Public Disclosure Authorized

Public Disclosure Authorized

Document of
The World Bank

Report No. ICR3025

IMPLEMENTATION COMPLETION AND RESULTS REPORT

ON A FINANCING GRANT

IN THE AMOUNT OF US$10 MILLION

TO THE

REPUBLIC OF IRAQ

FOR THE EMERGENCY

BANKING SECTOR REFORM PROJECT

December 16, 2013

Finance and Private Sector Development
Middle East and North Africa Region

GOVERNMENT FISCAL YEAR
January 1–December 31

CURRENCY EQUIVALENTS
(Exchange Rate Effective as of December 1, *2013*)

Currency Unit= Iraqi Dinar (IQD)
US$1.00= IQD 1,163

ABBREVIATIONS AND ACRONYMS

ALM	Asset and Liability Management
CAS	Country Assistance Strategy
CBI	Central Bank of Iraq
CFP	Country Financing Parameters
CQ	Consultants Qualifications
E&Y	Ernst and Young
FMA	Fiduciary Monitoring Agent
FM	Financial Management
FSVC	Financial Services Volunteer Corps
FX	Foreign Exchange
FY	Fiscal Year
GDP	Gross Domestic Product
ICR	Implementation Completion and Results Report
IMF	International Monetary Fund
IQD	Iraqi Dinar
IRFFI	International Reconstruction Fund Facility for Iraq
IRSB	Iraqi Strategic Review Board
ISN	Interim Strategy Note
IT	Information Technology
ITF	Iraq Trust Fund (administered by the World Bank)
JMAP	Joint Management Action Plan
MIM	Master Implementation Manual
MIS	Management of Information Systems
MOU	Memorandum of Understanding
NPLs	Non-performing Loans
OP	Operational Policies
PIM	Project Implementation Manual
PMT	Project Management Team
PMU	Project Management Unit
QBS	Quality Based Selection
QCBS	Quality and Cost-Based Selection
RFP	Request for Proposal
ROC	Restructuring Oversight Committee
RTGS	real time gross settlement
SBA	Stand-by Agreement
SOEs	State-owned Enterprises
SOE	Statement of Expenditure
US$	United States Dollar
USAID	United States Agency for Development

Vice President:	Inger Andersen
Country Director:	Ferid Belhaj
Sector Director:	Loic Chiquier
Sector Manager:	Simon C. Bell
Task Team Leader:	Sahar Nasr

REPUBLIC OF IRAQ

Banking Sector Reform Project

Table of Contents

Data Sheet

A. Basic Information ii
B. Key Dates ii
C. Ratings Summary ii
D. Sector and Theme Codes ii
E. Bank Staff iii
F. Results Framework Analysis iii
G. Ratings of Program Performance in ISRs v
H. Restructuring v

Report Table of Content

1. Project Context, Development Objectives and Design 2
2. Key Factors Affecting Implementation and Outcomes 10
3. Assessment of Outcomes 14
4. Assessment of Risk to Development Outcome 18
5. Assessment of Bank and Borrower Performance 18
6. Lessons Learned 21
7. Comments on Issues Raised by Borrower, Implementing Agencies, Partners 22

Annexes

Annex 1: Project Costs and Financing 23
Annex 2: Out puts by Component 24
Annex 3: Monitoring Indicators, Baseline and Expected Outcomes 29
Annex 4: Grant Preparation and Implementation Support/Supervision Processes 30
Annex 5: Summary of Borrower's ICR and/or Comments on Draft ICR 31
Annex 6: Comments of Cofinanciers and Other Partners/Stakeholders 34
Annex 7: Detailed Terms of Reference (TORs) for Project Activities 35
Annex 8: Financial Sector Review–Action Plan Matrix 56
Annex 9: Iraq Banking Reform Strategy—Action Plan 75
Annex 10: Organizational Structures Action Plans for Rafidain Bank and Rasheed Bank 87

DATA SHEET

A. Basic Information			
Country:	Iraq	Project Name:	Banking Sector Reform Project
Project ID	P113337	L/C/TF Number(s):	TF094193
ICR Date:	October 2013	ICR Type:	Core ICR
Lending Instrument:	Financing Grant	Borrower:	Republic of Iraq
Original Total Commitment:	USD 10 million	Disbursed Amount:	USD 10 million
Implementing Agencies: Central Bank of Iraq			
Cofinanciers and Other External Partners: US Treasury, USAID, IMF, IFC			

B. Key Dates				
Process	**Date**	**Process**	**Original Date**	**Revised / Actual Date(s)**
Concept Review:	09/15/2008	Effectiveness:	04/17/2009	04/17/2009
Appraisal:	11/21/2008	Restructuring(s):	NA	07/14/2010 and 07/27/2012
Approval:	04/14/2009	Mid-term Review:	NA	NA
		Closing:	10/31/2010	06/30/2013

C. Ratings Summary	
C.1 Performance Rating by ICR	
Outcomes:	Moderately Satisfactory
Risk to Development Outcome:	Substantial
Bank Performance:	Satisfactory
Borrower Performance:	Moderately Satisfactory

C.2 Detailed Ratings of Bank and Borrower Performance (by ICR)			
Bank	**Ratings**	**Borrower**	**Ratings**
Quality at Entry:	Satisfactory	Government:	Moderately Satisfactory
Quality of Supervision:	Satisfactory	Implementing Agency/Agencies:	Moderately Satisfactory
Overall Bank Performance:	Satisfactory	**Overall Borrower Performance:**	Moderately Satisfactory

C.3 Quality at Entry and Implementation Performance Indicators			
Implementation Performance	**Indicators**	**QAG Assessments (if any)**	**Rating:**
Potential Problem Program at any time (Yes/No):	No	NA	NA
Problem Program at any time (Yes/No):	No	NA	NA
DO rating before Closing/Inactive status:	Moderately Satisfactory		NA

D. Sector and Theme Codes		
	Original	**Actual**
Sector Code (as % of total Bank financing)		
Banking	100	100

Theme Code (Primary/Secondary)		
State-owned enterprise restructuring and privatization	Primary	Primary
Other financial and private sector development	Primary	Primary
Regulation and competition policy	Secondary	Secondary

E. Bank Staff		
Positions	**At ICR**	**At Approval**
Vice President:	Inger Andersen	Daniela Gressani
Country Director:	Ferid Belhaj	Hedi Larbi
Sector Director:	Loic Chiquier	Ritva S. Reinikka
Sector Manager:	Simon C. Bell	Zoubida Allaoua
Task Team Leader:	Sahar Nasr	Sahar Nasr
ICR Team Leader:	Sahar Nasr	NA

F. Results Framework Analysis

(a) **PDO Indicator(s):**

The Project Development Objective (PDO) is to strengthen the supervisory framework for financial intermediation and build capacity of financial institutions to support implementation of Phase I of the Iraq Banking Reform Strategy.

	Baseline Value	**Original Target Values (from approval documents)**	**Formally Revised Target Values**	**Actual Values Achieved at Completion or Target Years**
PDO [GEO] Indicator 1:	Development of new organizational structures for the two state-owned banks			
Value (Qualitative)	None	New organizational structures approved and adopted by October 2010	Organizational structures adopted by June 30, 2013	Organizational structures adopted by June 30, 2013
Date achieved	06/30/2006	10/31/2010	06/30/2013	06/30/2013
Comments (incl. % achievement)	There were several major developments - the Restructuring Oversight Committee (ROC) made several key decisions on April 8, 2012 regarding the settlement of the remaining non-performing loans (NPLs); and the endorsement, in principle, of the overall financial restructuring of Rasheed Bank and Rafidain Bank, as well as the new organizational structures of these two state-owned banks which seek to improve their governance structure and overall performance. These were significant milestones towards the implementation of the banking reform program. Full implementation of the new organizational structure awaits appointment of new Executive Boards for the two banks.			

PDO [GEO] Indicator 2:	Number of staff trained to do bank operations (*both banks*)			
Value (Quantitative)	0	100	200	682
Date achieved	06/30/2006	10/31/2010	06/30/2013	06/30/2013
Comments (incl. % achievement)	Capacity building and on-the-job training have been provided extensively through the lifetime of the operation to a number of staff, exceeding the original target.			
PDO [GEO] Indicator 3:	State-owned commercial banks improved their capital adequacy ratio (*reserves-to-NPLs ratios*)			
Value (Quantitative)	10	Reserves-to-NPLs ratios reaching 20%	Reserves-to-NPLs ratios reaching 20%	Reserves-to-NPLs ratios reaching 20%
Date achieved	06/30/2006	10/31/2010	06/30/2013	06/30/2013
Comments (incl. % achievement)	There has been an improved portfolio quality of the two state-owned commercial banks, evident in the reserves-to-NPLs ratios, rising from 10 percent in June 2006 to 20 percent at closing date.			

(b) Intermediate Outcome Indicator(s) - from Project Appraisal Document
Baseline Values from Project Outcome Indicators/Date of Value (from approval documents)

	Baseline Value	**Original Target Values (from approval documents)**	**Formally Revised Target Values**	**Actual Values Achieved at Completion or Target Years**
IO Indicator 1:	Loan-to-GDP ratio (*banking sector*)			
Value (Quantitative)	4%	6%	6.2%	9%
Date achieved	06/30/2006	10/31/2010	06/30/2013	06/30/2013
Comments (incl. % achievement)	Iraqi authorities have made good progress in meeting the project's objectives, as evidenced by the achievement of various monitoring indicators stipulated in the Emergency Project Paper, especially the rise in loan-to-GDP ratio from a baseline of 4 percent to 9 percent by closing date, exceeding the project end target of 6.2 percent.			
IO Indicator 2:	Reserves-to-NPLs ratios (*both banks*)			
Value (Quantitative)	10%	20%	20[1]%	20%
Date achieved	06/30/2006	10/31/2010	06/30/2013	06/30/2013
Comments (incl. % achievement)	There has been an improved portfolio quality of the two state-owned commercial banks, as evidenced by the reserves-to-NPLs ratios, rising from 10 percent in June 2006 to 20 percent at closing date.			
IO Indicator 3:	Capital adequacy ratio (*both banks*)			
Value (Quantitative)	0	4%	4%	4%

[1] This figure has been corrected.

Date achieved	06/30/2006	10/31/2010	06/30/2013	06/30/2013
Comments (incl. % achievement)	The capital adequacy ratio has increased from zero to 4 percent, already meeting the project end target value of 4 percent.			

IO Indicator 4:	Number of qualified staff in the Project Management Unit (PMU)			
Value (Quantitative)	0	4	4	4
Date achieved	06/30/2006	10/31/2010	06/30/2013	06/30/2013
Comments (incl. % achievement)	The PMU has been adequately staffed, and well equipped to perform its mandate to support the Iraqi authorities in implementing their banking reform program. Staff hired are qualified and capable of effectively managing the project and ensuring compliance with Bank's rules and guidelines (in terms of procurement and FM arrangements). Workshops were held to train PMU staff on procurement and FM issues, along with supervision missions to ensure all fiduciary requirements are met.			
IO Indicator 5:	Timely disbursement of grant (*US$ million*)			
Value (Quantitative)	0	6	1.2	10
Date achieved	06/30/2006	10/31/2010	06/30/2013	06/30/2013
Comments (incl. % achievement)	At the beginning of the operation, there were delays in implementation and slower than anticipated disbursement due to the complex situation on the ground. However, the PMU gradually made progress in the implementation of the four components of the project, and disbursement picked up significantly, especially after the extension of the originally agreed upon closing date to permit full disbursement of the funds.			

G. Ratings of Project Performance in ISRs

No.	Date ISR Archived	DO	IP	Actual Disbursements
1	Sep. 2, 2009	Moderately Satisfactory	Satisfactory	0
2	Apr. 7, 2010	Moderately Satisfactory	Moderately Satisfactory	US$ 0.15 million
3	Oct. 16, 2010	Moderately Satisfactory	Moderately Satisfactory	US$ 0.45 million
4	Oct. 12, 2011	Moderately Satisfactory	Satisfactory	US$ 3.06 million
5	Apr. 23, 2012	Satisfactory	Satisfactory	US$ 6.25 million
6	Nov. 7, 2012	Satisfactory	Satisfactory	US$ 8.17 million
7	Dec 21, 2012	Satisfactory	Satisfactory	US$ 8.27 million
8	June 6, 2013	Moderately Satisfactory	Moderately Satisfactory	US$ 9.384 million

H. Restructuring

Level II Restructuring took place twice during the lifetime of the operation: (i) extension of the Closing Date from October 31, 2010 to June 30, 2013, approved on July 14, 2010; and (ii) reallocation of proceeds among the different components approved on July 27, 2012.

1. Project Context, Development Objectives and Design

1.1. Context at Appraisal

Country Context

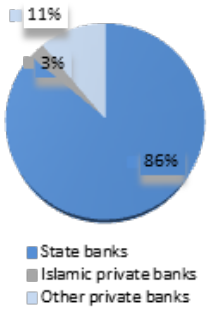
1. The Republic of Iraq has been adversely impacted by internal and external shocks. A series of wars, international sanctions and misdirected economic policies have left the country's economy, and especially its financial sector, weak and underdeveloped. Iraq's economy remains dominated by the oil sector, which provides about 95 percent of foreign exchange earnings. Real gross domestic product (GDP) growth was largely driven by the ongoing expansion of oil output. Violence in Iraq has impeded economic recovery and reconstruction. At the time of appraisal of this Banking Sector Reform Project in 2009, macroeconomic performance had witnessed some improvements. Tight monetary policies, sound fiscal policy, and under-spending of the capital budget have kept the fiscal balance in check. As a result, inflation was brought down. The Central Bank of Iraq (CBI) has maintained a prudent monetary stance in order to stave off inflationary pressures.

2. Notwithstanding a challenging political and security environment, Iraq has achieved some progress toward macroeconomic stability. It has achieved single-digit inflation, and economic growth has resumed. The fiscal balance and current account balance have improved (after having deteriorated in the wake of the global financial crisis). In addition, Iraq's debt-to-GDP ratio has been on a downward trajectory thanks to the debt restructuring with the Paris Club and other creditors. Iraq's economic growth prospects are favorable due to rising oil prices. However, the lack of economic diversification makes Iraq's economic growth vulnerable to oil price and volume shocks and undermines its ability to conduct fiscal policy with a medium-term orientation. The Iraqi government must meet the twin challenges of creating jobs and promoting stable income-creating opportunities for a majority of the Iraqi population.

Financial Sector Overview

3. Overall, the financial sector in Iraq is underdeveloped, and plays a limited role in financial intermediation. The banking system is still by far the most important part of the Iraqi financial system, accounting for more than 75 percent of its assets. The banking system is dominated by state ownership where Rashid Bank and Rafidain Bank account for more than 70 percent of the banking system (Figure 1). Non-bank financial institutions and markets are small and underdeveloped, but have the potential to provide access to sources of finance, if given a more level playing field across the sector.

Figure 1: Iraq's State Banks Dominate the Banking Sector in Terms of Assets
(percentage share in 2013)



Source: MNA Knowledge and Learning Fast Brief, Enhancing the Role of the Iraqi Financial Sector for Sustainable Economic Development, 2013

4. Political economy considerations are critical when assessing Iraq's financial system. The difficult security situation imposes costs and constraints; the complex political situation impedes decisive policy action; governance and transparency issues linger; inadequate implementation capacity hinders reforms; and the legacy of prevailing state intervention has not been fully addressed.

5. The banking system in Iraq is small - the assets-to-GDP ratio is equivalent to 73 percent compared to an average of 130 percent for Middle East and North Africa (MENA) countries. Seven state-owned banks dominate the banking system. Private banks are generally quite small, accounting for only 11 percent of the system, and many have been established relatively recently. Seven of the 36 private banks have foreign participation, and eight operate according to Islamic principles. While the strength and business expertise of the small private banks appears to be improving, staff skills are often weak, the range of services provided by many banks is still limited, and loans are mainly short-term and related to wholesale and retail trade. Furthermore, because of their small size, private banks are not yet able to finance large projects, as syndication is not yet used. Foreign banks have shown increasing interest in conducting business in Iraq. Despite their current orientation towards oil and related activities, it is expected that, over time, the presence of foreign banks should help improve the overall banking climate and stimulate the development of the financial sector.

6. Private and foreign banks operate on an uneven playing field. State banks benefit from the perception of a *de facto* deposit guarantee and from restrictions imposed on the operations of the private banks. Government agencies and state-owned enterprises are not allowed to place deposits with private banks, nor can state-owned enterprises receive loans from private banks. Payments to the government cannot be effected by checks drawn on private banks. Private banks have limited permission for letters of credit—an activity that is strictly controlled by the Trade Bank of Iraq. State banks are *de facto* exempted from meeting prudential requirements, and some of them would otherwise fail because of low capital. Furthermore, there is a shortage of qualified experts who understand Islamic banking practices and *Shari'a*-compliant products, not only in the banks but also in CBI.

7. On the overall performance of the banking system in Iraq, banks may be weaker than they appear, as accounting and auditing standards are lax, and banking supervision is not in all cases fully effective. However, given its small size, the banking system does not appear to give rise to significant macro-prudential risk at present. The state-owned banks, Rafidain Bank and Rasheed Bank, clearly require recapitalization, although they are still highly liquid, with cash deposits at the CBI and foreign assets covering 97 percent of private deposits. While private banks are small, they are highly liquid, and have strong prudential indicators. Overall, however, financial intermediation is weak in Iraq, and access to credit is low. Credit expansion is very low at less than 10 percent of GDP, compared to the 55 percent average for MENA countries, with assets to GDP at 73 percent. However, it is worth noting that it has been growing fast, at a 40 percent average over the last three years. Broad money-to-GDP is also low at 57 percent, compared to 75 percent in MENA countries. Moreover, half of the money supply is in cash, indicating a largely cash based economy.

Rationale for Bank Assistance

8. Enhancing the performance of the banking system, and improving its capacity to provide sound and efficient financial services will make a critical contribution to Iraq's economic growth and prosperity and poverty reduction. As empirical evidence has shown, a sound banking system is critical to economic growth and macroeconomic stability. For these reasons, building sound, efficient and inclusive financial systems that work for all members of society is a key development objective for Iraq. In that context, the main objective of the operation was to being work to strengthen the supervisory framework for financial intermediation and build the capacity of financial institutions, in support of the implementation of Phase I of the Iraq Banking Reform Strategy. In February 2009, the Government of Iraq embarked on a comprehensive two-phase Banking Sector Reform Strategy (2008-2012), with the objective of modernizing its banking system. This was a

benchmark of the IMF's Stand-by Arrangement with the Government of Iraq. The design of the operation was highly aligned with the country's priorities and World Bank strategies. Table 1 outlines the various phases of the reform program, indicating what would be achieved every year. Also, Annex 9 gives an overview on the whole reform program.

Table 1: Phasing of the Iraq Banking Sector Reform Project*

PHASE I**		**PHASE II**	
First Year *2009*	**Second Year** *2010*	**Third Year** *2011*	**Fourth Year** *2012*
Organizational Structure ▪ Business unit organization	**Capacity Building** ▪ Training of staff based on a detailed training plan	**Organizational Structure** ▪ Governance, control and support units	**Capacity Building** ▪ Improve HR process
Finance and Accounting ▪ Restructuring the balance sheets	**Finance and Accounting** ▪ Put in place an accounting system	**Finance and Accounting** ▪ Capital adequacy ▪ Comprehensive reporting system of financial results	**Finance and Accounting** ▪ Cost recovery pricing of financial products ▪ Budgeting, planning and performance management
IT Infrastructure ▪ Connectivity to branches and CBI	**IT Infrastructure** ▪ IT platform covering all operational aspects ▪ Security system of information ▪ Management of information systems	**Internal Audit and Compliance** ▪ Process, audit framework, methodology, and effectiveness of internal audit	**Internal Audit and Compliance** ▪ Internal audit and compliance
Risk Management ▪ Credit risk management	**Risk Management** ▪ Credit risk management	**Risk Management** ▪ Non credit risk management	**Risk Management** ▪ Non credit risk management
Strengthening the Banking Supervision and Regulatory Authority ▪ Review of banking supervision process	**Strengthening the Banking Supervision and Regulatory Authority** ▪ Update and enforce a set of regulations in line with international standards	**Strengthening the Banking Supervision and Regulatory Authority** ▪ Make new recruitments and develop training	**Strengthening the Banking Supervision and Regulatory Authority** ▪ Make new recruitments and develop training

* Based on the Iraq Banking Reform Strategy—Action Plan (2008-2012).

**This World Bank Banking Sector Reform project supports the first phase of the Government of Iraq Banking Reform Strategy, covering the period of 2009-2010. Additional funding, such as local government funding and donors' financial support, will be considered to support the second phase, covering the period of 2011-2012.

9. This operation set out to begin a process of financial sector reforms.—Given the broad nature of the project's name and the low level of resources available under this project, however, expectations for what this project could achieve may have been higher than what the project could realistically have delivered.. The project's aim was to initiate a dialogue with the Iraqi authorities in support of their efforts to build a sound and efficient banking system which would be able to provide, in the medium-term, efficient financial services competitively. This in turn would ensure efficient mobilization of funds and their allocation to the most productive investments, thereby promoting private sector development. Of primary importance was to build the capacity of the two largest state-owned commercial banks—Rafidain Bank and Rasheed Bank—because of their huge branch network which accounted for more than 70 percent of the banking system. These institutions played, and continue to play, a necessary role in financial intermediation, and were seen to be able to provide the resources needed for Iraq's growth. They also offered good deposit and payment systems for the business and household sectors which was expected to, at a later stage, allow private banks to also contribute to the financing of Iraq's development. In parallel with the

modernization of the state-owned banks, it was also key to strengthen the regulatory and supervisory capacity of the central bank, in particular with regard to these institutions.

10. The operation's main components were: (i) institutional and operational restructuring of the two state-owned banks; (ii) financial restructuring of the two state-owned banks; and (iii) strengthening the regulatory and supervisory functions of CBI. These components were closely linked with the objectives of the third Interim Strategy Note (ISN) for Iraq, namely its three thematic areas of engagement: (i) continuing to support ongoing reconstruction and socio-economic recovery; (ii) improving governance and the management of public resources, including human, natural and financial; and (iii) supporting policies and institutions that promote broad-based, private-sector-led growth, with the goal of revitalizing the private sector and facilitating job creation. This operation ultimately supported private-sector-led growth through broader access to finance and financial services, as well as through strengthening the financial system (third thematic area). It also contributed to ongoing socio-economic recovery efforts (as per the first thematic area), as well as public resource management improvements (as per the second thematic area).

11. The project was also aligned with the more recently approved World Bank Group Country Partnership Strategy (CPS) for Iraq covering FY13-FY16(the first CPS for Iraq), which was presented to the World Bank's Board of Executive Directors on December 18, 2012. The CPS aims to support government efforts to implement the National Development Plan, building on stakeholder feedback and lessons learned and is built around three pillars: (i) improving governance; (ii) supporting economic diversification for broadly shared prosperity; and (iii) improving social inclusion and reducing poverty. Thus, the project was in full consistency with the Bank's engagement strategies in Iraq, which included state-owned bank restructuring as a priority area.

