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LOAN NUMBER 2215-AFG(SF)

LOAN AGREEMENT  
(Special Operations)

(Fiscal Management and Public Administration Reform Program)

between

THE ISLAMIC REPUBLIC OF AFGHANISTAN

and

ASIAN DEVELOPMENT BANK

DATED 29 DECEMBER 2005

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LPS:AFG 38122

## **LOAN AGREEMENT**

### **(Special Operations)**

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

#### WHEREAS

(A) ADB has received from the Borrower a development policy letter dated 31 October 2005 (hereinafter called the Policy Letter), setting forth certain objectives, policies and actions, described in Schedule 1 to this Loan Agreement, designed to develop the Borrower's fiscal management and public administration sector (hereinafter called the Program Cluster or FMPAR) of which the Program (hereinafter called the Program) comprises the first subprogram as described in Schedule 1 to this Loan Agreement;

(B) the Borrower has applied to ADB for a loan from its Special Funds resources for the purposes of the Program;

(C) the Borrower has likewise applied to ADB for a grant for capacity building initiatives for the Ministry of Finance and the Independent Administrative Reform and Civil Service Commission to support effective implementation of the Program, and by a Grant Agreement of even date herewith (hereinafter called the Grant Agreement), ADB has agreed to give the Borrower a grant of seven million United States Dollars (\$7,000,000); and

(D) ADB has, on the basis inter alia of the foregoing, agreed to make a loan to the Borrower from ADB's Special Funds resources upon the terms and conditions hereinafter set forth;

NOW THEREFORE the parties agree as follows:

## **ARTICLE I**

### **Loan Regulations; Definitions**

Section 1.01. All the provisions of the Special Operations Loan Regulations of ADB, dated 1 May 2004 (the "Loan Regulations"), are hereby made applicable to this Loan Agreement with the same force and effect as if they were fully set forth herein, subject, however, to the following modifications:

(a) Section 2.01(24) is deleted and the following is substituted therefor:

24. The term "Program" means the program for which ADB has agreed to make the Loan, as described in the Loan Agreement and as the description thereof may be amended from time to time by agreement between ADB and the Borrower.

(b) The term "Project" wherever it appears in the Loan Regulations shall be substituted by the term "Program".

(c) Section 2.01(26) is deleted and the following is substituted therefor:

26. The term "Program Executing Agency" means the entity or entities responsible for the carrying out of the Program as specified in the Loan Agreement.

(d) The term "Project Executing Agency" wherever it appears in the Loan Regulations shall be substituted by the term "Program Executing Agency".

(e) Section 6.05 (c) is deleted and the following is substituted therefor:

(c) Promptly after the closing date for withdrawals from the Loan Account, but in any event not later than three (3) months thereafter or such later date as may be agreed for this purpose between the Borrower and ADB, the Borrower shall prepare and furnish to ADB a report, in such form and in such detail as ADB shall reasonably request, on the execution of the Program, including its cost, the performance by the Borrower of its obligations under this Loan Agreement and the accomplishment of the purposes of the Loan.

Section 1.02. The terms defined in the Loan Regulations are incorporated into this Loan Agreement, unless the context requires otherwise. In addition, the following terms have the following meanings:

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

(b) "Counterpart Funds" means the Afghani proceeds accruing to the Borrower and generated from the proceeds of the Loan under the Program as referred to in paragraph 8 of Schedule 5 to this Loan Agreement;

(c) "DAB" means Da Afghanistan Bank, the Borrower's central bank, or any legal successor thereto;

(d) "Deposit Account" means the account to be established by the Borrower pursuant to paragraph 4 of Schedule 3 to this Loan Agreement;

(e) "Eligible Items" means the goods imported under the Program (except those specifically excluded pursuant to Attachment 1 to Schedule 3 to this Loan Agreement), the foreign cost of which are eligible for financing out of the proceeds of the Loan;

(f) "first tranche" means the portion of the proceeds of the Loan in an amount not exceeding sixteen million eight hundred and thirty eight thousand Special Drawing Rights (16,838,000 SDR) to be initially withdrawn and utilized pursuant to and subject to the provisions of paragraph 5 of Schedule 3 to this Loan Agreement;

