of the IARCSC. The ARS includes a Monitoring and Evaluation Department that would conduct the daily work required to meet the IARCSC's responsibilities.

74. The ARS/M&E Department is adequately staffed in terms of numbers and grades of personnel, and its mandate and lines of reporting are clear. It is, however, operationally weak and inexperienced. It has received assistance in becoming familiar with the concepts and terminology of monitoring and evaluation, and provided some ad hoc evaluations of selected issues. It has not, however, conducted a cross-agency exercise of the type required by the current project (use of a data collection instrument designed to generate comparable data across agencies; collection and compilation of other sources of administrative data and intelligence as part of a "stock-taking; performing interpretation of data against expectations and rating results; drawing conclusions and presenting options for bridging gaps between results and expectations).

75. The project itself would provide consultant services to work in the ARS/M&E Department to support three successive annual reviews of this type. The residual would be templates, tested processes and protocols that could be replicated.

76. The ARS/M&E Department would also collaborate with the Human Resource Management (HRM) Department and the PAR Implementation Department to develop individual methodologies for monitoring their specific results so that these can be readily employed for management as well as annual results monitoring.

C. Benefits and Risks

77. The project will support the Government's efforts to build a solid foundation for a professional, capable and results-oriented civil service. Successful implementation of the project will provide greater confidence to the Afghan public and donors that, over time, capacity can be built within Afghan institutions to deliver results in an effective and accountable manner. The project, addresses specific weaknesses in the overall management of the civil service and aims to leverage funds where there is likely to be maximum return in terms of management of resources on the ground. There are significant risks to the project as described below, and summarized in the table at the bottom of this section.
78. **The fragile political environment** is a major risk factor which poses uncertainties with regard to the ability of government to stay on course with a difficult reform process. Public administration reform is inherently a long term process requiring not only changes in formal rules, but also cultural norms and values, which are significantly harder to shift. In Afghanistan, political commitment to the reform process is weak and the overall context - of fluid political alliances - is not particularly conducive to successful reform. To partially address these risks, IDA is assisting the government in further developing its PAR framework which, among other things, will help strengthen accountability and broader understanding of the need for such reforms.

79. **Weak oversight and uncoordinated donor behavior has at times undermined objectives.** The provision of assistance to the Public Administration Reform agenda has been uncoordinated and of low quality in the context of poorly defined reform agendas and coordination mechanisms. Since the Ministerial Advisory Committee stopped meeting in August 2005, wider government oversight has been lacking – leading to a sense of vacuum and a perception that little of substance is taking place. Donors and government are now coming to agreement on: a common framework for public administration reform; a clear plan for implementing key civil service elements of this framework; a set of monitorable indicators to show progress towards the Compact goals, and (eventually) the impact of reforms on service delivery. These factors would provide the basis for a more programmatic allocation of resources from donors to support government in this area, possibly funded through ARTF.

80. **Some elements of the reform agenda are technically difficult to undertake.** Government has set itself an ambitious timetable for rolling out a new pay and grade structure while wishing to preserve the principles of administrative reform and merit based appointments underpinning this. There is a risk that, without due attention to capacity, quality and supportive reforms in the areas of pensions and severance, these reforms could simply lead to a more expensive government with little improvements in service delivery. To mitigate these risks, Government will (i) carefully sequence reforms (starting with senior levels, establishing first key management functions, and beginning with ministries with a proven capacity to implement reform); and (ii) monitor, evaluate, and communicate about the reform. There are few technical alternatives at this point to addressing the need for a new pay and grade structure. The project provides technical assistance to guide the process and minimize risks in this regard.

81. **Implementation capacity is weak.** Capacity to manage a complex and politically sensitive reform program is severely limited. Both the IARCSC and line ministries ability to absorb and implement new reforms is limited. A review of options for the evolution of the IARCSC, in light of its wide-ranging responsibilities for policy, implementation and monitoring of reforms, is being undertaken. In addition, the project will directly support the completion of reforms within the relevant departments in the IARCSC so they can satisfactorily perform their responsibilities. Other initiatives such as the Management Capacity Program, will provide temporary implementation support in key areas.
Table 4: Project Risks

<table>
<thead>
<tr>
<th>Risk</th>
<th>Mitigating Factors</th>
</tr>
</thead>
<tbody>
<tr>
<td>Weak political commitment to difficult institutional reforms particularly merit based recruitment principles.</td>
<td>Reliance on establishment of rules-based procedures to limit political interference, use of independent evaluations and stronger monitoring/reporting mechanisms.</td>
</tr>
<tr>
<td>Challenging technical reforms in weak capacity environment, particularly pay and grading.</td>
<td>Few other technical options exist in context of urgency to reform pay and grade structure. Technical assistance designed to provide maximum support to government in technical aspects and integrity of process.</td>
</tr>
<tr>
<td>Incomplete donor coordination creating reform program gaps and inconsistencies</td>
<td>Donors have agreed to align support to PAR Framework and CS Implementation plan. PCD being strengthened to coordinate donor inputs.</td>
</tr>
<tr>
<td>Weak implementation capacity.</td>
<td>Relevant parts of IARCSC being strengthened to provide facilitation. Line ministries responsible for driving their own reforms with enhanced provision of technical assistance. Complementary programs – MCP – strengthen implementation capacity in short term. Focus on core business functions first.</td>
</tr>
</tbody>
</table>

D. Grant Conditions and Covenants

82. Standard requirements covering organization and staffing, management arrangements, provisions for procurement and financial management will suffice. However, receipt by IDA of evidence of a Pay and Grade Policy in form and substance satisfactory to IDA, would be a disbursement condition for Sub component 2 (c) of the Project, related to implementation of the Government’s pay and grade policy.

83. In addition, IARCSC shall, by no later than 31 August, 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. The IARCSC shall also prepare both an Operations Manual and a Financial Management Manual, in a manner satisfactory to IDA, by 31 August, 2007.

84. The International Development Association General Conditions for Credits and Grants”, dated July 1, 2005 (as amended through October 15, 2006) apply to the project. There are no effectiveness conditions for the project. Standard effectiveness requirements under the General Conditions will apply.

E. Environment and Social Safeguards.

86. The Project has been assigned Category “C” for environment. No environmental impacts are expected to arise as a result of Project implementation. The Project will not involve any acquisition of land or displacement of population.
ANNEX I. PROJECT COST

Table A1.1: Project Cost Summary by Component and Category
(100% Financed by IDA)

<table>
<thead>
<tr>
<th>(000,000 of USD)</th>
<th>Consultant Services (^4)</th>
<th>Training</th>
<th>Goods/Services</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Component 1 – Organizational Reforms within Line Ministries</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1.1 Support to Line Ministries</td>
<td>6.45</td>
<td>0.3</td>
<td>0.35</td>
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<tr>
<td>1.2 IARCSC Facilitation</td>
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<td></td>
<td>1.3</td>
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<tr>
<td>Component Sub-total</td>
<td>7.75</td>
<td>0.3</td>
<td>0.35</td>
<td>8.40</td>
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<tr>
<td>Component 2 – Merit Based HR Policies and Practices</td>
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<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2.1 HR Policies/Procedures</td>
<td>2.84</td>
<td>0.36</td>
<td>0.30</td>
<td>3.5</td>
</tr>
<tr>
<td>2.2 Appointments and Appeals</td>
<td>1.40</td>
<td></td>
<td></td>
<td>1.4</td>
</tr>
<tr>
<td>2.3 Pay and Grading</td>
<td>3.65</td>
<td>0.10</td>
<td>0.05</td>
<td>3.8</td>
</tr>
<tr>
<td>Component Sub-total</td>
<td>7.89</td>
<td>0.46</td>
<td>0.35</td>
<td>8.7</td>
</tr>
<tr>
<td>Component 3 – PAR Oversight</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>3.1 Program Coordination</td>
<td>1.50</td>
<td>0.10</td>
<td>0.10</td>
<td>1.7</td>
</tr>
<tr>
<td>3.2 Policy, M&amp;E and Communications</td>
<td>1.40</td>
<td>0.10</td>
<td>0.10</td>
<td>1.6</td>
</tr>
<tr>
<td>Component Sub-total</td>
<td>2.90</td>
<td>0.20</td>
<td>0.20</td>
<td>3.3</td>
</tr>
<tr>
<td>Total</td>
<td>18.54</td>
<td>0.96</td>
<td>0.90</td>
<td>20.4</td>
</tr>
</tbody>
</table>

\(^4\) Includes international and national consultants.
## ANNEX II. RESULTS FRAMEWORK

### Table A2.1: Overall Results

<table>
<thead>
<tr>
<th>Project Development Objectives</th>
<th>Project Outcome Indicators</th>
<th>Contribution to GoA/CSR Goals</th>
</tr>
</thead>
</table>
| • Across the time frame of the project, (by 2011), a significant proportion of key ministries/agencies will be performing their functions to an acceptable level and can be held accountable for the use of public resources. This will have resulted from these ministries/agencies having been reorganized according to their core functions and civil servants being managed according to clear rules and procedures. | • The number of ministries/agencies reporting on progress toward achieving their sectoral objectives, and the use of resources for those purposes.  
• The proportion of civil service appointments based on merit, and level and perception of integrity in the recruitment process.  
• The consistency of application of the Civil Service Law and regulations to the management of civil servants.  
• The extent to which IARCSC is coordinating donor support for civil service reform, and regularly monitoring and reporting on the implementation of the civil service reform implementation plan. | Maximizes the likelihood that the civil service will positively contribute to service delivery and poverty reduction goals through being organized, managed and monitored towards delivering results. |