12. The rationale for Bank support to banking sector reforms was based on a number of factors. The banking sector is an engine for growth, and improving the performance of banks could ensure that resources were allocated to their most productive investments—especially since the state-owned banks in Iraq dominated the scene with their huge branch network. In addition, the donor community (especially the IMF and the US Treasury) had been playing a vital role in restructuring the banking sector in Iraq and the World Bank project was complementary and reinforcing to the efforts of other development partners. Moreover, the project was timely, as the independent financial and operational audits of the two state-owned commercial banks were conducted in early 2006 and completed in July 2008 by an international audit firm—Ernst and Young (E&Y)—according to terms of reference (TOR) to which the World Bank contributed in preparing. Although the audits were affected by the loss of information on branch loans and credit files during the war, and by limited access to documentation from branches outside Baghdad, they still provided an adequate basis for developing restructuring action plans for both banks. Through this operation, the CBI was empowered, as its capacity to supervise and regulate was strengthened. Also, the authorities became more aware of the need for a level playing field and for removing discrimination among private banks.

1.2. Original Project Development Objectives (PDO), Project Components, and Key Indicators

13. The Project Development Objective (PDO) was to strengthen the supervisory framework for financial intermediation and to build the capacity of financial institutions to support implementation of Phase I of the Iraq Banking Reform Strategy.

14. To this effect, the four components of the World Bank operation were: (i) institutional

and operational restructuring of the two state-owned commercial banks—Rafidain Bank and Rasheed Bank; (ii) financial restructuring of the two state-owned commercial banks; (iii) strengthening of the regulatory and supervisory functions of the CBI; and (iv) project management, monitoring and evaluation. The expected outcomes under each project component were as follows:

- ***Institutional and operational restructuring of the two state-owned commercial banks:*** Expected outcomes under the first component included: (i) in-depth improvement of the functioning of the two state-owned banks, as evident in the capacity building of staff; and (ii) the two state-owned commercial banks resuming lending and taking deposits (as evident in the loan-to-GDP ratio, which is a proxy for assessing financial intermediation and improvements in access to finance).

- ***Financial restructuring of the two state-owned commercial banks:*** Expected outcomes included: (i) implementation of audit recommendations *inter-alia* regarding a build-up in provision levels at state-owned commercial banks and reducing NPLs; (ii) balance sheets reflect bank net asset values and financial position; and (iii) recapitalization of the two state-owned commercial banks by the government to the extent to which the government agrees and given fiscal constraints. The quality of the portfolio is assessed through monitoring the reserves-to-NPLs ratio.

- ***Strengthening the regulatory and supervisory functions of CBI:*** This component would be achieved through: (i) capacity building granted to the supervisory and regulatory functions of the CBI; and (ii) strengthening the effectiveness of the CBI's supervisory apparatus. Capital adequacy ratios reflect adherence to banking supervision.

- ***Project management, monitoring and evaluation:*** Expected outcomes under this component were as follows: (i) recruitment of qualified staff capable of effectively managing the project; (ii) capacity building granted to the Executive Steering Committee, supporting the reform program; and (iii) efficient and smooth execution of the project.

15. In support of Phase I of the Government's Banking Sector Reform Strategy and its Action Plan, all of the expected outcomes under each component have been achieved. Further elaboration is provided in subsequent sections (para. 19–39). Monitoring indicators are summarized in Annex 3.

1.3. Revised PDO and Key Indicators

16. The PDO and the key indicators have remained the same throughout the lifetime of the operation. While he PDO was fully achieved, the name of the project may have raised expectations among stakeholders regarding its scope, and how much it could achieve with a grant of US$ 10 million.

1.4. Main Beneficiaries

17. The main beneficiaries of the operation were the staff who directly participated in the capacity building and on-the-job training provided under this operation: staff from the CBI, the two state-owned commercial banks—Rafidain Bank and Rasheed Bank, the Board of Supreme Audit (BSA), and the Ministry of Finance. In addition, the institutions as a whole benefitted from the restructuring processes—CBI, BSA, the Ministry of Finance, Rafidain Bank, and Rasheed Bank. The operation aimed at being an entry point to support the Iraqi authorities to commence the implementation of reforms in the financial sector, which would ultimately have potential salutary effects on Iraq's growth and future economic development,

including via the private sector.

1.5. Original Components

18. As previously mentioned, the project's PDO was achieved through the implementation of the project's main components, as follows:

Component I: Institutional and Operational Restructuring of the Two State-owned Commercial Banks

19. Under institutional and operational restructuring, the project built the capacity of the staff of the two state-owned banks—Rasheed Bank and Rafidain Bank. This component has been fully completed, and achievements are as follows:

(i) ***Development of new organizational structures of the state-owned banks***.

The development and execution of a new organizational structure, which the Banking Restructuring Oversight Committee (ROC) endorsed in April 2012, aimed at improving their governance structure, and overall performance. This included the establishment of new departments, such as Risk Management Department and IT Department. Detailed TORs were developed for all positions, with clear responsibilities and reporting lines. This improved governance and accountabilities for both banks.

(ii) ***Capacity building for improving human resource management.*** A human resource (HR) management system has been put in place in both banks to meet current and future human resource requirements. In that context, the required training for improving HR processes was completed in July 2011 for 20 people from both state-owned commercial banks. As a result, the banks' immediate needs for building critical skills and efficiently deploying the work force to staff its new organization were addressed. The project also supported the two banks in the execution of their strategies and business plans. The banks' medium-term needs for developing and managing its human resources were achieved. This system consisted of: (i) a training needs analysis; (ii) a training and development master plan; (iii) a performance appraisal system; and (iv) a staffing program, which entailed effective matching of people to jobs in the revised organizational structure. Improving HR processes included, putting a system in place, which ensured staff have clear and transparent terms of reference (TOR), and that salary increases are based on performance rather than solely on seniority.

(iii) ***Capacity building for banks' staff in conducting risk management, both credit and non-credit risk management.*** As an outcome of implementing the new organizational structures, risk management units have been established in both banks. As a result, a risk control department was also set up, the risk management units were adequately managed and completely staffed, and manuals for risk management were developed. This also entailed amendments to existing credit approval procedures on the basis of accepted best practices; and improved measuring and monitoring capabilities, which enabled the banks to produce comprehensive and accurate reports on a bank-wide basis, to identify "single obligors" and to aggregate such exposures; and training in human resource management. Under this component, representatives from BSA, Rafidain Bank, and Rasheed Bank have received training at the Egyptian Banking Institute (EBI) on risk management, Letters of Credit, finance and accounting, and internal audit.

(iv) ***Capacity building for IT training.*** This covered capacity building and on-the-job training on all operational aspects, security system of information and management of information systems. This training was completed for ten professional programs during the period from May 15–August 10, 2011, for 98 trainees from the two state-owned commercial banks. The overall number of staff trained in the two state-owned banks has exceeded the

project end target of 200. This produced a well-equipped staff, capable of using advanced technology in doing their daily duties, improving their efficiency and productivity. The capacity building program trained 243 staff from Rafidain Bank and 240 from Rasheed Bank.

20. Overall, the institutional and operational restructuring of the two state-owned banks led to an improvement in their performance and their role in financial intermediation, as evident in the rise in the loan-to-GDP ratio. As a result of the capacity building, banks' branch staff were able to handle basic deposit-taking transactions using computers, which helped in developing their client base, as evident in the rise in deposits in both Rasheed and Rafidain Bank from 10.6 ID trillion in 2010 to 20.5 ID trillion in 2012 and 21.8 ID trillion in 2010 to 32.1 ID trillion in 2012 respectively (Table 2). Loan officers' capacity to assess credit risk was developed, and this was reflected in the increase in loan-to-GDP from 4 percent in baseline 2006 to 9 percent in 2012. This training was deemed critical to ensure that staff be able to handle deposits and make sound loans, thereby attracting depositors and beginning the process to finance private sector growth.

Table 2: Illustrative Adjusted Balance Sheet Items (2009-2010/2010-2011) *(in Trillions ID)*

	Total Assets				**Credits to the economy**				**Deposits**			
	2009	**2010**	**2011**	**2012**	**2009**	**2010**	**2011**	**2012**	**2009**	**2010**	**2011**	**2012**
Rafidain Bank	23.6	25.9	28.4	31.2	1.7	3.4	6.8	13.6	18.0	21.8	26.4	32.1
Rasheed Bank	8.5	13.5	21.4	33.9	0.7	2.0	5.7	16.3	7.5	10.6	14.8	20.5
ITB	16.7	17.8	18.9	20.1	0.4	0.3	0.3	0.4	14.4	15.5	16.9	18.4
Other State-owned Banks	2.6	3.1	3.7	4.4	0.6	0.8	1.1	1.4	1.2	1.2	1.4	1.5
Total State-owned Banks	51.4	60.4	72.4	89.6	3.4	6.5	13.9	30.7	41.4	49.2	59.5	72.6
Private Banks	8.1	9.7	11.6	13.9	1.9	2.9	4.4	6.7	4.9	5.8	7.1	8.6
Total	**59.5**	**70.1**	**84.0**	**103.5**	**5.3**	**9.4**	**18.3**	**37.4**	**46.0**	**55.0**	**66.6**	**81.2**

Source: Staff estimates.

Component II: Financial Restructuring of the Two State-owned Commercial Banks

21. Financial restructuring helped state-owned banks to restore their ability to comply with minimum capital adequacy and other prudential requirements of CBI, and to restore their full credibility with their business counterparts—the Ministry of Finance (being the owner of the state-owned banks) played a leading role in achieving this. The decisions made by the Banking ROC on April 8, 2012 regarding the settlement of the remaining NPLs, and the endorsement of the overall financial restructuring of Rasheed Bank and Rafidain Bank were major developments. The project also focused on capacity building and training in the following areas: (i) finance and accounting—restructuring the balance sheets of these two banks and developing their accounting systems; and (ii) internal audit and compliance, focusing on the process, audit framework, methodology, and effectiveness of internal audit.

22. ***Cleaning the balance sheets of the two state-owned commercial banks.*** The authorities moved off-balance sheet those items that cannot be reconciled quickly and written off. As of November 2012, the external debt for Rasheed Bank was US$ 1.13 billion, of

which US$ 356 million was settled by the Ministry of Finance. Rafidain Bank's external debt reached US$ 17.75 billion, of which US$ 12.85 billion was settled by the Ministry of Finance.

23. The project provided technical assistance on the best means of addressing the problem of NPLs by sharing the experience of other developing and developed countries in cleaning up the balance sheets of their state-owned banks, and also guided the Iraqi authorities in choosing the most suitable approach to the Iraqi circumstances. There has been an improvement in portfolio quality of the two state-owned commercial banks, evident in the reserves-to-NPLs ratios, rising from 10 percent in June 2006 to 20 percent in June 2013. The technical assistance and advisory services that were provided have contributed to: (i) the settlement of US$ 356 million of Rasheed Bank's US$ 1.13 billion external debt during the reform program by the Ministry of Finance; and (ii) the settlement of US$ 12.85 billion of Rafidain Bank's external debt by the Ministry of Finance over the same period to reach US$ 17.75 billion. The decision was also made by the Government to eliminate errors associated with foreign exchange revaluation losses. As a result, the balance sheet of Rafidain Bank has shrunk to ID 64 trillion at the end of 2012 (based on unaudited numbers).

24. ***Restructuring of internal audit and compliance units at Rasheed Bank and Rafidain Bank, state-owned commercial banks.*** Through training the banks' staff on the new accounting systems in the areas of finance, accounting, internal audit and compliance, they were able to prepare balance sheets that are more reflective of net asset values and the banks' financial position. Restructuring of internal audit and compliance units at Rasheed Bank and Rafidain Bank were also one of the main achievements of the project, with the objective of improving the effectiveness of the internal audit function for the purpose of strengthening internal control environment at both banks, as well as enhancing compliance with rules, laws and regulations. Under the project the following was completed: (i) organizational structure for the internal audit and compliance units; (ii) charters for the audit committee and internal audit function; (iii) assessment report of the current internal audit function and gaps from the Internal Audit Standards; (iv) internal audit policies and procedures; and (v) risk assessment and proposed audit plan.

25. ***Setting up new and modern accounting systems.*** New and modern accounting systems have been set up. Consulting services on the revision of the accounting rules by Pricewaterhouse Coopers (PwC) has been fully completed by July 2012. The two banks took actions to implement the recommendations for restructuring the internal audit and compliance units, as per the above mentioned deliverables, including: (i) selecting a new structure (functional) that needs Ministry of Finance approval prior to application; (ii) applying the new internal audit policies and procedures, and (iii) approving the Charters for the audit Committee and internal audit function, approving the risk assessment and performing internal auditing using the new audit development plan.[2]

Component III: Strengthening the Regulatory and Supervisory Functions of the CBI

26. The project supported CBI in enhancing its supervisory and regulatory authorities—mainly, reviewing the existing banking supervision process, assessing the effectiveness of its supervisory apparatus and its adherence to international codes and standards, and preparing a detailed action plan to address any deficient gaps and needs in coordination with the IMF. Based on the assessment, training was provided to 191 staff members of the supervision department at CBI, which included setting up the underpinnings of a strengthened regulatory

[2] The consultancy firm performed with 10 staff from each bank pilot audit on two operations (credit and current accounts), using the new audit development plan.

and supervisory framework, focusing on on-site and off-site processes. CBI worked on implementing corrective actions required to bridge the gap between existing practices at CBI and internationally accepted best practices. Also, it focused on developing and implementing appropriate supervisory tools and methodologies. Given that the BSA will continue to play a key role in auditing and fiduciary oversight of the two state-owned commercial banks, the project also provided support to 25 BSA staff members on its auditing role over banks. An international resident expert at CBI was hired under the project to work on the restructuring of the banking supervision department.

27. ***Capacity building on enhancing supervisory and regulatory functions***. In that context, staff members from the CBI and BSA have participated in courses, focusing on interpretation and application of the new prudential standards. It is also worth noting that CBI also been receiving advisory services from E&Y for capacity building and on-the-job training for CBI staff, and for Rafidain Bank staff, and Rasheed Bank staff on banking regulations and international standards. Moreover, CBI staff were trained on how to use XBRL, a data management software, which provided significant benefits to the off-site analysis of the banks and the banking sector. Also, a needs-assessment for the Banking Supervision Department of CBI has been conducted, based on achieving a higher level of compliance with Basel Core Principles in due course. After completion of the current project, this needs assessment can form a robust basis for further capacity building and training of CBI staff. These reforms have contributed to raising the capital adequacy ratio from zero in June 2006 to 4 percent in July 2012, already meeting the project end target value of 4 percent.

28. ***Legislative reforms.*** The project has also contributed to strengthening the legal and regulatory framework for Islamic finance. A new regulation on Islamic banking had been promulgated in 2012. The budget law had required that some legal basis be provided for supervision of Islamic banks. Under this project, a study tour has been conducted to Malaysia in the context of South-South Cooperation.

Component IV: Project Management, Monitoring and Evaluation

29. This component of the project covered all costs related to the management, monitoring and evaluation of the project. The PMU has been adequately staffed, and well equipped to perform its mandate to support the Iraqi authorities in implementing their banking reform program. Staff hired were qualified and capable of effectively managing the project and ensuring compliance with Bank's rules and guidelines (in terms of procurement and FM arrangements). Workshops were held to train PMU staff on procurement and FM issues, along with supervision missions to ensure all fiduciary requirements are met.

30. The PMU was staffed with four key positions, namely the PMU Director, FM Officer, Procurement Officer and Program Assistant. The PMU was responsible for the day to day implementation of the Project, such as Project management responsibilities for procurement, financial management, disbursement and reporting activities under the Project. The PMU also acted as the Technical Secretariat of the Executive Steering Committee, which is chaired by CBI Deputy Governor. The PMU staff salaries and operating costs were financed from the proceeds of the Grant and its office was located within the CBI. The Bank worked closely with the PMU to help it build capacity to implement the Project in accordance with Bank's guidelines and procedures. In addition, the Bank's Baghdad-based Fiduciary Monitoring Agent, Etiman Consulting, was monitoring the project's implementation, procurement and FM performance, and overall compliance with the required World Bank guidelines.

1.6. Revised Components

31. The project components have remained the same throughout the lifetime of the

operation.

1.7 Other Significant Changes

32. Level II Restructuring took place twice during the lifetime of the operation, namely: (i) extension of Closing Date from October 31, 2010 to June 30, 2013, approved on July 14, 2010; and (ii) reallocation of proceeds approved on July 27, 2012.

2. Key Factors Affecting Implementation and Outcomes

2.1 Project Preparation, Design, Quality at Entry

Adequacy of Government's Commitment

33. The extensive consultations with the different stakeholders helped to build consensus and ownership of reforms. However, there were issues that took a lengthy time to reach agreement on, such as the size of NPLs, where there were differences between the figures of CBI, BSA, and the Ministry of Finance. The effective policy dialogue helped to build a strong partnership between the Bank and the Iraqi authorities over the past years through an integrated financial sector work program, focusing on financial sector development. The team executing the program had a strong and professional policy dialogue with the Iraqi main counterpart, namely the CBI, and the two largest state-owned banks, as well as the Ministry of Finance, and the BSA. The Bank team has also worked closely with the Ministry of Planning and International Cooperation, the Cabinet of Ministers, and banks, as well as the Parliament, in order to push forward policy reforms. It is worth mentioning that coordination problems exist among the different Iraqi authorities, and it was a major challenge for the team to get the different stakeholders together, and reach agreements on certain issues. Another challenging issue was the change in management of CBI, as well as the change of the Minister of Finance (owner of state-owned banks) three times throughout the lifetime of the operation. More elaboration is available in subsequent sections.

Soundness of Background Analysis

34. The design and implementation of the operation was significantly enhanced by the analytical work carried out, specifically the Iraq Financial Sector Review (2010). This was the first comprehensive assessment conducted for the financial sector in Iraq, covering banking, insurance, capital markets and the central bank. It put forward a detailed action plan with a time line, showing clearly the responsible entities (Annex 8). In addition, the growing technical capacity of the Bank's Iraqi counterparts supported the analytical effort. This operation had also been underpinned by other World Bank work, such as the Iraq Emergency Private Sector Development Project (US$65 million; FY05), which aimed to help Iraq strengthen its institutional capacity and build essential communications infrastructure to help foster the development of the private and financial sectors, and increase investment and economic growth. The financial restructuring of the state-owned banks in Iraq benefited from the Egypt Financial Sector Reform Development Policy Loan (DPL), as well as its program documents and ICR, in terms of not moving with the pooling of NPLs of the two banks in a "bad bank" model, but proceeding with the restructuring of each bank separately. However, it is critical to note that the impact of the three Financial Sector Reform DPLs in Egypt, amounting to US$ 1.5 billion cannot be compared with the outcomes of a grant, amounting to US$ 10 million, and expectations of the latter needs to be fairly and realistically measured.

Assessment of the Operation's Design

35. The design of the operation was appropriate. The operation came as a response to the request made by the Government of Iraq to the World Bank to support the implementation of the Iraq Banking Reform Strategy—Action Plan (2008-2012). While relatively small, the

project was designed to quickly support key priorities in the banking sector. The project, which amounts to US$ 10 million, is provided through the Iraq Trust Fund (ITF) to finance the costs and activities associated with the restructuring of the banking sector in Iraq. Specifically, it supported the restructuring of the two state-owned banks (Rasheed Bank and Rafidain Bank) and developed their activities in parallel with on-going efforts to strengthen the banking sector's regulatory and supervisory framework in line with international standards. The Government of Iraq has requested that the project be financed from ITF. The Second ISN for Iraq stipulated the use of OP/BP 8.50 for all ITF-funded projects. OP/BP 8.00 (Rapid Response to Crisis and Emergencies), issued March 2007, now replaces OP/BP 8.50. The Banking Sector Reform Project was fully consistent with OP 8.00 criteria. It is worth noting that the launch of the Iraq Financial Sector Report, with its comprehensive and detailed Action Plan raised expectations regarding what could be achieved under the US $10 million project.

Relevance of Risks Identified

36. The Emergency Project Paper (EPP) stated clearly that this project was subject to substantial risks that could hinder the effective implementation of the Banking Reform Strategy, and in turn, the execution of the Banking Sector Reform Project and the timely disbursement of the grant. These risks included those resulting from security issues in Iraq, operational governance, and political and security risks. Also, the overall operating environment did not favor a strong implementation and procurement performance. In fact, an attack targeting the CBI took place in June 2010 which caused damages to most of the office equipment and construction works at CBI and the PMU. This led to an extension of the Closing Date, as well as additional funding allocated to support the CBI in restoring its business operations as quickly as possible. This funding was drawn from funds initially allocated to Component IV of the Emergency Banking Sector Reform Project, which covered all costs related to the management, monitoring and evaluation of the project.

2.2. Implementation

37. Monitoring of the implementation of the operation was done regularly, and provided an important channel through which the World Bank team was able to continue to support and advise the government on next steps. The program was jointly implemented by CBI, BSA, the two state-owned commercial banks—Rafidain Bank and Rasheed Bank, and the Banking ROC. Also, missions were equipped with high-level international experts. These missions provided a continued policy dialogue and technical advice to the authorities. In addition, the team was responsive to clients' needs and changes in the market, especially after the attacks on CBI and PMU in June 2010. The team also shared their expertise with authorities to mitigate unexpected implementation risks. Substantial progress was made towards achieving the goals of the operation; however, there is clearly a long way to go given the very difficult circumstances that exist in Iraq.

38. ***Change in management***: There were several changes in management and heads of authorities during the lifetime of the operation, which had some implications on the reform program. It is worth noting that the current Minister of Finance is committed to the reform program, and is keen on moving forward with the restructuring of the state-owned banks. On October 14, 2012, an Iraqi judiciary issued an arrest warrant against the former Governor of CBI. At the same time more than a dozen other officials at the institution were being investigated for misleading monetary policies, as well as alleged improprieties involving capital requirements for local banks and foreign-currency auctions overseen by the central bank. Subsequently, the Iraqi government appointed the head of the BSA, as the Governor of CBI while maintaining his initial position at BSA, after the court ruling ordered the removal

of the former Governor from his post to face the charges. The World Bank has received an official letter, notifying management of this change, since the CBI is the implementing entity of this project. The current Governor has put banking sector reform as his top priority. In that context, he meets with all stakeholders on regular basis to address challenges hindering reform implementation. The Iraqi authorities confirmed to the Bank team that concrete results are expected to be achieved over the coming months. Thus, continuity in implementation of the project was secured.

39. There have also been changes at the Ministry of Finance. The Minister of Finance has changed three times over the lifespan of the project. This has had its implications on the operation, as the Ministry of Finance acts as the owner of the state-owned banks in Iraq and hence, was in charge of implementing two key components, specifically the operational and institutional, as well as, the financial restructuring of the two banks.