(g) "FMPAR" means Fiscal Management and Public Administration Reforms program, and refers to the Program Cluster;

- (h) "FPU" refers to the fiscal policy unit of the Borrower's MOF;
- (i) "FY" or "Fiscal Year" means the fiscal year of the Borrower which runs from 21 March to 20 March of the following year;
- (j) "IARCSC" means the Borrower's Independent Administrative Reforms and Civil Service Commission, or any legal successor thereto;
- (k) "IICC" means Inter-agency Implementation and Coordination Committee, to be established in accordance with paragraph 2 of Schedule 5 to this Loan Agreement;
- (l) "MOF" means Ministry of Finance of the Borrower, or any legal successor thereto;
- (m) "Policy Matrix" means the policy matrix attached to the Policy Letter and agreed between the Borrower and ADB, as set out in appendix 6 of the Report and Recommendation to the President for the Program;
- (n) "Program Executing Agency" means, for the purposes and within the meaning of the Loan Regulations, MOF, which is responsible for the carrying out of the Program;
- (o) "Program facilities" means facilities provided or to be provided under the Program;
- (p) "Second Tranche" means the balance of the proceeds of the Loan, net of the estimated capitalized interest charge during the grace period, to be withdrawn at any time after the withdrawal of the First Tranche pursuant to and subject to the provisions of paragraph 6 of Schedule 3 to this Loan Agreement; and
- (q) "subprogram" means each subprogram under the FMPAR, of which the Program forms the first subprogram.

## **ARTICLE II**

### **The Loan**

Section 2.01. ADB agrees to lend to the Borrower from ADB's Special Funds resources an amount in various currencies equivalent to thirty-three million six hundred and seventy-six thousand Special Drawing Rights (SDR33,676,000).

Section 2.02. (a) The Borrower shall pay to ADB an interest charge at the rate of one percent (1%) per annum, on the amount of the Loan withdrawn from the Loan Account and outstanding from time to time. During the grace period, the ADB shall be entitled to withdraw from the Loan Account and pay to itself, on behalf of the Borrower, the amounts required to meet payments, when due, of such interest charge.

(b) The term "grace period" as used in paragraph (a) of this Section means the period prior to payment of the first principal amount of the Loan on the payment date in accordance with the amortization schedule set forth in Schedule 2 to this Loan Agreement.

Section 2.03. The interest charge and any other charge on the Loan shall be payable semiannually on 15 May and 15 November in each year.

Section 2.04. The Borrower shall repay the principal amount of the Loan withdrawn from the Loan Account in accordance with the amortization schedule set forth in Schedule 2 to this Loan Agreement.

### **ARTICLE III**

#### **Use of Proceeds of the Loan**

Section 3.01. The Borrower shall cause the proceeds of the Loan to be applied to the financing of expenditures on the Program in accordance with the provisions of this Loan Agreement.

Section 3.02. The proceeds of the Loan may be withdrawn from the Loan Account only for the purposes of financing foreign currency expenditures incurred for Eligible Items under the Program in accordance with the provisions of Schedule 3 to this Loan Agreement, as such Schedule may be amended from time to time by agreement between the Borrower and ADB.

Section 3.03. Except as ADB may otherwise agree, all Eligible Items to be financed out of the proceeds of the Loan shall be procured in accordance with the provisions of Schedule 4 to this Loan Agreement.

Section 3.04. Withdrawals from the Loan Account shall be made only on account of expenditures relating to Eligible Items which:

- (a) are produced in, and 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) meet such other eligibility requirements as shall have been specified by ADB from time to time.

Section 3.05. Except as ADB may otherwise agree, no withdrawals shall be made from the Loan Account in respect of expenditures for Eligible Items incurred more than one hundred eighty (180) days prior to the Effective Date.

Section 3.06. The Loan Closing Date for the purposes of Section 8.02 of the Loan Regulations shall be 31 December 2015 or such other date as may from time to time be agreed between the Borrower and ADB.

## **ARTICLE IV**

### **Particular Covenants**

Section 4.01. In the carrying out of the Program, the Borrower shall perform, or cause to be performed, all obligations set forth in Schedule 5 to this Loan Agreement.

