



**Afghanistan
Reconstruction Trust Fund**



**Islamic Republic of Afghanistan
Ministry of Finance**

ARTF

Operational Manual on Eligibility



Version 1389



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1. Introduction

1.1. Background

The Afghanistan Reconstruction Trust Fund (ARTF) was created in Jawza 1381 (May 2002) to assist the Government of the Islamic Republic of Afghanistan (GIRA) with the reconstruction of Afghanistan.

ARTF, in principle, reimburses to GIRA those expenditures which are considered “eligible”, i.e. which are effected in accordance with the procedures agreed upon between GIRA and the World Bank (WB). Expenditures made which are not consistent with the procedures agreed upon are considered “ineligible” and are not reimbursed.

1.2. Purpose of this Manual

The purpose of this manual is to familiarize the administrative departments of the line ministries of the GIRA, including provinces, with specific ARTF requirements on eligibility of expenditures. It is furthermore created to emphasize the main reasons for ineligibility and assist GIRA in addressing these.

The manual reflects the experience that the WB’s Monitoring Agent (MA) gained over a period of several years of work in Afghanistan; analyzing in detail the procedures and operations of the GIRA and by reviewing its expenditures.

1.3. Types of ineligibility

Ineligibilities can be broken down into two main categories:

- Avoidable ineligibilities: the expenditure could have been eligible, but the process followed was not consistent with the agreement between the WB and GIRA. For example, procurement procedures were not followed or documentation is not complete; and
- Unavoidable ineligibilities: the expenditure is ineligible by nature, usually because of an ARTF limitation (e.g.: military expenditure or expenditure relating to period precedent to ARTF agreement – before May 13, 2002).

Since this Manual is written with the objective of helping GIRA reduce the ineligible expenditures, it will deal mostly with avoidable ineligibility.

This Manual is prepared by PricewaterhouseCoopers Accountants N.V. on behalf of the WB. The first version of the manual was approved by the WB and by the Ministry of Finance in Jadi 1383. This version incorporates experience gained and reflects rules and procedures in effect at the date of issue, including amendments to the Afghan Public Procurement Law (PPL), which became effective in Jadi 1387 (January 2009).

1.4. How to use this manual

This Manual is intended for the procurement, administration, finance and payroll departments of the line ministries and the various Government budget entities. It is also to be used by Mostofiats and departments of ministries in the provinces.

This Manual is available in Dari, Pashto and English. In case of differences between the various languages the English version is prevailing.

1.5. Manual versions

The current version (1389) is the third version of the Manual. The updates to this version include those reflecting amendments to the Grant Agreement and related procedures agreed to between the WB and GIRA, further explanation on which procurement procedures to follow as well as the effect of the Jadi 1387 amendments to the Public Procurement Law (PPL).

1.6. Scope of this Manual

This manual is to be considered only in addition to GIRA requirements and applies only to expenditures that are to be included in Statements of Expenditures for financing under the ARTF. It is not intended and not to be considered as a replacement for GIRA requirements and procedures and does not describe requirements in full.

2. General requirements on expenditures

2.1. Purpose of the ARTF

The ARTF supports the Recurrent and Capital Costs of GIRA and finances priority projects and programs to rebuild Afghanistan and to facilitate the return of skilled expatriate Afghans to the country. The ARTF promotes a more equitable distribution of international assistance and emphasizes ownership and leadership by the government. It supports a Government-proposed program of investments prioritized from within the national budget. The benefits of the ARTF include:

- promoting transparency and accountability of reconstruction assistance;
- helping to reinforce the national budget in order to align the reconstruction program with national objectives;
- reducing the burden on limited government capacity while promoting capacity-building over time; and
- helping to fund the recurrent budgetary expenditures required for the government to function effectively.

2.2. Afghan legislation

To be found eligible under the ARTF, expenditures must be made in a manner consistent with Afghan legislation and related regulations. The applicable Afghan laws and regulations include (but are not limited to):

- Annual Budget Decree;
- Public Finance and Expenditure Management Law (PFEML);
- Civil servants law;
- Law on procurement and related regulations; and
- Circulars issued by the Ministry of Finance (MoF) including those issued by the Procurement Policy Unit (PPU).

Note that the PPL allows GIRA to procure goods, works, or services in accordance with the procurement rules of an international institution where the rules of an international institution conflict with the PPL. The ARTF Grant Agreement refers to WB guidelines. In light of this, Afghan law allows expenditures to be made in a manner consistent with WB guidelines when these conflict with local law.

2.2.1. Annual Budget Decree

Expenditures can be found eligible only if included in the GIRA annual budget. This requirement is pursuant to both Afghan law as well as the Fiduciary Standards agreed to by the WB and GIRA. The Annual Budget Decree is prepared and proposed by the government and is authorized by the Parliament of Afghanistan and can be amended during the year by their authorization only.

2.2.2. Public Finance and Expenditure Management Law (PFEML)

The PFEML provides additional rules and regulations regarding government expenditure and public financial management.

