

# IRAQ

## COUNTRY PORTFOLIO PERFORMANCE REVIEW (CPPR)

October 23, 2007

### I. Introduction

1. The World Bank routinely carries out Country Portfolio Performance Reviews (CPPRs) with government counterparts to improve the implementation and impact of Bank-financed projects. These CPPRs, which normally take place on an annual basis, help the Bank, government, and implementing agencies identify generic and project-specific issues and actions to be taken by both the government and the World Bank to improve project performance.

2. This is the second Country Portfolio Performance Review (CPPR) carried out for Iraq. The first Iraq CPPR, carried out in spring 2006, included an internal assessment by the Bank's technical staff; a workshop with Bank country team members to discuss project performance and identify common issues; and written input by Iraqi Project Management Teams (PMTs). However, due to the government transition at that time, the first CPPR was not discussed with senior government officials.

3. This second CPPR for Iraq covers eleven projects amounting to US\$379 million financed by the World Bank Iraq Trust Fund (ITF) and implemented by the Government of Iraq. The CPPR is being carried out in stages. The Bank organized a two-day workshop in Beirut, Lebanon, on September 8 and 9, 2007, to gather representatives of Iraqi PMTs to discuss project implementation experience and cross-cutting issues and impediments. Based on the workshop, the Bank prepared a matrix summarizing issues and identifying actions. The Bank has now begun discussing CPPR issues with key officials of the Government of Iraq. Further high-level discussions are expected to take place in Baghdad, including decisions on project restructuring and cancellation and additional allocations to projects performing well.

### II. World Bank Project Portfolio Summary

4. **Current Project Portfolio.** Since its effectiveness in late March 2004, the ITF has financed sixteen grants totaling US\$437 million. Two grants, amounting to US\$43.6 million, are closed: the Capacity Building I Project and the Emergency Textbook Provision Project. Thus, there are fourteen active ITF grants amounting to US\$393 million. Of these fourteen grants, two, amounting to US\$8.5 million are implemented by the Bank and twelve, amounting to US\$385 million, are implemented by Iraqi governmental authorities. Consequently, 98% of ITF monies obligated to active projects are under the control of the Government of Iraq.

5. Eleven ITF-financed projects implemented by Iraq are the scope of the CPPR. The US\$6 million grant to cofinance the IDA Emergency Electricity Reconstruction Project is not included in the CPPR, because it is not a stand-alone ITF project. The Second Capacity Building Project (US\$7.5 million) and the Household Survey and Policies Technical Assistance Project (US\$1.5 million) are not included in the CPPR because they are executed by the Bank.

6. **Duration of Implementation.** The average age of the project portfolio is 2.1 years, and the oldest project is 3 years old. Six Iraqi-executed grants were approved (signed) in late 2004 and launched in early 2005. One grant was approved in late 2005, and the remaining four were approved in 2006.

7. **Status of Contracting.** About  $\frac{3}{4}$  of active ITF-financed project monies have been tendered or contracted—Iraqi ministries have issued tender documents amounting to nearly US\$280 million, of which nearly US\$200 million (over 50% of total project costs) have been contracted or completed.

8. **Disbursements.** Disbursements—about US\$70 million for the eleven projects—lag behind project implementation, because they represent payments made for goods and services delivered.

Nevertheless, the current level is substantially below the Bank's original projections. Table 1 below summarizes the project effectiveness date; project age; amount of tenders and requests for proposals; amount of contracts; and disbursements as of September 30, 2007.

**Table 1**  
**Active ITF-Financed Projects Implemented by Iraq**  
**Overview of Contracting and Disbursements (September 30, 2007)**