2.3 Monitoring and Evaluation

40. Throughout the lifetime of the operation, the Bank team was continuously engaged with the Iraqi authorities. Although the team was not located in Iraq, and despite challenges regarding having missions there in the field, the team made full use of video conferencing facilities to communicate frequently with PMU and Iraqi officials. The team also met on regular basis through supervision missions with the different stakeholders in Baghdad, as well as in neighboring countries—depending on the security situation. The team worked closely with resident donors in the field, such as the US Treasury, and the IMF. On the FM front, a resident FMA closely monitored the PMU fiduciary performance, as mentioned in the FM section in more detail.

41. Monitoring indicators and targets have been agreed upon with the Iraqi authorities to help in assessing progress made (Annex 3). Indicators measuring the performance of the central bank, as well as that of the two state-owned banks and the effective implementation of their operational, institutional, as well as financial restructuring, were revised over the longer timespan of the project, as a result of the extension of the Closing Date. The baseline figures for the monitoring indicators were for the year 2006, the same year of the financial statements based on which the independent audit of the two state-owned banks was conducted by E&Y.

2.4 Safeguard and Fiduciary Compliance

42. ***Environmental and Social Aspects***. The project is rated as a category "C". This operation did not have significant effects on the country's environment, forests and other natural resources. There were no expected adverse social or environmental effects, since the upgrading of the state-owned banks network was implemented on existing sites and made use of existing buildings—as confirmed by the Iraq Telecommunications and Post Company (ITPC).

43. ***Financial Management.*** PMU performance is rated as satisfactory. The Project implementation was managed by a PMU established at CBI and financed by the Grant. As part of this PMU, a competent Financial Officer was hired on full time basis, from the early stages of the Project. The Financial Officer has managed the Project's financial management and disbursement functions in a satisfactory manner without any major complications. From a financial management point of view, establishing a PMU, financed fully by the Grant and dedicated only for the Project implementation, has significantly contributed to the success of Project's implementation, including financial management.

44. In 2010, the CBI was the victim of an attack that resulted in the destruction of most of the PMU's records and assets. As a result, all FM related documents were burned and destroyed, including the accounting records, financial reports, assets register, all copies of

withdrawal applications with the supporting documentation, bank statements, etc. In support of the retrieval of these destroyed documents, the World Bank, in collaboration with the Loan Department, provided the PMU with electronic copies of all withdrawal applications as well as the attached supporting documents (invoices, contracts, summary sheets, bank statements, etc.). The copies provided by the World Bank represent the majority of the lost documents.

45. Furthermore, the attack resulted in the destruction of most of the PMU's physical assets, including office furniture, computers, printers, scanners, network, and other assets. The Fiduciary Monitoring Agent (FMA) has visited CBI and confirmed the destruction of all PMU's assets. All destroyed assets were written off from the PMU records and the Grant financed the cost of new assets. Due to these significant losses, the World Bank team and the PMU agreed on specific mitigation measures for the risk of losing the Project's data again in the future, such as: i) performing regular backup of Project's data on weekly basis using external hard drives with very high capacity and kept offsite, ii) maintaining electronic copies of all the Project's hard documents, and keeping all documents in fire proof cabinets.

46. The Interim Un-audited Financial Reports (IFRs) were prepared in accordance with International Public Sector Accounting Standards (IPSAS) and submitted in a timely manner. The Project's accounts were subject to annual audit performed by an international audit firm acceptable to the Bank, in accordance with acceptable Terms of Reference (TORs) to the Bank. All audit reports have been regularly submitted to the Bank without delays. The auditor issued unqualified "clean" opinions on all issued audited financial statements. The next and last audit report will cover the period from January 1, 2013 until closing date June 30, 2013, due by October 30, 2013.

47. The FMA that was hired by the Bank for fiduciary purposes was effective. The FMA staff visited the PMU two to three times per month on average to: (i) review the PMUs' IFRs and reconcile the PMUs records to the Bank records; (ii) monitor unclaimed expenditures; (iii) verify disbursement plan updates; and (iv) provide on-the-job training in FM matters. The FMA included the PMU-prepared IFRs in their quarterly reports, as well as the adjusted IFRs (with their review comments and recommendations for the PMU IFRs). The FMA also conducted, on a sample basis, pre-screening and post- review of withdrawal applications for direct payments and reimbursements.

48. At the beginning of the operation, all activities were financed through either direct payment by the World Bank to consultants/suppliers or reimbursement of the CBI for activities financed through its own budget. In 2010, the World Bank approved the opening of a Designated Account (DA) to all Iraq Projects. A DA was opened for this Project and managed by the PMU. This resulted in the acceleration of payments to consultants/suppliers and the project's overall disbursements. Also, the World Bank introduced the e-Disbursement feature for all projects in all countries including Iraq. Under e-Disbursement, all transactions are conducted, and associated supporting documents are scanned and transmitted online through the World Bank's Client Connection System. The Project used this e-Disbursement function, which reduced the time and cost of sending WAs to the Bank, and expediting the Bank's processing of disbursement requests.

49. ***Procurement Arrangements***. The project was prepared under the OP. 8.0. Rapid Response to Crises and Emergencies, and hence the Bank's approach had been flexible in terms of design to permit a quick response to a changing security environment. The operation relied on a PMU with a small number of full-time Iraqi staff and consultants located in Baghdad including a competent procurement officer. The PMU ensured smooth and effective implementation of the project. The PMU received capacity building with the other Iraq PMTs

in procurement, financial, disbursement, contract management, and anti-corruption to allow implementing the project according to World Bank procedures.

50. The legal frameworks governing public procurement in Iraq was one of the procurement risks inherited to the following: (i) clear legal framework governing public procurement in Iraq is lacking; the legal framework does not as a practical matter have a procurement law. CPA Order 87, imposed by the transitional authority, is not generally regarded as applicable and is for the most part ignored by practitioners leaving the system without the pinnacle hierarchical legislative instrument found in a normal legal framework for public procurement, (ii) standard bidding documentation not used by procurement practitioners. Due to lack of clarity of the legal framework and absence of standard bidding documents, a Master Implementation Manual (MIM) was prepared for all Bank-financed projects in Iraq, which are in accordance with World Bank guidelines, to Iraqi officials. The MIM provided practical tools for Bank-financed project preparation and implementation and contained standard bidding documents for procurement, model forms of contract, general conditions of contract and examples of special conditions of contract.

51. Regarding the selection and recruitment of consultants, there were implementation challenges in attracting good and qualified consultants (firms/individuals) as years of conflicts and lack of security in the country led to: (i) weak capacity of local consultants; (ii) lack of interest of international consultants to work in the country; and (iii) high fees for consultants to cover the security cost broadly in line with those fees in conflict-affected situation.

52. The security situation in Iraq, the attack on the CBI and the destruction of all the project's records led to delays in implementation and extension of the Closing Date for the project. The PMU relied on the archived copies of signed contracts, RFP and evaluation reports to acquire new original signed documentations.

2.4 Post-completion Operation/Next Phase

53. In terms of next steps, the World Bank is keen on supporting the financial sector reforms in Iraq, provided there is serious commitment from the authorities' side at the highest political level, to the implementation of the Action Plan agreed upon earlier as part of the 2011 Iraq Financial Sector Review Report (Annex 8). The Bank would be pleased to provide the required assistance, and continue the policy dialogue with the Iraqi authorities about possible future support to this important sector. In due course, an assessment of the Iraqi system for banking supervision on the basis of the Basel Core Principles for effective banking supervision would be necessary, to establish an agenda for further reforms and to inform foreign jurisdictions about the quality of Iraqi banking supervision, relative to other jurisdictions. This will be needed as Iraq expands its relations with the global financial community, as well as to increase the domestic population's trust in the Iraqi banking system. While a self-assessment of compliance with the BCP had been recommended in the context of the project, no evidence was found of it having been performed. Also, the Iraqi authorities need to firmly address the issue of directed lending (more elaboration mentioned below) that state-owned banks are involved in.

3. Assessment of Outcomes

3.1. Relevance of Objectives, Design and Implementation

54. The main objective of the operation, as previously mentioned, was to strengthen the supervisory framework for financial intermediation and build the capacity of financial institutions to support the implementation of Phase I of the Iraq Banking Reform Strategy. The objectives continued to be relevant at ICR preparation as follows. Sustainability of the

reform program is critical; the Government needs to proceed with Phase II, and to implement the recommendations of the 2011 sector review. While progress has been made in reforming the two key state-owned commercial banks, and the setting of the new organizational structure, new Boards of Directors will need to be appointed to improve its governance and accountability. Further strengthening of the banking supervision continues to be an important element in a broader financial sector strategy.

55. The design of the operation was highly aligned with the country's priorities and World Bank strategies. It was designed in a participatory way through frequent meetings and workshops with all key stakeholders and technical counterparts from the government, state-owned financial enterprises, private sector, academia, Parliament, and regulatory bodies, which ensured ownership and commitment. However, the title of the project may have raised expectations that a US $10 million grant would achieve more. These expectations were raised further following the launch of the comprehensive Financial Sector Review, which went beyond CBI and the two state-owned banks, and led to the misperception that the action plan it developed would be implemented under this operation, although it was prepared after the project. Beyond the PDOs of the current project, for the balanced and sound growth of the banking sector, implementation of the recommendations in the action plan in the Bank's 2011 Financial Sector Review is of key importance.

3.2. Achievement of Program Development Objectives

Achievement of Program Development Objectives is considered moderately satisfactory

56. The project has seen success in meeting program development objectives, as outlined in the different sections of this ICR. This has been evident in progress regarding addressing the balance sheet problems of the state owned banks, and adoption of new organizational structures. In addition, new departments were established at the two banks, namely Risk Management and HR Departments. Also, training of staff of CBI, as well as Rafidain Bank and Rasheed Bank has been progressing well, with 682 staff trained. Moreover the level of provisions against NPLs in the two banks has approached 20 percent, according to the financial statements of the two institutions. By the second year of the project, lending to the private sector-to-GDP had already increased from 4 percent to 6 percent—a 50 percent increase. The current level of lending to the private sector stands at approximately 9 percent, which is an important achievement.

57. Based on reports from the CBI, capital adequacy ratios of the two banks had already risen during the second year of the project, from a nearly zero level, to 4 percent in 2012 of risk weighted assets. Nevertheless, for the future, and under evolving international standards, in particular Basel III, bank capital adequacy will need to increase to 11-12 percent of risk weighted assets, and a minimum ratio of core capital-to-total assets will need to be at least three percent. Significant additional effort therefore needs to be undertaken to raise the level of capitalization to internationally acceptable levels. Stronger capitalization is especially necessary to be able to increase lending to the private sector. Only then will the Iraqi banking sector be able to fully perform its function in the intermediation system of a growing economy.

58. However, the cleaning up process of the state-owned banks is never fully complete with the existence of an issue such as directed lending (more elaboration below). Under political and social pressures, state-owned banks are required to finance national mega projects such as those of low-income housing. At times, as a result of workers' demonstrations, state-owned banks are required to pay staff salaries of non-performing state-owned enterprises. Also, there still exists a culture of resistance to change among a number of

government officials due to conflict of interest issues, especially regarding the settlements of NPLs. Hence, the “moderately satisfactory” rating.

3.3. Efficiency

59. The project contributed to improving the performance of the banking sector, by improving the capacity of staff at Rafidain Bank and Rasheed Bank, who are currently able to better handle basic banking transactions using computers. Also, loan officers’ capacity to assess risks was improved—reflected in an increase in loan-to-GDP ratio. As mentioned earlier in more detail, the adoption of the new organizational structures has paved the way for the establishment of risk management units. The project has also enhanced the supervisory capacity of CBI.

60. All this was achieved at minimal costs, in an efficient manner, as most capacity building activities were conducted outside Iraq. Due to the security situation, it is extremely expensive to hold capacity building activities in the field. Also, due to limitations on number of Bank staff joining the missions, as well as limitations regarding time spent in Red Zone in Baghdad, and major costs related to security and safety; most missions were held outside Baghdad, where all stakeholders met and there were more opportunities for lengthy debates and policy discussions. This is a common practice in fragile countries where the Bank operates.

61. On fiduciary aspects, the project's financial management (FM) arrangements were consistently found to be “Satisfactory". The Project implementation was managed by a PMU established at CBI and financed by the Grant. As part of this PMU, a competent Financial Officer was hired, on full time basis, from the early stages of the Project. The Financial Officer has managed the Project’s financial management and disbursement functions in a satisfactory manner without any major complications. From a financial management point of view, establishing a PMU, financed fully by the Grant and dedicated only for the Project implementation, has significantly contributed to the success of the Project’s implementation, including financial management. More details in the financial management section above.

3.4 Justification of Overall Outcome Rating

Rating: Moderately Satisfactory

62. The overall outcome rating for the operation is “moderately satisfactory” based on meeting its key development objectives, in making all the achievements listed in Section 3.2, and more broadly avoiding a systemic financial crisis—although *force majeure* events took place. One of the primary achievements was to bring together all stakeholders–CBI (the supervisor and regulator), the Ministry of Finance (the owner of the state-owned banks); the two state-owned banks—Rashid Bank and Rafidain Bank, and the BSA (the auditor of state institutions) to reach consensus on the size of the external debt and NPLs of the state-owned banks. In addition to the financial restructuring, the two banks went through operational and institutional restructuring. A new organizational structure was put in place. An HR system that is more performance based is being implemented. Clear TORs were drafted for better governance and accountability. The project provided capacity building to the CBI to enhance its supervisory architecture, specifically support was provided in reviewing the existing banking supervision process, assessing effectiveness of its supervisory apparatus and its adherence to international codes and standards, in addition to addressing any deficient gaps and needs. For the first time, Risk Management Departments were established and staff was trained to undertake the required duties.

3.6. Overarching Themes, Other Outcomes and Impacts

Poverty Impacts and Social Development

63. It is key to the further development of the Iraqi system for financial intermediation that the banking system constitutes a larger part of GDP than is currently the case. A well-developed banking system is critical to the growth of other sectors of the economy, and to poverty reduction. The financial sector can also contribute directly to GDP growth as a source of high value employment, and the development of high level expertise. Reliable and sufficiently large commercial banks can help open up Iraq to foreign investment, especially outside the oil sector. It is essential for the confidence in the financial system and for the proper allocation of savings to the most productive areas, that loans are allocated only on strictly commercial and economic grounds, based on robust risk assessment rather than on political or personal network considerations.

Institutional Change/Strengthening

64. The two-state owned banks witnessed major organizational and restructuring reforms. HR, Risk Management and IT departments were established, which helped in improving the HR process, where the staff had clear TORs, in addition to a clear system for salary increases. The two state-owned banks' Risk Management department assists in conducting both credit and non-credit risk management. Moreover, the IT department infrastructure helped staff to perform their tasks more efficiently and productively.

65. The effectiveness of the CBI's enforcement actions with regard to the privately held commercial banks has improved. It remains necessary, however, that the large state-owned banks also be brought under the full rigor of CBI supervision. While CBI effectiveness has increased, this applies only to the small banks, while the largest part of the system has not felt this higher degree of effectiveness. This will not be achieved without explicit empowerment of the CBI to use the full extent of its powers, based on rigorous application of the CBI's prudential standards and, as needed, use of its corrective action tools.

3.7. Summary of Findings of Beneficiary Survey and/or Stakeholder Workshops

66. Throughout the lifespan of the project, several consultations took place with all relevant stakeholders. During the stakeholder workshop held in Istanbul in 2011, broad agreement was reached with Iraqi officials, including the Minister of Finance and the Governor of the CBI, on a comprehensive and ambitious set of recommendations, comprised in an action plan covering a wide range of areas necessary to the development of a robust and reliable financial system. The action plan laid out concise, clear objectives, differentiated between short term and medium term tasks, and specified which Iraqi authority would be responsible for implementation. Areas included in the action plan are macroeconomic policy, banking and Islamic banking, capital markets, banking supervision and regulatory framework including anti-money-laundering, financial infrastructure. It is crucial that the authorities continue the implementation of this action plan.

67. For development of the financial sector, but also the real sector, it is particularly important that rapid progress is made in adopting a revised financial reporting system for banks and all other companies above a certain minimum size, based on international financial reporting standards (IFRS) and International Accounting Standards (IAS). This will have a strongly positive impact on confidence of domestic, as well as foreign trading partners, and will provide a better basis for sound risk assessment by banks. In the banking area, it will also help provide more reliable and internationally comparable financial data, and lay the basis for improved prudential reporting by banks to the CBI, and for financial policy making in general. Without this, developing strong financial connections outside Iraq will prove to be

very challenging.

4. Assessment of Risk to Development Outcome

Rating: Substantial

68. As mentioned earlier, at the time of appraisal, the Emergency Project Paper (EPP) stated clearly that this project is subject to substantial risks that could hinder the effective implementation of the Banking Reform Strategy, and in turn the execution of the Banking Sector Reform Project and the timely disbursement of the grant. These risks included those emanating from security issues in Iraq, operational governance, and political and security risks. Also, the overall operating environment is not conducive to smooth implementation and procurement performance. In fact, an attack that took place in June 2010 on the CBI affected most of the office equipment and construction works at CBI and the PMU, which caused an extension of the Closing Date, as well as additional funding allocated to support the CBI in restoring its business operations as quickly as possible. This funding was drawn from funds initially allocated to Component IV of the Emergency Banking Sector Reform Project, which covers all costs related to the management, monitoring and evaluation of the project. Also, a major unforeseen risk that slowed down the reform program was the change in management of CBI (both Governor and Deputy Governors) in addition to Head of the Supervision Department—the main counterpart of the project, and the change in the Ministers of Finance, as well as, the recent appointment of the head of BSA as the Acting Governor of CBI.

5. Assessment of Bank and Borrower Performance

5.1. Bank Performance

Bank Performance in Ensuring Quality at Entry

Rating: Satisfactory

69. Bank performance at entry is rated as satisfactory, as the project team paid particular attention to ensuring high quality at entry for this operation, and has also conducted sound preparatory work, strong policy dialogue with government counterparts and solid analytical work, and the independent audit (E&Y) that underpinned the design of the project. The Bank team also had a high level of consultation with stakeholders and with market participants that helped with the design of this operation. Prior to negotiation, the World Bank held a consultation workshop in 2008, chaired by the Governor of CBI and Deputy Minister of Finance, attended by the two banks and the BSA, to discuss and agree on all project components, commitments and ownership. The Bank team was keen on close coordination with the donors and development partners (IMF and US Treasury), which ensured synergy that helped the authorities build the necessary capacity to implement the project.

70. The project design and preparation benefitted from triggering OP 8.00, especially in terms of financial management and procurement. Regarding financial management, the project has benefitted from simplified fiduciary arrangements with more reliance on post requirements as additional fiduciary controls, such as, and not limited to: (i) 100 percent financing; (ii) using excel sheets for capturing financial transactions and generating the quarterly financial reports; (iii) extensive use of direct payment and reimbursement disbursement methods; (iv) PIM based on a previously prepared MIM; (v) hiring a fiduciary monitoring agent, performing pre-screening and post review of withdrawal applications and site visits; and (vi) procuring a regional private independent audit firm with expanded scope.

71. Regarding procurement, the project has benefitted from the OP 8.0 facility in preparation activities, such as preparing TORs, short lists, recruiting, and management of PMU staff. Also, it was used to facilitate the bank's rapid response using simplified

procurement processes and clearances using simplified arrangements by using the MIM standard documents. Moreover, this facility helped in preparing rapid capacity assessments during project preparation.

Quality of Supervision

Rating: Satisfactory

72. Bank supervisory performance is rated as satisfactory. The supervision missions have gone beyond the regular oversight of the project implementation. Despite the security situation and change in the main counterparts at CBI, the World Bank managed to successfully supervise and disbursed fully. An integral part of this project was the establishment of a PMU at CBI, which supported and monitored the day-to-day activities under the operation. The Bank team provided guidance and support to the PMU on means of following the Bank guidelines and rules in Procurement and FM, which ensured smooth implementation and full disbursement of the project. This arrangement allowed for regular supervision from the field, and adequate monitoring. A resident internal advisor was also appointed at CBI for six months to undertake the needs assessment of the supervision department. At the two state-owned banks, four international experts were resident, two in each bank to undertake the assessment, as well as the execution of the new organization structure, allocation of staff and compliance. All this on-the-ground support was accompanied by periodic supervision by the World Bank, where Joint US Treasury and IMF missions were held in Baghdad and outside, depending on the security situation.

73. The Bank also provided advisory services and guidance to the government on how to deal with the unforeseen risks associated with the unexpected attacks on CBI and PMU and how to set about improving supervision. Monitoring of the implementation of the operation was performed regularly from the field, in addition to conducting missions comprising high level international experts. These missions provided sound and timely technical advice to the authorities. Therefore, the supervision provided a crucial channel through which the World Bank team was able to continue to support and advise the government on the next steps.

Justification of Rating for Overall Bank Performance

Rating: Satisfactory

74. The rating of satisfactory is based on the following considerations: (i) the project was very well designed, its PDO was in line with the country's and the Bank's priorities, the intermediate indicators were relevant and, helped focus the supervision; (ii) the Bank was aware of the challenges involved in addressing the restructuring of major financial institutions, so it adopted a flexible results based framework and a risk mitigating strategy, in consultation with the authorities, who remained committed to the implementation of the reforms despite the attendant high political risks; (iii) from identification to closing, the team was extensively involved in a policy dialogue with the authorities and independent counterparts, collaborating to ensure that strengthening the enabling environment for financial intermediation, resource mobilization and risk management, and increasing the private sector role and participation in the provision of financial services, would be achieved; and (iv) the project team and the country office developed a high level of cooperation that played a key role in the success of the operation.

75. Improvements in monitoring indicators (Annex 3) of the project provide sufficient justification of the rating (for instance, capital adequacy ratios reached 4 percent, from a baseline of zero). Also, the team was responsive to client's needs when a needs assessment for the Banking Supervision Department at CBI was conducted in compliance with Basel Core Principles, based on which capacity building and training of CBI staff has started since

October 2010. Loan officers' capacity to assess credit risks was developed, and this was reflected in the increase in loan-to-GDP from 4 percent baseline in 2006 to 9 percent in 2012. The project also pushed for the RTGS to be operationalized, as evident in the increase in number of subscribers from 16 banks to reach 44—a reflection of the enhanced access to financial services. In an attempt to improve governance and enhance transparency, the project helped the CBI to develop its website. In addition, the project contributed in developing the regulatory framework for Islamic Finance, enhancing the supervisory and regulatory environment for Sharia compliant financial products.

5.2. Borrower Performance

Government Performance

Rating: Moderately Satisfactory

76. From the design to implementation stage, the government was in the "driver seat" of seeking advice from the Bank where needed to implement its strategic reform agenda. The authorities remained focused on the success of the financial development objective as they recognized its important contribution to economic growth and improving living standards. In this context, the Government took the initiative to seek support from other donors according to their respective comparative advantage, and was keen on ensuring good coordination between the various partners. The Bank was requested to play a lead role with the development partners, and succeeded in getting the best out of each donor's support and avoided duplication of efforts or inefficient utilization of resources that comes from unclear donors mandate and overlap. The donors coordinating committee, chaired by the Bank, also helped the Government address key financial sector issues on a timely and priority basis. However, with the change in management of CBI and the change of the Minister of Finance several times—the project's main counterparts—the pace of reforms in the financial sector has slowed down and varied.