2.2.3. Civil servants law

The Civil servants law addresses pay and grading and other terms of recruitment and employment.

2.2.4. Law on procurement and related regulations

Goods and services must be procured in accordance with the PPL and related regulations. It is important to note that the law on procurement [REDACTED] allows for procurement following donor requirements (article 4(2)).

2.2.5. Circulars issued by the Ministry of Finance (MoF) including those issued by the Procurement Policy Unit (PPU)

MoF issues circulars with additional requirements and guidance on the eligibility of expenditures. These circulars are distributed to the line ministries and Mostofiats within provinces.

2.3. Additional ARTF requirements

Besides Afghan laws and regulations the ARTF has imposed a set of additional requirements on the eligibility of expenditures. These additional requirements are detailed in:

- The ARTF Grant Agreement and amendments;
- Fiduciary Standards (revised as of December 20, 2004); and

- Decisions by the WB or the Management Committee of the ARTF on individual cases of eligibility.

2.3.1. Requirements within the ARTF Grant Agreement

The ARTF Grant Agreement defines eligible expenditures primarily as expenditures under the category “Recurrent and Capital Expenditures” (Category 1). For the expenditures under Category 1 the Grant Agreement specifies the following eligibility requirements:

- The expenditures need to be within the budget of the GIRA;
- Military, paramilitary and police expenditures are excluded from financing; and
- Expenditures are eligible only if the expenditures occurred after the signing date of the agreement, May 13, 2002.

Furthermore, the Grant Agreement details procurement procedures.

2.3.2. Fiduciary Standards

The Fiduciary Standards are agreed between the Management Committee of the ARTF and GIRA to provide a basis for GIRA to demonstrate commitment to improving fiduciary performance with respect to government expenditures. The Fiduciary Standards include time limits to the period between payment and recording of amounts on SOEs and on the time between payment and documentation of expenditures. The details of the Fiduciary Standards are described and explained in detail in the sections of the manual to which they relate. A complete set of the Fiduciary Standards is included as Appendix II to this Manual.

2.3.3. Decisions by the WB or the Management Committee on individual cases of eligibility

Even when all the applicable rules and regulations are considered, doubt may sometimes exist as to whether an expenditure should be classified as (in)eligible. In such cases the WB or the Management Committee will take the final decision.

One example is the decision not to fund expenditures for land acquisitions.

3. Payroll expenditures

3.1. Introduction

Definition of payroll expenditures
Payroll expenditures comprise the recurrent expenditures recorded to expenditure codes 21100 through 21199. These expenditures include wages, allowances and bonus payments.

Payroll expenditures are by far the largest (sub)category of ARTF expenditures, making up the majority of the disbursements. The payroll process can be summarized as follows:

Reference	Payroll Process	Documentation
3.2	Recruitment	Appointment letter/ contract/ Tashkeel
3.3	Attendance	(Electronic) attendance book and report
3.4	Calculation of net pay	Payroll (M41)
	Check issued	M16 and check
3.5	Payment	Signatures on M41 or record of bank transfer

This section covers the ARTF eligibility criteria on payroll and payroll related expenditures for payrolls paid in Afghanistan. These procedures relate not only to the monthly payroll expenditures but to bonus payrolls as well.

For payrolls of employees working abroad refer to section 5.6.1.

3.2. Recruitment

The first requirement of eligibility is evidence of employment. A payment to an individual can only be eligible if there is evidence that the individual is actually employed by the Ministry.

Employment can be evidenced either with a contract (workers) or an appointment letter (officials). For employees that have been employed for many years contracts may not be available. In such cases the latest promotion letter is regarded as valid evidence of employment. The contract / appointment letter is used to evidence that the employee is receiving the correct amount of base salary as well.

In order to recruit employees, the position must be within the authorized headcount caps (Tashkeel) which are approved with the budget as well as by the Civil Service Commission and the President's office. Employment totals above Tashkeel are not allowed according to the Public Finance and Expenditure Management Law and resulting expenditures are therefore ineligible.

3.3. Attendance

Attendance records are important to verify that employees exist and are attending work. Attendance records can include a hard copy monthly summary of the daily book of attendance (or electronic attendance records). When monitored, payroll payments can be found eligible only if, for each employee, attendance according to the attendance records reconciles to the monthly summary and to the M41.

As noted above, some attendance records are kept electronically. Any reference to an attendance book should be understood to include records kept electronically.

The total number of staff according to the M41 needs to reconcile with the total number of staff according to the attendance report (attendance summary). If it is established that an employee is not physically present when attendance records indicate that they are attending, .