Section 4.02. (a) The Borrower shall maintain, or cause to be maintained, records and documents adequate to identify the Eligible Items financed out of the proceeds of the Loan and to record the progress of the Program.

(b) The Borrower shall enable ADB's representatives to inspect any relevant records and documents referred to in paragraph (a) of this Section.

Section 4.03. (a) As part of the reports and information referred to in Section 6.05 of the Loan Regulations, the Borrower shall furnish, or cause to be furnished, to ADB all such reports and information as ADB shall reasonably request concerning (i) the Counterpart Funds and the use thereof; and (ii) the implementation of the Program, including the accomplishment of the targets and carrying out of the actions set out in the Policy Letter.

(b) Without limiting the generality of the foregoing or Section 6.05 of the Loan Regulations, the Borrower shall furnish, or cause to be furnished, to ADB quarterly reports on the carrying out of the Program and on the accomplishment of the targets and carrying out of the actions set out in the Policy Letter.

## **ARTICLE V**

### **Suspension; Cancellation; Acceleration of Maturity**

Section 5.01. The following is specified as an additional event for suspension of the right of the Borrower to make withdrawals from the Loan Account for the purposes of Section 8.01(m) of the Loan Regulations: the Borrower shall have failed to perform any of its obligations or make satisfactory progress in the implementation of the activities specified under the Grant Agreement.

Section 5.02. The following is specified as an additional event for acceleration of maturity for the purposes of Section 8.07(d) of the Loan Regulations: the event specified in Section 5.01 of this Loan Agreement shall have occurred.

**ARTICLE VI****Effectiveness**

Section 6.01. The following is specified as an additional condition to the effectiveness of this Loan Agreement for the purposes of Section 9.01(f) of the Loan Regulations: the Grant 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 Loan Agreement) shall have been fulfilled.

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

**ARTICLE VII****Miscellaneous**

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

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

**For the Borrower**

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:

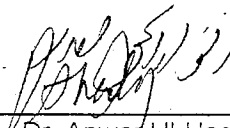
29066 ADB PH (RCA)  
42205 ADB PM (ITT)  
63587 ADB PN (ETPI)

Facsimile Numbers:

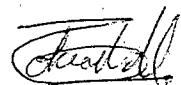
(632) 636-2444  
(632) 636-5978.

IN WITNESS WHEREOF the parties hereto, acting through their representatives thereunto duly authorized, have caused this Loan 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 Program

1. The principal objective of FMPAR is to develop systems and procedures, supported by increased capacity, aimed at improving budget programming, strengthening revenue mobilization, developing the civil service and enhancing monitoring capabilities of public finances. More specifically, FMPAR will (i) strengthen fiscal management; (ii) strengthen public administration; (iii) strengthen public financial management; and (iv) develop a framework for public service delivery.
2. The Program is the first subprogram of FMPAR. Its focus will be on (i) improving the budget framework; (ii) improving the public investment program; (iii) enhancing revenue mobilization; (iv) strengthening civil service management; (v) supporting provincial administrations and service delivery; (vi) improving transparency and accountability; and (vii) strengthening treasury management. The Program will be implemented during the period till December 2008. FMPAR and the Program are described in more detail in the Policy Letter.
3. FMPAR includes a second subprogram, the design of which will depend on the outcome of the Program. The second subprogram, subject to the approval of ADB's Board of Directors, will be implemented until 2011.
4. In support of the Program:
  - (a) the proceeds of the Loan shall be used to finance the foreign exchange costs of Eligible Items; and
  - (b) the Counterpart Funds shall be used to finance the local currency costs relating to the implementation of certain programs and other activities consistent with the objectives of the Program, pursuant to the provisions of paragraph 8 of Schedule 5 this Loan Agreement.
5. The proceeds of the Loan are expected to be utilized by December 2008.

