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GRANT NUMBER 0030-AFG (SF)

GRANT AGREEMENT  
(Special Operations)

(Capacity Building for Institutional Development Project)

between

ISLAMIC REPUBLIC OF AFGHANISTAN

and

ASIAN DEVELOPMENT BANK

DATED 29 DECEMBER 2005

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GAS:AFG 38122

## **GRANT AGREEMENT**

### **(Special Operations)**

GRANT AGREEMENT dated 29 December 2005 between ISLAMIC REPUBLIC OF AFGHANISTAN (the "Recipient") and ASIAN DEVELOPMENT BANK ("ADB").

#### WHEREAS

(A) the Recipient has applied to ADB for a grant for the purposes of the Project described in Schedule 1 to this Grant Agreement;

(B) the Recipient has likewise applied to ADB for a Program Loan to develop the Recipient's fiscal management and public administration sector, and by a Loan Agreement of even date herewith (hereinafter called the Loan Agreement), ADB has agreed to make to the Recipient a Loan of thirty three million six hundred and seventy six thousand Special Drawing Rights (33,676,000); and

(C) ADB has agreed to provide a grant to the Recipient from ADB's Special Funds resources upon the terms and conditions hereinafter set forth;

NOW THEREFORE the parties agree as follows:

## **ARTICLE I**

### **Grant Regulations; Definitions**

Section 1.01. All provisions of the Special Operations Grant Regulations of ADB, dated 7 February 2005 (the "Grant Regulations"), are hereby made applicable to this Grant Agreement with the same force and effect as if they were fully set forth herein.

Section 1.02. The definitions set forth in the Grant Regulations are applicable to this Grant Agreement unless the context requires otherwise. In addition, the following terms have the following meanings:

(a) "Civil Service Act" refers to the Civil Service Act of the Recipient, of 11 September 2005, as may be amended from time to time;

(b) "IARCSC" means the Recipient's Independent Administrative Reforms and Civil Service Commission, or any legal successor thereto;

(c) "IICC" means Inter-Agency Implementation and Coordination Committee and refers to the IICC established under the Loan Agreement mentioned in Recital (B) above;

(d) "MOF" means the Recipient's Ministry of Finance, or any legal successor thereto;

(e) "Program Director" refers to the consultant, to be recruited under the Project, and who shall be in charge for the day-to-day implementation of the Project as well as of the Program Loan mentioned in Recital (B) of this Grant Agreement; and

(f) "Project Executing Agency" for the purposes of, and within the meaning of, the Grant Regulations means MOF which is responsible for the carrying out of the Project.

## **ARTICLE II**

### **The Grant**

Section 2.01. ADB agrees to make available to the Recipient from ADB's Special Funds resources on terms and conditions set forth in this Agreement an amount of seven million United States dollars (\$7,000,000).

## **ARTICLE III**

### **Use of Proceeds of the Grant**

Section 3.01. The Recipient shall cause the proceeds of the Grant to be applied to the financing of expenditures on the Project in accordance with the provisions of this Grant Agreement.

Section 3.02. The goods and services and other items of expenditure to be financed out of the proceeds of the Grant and the allocation of amounts of the Grant among different categories of such goods and services and other items of expenditure shall be in accordance with the provisions of Schedule 2 to this Grant Agreement, as such Schedule may be amended from time to time by agreement between the Recipient and ADB.

Section 3.03. Except as ADB may otherwise agree, all services to be financed out of the proceeds of the Grant shall be procured in accordance with the provisions of Schedule 3 to this Grant Agreement.

Section 3.04. Withdrawals from the Grant Account in respect of services shall be made only on account of expenditures relating to

- (a) services which are supplied from such member countries of ADB as shall have been specified by ADB from time to time as eligible sources for procurement, and
- (b) services which meet such other eligibility requirements as shall have been specified by ADB from time to time.

Section 3.05. The Grant Closing Date for the purposes of Section 8.02 of the Grant Regulations shall be 30 June 2009 or such other date as may from time to time be agreed between the Recipient and ADB.

## **ARTICLE IV**

### **Particular Covenants**

Section 4.01. In the carrying out of the Project and operation of the Project facilities, the Recipient shall perform, or cause to be performed, all obligations set forth in Schedule 4 to this Grant Agreement.

Section 4.02. (a) The Recipient shall (i) maintain, or cause to be maintained, separate accounts for the Project; (ii) have such accounts and related financial statements audited annually, in accordance with appropriate auditing standards consistently applied, by independent auditors whose qualifications, experience and terms of reference are acceptable to ADB; (iii) furnish to ADB, as soon as available but in any event not later than 6 months after the end of each related fiscal year, certified copies of such audited accounts and financial statements and the report of the auditors relating thereto (including the auditors' opinion on the use of the Grant proceeds and compliance with the financial covenants of this Grant Agreement as well as on the use of the procedures for imprest account/statement of expenditures), all in the English language; and (iv) furnish to ADB such other information concerning such accounts and financial statements and the audit thereof as ADB shall from time to time reasonably request.