<table>
<thead>
<tr>
<th>Contributing Outputs</th>
<th>Contributing Output Indicators</th>
<th>Contribution to PDO Results</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Agencies implement organizational reforms per approved reform plans and reporting on progress.</td>
<td>• Number of agencies implementing reform plans based upon a reevaluation of organizational needs (including at sub-national levels) and reporting on progress made.</td>
<td>Improving the organizational structure of agency functions (removing structural redundancy, unclear lines of authority, outdated mandates and inadequate job descriptions...) enables the human capacity of the civil service to realize its operational potential.</td>
</tr>
</tbody>
</table>
| • Human Resources Management policies and practices applied consistently across government.           | • Number of ministries that have implemented restructuring of HR Departments.  
• Timeliness, quality and consistency of HR procedures within ministries against clearly set standards.  
• Numbers of staff recruited and retained on merit principles, and consistency and transparency of the recruitment process with the procedures.  
• Grade Two and above positions re-graded and filled in line with approved pay and grading reform;  
• Grade Three and below positions re-graded and filled in line with approved pay and grading reform. | The civil service would perform efficiently and effectively when (i) there are adequate incentives and compensation relative to non-public service employment, (ii) it is managed under a transparent regulatory framework, applied consistently across the civil service, and (iii) it is managed through agency-specific human resource management units. |
| • New civil service grade and pay structure operational across government.                              |                                                                                             |                                                                                             |
| • IARCSC exercises effective oversight of the civil service reform program.                            | • Completed annual M&E reviews of CS reform achievements and identification of issues and options.  
• Degree to which CSR Implementation plan is supported and funded by donors. | Provides the lessons learned to enable continuous improvement as well as accountability to Government and the public. Maximizes use of donor resources for outcomes, as a result of close coordination. |

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¹ Determined to be key due to their contribution to service delivery and/or economic management objectives within the IANDS
Table A2. 2: Objectives, Actionable Indicators and Benchmarks

<table>
<thead>
<tr>
<th>Objectives and Indicators</th>
<th>Base Case</th>
<th>Benchmark Year 1</th>
<th>Benchmark Year 2</th>
<th>Benchmark Year 3</th>
<th>Monitoring and Reporting</th>
</tr>
</thead>
<tbody>
<tr>
<td>I. PDO</td>
<td>Across the time frame of the project, (by 2011), a significant proportion of key⁶ ministries/agencies will be performing their functions to an acceptable level and can be held accountable for the use of public resources.</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>- The number of ministries/agencies reporting on progress toward achieving their sectoral objectives, and the use of resources for those purposes.</td>
<td>Progress has been made under PRR but not complete within or across ministries. Implementation patchy.</td>
<td>RIMPUs established and consolidation of PRR results in 3 ministries, Strategic Reform Plans prepared addressing function/organization from centre to province for 3 ministries.</td>
<td>RIMPUs established and consolidation of PRR results in 2 additional ministries. Strategic reform plans established for these 2 ministries. Progress reports on implementation prepared.</td>
<td>Progress reports on implementation measures published for all ministries.</td>
<td>IARCSC/CSMD/PAR Implementation Department; line ministry annual performance reports. ARS M&amp;E reports.</td>
</tr>
<tr>
<td>- The proportion of civil service appointments based on merit, and level and perception of integrity in the recruitment process.</td>
<td>1700 senior level appointments and 7200 junior appointments. BC report on qualitative monitoring mechanism and WB vulnerability assessment and subsequent AB action plan.</td>
<td>60% of senior appointments correctly apply new merit based procedures. Establish compliance monitoring mechanism for junior level vacancies and appointments. Implementation of AB Action Plan according to agreed timeframe.</td>
<td>80% of appointments at senior levels compliant with merit based procedures. AB publishing data on recruitment and promotion decisions as well as results of compliance monitoring for senior and junior level appointments. Implementation of AB Action Plan.</td>
<td>100% of senior appointments compliant. Increased percentage of junior appointments compliant. Implementation of AB Action Plan.</td>
<td>IARCSC/CSMD/Appointments Board monitoring and annual reports, plus independent HR audits.</td>
</tr>
<tr>
<td>- The consistency of application of the Civil Service Law and regulations to the management of civil servants.</td>
<td>1/3 regulatory environment prepared. Unknown application across ministries.</td>
<td>50% of HR regulations submitted to MoJ. Establish base case for basic HR indicators. Approval of pension policy.</td>
<td>Remaining HR regulations submitted to MoJ, 20% improvement on application of HR procedures, including consistent collection of employee information.</td>
<td>Further 20% improvement in application of HR procedures.</td>
<td>IARCSC/CSMD/HRM Department; compilation of agency data against centralized HR standards.</td>
</tr>
<tr>
<td>- The extent to which IARCSC is coordinating donor support for civil service reform, and regularly monitoring and reporting on the implementation of the civil service.</td>
<td>Nil</td>
<td>Implementation plan updated and agreed with donors. M&amp;E framework established.</td>
<td>First annual progress report on PAR strategy and implementation published and disseminated. Second</td>
<td>Second annual progress report to Cabinet and third annual program review with</td>
<td>IARCSC/ARS/PCD Quarterly, six monthly and annual ARS monitoring reports.</td>
</tr>
</tbody>
</table>

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⁶ Determined to be key due to their contribution to service delivery and/or economic management objectives within the IANDS
<table>
<thead>
<tr>
<th>Objectives and Indicators</th>
<th>Base Case</th>
<th>Benchmark Year 1</th>
<th>Benchmark Year 2</th>
<th>Benchmark Year 3</th>
<th>Monitoring and Reporting</th>
</tr>
</thead>
<tbody>
<tr>
<td>reform implementation plan.</td>
<td>Basic report to Cabinet.</td>
<td>annual program review with donors.</td>
<td>donors.</td>
<td>IARCSC/PAR Implementation Department/ARS; Annual Program Reviews (APR).</td>
<td></td>
</tr>
</tbody>
</table>

**II. Components**

**a) Agencies implement organizational reforms to establish enabling environment for further service development activities**

- Number of agencies implementing reform plans based upon a reevaluation of organizational needs (including at sub-national levels) vis-à-vis service delivery mandates and reporting on progress made.

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th>Benchmark Year 2</th>
<th>Benchmark Year 3</th>
<th>Monitoring and Reporting</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
<td>Functional/organizational reviews of at least 3 ministries completed and Govt. decision on implementation published.</td>
<td>Published performance reports show satisfactory progress on organizational reforms and some output targets. RIMUs becoming increasingly localized.</td>
<td>IARCSC/PAR Implementation Department/ARS; Annual Program Reviews (APR).</td>
</tr>
<tr>
<td></td>
<td>2</td>
<td></td>
<td>Functional/organizational reviews of 2-3 further ministries. Published performance reports show satisfactory implementation progress.</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

**b) Agencies regularly apply centrally authorized Human Resources Management Policies and Practices**

Number of ministries that have implemented restructuring of HR Departments.

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th>Benchmark Year 2</th>
<th>Benchmark Year 3</th>
<th>Monitoring and Reporting</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
<td>Nil. (3 with assistance from component 1).</td>
<td>8 (with 5 having direct assistance from component 1 – others with assistance from other donors but guidance from component 2).</td>
<td>IARCSC/HRM dept. reports and ministry compliance reports.</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>10 (with 5 having had direct assistance from component 1 – others assisted by other donors)</td>
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</tbody>
</table>

Timeliness, quality and consistency of HR procedures within ministries, against clearly set standards, including on vacancies, appeals, collection of information.

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th>Benchmark Year 2</th>
<th>Benchmark Year 3</th>
<th>Monitoring and Reporting</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
<td>Unknown.</td>
<td>Establish base case standards for basic HR performance. 10% senior appointments under performance assessment.</td>
<td>50% compliance in ministries with restructured HR units. 25% staff under performance assessment.</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td>70% compliance in ministries with restructured HR units. 50% of staff under performance assessment.</td>
<td></td>
</tr>
</tbody>
</table>

Numbers of staff recruited and retained on merit principles, and consistency and transparency of the recruitment process with the procedures.

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th>Benchmark Year 2</th>
<th>Benchmark Year 3</th>
<th>Monitoring and Reporting</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
<td>As above.</td>
<td>60% of senior appointments correctly apply new merit based procedures. Establish compliance monitoring mechanism for junior level vacancies and appointments. Implementation of AB action plan according to agreed timeframe.</td>
<td>80% of appointments at senior levels compliant with merit based procedures. AB publishing data on recruitment and promotion decisions as well as results of compliance monitoring for senior and junior level appointments. Implementation of AB Action Plan.</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td>100% of senior appointments compliant. Increased percentage of junior appointments compliant. Implementation of AB Action Plan.</td>
<td></td>
</tr>
<tr>
<td>Objectives and Indicators</td>
<td>Base Case</td>
<td>Benchmark Year 1</td>
<td>Benchmark Year 2</td>
<td>Benchmark Year 3</td>
<td>Monitoring and Reporting</td>
</tr>
<tr>
<td>----------------------------------------------------------------------------------------</td>
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<td>------------------</td>
<td>----------------------------------------------------------------</td>
</tr>
<tr>
<td>Grade Two and above positions re-graded and filled in line with approved pay and grading reform.</td>
<td>Nil</td>
<td>50</td>
<td>100</td>
<td></td>
<td>IARCSC/HRM Department – P&amp;G team/AB</td>
</tr>
<tr>
<td>Grade Three and below positions re-graded and filled in line with approve pay and grading reform.</td>
<td>Nil</td>
<td>10%</td>
<td>20%</td>
<td>70%</td>
<td>IARCSC/CSM HRM Dept. – P&amp;G Dept.</td>
</tr>
<tr>
<td><strong>c) PAR Oversight</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Completed annual updates CSR program needs and financing requirements, and finance mobilization drive.</td>
<td>Nil</td>
<td>Updated costed implementation plan and percentage to which is agreed and financed by donors.</td>
<td>Increased adherence to, and financing for government’s plan.</td>
<td>Increased adherence to, and financing for government’s plan.</td>
<td>IARCSC/PC Department with ARS; quality monitored with anecdotal feedback</td>
</tr>
</tbody>
</table>
ANNEX III. DESCRIPTION OF COMPONENTS

A. Description of Component 1: Organizational Reforms within Core Ministries ($8.4m).

Background

1. Structuring government organizations to follow their functions has been important in Afghanistan because structures had become very informal during the conflict years. There was little clarity about the functions of ministries and agencies, and even less about their constituent units. Administrative practices from different legal regimes coexisted, and ad hoc administrative changes had been introduced by some ministries to deliver quick results. There was need to evaluate whether the staffing and supervision structure was consistent with the level of decision-making and each of the ministry’s functions.