**SCHEDULE 2****Amortization Schedule****(Fiscal Management and Public Administration Reform Program)**

| <u>Date Payment Due</u> |     | <u>Payment of Principal</u><br>(expressed in Special<br>Drawing Rights)* |
|-------------------------|-----|--|
| 15 May 2016             | SDR | 336,800.00   |
| 15 November 2016        |     | 336,800.00   |
| 15 May 2017             |     | 336,800.00   |
| 15 November 2017        |     | 336,800.00   |
| 15 May 2018             |     | 336,800.00   |
| 15 November 2018        |     | 336,800.00   |
| 15 May 2019             |     | 336,800.00   |
| 15 November 2019        |     | 336,800.00   |
| 15 May 2020             |     | 336,800.00   |
| 15 November 2020        |     | 336,800.00   |
| 15 May 2021             |     | 336,800.00   |
| 15 November 2021        |     | 336,800.00   |
| 15 May 2022             |     | 336,800.00   |
| 15 November 2022        |     | 336,800.00   |
| 15 May 2023             |     | 336,800.00   |
| 15 November 2023        |     | 336,800.00   |
| 15 May 2024             |     | 336,800.00   |
| 15 November 2024        |     | 336,800.00   |
| 15 May 2025             |     | 336,800.00   |
| 15 November 2025        |     | 336,800.00   |
| 15 May 2026             |     | 673,500.00   |
| 15 November 2026        |     | 673,500.00   |
| 15 May 2027             |     | 673,500.00   |
| 15 November 2027        |     | 673,500.00   |
| 15 May 2028             |     | 673,500.00   |
| 15 November 2028        |     | 673,500.00   |
| 15 May 2029             |     | 673,500.00   |
| 15 November 2029        |     | 673,500.00   |
| 15 May 2030             |     | 673,500.00   |
| 15 November 2030        |     | 673,500.00   |
| 15 May 2031             |     | 673,500.00   |
| 15 November 2031        |     | 673,500.00   |
| 15 May 2032             |     | 673,500.00   |

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\*The figures in this column represent SDR equivalents determined as of the respective dates of withdrawal. The arrangements for payment of each maturity are subject to the provisions of Sections 3.04 and 4.03 of the Loan Regulations.

| <u>Date Payment Due</u> |     | <u>Payment of Principal</u><br>(expressed in Special<br>Drawing Rights)* |
|-------------------------|-----|--|
| 15 November 2032        | SDR | 673,500.00   |
| 15 May 2033             |     | 673,500.00   |
| 15 November 2033        |     | 673,500.00   |
| 15 May 2034             |     | 673,500.00   |
| 15 November 2034        |     | 673,500.00   |
| 15 May 2035             |     | 673,500.00   |
| 15 November 2035        |     | 673,500.00   |
| 15 May 2036             |     | 673,500.00   |
| 15 November 2036        |     | 673,500.00   |
| 15 May 2037             |     | 673,500.00   |
| 15 November 2037        |     | 673,500.00   |
| 15 May 2038             |     | 673,500.00   |
| 15 November 2038        |     | 673,500.00   |
| 15 May 2039             |     | 673,500.00   |
| 15 November 2039        |     | 673,500.00   |
| 15 May 2040             |     | 673,500.00   |
| 15 November 2040        |     | 673,500.00   |
| 15 May 2041             |     | 673,500.00   |
| 15 November 2041        |     | 673,500.00   |
| 15 May 2042             |     | 673,500.00   |
| 15 November 2042        |     | 673,500.00   |
| 15 May 2043             |     | 673,500.00   |
| 15 November 2043        |     | 673,500.00   |
| 15 May 2044             |     | 673,500.00   |
| 15 November 2044        |     | 673,500.00   |
| 15 May 2045             |     | 673,500.00   |
| 15 November 2045        |     | 673,500.00   |
|                         |     | -----  |
| Total                   | SDR | 33,676,000.00  |
|                         |     | =====  |

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\*The figures in this column represent SDR equivalents determined as of the respective dates of withdrawal. The arrangements for payment of each maturity are subject to the provisions of Sections 3.04 and 4.03 of the Loan Regulations.

**SCHEDULE 3****Withdrawal of Loan Proceeds**

1. Except as ADB may otherwise agree, the following provisions of this Schedule shall apply to the withdrawal of Loan proceeds from the Loan Account.

2. (a) Withdrawals from the Loan Account shall be made for the financing of the cost of Eligible Items.