3.4. Calculation of net pay

The monthly payroll (M41) incorporates the following items:

Description	(sub)Total	Reference
Base salary according to scale	+	3.4.1
Education level (professional) allowance	+	3.4.1
Food and Transportation allowance	+	3.4.2
PRR allowance	+	3.4.3
Bonus payments		3.4.4
	= Gross pay	
Pension and tax deductions	-	3.4.5
Other deductions	-	3.4.6
	= Deductions	
Payment	Net Pay	3.5

For the M41 to be eligible the total amount of net pay needs to reconcile to the payment. Any differences where the payment is greater than the net pay according to M41 are ineligible. Furthermore, total of gross pay less deductions needs to equal net pay.

3.4.1. Base salary according to scale

Base salary according to scale is dependent on the grade and position of the employee. The grade should be evidenced by the contract or the appointment letter (form 'P2' or latest promotion letter). The salaries for each grade are issued annually by GIRA. The education level (professional) allowance should be stated in the appointment letter or the contract.

3.4.2. Food and Transportation allowance

The food allowance is based on the number of days worked. The attendance report (attendance summary) and attendance book are considered adequate supporting documentation for number of days. The amount of the daily food allowance must be based on the current approved norm.

The transportation allowance is paid by only a few ministries as most ministries provide transportation for employees. The transportation allowance is eligible only if the employee does not receive transportation services from the employer and the allowance does not exceed the number of working days times the daily allowance.

3.4.3. Public Restructuring Reform Allowance

The Public Restructuring Reform (PRR) program is intended as an incentive for line ministries (and provinces) to effect organizational changes. These changes are designed to promote more effective and efficient ministries. The PRR process takes place under the supervision of the Independent Administrative Reform and Civil Service Commission (IARCSC).

3.4.3.1. PRR general requirements

For PRR payments to be eligible for financing from the ARTF at least the following criteria need to be met:

- Reorganization plan of the Ministry or the province is approved by the IARCSC; and
- Key positions within the Ministry were identified and advertised.

If the above-mentioned conditions are not met the PRR payments are ineligible.

3.4.3.2. PRR specific requirements

Besides the additional general requirements establishing the legal framework, PRR payments are still payroll payments and as such need to comply with all the payroll requirements. The most important requirements being:

- Documentation proving hiring of the employee;
- Properly authorized payroll; and
- Signatures for the receipt of the PRR allowance.

Furthermore, the PRR payments need to agree to the norm set by the IARCSC. Individual norms as agreed between the Ministry and the IARCSC exceeding the standard norm are not eligible.

3.4.4. Bonus payrolls

The criteria for the eligibility of bonus payrolls are similar to those of normal payrolls. The main difference is the additional criteria that adequate authorization for the payment of a bonus should be available. The bonus payroll is eligible only if the bonus is officially authorized, either by law (e.g.: Ramazan bonus) or by the (deputy) minister.

3.4.5. Pension and tax deductions

The pension deduction amounts to 3% of base salary according to scale plus education level allowance. There is no pension deduction for temporary workers or those who have previously retired from GIRA. Line ministries need to ensure that those employees who should not have pension amounts deducted are identified as such in the information provided to MoF and vice versa. Tax is deducted per the Income tax law.

3.4.6. Other deductions

There can be various reasons for other deductions including deduction for first month after promotion, withholding tax, and payments due to the Ministry.

3.5. Payment

Employees are paid either by direct deposit to their bank accounts or in cash.

3.5.1. Verified Payroll Planning (VPP)

VPP is a system introduced by GIRA whereby employees' identification is verified and net pay is transferred directly to their bank accounts.

The system is capable of generating automated monthly payroll forms (M41) and payment request forms (M16). Payments are processed through MoF and paid directly to bank accounts held by the individual employees in commercial banks.

Line ministries need to ensure the accuracy and completeness of the information provided to MoF including base salary, allowances, deductions, net pay, and banking details.

3.5.2. Paid in Cash

One of the most important internal controls on payroll is the signature for receipt by the employee for cash payments. Without the signature for receipt payrolls cannot be found eligible.

Sometimes the geographical situation makes it inefficient for all employees to collect their salary in person. In these cases one person will collect all payroll payments for a single geographical location. The signatures for receipt on the payroll by one individual for all payroll payments for a single geographical location are accepted as eligible payment only if a separate document, equal to the total payment in question, is available with the signatures for receipt by the individual employees.

3.6. Pay and Grading

The pay and grading system was most recently renewed in Saratan 1387 (July 2008) by the Independent Administrative Reform and Civil Service Commission (IARCSC). The main characteristics of the pay and grading system are:

- position needs are determined based on the requirements of the organization
- job structures are designed to categorize duties of a position in response to the needs
- jobs are categorized by grade

3.7. Fiduciary Standards on payrolls

3.7.1. Delay in recording of payrolls in AFMIS

Fiduciary Standards set an additional eligibility requirement for payrolls. This requirement limits the amount of time allowed between the month the payroll relates to and recording in AFMIS. Payrolls not recorded in AFMIS in a timely manner are ineligible per the Fiduciary Standards (see Appendix II).

3.7.1.1. Delay in recording for Central Government

Payrolls relating to line ministries within Kabul need to be received by MoF and recorded in AFMIS within three months after the month the payroll relates to.

