REPORT NO.: RES31482

DOCUMENT OF THE WORLD BANK

RESTRUCTURING PAPER
ON A
PROPOSED PROJECT RESTRUCTURING
OF
AFGHANISTAN CAPACITY BUILDING FOR RESULTS FACILITY (CBR)
APPROVED ON DECEMBER 11, 2011
TO
MINISTRY OF FINANCE

GOVERNANCE
SOUTH ASIA

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I. BASIC DATA

Product Information

<table>
<thead>
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<th>Product Information</th>
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<tbody>
<tr>
<td>Project ID</td>
<td>Financing Instrument</td>
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<tr>
<td>P123845</td>
<td>Investment Project Financing</td>
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Organizations

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<td>Responsible Agency</td>
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<td>Ministry of Finance</td>
<td>Independent Administrative Reform and Civil Service Commission</td>
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Project Development Objective (PDO)

Original PDO

The project's development objective is to assist the government in improving the capacity and performance of select line ministries in carrying out their mandates and delivering services to the Afghan people. This will be achieved through the implementation of specific capacity and institution building programs, which include systematic monitoring of and reporting on results.

Current PDO

To improve the capacity and performance of priority line ministries and independent agencies in selected reform areas.

Summary Status of Financing

<table>
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<th>Ln/Cr/Tf</th>
<th>Approval</th>
<th>Signing</th>
<th>Effectiveness</th>
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Policy Waiver(s)

Does this restructuring trigger the need for any policy waiver(s)?

No

II. SUMMARY OF PROJECT STATUS AND PROPOSED CHANGES

1. This Restructuring Paper (RP) seeks Country Director (CD) approval for the proposed restructuring of the Afghanistan Reconstruction Trust Fund (ARTF)-funded Capacity Building for Results (CBR) Facility project (P123845). This restructuring proposal is in response to the request from the Government of Afghanistan through letter dated May 28, 2018. The following change to the project was requested by the Government: (a) No-cost extension of the project’s original closing date by six months, from June 30, 2018 to December 31, 2018, to allow continuity of support until effectiveness of the successor Tackling Afghanistan’s Government HRM and Institutional Reforms (TAGHIR) Project (P166978).

2. The first restructuring of the project approved on April 25, 2016, and that streamlined project design and re-aligned project activities with the priorities of government, has significantly helped to turn around implementation progress. A 6-month extension of the original project closing date from December 31, 2017 to June 30, 2018 was approved on June 20, 2017. This would be the second closing date extension. The project is currently rated as Moderately Satisfactory (MS) for both “Overall Implementation Progress” and “Progress towards achievement of PDO” in the latest archived (October 24, 2017) Implementation Status and Results (ISR) Report. The project was upgraded to MS status in September 2016 and has continued to make steady progress. The project’s current disbursed amount is US$62.09m (62 percent) of the current committed amount of US$100m, with undisbursed funds intended to be re-channeled as part of the proposed TAGHIR financing (US$100 million). While this improvement in project performance is partly due to design simplifications, a renewed interest at the top leadership and across government has greatly benefited progress.

3. Overall, demand for and access to CBR has considerably increased across the board. All thirteen (13) priority Line Ministries and Agencies (LMAs) have fully approved reform plans (Capacity Building for Results Plans or CBRPs), and have progressed with implementation of these plans. Progress has been most significant in the area of civil servant recruitment, both within and outside of priority LMAs. To date, 1,310 selections have been completed across Grades 1-4 of Tashkeel in 39 LMAs, including around 55% at subnational level. Of these selected positions, around 807 (62%) – 52 of which are held by women - have been contracted and are currently active.

4. Project support to the resourcing and capacity of the Afghanistan Civil Service Institute (ACSI) has allowed the institute to carry out two pilot trainings for Senior Management Groups (SMGs -- Grade 1 and 2 civil servants) and another for Human Resource (HR) Directors. A Mid-Level Management Development (MMD) Internship Program implemented by ACSI has successfully completed with at least five (5) of the 93 MMD participants since promoted, including two to Director level. Pay and Grading (P&G) Reform, supported through the CBR, has been completed in 23 LMAs across Government. The CBR project has also supported rationalizing and regulating the pay of national technical assistants (NTA). The project continues to support both LMAs and donors in applying the new NTA scale.