77. It is worth noting that Iraq was in isolation from the international arena for many years, which has negatively affected Iraqi authorities and institutions, and has led to lack of capacity and knowledge among government officials. This was among the main reasons that led, at times, to a lack of political commitment at the highest levels. In addition, conflict of interest issues were another obstacle that created resistance to reforms—especially those related to NPL reform and financial restructuring. Although progress has been made regarding financial restructuring, directed lending is still present especially during times of election. Under political and social pressures, state-owned banks are required to finance national mega projects such as those of low-income housing. At times, as a result of workers' demonstrations, state-owned banks are required to pay staff salaries of non-performing state-owned enterprises.

Justification of Rating for Overall Borrower Performance

Implementing Agency or Agencies Performance

Rating: Moderately Satisfactory

78. The CBI performance varied over the life span of the project, putting the overall rating at moderately satisfactory. During the initial stages of the project, CBI cooperation during the missions was very good. However, the change in management disrupted implementation at some stage, and then later picked up. Also, the external factors, such as bombing of the premises did also contribute in delaying implementation of the project at its early stage. Implementations were delayed in some cases despite the commitment of CBI and the banks, in cases such as setting external debts which required approval at higher levels.

The ROC did not meet on regular basis, which also impeded the endorsement of some of the reforms, taking a longer time to endorse the organizational structure.

Rating: Moderately Satisfactory

79. The rating of moderately satisfactory is justified by the following. Although the authorities' stated commitment to the reform program remained even with the change in management in CBI—the main counterpart, an up to date assessment of full achievement of the PDOs remained challenging. From the side of the two state owned banks, staff were selected for training, and sent to attend courses on banking and banking supervision. The two institutions cooperated with the efforts to clean up their balance sheets and to implement financial and operational restructuring. However, it has proved very difficult to assess the actual effectiveness of the programs, due to lack of access to the institutions, made difficult also by the severe logistical challenges of working in Iraq.

6. Lessons Learned

80. ***Strong analytic underpinning and building on other operations.*** A number of World Bank operations in Iraq and other fragile states and crisis countries created a credible blueprint for the design of this project. An example is the choice to have a PMU rather than PMT to ensure effective management, and adequate compliance with Bank's guidelines. In other ITF projects, where there was a PMT, the standard government remuneration has often been cited as insufficient for the type and amount of work done, and has been a disincentive to do more for Bank projects. In fact the project was subject to INT investigation and was cleared.

81. ***Consultations with stakeholders.*** Reforms have been undertaken after a process of close and continuous consultation with all stakeholders, which is critical for building consensus. Politically sensitive issues, such as settling external debt, require commitment at the highest political level.

82. ***Effective cooperation with development practices.*** The Bank team worked in partnership with a number of donors and development partners, such as the US Treasury, and the IMF. The respective responsibilities of the different donors and development partners were clearly defined, which ensured good coordination, and leveraging in pushing reforms.

83. ***Strong and sustained partnership***. Initially, the close working relationship with the Iraqi authorities and implementing entities demonstrated that significant reforms were implemented, backed by a strong leadership and political commitment. Reliable and comprehensive data are still not available to the extent necessary for a well based plan for further economic, banking and financial development in Iraq. It is key that on the Iraqi side, there be more opportunity to work at a more technical level with Iraqi officials, to be able to assess the real progress made, and to provide more immediate technical assistance. Political will to make key decisions is crucial in bringing financial sector reform forward.

84. ***Difficulties in finding international experts to travel to Baghdad*** because of the security situation and in identifying appropriate external experts willing to undertake work in Iraq.

85. ***Productive and effective supervision missions***. The security situation and, consequently, the limited ability to hold conventional field visits and supervision missions, highlighted the importance of a combination of on-site and off-site missions for operations in conflict countries. On the one hand, more team members were able to participate in missions that were held outside Baghdad and allowed for full day discussion with all stakeholders on one table to reach consensus and closure on key issues. On the other hand, on-site missions

had the added benefit of more interaction and undertaking assessment on the ground of the banks, and dialogue with stakeholders, such as the Parliamentarians that can influence reforms.

7. Comments on Issues Raised by the Borrower/Implementing Agencies/Partners

86. The government and the implementing entity, the CBI, were appreciative of the support provided by the World Bank. The authorities rated the World Bank's performance during the operation as overall highly satisfactory as indicated in Annex 6. The operation witnessed close coordination and communication with the implementing entity and the relevant officials, and they acknowledged that the day-to-day support as well as close supervision of the operation from the field has helped in ensuring successful delivery. The government’s request for potential financing is not only for the funding, but also for the technical assistance and advisory services packaged with the loan.

87. Moreover, various donors, development partners, and international institutions have been providing support for the implementation of the government’s overall financial sector reform program through the provision of technical assistance, and analytical work on reforming and restructuring the financial sector in Iraq. This required effective coordination, which the Bank took leadership in. This cooperation led to mutual design and agreement of conditionality issues that all donors agreed were essential for financial sector reform. In addition, donors were able to do a much better job of leveraging resources, both loan and technical assistance, when coordination is effective. The most effective and successful coordination was with the US Treasury and IMF which provided tremendous support to enhancing the financial sector in Iraq.

Annex 1
Costs and Financing

(a) Project Cost by Component (in USD Million equivalent)

Components	Appraisal Estimate (USD millions)	Actual/Latest Estimate (USD millions)	Percentage of Appraisal
Institutional and Operational Restructuring of the two State-owned Commercial Banks	5.00	4.32	86%
Financial Restructuring of the Two State-owned Commercial Banks	1.00	1.92	192%
Strengthening the Regulatory and Supervisory Functions of CBI	2.75	2.18	80%
The establishment of PMU	0.75	0.97	129%
Unallocated	0.50	0.00	0%
Total Baseline Costs	10.00	9.39	93.9%
Physical Contingencies	0.00	0.00	0.00
Price Contingencies	0.00	0.00	0.00
Total Project Costs	10.00	9.39	
Project Preparation Costs	0.68	0.67	99%
	0.00	0.00	0.00
Total Financing Required	0.00	0.00	0.00

(b) Financing

Source of Funds	Type of Cofinancing	Appraisal Estimate (USD millions)	Actual/Latest Estimate (USD millions)	Percentage of Appraisal
Iraq Reconstruction Trust Fund	NA	10.00	9.39	93.9%

Annex 2
Outputs by Component

Component I: Institutional and Operational Restructuring of the Two State-owned Commercial Banks

Under institutional and operational restructuring, the project aimed at providing capacity building and training to the two state-owned banks staff—Rasheed Bank and Rafidain Bank, including: (i) reorganizing the organizational structure and implementing the changes; (ii) improving HR processes; (iii) conducting risk management, both credit and non-credit risk management; and (iv) IT infrastructure, covering all operational aspects, security system of information and management of information systems. Under this capacity building program, 243 staff were from Rafidain Bank and 240 were from Rasheed Bank. As a result of such capacity building, banks' branch staff were able to handle basic deposit-taking transactions, using computers, which helped in developing the client base. Loan officers' capacity to assess credit risks was developed, and this was reflected in the increase in private credit-to-GDP. This training was deemed critical to ensure that the basic staff can handle deposits and start making sound loans, thereby attracting depositors and beginning to finance private sector growth. This component has been fully completed, and achievements are as follows:

Development of new organizational structures of the state-owned banks. This has been delivered despite delays, in part because of difficulties in identifying appropriate external experts willing to undertake work in Iraq. After the fielding of two international experts at the banks in the first half of 2011, progress accelerated. After intensive consultations with stakeholders, the experts drew up recommendations for the organizational and operational restructuring specific to each of the two banks, aiming at improving their governance structure, and their overall performance. These plans were considered at a workshop in July 2011 with the participation of relevant stakeholders (Ministry of Finance, CBI, BSA, and the two state-owned commercial banks). The Banking ROC endorsed the structures in April 2012. A crucial step, moving forward, will be the selection of new Boards of Directors to carry through the implementation of the action plan.

Capacity building for banks' staff in conducting risk management, both credit and non-credit risk management. As an outcome of implementing the new organizational structures, risk management units have been established in both banks. As a result, a risk control department was set up, the risk management units were adequately managed and completely staffed, and manuals for risk management were developed. This also entailed amendments to existing credit approval procedures on the basis of accepted best practices; improved measuring and monitoring capabilities that enabled the banks to produce comprehensive and accurate reports on a bank-wide basis, including the ability to identify "single obligors" and aggregate such exposures; and training in human resource management. Under this component, representatives from BSA, Rafidain Bank, and Rasheed Bank have received training at the Egyptian Banking Institute (EBI) on risk management, Letter of Credit, finance and accounting, and internal audit.

Capacity building for improving human resource management. A human resource management system has been put in place in both banks to meet current and future human resource requirements. In that context, the required training for improving HR processes was completed in July 2011 for 20 people from both state-owned commercial banks. The following issues were addressed: (i) the banks' immediate needs for building critical skills

and efficiently deploying the work force to staff its new organization, and support the execution of its strategy and business plan; and (ii) the banks' medium-term needs for developing and managing its human resources. This system consisted of: (i) a training needs analysis; (ii) a training and development master plan; (iii) a performance appraisal system; and (iv) a staffing program which entailed effective matching of people to jobs in the revised organization structure.

Capacity building for IT training. This covered capacity building and on-the-job training on all operational aspects, security system of information and management of information systems. This training was completed for ten professional programs during the period May 15–August 10, 2011, for 98 trainees from the two state-owned commercial banks. The overall number of staff trained in the two state-owned banks has exceeded the project end target of 200.

Component II: Financial Restructuring of the Two State-owned Commercial Banks

Financial restructuring helps state-owned banks to restore their ability to comply with minimum capital adequacy and other prudential requirements of CBI, and to restore their full credibility with their business counterparts—the Ministry of Finance (being the owner of the state-owned banks) played a leading role in achieving this. Accordingly, the project focused on capacity building and training in the following areas: (i) finance and accounting—restructuring the balance sheets of these two banks and developing the accounting systems; and (ii) internal audit and compliance, focusing on the process, audit framework, methodology, and effectiveness of internal audit. The project supported in organizing workshops and provided technical assistance on the best means of addressing the problem of NPLs by sharing the experience of other developing and developed countries in cleaning up the balance sheets of their state-owned banks, and also guided the Iraqi authorities in choosing the most suitable approach to the Iraqi circumstances.

In addition, the project ensured that the new accounting systems lead to balance sheets that reflect net asset values and the banks' financial position, through capacity building in the area of finance, accounting, internal audit and compliance. The financial restructuring process aimed at entailing two steps:(i) the government's cleaning up of the institutions' foreign liabilities (taking over the borrowings made at the behests of the former government), and the State-owned enterprises (SOE's) NPLs; (ii) meeting the needed regulatory capital requirements. A major development was the decisions made by the Banking ROC on April 8, 2012 regarding the settlement of the remaining NPLs, and the endorsement of the overall financial restructuring of Rasheed Bank and Rafidain Bank.

Cleaning the balance sheets of the two state-owned commercial banks. The authorities have decided not to use a "good bank-bad bank" approach but instead move off-balance sheet those items that cannot be reconciled quickly and written off. As of November 2012, the external debt for Rasheed Bank was US$ 1.13 billion, of which US$ 356 million were settled by the Ministry of Finance. Rafidain Bank's external debt reached US$ 17.75 billion, of which US$ 12.85 billion were settled by the Ministry of Finance.

There has been an improved portfolio quality of the two state-owned commercial banks, evident in the reserves-to-NPLs ratios, rising from 10 percent in June 2006 to 20 percent in June 2013. Technical assistance and advisory services provided have contributed to: (i) the

settlement of US$ 356 million of Rasheed Bank's external debt during the reform program by the Ministry of Finance of the US$ 1.13 billion; and (ii) the settlement of US$ 12.85 billion of Rafidain Bank's external debt by the Ministry of Finance over the same period to reach US$ 17.75 billion. Decision was also made by the Government to eliminate errors associated with foreign exchange revaluation losses. As a result, the balance sheet of Rafidain Bank has shrunk to ID 64 trillion at the end of 2012 (based on unaudited numbers).

Restructuring of internal audit and compliance units at Rasheed Bank and Rafidain Bank, state-owned commercial banks. Restructuring of internal audit and compliance units at Rasheed Bank and Rafidain Bank, state-owned commercial banks were also one of the main achievements of the project, with the objective of improving the effectiveness of the internal audit function for the purpose of strengthening internal control environment at both banks, as well as enhancing compliance with rules, laws and regulations. Under the project the following was completed: (i) organizational structure for the internal audit and compliance units; (ii) charters for the audit committee and internal audit function; (iii) assessment report of the current internal audit function and gaps from the Internal Audit Standards; (iv) internal audit policies and procedures; and (v) risk assessment and proposed audit plan.

Setting up new and modern accounting systems. New and modern accounting systems have been set up. Consulting services on the revision of the accounting rules by Pricewaterhouse Coopers (PwC) has been fully completed, and a workshop has been held in that context in July 2012. The two banks took actions on implementing the recommendations on restructuring the internal audit and compliance units as per the above mentioned deliverables, including (i) selecting a new structure (functional) that needs Ministry of Finance approval prior to application; (ii) starting to apply the new internal audit policies and procedures, (iii) approving the Charters for the audit Committee and internal audit function, approving the risk assessment and perform internal auditing using the new developed audit plan, and (iv) approving the proposed performance indicators but currently could not be implemented due to the lack of core banking system at both banks. The consultancy firm performed with 10 staff from each bank pilot audit on two operations (credit and current accounts) using the new audit development plan. However, the two banks need to have in place a plan to bridge the gaps between the internal audit standards currently applied by the internal audit units and the international internal audit standards issued by the Institute of Internal Auditors (IIA), including applying fully standards 1000 through 1300, and 2000 through 2600.

The consultancy firm submitted a report on May 25, 2012 charting the way forward for internal audit and compliance functions in the two banks laying down the results of Gap Analysis, recommending the most appropriate organizational structure for internal audit and compliance units at the two banks and implementation guidelines for applying International standards and best practices. Also, the consultancy firm provided a two-day workshop (two days for each state-owned bank) inside Iraq in May 2012. The main objective of the workshop was to discuss the preliminary structure, mandate and strategy, required staffing, roles, and required qualifications, as well as the inter-linkages between different units.

Component III: Strengthening the Regulatory and Supervisory Functions of the CBI

The project provided capacity building to CBI to enhance its supervisory and regulatory authorities—mainly, reviewing the existing banking supervision process, assessing the effectiveness of its supervisory apparatus to the adherence to international codes and

standards, and preparing a detailed action plan to address any deficient gaps and needs in coordination with the IMF. Capacity building and training of 191 staff of the supervision department at CBI included setting up the underpinnings of a strengthened regulatory and supervisory framework, focusing on on-site and off-site processes. CBI worked on implementing corrective actions required to close the gap between existing practices at CBI and international accepted best practices. Also, it focused on developing and implementing appropriate supervisory tools and methodologies. Given that the BSA will continue to play a key role in auditing and fiduciary oversight of the two state-owned commercial banks, the project also provided support to 25 BSA staff on its auditing role over banks. The project has also hired an international resident expert at CBI to continue the work on restructuring the banking supervision department. He stayed for four months at CBI.

Capacity building on enhancing supervisory and regulatory functions. In that context, capacity building of staff from the CBI and BSA, have participated in courses, focusing on interpretation and application of the new prudential standards. It is also worth noting that CBI has signed a one-year contract with E&Y for capacity building and on-the-job training for CBI staff, Rafidain Bank's staff, and Rasheed Bank's staff on banking regulations and international standards.

XBRL. Training of 9 staff in the use of XBRL, a data management software, provided significant benefits to the off-site analysis of the banks and the banking sector. This training has been completed in April 2012.

Legislative issues. A new regulation on Islamic banking had been promulgated in 2012. The budget law had required that some legal basis be provided for supervision of Islamic banks. Under this project, a study tour has already been conducted to Malaysia in the context of South-South Cooperation.

Monitoring indicators. Iraqi authorities have made good progress in meeting the project's objectives, as evident in achievement of various monitoring indicators stipulated in the Emergency Project Paper, namely the rise in the reserves-to-NPLs ratios from 10 percent in June 2006 to 20 percent; the capital adequacy ratio has increased from zero to 4 percent, already meeting the project end target value of 4 percent; rise on loan-to-GDP ratio from 4 percent to 9 percent during the same period, exceeding the project end target of 6.2 percent.

Also, a needs-assessment for the Banking Supervision Department of CBI has been conducted, based on achieving a higher level of compliance with Basel Core Principles in due course. After completion of the current project, this needs assessment can form a robust basis for further capacity building and training of CBI staff.

Component IV: Project Management, Monitoring and Evaluation

This component of the project covered all costs related to the management, monitoring and evaluation of the project. The PMU has been adequately staffed, and well equipped to perform its mandate to support the Iraqi authorities in implementing their banking reform program. Staff hired were qualified and capable of effectively managing the project and ensuring compliance with Bank's rules and guidelines (in terms of procurement and FM arrangements). Workshops were held to train PMU staff on procurement and FM issues, along with supervision missions to ensure all fiduciary requirements are met.

The PMU was staffed with four key positions consisting of the PMU Director, FM Officer, Procurement Officer and Program Assistant. It was responsible for the day to day implementation of the Project such as Project management responsibilities for procurement, financial management, disbursement and reporting activities under the Project. The PMU also acted as the Technical Secretariat of the Executive Steering Committee, which is chaired by CBI Deputy Governor. The PMU staff salaries and operating costs were financed from the proceeds of the Grant and its office was located within the CBI. The Bank worked closely with the PMU to help it build capacity to implement the Project in accordance with Bank's guidelines and procedures. In addition, the Bank's Baghdad-based Fiduciary Monitoring Agent, Etiman Consulting, was monitoring the project's implementation, procurement and FM performance and overall compliance with the required WB guidelines.

Annex 3
Monitoring Indicators, Baseline, and Expected Outcomes

Results indicators	**Baseline** (June 2006) *percent*	**July 2009/2010**		**July 2010/2011**		**July 2011/2012**		**July 2012/2013**	**Frequency and Reports**	**Data Collection Instrument**	**Responsibility for Data Collection**
PDO		Projected	Actual	Projected	Actual	Projected	Actual	Actual			
Development of new organizational structures for the two state-owned banks	None	Plans for development of new organizational structures completed		New organizational structures approved and adopted by October 2010		organizational structures adopted		organizational structures adopted	Annually	CBI Annual Report	CBI
Number of staff trained to do bank operation (*both banks*)	0	0		12		490		682	Semi-annually	PMU	PMU
State-own commercial bank's improved their capital adequacy ratio (*reserves-to-NPLs ratios*)				Reserves-to-NPLs ratios reaching 10%		Reserves-to-NPLs ratios reaching 15%		Reserves-to-NPLs ratios reaching 20%	Annually	Financial statements of the two state-owned banks (*Rasheed Bank and Rafidain Bank*)	CBI
Components											
Loan-to-GDP ratio (*banking sector*)	4%	4.9%	4.2%	5%	5.6%	5.5%	6.0%	9%	Annually	CBI reports	CBI
Reserves-to-NPLs ratios (*both banks*)	10%	15%	13%	20%	18%	20%	20%	20%	Annually	CBI reports	CBI
Capital adequacy ratio (*both banks*)	0	2%	3%	2.5%	3.2%	2%	4%	4%	Annually	CBI reports	CBI
Number of qualified staff in PMU	0	4	4	4	4	4	4	4	Semi-annually	PMU database	PMU
Timely disbursement of grant (*US$ million*)	0	1.7	0.216	4.6	2.292	1.979	5.068	1.807	Semi-annually	PMU database	PMU

Annex 4
Grant Preparation and Implementation Support/Supervision Processes

a) Task Team Members

Names	Title	Unit	Responsibility/Specialty
Lending and Supervision			
Sahar Nasr	Lead Financial Economist	MNSF1	Task Team Leader
Nikolai Soubbotin	Lead Counsel	LEGAM	Legal
Hassine Hedda	Senior Finance Officer	CTRLA	Loan
Jad Mazahreh	Senior Financial Management Specialist	MNAFM	Financial Management
Nazaneen Ali	Senior Procurement Specialist	MNAPC	Procurement
Laila Abdelkader	Financial Sector Specialist	MNSFP	Financial Sector
Steve W. Wan Yan Lun	Operations Analyst	MNSF1	Operations
Arne Petersen	Banking Sector Consultant	MNSF1	Banking
Jan Van der Vossen	Basel Core Principle Consultant	MNSF1	Banking
Didier Debals	Senior Banking Supervision Expert	MNSF1	Banking Supervision
Amira Zaky	Program Assistant	MNCEG	Administrative

b) Staff Time and Cost

Stage of Project Cycle	Staff Time and Cost (Bank Budget and Trust Fund)	
	No. of staff weeks	**USD Thousands (including travel and consultant costs)**
Lending		
FY09	30.42	208,925
FY10	2.18	7,800
Total:	**32.6**	**216, 725**
Supervision/ICR		
FY10	15.09	100,165
FY11	19.43	156,100
FY12	9.34	89,600
FY13	18.87	106,500
FY14	2.18	10,000 (estimate)
Total:	**64.91**	**462,365**

Annex 5
Summary of Borrower's ICR

A. Introduction

The Government of Iraq in February 2009 embarked on a comprehensive two-phase Banking Sector Reform Strategy (2008-2012), endorsed at the highest political level, with the objective of modernizing its banking system. The strategy has received the support of the World Bank and other international partners. Financial sector work in Iraq has thus far focused on strengthening the two state-owned banks and on improving the overall regulatory framework. The Iraqi government, the Ministry of Finance, and the Central Bank of Iraq have been keen on the effective implementation of this strategy, and significant progress has already been made, evident in continued work on the financial and operational restructuring of the state-owned banks. Efforts have been undertaken to strengthen supervisory and regulatory authority, and several measures to improve the banks' governance have been taken. Also, improvements have been made in the regulations regarding risk management, and the basic elements for banking supervision are in place. On the non-bank front, the Iraq Stock Exchange provides a good foundation for capital market development, and more attention would be given to the insurance and pension sectors. The progress and pace of the reforms, viewed against a difficult security and political situation, have been commended by donors and the international community. However, we are aware that we still have some way to go to fully reform the sector and address its main challenges. The Government of Iraq will continue to foster efforts on enhancing the financial system, and ensuring economic growth.