Compact target and timeline

2. On this subject the Compact states: By end-2010 the Government machinery will be restructured and rationalized to ensure a fiscally sustainable public administration; .... civil service functions will be reformed to reflect core functions and responsibilities.

Achievements to date

3. The principle vehicle for restructuring and rationalizing individual government organizations has been the Priority Reform and Restructuring (PRR) Program. Its objective was to stimulate modest, targeted incremental reform of key functions within government departments and agencies (World Bank, 2004). The PRR process allowed staff of selected departments of ministries or entire ministries to be placed on an elevated pay scale for a fixed term in exchange for restructuring. PRR status was granted on the basis of the quality of the proposed strategy and the implementation plan. Staff placed on PRR scale had to have demonstrated a track record of competence and be recruited through a competitive process.

4. PRR enabled ministries to begin a basic reform process. PRR Stage 2 proposals have been approved for 24 of 44 ministries/agencies (entire structure) and a further 8 out of 44 have been partially approved (for key departments) covering approximately 44,000 positions. Over 9000 of these posts have been filled utilizing competitive merit based procedures including more than 1500 at senior levels.

5. This agenda, however, is incomplete. As a result of a lack of time, insufficient internal capacity and insufficient technical assistance, many PRR proposals lacked proper strategic analysis of key missions and functions of ministries particularly in relation to their overall service delivery objectives. Although a “whole of ministry” approach was adopted around November 2004, restructuring of functions did not allow for all departments to work as an integrated whole, including those located at provincial and district levels. Inadequate attention to establishing HR departments, meant that recruitment to new positions was not adequately undertaken in the absence of staffing plans that specified numbers, job descriptions, gradef-levels and qualifications of staff needed in new structures. Proposals did not specify any monitorable indicators – either of process or outcomes, and once proposals were prepared most ministries lacked the capability or resources to actually implement reforms.

6. The Government is now revising its administrative reform framework to take account of the lessons learned under PRR shifting the focus away from previous asymmetric and department-centered reforms to more comprehensive reforms involving entire ministries (centre to sub-national) with a stronger focus on monitoring service delivery results.
Proposed Assistance.

7. The project will provide technical assistance, training and limited equipment to core ministries as they take charge of their own reorganization efforts. At the end of the project period, line ministries, whose reorganization has been supported by this Component, will be functioning systematically according to their own work programs, instead of undertaking ad hoc activities responding to donor demands. They will be able to justify to Cabinet and Parliament the use of public and donor resources.

8. The project will support selected core ministries as they take charge of their own reorganization efforts in a post-PRR environment. A particular focus would be placed on improving the organization and performance of functions common to all public agencies (including administration, human resource management, financial management and procurement, and if relevant, development and administration of regulations). With the assistance made available through the component, a typical recipient agency would complete the following tasks, through their Reform Implementation Management Unit (RIMU).

- Preparing the ministry’s three year strategic program including articulating the specific sectoral deliverables and means of monitoring;
- Consolidating results of PRR and completing the restructuring of non PRR’d departments including at subnational levels;
- Recruiting staff corresponding to the new structure and applying enhanced HR policies and procedures to the ministry as a whole – including new grade structures;
- Identifying funding gaps in the ministry’s strategic plan and obtaining coordinated donor support for those;
- Producing an annual performance report for Cabinet and Parliament, that specifies progress in achieving results.

9. As a result of these activities, ministries or agencies would have developed a hospitable organizational environment for absorbing specialist functional and sector-specific development assistance.

10. **Resources:** The grant would finance:

- Technical assistance to ministries and agencies for specific institutional and organizational improvements. This would be in the form of a small team of international and locally recruited specialists with competencies in, (i) organization of public sector administration and management (ii) institutional development, (iii) organization of human resource management departments. As organizational structures are developed, the nature of the technical assistance may change with a need for more specialist inputs to identify service improvement opportunities. Some funds are available for supporting equipment and training. It is expected that the average ministry would be allocated up to 60 person months of international technical assistance over a 36 month period and 60 person months of national technical assistance costing approximately $2.0 million.

- The cost of additional assistance to the IARCSC PAR Implementation Department to guide ministries and agencies, and to provide quality control and consistency between the restructuring efforts being carried out. Competencies would include organization of public sector administration and management. It is expected that up to 32 person months of international and 60 person months of national technical assistance would be required. These experts may also assist smaller ministries as part of their ministry-specific teams.
11. On this basis, 4-5 ministries could be supported, depending on the level of effort required in each ministry. The specific ministries to be selected will be determined on the basis of criteria agreed to between IDA and the Government.

<table>
<thead>
<tr>
<th>Sub-component</th>
<th>Person months; Elapsed Time</th>
<th>Good and Services</th>
<th>Training</th>
<th>Estimated Cost (US$)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Support to line ministries.</td>
<td>168 (international); 180 (national); 3 years</td>
<td>$350,000</td>
<td>$300,000</td>
<td>$7.1m</td>
</tr>
<tr>
<td>Support to PAR Implementation Dept</td>
<td>32 (international) 60 (national)</td>
<td></td>
<td></td>
<td>$1.3</td>
</tr>
<tr>
<td>Total</td>
<td></td>
<td></td>
<td></td>
<td><strong>$8.40 m</strong></td>
</tr>
</tbody>
</table>


12. The Civil Service Law, approved by Cabinet in August 2005, outlines the structure and functions of the IARCSC and provides the legal framework for a reformed, merit-based and professionally managed Afghan civil service. Implementation of the Civil Service Law is central to the Government’s Interim National Development Strategy (I-ANDS) and Compact between the government and international community. Benchmark 2.1.4, although ambitious, is a target that both the Government and International Community have collectively committed to achieving:

2.1.4: By end-2010, in furtherance of the work of the civil service commission, merit-based appointments, vetting procedures and performance-based reviews will be undertaken for civil service positions at all levels of government, including central government ... Annual performance-based reviews will be undertaken for all senior staff (grade 2 and above) starting by end-2007

13. This component comprises three critical activities: (i) HR policies, procedures and training; (ii) senior appointments and appeals; and (iii) pay and grading reform.

**Subcomponent 2.1 Human Resource Policies, Procedures and Training**

14. **Regulatory Framework.** Technical assistance funded by the ADB and IDA’s Second Emergency Public Administration Project supported the Human Resources Policy Department (HRPD) to draft priority regulations including Appointments Regulation, Appeals Regulation, Performance Appraisal Regulation and Pay & Grading Regulation. These draft regulations were based upon generally accepted best practice in HR, aligned to meet Afghanistan’s specific needs and conditions. They are currently under review by an inter-ministerial committee and are expected to be finalized and submitted for Cabinet approval by the end of SY 1385 (21 March 2007).

15. Other key regulations, procedures, guidelines, forms etc also need to be drafted including on vetting of candidates, job classification, promotions, transfers, redeployment and retrenchment, attendance, contract employees, pensions, and termination. Some will require further technical work and policy decisions. Technical assistance will be provided under the project to support:

- Preparation of remaining regulations, guidelines, procedures, forms, executive orders for HR policies in line with the Civil Service Law and preparation of an integrated HR manual.
• Establishment and implementation of a simple monitoring mechanism to review progress on implementation of key HR policies including at sub-national level.

16. **Establishing and Extending HR Policies and Practices to Line Ministries.** The implementation of key HR policies and procedures is dependent on the effective dissemination of these policies to qualified staff located in reasonably functioning HR units within line ministries. HR units in Ministries and government agencies have been primarily concerned with personnel administration and record keeping, rather than the management of human resources within a performance management framework. The Civil Service Law requires Ministries, agencies, provincial and district offices to take on the full range of human resource management functions, including recruitment, job classification, performance assessment in addition to basic personnel management processes. A proposed organizational structure for HR units within line ministries has been developed along with a training schedule for the estimated 1025 HR staff expected to be needed, plus relevant line managers, in all aspects of HR policies, procedure and regulations.

17. Assistance under this component will support the HRPD in finalizing a structure and related staffing competencies for HR departments in ministries and agencies. Advice and guidance will be provided to ministries and agencies on the establishment of the new HR structure identifying where further resources might be needed to support implementation. Once the new HR structure has been established then related training on the new HR policies and procedures can be provided along with any supporting equipment.

18. The earlier training needs assessment for HR staff of ministries and agencies will be updated with assistance under this component, specifying the full program of HRM training along with the proposed training plan, location, methodology, calendar and budget. It will examine the possibility of utilizing the Civil Service Training Institute in conducting the training and having HR management established as a core module of its program, with specified competencies determined for HR Managers.

19. Once the Government has approved the training needs assessment, technical assistance under this project will coordinate and oversee a sustained program of training (in conjunction with the Civil Service Training Institute if possible) for the estimated 1000 new HR managers that will be required and 1000 line managers. The earlier training needs assessment suggested a training schedule of 18 days – in six 3 day sessions across two years - would be required to cover all necessary procedures and standards under the Law. The training needs assessment.