5. The current proposed restructuring is required to preserve these gains by extending the project for a further six-month period, up to December 31, 2018. This no-cost extension is required given that Board approval of TAGHIR (the successor to the CBR project) has been delayed (at the request of Government) from June to September 2018 due to
unresolved design and financing issues primarily relating to the transition from the CBR project. The extension is intended to allow for continuity of support and smooth transition, specifically with regards to the financing of salaries of the 807 civil servants currently contracted under the project. Closure of the CBR would not impact the employment status of these CBR appointees who are formal civil servants with open-ended employment. However, their higher salaries (specifically the CBR top-up component) are linked to CBR-issued contracts currently expiring on June 30, 2018. Closure of the CBR project in the absence of TAGHIR effectiveness would necessarily result in a reduction of their salaries (down to the level of P&G) given that the Ministry of Finance (MoF) has indicated that it does not currently have the fiscal space to cover the CBR top-ups in the short-term. Unlike other contracted and project-financed staff in Project Implementation Units (PIUs), sudden discontinuation of the CBR appointees’ higher salaries can have a serious disruptive impact across the Government. This impact would be most pronounced in terms of potential staff turnover (resignations) – in a context of still under-developed core Government capacity, and where half of the currently contracted CBR posts are of key Director General and Director level positions across the Government who frequently lead on policy development, management and technical execution issues.

6. The proposed extension period will be utilized by the Government to put in place a more systematic and long-term solution for sustaining professional groups and executive civil servants, that can be implemented under the proposed TAGHIR project. The Independent Administrative Reform and Civil Service Commission (IARCSC), MoF and the World Bank are currently discussing a “de-projectized” approach that helps transition to a more fiscally sustainable size and salary structure for a meritocratic professionalized senior civil service corps for Afghanistan. This involves setting and applying a cut-off for initiating new recruitment processes within CBR and imposing a cap on the overall number of CBR and new TAGHIR supported positions. The cap (preferably not exceeding 1,500 positions) would be determined on the basis of available fiscal space and underlying assumptions in terms of ministries to be prioritized (along the criteria of revenue generation and enabling environment) and potential distribution of both new (TAGHIR) and existing (CBR) positions across pockets of effectiveness within these ministries.

7. To assist this process, the IARCSC has agreed to utilize the extension period to carry out an overall evaluation of current CBR positions, to be completed ahead of TAGHIR project effectiveness. The evaluation would assess three primary criteria: (a) strategic alignment within government; (b) strategic alignment within priority ministries; and (c) contribution of incumbents towards line department objectives. CBR positions found not to be meeting the above objectives would be proposed to be downgraded to P&G or other appropriate salary rates and be financed as part of the regular wage-bill under the Government’s operational budget (Code 21). Current or modified CBR top-up amounts for CBR positions meeting the above objectives, as well any new recruitments supported through the TAGHIR project that are to be similarly prioritized, could be transitionally financed under TAGHIR – with the P&G component financed under the regular wage-bill. This situation would prevail in the interim until Government is in a position to cover full financing of CBR/TAGHIR positions under its wage-bill. The TAGHIR project through a scalable disbursement-linked indicator, could reimburse a declining portion of the overall cost of associated salaries upon verification of fulfillment of both targeted numbers and recruitment quality metrics. To assist this process from an administrative perspective, IARCSC has also agreed (during the extension period) to: (a) process payment of CBR appointees’ salary (currently issued to appointees by IARCSC) through the respective hiring entity, in line with the rest of the civil service; and (b) to stop using the Bank-funded project staff contract template for CBR appointees, and to instead use a new template that captures the P&G salary component, CBR top-up, pension contribution, and tax deductions.

8. The above-described approach depends directly upon the development of a new Civil Service Wages, Salaries, and Allowances Policy which is also required ahead of TAGHIR effectiveness. The process has already started with the establishment of a technical committee comprising MoF, IARCSC, and the World Bank. This technical committee is working together to gather data, refine the existing World Bank wage bill model to better project the fiscal costs and
savings of policy scenarios, and accordingly propose policy options on civilian pay arrangements. Options would cater for the introduction of specialist cadres and of Deputy Ministers into the civil service, and would also necessarily target compensation within the parallel civil service (NTA) and by extension that of CBR/TAGHIR appointees. According to the instructions of H.E. The President of Afghanistan, a draft policy is to be developed by no later than September 2018, with implementation to commence with the start of the new Afghan fiscal year (from December 22, 2018).

9. Consistent with the above, the current proposed extension of the CBR project would be primarily utilized for financing salaries of CBR appointees. While ongoing procurements may be concluded during this period, no new procurements are to be launched. The only exception relates to CBR recruitments, ahead of the to-be-agreed cut-off date. Similarly, contracts of all CBR-financed technical assistance (consultant firms and individuals) and contracted staff (with the exception of essential fiduciary function PIU staff) shall not be extended beyond their current closing date of June 30, 2018, and no new technical assistance is to be procured.

10. The CBR project can be closed earlier than December 31, 2018 if this full period is not required i.e. once TAGHIR becomes effective and all transition issues have been resolved. The project has been submitting acceptable interim unaudited financial reports (IFRs) on time and there are no outstanding IFRs or audit reports. A previous declaration of ineligible expenditure relating to 4 civil servant recruitments identified by a Bank Procurement Post Review as non-compliant with minimum CBR quality standards, has been resolved with the relevant amounts refunded by Government.

III. DETAILED CHANGES

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