(b) No withdrawals from the Loan Account shall be made in respect of any expenditures which have been financed by credits from official international or bilateral aid agencies or any other loans made by ADB.

3. (a) An application for withdrawal from the Loan Account shall be submitted to ADB by the Borrower and shall be in a form satisfactory to ADB.

(b) Such withdrawal applications shall be accompanied by a certificate of the Borrower confirming that with respect to each year during which the proceeds of the Loan are expected to be disbursed, the value of the Eligible Imports is expected to be equal to or greater than the amount of the Loan expected to be disbursed during such year.

(c) For the purposes of this paragraph, the term "Eligible Imports" means the total imports of the Borrower during the relevant period minus the following imports during the same period:

- (i) imports from countries which are not members of ADB;
- (ii) imports for ineligible items specified in Attachment 1 to this Schedule; and
- (iii) imports financed from credits from official international or bilateral aid agencies or any other loans made by ADB.

(d) The Borrower shall allow experts appointed by ADB to verify the value of Eligible Imports during any period in respect of which the Borrower has certified the value of Eligible Imports in its withdrawal application.

4. (a) Prior to submitting the first application to ADB for withdrawal from the Loan Account, the Borrower shall open an account (the Deposit Account) at DAB into which all withdrawals from the Loan Account shall be deposited. The Deposit Account shall be established, managed and liquidated in accordance with terms and conditions satisfactory to ADB.

(b) Separate accounts and records in respect of the Deposit Account shall be maintained in accordance with consistently maintained sound accounting principles. Upon ADB's request, the Borrower shall have the Deposit Account audited by independent auditors, whose qualifications, experience and terms of reference are acceptable to ADB, in accordance with appropriate auditing standards. Promptly after their preparation but in any event not later

than six (6) months after the date of ADB's request, certified copies of such audited accounts and records shall be furnished to ADB, all in the English language.

(c) Throughout the Program implementation period, the Borrower shall submit trade statistics and any other information as ADB may require from time to time to assess the Borrower's compliance with the formula for determining Eligible Imports.

5. Notwithstanding any other provisions of this Loan Agreement or the Loan Regulations, and except as ADB may otherwise agree, no withdrawals shall be made from the First Tranche unless ADB shall be satisfied, after consultation with the Borrower, that (a) sufficient progress has been achieved by the Borrower in the carrying out of the Program; and, in particular, (b) the Borrower has fulfilled the conditions for the release of the First Tranche, specified in Attachment 2 to this Schedule.

6. Notwithstanding any other provisions of this Loan Agreement or the Loan Regulations and except as ADB may otherwise agree, no withdrawals shall be made from the Second Tranche unless ADB shall be satisfied, after consultation with the Borrower, that (a) sufficient progress has been achieved by the Borrower in the carrying out of the Program; and, in particular, (b) the Borrower has fulfilled the conditions for the release of the Second Tranche specified in Attachment 3 to this Schedule.

**LIST OF INELIGIBLE ITEMS**

1. Loan proceeds will finance the foreign currency expenditures for the reasonable cost of imported goods required during the Fiscal Management and Public Administration Reform Program.

2. No withdrawals will be made for the following:

(i) expenditures for goods (included in the following Standard International Trading Commodity chapters or headings):

| <b>Chapter</b> | <b>Heading</b> | <b>Description of Items</b>   |
|----------------|----------------|---|
| 112            |                | Alcoholic beverages   |
| 121            |                | Tobacco, unmanufactured; tobacco refuse   |
| 122            |                | Tobacco, manufactured (whether or not containing tobacco substitute)  |
| 525            |                | Radioactive and associated materials  |
| 667            |                | Pearls, precious and semiprecious stones, unworked or worked  |
| 897            | 897.3          | Jewelry of gold, silver or platinum-group metals (except watches and watch cases) and goldsmiths' or silversmiths' wares (including set gems) |
| 971            |                | Gold, nonmonetary (excluding gold ore and concentrates)   |
| 718            | 718.7          | Nuclear reactors, and parts thereof, fuel elements (cartridges), nonirradiated for nuclear reactors   |

Source: United Nations.