20. **Information on civil servants.** One of the key tasks of HR units in ministries should be the collection and maintenance of a consistent set of information on employees that could ultimately be centralized and linked to payroll. Bringing consistency into the methodology for collecting employee information is becoming urgent in the context of implementation of a new pay and grade reform.

21. IDA’s EPAP II funded the design of a simple MS Access database at the IARCSC to input basic information received from ministries on current civil servants. However, information on employees is not systematically received and remains inconsistent. A study is currently being funded through a separate IDA project to devise a new process to ensure consistency across government and provision of the required information centrally to IARCSC’s Human Resource Policy Department (HRPD).

22. This project will provide limited assistance to the IARCSC to oversee the implementation of this new process. In parallel, the IARCSC will seek funding from other donors for development and
implementation of a fully fledged IT system over time which would support and automate the mechanisms of HR management.

23. **Pensions Reform.** The pension system in Afghanistan faces serious financial and operational challenges. Payments are made on an ad hoc basis largely from the central budget, records are paper-based, information technology applications are non-existent, administrative capacity of current staff is low and the overall operation is non-transparent. As the pension benefit is directly related to the last wage, the new pay and grading reform within the civil service may seriously impact outstanding pension liabilities. Significant reforms are required for the establishment of a modern pensions system. Analytical work by the World Bank suggests the reform will be limited largely to parametric changes in the existing provisions. Implementation of the parametric reform, rationalization of operations, and upgrading of infrastructure will require substantive resources and capacity. This project will support technical assistance for up to 12 person months to finalize the pension policy parameters and an action plan to implement a pension reform and modernization program throughout government.

24. **Strengthening of HRPD.** The Human Resources Policy Department (HRPD) is responsible for overseeing the development of HR policies and facilitating their implementation across the Civil Service. However, its capacity is weak and it is unable to effectively fulfill its functions. A comprehensive functional review under IDA's EPAP II was carried out of the HRPD in February 2006 and provided recommendations on structure, staffing and training. The report also highlighted the need for the development of a strategic business plan and individual performance targets with progress towards their achievement evaluated on a frequent basis. The project will support the strengthening of the HRPD in order that it can lead on the critical human resource management activities under its mandate.

25. In addition, it is important that improvements in HR capacity and practices are monitored and reported on regularly. The project will support the development of a benchmarking and monitoring system that will permit the HRPD to verify that new HR systems and practices are being properly implemented with due attention to reasonable standards set by the government.

**SUB-COMPONENT 2.2 SENIOR APPOINTMENTS AND APPEALS**

26. **Senior Appointments.** Senior appointments based on merit is one of the cornerstones of the Civil Service Reform program in Afghanistan and is central to strengthening the managerial capacity of the civil service. In this regard, an Appointments Board (AB) and an Appeals Board were established in mid-2003. The Appointments Board identifies and recommends the recruitment, appointment, promotion, transfer, retirements, pension payment and other personal matters of high-ranking civil servants for the approval of the President and monitors the appointments in line ministries of junior positions. The Appeals Board is responsible for hearing appeals from civil servants who consider they have been disciplined unfairly.

27. Appointments based on patronage, political influence and ethnic preferences were the general and accepted way in which appointments were traditionally made to the Afghan civil service. Against this backdrop, achievements in senior merit-based appointments have been significant. Over 1400 senior appointments have been made and over 7200 junior appointments have been monitored by the AB; senior appointments are being made in line with set procedures; several training workshops have been held on criteria-based assessment; and a system for weekly business reporting has been established.

28. There is a concern regarding the fragility of some of the gains made. A World Bank-funded independent assessment of the senior appointments process was conducted in December 2006. It...
recommends that greater emphasis now be placed on the quality of the assessment process rather than the number of appointments made. In addition, as part of IDA's work program on anti corruption, a vulnerability assessment was conducted of merit based appointments. In line with the recommendations arising from these two reviews, the AB has adopted a comprehensive action plan to build on the progress to date which it intends to implement over the next three years. Specific improvements relate to:

- Robust and transparent procedures at all stages of the appointments;
- On the job mentoring and specific training for AB staff e.g. on interview techniques, criteria-based selection, etc;
- Establishment of an internal monitoring mechanism to allow quantitative and qualitative review of processes and outcomes in merit-based appointments;
- Implementation of a country-wide communication campaign.

29. Improvements in the appointments process are a high priority for the IARCSC. This is particularly the case given the backlog it faces in appointments of around 840 positions and the expected increase of senior appointments in line with implementation of pay and grade reform. Technical assistance under the project will support:

- Implementation of AB's Action Plan to improve processes, outcomes and monitoring of appointments;
- Development and implementation of measures to encourage gender equality and ethnic balance in the senior civil service;
- Development and delivery of a 'continuous learning' program for Commissioners,
- Establishment of internal monitoring mechanisms (for quantitative and qualitative evaluation of process and outcome of merit-based appointments).

30. **Appeals.** Since the establishment of the Appeals Board in mid-2003, procedures have been developed and are being implemented and the Board has received and successfully dealt with 279 appeals. It appears to function well. However, little external assistance has been provided to support the Appeals Board and there is a need to review these procedures and introduce simple appeals mechanisms at Ministry level given that the expected increase in grievances with the progressive implementation of pay and grading reform. Technical assistance will support:

- Development and implementation of a performance improvement plan for the Appeals Board and appeals process throughout government, setting specific service standards with regard to timeliness and customer satisfaction;
- Introduction of a simple appeals mechanism (including structure and guidelines) in individual ministries and agencies, and regional IARCSC offices;
- A simple monitoring mechanism for appeals settled at ministry and sub-national levels;
- Reporting (preparing regular reports and briefings as required for President, Cabinet Committee on PAR, Cabinet, Administrative Reform Secretariat, donors, etc).

**SUB-COMPONENT 2.3 PAY AND GRADING REFORM.**

31. Afghanistan's civil service pay scales have been unrevised during the conflict years, while a few across the board allowances (mainly food) had lowered the compression ratio to 1.01. The existing 13-grades and corresponding pay scales emphasized longevity rather than competence and responsibility in promotions. The grades were applied randomly and inequitably across ministries for similar functions.
32. The government is in the process of agreeing on a new grade pay structure. The new pay scale is designed with an assumed distribution across 8 grades, with new pay scales attached to these grades (with a minimum salary of $80 and maximum of $800). The sequence of introducing the new pay scales within Government has been partially identified. Those appointed through merit to the new grades 1 and 2 will be paid first. This will be followed by regrading positions below these managerial grades on a ministry-by-ministry basis. Complementary policies and processes for severance, early retirement, and pensions linked to the P&G policy would be developed. Suitable good governance processes would be built into the reform for the implementation of the new P&G system. A comprehensive communications strategy would be developed to inform key stakeholders of the process and benefits of the P&G reforms.

33. **Support under the Project.** The project would finance the regrading of a large segment of the 280,000 existing public sector non-uniformed employees from the grades that they now hold into new positions with corresponding responsibilities under the 8-grade/52 pay point system.

34. The project would finance the re-alignment of positions and incumbents, as rapidly as possible, while respecting two conditions:

   - **First, the fiscal envelope established under the agreed MTFF** which permits a 10% increase in wage bill (attributed to re-grading) in the current fiscal year- 2007; and 30% increases in the wage bill in each of the next 3 fiscal years. The current plan is to give priority to positions which would become “managerial” under the new system (Levels 1 and 2), which accounts for approximately 6,000 positions. The actual sequencing of ministries and agencies to be re-graded at the levels of 3 and below would be made by the PAR Steering Committee.

   - **Second, to make a successful re-assignment of staff to a newly graded position would require adequate job descriptions and accountabilities,** and qualifications established for each position and credible information on the incumbent. Progress has been made under the PRR in modernizing various ministerial and agencies’ organizational structures that has reduced (although not entirely) duplication and organizational anomalies. This effort has produced job descriptions for about 35,000 positions, including a majority of jobs in grades 1 and 2. Many of these positions (notably those in grades 5 and below) are in “jobs” that are routine (drivers, cleaners, file clerks) that do not have specific sectoral relevance, so that a revised job description in one or two ministries could be re-applied to others.

35. The risk of finding a general pattern of anomalies among functions and poor job descriptions may be mitigated through a process of arbitration when the need arose as well as judicious sequencing of implementation. Those ministries most advanced on redefining their organizational structure and with good coverage with regard to job descriptions will lead the way. Consultants are currently compiling existing job descriptions (resulting from the PRR program as well as all others) to establish a basis for proceeding with re-grading.

36. The IARCSC has developed a Pay and Grade Team, comprising about 15 national contractors, with some experience in job classification. This team would be mobilized to conduct the bulk of the re-grading of positions, particularly those at the levels of 3 and below, and making recommendations regarding the re-assignment of incumbents for managerial decisions.

37. Under these conditions the sub-component would implement the following tasks.
i. Communications strategy. The project would finance a public communications and awareness campaign, to be delivered in Dari and Pashto. It would be multi-media in nature (press, radio, pamphlet, presentation), and involve explanatory meetings and dialogue with blocks of stakeholders to elicit reactions and mobilize support, as well as traditional one-way communication of messages. (This will be financed from Component 3).

ii. Grades 2 and above. The project would finance technical assistance to work with a core group of the IARCSC job evaluation team to (i) undertake the “paper-to-paper” regrading of current positions, graded 2 and above, to the corresponding position in the new grade scheme; (ii) evaluate the probable suitability of the current incumbent for the newly graded position. This work would include:

- reviewing job descriptions and qualifications of all positions in these grades, whether or not they had been previously re-assessed for PRR purposes;
- identify anomalies in these descriptions and functions (duplication, non-functionality, chronically vacated positions, dubious fine-tuning) that would be referred back to HR and technical experts in the Commission for review;
- interview position holders for validation of their functions;
- modify the job descriptions to match reality;
- make a recommendation as to the grade (everyone will be appointed to the floor of the relevant grade with respect to pay) and
- based on the interview, evidence of qualifications, make a recommendation on the suitability of the incumbent and/or the desirability of opening this position to competition.