	<b>Grant Amount (US\$ m.)</b>	<b>Grant Signature Date</b>	<b>Project Age (years)</b>	<b>Tenders or RFPs issued (US\$ m.)</b>	<b>Contracts signed (US\$ m.)</b>	<b>Disbursed (US\$ million and %)</b>
<b>School Construction and Rehabilitation</b>	60	Oct. 2004	3.0	37.3	36.9	14.1 (24%)
<b>Health Rehabilitation</b>	25	Nov. 2004	2.8	18.9	14.5	7.4 (30%)
<b>Private Sector Development</b>	55	Dec. 2004	2.8	52.3	39.0	4.4 (8%)
<b>Baghdad Water Supply and Sanitation</b>	65	Dec. 2004	2.8	47.0	8.4	7.5 (12%)
<b>Water, Sanitation, and Urban Reconstruction</b>	110	Dec. 2004	2.8	88.0	71.0	17.5 (16%)
<b>Community Infrastructure</b>	20	Dec. 2004	2.8	19.9	19.9	15.2 (76%)
<b>Disabilities</b>	19.5	Nov. 2005	1.9	4.5	4.0	1.0 (5%)
<b>Social Protection</b>	8.0	June 2006	1.3	2.5	0.1	0.2 (3%)
<b>Household Survey and Policies for Poverty Reduction</b>	5.1	July 2006	1.2	2.3	2.3	2.7 (53%)
<b>Marshlands School Construction</b>	6.0	Oct. 2006	1.0	2.3	1.3	0
<b>Environmental Management</b>	5.0	Nov. 2006	0.9	4.2	0	0
<b>Total</b>	<b>378.6</b>		<b>2.1 (ave.)</b>	<b>279.2</b>	<b>197.4</b>	<b>70</b>
<b>Percent of Total</b>				<b>74%</b>	<b>52%</b>	<b>18%</b>

\*RFPs = Requests for proposals (for consultancy services).

Note: The above list of project does not include two active ITF-grants implemented by the World Bank as well as one grant cofinancing the IDA-financed Emergency Electricity Reconstruction project.

### III. General CPPR Findings

9. A CPPR workshop in Beirut on September 9 and 10, 2007, brought together representatives of nearly all line ministry Project Management Teams (PMTs), Bank staff, and staff of the Fiduciary

Monitoring Agent contracted to assist in supervising ITF-financed projects.<sup>1</sup> CPPR workshop participants identified and discussed cross-cutting issues that affect project implementation and disbursement.

10. The Bank has summarized the crosscutting issues and suggested actions in a matrix. Issues include the following: (i) insecurity (a major issue, although outside the scope of the CPPR); (ii) project financing shortfalls due to Iraqi dinar appreciation and price increases; (iii) delays in making Iraqi dinar payments to contactors; (iv) weak project management capacity and high PMT staff turnover; (v) lengthy processes within ministries to approve bidding documents and award and sign contracts, and insufficient delegation of authority to PMTs; and (vi) declining number of bids in response to tenders. For a list of all CPPR issues and suggested actions, see attached matrix.

11. Bank experience with CPPRs suggests that it is most effective to focus efforts on solving two to three key issues, while continuing to follow up on the remaining issues. The Bank has identified the following issues as priorities:

- (i) ***Lack of a central government counterpart that oversees the Bank's portfolio and that can work across ministries to address project bottlenecks and troubleshoot as needed.***

***Recommendations:***

- Government of Iraq to appoint a technical-level counterpart to help monitor project progress and address implementation impediments. Through such a counterpart, the Bank and the government can seek to resolve various issues identified in the CPPR.

- (ii) ***Project financing shortfalls due to currency fluctuation and price escalation.*** As a result of both Iraqi price increases and Iraqi dinar appreciation (trust fund grants are denominated in US dollars), several projects are now facing serious financing shortfalls that will significantly reduce project scope and impact.

***Recommendations:***

- Project teams to identify funding shortfalls and opportunities to restructure projects to maximize impact of remaining funds and to reallocate to components that can be completed by the closing date.
- On the basis of the information above, the Bank will provide the Government of Iraq with a summary of project financing shortfalls for a decision on how to address each shortfall (additional financing from the ITF, government cofinancing, project restructuring, etc.).