(b) The Recipient shall enable ADB, upon ADB's request, to discuss the Recipient's financial statements for the Project and its financial affairs related to the Project from time to time with the auditors appointed by the Recipient pursuant to Section 4.02(a) hereabove, and shall authorize and require any representative of such auditors to participate in any such discussions requested by ADB, provided that any such discussion shall be conducted only in the presence of an authorized officer of the Recipient unless the Recipient shall otherwise agree.

Section 4.03. The Recipient shall enable ADB's representatives to inspect the Project, the goods financed out of the proceeds of the Grant, and any relevant records and documents.

## **ARTICLE V**

### **Suspension and Cancellation**

Section 5.01. The following is specified as an additional event for suspension of the right of the Recipient to make withdrawals from the Grant Account for the purposes of Section 8.01(k) of the Grant Regulations or cancellation of the Grant pursuant to Section 8.02 of the Grant Regulations: the Recipient shall have failed to perform any of its

obligations or make satisfactory progress in the implementation of the activities specified under the Loan Agreement.

## **ARTICLE VI**

### **Effectiveness**

Section 6.01. The following is specified as an additional condition to the effectiveness of this Grant Agreement for the purposes of Section 9.01(e) of the Grant Regulations: the Loan Agreement shall have been duly executed and delivered on behalf of the Borrower, and all conditions for its effectiveness (other than a condition requiring the effectiveness of this Grant Agreement) shall have been fulfilled.

Section 6.02. A date ninety (90) days after the date of this Grant Agreement is specified for the effectiveness of the Grant Agreement for the purposes of Section 9.04 of the Grant Regulations.

## **ARTICLE VII**

### **Miscellaneous**

Section 7.01. The Deputy Minister of Finance for Budget and Treasury Management of the Recipient is designated as representative of the Recipient for the purposes of Section 11.02 of the Grant Regulations.

Section 7.02. The following addresses are specified for the purposes of Section 11.01 of the Grant Regulations:

#### For the Recipient

Ministry of Finance  
Islamic Republic of Afghanistan  
Kabul  
Afghanistan

Telephone Number:

93-20 210-3157

#### For ADB

Asian Development Bank  
P.O. Box 789  
0980 Manila, Philippines

Cable Address:

ASIANBANK  
MANILA

Telex Numbers:

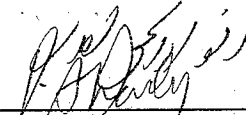
29066 ADB PH (RCA)  
42205 ADB PM (ITT)  
63587 ADB PN (ETPI)

Facsimile Numbers:

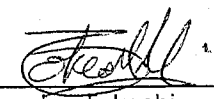
(632) 636-2444  
(632) 636-5978.

IN WITNESS WHEREOF the parties hereto, acting through their representatives thereunto duly authorized, have caused this Grant Agreement to be signed in their respective names and to be delivered at the principal office of ADB, as of the day and year first above written.

ISLAMIC REPUBLIC OF AFGHANISTAN

By   
\_\_\_\_\_  
Dr. Anwar Ul-Haq Ahady  
Authorized Representative

ASIAN DEVELOPMENT BANK

By   
\_\_\_\_\_  
Joji Tokeshi  
Officer-in-Charge/Deputy Country Director  
Afghanistan Resident Mission

## SCHEDULE 1

### Description of the Project

1. The objective of the Project is to support capacity building initiatives for MOF and IARCSC to support effective implementation of the Program for which the Loan Agreement was entered into.

2. The Project shall comprise the following Components:

#### **Component 1: Strengthening the Budget Process**

Provide technical assistance and build capacity of MOF to (a) strengthen the linkage between the National Development Strategy, the Public Investment Programs, and the Medium Term Budget Framework; (b) appraise budget; and (c) identify and monitor results-based indicators with a view to developing results-based budgeting, focused on the agriculture, energy and transport sectors.

#### **Component 2: Strengthening the Capacity of Moustufiats**

Provide technical assistance and build capacity of moustufiats through (a) supporting the implementation of the restructuring plan for moustufiats; (b) developing operational manuals to improve revenue and treasury functions; and (c) providing training and capacity building activities for revenue and treasury operations at the moustufiats level.

#### **Component 3: Implementing the Civil Service Act**

Provide technical assistance and building capacity of IARCSC to (a) provide cross-cutting support to program management; (b) support human resource management; (c) support communication policy; and (d) support performance management.

#### **Component 4: Providing short term support to MOF and IARCSC**

Provide short-term technical assistance on a needs basis to MOF and IARCSC.

3. The Project is expected to be completed by 31 December 2008.

**SCHEDULE 2****Allocation and Withdrawal of Grant Proceeds**General

1. The table attached to this Schedule sets forth the Category of services to be financed out of the proceeds of the Grant. The entire Grant shall be used to finance the consulting services for each of the Components listed in schedule 1 to this Grant Agreement.

Imprest Account; Statement of Expenditures

2. (a) Except as ADB may otherwise agree, the Recipient shall establish immediately after the Effective Date, an imprest account at Da Afghanistan Bank. The imprest account shall be established, managed, replenished and liquidated in accordance with ADB's "Loan Disbursement Handbook" dated January 2001, as amended from time to time, and detailed arrangements agreed upon between the Recipient and ADB. The initial amount to be deposited into the account shall not exceed the equivalent of six months estimated expenditure or 10% of the Grant amount, whichever is lower.