Based on this, a confidential report and recommendation would be submitted to a Technical Oversight Committee organized by the IARCSC including representatives of the Appointments Board, Ministry of Finance, and relevant ministries to assure consistency and transparency. The AB and the Commission would approve, or not, the recommendations for grading and assignments, which would pass through the PAR Steering Committee and be approved for financing by the Ministry of Finance. Where vacancies exist or where it is recommended that a position be reopened for competition, normal AB procedures would apply.

Grades 3 and Below.

39. The project would provide technical assistance to develop guidelines for regrading positions at grades three and below, and use the Commission’s P&G Team, with extra re-enforcement as necessary, to work with HR teams inside individual ministries to re-grade positions and recommend the re-assignments or not of incumbents as set out above. This amounts to implementing a reassignment plan for the ministry which looks at more than vacant positions only. The recommendation would be approved by the relevant line Minister, the Commission with AB and eventually MoF for financing.

40. The project will finance:

- Additional support for a communications campaign (estimated cost $500,000 – currently included under component 3)
- International technical assistance to guide the regrading and assessment of positions and staff at grades 1 and 2 (approximately 54 person months of international technical assistance and some supplementation of national consultants to the P&G team in the CSC if necessary).
International technical assistance to guide the regrading and reappointment of positions and staff at grades 3 and below (approximately 48 person months of international TA plus supplementation of national consultants to the P&G team as needed.)

41. Owing to the highly specialized and sensitive nature of this work, an internationally recognized firm, with experience in job grading, executive search and placement, personnel management, and public communications would be employed to assist the IARCSC P&G Team in implementing the program.

<table>
<thead>
<tr>
<th>Sub-component</th>
<th>Person months; Elapsed Time</th>
<th>Good and Services</th>
<th>Training</th>
<th>Estimated Cost (US$)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Human Resource Policies, Procedures and Training</td>
<td>73 (international); 3 years 138 (national); 3 years</td>
<td>$300,000</td>
<td>$360,000</td>
<td>3.5m</td>
</tr>
<tr>
<td>Senior Appointments and Appeals</td>
<td>36 (international); 3 years 54 (national); 3 years</td>
<td></td>
<td></td>
<td>1.4m</td>
</tr>
<tr>
<td>Pay and Grading</td>
<td>102 (international) 3 years 120 (national) 3 years</td>
<td>$50,000</td>
<td>100,000</td>
<td>3.8m</td>
</tr>
<tr>
<td>Total</td>
<td></td>
<td></td>
<td></td>
<td>8.7m</td>
</tr>
</tbody>
</table>

C. Description of Component 3. Oversight and Monitoring of the PAR Program

42. The IARCSC has the responsibility under the Civil Service Law to “lead, regulate, formulate and implement structure policies of the public administration system” (Article 5).

**Box A3.1: Functions of the IARCSC**

Mandate: to ‘lead, regulate, reform, formulate and implement structure policies of public administration system’ Civil Service Law, 2005

The IARCSC comprises.

**Civil Service Management** develops policies relating to the structure, management and appointment of civil servants, and monitors their implementation.

**Civil Service Appointments Board** identifies and recommends the recruitment, appointment, promotion, transfer, retirements, pension payment and other personal matters of high-ranking civil servants for the approval of the President and monitors the appointments in line ministries of junior positions.

**Civil Service Appeals Board** is responsible for hearing appeals from civil servants who consider they have been disciplined unfairly.

**Administrative Reform Secretariat** develops policy relating to public administration reform, communicates this across government and to the public and monitors the implementation of administrative reform programs, projects and activities.
Achievements

43. The IARCC has made progress in overseeing several important elements of the public administration reform effort. It has led the PRR effort across government, the introduction of merit-based appointments through the AB, designed grading reform to be implemented across the civil service, and led the design of new PAR strategy.

44. While having the responsibility for overall management of the public administration reform program, the IARCSC has not demonstrated a well-managed approach to some functions such as monitoring, policy development and coordination of assistance from donors. In spite of being the focal point of the PRR, slow improvement in meeting its own PRR Stage 2 standards lowers its credibility.

Support provided under the Grant

45. This component would include two sets of actions supporting the Commission’s role in (i) PAR program coordination and development in order to manage multiple sources of donor support, and coordinating resource flows to projects, and (ii) Monitoring and Evaluation, and Communication through the Administrative Reform Secretariat.

(a) Program Coordination and Development. The PAR framework and Civil Service (CS) implementation plan provide an opportunity for greater coordination of donor support. Based on the CS implementation plan the Program Coordination Department (PCD) will translate the priority needs into actionable investment programs that could be submitted to ARTF or other sources for funding. With respect to IDA and other donor financed projects, the PCD would also ensure coordination across technical assistance providers as well as adherence to grant agreement requirements.

(b) Monitoring and Evaluation, Policy and Communications. The absence of M&E has been a constraint to the effective implementation of public admin reforms. The I-ANDS benchmarks and CS implementation plan provide guidance for monitoring developments in organizational structures, human resource management practices and the IARCSC’s oversight of the Civil Service. Over time this will need to be expanded to include other elements of the PAR Agenda. The government is now adopting a set of actionable indicators to measure progress with regard to implementing the Civil Service program and more importantly to monitor progress over time in meeting the Compact targets.

46. The Administrative Reform Secretariat (ARS) in the IARCSC needs to develop the capacity to periodically monitor and evaluate progress in this regard, identify operational issues and lessons learned, support informed decision making and identify any necessary areas where changes in strategic direction are required. The M&E should be used to build a stronger understanding by political representatives and senior officials of PAR and the role of civil service reform therein, which help to build ownership and buy in. A process of reviews and clear communication will need to engage different stakeholders such decision makers, donors, political representatives, media and citizens. The ARS will need to support evidence based M&E and decision making, with a clear communication strategy and outreach, to policy makers and key stakeholders.

47. The grant would finance:

- Support to the ARS in monitoring and evaluation, policy development and communications strategy and implementation.
- Support to the PCD in donor relations and program design, coordination, implementation and financing;
48. The total cost of this support would be about US$3.3 million

<table>
<thead>
<tr>
<th>Sub-component</th>
<th>Person months; Elapsed Time</th>
<th>Good and Services</th>
<th>Training</th>
<th>Estimated Cost (US$)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Program Coordination</td>
<td>56 (international); 3 years</td>
<td>$100,000</td>
<td>$100,000</td>
<td>$1.7m</td>
</tr>
<tr>
<td>Policy, M&amp;E, Communications</td>
<td>38 (international); 3 years</td>
<td>$100,000</td>
<td>$100,000</td>
<td>$1.6 m</td>
</tr>
<tr>
<td></td>
<td>60 (National), 3 years</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td></td>
<td></td>
<td></td>
<td><strong>$3.3m</strong></td>
</tr>
</tbody>
</table>
ANNEX IV: PROCUREMENT ARRANGEMENTS

A. Country Context

1. The Bank has gained substantial experience and understanding of the procurement environment in Afghanistan through its involvement in the interim procurement arrangements put in place through Emergency Public Administration Project (EPAP) as well as with the institutions such as Afghanistan Reconstruction and Development Services (ARDS) that is holding the current responsibility for government’s procurement administration. As part of the broader review of Afghanistan’s Public Finance Management (PFM) system, the Bank recently carried out an assessment 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 Organization for Economic Co-operation and Development (OECD)/Development Assistance Committee (DAC).

2. The first key issue identified through the procurement assessment was the need for ownership and a champion in the Government for reform, deepening of capacity, ensuring integrity in the operation of procurement systems, and promoting sound procurement among ministries.

3. A new Procurement Law has been adopted in November 2005 which radically transforms the legal and regulatory framework for the procurement administration of Afghanistan. While it provides a modern legal system for procurement, effective implementation of the law may encounter difficulties in the current weak institutional structure and capacity of the Government. A Procurement Policy Unit (PPU) has now been established under MoF to ensure implementation through the creation of secondary legislation, standard bidding documents, provision of advice and creation of the necessary information systems for advertising and data collection. “Afghanistan Procurement Regulations” have been prepared under two sections: (i) Regulations; and (ii) Procedures and under review by the Ministry of Justice prior to submission to the Cabinet of Ministers. Procedures for Procurement Appeal and Review have been developed by PPU/MoF and the nominated members will be appointed for the system to be functional by April 2007.

4. In the absence of adequate capacity to manage procurement activities effectively, some interim arrangements have been put in place to improve the procurement management of the country. A central procurement facilitation service, ARDS has been established under the supervision of Ministry of Economy. 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 Bank funded Public Administration Capacity Building Project (PACBP) is the primary instrument for implementing the program to strengthen capacity of the line ministries to manage public procurement in an effective, transparent and accountable manner. However, the implementation of the procurement capacity building strategy has not made any significant progress yet due to lack of coordination and delays in decision making within the Government. The envisaged radical changes to the procurement management environment expected from the new Law also require the urgent implementation of a comprehensive human resources and capacity development program. The implementation of the procurement reform component of the PACBP and the proposed Public Financial Management Reform Project 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.
B. Procurement Overview

General

5. The Procurement administration of the project would be carried out in accordance with the World Bank’s “Guidelines: Procurement under IBRD Loans and IDA Credits” dated May 2004 and revised in October 2006, “Guidelines: Selection and Employment of Consultants by World Bank Borrowers” dated May 2004 and revised in October 2006, and the provisions stipulated in the Financing Agreement. The general description of various procurements under different expenditure categories are described below. For each contract to be financed by the Grant the different procurement methods or consultant selection methods, estimated costs, prior review requirements, and time frame agreed between the Grant Recipient and the Bank project team are described in the Procurement Plan. This Procurement Plan will be updated at least annually or at lesser time intervals as required to reflect the actual project implementation needs and improvements in the institutional capacity.