- (iii) ***Delays in making payments to contractors.*** Payments to contractors can be made directly by the World Bank or by PMTs using a local project account, which is then reimbursed by the World Bank. Due mainly to Iraq's weak financial sector, the World Bank has had difficulty in making direct payments in Iraqi dinars to contractors (payments in US dollars are handled differently in the banking system and have not experienced unreasonable delays). A number of projects have also had difficulty in making payments from local revolving accounts, because the Ministry of Finance has delayed establishing the account or has restricted the account size causing cash-flow problems. Payment/disbursement delays can have multiple and serious negative affects, resulting in implementation delays and loss of contactors' confidence in timely payment, which could increase future bid prices.

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<sup>1</sup> About 45 participants attended the workshop: 17 representatives from 8 PMTs responsible for 10 ITF-financed projects; a representative from the KRG; 4 representatives from the Fiduciary Monitoring Agent, and 23 Bank staff.

***Recommendations:***

- World Bank to formally approve the use of Designated Accounts (a revolving advance account from the World Bank) for two projects on a pilot basis, to provide needed liquidity and reduce payment delays.
- World Bank to hold high-level discussions with the Ministry of Finance to resolve all remaining project account issues, and to ensure adequate liquidity to Iraqi revolving project accounts.

Attachments:

Iraq CPPR Cross-Cutting Issues and Action Plan Matrix





Issues	Action Needed	Responsibility	Timing
	identify and share the practices used by the MOH/EHRP and EDP.  • Consider hiring a Baghdad-based local Disbursement Assistant to track and assist with the payment process.	CMU and LOA	
Some PMT financial staff do not have access to <i>Client Connection</i> .	• Verify that each PMT has access to client connection; and take appropriate action if there is not access. [Note: Client Connection requires a dedicated email account and use of a password.]	All TTIs	By Oct. 31
Some projects do not yet have project accounts, causing project delays (this issue has been raised several times with the MoF, but has not yet been resolved.).	• Contact Ministry of Finance (MoF) to request action.  • Establish IQD project accounts with adequate pre-financing for: <ul style="list-style-type: none"> <li>◦ Disabilities Project.</li> <li>◦ Social Protection Project.</li> </ul>	WB (CMU)  MoF	Done during Annual Mtg.  Before Nov. 16
Some existing project accounts do not have sufficient funds to cover expenditures, causing project delays (this issues has been raised several times with the MoF, but has not yet been resolved).	• Contact Ministry of Finance (MoF) to request action.  • Provide adequate liquidity to those project accounts. <ul style="list-style-type: none"> <li>◦ Water Supply, Sanitation &amp; Urban (in US\$).</li> <li>◦ Health Project (in IQD).</li> </ul>	WB (CMU)  MoF	Done during Annual Mtg.  Before Nov. 16
Withdrawal applications submitted by PMTs include inaccuracies, delaying payments.	• Ensure that contractors use the same name on contract, withdrawal applications, and bank account, and that all data match. To avoid translation errors, include both the English and Arabic name in correspondence.  • PMTs to use Withdrawal Application Checklists to ensure forms are properly completed and appropriate supporting documentation are attached, prior to submission to the WB.  • FMA to have TOR revised to allow for pre-screening of withdrawal applications to improve quality.	PMTs/contractors, suppliers, consultants  PMTs  WB / FMA	Continuous  Continuous  TBD