B. Assessment of the operation's objectives, design, implementation, and operational experience

The project development objective is to strengthen the supervisory framework for financial intermediation and build capacity of financial institutions. This was successfully achieved through the institutional and operational restructuring, and the financial restructuring of the two state-owned commercial banks, as well as the strengthening of the regulatory and supervisory functions of the CBI. The first two components were the responsibility of the Ministry of Finance as the owner of the state-owned banks. The third component is the responsibility of CBI. The operational and financial restructuring of the state-owned commercial banks that account for more than 90 percent of the system's assets and the vast majority of the branch network, is essential for building the capacity of the financial institutions. This was accompanied by strengthening the supervisory framework to ensure that banks are prudently regulated and supervised, thus enhancing sustainability and soundness.

C. Assessment of the outcome of the operation against the agreed objectives:

The project objectives were satisfactorily met, even though the political and security environments were extremely challenging. The reforms implemented have yielded some of the most impressive results Iraq has seen in the financial sector. These have included:

- The development of new organizational structures of the state-owned banks. Progress was made in this area, although there were difficulties in identifying appropriate external experts willing to undertake work in Iraq.
- Capacity building for banks' staff in conducting risk management, both credit and non-credit risk management. Training in the area of risk management, both credit and non-credit risk management, was provided to 200 branch managers from Rasheed Bank and Rafidian Bank in March, 2012, and Risk Management Units have been established in both banks.
- Capacity building for improving human resource management.
- Capacity building for IT training. This covers capacity building and on-the-job training on all operational aspects, security system of information and management of information systems.
- There has been an improved portfolio quality of the two state-owned commercial banks, evident in the reserves-to-NPLs ratios, rising from 10 percent in June 2006 to 20 percent in 2013.
- Considerable progress has been made in setting up new and modern accounting systems. Consulting services on the revision of the accounting rules by Pricewaterhouse Coopers (PwC) has been fully completed, and a workshop has been held in that context in July 2012.

D. Evaluation of the borrower's own performance during the preparation and implementation of the operation, with special emphasis on lessons learned that may be helpful in the future

The operation witnessed a series of reform measures that focused on developing the banking sector as well as strengthening the supervisory architecture. The majority of the concluded reforms were thoroughly discussed with the World Bank on various occasions.

E. Evaluation of the performance of the Bank, any co-financiers, or of other partners during the preparation and implementation of the operation, including the effectiveness of their relationships, with special emphasis on lessons learned

The World Bank's performance during the operation was overall highly satisfactory. The operation witnessed close coordination and communication with the relevant bank officials, and special acknowledgment should be given to the efforts of the team, especially the Task Team Leader during the preparation and supervision.
The team was responsive to clients' needs and changes in the market in numerous incidents. The team showed a remarkable deal of diligence and technical support for the responsible authorities throughout the operation. The presence of the team in Baghdad on the ground during supervision provided effective communication and ensured all required and expected outcomes where duly met.
The World Bank also conducted close coordination efforts with other donors and development partners who are actively involved in financial sector development in Iraq.

F. Description of the proposed arrangements for future operation of the project

The government of Iraq is committed to ensure the sustainability and irreversibility of reforms. As a result of the successful cooperation with the World Bank in the preparation for and disbursement of the Iraq Banking Sector Reform Project, the Government of Iraq would consider follow-up operations.

Annex 6
Comments of Cofinanciers and Other Partners/Stakeholders

Various donors, development partners, and international institutions have been providing support for developing Iraq's financial sector through the provision of technical and financial assistance. This required effective coordination, which the Bank took leadership in. A Financial Sector Donors Subgroup, chaired by the World Bank was formed to coordinate efforts related to both technical and financial support provided to the government and to ensure that borrowed funds are used in the most effective manner. This cooperation led to mutual design and agreement of conditionality issues that all donors agreed were essential for financial sector reform. In addition, donors were able to do a much better job of leveraging resources, both loan and technical assistance, when coordination is effective.

Major stakeholders that have been working closely with the Bank throughout the different phases of the Iraq Banking Sector Reform Project are the US Treasury and IMF. Together with the US Treasury and the IMF, the Bank provided technical support across a range of areas but in particular in defining the priorty areas of reform. Joint missions were conducted throughout the lifetime of the operation. Also, the recommendations put forward by the Iraq Financial Sector Review were shared jointly with the government officials at high-level workshops. Overall, the US Treasury and the IMF have commended the Bank's efforts in moving forward with the implementation of the banking sector reform strategy.

From the IMF and US Treasury perspective, the strong relationship with the Bank was unique in that it was mutually reinforcing. They acknowledge such close cooperation that helped them in designing assistance strategies to effectively respond to the needs of Iraq at the financial sector front. They appreciated the sharing of information and the close contact to advance in addressing major constraints. This close working relationship helped to ensure that activities of respective organizations did not conflict with each other. All parties had a common objective to support the government of Iraq's efforts to implement financial sector reforms. Donors and development partners continue their efforts to support the financial sector in Iraq.

Annex 7
Detailed Terms of Reference (TORs) for Project Activities

I. TORs for Project Activities under Component One: Institutional and Operational Restructuring of the Two State-owned Commercial Banks

A. Organization Structure

1. Overview

Project Understanding. To establish an Organization and Job Profiling Platform where it came to identify the following project objectives: (i) supporting the bank's business reform strategies; (ii) paving the way for the implementation of the bank's job profiles including families and levels; and (iii) facilitating working relationships between various divisions.

Execution Overview. A High Level Organization Structure exercise will be carried out to achieve the required Organization and Job profiling Platform. The project is recommended to pass through the following phases:

- Organization Baseline Study through the following: (i) study available documentation covering history, plans, and reports; and (ii) meetings with Bank officials to understand the reform requirements, the current bank's structure, the bank's nature of core functions, defining key business drivers, norms of operations (what is working & what is not, etc…).

- Meeting with the selected bank officials to confirm the organization concepts and each of the banks' fundamental areas.
- High Level Organization Charts will be developed for level 1 and level 2 in the bank based on EBI's experience guided by the business strategy, reform requirements and driven by the best practice in the banking sector. The Organization Structure would reflect: (i) reporting relations within the bank; (ii) bank's headcount; (iii) the different organization levels; and (iv) key results areas and key performance indicators.
- Upon confirmation on the outcome of the High Level Organization Structure, a draft of the Job Profiles will be developed through the following job analysis of the different functional areas followed by approval of the draft and final job profiles outcome; and transfer of knowledge to the bank's officials on writing and managing the job profiles. A typical job profile reflects: (i) job purpose; (ii) key results and corresponding duties; (iii) key performance indicators; (iv) required core competencies and level-specific competencies; (v) communication; (vi) financial responsibility; and (vii) job specifications. The same methodology will be applied on the rest of the organization levels in the banks (level 3 and level 4). Further details on the methodology and execution will be provided upon agreement on the project concept.

O*verall Project Duration*. The service duration will primarily depend on the set plan where the overall duration is estimated to be around 100-130 days for all project phases per each bank.

2. Branch Managers Certificate

Training Purpose. This course will develop an understanding of the nature of strategy and management and their relevance to organizations in the business, corporate and international management context. Candidates will learn the principles of management and the tools and techniques used to ensure success.

Certificate Objectives: (i) contribute positively to the strategic debate in the bank; (ii) apply their own and the team's knowledge and experience in order to contribute to the achievement of the bank's strategic objectives; (iii) define what is meant by effective leadership and how it differs from management; (iv) describe the performance management process; (v) determine through analysis the clear and realistic objectives for a project and evaluate its management through the project stages; (vi) use presentations effectively to deliver messages; (vii) prepare employees for organizational change by providing simple ideas they can use to succeed in the new environment; (viii) explain the differences between money laundering and the financing of terrorism; and (ix) describe the main concepts of forgery and falsification of documents.

Who Should Attend. This course is targeted at all functional branch managers, deputies and assistants.

3. Course Outline

Module 1: Managerial and leadership skills for Managers

- Describe the major issues facing management
- Identify the factors and behaviors that hinder effective communication
- Analyze a situation and determine which leadership style to use, given the development level.
- Identify the motivational factors that increase productivity in the workplace
- Demonstrate how to coach a staff member
- Analyze a situation to determine whether to delegate responsibility
- Analyze a situation where change and the accompanying transition process must take place.

Module 2: Marketing for Non-marketers

- Describe different marketing principles and approaches.
- Discuss the importance of segmenting markets.
- Describe the development of new products.
- Explain the different marketing communication tools.
- Identify different advertising strategies.

Module 3: CELEMI Livon Lite™

- Describe a marketing strategy and tactical initiatives
- Explain how to optimize limited resources through strategic allocation
- Discuss ways to improve responsiveness to customer needs and preferences
- Explain the overall business impact of a decision
- Develop local (local within global) performance

Module 4: Managing Performance and Appraisals

- Link the performance criteria for individuals to company performance criteria
- Describe the performance management process
- List and discuss the pros and cons of different appraisal methods
- Explain SMART goals
- Explain the role of competencies in the appraisal process
- Practice conducting an effective performance appraisal discussion

Module 5: Effective Presentation Skills

- Apply the steps in preparing a presentation
- Use presentation visual aids to emphasize ideas
- Learn and apply platform skills
- List presentation Do's and Don'ts

Module 6: Time and Stress Management

- Define time management
- Describe typical time wasters
- Describe the time management system

Module 7: Managing Change "Who Moved My Cheese"

- Discuss ways to accept change
- Discuss how to anticipate change
- Explain how to recognize change
- Define change
- Discuss methods to achieve change
- Demonstrate how to lead and manage change

Module 8: Problem Solving and Decision Making

- Discuss the barriers and motives to creative problem solving
- Create alternative solutions
- Think outside the box – in non-traditional ways (be creative)

Module 9: Working in Teams

- The importance of working in teams
- Team strengths
- More effective relations with team members
- Developing teamwork strategies

Module 10: Implementing Strategies through Effective Projects

Overview. This highly practical introductory module provides delegates with all the essential skills, tools and techniques that they will need to support them in their project management role. The programme concentrates on the practical techniques that can be applied directly back to the workplace. Participants formulate a detailed strategy and implementation plan initiative.

Objectives. Participants formulate a detailed strategy and implementation plan initiative. To introduce the principles of Management and the tools and techniques used to ensure success. Candidates will have an opportunity to analyse their own problems and concerns about projects they currently manage or will be managing.

Benefits. By the end of the course participants will be able to:

- Define what is meant by a project and how it differs from normal management tasks.
- Identify the role, skills and qualities of an effective manager.
- Set clear and realistic objectives for a project and understand the stages of the project life cycle.
- Confidently plan, organize and document a project in a logical manner.
- Gain and maintain the support and commitment of others and clearly identify the role of all team members.
- Monitor, control and adjust a project effectively and keep all relevant parties informed of progress.
- Predict risks and make appropriate contingency plans.
- Review and learn from strengths and weaknesses identified on completion of a project.

Content

- What is strategy?
- Diagnostic tools and techniques
- People management issues in relation to strategy
- Mission statements, vision and values
- Appreciation to strategic planning
- Introduction to Project Management
- The Project Life Cycle
- Project Planning, Risk and Change Management
- Implementing and Controlling Projects
- Effective Project Communication and People Management

Program Applications

- Teach the power of effective planning and generate the conviction to do it
- Demonstrate the impact of goals on teamwork and results
- Teach the power of vision and proper goal setting
- Create a vision for individual and team productivity and results

Assessment Strategy. Participants will be graded on an end of program group project presentation and there will also be informal assessment based on class participation, exercises, small group activities, and role play.

4. Supervisors Level

Purpose of Training. This program is designed to provide supervisors with the skills required to be effective. As supervisors and first-line managers become more and more overloaded with responsibilities and tasks, effective supervision is an absolute must. It is very resourceful to comprehend the basic supervision and management concepts and its fundamental skills to become a successful supervisor and meet the company's objectives. The course will cover such topics as leadership versus management, communication skills, performance management, teamwork, motivating people, and creative problem solving and decision making, performance management. *Who Should Attend***.** This course is intended for new, prospective or existing lower and mid-level supervisors.

Course Objectives

- Describe the characteristics of a supervisor.
- List the factors and behaviors that hinder effective communication.
- Describe the six-step performance interview model.
- Build effective, creative teams.
- Develop an action plan to maintain employee motivation, address dissatisfaction and bring out the best in your direct reports.
- Delegate authorities

5. ***Course Outline***

SUPERVISING / MANAGING FUNDAMENTALS

- Definition of management
- Definition of a manager
- Characteristics of the ideal supervisor
- Primary supervisory duties
- Leader vs. manager
- Manager/supervisor roles
- Time management
- Leadership and the art of coaching

COMMUNICATION SKILLS

- Communication styles and methods
- Barriers to communication
- Listening skills
- How supervisors can ensure that subordinates fully understand their instructions
- The importance of adapting the communication style to different personalities and situations

MOTIVATING PEOPLE (GETTING THINGS DONE THROUGH OTHERS)

- Motivation theory
- Creating motives
- Developing the skills to motivate others
- Increase efficiency of staff
- How to achieve objectives with efficiency and effectiveness
- Motivation methods

DELEGATING WITHOUT LOSING CONTROL

- Reasons for delegation
- When to delegate and when not to delegate
- Delegating authorities

WORKING IN TEAMS

- The importance of working in teams
- Team strengths
- More effective relations with team members

- Developing teamwork strategies

MANAGING PERFORMANCE
- Definition
- Elements of managing performance
- Different methods of performance appraisal
- Development and training

6. Human Resources Certificate

Certificate Description. This professional certificate focuses on the issue of planning, directing and developing human resources in an organization, using the right tools based on the job-related competencies, knowledge and skills. The ability to select, interview and assess candidates is a key factor in ensuring that the right person is hired for the job.

- Explain the strategic role of HR management
- Recruit and place employees
- Train and develop employees
- Pay employees for performance
- Develop a management information system for HR
- Develop stress and time management and presentation skills

Module 1: Introduction to Human Resources
- The strategic role of human resource management
- Equal employment opportunity
- Know your employment law
- Basics of leadership skills

Module 2: Recruitment and Placement
- Job analysis
- Planning and forecasting
- Employee testing and selection
- Interviewing candidates

Module 3: Employee Training and Development
- Training and developing employees
- Performance management and appraisal
- Managing careers

Module 4: Compensation
- Establishing strategic pay plans
- Pay for performance and financial incentives
- Employee benefits and services

Module 5: Management Information Systems for HR

- Using the internet for writing job descriptions
- Succession planning systems
- Automated applicant tracking systems
- The new performance management systems
- Integrating career planning into the employer's Human Resources Information System (HRIS)
- Automating the compensation planning process
- Employee incentive management systems
- Benefits management systems

Module 6: Soft Skills: Stress and time management
- The sources of stress and strategies to overcome stress
- Time wasters and means of overcoming them
- Successful time management steps

Presentation skills
- Body language techniques
- Different audience styles
- Methods of presentation preparation, taking into consideration audience analysis
- Preparing for a presentation

Problem solving and decision making
- Problems, basic categories and their relation to management problems
- Applying the creative approach in problem analysis and solving
- The factors that affect the decision making process

B. HR Consultancy TOR

A. Background/objective

A key initiative is to assist in undertaking the Iraq Banking Reform Strategy.

Assistance will include providing support as requested by the management of the Central Bank in the following areas:

- Develop an Overall Organization Structure including the following units:
  - Business Units organization (retail, corporate and investment banking, and other business units)
  - Risk Management Units
  - Management Information System
  - Governance, Control and Support Units (audit, legal & compliance, anti-money laundering, human resources & organization, shared services, financial functions, risk functions)
- Forming a Dedicated Restructuring Unit Headed by a Restructuring Project Officer in Individual Banks

B. Tasks

Off Site
- Review the Bank's mission, vision and objectives
- Develop recommendations for organizational structure and skills required for business units and

- Prepare training matrix for capacity building for each staff

On Site

Work with the Central Bank of Iraq to develop an organizational structure for all business unites, taking into consideration the following:

- Review the "as is" overall organization structure (hierarchical structure, roles and responsibilities, risk management, revenue sources) and detect the main current organizational issues.
- Design the bank new target model fulfilling:
  - Hierarchical structure simplification in order to speed up decision making processes
  - Focus on risk, business and accountability
  - Neat separation between risk generation and risk control/monitoring
  - Neat distinction between revenue generating units and supporting/shared services units
- Adopt the new organization structure.
- Create the Restructuring Units
- Identify and hire Heads for key priority functions
- Design the migration plan from the "as is" to the new organization
- Provide input into skills required to staff positions
- Meet with management to determine reporting lines
- Review banking laws and other relevant policies to identify needed units and hierarchy

C. Outputs and Deliverables

- Define the roles and responsibilities of all the personnel within the organization.
- Establishing a hierarchical structure of authority, power and hence decision making
- Establish communication channels and information flows, incorporating a chain of command with specific rules and regulations relating to reporting procedures and accountability methods
- Establish control mechanism such as the degree of centralization and the span of control.
- Establish strategies for coordination of work practices
- Establish Decision making processes
- Establish specific operational functions and tasks

C. Credit and Risk Management Program

Target Audience. This course targeted junior and senior officers with minimum two years of experience working in the following areas: credit, credit administration, credit analysis, credit risk management, credit monitoring.

Program Description. During this program, participants were trained in a comprehensive approach on all credit and risk management related topics over four courses. These courses will provide participants with the knowledge and skills to analyze financial statements, evaluate borrower creditworthiness, explain the asset conversion cycle, discuss the various types of risk encountered in lending, and

evaluate the structure of the loan which enables them to make sound financial, lending and leasing decisions.

First Part (64 hrs – 8 full days)

Courses Objectives

Course (1): Financial Statement Analysis (16 hrs)

At the end of this program, the participants will be able to:

- List the financial statements and explain their structure.
- Describe how to analyze the liquidity, profitability and performance of a company and identify the valuation methods.
- Perform financial analysis in order to lay the groundwork for credit and investment decisions.

Course (2): Credit – Introduction (24 hrs)

At the end of this program, the participants will be able to:

- Explain the importance of bank credit.
- Define working capital and the asset conversion cycle.
- Describe best practices in financing methods.

Course (3): Industry Analysis for Lending Purposes – Workshop (8 hrs)

At the end of this program, the participants will be able to:

- Characterize industries by type and maturity.
- Determine the industry risk through analysis of the cost / asset structure, profitability and market sensitivity.
- Perform risk analysis in order to create a database used for credit and investment decision-making.

Course (4): Banking Information (4 hrs)

At the end of this program, the participants will be able to:

- Define banking Information.
- Describe the banking information department.
- Explain the duties and responsibilities of the banking information department

Course (5): Credit Administration Functions (12 hrs)

At the end of this program, the participants will be able to:

- Identify the role and function of credit administration.
- Describe the various types of credit facilities.
- Explain fully secured credit facilities.
- Identify types of collateral.

Course Outline

Course (1): Financial Statement Analysis (16 hrs)

Module 1: Financial Statements
Module 2: Structure and Elements of Financial Statements
Module 3: Special Case Studies

Course (2): Credit – Introduction (24 hrs)

Module 1: The Concept of Bank Lending
Module 2: Working Capital and the Asset Conversion Cycle
Module 3: Types of Bank Loans
Module 4: Types of Credit Facilities, Lending Limits and Associated Risks

Module 5: The Credit Process in Banks
Module 6: Financial Analysis for Credit Purposes

Course (3): Industry Analysis for Lending Purposes – Workshop (8 hrs)

Module 1: The Classification of an Industry
Module 2: Introduction to Industry Risk Characteristics
Module 3: Industry Risk Analysis as a Lending Tool

Course (4): Banking Information (4 hrs)
Module 1: Introduction to Banking Information
Module 2: The Banking Information Department
Module 3: Duties and Responsibilities of the Banking Information Department

Course (5): Credit Administration Functions (12 hrs)
Module 1: The Role and Function of Credit Administration
Module 2: Types of Credit Facilities
Module 3: Fully Secured Credit Facilities
Module 4: Types of Collateral

Second Part (80 hrs – 10 full days)

Course Objectives

Course (1): Tools of Credit Analysis (40 hrs)
At the end of this program, the participants will be able to:

- Identify the different financial statements.
- Explain the asset conversion cycle.
- Describe asset-based lending.
- Determine historical and future cash flows.
- Describe the terms, conditions and collateral requirements in the loan agreement.

Course (2): Financing Investment Projects – Cash Flow Analysis (40 hrs)
At the end of this program, the participants will be able to:

- Explain the mechanics of cash flow.
- Describe the time value of money and cost of capital.
- Explain capital budgeting and cash flow analysis.

Course Outline

Course (1): Tools of Credit Analysis (40 hrs)
Module 1: Financial Statements
Module 2: The Asset Conversion Cycle
Module 3: Asset-based Lending
Module 4: Cash Flow
Module 5: The Loan Agreement

Course (2): Financing Investment Projects – Cash Flow Analysis (40 hrs)
Module 1: Cash Flow Analysis
Module 2: The Time Value of Money and Cost of Capital
Module 3: Capital Budgeting and Cash Flow Projection

Third Part (80 hrs - 10 days)

Course Objectives

Course (1): Credit Risk Ratings and Loan Provisioning (24 hrs)

At the end of this program, the participants will be able to:

- Describe the main conceptual framework for credit risk ratings and loan provisioning.
- Explain the credit risk rating and loan provisioning process.
- Explain the credit risk management process.

Course (2): Credit Risk Analysis (40 hrs)

At the end of this program, the participants will be able to:

- List the various types of financial statements.
- Explain the asset conversion cycle.
- Describe the various types of risk encountered in lending.
- Evaluate the loan structure.

Course (3): Bank Risk Management (16 hrs)

At the end of this program, the participants will be able to:

- Explain the concept and function of risk management.
- Explain and measure credit risk.
- Define operations risk and methodologies for measuring it.
- Define market risk and methodologies for measuring it.
- Define liquidity and the core principles for managing it.
- Describe the Basel core principles of risk management

Course Outline

Course (1): Credit Risk Ratings and Loan Provisioning (24 hrs)

Module 1: Conceptual Framework
Module 3: Credit Risk Management
Module 2: Credit Risk Ratings and Loan Provisioning

Course (2): Credit Risk Analysis (40 hrs)

Module 1: Financial Statements
Module 2: The Asset Conversion Cycle
Module 3: Various Types of Risk

- Determining and measuring the acceptable level of risk
- Types of risk:
  - Inventory risk
  - Collection risk
  - Legal structure risk
  - Exchange rate risk
  - Business risk
  - Political risk
- Asset-based financing risk
- Practical exercises and case studies

Module 4: Evaluating the Loan Structure

Course (3): Bank Risk Management (16 hrs)

Module 1: Introduction to Risk Management
Module 2: Credit Risk

Module 3: Operational Risk
Module 4: Market Risk
Module 5: Liquidity and Other Risks
Module 6: The Basel Core Principles of Risk Management

Fourth Part (52 hrs – 6.5 full days)

Course Objectives

Course (1): Detecting Falsified and Fraudulent Financial Statements (16 hrs)

At the end of this program, the participants will be able to:

- Differentiate among falsified and fraudulent statements, and errors.
- Detect falsification and fraud in the valuation of assets on the balance sheet.
- Detect falsification and fraud in provisions, revenues and expenses in the income statement.
- Identify emergency conditions and subsequent events.
- Define the roles of different parties in detecting falsification and fraud.