6. Specific procurement procedures including: defining TORs/technical specifications; preparing RFPs/bid/ documents; managing the bidding process including SBDs and evaluation procedures; verification mechanisms for receipt of goods and completion of assignments by consultants; contract administration; and payment procedures will be outlined in a Project Operations Manual, to be completed by August 31, 2007.

7. Procurement of Goods: Goods procured under this project would include office furniture, office equipment such as computers and accessories, photocopiers, fax machines, software, communication equipment etc. for IARCSC and its regional offices and the provincial governor’s offices involved in the project for implementation of the project activities. Owing to the small number and scale of requirements, ICB would not be an efficient procurement mechanism. All goods would be procured locally following NCB procedures using SBDs agreed for the procurement of goods for Afghanistan portfolio or “shopping”, when the estimated costs of each contract is less than USD 25,000. Computer software and other goods meeting the requirements of paragraph 3.6 of Bank’s Procurement Guidelines will be procured following Direct Contracting procedures with prior approval of IDA independent of value.

8. Staff Development: The Grant will finance several study tours and in country workshops.

9. Selection of Consultants: Major Technical Assistance contracts to be financed under the grant are: (i) Organizational Reform within government ministries in Afghanistan; (ii) Support Merit Based Human Resource Management (iii) Implementation of Pay and Grade Reforms; (iv) PAR Oversight M&E assignment. In addition there will be several long term national TA inputs. Short lists of consultants (firms) for services estimated to cost less than $ 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. For services exceeding US$ 200,000 or more QBS/QCBS shall be used as appropriately and for services estimated to cost less than US$ 200,000, QCBS, CQS, Least Cost Selection, Fixed Budget Selection may be used. There will be several long term large value contracts for national individual consultants. Such selection shall be in accordance with Section V of Bank’s Guidelines for Selection of Consultants. Single Source Selection of Consultants for firms and individuals would be allowed with prior agreement with IDA.

C. Assessment of the Agency’s Capacity to Implement Procurement

10. IARCSC have very limited experience in procurement under Bank financed projects. The experience is mainly in the selection of consultants. IARCSC is carrying out small value procurement of goods and services. There is an administration officer and procurement assistant to take procurement
actions in IARCSC. They are responsible to the Director (Finance and Administration), who has authority to approve contract awards up to a value of AFs 200,000 (US$ 4,000 equivalent). Contract award recommendations up to a value of AFs 500,000 (US$ 10,000) can be approved by the Secretary of the Reform Secretariat and awards up to US$ 500,000 will be the responsibility of the Chairman IARCSC. As per the Procurement Law all contracts above US$ 500,000 needs the approval of the Special Procurement Commission under the Ministry of Finance.

11. Currently IARCSC is assisted by the Procurement Unit (PU) of the Afghanistan Reconstruction and Development Services (ARDS) of the Ministry of Economy to: (i) prepare and invite EOIs based on the information provided by IARCSC; (ii) prepare RFPs based on the TORs submitted by IARCSC; (iii) guide to submit evaluation reports (in the formats acceptable to IDA) to the donors including IDA upon completion of evaluation by IARCSC staff; (iv) prepare contract documents in respect of large value consultancy contracts of firms and individuals.

12. ARDS of MOE has sufficient experience in Selection of Consultants under Bank financed projects and they are currently supported by an international TA until December 2007. Once the consultant’s are in place, the Program Coordination Department (PCD) would administer the contracts.

13. In respect of procurement of small value goods and individual consultants, IARCSC will need the support of a competent procurement officer to prepare bid packages and evaluation reports with technical inputs from the respective end users. IARCSC has agreed to have a national procurement officer in place by July 31, 2007. IDA has assisted in preparation of the TOR for the proposed assignment which will be financed under the LEP.

14. The following actions have been agreed with IARCSC to mitigate the risks:
   - Procurement documentation for large value consultancy contracts shall be carried out by the ARDS – PU of the Ministry of Economy, with technical inputs such as TORs and evaluation support from IARCSC;
   - Director (Finance & Administration) of IARCSC shall recruit a competent procurement officer to support and build capacity within IARCSC for small value procurement actions and selection of individual consultants;
   - IDA will conduct a capacity building program on Selection of Consultants for IARCSC staff.

15. With the above mentioned procurement risk mitigation measures, the overall project risk for procurement is medium.

D. Procurement Plan

16. The Grantee, at the appraisal stage, developed a Procurement Plan (below) for project implementation which provides the basis for the procurement methods. This plan has been agreed between the Grantee and the Project Team on April 2, 2007 and is available at the Office of the Chairman, IARCSC, Shah Mohamood Khan Ghazi Watt (opposite Ministry of Foreign Affairs), Sidarath Compound, Kabul, Afghanistan. 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.

E. Frequency of Procurement Supervision

17. In addition to the prior review supervision to be carried out from Bank offices, the capacity assessment of the Implementing Agency recommends two supervision missions in every eighteen months.
ATTACHMENT I

I. DETAILS OF THE PROCUREMENT ARRANGEMENTS INVOLVING INTERNATIONAL COMPETITION

(a) Goods and Works and Non-Consulting Services

i) List of contract Packages which will be procured following ICB and direct contracting:

<table>
<thead>
<tr>
<th>1</th>
<th>2</th>
<th>3</th>
<th>4</th>
<th>5</th>
<th>6</th>
<th>7</th>
<th>8</th>
<th>9</th>
</tr>
</thead>
<tbody>
<tr>
<td>Ref. No.</td>
<td>Contract (Description)</td>
<td>Estimated Cost</td>
<td>Procurement Method</td>
<td>P-Q</td>
<td>Domestic Preference (yes/no)</td>
<td>Review by Bank (Prior/Post)</td>
<td>Expected Bid-Opening Date</td>
<td>Comments</td>
</tr>
<tr>
<td>CSR-G4</td>
<td>Software</td>
<td>0.02</td>
<td>DC</td>
<td>No</td>
<td>No</td>
<td>Yes</td>
<td>July 2007</td>
<td></td>
</tr>
</tbody>
</table>

ii) ICB Contracts for goods above US$200,000 equivalent per contract and all Direct Contracting will be subject to prior review by the Bank.

(b) Consulting Services

i) List of Consulting Assignments with short-list of international firms:

<table>
<thead>
<tr>
<th>1</th>
<th>2</th>
<th>3</th>
<th>4</th>
<th>5</th>
<th>6</th>
<th>7</th>
</tr>
</thead>
<tbody>
<tr>
<td>Ref. No.</td>
<td>Description of Assignment</td>
<td>Estimated Cost in US$ m</td>
<td>Selection Method</td>
<td>Review by Bank (Prior/Post)</td>
<td>Expected Proposals Submission Date</td>
<td>Comments</td>
</tr>
<tr>
<td>CSR-1</td>
<td>Support Organizational Reform within government ministries in Afghanistan</td>
<td>7.33</td>
<td>QBS</td>
<td>Prior</td>
<td>July 2007</td>
<td></td>
</tr>
<tr>
<td>CSR-2</td>
<td>Support Merit Based Human Resource Management</td>
<td>3.96</td>
<td>QBS</td>
<td>Prior</td>
<td>July 2007</td>
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</tr>
<tr>
<td>CSR-3</td>
<td>Implementation of Pay and Grade Reforms</td>
<td>3.40</td>
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<td>July 2007</td>
<td></td>
</tr>
<tr>
<td>CSR-4</td>
<td>PAR Oversight/M&amp;E</td>
<td>2.85</td>
<td>QBS</td>
<td>Prior</td>
<td>July 2007</td>
<td></td>
</tr>
</tbody>
</table>

II. GENERAL

(a) Project information:
Country: Islamic Republic of Afghanistan
Recipient: Civil Service Commission
Project Name: Civil Service Reform
Grant No.: Project Implementing Agency (PIA): Civil Service Commission

(b) Bank’s approval Date of the procurement Plan [Original April 2, 2007.]

(c) Date of General Procurement Notice: December 21, 2006

(d) Period covered by this procurement plan: Eighteen Months
III. GOODS AND WORKS AND NON-CONSULTING SERVICES

(a) Prior Review Threshold: Procurement Decisions subject to Prior Review by the Bank as stated in Appendix 1 to the Guidelines for Procurement: Thresholds for applicable procurement methods (not limited to the list below) will be determined by the Procurement Specialist /Procurement Accredited Staff based on the assessment of the implementing agency’s capacity.