Example: For the month of Hamal (month 1) payrolls must be received by MoF and recorded in AFMIS no later than the last day of Saratan (month 4).

3.7.1.2. Delay in recording for Provinces

Payrolls relating to provinces need to be received by MoF and recorded in AFMIS within four months after the month the payroll relates to.

Example: For the month of Hamal (month 1) payrolls must be received by MoF and recorded in AFMIS no later than the last day of Asad (month 5).

4. Standard non-payroll expenditures

4.1. Introduction

This section covers non-payroll recurrent expenditures which include operation and maintenance as well as non-payroll based salary expenditures (NPBSE).

Definition of O&M expenditures reimbursable under the ARTF
The O&M expenditures generally comprise the recurrent expenditures in the economic codes 21200 through 25999 but specifically exclude development budget codes, advances, grants, repayment of loans, and military expenditure codes.

The expenditure process can be broken down into the following stages:

Purchase Process	Documentation	Reference
Procurement planning	Annual procurement plan	4.2
Purchase request	Purchase request (Request letter/M3)	4.3
Budget	Budget Ledger / M20	4.3
Procurement	Procurement file	4.4
Contract	Contract	4.4
Goods received/ Work performed	Receipt of goods (M7) or Progress report	4.7
Check issued	M16 and Check	4.10
Payment to supplier	Check to / signature from supplier	4.10

Each of the stages is handled separately in the following paragraphs.

4.2. Procurement planning

PPL article 11 indicates that entities shall develop procurement plans taking into account available financial resources, economies of scale and volume, appropriate time, and other limitations. The Rules of Procedure for Public Procurement expand on this obligation in Chapter II and PPU circulars C001 and C018 both emphasize the necessity for procurement planning.

4.3. Initiative to purchase

The availability of budget should be established prior to any purchasing activity taking place by consulting the budget ledger (e.g.: M20). An M3 or request letter is then drafted and is approved by the award authority*, including the estimated amount of the expenditure. Expenditures for purchases made without an M3 or request letter are ineligible. Approval to purchase after the procurement process has begun, or when sufficient budget is not available, also leads to ineligibility.

** Note that the PPL provides authority to First Grade Award Authorities only. For others, authority must be delegated by the First Grade Award Authority. This delegation should be evidenced on form M50.*

4.4. Procurement

Non-compliance with procurement procedures has resulted in a large proportion of ineligibility. The proper application of the appropriate procurement method is all the more important since once a contract is in place, all expenditures under the contract are found ineligible if the original procurement procedure was not properly performed.

The ARTF Grant Agreement is the basis for determining eligibility. The Agreement indicates that procurement should be carried out in accordance with 'Guidelines - Procurement under IBRD loans and IDA credits' as published by the WB (WB Guidelines). These guidelines describe minimum accepted standards and allow GIRA to procure based on local law should this law meet the standards described in the WB guidelines.

The PPL as amended in Jadi 1387 (January 2009) meets the standards described in the WB Guidelines to a great extent. The procurement methods described in the PPL of *Single-Source Procurement, Requests for Quotations, and Open Tendering* are reasonably consistent with WB methods of *Direct*

Contracting, National Shopping, and Competitive Bidding Advertized Locally respectively.

Differences do however remain, in particular between various forms of tendering as described in the PPL and competitive bidding as described in the WB guidelines. Specifically, WB standard bidding documents (SBDs) differ from those published by GIRA.

Despite these differences, PPL compliance with WB Guidelines is sufficient for WB to accept most expenditures made under the PPL (see section 4.4.1 below for thresholds). This is consistent with the goal of empowering GIRA to build and maintain a strong procurement framework while simplifying eligibility criteria and the related administrative burden.

Reimbursable expenditures made under Afghan law up to a threshold of USD 250,000 will be accepted as eligible under the ARTF.

For expenditures exceeding USD 250,000 to be eligible, specific World Bank guidelines need to be applied

Note that applying the procurement methods described in WB guidelines rather than those described in the PPL is specifically permitted in PPL article 4(2)

‘...where the procurement rules of an international institution conflict with this Law, the government may... agree to procure ... in accordance with the provisions of the agreement;’

4.4.1. Selection of procurement method

The following table summarizes the most common procurement methods. Descriptions, including the circumstances in which they can be applied, are included below.

Estimated value of contract AFN	Estimated value of contract USD	Procurement Method	Paragraph
Not > AFN 3,000		PPL Single-Source	4.4.2.1
> AFN 3,000 and < AFN 500,000		PPL Request for Quotations	4.4.2.2
> AFN 500,000	Not > USD 250,000	PPL Open Tendering	4.4.2.3
	> USD 250,000	WB International Competitive Bidding	4.6

4.4.2. Procurement methods per PPL

Procurement methods per the PPL are described below.

