

**World Bank Iraq Trust Fund
Banking Sector Reform Project (TF094193/P113337)
October 2011**

Project Summary Sheet

Title	Banking Sector Reform Project				
Implementing Agency	Central Bank of Iraq (CBI)				
Location	N/A – Institutional Support/Nationwide				
Sector code (OECD DAC)	24010	Financial Policy and Administrative Management			
	24020	Monetary Institutions			
Compact Priority	4.3.3.1	Undertake specific measures to restructuring State-Owned Banks			
	4.3.3.2	Undertake specific measures to promote private banking			
Project Cost	US\$10 million				
Duration	50 months				
Approval Date	April 2009	Effective Date	April 2009	Closing Date	June 30, 2013
Project Description	The Project aims to support the Iraqi authorities in the implementation of Phase I of the “Iraq Banking Reform Strategy” (2008-2012) and its Action Plan, focusing on four main components: (i) institutional and operational restructuring of the two state-owned commercial banks; (ii) financial restructuring of the two state-owned commercial banks; (iii) strengthening the regulatory and supervisory functions of the Central Bank of Iraq; and (iv) project management, monitoring and evaluation.				
Beneficiaries	The Project supports the Iraqi government to build a sound banking system, able to provide efficient financial services competitively. The immediate direct beneficiaries would be the two largest state-owned commercial banks—Rafidain Bank and Rasheed Bank—which account for more than 70 percent of the banking system. Ultimately, all Iraqi businesses and citizens will benefit from an improved banking system that can provide the resources needed for Iraq’s growth and offer good deposit and payment systems for businesses and households.				
Near Term Employment Creation	N/A				

Strategic Context and Donor Coordination

The donor community has been active in helping Iraq in restructuring the banking sector. The World Bank has been coordinating with all development partners involved in the banking reform, including the IMF, EU, US Treasury, and Financial Services Volunteer Corps (FSVC). The IMF has taken the lead in monetary activities and rebuilding the capacity of CBI. The US has focused mainly on the restructuring and financial audits of the state-owned banks, and helping Iraq draft an operational restructuring plan. FSVC provides technical assistance to CBI to strengthen its internal operations. The World Bank chairs an “Iraq Banking Reform Donors Group” to coordinate efforts, promote complementarity, and avoid overlap.

Project Development Objective

- Support Iraq’s implementation of Phase I of the Iraq Banking Sector Reform Strategy
- Strengthen the supervisory framework for financial intermediation

Outputs, Key Activities and Procurement

Outputs	<ul style="list-style-type: none"> • New organizational structures for the two state-owned banks are adopted • Number of staff trained in each bank would reach at least 100 staff members • Compliance supervisory and regulatory framework (Basle Code Principles)
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Activities	• N/A		
Procurement	Goods:	US\$0.35 million	
	Consultants' Services and Training:	US\$8.90million	
	Incremental Operating Expenses:	US\$0.25 million	
	Unallocated:	US\$0.50 million	

Financial Data

Funds Committed	US\$7.5 million	% approved	75
Funds Disbursed	US\$3.7 million	% approved	37
Forecast Closing Date	June 2013	Delay (months)	

Progress against Indicators

Improvement in functioning of the two state-owned commercial banks, evident in the increase in loan-to-GDP ratios from 4% in June 2006 to 6% in October 2010.	Loan-to-GDP ratios increased to reach 5.6% in 2010	% of planned	
Build-up in provision levels at the two state-owned commercial banks for new loans, reflected in the reserves-to-NPLs ratios, rising from 10% in June 2006 to 20% in October 2010.	The reserves-to-NPL ratios rose from 10% in June 2006 to reach 18% in 2010		
Capital adequacy ratio in line with prudential regulations, reaching up to 4% by June 2012.	Capital adequacy ratio reached 3.2% in 2010		
Number of staff trained to do bank operation	Number of staff trained in the supervision department of the CBI reached 12 in 2010		

Qualitative Assessment of Project Performance

Some achievements have been made over the past months in the implementation of the banking sector reform program. The World Bank has been providing technical support and advisory services to the Iraqi authorities to implement the First Phase of the Banking Reform Strategy-Action Plan (2008–2012) that was done in consultations with CBI, BSA, and the senior management of the two state-owned banks. The institutional, operational and financial restructuring of the state-owned commercial banks--Rasheed Bank and Rafidain Bank has been moving smoothly, as evident in the capacity building of its management and core banking staff, as well as in the setting of non-performing loans (NPLs).

Good progress has been made to date towards the objectives laid out by the GOI in its comprehensive five-year Banking Reform Strategy. The PMT has made progress in the implementation of the four components of the Project despite the complex situation on the ground.

The institutional, operational and financial restructuring of the two state-owned commercial banks has been moving smoothly, and this is obvious in the capacity building of its management and core banking staff, as well as in the setting of non-performing loans (NPLs).

Regarding the strengthening of the regulatory and supervisory functions of the CBI, a training workshop is being prepared by the PMU to explain to the CBI – Supervision Department the new regulations that have been discussed and will start to be enforced. Moreover, training for strengthening the supervision of CBI with the Egyptian Banking Institute is completed. The final batch of training was completed in September 2011.