<table>
<thead>
<tr>
<th>Procurement Method</th>
<th>Prior Review Threshold</th>
<th>Comment</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. JCB (Goods)</td>
<td></td>
<td>All</td>
</tr>
<tr>
<td>2. NCB (Goods)</td>
<td>100,000</td>
<td></td>
</tr>
<tr>
<td>3. NCB (Non-Consultant Services)</td>
<td>All</td>
<td></td>
</tr>
<tr>
<td>4. Direct Contracting</td>
<td></td>
<td>All</td>
</tr>
</tbody>
</table>

(b) Reference to Project Operational/Procurement Manual: A Project Operational Manual shall be prepared and agreed with IDA.

c) Any Other Special Procurement Arrangements

d) Procurement Packages with Methods and Time Schedule

List the Packages which require Bank’s prior review first and then the other packages]

<table>
<thead>
<tr>
<th>Ref. No.</th>
<th>Contract (Description)</th>
<th>Estimated Cost</th>
<th>Procurement Method</th>
<th>Pre-qualification (yes/no)</th>
<th>Domestic Preference (yes/no)</th>
<th>Review by Bank (Prior / Post)</th>
<th>Expected Bid-Opening Date</th>
<th>Comments</th>
</tr>
</thead>
<tbody>
<tr>
<td>CSR-G-1</td>
<td>Computers and accessories several packages</td>
<td>0.2</td>
<td>NCB/Shopping</td>
<td>No</td>
<td>No</td>
<td>Prior</td>
<td>August 2007</td>
<td>First NCB contract</td>
</tr>
<tr>
<td>CSR-G-2</td>
<td>Furniture several packages</td>
<td>0.1</td>
<td>Shopping</td>
<td>No</td>
<td>No</td>
<td>Post</td>
<td>August 2007</td>
<td></td>
</tr>
<tr>
<td>CSR-G-03</td>
<td>Office equipment (several packages)</td>
<td>0.15</td>
<td>Shopping</td>
<td>No</td>
<td>No</td>
<td>Post</td>
<td>August 2007</td>
<td></td>
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<tr>
<td>CSR-G-04</td>
<td>Software</td>
<td>0.02</td>
<td>DC</td>
<td>No</td>
<td>No</td>
<td>Yes</td>
<td>August 2007</td>
<td></td>
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</table>
IV. SELECTION OF CONSULTANTS

<table>
<thead>
<tr>
<th>Selection Method</th>
<th>Prior Review Threshold</th>
<th>Comment</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Competitive Methods (Firms)</td>
<td>100,000</td>
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</tr>
<tr>
<td>2. Individuals</td>
<td>50,000</td>
<td></td>
</tr>
<tr>
<td>3. Single Source (Firms/Individuals)</td>
<td>All</td>
<td></td>
</tr>
</tbody>
</table>

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

(c) **Any Other Special Selection Arrangements:** [including advance procurement and retroactive financing, if applicable]

(d) **Consultancy Assignments with Selection Methods and Time Schedule**

<table>
<thead>
<tr>
<th>Ref. No.</th>
<th>Description of Assignment</th>
<th>Estimated Cost in US$ m</th>
<th>Selection Method</th>
<th>Review by Bank (Prior / Post)</th>
<th>Expected Proposals Submission Date</th>
<th>Comments</th>
</tr>
</thead>
<tbody>
<tr>
<td>CSR-1</td>
<td>Support Organizational Reform within government ministries in Afghanistan</td>
<td>7.33</td>
<td>QBS</td>
<td>Prior</td>
<td>July, 2007</td>
<td></td>
</tr>
<tr>
<td>CSR-3</td>
<td>Implementation of Pay and Grade Reforms</td>
<td>3.40</td>
<td>QBS</td>
<td>Prior</td>
<td>July, 2007</td>
<td></td>
</tr>
<tr>
<td>CSR-4</td>
<td>PAR Oversight/M&amp;E</td>
<td>2.10</td>
<td>QBS</td>
<td>Prior</td>
<td>July, 2007</td>
<td></td>
</tr>
<tr>
<td>CSR-5</td>
<td>PAR Institutional</td>
<td>0.18</td>
<td>Indv.</td>
<td>Prior</td>
<td>July, 2007</td>
<td></td>
</tr>
<tr>
<td>CSR-6</td>
<td>Institutional Specialist (3)</td>
<td>0.16</td>
<td>Indv.</td>
<td>Prior</td>
<td>July, 2007</td>
<td></td>
</tr>
<tr>
<td>CSR-7</td>
<td>HR Specialist (legal)</td>
<td>0.04</td>
<td>Indv.</td>
<td>Post</td>
<td>July, 2007</td>
<td></td>
</tr>
<tr>
<td>CSR-8</td>
<td>HR Specialist (Appeals)</td>
<td></td>
<td>Prior</td>
<td>July, 2007</td>
<td></td>
<td></td>
</tr>
<tr>
<td>CSR-9</td>
<td></td>
<td></td>
<td>Post</td>
<td>July, 2007</td>
<td></td>
<td></td>
</tr>
<tr>
<td>CSR-10</td>
<td>Database Manager</td>
<td>0.06</td>
<td>Indv.</td>
<td>Prior</td>
<td>July, 2007</td>
<td></td>
</tr>
<tr>
<td>CSR-11</td>
<td>Communications Specialist</td>
<td>0.05</td>
<td>Indv.</td>
<td>Prior</td>
<td>July, 2007</td>
<td></td>
</tr>
<tr>
<td>CSR-12</td>
<td>Re-grading specialist 5 posts</td>
<td>0.22</td>
<td>Indv.</td>
<td>Prior</td>
<td>July, 2007</td>
<td></td>
</tr>
<tr>
<td>CSR-13</td>
<td>M&amp;E specialist</td>
<td>0.05</td>
<td>Indv.</td>
<td>Prior</td>
<td>July, 2007</td>
<td></td>
</tr>
<tr>
<td>CSR-14</td>
<td>Financial Management Specialist</td>
<td>0.37</td>
<td>Indv.</td>
<td>Prior</td>
<td>Dec, 2007</td>
<td></td>
</tr>
<tr>
<td>CSR-15</td>
<td>Procurement Specialist</td>
<td>0.37</td>
<td>Indv.</td>
<td>Prior</td>
<td>Dec, 2007</td>
<td></td>
</tr>
</tbody>
</table>
V. IMPLEMENTING AGENCY CAPACITY BUILDING ACTIVITIES WITH TIME SCHEDULE

(a) In this section the agreed Capacity Building Activities. In addition to the program conducted by IDA for IARCSC staff, it is proposed that staff involved in the procurement activities of the grant be nominated to participate at training programs for Procurement Law/Regulations/Procedures/goods/works and consulting services conducted by the consultant hired for Capacity Building Assignment under the MoF/PPU.

Proposed Capacity Building program

<table>
<thead>
<tr>
<th>No.</th>
<th>Expected outcome / Activity Description</th>
<th>Estimated Duration</th>
<th>Estimated Start Date</th>
<th>Proposed Participation</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Procurement Workshop: General Introduction</td>
<td>1 days</td>
<td>May 2007</td>
<td>IARCSC</td>
</tr>
<tr>
<td>2</td>
<td>Procurement Workshop: Selection of Consultants</td>
<td>1 day</td>
<td>May 2007</td>
<td>IARCSC</td>
</tr>
</tbody>
</table>

(b) Agreed Procedures for National Competitive Bidding

In order to ensure economy, efficiency, transparency and broad consistency with the provisions of Section I of the Procurement Guidelines, the following criteria shall be followed in procurement under National Competitive Bidding procedures:

i. Standard bidding documents approved by the World Bank 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 World Bank.

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 World Bank;

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 World Bank (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 World Bank’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 V: FINANCIAL MANAGEMENT AND DISBURSEMENT ARRANGEMENTS

1. 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 four years. The Public Administration Capacity Building Project (PACBP) is the primary instrument to continue and enhance the fiduciary measures put in place during the past years to help ensure transparency and accountability for the funding provided by the Bank and other donors.

2. 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.

3. Despite undeniable gains in reconstruction since the end of 2001, the challenges facing Afghanistan remain immense; not least because of the tenuous security situation 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.

4. 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 delays in reforming the pay structure and grading has severely hampered public administration. Domestic revenues lag behind expenditures by a factor of ten to one. Large-scale corruption could emerge to undermine the government’s efforts to enhance aid flows through national accounts. Capacities to track expenditures and monitor expenditure outcomes have improved, but they need rapid and substantial strengthening if progress toward the attainment of national development targets is to be monitored. Currently, 75% of external revenues bypass government appropriation systems.

5. IDA 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 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.

6. 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. 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. Additionally, the regulatory environment in Afghanistan has advanced significantly in the past three years, while the mastery of basic skills does not fully qualify civil servants to work effectively in the new emerging environment.

**Risk Assessment and Mitigation**

7. The table below identifies the key risks that the project may face and indicates how these risks are to be addressed.

<table>
<thead>
<tr>
<th>Risk</th>
<th>Risk Rating</th>
<th>Risk Mitigation Measures</th>
<th>Residual Risk</th>
<th>Condition of negotiations, Board or Effectiveness (Y/N)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Country Inherent Risk</td>
<td>M</td>
<td>Source - PFM study</td>
<td>M</td>
<td>N</td>
</tr>
<tr>
<td>Project Financial Management Risk</td>
<td>H</td>
<td>Minimize use of Designated Account, maximize direct payments to consultants; all procurement through Procurement Advisor</td>
<td>S</td>
<td>N</td>
</tr>
<tr>
<td>Perceived Corruption</td>
<td>H</td>
<td>Government commitment, internal controls and new internal audit will help to reduce the high level of perceived corruption</td>
<td>S</td>
<td>N</td>
</tr>
<tr>
<td><strong>Overall Inherent Risk</strong></td>
<td>H</td>
<td></td>
<td></td>
<td>S</td>
</tr>
<tr>
<td>CONTROL RISK</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Weak Implementing Entity</td>
<td>H</td>
<td>A Financial Management Specialist will be recruited specifically for the Independent Administrative Reform and Civil Service Commission (IARCSC) to take responsibility of the project FM activities. The capacity of IARCSC would be strengthened with the presence of internationally recruited advisors</td>
<td>S</td>
<td>Y Disbursement</td>
</tr>
<tr>
<td>Funds Flow</td>
<td>S</td>
<td>Payments will be made to consultants, Suppliers, etc. from the Designated Account (DA) by SDU-MoF. In addition to payments out of DA funds, the implementing entities can also request the SDU to make i) direct payments from the Credit Account to consultants or consulting firms, and ii) special commitments for contracts covered by letters of credit. These payments would only be made by SDU after due processes and proper authorization from the respective component implementing entities.</td>
<td>M</td>
<td>N</td>
</tr>
<tr>
<td>Budgeting</td>
<td>S</td>
<td>A budget committee will be appointed to coordinate the preparation of annual work plan and the derivation of annual budget therefrom. Representatives from IARCSC, Program Coordination</td>
<td>M</td>
<td>N</td>
</tr>
</tbody>
</table>
### Strengths and Weaknesses

#### Strengths

8. 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. Government support for the PACBP is a 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. This is the second IDA-funded grant for the IARCSC so the agency has experience in implementing Bank projects and following Bank procedures.