Authority to contract

Article 91 of the PPL sets out monetary thresholds limiting the authority to contract of First Grade Award Authorities. These limits need to be considered when selecting the appropriate method. Article 92 allows for the use of these methods when contract amounts exceed the thresholds of article 91, subject to pre-approval of the Special Procurement Committee (SPC). In these cases the procedure detailed in circular PPU/C008/1386 '*Procedure for submission of Award Recommendations for approval by SPC*' is applicable. SPC approval is only valid if obtained prior to contracting.

Use of Standard Bidding Documents

The PPU issued Standard Bidding Documents (SBDs) via circular 024 on June 10, 2009. Procuring entities may obtain soft copies of these documents from the PPU.

Note that the descriptions below do not provide complete details of procurement methods but are intended to describe key eligibility criteria. The PPL, along with the Rules of Procedure for Public Procurement and relevant circulars issued by the PPU must be considered to ensure proper application of PPL procurement methods.

4.4.2.1. Single-Source Procurement

Single-Source Procurement is described in article 24 of the PPL. In this procurement method purchases are made from one supplier directly. In the absence of any of the circumstances noted below, the limit for this procurement method is AFN 3,000 (per the PPL amendment of Jadi 1387).

Procurement in accordance with this method exceeding the AFN 3,000 limit is ineligible with the following exceptions:

- i only one contractor is able to fulfill the procurement requirements within the time required;
- ii one contractor has exclusive rights in the goods, works or services needed for which no adequate substitute exists; or
- iii when there is an emergency need involving an imminent threat to public health, welfare, or safety, or an imminent threat of damage to property,

and the time required for engaging in tendering proceedings or other procurement methods would be impractical.

In each of the above cases, a 'comply or explain' requirement exists. This means that the procurement file needs to include a written explanation of why single-source procurement was used.

PPL article 91 sets thresholds for International and National single-source procurement. Expenditures under the single-source method which exceed the thresholds per article 91 are only eligible if they are approved in advance by the SPC. For clarity, prior approval by the SPC for expenditures under the single-source method which exceed the thresholds per article 91 is required in each of the exceptions noted above (i, ii, and iii). This includes expenditures in the case of an emergency.

4.4.2.2. Request for Quotations

Article 21 of the PPL describes the Request for Quotations procurement method. Under this method quotations for the procurement of readily available commercially standard goods or services are solicited from at least three eligible bidders. The following main eligibility criteria are key:

- the estimated value must not exceed the threshold as detailed in article 91 of the PPL;
- the request for quotations shall state the requirements;
- each bidder may submit one quotation in writing which may not be altered or negotiated;
- the bidder that provides the lowest-priced quotation meeting the requirements of the procuring entity shall be selected as the winner.

4.4.2.3. Open Tendering

Per article 22 of the PPL Open Tendering is the preferred procurement method. Various articles of the PPL describe this procurement method in detail.

Note that the 'evaluation of bids' and 'contract award' sections below are also relevant for Request for Quotations. 'Contract award' can also apply to Single-source procurement.

Advertisement

Key eligibility criteria applicable to invitation to tender notices are:

- the name, address and contact details of the procuring entity;

- the nature of the procurement requirement, including the quantity of goods, works or services and the location and timetable for delivery or performance of the contract;
- instructions on obtaining the bidding documents, including any price payable and the language of the documents;
- instructions on the location and deadline for submission of bids - must be from twenty-one to ninety working days from the date of advertisement; and
- the date of bid opening must be explicitly stated in either the advertisement or in the extra conditions.

Receipt of bids

The following key eligibility criterion should be considered:

- bids shall be signed by the bidder or the authorized representative of the bidder and shall be sealed prior to submission;
- bids must be registered upon receipt; a list of bids opened at the meeting is not a substitute for registration of bids submitted;
- only bids received before the deadline shall be considered;

Bid opening meeting

The following key eligibility criteria should be considered:

- the bid opening meeting must be at time and date as published; in the case this does not occur, evidence must be included in the procurement file which indicates that all bidders were informed of the change;
- the procurement office shall make a record of the bid opening, which shall be kept as part of the procurement record and shall include at least:
 - a. the name of all bidders whose bids were opened;
 - b. the presence or absence of a bid security, if one was required;
 - c. the total price of the bid, including the currency and amount and any discounts offered, except where the opening is of technical bids only;
 - d. the names of all staff and bidders' representatives attending the opening; and

Bid evaluation

Regardless of the procurement method applied the evaluation of the bids should be clearly documented and approved. Key requirements for bid evaluation are:

- all bids/quotations must be included in the evaluation;

- the evaluation reconciles to the submitted bids;
- the bid evaluation is dated and approved by the evaluation committee;
- the lowest bid is chosen.

One of the recurrent reasons for ineligibility is unclear documentation of bid evaluation and therefore unjustified selection of the winner. This can easily be avoided by preparing a bid evaluation schedule that is cross-referenced to the bids (e.g.: assigning a unique number to the bid and marking this next to the bid on the evaluation schedule).