Procurement activities were on hold after the attack on CBI in June 2010 where all records were destroyed and burned, including procurement and FM records. The team had to go back and request the consultants to submit proposals and re-evaluate/re-negotiate/re-visit implementation with the signed contracts which substantially slowed the progress. Nevertheless, good progress in implementing procurement had been made during the last few months in finalizing negotiation with the consulting firms and commitments for US\$ 6.6 million have been made with no complaints from consultants that have jeopardized the selection and recruitments of consultants. Progress per components can be summarized in the following paragraphs:

- **Institutional and operational restructuring of the two state-owned commercial banks**, procurement status is as follows: (i) progress made in signing the contract with United Ramin Information Technology Solutions (RITS) for providing training services for development of computer skills for Rasheed Bank and Rafidain Bank. The contract value is US\$ 325,000 signed on May 8, 2011 and the consultants commenced work in Baghdad on May 22, 2011 with duration of 18 weeks to complete; (ii) training for Branch Managers. Last batch of training was completed on May 9, 2011; (iii) training of Human Resources. The training of the second and final batch of trainees with the Egyptian Banking Institute (EBI) was commenced on June 19, 2011 and will be completed by July 12, 2011; (iv) Contract with PWC for restructuring of the internal audit and compliance for the value of US\$ 1.26 million with commencement date of mid July 2011. The final inception reports, issued by PWC, for AL-Rasheed and AL-Rafidain banks for Restructuring the Internal Audit and Compliance Units of the 2 banks was submitted to the World Bank on September 29, 2011, and (v) contract with IBTCI for the value of US\$ 1.18 million. The contract's commencement was in March 2011 and the inception report was received and approved in April 2011.
- **Financial restructuring of the two state-owned commercial banks**, progress made includes: (i) *financial restructuring*. After thorough evaluation, Pricewaterhouse Coopers was the selected firm to assist in the financial restructuring of the two-state-owned banks. The contract value is US\$ 1,141,650 signed on June 26, 2011 and the services commenced on July 17, 2011 with duration of six months; and (ii) *training for credit and risk management, accounting and finance program and internal audit and compliance*. After evaluation of all the proposals at hand, the contract was signed with Central Bank of Egypt – Egyptian Banking Institute. The contract value is US\$ 464,024 signed on May 29, 2011. The training commenced on June 15, 2011 and has a duration of 110 days from the commencement date.
- Strengthening of the regulatory and supervisory functions of the CBI, the following has been achieved: (i) *training on XBRL with BR-AG company had been completed and negotiations are underway for amending the contract agreement with the same company to prepare a detailed study [specifications and requirements] to be used as roadmap for the development and implementation of the banking supervision reporting framework using XBRL standards*; (ii) *training on new regulation*. The PMU is preparing a workshop to explain the new regulations based on international standards for the CBI-Supervision Department, including topics such as credit classification, capital adequacy and liquidity management; (iii) *purchasing for supply of 5 licenses of Taxonomy editor for the contract value of 50,000 is under implementation*, (iv) *training for strengthening the supervision of CBI with Egyptian Banking Institute for contract value of US\$ 0.68 million for training of 105 trainers, completed the first 2 batches and the batch of training was completed in September 2011*.
- Project management, monitoring and evaluation, progress made includes: (i) *contract for external audit*. The PMU started the selection by publishing the EOI and the selection process started but only two proposals were received. TAGO was the evaluated firm but due to the decree from council of ministers to allowing TAGO to practice audit in Iraq, the PMU cancelled the selection with TAGO and re-launched sending the EOI to the long listed firms. Only Ernest and Young responded and started based on SSS. The financial proposal received from E&Y for US\$ 160,000 was excessive relative to the other auditing services contracts under World Bank financed operation. The commencement date for the assignment of the Ernst & Young Company for the contract of External Auditor for PMU was on May 8, 2011.

The PMU has submitted to the World Bank on October 24, 2011 the Interim Unaudited Financial Reports for the third quarter of year 2011

In terms of Internal controls and Internal Auditing, an Audit Committee from CBI was established and

performed an audit of Project's financial records from date of inception until June 30, 2010. A copy of the report has been submitted to the mission and no significant issues were noted. Project is preparing timely monthly bank reconciliations and trial balances that are reviewed by Iraq Fiduciary Monitoring Agent (FMA). Project records are regularly reconciled to Client Connection. The Project does not have single signatory to the bank account, no cash in hand, and no unsettled advances to suppliers.

Major Implementation Obstacles

Although significant progress has been made to date by the PMU in the implementation of the four components of the Project, the unsettled political environment in Iraq has contributed to delays in the speed of project implementation. To ensure full implementation of the Project's key components, the Project's closing date was extended to June 30, 2013. Moreover, the security situation in Iraq has had a negative impact on the willingness of international consulting firms and individuals to work in Iraq. Disbursement has been very slow due to implementation capacity bottlenecks in Iraq, which impose long procedures in preparing and analyzing contracts, the assignment of needed consultants and training institutes, negotiation periods, and receipt of approvals from the stakeholders. However, disbursement has increased to reach 37% as of October 31, 2011.

Furthermore, the PMU reported that due to June 2010 attack all records were destroyed and burned, including procurement and financial management (FM) records (signed contracts, proposals received, and equipment delivered to PMU). As a result there was a need for capacity building of the PMU for it to resume working in an efficient business environment; and replacing the destroyed assets as well as retrieving the lost documents. Most files and documents have been retrieved, and the PMU has resumed work as it is currently working full-force to ensure effective implementation and timely disbursement. However, it is worth noting that there are challenges related to the security issues which in some cases delays implementation, affects the capacity of the Iraqi authorities to execute the reform program, and results in a lack of effective coordination between the various stakeholders.

Moreover, due to the concerns about Trade Bank of Iraq, the World Bank decided to keep the Designated Account (DA) with a minimum ceiling. The Project management has sent to the World Bank on August 14, 2011 a realistic cash forecast for the next 6 months based on which we will assess and ensure that any funds that will be transferred to the DA will not remain in the account unutilized and be disbursed very fast.