- (ii) expenditures in the currency of the Borrower or of goods supplied from the territory of the Borrower;
- (iii) payments made for expenditures incurred more than 180 days before the effectiveness date of the loan;
- (iv) expenditures for goods supplied under a contract that any national or international financing institution or agency will have financed or has agreed to finance, including any contract financed under any loans from the Asian Development Bank;
- (v) expenditures for goods intended for a military or paramilitary purpose or for luxury consumption;
- (vi) expenditures for narcotics; and
- (vii) expenditures for pesticides categorized as extremely hazardous or highly hazardous in classes I-a and I-b, Classification of Pesticides by Hazard and Guidelines to Classification.

**Conditions for Release of the First Tranche****1. Improving the budget framework**

- (i) The Borrower shall have gazetted the Public Finance and Expenditure Management Law (Budget Law).
- (ii) MOF shall have developed a chart of accounts compatible with Government Financial Statistics (GFS) budget classification system to support reporting on Classification of the Functions of Government (COFOG).
- (iii) MOF shall have established a fiscal coordination committee, including Directors of Budget, Treasury, Revenue and Customs Departments, to agree on fiscal targets and projections in support of budget preparation and implementation.
- (iv) MOF shall have prepared guidelines and developed a time-bound action plan for their implementation on the role of MOF provincial offices, including establishing clear lines of responsibilities and reporting between: (a) revenue collection functions at moustufiats and Customs and Revenue Departments at MOF; and (b) payments and treasury functions at moustufiats and Director General of Treasury at MOF.
- (v) MOF and IARCSC shall have started implementation of the action plan mentioned in (iv) above, in 7 priority moustufiats, namely: Kabul, Belk, Heart, Kandahar, Parwan, Kunduz, and Jalalabad moustufiats.
- (vi) MOF shall have established a FPU tasked to analyze: (a) fiscal trends; (b) sustainability of public expenditure policies; and (c) debt sustainability.

**2. Enhancing Revenue Mobilization**

- (i) The Borrower shall have gazetted the amended Revenue Act with provisions on tax holidays and other tax exemptions fully consistent with the revised Tax Code.
- (ii) The Borrower shall have introduced airport departure tax administered by MOF.
- (iii) MOF shall have finalized an inventory of existing taxes, soukes (licenses), and fees across moustufiats including those issued by public enterprises and administered by line ministries.
- (iv) Revenue Department shall have finalized a revenue modernization action plan that focuses on broadening the tax-base, based on progressive, easy to implement and enforceable tax measures.
- (v) MOF shall have established a taxpayer register, and shall have entered data for 25,000 taxpayers.
- (vi) MOF shall have initiated awareness-raising campaigns for targeted taxpayers in order to increase tax compliance.

**3. Strengthening Civil Service Management**

- (i) The Borrower shall have gazetted the Civil Service Act.
- (ii) Chairman, IARCSC and Minister of Finance shall have approved a time-bound action-plan, with resources allocated, for Phase I of the implementation of the Civil Service Act.

4. Strengthen treasury management

MOF shall have established a cash management unit.

**Conditions for Release of the Second Tranche**1. Improving the budget framework

- (i) MOF shall have introduced 3-year rolling expenditure and revenue projections to support the development of the medium term budgeting framework.
- (ii) MOF and IARCSC shall have fully implemented the action plan on the role of MOF provincial offices - developed as a first tranche condition -, in the seven priority moustufiats, and shall have started the implementation in an additional 13 provinces.

2. Enhancing Revenue Mobilization

MOF shall have (a) reviewed all existing licenses and fees and transferred the responsibility for administering all licenses and fees deemed to be taxes to MOF; and (b) gazetted and published consolidated and simplified amended tax code.

3. Strengthening Civil Service Management

- (i) IARCSC Chairman shall have submitted at least two reports on IARCSC's performance to the President's Office and shall have published the same on IARCSC website using a Performance Management System and performance targets.
- (ii) Ministry of Public Health and Ministry of Agriculture shall have established and made operational a Human Resource Management Unit in each of these respective Ministries, with terms of reference that include: job evaluation and grading, merit-based appointments, and personnel management of civil servants in accordance with the Civil Service Act, its regulations and procedures, and time bound capacity development benchmarks.
- (iii) MOF and IARCSC shall have (a) finalized a first reconciliation of the computerized Establishment Register, the payroll database and the HRMS; and (b) approved procedures for regular subsequent reconciliations.
- (iv) IARCSC Chairman and MOF shall have approved a time-bound action plan with resources allocated for Phase II of the implementation of the Civil Service Act.