Article 29 of the PPL describes the procedure to be followed in the case of unsuccessful procurement proceedings. The Rules of Procedure for Public Procurement as well as PPU circular C009 also address such circumstances.

Contract

The procurement stage is completed after signing of the contract. For low value purchases where request for quotations has been applied the quotation can serve as the agreement and no supplemental written contract is required. The law on procurement sets contract requirements in article 46 and article 47 of the law.

The contract should at least contain the following key information:

- Date of the contract;
- Name of the supplier;
- Descriptions and specifications of the goods purchased;
- Period covered by the contract;
- Total amount of the contract (or amount per item if the number of items is variable); and
- Signature of the supplier and authorization of the procuring entity.

Once the contract is signed all payments to the supplier must comply with the contract. Changes in the number of items, requested quality of the goods and / or prices will result in the total payment to be considered ineligible.

Announcement of winner

After the decision of the award authority the entity shall publish the contract award with the winner's name, address, a brief description of the goods, works or services procured and the contract value in the mass media. In addition to guidance in the PPL (article 63) the PPU has issued circular C012.

4.4.2.4. Less common methods under the PPL

The following procurement methods are not common. Unique requirements regarding the use of this method mean that entities should seek advice from Afghanistan Reconstruction and Development Services (ARDS) prior to commencing procurement. Restricted tendering can be either domestic or international. ARDS was established by the PPU to support those involved in procurement.

International Tendering

International tendering per article 25 of the PPL may be held when the goods, works or services are not available on competitive price terms from at least three (3) bidders in Afghanistan or when a national tendering proceeding has failed to identify an acceptable bidder.

Restricted tendering

Restricted Tendering means the procurement method, provided by article 23 of the PPL, in which the invitation to bid may be extended to a limited number of bidders. In such cases the procurement file needs to include a written explanation of why single restricted tendering was used and prior approval of the Procurement Committee is required.

Invitation to bidders for two stage tendering

This method is used for services only and requires two stages of bidding. In the first stage companies are short-listed based on their Expression of Interest. In the second stage short-listed companies will submit their proposals.

4.5. High value procurement under the PPL

PPU circular 010 invites those performing procurement to seek procurement facilitation and support from ARDS and sets thresholds above which entities are required to seek support. To comply with the PPL, procurement of works greater than USD 500,000 and procurement of goods or services greater than USD 200,000 must be referred to ARDS. See below for the WB requirement that pre-approval is required for all purchases greater than USD 250,000.

4.6. ARTF Procurement Guidelines

Under the Grant Agreement, WB will accept as eligible expenditures made under Afghan law to a threshold of USD 250,000. For amounts greater than

USD 250,000 to be eligible, GIRA will have to apply specific WB guidelines including the use of WB SBDs. Section 4.4.1 above includes guidance on selection of the proper procurement method.

WB Direct Contracting, WB National Shopping and WB Competitive Bidding Advertised Locally (CBAL) are procurement methods related to low value expenditures and are therefore not applicable to GIRA. For procurement with a value not estimated to exceed USD 250,000, Afghan Law is accepted by the WB as satisfying WB Guidelines.

WB International Competitive Bidding (WB-ICB) procedures are however applicable for GIRA expenditures exceeding USD 250,000 and contain the following main stages:

- Prequalification of suppliers;
- Inviting selected suppliers to tender;
- Evaluation of bids;
- Signing of the contract; and
- Announcement of winner.

To be eligible for reimbursement under the ARTF **all expenditures exceeding USD 250,000 are subject to prior review by ARDS** on behalf of the World Bank. This review should take place on the bidding documentation prior to commencing the procurement process. No expenditures exceeding USD 250,000 are eligible without such prior approval.

Under Afghan law goods or services with a value of greater than USD 200,000 and works greater than USD 500,000 must be referred to ARDS as noted above in section 4.5. No expenditures above these thresholds are eligible without such prior approval.

4.7. Receipt of goods

One of the final stages of the purchasing process is the receipt of the goods (procurement law Article 86). The Ministry is responsible for adequate verification on receipt of procured goods and administration of the receipt on M7.

The standard form used by GIRA, the M7, is sufficient evidence for the eligibility criteria that goods have been received. It is important that there is a clear link between the AFMIS payment request (M16) and the M7s the M16

relates to, especially if a contract covers several M16s and each M16 covers several M7s. A summary with the M7 numbers covered by the M16 is adequate.

4.8. Invoice

It is essential that each payment is substantiated with an invoice from the supplier. The invoice needs to contain a reference to the contract and to the goods or services supplied (e.g.: description of goods and date of delivery) as well as the amount of the purchase. In the case of works, a progress report can be used.

4.9. Availability of budget

All expenditures need to be recorded on the right economic code. Sufficient budget allotment for the major budget code (Major Object) must be available.

4.10. Payment

Evidence of payment to the supplier is a requirement for eligibility of expenditures. There are different possibilities to evidence a payment:

- Check issued directly to the supplier; and
- Signature from the supplier for receipt of payment.