#### Weaknesses and Action Plan

9. 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 additional staff to be funded by the project, together with intensive training programs included in this project, is expected to strengthen the fiduciary arrangements.

---

**Strengths and Weaknesses**

**Strengths**

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**Weaknesses and Action Plan**

9. 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 additional staff to be funded by the project, together with intensive training programs included in this project, is expected to strengthen the fiduciary arrangements.
**Table A5.1: Action Plan**

<table>
<thead>
<tr>
<th>Significant Weaknesses</th>
<th>Action</th>
<th>Responsible Agent</th>
<th>Completion Date</th>
</tr>
</thead>
<tbody>
<tr>
<td>Shortage of qualified and experienced FM staff</td>
<td>Appointment of an FMS in IARCSC.</td>
<td>IARCSC</td>
<td>August 31, 2007</td>
</tr>
<tr>
<td>Weak FM skills and capacity</td>
<td>Intensive FM training programs for all project staff assigned to expenditure control, and financial recording and reporting activities at each component implementing entity</td>
<td>IARCSC</td>
<td>Before disbursement</td>
</tr>
<tr>
<td>Project internal controls and procedures need to be defined</td>
<td>Financial Management Manual developed</td>
<td>IARCSC</td>
<td>August 31, 2007</td>
</tr>
<tr>
<td>Interim reports need to include required information</td>
<td>Un-audited interim financial report formats confirmed</td>
<td>IDA/MoF/IARCSC/DBER</td>
<td>Before negotiations</td>
</tr>
</tbody>
</table>

**Implementing Entity**

10. The project would be implemented under the authority of the Independent Administrative Reform and Civil Service Commission (IARCSC). The responsibility would be delegated to the Chairman of the IARCSC. Oversight of the program would be provided by the PAR Steering Committee comprising senior representatives of the IARCSC, the Ministry of Finance, the Office of the President and other ministries as required, to maintain focus on results, good communications and a consolidated view of the program and to discuss and recommend any necessary policy and regulatory improvements.

11. Coordination of the various activities under the project would be the responsibility of the Program Coordination Department (PCD). The specific role of the PCD would be to plan, coordinate, and monitor, in liaison with the ARS, the overall project work program and the achievement of its intended results. It would be responsible for ensuring that all requirements under the grant agreement are met with regard to timely reporting and progress monitoring.

12. The PAR Steering Committee will convene at least every quarter to review progress with implementation and review and approve work plans and budget.

13. The Financial Management Specialist to be recruited at IARCSC will take responsibility for financial management activities of the project, which will include processing of consultants and suppliers invoices for payments i.e. preparation of M-16 forms (payment orders), maintaining relevant accounting records, preparation of required monthly, quarterly and annual reports, coordination with other component implementing entities to ensure that adequate financial management requirements are met, liaising with SDU to ensure that the Designated Account is replenished as at when due and be responsible for responding to project audits.

**Budgeting**

14. A budget committee will be appointed to coordinate the preparation of annual work plans and the derivation of annual budgets. This committee will be made up of representatives from IARCSC, Program Coordination Department (PCD), PAR Steering Committee and each component implementing entity, and it shall report to the PAR Steering Committee through the Chairman of IARCSC. 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 IARCSC must get approvals
from the presidential office and the parliament and attach them to B27 and PCS forms at the time of requesting yearly allotments for contracts under the project to avoid delays in payment processing.

**Funds Flow**

15. 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) or in a local commercial bank, if approved. 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 implementing entity when needed.

16. In addition to payments out of DA funds, the implementing entities can also request the SDU to make i) direct payments from the Grant Account to consultants or consulting firms, 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 centrally from the IARCSC in accordance with the approval mechanisms documented in the project FM Manual.

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**Figure A5.1: Funds Flow Chart**

```
<table>
<thead>
<tr>
<th>IDA</th>
<th>Direct Payments to Consultants, etc. after approval of W.A initiated by the project and submitted through SDU</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Designated Account in DaB denominated in USD</td>
</tr>
<tr>
<td></td>
<td>Project transactions processed through SDU and paid in USD or Afghans</td>
</tr>
</tbody>
</table>
```

Payment Requests

Payment Requests

IARCSC

48
Legal requirements for authorized signature

17. Ministry of Finance has authorization to disburse funds from the Grant. Specimen signatures of authorized signatories in MoF will be submitted to the Bank prior to commencing disbursements.

Accounting

18. 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 IARCSC will: i) supervise preparation of supporting documents for expenditures, ii) prepare payment orders (Form M16), iii) obtain approval for M-16s by the Minister or Deputy Minister depending on the payment amount, and iv) submit them to the Treasury Department in MoF for verification and payment. 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.

19. IARCSC FM staff will maintain essential project transaction records using Excel spreadsheets and generate required monthly, quarterly, and annual reports.

20. The FM Manual, to be prepared by IARCSC and approved by the Bank, will include: i) roles and responsibilities for all FM staff, ii) documentation and approval procedures for payments and release of funds to each implementing entity involved in the project, 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.

21. 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 assigned FM staff in IARCSC.

Internal Control & Internal Auditing

22. Project-specific internal control procedures for requests and approval of funds will be described in the FM Manual to be developed before disbursements begin including segregation of duties, documentation reviews, physical asset control, and cash handling and management. Adequate procedures, guidelines, and controls on payments to implementing entities involved in the project will also be included in the FM Manual.

23. The FMS in IARCSC will be responsible for coordinating FM activities of the project with the SDU.

24. 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.
25. The project financial management systems will be subject to review by the newly-established internal audit directorate of the MoF, according to programs to be determined by the Director of Internal Audit using a risk-based approach.

**External Audit**

26. 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.

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

<table>
<thead>
<tr>
<th>Responsible Agency</th>
<th>Audit</th>
<th>Auditors</th>
<th>Date</th>
</tr>
</thead>
<tbody>
<tr>
<td>MoF, supported by Special Disbursement Unit</td>
<td>SOE, Project Accounts and Designated Account</td>
<td>Auditor General</td>
<td>Sep 22</td>
</tr>
</tbody>
</table>

**Financial Reporting**

28. 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 Finance Department of IARCSC. These reports will be produced based on records kept on Excel spreadsheets after due reconciliation to expenditure statements from SDU (as recorded in AFMIS) and bank statements from DAB.

29. 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. PCD/Finance Department (IARCSC) 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 CSMP will be agreed prior to project negotiations.

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

**Disbursement Arrangements**

31. Table 1 shows the allocation of IDA proceeds in two expenditure categories. The categories for “goods, consultants’ services, and training” are set forth in the financing agreement to facilitate preparation of withdrawal applications and record-keeping. Category 2 is subject to a condition of disbursement. Project funds will be disbursed over 48 months. The final disbursement deadline is set at four months after the closing date.
32. During this additional 4-month grace period, project-related expenditures incurred prior to the closing date are eligible for disbursement. Disbursement procedures set out in the Bank's Disbursement Guidelines and Project and the Bank's "Disbursement Handbook for World Bank Clients" (May 2006) are applicable to this project.

<table>
<thead>
<tr>
<th>Expenditure Category</th>
<th>Amount of the Grant Allocations</th>
<th>Financing Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Goods, Consultants' services and Training for Parts 1, 2(a), 2(b) and 3 of the Project</td>
<td>11,000,000</td>
<td>100 %</td>
</tr>
<tr>
<td>2. Goods, Consultants' services and Training for Part 2(c) of the Project</td>
<td>2,500,000</td>
<td>100 %</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>13,500,000</strong></td>
<td><strong>100 %</strong></td>
</tr>
</tbody>
</table>

33. **Summary Reports.** Summary reports in the form of Statements of Expenditure will be used for expenditures on contracts below US$25,000.

34. **Designated Account.** A single designated account will be opened at DAB or in a local commercial bank in US dollars for a maximum amount of US$600,000, representing 3 months of estimated expenditures. The SDU in MoF will manage both payments from and new advances to this account. The designated account will be replenished on a monthly basis.

35. Cash advances may be issued from the Designated Account to be held and managed by IARCSC. This agency's internal controls, cash handling accounting, and preparation of Statements of Expenses (SOEs) have been assessed as satisfactory.

36. New cash advances will only be made when all other prior cash advances have been justified through submission of SOEs to the SDU.

37. **Direct Payments.** Third-party direct payments will be permitted for amounts exceeding approximately US$ 100,000. Although below the customary minimum value, this will permit flexibility in making payments. All such payments require records (supporting documentation) the requirements for which will be in the Disbursement Letter.

38. **Preparation of Withdrawal Applications.** The SDU will review withdrawal applications for quality and conformity to Treasury procedures, and then obtain the authorized signatures. Selected IARCSC finance staff will be registered as users of the World Bank Web-based Client Connection system, and play an active role in managing the flow of disbursements.

**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 Finance Department (IARCSC) quarterly to the World Bank and a copy to SDU-MoF within 45 days of the end of each quarter.
- PCD (IARCSC) will ensure that the new Financial Management Specialist to be employed is retained throughout the duration of the project in order to ensure smooth project implementation.
Supervision Plan

39. 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 agency performance in managing project funds to ensure that it is timely, accurate, and accountable. Particular supervision emphasis will be placed on asset management and supplies.
- Review of financial management risk rating and compliance with all covenants.

Conclusion

40. 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.
MAP SECTION
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