(b) The statement of expenditures (SOE) procedure may be used to liquidate advances provided into the imprest account, in accordance with ADB's "Loan Disbursement Handbook" dated January 2001, as amended from time to time, and detailed arrangements agreed upon between the Recipient and ADB. Any individual payment to be reimbursed or liquidated under the SOE procedure shall not exceed \$50,000.

**TABLE**

<b>ALLOCATION AND WITHDRAWAL OF GRANT PROCEEDS (Technical Assistance for Capacity Building for Institutional Development Project)</b>				
<b>CATEGORY</b>			<b>ADB FINANCING</b>	
<b>Number</b>	<b>Item</b>	<b>Amount Allocated \$</b>	<b>Percentage*</b>	<b>Basis for Withdrawal from the Grant Proceeds</b>
		<b>Category</b>		
1	Consulting Services	7,000,000	100	percent of total expenditure
	<b>Total</b>	<b>7,000,000</b>		

\* Exclusive of local taxes

### **SCHEDULE 3**

#### **Consultants**

1. The services of consultants shall be utilized in the carrying out of the Project, aimed at facilitating the implementation of the Program mentioned in Recital B of this Grant Agreement (the Program). More specifically, consultants shall be utilized to advise the Recipient with regard to:

- (a) strengthening the budget process;
- (b) strengthening the capacity of moustufiats;
- (c) implementing the Civil Service Act;
- (d) short-term assignments, to be identified on a needs basis during the implementation of the Program, including, but not limited to, the areas of cash management; accounting policy development; contingent liabilities; and treasury bills development.

The terms of reference of the consultants shall be as determined by agreement between ADB and the Recipient. The terms of reference of the consultants who shall be engaged under (c), and under (d) when relating to public administration reforms, shall be as determined by agreement between ADB and IARCSC.

2. The selection, engagement and services of all consultants shall be subject to the provisions of this Schedule and the provisions of the "Guidelines on the use of Consultants by Asian Development Bank and its Borrowers" dated January 2005 (hereinafter called the Guidelines on the Use of Consultants), as amended from time to time, which have been furnished to the Recipient, MOF and IARCSC.

3. The consultants for the services described in (a) and (b) of paragraph 1 above, shall be selected and engaged by ADB, in consultation with MOF, as a firm, using the QBS method. The consultants for the services described in (c) of paragraph 1 above, shall be selected and engaged by ADB, in consultation with MOF, as a firm, using the QCBS method. In all cases, full technical proposals shall be used.

4. The services of individual consultants shall be utilized in the carrying out of the services described in (d) of paragraph 1 above. These consultants shall be selected and engaged by the Executing Agency, in close consultation with ADB, and in accordance with the following procedures:

- (a) A list of the candidates together with their qualifications and their ranking and a draft contract shall be furnished to ADB for approval before the selection of consultants.
- (b) Promptly after the contract is signed, ADB shall be furnished with the evaluation of the candidates and a brief justification for the selection, together with three copies of the signed contract.
- (c) If any substantial amendment of the contract is proposed after its execution, the proposed changes shall be submitted to ADB for prior approval.

5. The Recipient shall ensure that all ADB-financed contracts with consultants contain appropriate representations, warranties and, if appropriate, indemnities from the

consultants to ensure that the consulting services provided do not violate or infringe any industrial property or intellectual property right or claim of any third party.

## SCHEDULE 4

### Project Implementation and Other Matters

#### A. Executing Agency

1. MOF shall be the Executing Agency for the Project.

#### B. Arrangements and responsibilities for Project Management, Implementation and Coordination

2. MOF and IARCSC shall oversee and coordinate the implementation of the Project through delegation to (i) the IICC; and (ii) the Program Director. The Program Director shall be in charge of the day-to-day management and implementation of the Project, the coordination with the ADB, and assist in the selection and recruitment of consultants. (S)he shall report to the head of the IICC.

3. MOF shall ensure that each Moustufiat, participating in Project activities, shall appoint the Moustufi of that Moustufiat as focal person for Project implementation. The Moustufis shall submit quarterly reports on Project implementation progress to the Program Director, who shall consolidate such reports for submission to the IICC.

4. IARCSC shall ensure that each line Ministry participating in Project activities, shall appoint a focal person. The focal person shall submit quarterly reports to the Program Director, who shall consolidate such reports for submission to the IICC.

#### C. Project Implementation

##### Counterpart and financing

5. The Recipient shall ensure that sufficient counterpart staff and financing, needed to implement the Project, shall be provided. More specifically, the Recipient shall provide sufficient office space and secretarial support for the international consultants.

##### Finding and Recommendations of the Project

6. The Recipient shall ensure that in carrying out the policy measures and activities included in the Policy Matrix of the Loan Agreement, due consideration shall be given to the findings and recommendations provided under the Project.

##### Project Reviews and Reporting

7. ADB, MOF and IARCSC shall jointly review the progress of the Project on a quarterly basis.