4. Improving transparency and accountability

- (i) MOF, in coordination with Controller and Audit Office (CAO), shall have prepared and issued (a) a Government Planning and Budgeting Operations Manual; (b) a Government Accounting Operations Manual; and (c) a Government Internal Audit Operations Manual.
- (ii) MOF shall have established a system to monitor (a) revenues of public enterprises and other government entities including funds; and (b) subsidies and transfers to public enterprises.

- (iii) MOF, in coordination with CAO, shall have developed and issued a directive on financial reporting requirements to include (a) the minimum financial reporting requirements for all public enterprises; and (b) public enterprises that are being corporatized or have been prioritized for privatization to submit audited financial statements.

**SCHEDULE 4**  
**PROCUREMENT**

1. Except as ADB may otherwise agree, the procedures referred to in the following paragraphs of this Schedule shall apply in the procurement of Eligible Items to be financed out of the proceeds of the Loan.

2. (a) Except as provided in subparagraph (b) of this paragraph, each contract for Eligible Items shall be awarded on the basis of either the purchaser's normal commercial procurement practices, in the case of procurement by the private sector, or the Borrower's prescribed procurement procedures, in the case of procurement by the public sector, having due regard for the principles of economy and efficiency.

(b) Each supply contract for Eligible Items which are commonly traded commodities shall be awarded on the basis of procedures appropriate to the trade and acceptable to ADB.

## **SCHEDULE 5**

### **Program Implementation and Other matters**

#### **A. Program Execution and Coordination**

1. MOF shall be the Program Executing Agency responsible for the timely implementation of the Program. Within MOF, the Deputy Minister of Finance for Budget and Treasury Management shall be the focal point for the Program in close coordination with the Deputy Minister of Finance for Revenue and Customs, the Deputy Minister of Finance for Administration, and the Director General of Civil Service Management, IARCSC. The Program Director, who shall be funded under the Grant Agreement, shall be in charge of the day-to-day implementation of the Program.

2. Within one month of the Effective Date, MOF shall establish an IICC headed by the Deputy Minister of Finance for Budget and Treasury Management and comprising representatives from the Budget Department, Treasury Department, FPU, Revenue Department, Customs Department, Public Enterprises Department, and IARCSC. Heads of moustufiats of major provinces shall be co-opted as a member as and when necessary. ADB shall be invited to attend IICC meetings as needed. The IICC shall meet whenever necessary, but not less than once every quarter to monitor, co-ordinate and ensure the effective implementation of the proposed reforms under the Program. The Program Director shall act as its Member-Secretary. He shall ensure to provide the minutes of all IICC meetings to ADB.

#### **B. Policy dialogue**

3. The Borrower shall keep ADB informed of, and the Borrower and ADB shall from time to time exchange views on, the progress made in carrying out the Program and in the formulation and implementation of new related policies.

4. The Borrower shall continue timely policy dialogue with ADB on problems and constraints encountered during implementation of the Program and on appropriate measures to overcome or mitigate such problems and constraints.

5. The Borrower shall keep ADB informed of policy discussions with other multilateral and bilateral agencies that have implications for implementation of the Program and shall provide ADB with an opportunity to comment on any resulting policy proposals. The Borrower shall take ADB's views into consideration before finalizing and implementing any such proposals.

#### **C. Continuity and Coordination of Reforms**

6. The Borrower shall: (a) ensure that the objectives achieved, policies adopted, and actions taken prior to the date of this Loan Agreement, as set forth in the Policy Letter, shall continue to be in full force and effect for the duration of the Program period and subsequently; (b) carry out the policies and actions in accordance with the schedule of policy reforms contained in the Policy Matrix and ensure sustainability of the reforms beyond the Program period; (c) carry out all of its obligations as stipulated under this Schedule and the Loan Agreement, in a timely manner.