Course (2): Non-performing Loans and methods of Problem Loan Resolution (36 hrs)

At the end of this program, the participants will be able to:

- Define non-performing loans and the causes.
- Identify the indicators of non-performing loans.
- Explain the banking treatment of non-performing loans.
- Explain the banking treatment of non-performing investment projects.
- Monitor rescheduled non-performing loans.
- Manage non-performing loans.
- Explain the principles of borrower credit ratings and provisioning.
- Describe the legal aspects of working with non-performing loans.
- Identify the lessons learned from classified/non-performing loans.

Course Outline

Course (1): Detecting Falsified and Fraudulent Financial Statements (16 hrs)

Module 1: The Difference between Falsified and Fraudulent Documents
Module 2: Detecting Falsification and Fraud in Asset Valuation on the Balance Sheet
Module 3: Detecting Falsification and Fraud in Provisions, Revenues and Expenses in the Income Statement
Module 4: Emergency Conditions and Subsequent Events to the Balance Sheet
Module 5: Parties Responsible for Detecting Falsification and Fraud in Financial Statements

Course (3): Non-performing Loans and Methods of Problem Loan Resolution (36 hrs)

Module 1: Introduction to Non-performing loans
Module 2: The Indicators of the Non-performing Loan
Module 3: The Banking Treatment of Non-performing Loans
Module 4: The Banking Treatment of Non-Performing Investment Projects
Module 5: Monitoring Rescheduled Non-performing Loans
Module 6: Managing Non-Performing Loans
Module 7: The Principles of Borrower Credit Ratings and Provisioning

Module 8: Legal Aspects of Working with Non-performing Loans
Module 9: Lessons Learned from Classified Loans

II. TORs for Project Activities under Component Two: Financial Restructuring of the Two State-owned Commercial Banks

A. Accounting and Finance Program

Target Audience. This program is intended for staff of bank working in the accounting and finance departments.

Program Description. During this course, participants will learn the latest accounting standards used in preparing financial statements to acquire the skills needed to work with the various components of financial statements and understand the underlying accounting treatment and confirm their credibility.

Program Duration: 64 hrs - 8 full days

Program Objectives:

First Course: Basics of Accounting (24 hrs)

At the end of this program, the participants will be able to:

- Discuss accounting standards and their importance.
- Explain the concepts and various components of company financial statements.
- Discuss asset evaluation and its related issues.
- Explain cash flow statement.
- Describe special accounting treatment items.

Second Course: Bank Cost Accounting (16 hrs)

At the end of this program, the participants will be able to:

- Differentiate between financial and cost accounting.
- Design a cost accounting system.
- Identify the various cost elements and the related accounting treatment.
- Measure bank costs and revenues.

THIRD COURSE: FINANCIAL STATEMENT ANALYSIS (16 HRS)

At the end of this program, the participants will be able to:

- List the financial statements and explain their structure.
- Describe how to analyze the liquidity, profitability and performance of a company and identify the valuation methods.
- Perform financial analysis in order to lay the groundwork for credit and investment decisions.

FOURTH COURSE: DETECTING FALSIFIED AND FRAUDULENT FINANCIAL STATEMENTS – WORKSHOP "PRACTICAL CASES" (8 HRS)

At the end of this program, the participants will be able to:

- Differentiate among falsified and fraudulent statements, and errors.
- Detect falsification and fraud in the valuation of assets on the balance sheet.
- Detect falsification and fraud in provisions, revenues and expenses in the income statement.
- Identify emergency conditions and subsequent events.
- Define the roles of different parties in detecting falsification and fraud.

Course Outline:

First Course: Basics of Accounting (24 hrs)

Module 1: Introduction to Company Accounting Standards
Module 2: Cash Flow
Module 3: Inventory
Module 4: Fixed Asset Depreciation
Module 5: Special Accounting Treatment

Second Course: Bank Cost Accounting (16 hrs)

Module 1: Introduction to Cost Accounting in Banks
Module 2: Classification and Calculation of Cost Elements in Banks
Module 3: Accounting for the Cost Elements in Bank
Module 4: Cost Statements

Third Course: Financial Statement Analysis (16 hrs)

Module 1: Financial Statements.
Module 2: Structure and Elements of Financial Statements.
Module 3: Special Case Studies.

FOURTH COURSE: DETECTING FALSIFIED AND FRAUDULENT FINANCIAL STATEMENTS – WORKSHOP "PRACTICAL CASES" (8 HRS)

Module 1: The Difference between Falsified and Fraudulent Documents.
Module 2: Detecting Falsification and Fraud in Asset Valuation on the Balance Sheet.
Module 3: Detecting Falsification and Fraud in Provisions, Revenues and Expenses in the Income Statement.
Module 4: Emergency Conditions and Subsequent Events to the Balance Sheet
Module 5: Parties Responsible for Detecting Falsification and Fraud in Financial Statements.

B. Internal Audit and Compliance Program

Target Audience. This course primarily targeted mid-level and senior internal auditors in addition to all control staff in banks.

Program Description. During this course, participants will learn about different but related areas that constitute a base for any internal auditor in the banking sector. In the first part they will be able to learn the crucial role of internal audit in the banking system and how to prepare risk-based audit reports. Also, they will learn about the different techniques for verifying whether or not financial statements and documents are genuine and they will learn the basics of cost accounting in bank (e.g. how to categorize costs, how to measure bank costs and revenues, and how to design a cost accounting system). In addition, participants will learn the basics of Basel II and its three pillars, which cover minimum capital requirements, the supervisory review process and market discipline. Moreover, in the second part, they are intended to gain a comprehensive approach on all credit and risk management related topics especially the various types of risk encountered in lending.

Program Duration: 160 hrs – 20 full days

First Part (80 hrs – 10 full days)

Course (1): Bank Cost Accounting (12 hrs)

At the end of this program, the participants will be able to:

- Differentiate between financial and cost accounting.
- Design a cost accounting system.
- Identify the various cost elements and the related accounting treatment.
- Measure bank costs and revenues.

Course (2): Internal Audit - Introduction (12 hrs)

At the end of this program, the participants will be able to:

- Describe the value of internal audit.
- Explain the concept of internal audit.
- Discuss internal audit standards.
- Discuss how to plan and execute an internal audit.

Course (3): Risk-based Audit (24 hrs)

- Explain modern trends in internal audit and control.
- Describe the role of internal audit in the bank.
- Discuss internal audit standards in banks.
- Define the different types of banking risk.
- Prepare risk-based audit reports.

Course (4): Detecting Falsified and Fraudulent Financial Statements (16 hrs)

At the end of this program, the participants will be able to:

- Differentiate among falsified and fraudulent statements, and errors.
- Detect falsification and fraud in the valuation of assets on the balance sheet.
- Detect falsification and fraud in provisions, revenues and expenses in the income statement.
- Identify emergency conditions and subsequent events.
- Define the roles of different parties in detecting falsification and fraud.

Course (5): Basel II (The International Framework of Bank Capital Adequacy) (16 hrs)

At the end of this program, the participants will be able to:

- Describe Basel II (credit, operations and market risk).
- Explain the First Pillar – Minimum Capital Requirements.
- Discuss the Second Pillar – Supervisory Review.
- Explain the Third Pillar – Market Discipline.
- Describe the advantages and limitations of the application of Basel II.

Courses Outline:

Course (1): - Bank cost Accounting (12 hrs)

Module 1: Introduction to Cost Accounting in Banks

Module 2: Classification and Calculation of Cost Elements in Banks

Module 3: Accounting for the Cost Elements in Bank

Module 4: Cost Statements

Course (2): – Internal Audit - Introduction (12 hrs)

Module 1: The Importance of Internal Audit
Module 2: The Concept of Internal Audit
Module 3: Internal Audit Standards
Module 4: Planning the Internal Audit

Course (3): - Risk-based Audit (24 hrs)

Module 1: Introduction
Module 2: Internal Audit and Control
Module 3: Internal Audit Standards
Module 4: Banking Risks
Module 5: New Concepts in Internal Audit

Course (4): Detecting Falsified and Fraudulent Financial Statements (16 hrs)

Module 1: The Difference between Falsified and Fraudulent Documents
Module 2: Detecting Falsification and Fraud in Asset Valuation on the Balance Sheet
Module 3: Detecting Falsification and Fraud in Provisions, Revenues and Expenses in the Income Statement
Module 4: Emergency Conditions and Subsequent Events to the Balance Sheet
Module 5: Parties Responsible for Detecting Falsification and Fraud in Financial Statements

Course (5): Basel II (The International Framework of Bank Capital Adequacy) (16 hrs)

Module 1: Introduction to Basel II
Module 2: The First Pillar – Minimum Capital Requirements
Module 3: The Second Pillar – Supervisory Review Process
Module 4: The Third Pillar – Market Discipline
Module 5: The Advantages and Limitations of the Implementation of Basel II

III. TORs for Project Activities under Component Three: Strengthening the Regulatory and Supervisory Functions of the Central Bank of Iraq (CBI)

A. Banking Supervision Program

Target Audience. This course was intended to banking supervision staff department in the central bank (both On-site and Off-site units).

Program Duration: 200 hrs – 25 full days

Program Description. This program is designed as an intensive and comprehensive training for the Supervision Dept. Staff which will provide the participants with the required knowledge in all related areas in order to develop the supervisory skills needed for monitoring and inspection activities. The program will be conducted over three parts:

First Part (64 hrs – 8 full days)

Course Objectives

Course (1): Financial Statement Analysis (16 hrs)

At the end of this course, the participants will be able to:

- List the financial statements and explain their structure.
- Describe how to analyze the liquidity, profitability and performance of a company and identify the valuation methods.
- Perform financial analysis in order to lay the groundwork for credit and investment decisions.

Course (2): Credit – Introduction (24 hrs)

At the end of this course, the participants will be able to:

- Explain the importance of bank credit.
- Define working capital and the asset conversion cycle.
- Describe best practices in financing methods.
- List the types of credit facilities, their lending restrictions and associated risks.
- Collect information as part of the credit process.
- Use credit analysis as part of the lending process

Course (3): Basel II (The International Framework of Bank Capital Adequacy) – Introduction (24 hrs)

At the end of this course, the participants will be able to:

- Describe Basel II (credit, operations and market risk).
- Explain the First Pillar – Minimum Capital Requirements.
- Discuss the Second Pillar – Supervisory Review.
- Explain the Third Pillar – Market Discipline.
- Describe the advantages and limitations of the application of Basel II.

Course Outline

Course (1): Financial Statement Analysis (16hrs)

Module 1: Financial Statements

Module 2: Structure and Elements of Financial Statements

Module 3: Special Case Studies

Course (2): Credit – Introduction (24 hrs)

Module 1: The Concept of Bank Lending
Module 2: Working Capital and the Asset Conversion Cycle
Module 3: Types of Bank Loans
Module 4: Types of Credit Facilities, Lending Limits and Associated Risks
Module 5: The Credit Process in Banks
Module 6: Financial Analysis for Credit Purposes

Course (3): Basel II (The International Framework of Bank Capital Adequacy) – Introduction (24 hrs)

Module 1: Introduction to Basel II
Module 2: The First Pillar – Minimum Capital Requirements
Module 3: The Second Pillar – Supervisory Review Process
Module 4: The Third Pillar – Market Discipline
Module 5: The Advantages and Limitations of the Implementation of Basel II

Second Part (80 hrs – 10 full days)

Course Objectives

Course (1): Credit risk Rating and Loan Provisioning (24 hrs)

At the end of this course, the participants will be able to:

- Describe the main conceptual framework for credit risk ratings and loan provisioning.
- Explain the credit risk rating and loan provisioning process.
- Explain the credit risk management process.

Course (2): Credit Risk Analysis (32 hrs)

At the end of this course, the participants will be able to:

- List the various types of financial statements.
- Explain the asset conversion cycle.
- Describe the various types of risk encountered in lending.
- Evaluate the loan structure.

Course (3): Non-performing Loans and Methods of Problem Loan Resolution (24 hrs)

At the end of this course, the participants will be able to:

- Define non-performing loans and the causes.
- Identify the indicators of non-performing loans.
- Explain the banking treatment of non-performing loans.
- Explain the banking treatment of non-performing investment projects.
- Monitor rescheduled non-performing loans.
- Manage non-performing loans.
- Explain the principles of borrower credit ratings and provisioning.
- Describe the legal aspects of working with non-performing loans.
- Identify the lessons learned from classified/non-performing loans.

Course Outline

Course (1): Credit risk Rating and Loan Provisioning (24 hrs)

Module 1: Conceptual Framework

Module 3: Credit Risk Management

Module 2: Credit Risk Ratings and Loan Provisioning

Course (2): Credit Risk Analysis (32 hrs)

Module 1: Financial Statements

Module 2: The Asset Conversion Cycle

Module 3: Various Types of Risk

Module 4: Evaluating the Loan Structure

Course (3): Non-performing Loans and Methods of Problem Loan Resolution (24 hrs)

Module 1: Introduction to Non-performing loans

Module 2: The Indicators of the Non-performing Loan

Module 3: The Banking Treatment of Non-performing Loans

Module 4: The Banking Treatment of Non-Performing Investment Projects

Module 5: Monitoring Rescheduled Non-performing Loans

Module 6: Managing Non-Performing Loans

Module 7: The Principles of Borrower Credit Ratings and Provisioning

Module 8: Legal Aspects of Working with Non-performing Loans

Module 9: Lessons Learned from Classified Loans

Third Part (56 hrs – 7 full days)

Course Objectives

Course (1): Internal Audit – Introduction (16 hrs)

At the end of this course, the participants will be able to:

- Describe the value of internal audit.
- Explain the concept of internal audit.
- Discuss internal audit standards.
- Discuss how to plan and execute an internal audit.

Course (2): Risk-based Audit (24 hrs)

At the end of this course, the participants will be able to:

- Explain modern trends in internal audit and control.
- Describe the role of internal audit in the bank.
- Discuss internal audit standards in banks.
- Define the different types of banking risk.
- Prepare risk-based audit reports.

Course (3): Detecting Falsified and Fraudulent Financial Statements (16 hrs)

At the end of this course, the participants will be able to:

- Differentiate among falsified and fraudulent statements, and errors.
- Detect falsification and fraud in the valuation of assets on the balance sheet.
- Detect falsification and fraud in provisions, revenues and expenses in the income statement.
- Identify emergency conditions and subsequent events.
- Define the roles of different parties in detecting falsification and fraud.

Course Outline

Course (1): Internal Audit – Introduction (16 hrs)

Module 1: The Importance of Internal Audit

Module 2: The Concept of Internal Audit

Module 3: Internal Audit Standards

Module 4: Planning the Internal Audit

Course (2): Risk-based Audit (24 hrs)

Module 1: Introduction

Module 2: Internal Audit and Control

Module 3: Internal Audit Standards

Module 4: Banking Risks

Module 5: New Concepts in Internal Audit

Course (3): Detecting Falsified and Fraudulent Financial Statements (16 hrs)

Module 1: The Difference between Falsified and Fraudulent Documents

Module 2: Detecting Falsification and Fraud in Asset Valuation on the Balance Sheet

Module 3: Detecting Falsification and Fraud in Provisions, Revenues and Expenses in the Income Statement

Module 4: Emergency Conditions and Subsequent Events to the Balance Sheet

Module 5: Parties Responsible for Detecting Falsification and Fraud in Financial Statements

Annex 8:Iraq Financial Sector Review
Action Plan Matrix[3]

OBJECTIVE	SHORT-TERM TASK(S)	MEDIUM TO LONG-TERM TASK(S)	COUNTERPART/ RESPONSIBLE INSTITUTION
I. The Banking Sector			
Implement MOU (2006) and the Banking Sector Reform Strategy for Rafidain Bank and Rasheed Bank between Ministry of Finance and the Central Bank of Iraq (CBI)'s financial, operational and institutional restructuring	▪ Accelerate the financial restructuring and the cleaning-up of the balance sheet of the state-owned commercial banks by carving out disputed items from their balance sheet and transferring off balance sheet. ▪ Continue the operational and institutional restructuring of the two state-owned banks, and provide training programs. ▪ Adopt new organizational structure substantively in line with recently formulated proposals to be considered	▪ Proceed with the financial, operational and institutional restructuring of the two state-owned banks. ▪ Provide capacity building and training programs. ▪ Carry out twinning with experienced international banks. ▪ Fully implement Core Banking System of Rafidain and Rasheed Banks.	▪ Executive Steering Committee ▪ ROC ▪ Ministry of Finance ▪ Rafidain Bank and Rasheed Bank

[3] Matrix prepared on May 23, 2012

OBJECTIVE	SHORT-TERM TASK(S)	MEDIUM TO LONG-TERM TASK(S)	COUNTERPART/ RESPONSIBLE INSTITUTION
	July/August, including for structure of Executive Board. ▪ Implement Phase 1 and 2 of the Core Banking System.		
Discontinue quasi-fiscal responsibilities of the state-owned banks	▪ Determine government directed lending through state-owned banks to include in 2012 budget and coming years.	▪ Preclude government directed lending that is not included in the budget through issue of Ministerial decree.	▪ Ministry of Finance ▪ Cabinet of Ministers
Development of comprehensive strategy paper by Iraqi government in cooperation with CBI on development of the banking system, including time-bound perspective for the state owned banks (restructuring, liberalization of business according to market economic rules; privatization), depositor protection, commercially based relations between government and currently state-owned banks	▪ Decide on the overall role of all state-owned banks. ▪ Decide whether Trade Bank of Iraq (TBI) will end its work according to its law or will it be allowed to stay as commercial bank. If the latter, it should be subject to relevant and applicable laws and regulation of CBI and there is no need for a special law, other than a brief paragraph to abolish the current special law. ▪ Designate working group to start work on discussing and developing a strategy. ▪ First draft presented to the Governor and Minister by an agreed	▪ Clarify the mandate of the smaller state-owned banks, and consider consolidation and conversion into development banks, which will not take deposits. ▪ Ensure state-owned banks work according to commercial principles and on a level playing field. Early corporatization of state-owned banks should be considered a key element. ▪ Over time the authorities should consider gradual privatization of the key state-owned banks.	▪ Ministry of Finance ▪ Cabinet of Ministers

OBJECTIVE	SHORT-TERM TASK(S)	MEDIUM TO LONG-TERM TASK(S)	COUNTERPART/ RESPONSIBLE INSTITUTION
	upon deadline that is to be strictly enforced.		
Level the playing field to create a vibrant competitive banking sector	▪ Allow private banks to lend to, and take deposits from, state enterprises. ▪ Government and Ministries should have the ability to chose which private or state bank they wish to execute letters of credit (without involvement of TBI) as long as the bank is in very good standing according to rating (CAMEL 2) and meets all prudential requirements, where it can open LCs of less than $2 million and pre-announcement of timetable for eliminating restrictions on size over two years. ▪ Allow tax and other payments to be made by the available payments means drawn on private commercial banks, provided the availability of enough credit. ▪ Issue a Government decree (decision) to effect the above changes.	▪ Implement the planned gradual increase in capital requirements for all banks, under the regulations issued by CBI. ▪ Eliminate all restrictions on letters of credit and other banking transactions with private banks.	▪ Ministry of Finance ▪ CBI

OBJECTIVE	SHORT-TERM TASK(S)	MEDIUM TO LONG-TERM TASK(S)	COUNTERPART/ RESPONSIBLE INSTITUTION
Enhance quality of bank staff and develop the capacity of Iraqi Universities of banking education	▪ Decision in principle on setting up banking institute (including related institutions, funding sources, governance and providing building). ▪ Develop the capacity of Iraqi Universities for banking education.	▪ Development of curriculum and setting up banking institute according to international standards.	▪ Executive Committee composed of CBI, Ministry of Finance, commercial banks, Ministry of Higher Education
Further strengthen payment system	▪ Introducing intraday liquidity facility for the RTGS system. ▪ Partial implement electronic check (sukuk) clearing system. ▪ Partial implementation for selected branches for Rasheed and Rafidain ▪ Full implementation of the remaining banks within Baghdad.	▪ Strengthen retail payment system including through introduction of national switch for bank cards. ▪ Full implementation of check clearing system (dependent on implementation of Core Banking System in Rafidain and Rasheed).	▪ CBI ▪ Commercial banks
II. Islamic Banking			
Adoption of the Islamic banking law and the introduction of new Islamic products.	▪ Establish a committee (CBI and MINISTRY OF FINANCE) to review the two drafts of the law. To this effect, the committee can consult the banking union and the Islamic banks or call on experts in Islamic banking		▪ CBI ▪ Ministry of Finance ▪ Shura Council and Parliament

OBJECTIVE	SHORT-TERM TASK(S)	MEDIUM TO LONG-TERM TASK(S)	COUNTERPART/ RESPONSIBLE INSTITUTION
	(Malaysia is a good case to look at). ▪ Issue the Islamic Banking Law (Approval by cabinet and then Shura Council and Parliament to issue the law).		
Implement the International Financial Reporting Standards (IFRS) and International Islamic Banking Accounting Standards (AAOIFI)	▪ Prepare gap analysis between the IFRS Standards and Iraqi accounting standards and develop plan to close the gap.	▪ Complete and Implement the IFRS Standards.	▪ CBI ▪ Council of Supreme Audit and Islamic Banks
	▪ Approve the International Standards of the Accounting and Auditing Organization for Islamic Financial Institution (AAOIFI) after the approval of the Council of Accounting Standards and Supervision in Iraq.	▪ Implement the International Standards of the Accounting and Auditing Organization for Islamic Financial Institution (AAOIFI).	▪ Possible support from external accounting
Adopt International Islamic banking standards and regulations	▪ Approve the international regulations of the Islamic Financial Services Board (IFSB) (Capital Adequacy, Risk Management, Corporate Governance, …etc) Malaysia example can be used to inform this work.	▪ Implement the international regulations of the Islamic Financial Services Board (IFSB) (Capital Adequacy, Risk Management, Corporate Governance, etc.)	▪ CBI ▪ Islamic banks

OBJECTIVE	SHORT-TERM TASK(S)	MEDIUM TO LONG-TERM TASK(S)	COUNTERPART/ RESPONSIBLE INSTITUTION
Implementing the ınternatıonal banking regulations that are consıstent wıth Islamıc fınance	▪ Approve the International Banking Standards and requirements issued by Basel Committee on Banking Supervision recommendations that are consistent with the Islamic Banking rules	▪ Implement the International Banking Standards and requirements that issued by Basel Committee on Banking Supervision that are consistent with the Islamic Banking rules.	▪ CBI ▪ Islamic banks
Strengthen Islamic banks addressing weak banks	▪ On-going supervision in detail the 3-rated banks in CAMEL rating and develop an action plan to address identified issues	▪ Implement and follow-up on the agreed action plan on regular basis.	▪ CBI ▪ Problem banks
Raising the employees' efficiency	▪ Conduct specific training on all issues related to Islamic Banking Industry taking the supervision issues into consideration.	▪ Conduct specific training on all practical issues related to Islamic Banking Industry taking into consideration the new regulations.	▪ CBI ▪ Islamic banks
Strengthen Islamic Banking supervision	▪ Establish new Islamic Banking supervision unit.		▪ CBI
III. Banking Supervision and Regulatory Framework			
Ensure banking supervision is exercised over state owned banks, in full accordance with 2006 MOU, and to the full	▪ Develop inspection plan and team with Rafidain and Rasheed, based on the guidelines issued by the BI for the conduct of on-site inspections, for	▪ Bring state owned banks into full and lasting compliance with prudential standards, including capital adequacy, and safe and	▪ CBI ▪ Ministry of Finance ▪ Rafidain and Rasheed banks