<b>Issues</b>	<b>Action Needed</b>	<b>Responsibility</b>	<b>Timing</b>
Household Survey and Policies for Poverty Reduction (EHSPPR) and School Construction and Rehabilitation (ESCRP) face cash-flow problems.	<ul style="list-style-type: none"> <li>•WB to formally approve the use of Designated Accounts for these projects on a pilot basis over six months, to provide needed liquidity and reduce payment delays.</li> <li>•Contact MoF requesting action / authorization for the opening of separate designated accounts in Iraqi Dinar for the EHSPPR and ESCRP (and Marshlands Project?).</li> </ul>	WB (CMU/FMS/LOA)  MoF	By Nov. 2  Done during Annual Meeting
Overall, numerous project impediments linked with the Ministry of Finance.	<ul style="list-style-type: none"> <li>•Consider holding a workshop with PMT financial specialists, MoF, and CBI to discuss all issues.</li> </ul>	WB – Discuss within Iraq Country Team	
<b>Taxes</b>			
Lack of clarity on revenue taxes leading to different interpretations of the Income Tax Law by different PMTs.	<ul style="list-style-type: none"> <li>•Send letter to MoF requesting action.</li> <li>•Clarify the law and its application to local contractors to ensure same treatment of contractors across projects.</li> </ul>	WB (CMU)  MoF	By Nov. 9  By Nov. 30
Uneven treatment of foreign contractors resulting from lack of clarity on Ministry agreement regarding tax exemption.	<ul style="list-style-type: none"> <li>•Send letter to MoF requesting action.</li> <li>•Confirm exemption of revenue tax for foreign contractors as expressed in Mr. Alawi's letter.</li> </ul>	WB (CMU)  MoF	By Nov. 9  By Nov. 30
<b>Final Payments</b>			
PMTs are not applying the new regulation that allows converting retention money into bank guarantee at provisional acceptance of works	<ul style="list-style-type: none"> <li>•Provide new instructions (dated April 2007) to WB Task Team Leaders (TTLs) and PMTs.</li> <li>•Apply the new instructions which specify that all internationally financed contracts can apply the conversion of retention money into a bank guarantee at the stage of provisional acceptance of the works.</li> </ul>	CMU to obtain from FMA and then distribute  PMTs	By Oct. 31  Continuous
Arrangements need to be in place to ensure that the final audit fee is paid, because the final audit is usually completed after the Closing Date of the Financing Agreement. The policy of the World Bank is to allow for the financing of the final audit fee from the Grant or Credit proceeds if an escrow account is established before the	<ul style="list-style-type: none"> <li>•Send letter to MoF requesting action.</li> <li>•Allow PMTs to establish USD escrow accounts (designated bank accounts into which funds are deposited and held to pay for the final audit contract).</li> </ul>	WB (CMU)  MOF/PMTs	By Oct. 31  TBD

Issues	Action Needed	Responsibility	Timing
Closing Date. The escrow account provides assurance to the auditors that funds are available to pay bills when they become due.			
<b>Project Management</b>			
<p>PMT staff members are not full time and are distracted by other responsibilities within their ministries.</p> <p>High turnover of PMT staff.</p> <p>Some PMT directors do not have a clear job description/prerogatives/delegation of authority from the minister, causing delays within ministries.</p> <p>Some ministers live in the Green Zone physically separated from their ministries and may take 2-3 months to respond.</p>	<ul style="list-style-type: none"> <li>• Reinforce the Terms of Reference of a full-time PMT Director and ensure adequate staffing of the PMT.</li> <li>• Consider how to provide performance incentives to PMT staff.</li> <li>• Given the good performance of the ECIRP, identify the practices used by the MoWR/ECIRP (e.g., who has signature authority for what).</li> <li>• Request GoI to advise line ministries to establish clear responsibility and lines of authority, and to delegate appropriately. MoWR/ECIRP can be used as a good practice model for intra-ministerial practices and responsibilities. Raise the issue also with individual line ministers.</li> <li>• For future projects, ensure that PMT job descriptions/responsibilities/delegation of authority are clarified from the outset.</li> </ul>	<p>World Bank to raise matter at ministerial level (World Bank Annual Meetings, meetings in Baghdad)</p> <p>ECIRP PMT and Bank task team</p> <p>WB (CMU) to raise with GoI</p> <p>WB TTLs</p>	<p>Oct. 19-21</p> <p>By Oct. 31</p> <p>n/a</p>
<b>Procurement and Project Implementation</b>			
World Bank procurement and financial management procedures are difficult to apply.	<ul style="list-style-type: none"> <li>• Ensure that each project includes a training plan for PMTs. Continue to train PMT staff, particularly new staff, through both workshops and on-the-job training. Include English-language and computer skills training.</li> <li>• Two PMTs are using procurement advisers (in one case a firm, in another case an international adviser). Analyze this</li> </ul>	<p>PMTs/World Bank supervision team/FMA</p> <p>WB procurement staff and relevant TTLs</p>	<p>Continuous</p> <p>By Oct. 31</p>