It is imperative that a copy of the check be kept at the procuring entity to evidence that a check was issued.

5. Special Payments

5.1. Introduction

The term “Special Payments” does not relate to the payment itself but to the eligibility criteria that apply to these payments. These criteria include both the avoidable and the unavoidable ineligibility.

This section deals with:

- Advances (paragraph 5.2)
- Per Diem (paragraph 5.3)
- Contributions in kind (paragraph 5.4)
- State Owned Enterprises (paragraph 5.5)

- Assistance payments and other non-reciprocal transfers (paragraph 5.6)
- Expenditures abroad (paragraph 5.7)

5.2. Advances

Advances are not expenditures and are as such considered ineligible for replenishment under the ARTF. However, the term advances is used for different payments and individual eligibility criteria relate to each of them. A distinction is made between the following advances:

- Advances to provinces (paragraph 5.2.1);
- Advances to line ministries (paragraph 5.2.2);
- Advances to suppliers (paragraph 5.2.3).

5.2.1. Advances to provinces

Provinces receive cash advances for the payment of both payroll and non-payroll expenditures. These advances to provinces are not expenditures and therefore not eligible for reimbursement. These advances are however subject to the ARTF Fiduciary Standards requiring timely settlement (six months per current Fiduciary standards).

5.2.2. Advances to line ministries

Line ministries are allowed to request advances for specific purchases. These advances should be recorded separately on budget codes 21300, 22105, 22900, 22901 and 25900. Advances issued to line ministries recorded to expenditure codes still occur. Regardless of the codes the advances are recorded on, the same eligibility criteria apply.

Advances need to be settled within four weeks (Ministry of Finance Circular 21) or MoF may refuse future advances. These advances are subject to the ARTF Fiduciary Standards requiring timely settlement (three months per current Fiduciary standards).

The advances need to be clearly cross referenced to settlement documentation. This is done through the use of M12 (advance settlement form) and M10 (overview of settlements by M16) forms. All supporting documentation for settlement needs to comply with all the eligibility criteria mentioned in this manual.

5.2.3. Advances to suppliers

It is important to distinguish between two different advances to suppliers; payments according to contract which can be eligible and payments not according to the contract which are ineligible.

5.2.3.1. Payments according to contract

Payments according to the contract should not be considered advance payments. As long as the payment schedule is clearly defined in the contract these payments are to be considered expenditures and are eligible as such (provided of course all other eligibility criteria have been met).

5.2.3.2. Payments not according to contract

Advances to suppliers not according to the contract are not to be considered expenditures. These advances will become expenditures only after settling of the advance, meaning all supporting documents (invoices, M7s, etc.) need to be present before the payment is considered eligible. Settlement of these advances needs to take place within four weeks according per the MoF circular or MoF may refuse future advances.

5.3. Per Diem

Employees travelling on behalf of the government are entitled to per diem payments. A standard per diem is in place for travel within Afghanistan. For international travel the amount of the per diem depends on the region or country the employee is travelling to, his or her grade, and the total duration of the journey.

For per diems to be eligible the employee needs to sign for receipt of the per diem, the journey needs to be authorized by the Ministry and evidence of the journey needs to be available (e.g.: plane tickets, invoices for car rental / hotels). Furthermore, the per diem needs to be calculated in accordance with the “per diem decree” as issued by the Ministry of Justice.

5.4. Contributions in kind

Contributions in kind are goods or services received by the ministries that are paid for directly by a donor. The Ministry is therefore not obliged to make any payment for these goods. Since the Ministry does not pay for the contributions

in kind they are not considered expenditures and as such ineligible for financing under the ARTF (unavoidable ineligibility). Contributions in kind should not be recorded in AFMIS according to MoF Finance Circular number 14.

5.5. State Owned Enterprises

The expenditures of State Owned Enterprises are not eligible for financing under the ARTF. The reason for excluding their expenditures is that State Owned Enterprises should be self-supporting and pay for their expenditures out of their own revenue. For clarity: Financing of working capital and the payment of subsidies to State Owned Enterprises by line ministries are not eligible under the ARTF. Purchases made by a line ministry from State Owned Enterprises can be eligible for financing provided the State Owned Enterprise is the winner of a competitive process.

5.6. Assistance payments and other non-reciprocal transfers

Non-reciprocal transfers are payments to individuals where the government does not obtain goods, works, or services in return. Such transfers are not eligible for funding under the ARTF. Assistance payments are an example.

5.7. Expenditure abroad

Expenditures abroad comprise all expenditures by foreign branches of the ministries (e.g.: embassies and representative offices). The eligibility criteria are dependant on the type of expenditure:

- Payroll expenditures;
- Rental expenditures;
- Other non-payroll expenditures.

5.7.1. Foreign payroll expenditures

Foreign payroll expenditures comprise the payroll of employees fully employed abroad (for per diem payments refer to 5.3). For foreign payroll expenditure to be eligible payments need to be substantiated by a document authorized by the head of the foreign office detailing the total amount of payroll paid to employees, signed by the employees for receipt of payment. Furthermore, budget allotment and Tashkeel need to be available and sufficient to cover the expenditure.