OBJECTIVE	SHORT-TERM TASK(S)	MEDIUM TO LONG-TERM TASK(S)	COUNTERPART/ RESPONSIBLE INSTITUTION
extent of law and regulations	immediate commencement of work. ▪ Finalize report ▪ Schedule of remedial action	sound banking practices, in particular with regard to credit policies ▪ Remuneration for services provided to the state. ▪ Withdrawal of de facto state guarantee	
Strengthen enforcement of prudential standards, over all banks, state owned, private, as well as Islamic	▪ Determine breaches of prudential standards and of safe and sound banking practices. ▪ Develop bank by bank program for corrective action, and follow-up, after consultation with the banks concerned.	▪ Establish lasting environment of routine compliance with standards and application of safe and sound banking practices	▪ CBI ▪ Ministry of Finance (with regard to state owned banks) ▪ Private banks including Islamic banks
Verify compliance and safety and soundness of all CAMELS-3 rated banks. Internationally, CAMELS 3 banks are considered to require close scrutiny	▪ Prepare rigorous off-site review and on-site inspection program, in particular with regard to asset quality and capital adequacy, but also including corporate governance, internal control and audit and financial disclosure.	▪ Complete full review and corrective action program to address non-compliance with prudential standards and non-observance of safe and sound banking practices. ▪ Strict follow-up and post-corrective monitoring	▪ CBI
Combat money laundering, laundering of corruption	▪ Design awareness campaign ▪ One-on-one interaction between	▪ Building recognition for Iraq as a reliable financial partner in due	▪ CBI ▪ Ministry of Finance

OBJECTIVE	SHORT-TERM TASK(S)	MEDIUM TO LONG-TERM TASK(S)	COUNTERPART/ RESPONSIBLE INSTITUTION
proceeds and the financing of terrorism in all Iraqi governorates including KRG	CBI and individual banks ▪ Enforce existing rules and regulations, and banks' implementation of KYC rules ▪ Review adequacy and effectiveness of the CBI, the Money Laundering Reporting Office and of the prosecuting authorities.	course.	▪ Ministry of the Interior ▪ Ministry of Justice
Bringing Iraq into close compliance with Basel Committee international prudential standards	▪ Study Basel Assessment Methodology, Basel self-assessment guidelines and develop plan to prepare self- assessment (time, staffing, format of report (ROSC) ▪ Designate team for the self-assessment, start work filling in self-assessment template. ▪ Preparation of a full expert assisted Basel Core Principles self-assessment applying the full rigor of the assessment criteria of the 2006 assessment methodology, with more information on actual implementation and enforcement of prudential standards. ▪ A review of required technical	▪ Periodically (every five years) review compliance with international standards. Bring Iraq to an FSAP-level of compliance.	▪ CBI, backed by Ministry of Finance

OBJECTIVE	SHORT-TERM TASK(S)	MEDIUM TO LONG-TERM TASK(S)	COUNTERPART/ RESPONSIBLE INSTITUTION
	improvements in the regulations and supervisory practices (some of which are mentioned below). ▪ Discuss outcome with stakeholders and design plan to bring Iraq into compliance.		
Assure consistency of Iraqi definition of bank capital with all elements of the definition in Basel III	▪ Recalculate banks' capital and capital adequacy. To be done in conjunction with introduction of IFRS ▪ Consider issuing correction to the capital adequacy directive in conjunction with capital increase requirement ▪ Prepare a quantitative impact study of the effect of both these measures combined.	▪ Increase confidence in the banking system through rigorous capital requirements.	▪ CBI ▪ Bankers' Association
Assure adequate provisioning practices: ▪ **Introduce tighter loan classification and provisioning for "average" loans; a zero provision seems inadequate; this will produce more accurate**	▪ Amend CBI's loan classification and provisioning regulation which is based on the Banking Law. ▪ Training staff in the use of the regulations.	▪ Ongoing checks to assure that banks are not under-provisioned and calculate profits and capital appropriately.	▪ CBI ▪ Bankers' Association

OBJECTIVE	SHORT-TERM TASK(S)	MEDIUM TO LONG-TERM TASK(S)	COUNTERPART/ RESPONSIBLE INSTITUTION
capital calculation for banks. ▪ **Loan classification and provisioning are key supervisory tools**			
Achieve better internal control and audit functions in banks	▪ Review the basis for a more binding regulation in the banking law and CBI law. ▪ Draft amendment of the law, as needed to form a basis for a more prescriptive regulation. ▪ Issuance of more prescriptive regulations on internal audit and internal controls.	▪ Achieve a lasting improvement in banks' internal controls and audit rules	▪ CBI ▪ Bankers' Association
Strict supervision on implementing financial information requirements of licensing applicants. Audited financial statement by auditors of foreign banks will be required.	▪ Amend laws and regulations where needed to support stricter requirements ▪ Implement licensing requirements according to the established regulations	▪ Enhance system for licensing of banks, when necessary.	▪ CBI
Achieve stronger powers for the CBI to force banks to divest shareholders who have become unsuitable over time or	▪ Review legal basis for introducing stricter powers for the CBI to remove unsuitable shareholders from banks	▪ Stricter rules on the quality of banks' shareholders, as important factors in bank governance.	▪ CBI ▪ Bankers' Association ▪ Registrar of Companies

OBJECTIVE	SHORT-TERM TASK(S)	MEDIUM TO LONG-TERM TASK(S)	COUNTERPART/ RESPONSIBLE INSTITUTION
otherwise assure that they shall not influence bank policies and practices; current rules only address approval at the acquisition phase	▪ Draft amendments to the law/regulations as appropriate.		▪ Securities Commission
Issue regulation on consolidation of accounts and banking supervision on a consolidated basis; to be done in conjunction with introduction of IFRS	▪ Study IFRS and international practice on consolidation of accounts and ▪ Draft regulation on this.	▪ Include review of consolidated accounts in the on-site inspection manual, and implement during on-site work.	▪ CBI ▪ Bankers' Association
Training of supervisors in interpretation and implementation of the CBI's regulations and their legal basis (possibly together with commercial bank compliance staff)	▪ Design training program for banking supervision staff, also to familiarize them with the pending new rules and regulations, i.e. based on this action plan.	▪ Implement training program' build expertise of banking supervision staff and bank staff.	▪ CBI ▪ Bankers' Association
IV. Banking Supervision and Regulatory Framework			
Update legislation and associated regulations	▪ Enact the permanent Securities Law including to amendments proposed in the Iraq Financial Sector Review which include	▪ Finalize, consult on and implement regulations as required by the permanent Securities Law	▪ Cabinet of Minister ▪ Parliament ▪ Ministry of Commerce

OBJECTIVE	SHORT-TERM TASK(S)	MEDIUM TO LONG-TERM TASK(S)	COUNTERPART/ RESPONSIBLE INSTITUTION
	reinforcing the independence of the ISC.	▪ Draft, consult on and implement comprehensive Prospectus and Takeover regulations. • Implement regulations providing for cooperation with foreign regulators and remove any legal obstacles.	
Accelerate the transit to a market economy	▪ Resolve the legal and practical issues around transferring ownership of companies from the state to private shareholders and move to the decision phase		▪ Ministries of Finance ▪ Ministry of Industry ▪ Ministry of Tourism ▪ Ministry of Transport ▪ ISC
Improve and expand ISX operations	▪ Prepare a study for the optimal automated settlement of the cash side of securities trades ▪ Develop a plan to encourage/persuade suitably qualified joint stock companies to list on ISX.		▪ ISC ▪ CBI ▪ ISX ▪ World Bank ▪ Ministry of Commerce
Improve capital market financing facilities		▪ Remove legal procedures which hinder protection of	▪ Ministry of Finance ▪ Ministry of Justice

OBJECTIVE	SHORT-TERM TASK(S)	MEDIUM TO LONG-TERM TASK(S)	COUNTERPART/ RESPONSIBLE INSTITUTION
		lending by the banks	▪ CBI ▪ Bankers' Association
Strengthen broker dealer regulation		▪ Introduce a risk based capital regime for brokers and dealers ▪ Strengthen the rules of business of brokers and dealers when providing services to clients ▪ Strengthen rules concerning the insolvency of a broker dealer	▪ ISC ▪ ISX
V. Insurance and Pension Sectors			
Strengthen the legal framework for the insurance sector so it strike the right balance between proper regulation while at the same time allowing the business freedom and predictability they need to grow	▪ Conduct a self assessment of the Insurance Business Regulation Act compared against the IAIS Insurance Core Principles (using the methodology developed by IAIS).	▪ Make amendments to the Insurance Business Regulation Act so it complies with the IAIS Insurance Core Principles; including in particular ensuring the independence of the Insurance Supervisor and allow for the supervisor to move out of the Ministry of Finance.	▪ The Insurance Supervisor

OBJECTIVE	SHORT-TERM TASK(S)	MEDIUM TO LONG-TERM TASK(S)	COUNTERPART/ RESPONSIBLE INSTITUTION
		▪ Draft a Policy Paper discussing the need for a law on mandatory car insurance.	
Strengthen the supervision of the insurance sector so it can find its proper role and conduct its supervisory operations as anticipated in the (IAIS) ICP	▪ Commence off-site supervision of the state and private insurance companies based on current legal framework (insurers are required by the insurance act to report on their financial position and the risks they are facing (article 38) so these requirements should be enforced) ▪ Conduct visits to the insurance companies to learn about the business	▪ Commence on-site inspections of insurance companies as soon as the revised legal framework provides proper legal basis for such inspections. ▪ Increase staffing, but not indiscriminately - the focus should be on a small but highly skilled set of personnel. ▪ Provide training to staff by participate in international insurance conference (such as IAIS) training seminars. ▪ Consider training seminars with the other financial supervisor on common issues such as licensing, on-site inspections. ▪ Consider establishing a twinning arrangement with	▪ The Insurance Supervisor

OBJECTIVE	SHORT-TERM TASK(S)	MEDIUM TO LONG-TERM TASK(S)	COUNTERPART/ RESPONSIBLE INSTITUTION
		another insurance supervisor in the region.	
Organize the pension fund in an transparent, robust and safe legal structure	▪ Prepare a Pension Policy Paper that analyze the structure of the pension fund where the ownership of the assets are properly legally defined, the pension assets segregated from the pension asset manager and provides proper transparency	▪ Prepare and pass an amended pension fund law that allows for the establishment of a transparent, robust and safe legal structure for the pension fund ▪ Reorganize the pension fund in a transparent, robust and safe legal structure	▪ National Board of Pension
Establish a independent depositary of the pension funds	▪ Discuss (in the Pension Policy Paper) the establishment of a depositary that hold all the pension assets, ensure that the assets are properly safe-kept, net-asset valuation conducted and invested in accordance with the investment strategy communicated to the contributors	▪ Prepare and pass an amended pension fund law that includes the requirement for establishing and operating a depositary. Furthermore, require that the pension fund needs to use a depositary for the holding of the contributors' assets in the pension fund	▪ National Board of Pension
The pension funds should become subject to supervision	▪ Discuss (in the Pension Policy Paper) the need to have the pension	▪ Prepare and pass an amended pension fund law that allows for the	▪ National Board of Pension

OBJECTIVE	SHORT-TERM TASK(S)	MEDIUM TO LONG-TERM TASK(S)	COUNTERPART/ RESPONSIBLE INSTITUTION
	fund supervised by a pension supervisor	establishment of supervisor for the pension fund ▪ Establish a pension fund supervisor.	
VI. Financial Infrastructure			
Enhance credit reporting systems in order to reduce credit risk	▪ Strengthen the capacity of the public credit reporting at CBI. ▪ Review and amend the Banking Law to allow for the establishment of a private credit bureau	▪ Implement comprehensive credit reporting system.	▪ Steering committee, composed of CBI. Ministry of Finance, private banking league
Introduction of International Financial Reporting Standards (IFRS) for all banks, as well as the associated chart of accounts and prudential reporting formats.	▪ Prepare gap analysis between Iraqi accounting standards and IFRS, and develop plan and timeframe for drafting of new accounting rules, the chart of accounts, and prudential reporting formats; discussion with the industry and accounting and auditing professions.	▪ Completion and introduction of IFRS- compliant accounting standards chart of accounts and prudential reporting formats. ▪ Carry out appropriate training programs for banks staff to implement IFSR.	▪ CBI ▪ Council of Supreme Audit ▪ Ministry of Finance
Strengthen audit profession	▪ Prepare gap analysis between Iraqi auditing standards and international audit standards, and develop plan and timeframe for introduction of international audit standards.	▪ Implement international auditing standards and provide appropriate program of training.	▪ CBI ▪ Board of Supreme Audit ▪ Ministry of Finance

OBJECTIVE	SHORT-TERM TASK(S)	MEDIUM TO LONG-TERM TASK(S)	COUNTERPART/ RESPONSIBLE INSTITUTION
Enhance governance of banks	▪ Undertake a gap analysis, reviewing and assessing compliance with corporate governance practices.	▪ Require banks to observe the OECD Code on Good Corporate Governance Practices, which should be part of on-site banking examinations.	▪ CBI
Strengthen judicial system and streamline the legal process	▪ Issue a Prime Ministerial Decree establishing Specialized Economic Courts	Measures to include ▪ Reduce the number of days required for legal court decisions ▪ Introduce training program for legal profession in commercial law for the new Specialized Economic Courts.	▪ Ministry of Justice
Strengthen financial integrity at all levels and enforce OECD code of good governance	▪ Strictly combat financial irregularities ▪ Enhance transparency and disclosure of timely and accurate data and information ▪ Specify Board composition and members to avoid conflict of interest ▪ Clarify clear responsibility for Board versus management and accountability.	▪ Amendment of State-owned Companies Law 22, and Private Companies Law 21 regarding Board composition, increasing the number of independent experts (taking into account the Banking Law 94 of 2004 (Article 17)	▪ Parliament through the Ministry of Finance in coordination with CBI
Encourage micro-finance	▪ Review current regulation to ensure they are sufficiently flexible	▪ Encourage additional donor funding in this area.	▪ CBI ▪ Ministry of Finance

OBJECTIVE	SHORT-TERM TASK(S)	MEDIUM TO LONG-TERM TASK(S)	COUNTERPART/ RESPONSIBLE INSTITUTION
Implement public information campaign, on role of banking system, banking supervision and depositor protection	▪ Start designing information campaign on banking supervision and the role and characteristics of the banking system	▪ Better public understanding of and more confidence in the banking system and the role of the CBI as bank supervisor.	▪ CBI
VII. Information Technology			
Promote IT awareness within Ministry of Finance and CBI at the upper management level	▪ Form a high level team from Ministry of Finance and CBI ▪ Determine action plan on how to conduct assessment of IT awareness ▪ Secure approval and sponsorship from Ministry of Finance, Minister and CBI Governor for the action plan	▪ Conduct assessment according to approved plan (estimated period 3 months) and provide findings ▪ Prepare recommendations ▪ Present findings and recommendations to sponsors ▪ Decide next steps	▪ CBI Executive Sponsor (H.E. the Governor) ▪ Ministry of Finance Executive Sponsor (H.E the Minister) ▪ Representatives from CBI and Ministry of Finance
Develop "IT" staff capabilities within Ministry of Finance and CBI	▪ Form a team from Ministry of Finance and CBI ▪ Determine action plan on how to conduct assessment of IT capabilities ▪ Secure approval and sponsorship from Ministry of Finance Minister and CBI Governor for the action plan	▪ Conduct assessment according to approved plan (estimated period 3 months). Assess things like ability to develop web applications, Oracle, .NET, etc. ▪ Develop recommendations Present findings and recommendations to sponsors ▪ Decide next steps	▪ CBI Executive Sponsor (H.E. the Governor) ▪ Ministry of Finance Executive Sponsor (H.E the Minister) ▪ Representatives from CBI and Ministry of Finance
Implementation of Core Banking System for Rafidain	▪ Reach a decision re the relationship with the current vendor (within 1	▪ Finish implementation in all Baghdad branches (phase 3)	▪ Ministry of Finance ▪ Rafidain Bank

OBJECTIVE	SHORT-TERM TASK(S)	MEDIUM TO LONG-TERM TASK(S)	COUNTERPART/ RESPONSIBLE INSTITUTION
Bank	month) ▪ Pending agreement to continue with the current vendor, finish the implementation of Phase 1 and 2 (7 foreign branches, HQ and main Branch)	▪ Finish implantation in all Governorate branches (phase 4)	▪ Vendor
Implementation of Core Banking System for Rasheed Bank	▪ Select and sign a contract with consulting company ▪ Decide on implementation plan requirements with the consultant	▪ Implement the CBS at all Rasheed branches	▪ Ministry of Finance ▪ Rasheed Bank ▪ Consultant vendor
Implementation of Core Banking System for the specialized banks	▪ Form a committee from Ministry of Finance and representatives of specialized banks Decide whether all banks should have one solution (personalized to each bank) or each need to have their own solution ▪ Prepare the RFP	▪ Announce the RFP and receive responses ▪ Short list the vendors ▪ Select a vendor and sign a contract ▪ Start development	▪ Ministry of Finance ▪ Specialized Banks ▪ Vendor(s)

Annex 9: Iraq Banking Reform Strategy—Action Plan[*]
(2008-2012)

I. ORGANIZATION STRUCTURE

A. Develop an Overall Organization Structure

- Business Units organization[**] (retail, corporate and investment banking, and other business units)
- Risk Management Units
- Management Information System
- Governance, Control and Support Units (audit, legal & compliance, anti-money laundering, human resources & organization, shared services, financial functions, risk functions)

B. Forming a Dedicated Restructuring Unit Headed by a Restructuring Project Officer in Individual Banks

II. CAPACITY BUILDING

A. Improve Human Resources Processes (development of a people strategy, clear rules and regulations for employees, assessment of skills and needs, job descriptions and qualifications and career paths, rewards management and performance evaluation)

B. Training of Staff Based on a Detailed Training Plan (skills and talent development, role modeling, increasing understanding and motivation, mindset and behavior transformation)

III. FINANCE AND ACCOUNTING

A. Restructuring the Balance Sheets (including inherited debts and losses)

B. Capital Adequacy (classification of assets and provision policy, capital base)

C. Budgeting, Planning and Performance Management

D. Accounting System in Compliance with National Standard and in-line with International Practices

E. Comprehensive Reporting System of Financial Results

F. Cost Recovery and Re-pricing of Financial Products

IV. IT INFRASTRUCTURE

A. IT Platform Covering all Operational Aspects, including:

- Marketing and sales tools
- Credit tools
- Risk management tools
- IT Related Consumer Product

B. Connectivity of Branches and Supervision Authority—Flow of Information

C. Security System of Information

V. RISK MANAGEMENT

A. Credit Risk (origination, underwriting, monitoring, workout)

B. Non-Credit Risk Management (market risk, operational risk, etc.)

VI. INTERNAL AUDIT AND COMPLIANCE

A. Internal Audit (processes, audit framework and methodology, effectiveness of internal audit)

B. Compliance with Laws, Regulations and Instructions (scope of improvement, compliance framework and methodology, organization)

---

[*] *Banks in this Annex refers to state-owned banks.*

[**] *Units in this document refer to any organizational form.*

VII. STRENGTHEN THE BANKING SUPERVISORY AND REGULATORY AUTHORITY

- **A. Make a Thorough and Comprehensive Review of Banking Supervision Processes**
- **B. Update and Enforce a set of Regulations in line with International Standards**
- **C. Make New Recruitments and Develop Training**

I. ORGANIZATION STRUCTURE

A. Develop an Overall Organization Structure *Start Time: July 2009*

- Review the "as is" overall organization structure (hierarchical structure, roles and responsibilities, risk management, revenue sources) and detect the main current organizational issues.
- Design the bank new target model fulfilling: (i) hierarchical structure simplification in order to speed up decision making processes; (ii) focus on risk, business and accountability; (iii) neat separation between risk generation and risk control/monitoring; and (iv) neat distinction between revenue generating units and supporting/shared services units
- Adopt the new organization structure.
- Create the Restructuring Units
- Identify and hire Heads for key priority functions
- Design the migration plan from the "as is" to the new organization

1. Business Units Reorganization

a. Retail Business Unit *Start Time: June 2009*

- Create the position of "head of Retail" who will be responsible for: (i) retail products (deposits and other liability products, credit cards, personal loans, mortgages, etc.; (ii) retail client segments (i.e. affluent, mass market and micro-business; and (iii) branch network
- Create separate units for marketing.
- Consolidate branch network management under one Head (or a number of regional managers) to report directly to the Head of Retail

b. Corporate Business Unit *Start Time: September 2009*

- Create the position of "Head of Corporate & Investment Banking" who will be responsible for the development and management of the Corporate Business (small, middle and large corporate segments)
- Create the "Trade Finance" Unit.
- Decide on integrating investment banking with corporate banking or creating an Investment Banking Unit (as is desirable)

c. Other Business Units Organization *Start Time: December 2009*

Under the Treasurer:

- Review Treasury front office activities
- Review Treasury back office activities
- Create Credit Workout Unit to be responsible of non-performing loan analysis, recovery strategy, debt recovery "execution" and performance assessment *(See Section IV and V for more details)*

2. Risk Management Units *Start Time: July 2009*

- Create Risk Management Units *(See Section V for more details)*
- Create the position of the Chief Risk Officer who will be reporting to senior management and responsible for: (i) risk policy (credit, market, operational risk, portfolio, etc.), and risk control (credit, market, operational risk, portfolio, etc.); (ii) risk measurement (credit, market, operational risk, portfolio, etc.); and (iii) other risk related functions

3. Management Information System *Start Time: December 2008/January 2009*

- Risk Management Unit will be responsible for: (i) central NPLs database; (ii) simplified and standardized rating/scoring tool; (iii) standard and centralized system and database for customers pre-screening; (iv) control of limits; (v) simulation of capital absorption on new deals; and (vi) simulation of market risks and capital needs

4. Governance, Control and Support Units ***Start Time: January 2009***

a. Audit

- Revisit audit organizational structure to ensure that it covers The bank control system (i.e. IT, financial and branch network auditing) and clients' claims management

b. Legal and Compliance ***Start Time: January 2009***

- Revisit compliance organizational structure.
- Increase number of compliance staff for understaffed areas

c. Anti-money Laundering ***Start Time: January 2009***

- Revisit the established Anti-money Laundering Units in individual banks to ensure compliance with the Anti-Money Laundering Law and CBI regulations

d. Human Resources and Organization ***Start Time: January 2009***

- Enhance the position of "Human Resources Head" who will be responsible for: (i) human resources development and management (selection, evaluation, training, incentive system and career paths); (ii) bank organization; and (iii) internal communication

e. Shared Services ***Start Time: January 2009***

- Create the position of the Chief Operations Officer who will be responsible for the management of shared services provision to the Bank's business units, in order to maximize effectiveness and efficiency
- IT application, processes, back office services, real estate and facility management, purchases and logistic)

f. Financial Functions ***Start Time: January 2009***

- Create the position of the Chief Financial Officer who will be responsible for: (i) planning and control; (ii) funding and asset and liability management; and (iii) accounting, financial reports and tax management

B. Forming a Dedicated Restructuring Unit at each Individual Bank

1. Establish a Dedicated Restructuring Unit Headed by a Restructuring Project officer in Individual Banks:

Start Time: January 2009

- Create the position of the Head of the Restructuring Unit for each bank
- Follow-up and coordinates across different working groups on operational, institutional and financial restructuring of the bank
- Reports to the bank management and Executive Restructuring Committee
- Produce monthly and quarterly reports on progress made and challenges confronting the implementations of the restructuring process

II. CAPACITY BUILDING

A. Improve Human Resources Processes

1. Development of a People Strategy ***Start Time: On-going process***

- Define clear roles and responsibilities for human resources management processes
- Leverage bank's strategy to develop a comprehensive "People Strategy", including: (i) an agreement on type and number of employees needed; and (ii) an agreement on strategic people choices (i.e., talent acquisition, work and accountability, performance metric and employee value proposition)

- Develop a plan to address redundant staff through redeployment or voluntarily early retirement schemes
- Clarify the rules and regulations applicable to employees of state-owned banks

2. Assessment of Skills and Needs ***Start Time: July 2008***

- Evaluate current level of skills, especially for pivotal roles (such as workout officers and Credit Marketing Officer) and managerial positions (including network)
- Assess commercial (such as product information) interpersonal and analytical/technical skills of sales force
- Identify recruitment needs for specific positions
- Create new job openings in areas that are not adequately available in banks with the needed skills, (such as chartered accountant, certified FM, IT expert, credit officer, credit risk management, mortgage underwriting, sectoral analyst, etc.)