Issues	Action Needed	Responsibility	Timing
	<p>experience to draw lessons for other projects.</p> <ul style="list-style-type: none"> <li>• Commit to service standards (including reply to correspondence, provision of no-objections, comments on procurement and FM documents).</li> <li>• Commit to job standards (timely reply to e-mails, submit timely reports, keep updated accurate books, coordinate with FMA and auditor, join SPN missions, monitor receipt of payments, etc.)</li> <li>• Prepare/update and utilize for each project a project implementation manual (PIM) based on the master implementation manual (MIM) to help document and thus clarify project FM and procurement arrangements.</li> </ul>	<p>WB</p> <p>PMTs</p> <p>PMTs</p>	<p>Continuous</p> <p>Continuous</p> <p>Early in life for new projects; immediately for current projects</p>
Contractors/suppliers are unfamiliar with World Bank procedures.	<ul style="list-style-type: none"> <li>• Organize pre-bid meetings for each contract.</li> <li>• Deliver private sector workshops with contractors and suppliers, if possible in Iraq to attract wider audience.</li> </ul>	<p>PMTs</p> <p>WB procurement team</p>	<p>Continuous</p> <p>Periodic, according to plan</p>
Tenders and Requests for Proposals are attracting fewer bidders, resulting in less competition, higher prices, and in some cases the need to retender.	<ul style="list-style-type: none"> <li>• If contractors have difficulty in accessing the ministry, consider decentralizing the bidding process (bid opening, evaluation, etc.) to the governorate where the works are located or to the nearest feasible area.</li> <li>• Consider using “bid declaration securities ” instead of bid securities, to avoid tying up large amounts of contracts’ assets during bid evaluation.</li> <li>• Design civil works subprojects in a way that local contractors can implement them (without compromising technical design) to expedite bidding / implementation and maximize local employment.</li> </ul>		

Issues	Action Needed	Responsibility	Timing
	<ul style="list-style-type: none"> <li>• Post qualification criteria shall be realistic and shall not unduly restrict potential bidders participation in the bidding process.</li> </ul>		
Demand on PMT staff by external auditors and FMA.	<ul style="list-style-type: none"> <li>• FMA and auditors to coordinate with PMT.</li> </ul>	FMA/auditors	Continuous
<p>External auditors unfamiliar with World Bank procedures and thus submitting very high prices. Slow auditors' selection process. Average quality of audit reports and risk of non-compliance.</p>	<ul style="list-style-type: none"> <li>• Organize second auditors workshop within the regional auditors' capacity strengthening program; follow up on the utilization of the previously launched "audit toolkit."</li> <li>• Start auditors' selection process early in the project life, coordinate and cooperate with the auditors to ensure compliance.</li> </ul>	<p>WB FM team</p> <p>PMTs</p>	<p>April 2008</p> <p>Continuous</p>
Questions of transparency/accountability in project implementation	<ul style="list-style-type: none"> <li>• Apply transparent procurement and FM practices in payments to maintain integrity of the payment process.</li> <li>• Engage in broader dialogue on issues of governance with central government institutions.</li> <li>• Include a summary of the Bank's Anti-Corruption guidelines in future training sessions with PMTs, to increase PMTs awareness, and responsibility for minimizing opportunities for fraud and corruption.</li> </ul>	<p>PMTs/Ministries</p> <p>WB (CMU and MNSD)</p> <p>WB (LOA)</p>	<p>Continuous</p> <p>Continuous</p>
Training is not effective if the wrong individuals attend the training.	<ul style="list-style-type: none"> <li>• Pay more attention to trainee selection. WB to establish database of all training participants for future monitoring of training impact.</li> </ul>	WB (TBD)	Continuous

Project Design Implications and Lessons Learned

	<ul style="list-style-type: none"><li>• Consider providing intensive assistance to a few projects, rather than a lower level of assistance to a large number of projects.</li><li>• To help ensure availability of essential technical assistance, combine a Recipient-executed component with a Bank-executed technical assistance/capacity building component (as done for EHSPPR).</li><li>• Spread the project over a wide geographic area to allow work to proceed where possible.</li><li>• Simplify scope of work and bidding processes (e.g. social protection project experience)</li></ul>		
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