5.7.2. Foreign rental expenditures

For rental expenditures a copy of the rental contract should be obtained by the line ministry. The copy of the contract in itself is sufficient evidence to allow the expenditure to be eligible. If rental contracts are terminated before completion of the rental period paid in advance the amount refunded by the supplier should be refunded to the Treasury Single Account bank account of MoF in Kabul.

5.7.3. Foreign other non-payroll expenditures

The PPL indicates that Afghan government entities located abroad shall conduct procurement in accordance with rules and procedures of the host country and as per provisions of article 91 of this Law, unless agreed otherwise. As it is not practical to determine whether or not the procurement was properly conducted due to insufficient knowledge of various foreign procurement laws, these O&M expenditures are not eligible for ARTF funding.

APPENDIX I Abbreviations

AFN	Afghani (Local currency)
AFMIS	Afghan Financial Management Information System
ARDS	Afghanistan Reconstruction and Development Services
ARTF	Afghanistan Reconstruction Trust Fund
CBAL	Competitive Bidding Advertized Locally (procurement procedures)
DC	Direct Contracting (procurement procedures)
FS	Fiduciary Standards
GIRA	Government of the Islamic Republic of Afghanistan
IARCSC	Independent Administrative Reform and Civil Service Commission
IS	International Shopping (procurement procedures)
M3	First request letter
M7	Form used for the receipt of goods
M10	Overview of settlements by M16
M12	Advance payment settlement form
M16	Payment request form
M20	Budget letter
M41	Payroll
M50	(Delegation of) authority form
MA	(ARTF) Monitoring Agent
MC	(ARTF) Management Committee
MoF	Ministry of Finance
NS	National Shopping (procurement procedures)

O&M	Operation and Maintenance
PFEML	Public Finance and Expenditure Management Law
PPL	Public Procurement Law
PPU	Procurement Policy Unit
PRR	Public Restructuring Reform
SBD	Standard bidding document
SE	State (owned) Enterprise
SOE	Statement of Expenditure
SPC	Special Procurement Committee
SY	Solar Year
TSA	Treasury Single Account
WB	World Bank

APPENDIX II Fiduciary Standards

The list below details the Fiduciary Standards as issued by the Administrator of the ARTF as of December 20, 2004. These standards are effective as of JADI 1383 (December 21, 2004).

Payroll expenditures

1	Payrolls are reimbursable only for Ministries that have submitted proposed employment limits for the Fiscal Year, by HQ and province.
2	Payrolls submitted later than three months after the end of the relevant pay period for central ministries and four months for provinces are not reimbursable. Provided, however, that provincial payrolls may still be reimbursed after four months if at least 80 % of the provinces have met the four month deadline.
3	Payrolls submitted with no allotted funds available are not reimbursable.
4	Payrolls that would take the total staff paid in a given month beyond the Central Ministries' current Fiscal Year's budget caps are not reimbursable. The ARTF will reimburse payrolls up to the budget cap. The Monitoring Agent will use the Government's employment database to determine adherence to these standards.
5	Salaries paid abroad shall be deemed eligible if claimed by a signed statement from the Ambassador for Afghanistan in the foreign country where the payment has taken place.

Non-Payroll expenditures

1	O&M expenditures with no allotted funds available are not reimbursable.
2	O&M expenditure is reimbursed only if documented satisfactorily no more than three months after expenditure took place for central ministries and six months for provinces. Special rules apply for Travel expenditures. See Cash management Standards.
3	O&M expenditures not in accordance with the issued procurement instructions are not eligible for reimbursement.
4	Rents paid abroad shall be deemed eligible upon presentation of a valid signed lease agreement.

Cash management

1	<p><u>Advances abroad:</u> For advances to foreign branches (e.g.: embassies) the three month period allowed for documenting the expenditure will count starting from the date the amount is received in the bank account of the foreign branch. For this standard to be applicable the date of the receipt of the advance must be proven with the supporting bank statement of the foreign branch.</p>
2	<p><u>Advances for travel expenditures:</u> For advances to cover travel expenditures for trips taking longer than three months the three month period allowed for documenting the expenditure will not be applied. Instead, acquittal forms must be submitted within one month after the end of travel for central ministries, and within three months for provinces. All expenditures acquitted and / or recorded after these periods will be deemed ineligible.</p>
3	<p><u>Advances to provinces:</u> <i>(to enforce the Fiduciary Standards requiring that advances to provinces should be settled within six months the FIFO principle shall be applied; first advance received is the first advance spent)</i> On a monthly basis the total amount of outstanding advances to provinces will be calculated based on the weekly Treasury report. For each province this outstanding amount will be reduced with the advances received during the last six months. If the remaining amount is a positive amount this amount will be deducted from next SOE.</p>