3. Job Descriptions, Qualifications and Career Paths ***Start Time: July 2008***

- Define specific and action-oriented job descriptions starting with pivotal positions in both Head Quarters and network; ensure that the responsibilities/ accountabilities are clear and well-understood
- Identify career paths for different positions including changing requirements/expectations at milestones

4. Reward Management and Performance Evaluation ***Start Time: June 2008***

- Improve performance evaluation system to ensure objectivity and to include Value Based Management indicators
- Leverage on the work of the Ministry of Finance and the banks on "The Incentive Structure for Management and Employees Program"
- Revisit level and variability of incentives for specific positions (e.g. Marketing Officer, Workout Officers, etc.)
- Agree on style of accountability
- Collaborate with Value Based Management leaders to define process for setting goals and monitoring results
- Evaluate performance based on defined process
- Agree on compensation and rewards
- Find suitable solution for employees with low performance and potentials

B. Training of Staff Based on a Detailed Training Plan

1. Skills and talent development ***Start Time: January 2008***

- Launch an extensive training starting from pivotal areas and roles: (i) key training areas would include FM, risk management, credit analysis, compliance, marketing, tellers with IT capabilities, etc.; and (ii) key marketing roles (such as credit marketing officer) would include four dimensions: technical knowledge (including, product knowledge), management capability, leadership and communication skills (including sales attitude)
- Set up a training program to increase experience and international competence preferably in partnership with foreign banks and/or institutions (such as exchange programs); provide support for development programs such as masters degree and language courses

2. Role Modeling ***Start Time: January 2008***

- Deeply involve the top management in explaining the overall missions and strategy as well as the targets and objectives
- Find pivotal people and make them the "champions" of the behavioral change.
- Define the characteristics of a high-performing "top team" and the main steps for transformation paths

- Define seminar program held by top management for explaining to employees overall mission, strategy, targets and objectives and stage leadership "symbolic acts" as appropriate
- Identify the top 100-300 leaders to be indicated in future as role models (e.g. charismatic Branch/ Line managers).
- Highlight "change champions" characteristics from all levels in both formal and informal leadership roles.
- Training workshops with these pivotal people to make them "champions of change" within their daily work

3. Increasing understanding and motivation ***Start Time: January 2008***

- Arrange recurring meetings between head quarter people and branch network to illustrate strategy and commercial initiatives.
- Establish a task force to help network in implementing commercial initiatives and new sales behavior
- Conduct regular meetings for feedback

4. Mindset and Behavior Transformation ***Start Time: January 2008***

- Conduct full diagnostic of the Bank's culture/needs
- Conduct a program targeting mindset & behavior as well as other capability needs, including:
- Design program and prepare training modules for key business and control areas and roles
- Conduct off-site training modules targeting different profiles (e.g. front line staff, branch managers, etc.)
- Conduct intense technical/ commercial workshops for front line staff
- Launch a training program designed to select top performers for future programs, by closely monitoring performance of participants
- Measure impact of programs and agree on improvement opportunities for future programs

III. FINANCING AND ACCOUNTING

A. Restructuring the balance sheets (including inherited debts and losses) ***On-going process***

- Define foreign debts of banks in accordance with the aim of reflecting the foreign debt settled in the banks' financial statements
- Transfer to the Ministry of Finance or establish contra-accounts
- Ministry of Finance would take responsibility of part of the external debt
- Ministry of Finance will negotiate for the remaining portion of the external debt with relevant parties
- Define other debt and losses for making related decisions by authorized parties
- Identify and agree on discrepancies and ways to eliminate undercapitalization of banks
- Monitoring of banks' foreign assets in foreign banks and foreign correspondents

B. Capital Adequacy ***On-going process***

1. Classification of assets and provision policy

- Increase the amount of provisions in the profit and loss (P&L) in compliance with the audit results
- Provide additional resources by the Ministry of Finance to the banks to be used for provisioning for NPLs
- Account for NPLs that are not recognized in the current accounts

2. Capital base ***On-going process***

- Reevaluation of the banks' assets and take decision regarding non-strategic investments, rationalizing real estate properties of the bank in order to reduce the risk-weighted assets base

C. Budgeting, Planning and Performance Management ***Start Time: June 2009***

- Leverage on the findings and recommendations of Ernest & Young audit in order to design a short-term Annual Business Plan and long-term "Strategic Business Plan" for each bank: (i) overview market outlook; (ii) assess bank current position; (iii) define bank's mission, strategic priorities and aspirations; and (iv) define implementation approach, progress monitoring process and tools
- Improve operational planning and budgeting: (i) diagnose current situation and align different stakeholders; (ii) design a new operational plan and budgeting concept; and (iii) testing, piloting and deployment of the process
- Design a value-based management approach: (i) define Key Performance Indicators and value drivers; (ii) create a performance planning system and set opportunity based targets; and (iii) create a controlling function

D. Accounting System in compliance with National Standards and in-line with International Standards

Start Time: January 2009

- Restructure general ledger
- Map and redesign accounting processes and policies
- Define system to account for provisions
- Leverage on the work being done to identify and clarify foreign debt, inherited losses and provisions

E. Comprehensive Reporting System of Financial Results ***Start Time: June 2009***

- Define a set of data that is critical to the Ministry of Finance, the CBI, the management of the banks, and investors
- Identify financial performance indicators
- Take the required steps and measures to make the data available to decision makers and public

F. Cost Recovery and Re-pricing of Financial Products ***Start Time: March 2009***

- Inventory of the major financial products and services, including potential new products
- Reassessment of the costs of financial products and services including those provided to the public sector to ensure that these costs cover capital costs
- Establishing a streamlined mechanism of the procedures and steps required to authorize pricing of financial products and services

IV. IT INFRASTRUCTURE

A. IT Platform Covering Accounting and all Operational Aspects

1. Establish IT Platform ***Start Time: October 2008***

- Implement an IT system that handles basic transactions of the banks.
- Expand the capability of the system to provide a timely picture of the banks position.
- Design interim templates in key areas, such as: (i) credit tools in the areas of pre-screening, scoring, early warning and NPLs transparency; (ii) tools to target manage and monitor sales (reports on products usage, risk profiling, etc.); and (iii) corporate segmentation based on real business parameters such as turnover, number of employees and asset size
- Design IT related consumer products, such as swift, credit cards, automatic teller machines, direct deposits of pay, etc.

B. Connectivity of Branches and Supervision Authority ***Start Time: October 2008***

- Set-up connectivity between branches and Headquarters in Baghdad
- Set-up connectivity between branches and Headquarters in other Governorates in Iraq

- Set-up connectivity with all correspondent banks
- Set-up connectivity with head quarters and the CBI

C. Security System for Information ***Start Time: June 2009***

- Adopting a security system for information in compliance with international standards
- Defining the responsibilities and authorities of those who have access to the system
- Identifying the right caliber, ethical, and professional skills for the staff responsible for the security system of information
- Establish a disaster recovery system

V. RISK MANAGEMENT

A. Credit Risk

1. Origination ***Start Time: October 2008***

- Revise credit policy to make it simple and shared across the organization, setting guidelines on the credit risk appetite of the Bank and on how credit Risk should be distributed (across segments, sectors and geographies)
- Define how the overall process (of deciding, announcing, monitoring and revising credit Policy and strategy) works by specifying roles and responsibility of different stakeholders (i.e., Board, sales force as well as Credit Risk control units)
- Develop risk management policies and regulations for credit risk
- Transform front-line credit sales force from reactive to pro-active, increasing their focus on the client service while at the same time improve their level of accountability
- Reduce credit concentration risk
- Design standard and system/database for pre-screening (initially even basic parameters such as turnover, number of employees, past transactions, etc.), support organization with industry-specific data and information, such as sector reports
- Assess current situation by: (i) collecting credit files of all corporate and small and medium enterprises customers; (ii) assessing credit risk distribution (e.g., risk-adjusted exposure or, in absence of it, nominal exposure) across sectors and geographies; (iii) assessing risk rating and credit strategy of all corporate customers and most significant exposures (for example small and medium enterprises), and (iv) identify the weaknesses
- Define a risk-adjusted pricing for lending products
- Review credit policy/strategy
- Developing a simple credit strategy leveraging on existing material: (i) setting guidelines on Bank credit risk appetite and on how credit risk should be distribute across sectors/geographies
- Evaluating the new system
- Define a program to improve sales force and effectiveness: (i) create client portfolios to be allocated to sales force; (ii) define basic performance measurements (commercial, revenue and risk indicators); (iii) develop recruiting and training requirements for sales fore and credit officers; and (iv) plan the roll-out of the training program
- Develop business requirements to the IT for a centralized pre-screening tool supporting information reports (e.g. sector reports)
- Understand whether target IT platform fully satisfies/meets the business requirements

2. Underwriting

Rating and Scoring: ***Start Time: January 2009***

- Simplify and standardize rating/scoring mechanism and tools, ensure that all credit-related employees understand and use them
- Design the systems to integrate all applications and database across the whole process and locations
- Standardize data requirements at the front-line level to minimize back-forth between origination and underwriting
- Closely monitor discrimination power of the scoring mechanism for further improvements

- Closely monitor customers ability to repay any loans in foreign currency

Delegated Credit Powers: ***Start Time: January 2009***

- Revise the overall credit processes designing a workflow and a set of powers (based first on lending exposures and over time on risk) which will allow quick response to clients and optimize the workload of the Board, Credit Committees and other organization levels involved in credit underwriting
- Degree of delegation will depend on the size of the exposure

3. Monitoring

Diagnose the "as is" and Draft the Operating Model: ***Start Time: March 2009***

- Review Current model and identify gaps versus best practices
- Develop a full diagnostic on processes: (i) watch-list selection and prioritization; (ii) preparation and implementation of pre-specified actions towards companies in the watch list; (iii) risk re-rating policy and procedures; and (iv) assessment of predictive power of current early warning model
- Develop a full diagnostic on organization: (i) responsibility split between head office and branches; and (ii) role split between credit officers and Credit Marketing Officers
- Design the operating model to be implemented (with clear responsibility split between head office and branches as well as between credit officers and Credit Marketing Officer) and review the dedicated units

Capture Quick Wins and Design the Change: ***Start Time: March 2009***

- Identify and launch quick wins: (i) create and review the watch list and its prioritization; (ii) prepare an action plan towards companies in the watch list; (iii) select and train a task force (composed of high potential employees with credit e expertise) responsible to manage/update the watch list; and (iv) develop an easy to use and effective tool (i.e. excel format) to monitor the large corporate loans according to certain parameters and pre-set warning criteria
- Define a new loan monitoring process (e.g. process description of watch list selection, composition and prioritization, action plan design and implementation
- Improve monitoring organization: (i) define official role description of all the parties involved in the monitoring process (credit risk monitoring statistics, RMS, credit officers); and (ii) design a new performance measurement and incentive system
- Design required supporting system: (i) develop business requirements for an early warning system; and (ii) develop business requirements for a workflow system and attached standard reports
- Ensure that the IT platform to fully satisfies/meets the business requirements

4. Workout

Short-term Initiatives: ***Start Time: March 2009***

- Analyze current existing portfolio: (i) establish a central NPLs database to enable portfolio segmentation in order to better identify relevant credit customers; and (ii) analyze historical recovery over last year and total cost of credit (losses, financial and operating costs): closed NPLs files sampling and one year recovery analysis of open NPLs Review current performance by customer segments
- Identify and launch "quick wins": (i) draft a list of prioritized credit files according to net present value of recovery, distinguishing across segments and across secured vs. non secured lending, (iii) select and train a task force (composed of high employees with credit expertise) to workout selected NPLs; (iii) design the task force organization structure and its "ad hoc" incentives system; (iv) define simple and standard reports to make performance transparent and easy to monitor (at both aggregate and officer level); and (v) review the set of authority limits and delegated powers so as to speed up decisions and settlement process
- Develop recovery strategy and processes by customer segments (e.g. cases allocation to recovery officers, required level of analysis, key performance indicators)

Long term Initiatives for Sustainable Performance: ***Start Time: March 2009***

- Design the long term operating model and define the organization structure specifying: (i) credit categories (i.e. Corporate, small and medium enterprises, Retail) and if necessary, sub-segments (i.e. geography and/or industrial sector); (ii) criteria to allocate credit to workout unit; (ii) criteria to allocate credit portfolio to workout officers; and (iii) processes and systems
- Develop a recruiting and redeployment plan, both for internal and external resources, according to the requirements in terms of full time equivalent and skills
- Define a training program for the workout officers
- Define an incentive system based on the recovery performance
- Estimate economic and financial impact of the long term business model
- Develop business requirements for a decision support system, with the following characteristics: (i) centralized and electronic access to the required data; (ii) support to the recovery agents in identifying recovery strategies; and (iii) decision making support based on quantitative indicators (i.e. recovery rate, average time of recovery, cost per transaction, etc.)

B. Non-credit Risk Management ***Start Time: March 2009***

- Implement basic risk management in terms of measurement, strategy, processes and systems: (i) introduce simple risk adjusted profitability measurement; (ii) define basic capital allocation and expected return on capital; (iii) define risk management strategy and processes (e.g. operating limits and risk control processes); and (iv) introduce simple systems- or prototypes in short term- to support risk measurement of portfolio positions, control of limits and simulation of capital absorption on new deals
- Develop a full diagnostic to assess in an objective and consistent way each area of risk management.
- Design corporate risk management function with clear description of roles and responsibilities: (i) provide high level job description and key performance indicators for all functions related to risk and its processes
- Define guidelines on risk by the business unit and by risk type
- Define metrics for risk-adjusted performance measurement for the different levels of the organization
- Define a capital allocation process, coherent with the business and growth aspirations; set targets for expected returns taking risk into account; and allocate capital
- Define control processes to monitor operating limits and specify proper actions for managing exceptions
- Define business requirements of new systems/prototypes to support: (i) risk measurement of portfolio positions; (ii) control of limits; (iii) simulation of capital absorption on new deals

1. Market Risk ***Start Time: March 2009***

- Create Market Risk Management organization
- Review of treasury processes
- Liquidity risk measurement and management.
- Interest rate risk measurement and management
- Funds Transfer Pricing

2. Operational Risk ***Start Time: March 2009***

- Define operational Risk organization and methodology
- Set up Operational Risk reporting and control
- Define key performance indicators and standards of control
- Outline Operational Risk Management manual
- Set up Risk and Control self assessment
- Design new product approval process

VI. AUDIT AND COMPLIANCE

A. Internal Audit

1. Processes, Audit Framework and Methodology, and Effectiveness of Internal Audit

Start Time:

March 2009

- Evaluate the audit process, including role of Audit Committee, and recommend necessary improvements
- Create an integrated audit assessment frame work and methodology
- Assess effectiveness of internal audit, including the technical expertise, qualifications and experience in the internal audit function in order to provide assistance in all areas of the business
- Evaluate and assess effectiveness of the audit process and recommend necessary improvements of: (i) mission; (ii) roles and responsibilities; (iii) staffing (number of employees); (iv) skills (technical expertise, qualifications and experience); (v) supporting tools; and (vi) Key Performance Indicators
- Create an integrated audit framework and methodology
- Review and define Audit roles and processes (e.g. mission, roles and responsibilities, staffing, skills)
- Define a migration plan towards the "optimal" Audit structure, (e.g. supporting tools, key performance indicators)

B. Compliance with Rules, Laws, Regulations and Instructions

Start Time: March 2009

- Assess current areas of improvement (e.g. understand role of the current Compliance Unit, benchmark with international players
- Strengthen compliance function: (i) revisit compliance framework and methodology (activities, regulation, policies) and the boundaries with audit and other functions; (ii) revisit organizational structure (e.g. define head role and responsibilities, review reporting lines, increase number of compliance staff in understaffed areas, define skill level requirements); and (iii) increase compliance-related IT investments (management information system, transaction monitoring, etc.)
- Run a compliance mindset and behavior program for both frontline and compliance officers, e.g. training programs, communication programs, and incentives and rewarding scheme.

VII. STRENGTHEN THE BANKING SUPERVISORY AND REGULATORY AUTHORITY

A. Make a Thorough and Comprehensive Review of Banking Supervision Processes

Start Time: January 2009

- On site supervision should focus on risks: (i) credit organization and policy; (ii) concentration of credit; (iii) source of funding; (iv) risk management systems; (v) IT system; and (vi) internal controls.
- Off site supervision should focus on: (i) new Management Information System; (ii) comprehensive review of banks (CAMELS approach); (iii) qualitative and quantitative analysis; and (iv) Peer comparison analysis
- Macro prudential surveillance should focus on resilience: (i) key developments, risks and vulnerabilities of the banking sector; (ii) seamless supervisory cycle with micro prudential surveillance; and (iii) main delivery: annual banking sector review

B. Update and Enforce a Set of Regulations in line with International Standards

Start Time: January 2009

- Priorities of the first set of regulations: (i) implementation of a lending policy; (ii) accuracy of loan evaluation and improvement of loan loss provisioning; (iii) monitoring of large exposures; (iv) addressing connected and directed lending; and (v) enhancement of internal controls and audit

- Priorities of the second set of regulations: (i) operational risk and related issues; and (ii) market risks

C. Make New Recruitments and Develop Training ***Start Time: January 2009***

- Staff and training issues: (i) start new recruitments to rejuvenate the work force; (ii) assess the training policy and process; (iii) enhance leadership capacity and rewards; and (iii) incentives and rewarding scheme.

Annex 10
Organizational Structures Action Plans for Rafidain Bank and Rasheed Bank

Objective	Actions/Tasks Proposed	Responsible Institution
Implement Banking Reform Strategy for the two state-owned banks, Rafidain and Rasheed -- to expand/deepen access to finance to all segments of the economy	▪ Implement organizational restructuring of Rafidain and Rasheed Bank as per agreed plans.	▪ Ministry Finance ▪ ROC ▪ Rafidain and Rasheed Banks
Improve corporate governance in Rafidain and Rasheed Banks consistent with international (Basel Committee) standards and Banking Law 94 of 2004	▪ Reconstitute the two state-owned banks' Boards of Directors to bring in required business skills and experience ▪ Appoint/reconstitute Board Committees with new mandates ▪ Separate Chairman & GM positions ▪ Revise & approve GM and other key managers' delegated powers	▪ Ministry of Finance ▪ ROC ▪ Rafidain & Rasheed Banks
Improve Rafidain and Rasheed Banks' Operational Efficiency	Establish four Business Groups for Rasheed and Rafidain, namely: (i) Strategic Management; (ii) Risk Management (iii) Operations; and (iv) Credit Departments—with the objective of enhancing bank managers' accountability for results.	Rafidain and Rasheed Banks
Implement the restructuring recommendations	▪ Install/operationalize Core Banking Systems in the two banks ▪ Define and document business processes for the core banking system	▪ Rafidain and Rasheed Banks
Appoint key personnel to management positions in the two banks.	▪ Appoint Experienced banker as restructuring project manager based on Board of Directors Decision ▪ Appoint Project Manager for the Core Banking System. ▪ Appoint AGMs to head each of the four business groups for Rasheed Bank and the Five Business Groups for the Rafidain Bank	▪ Rafidain and Rasheed Banks
Build Institutional Capacity of Rafidain and Rasheed Banks to improve their productivity and	▪ Implement Training of Trainers and of key managers and staff in banking topics and HR	Rafidain and Rasheed Banks

Objective	Actions/Tasks Proposed	Responsible Institution
profitabilit, and quality and content of financial services provided to clients	management ▪ Develop "Twinning" agreements with regional banks to facilitate "on the job training"	
Rafidain Bank and Rasheed Bank accelerate diversification and deepening of financial services country wide including provision of international banking services.	▪ Realign branch network by introducing new banking products & services, and start developing new strategies for existing branches and extend branchless banking channels (Electronic Channels) ▪ Rafidain to resume international banking following restructuring of external debts and liabilities and Rasheed Bank to develop its international banking department	▪ Rafidain and Rasheed Banks
Improve client facilities and satisfaction, improve corporate image and branding	Rafidain and Rasheed Banks to: ▪ Prepare branches & headquarter rehabilitation & renovation plan ▪ Execute Branch Module/s ▪ Renovate key 50 branches and then roll out renovation ▪ Hire marketing agency to develop & disseminate new image	▪ Rafidain and Rasheed Banks
Liberalize regressive MOF regulations on Rafidain and Rasheed banks to facilitate speedy organizational restructuring, finance training programs, and undertake broader market-based, inclusive banking.	▪ Review, amend and eliminate MOF regulations & instructions regarding Rafidain and Rasheed Banks that constrain autonomy to undertake market-based financial services	▪ Ministry of Finance ▪ ROC ▪ Rafidain and Rasheed Banks