7. Notwithstanding Attachment 3 to Schedule 3 to this Loan Agreement, the Borrower ensures that all necessary measures shall be taken to ensure that the following policy actions included in the Policy Matrix shall be implemented prior to the release of the second tranche:

- (i) FPU shall have (a) prepared a study on expenditure projections for roll-out of the Pay and Grading Scheme and its impact on the wage bill and budget as well as on the phased integration of Afghan National Army and police recurrent expenditures into budget; and (b) identified, evaluated, and monitored revenue transfers to provinces.
- (ii) MOF, in consultation with line ministries, shall have identified results-based indicators for selected sectors including agriculture, energy and transport, to support the development, on a pilot basis, of a results-based budgeting system.
- (iii) The Budget Committee, in coordination with MOF, shall have (a) identified investment programs' and projects' selection criteria consistent with the National Development Strategy (NDS); (b) established a clear scoring system for ranking of such programs and projects; (c) classified the implementation of individual programs and projects according to an overall risk assessment; and (d) published the results.
- (iv) The Budget Committee, in coordination with MOF, shall have (a) evaluated PIP's contribution to the Millennium Development Goals; (b) developed a performance monitoring and evaluation framework for NDS and PIP; and (c) published the analysis of the results.
- (v) MOF shall have issued implementation guidelines and procedures for the amended Revenue Act.
- (vi) MOF shall have strengthened the business taxpayer registration system and achieved the following targets: (a) 35,000 taxpayers registered and tax identification numbers assigned; (b) electronic tax filing by 50 large taxpayers; and (c) registration and filing of at least 1000 businesses previously eligible for tax holidays.
- (vii) Ministry of Public Health and Ministry of Agriculture together with IARCSC shall have installed and operationalized a computerized Establishment Register as well as an integrated electronic Human Resources Management System (HRMS).
- (viii) The Borrower shall have implemented the Pay and Grading Policy approved by Cabinet, in accordance with an approved implementation plan.
- (ix) The Borrower shall have (a) prepared a concept paper on the role of the provincial administration in development planning; and (b) established a coordination mechanism at provincial level to improve development planning and aid management.
- (x) The Borrower shall have prepared an inventory of NGOs operating in Afghanistan across sectors and according to their role in public service delivery.

- (xi) MOF shall have developed and approved a phased strategy for implementation of an integrated government financial management information system, building on the Afghanistan Management Information System, and including Revenue Administration, Planning and Budgeting, Treasury, Accounting and Financial Reporting, and Human Resource Management Information System.
- (xii) MOF shall have installed a computerized cash-flow management system, with forecasts prepared for the incoming fiscal year and updated monthly.
- (xiii) MOF shall have prepared a policy paper on development of the Treasury bills market.

#### **D. Counterpart Funds**

8. The Borrower shall ensure that the Counterpart Funds shall be used to meet the costs associated with the implementation of the Program. MOF shall ensure to allocate for IARCSC sufficient resources to be able to implement it's part of the Reform Program, subject to satisfactory performance by IARCSC.

#### **E. Program implementation**

9. The Borrower shall ensure that each year during Program Implementation, both the recurrent as well as the development budget shall be allocated before the start of the fiscal year.

10. MOF shall regularly monitor progress made by IARCSC on those policy actions for which IARCSC has been assigned responsibility in the Policy Matrix.

11. The Borrower shall ensure that all action plans to be prepared as part of the Program shall be fully implemented before the end of the Program.

12. The Borrower shall ensure that all Acts that will be passed as part of the Program, shall be widely published, including on the websites of the Ministry of Justice and of MOF.

#### **F. Program review**

13. In addition to annual review missions by ADB, the Borrower and ADB shall jointly conduct a comprehensive midterm review at the end of year 2 of Program implementation, to evaluate the progress of the reform measures and their impact on fiscal management.

#### **G. Program Performance Management System (a PPMS)**

14. Within three months of the Effective Date, the IICC Secretariat shall establish a PPMS, including a database on the status of policy measures and program indicators. The Borrower shall ensure that the PPMS shall be maintained throughout the entire Program period.