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**THE MINISTRY OF PLANNING AND DEVELOPMENT COOPERATION OF
THE REPUBLIC OF IRAQ**

PROPOSED TRUST FUND GRANT

OF US\$6.6 MILLION

FOR

**EMERGENCY HOUSEHOLD SURVEY
AND POLICIES FOR POVERTY REDUCTION PROJECT
(HSPR)**

**World Bank Iraq Trust Fund – TF053167
Trust Fund Grant (Recipient Executed) – TF056441
Trust Fund Grant (Bank Executed) – TF056442**

TECHNICAL ANNEX

June 15, 2006

**Social and Economic Development
Middle East and North Africa Region**

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CURRENCY EQUIVALENT

(Exchange Rate Effective September 11, 2005)

Currency Unit = US\$

US\$ 1 = Iraqi Dinar 1,465

FISCAL YEAR

January to December

ABBREVIATIONS AND ACRONYMS

CFAA	Country Financial Accountability Assessment
COSIT	Central Organization for Statistics and Information Technology
DFID	Department for International Development (U.K.)
EPSDI	Emergency Private Sector Development I Project
FMA	Fiduciary Monitoring Agent
FMR	Financial Monitoring Report
GDP	Gross Domestic Product
GOI	Government of Iraq
IBRD	International Bank for Reconstruction and Development
ICB	International Competitive Bidding
IDA	International Development Association
IHSES	Iraq Household Socio-Economic Survey
IRFFI	International Reconstruction Fund Facility for Iraq
ITF	World Bank Iraq Trust Fund
KRG	Kurdistan Regional Government
KRSCO	Kurdistan Regional Statistics Commission of Iraq (coordinates statistical work of Erbil, Dohuk and Suleymania)
KRSO	Kurdistan Regional Statistics Office (predecessor organization to KRSCO for Erbil and Dohuk)
MICS	Multiple Indicator Cluster Survey (a UNICEF-sponsored household survey)
MOPDC	Ministry of Planning and Development Cooperation
NCB	National Competitive Bidding
NDS	National Development Strategy
NGO	Non-governmental Organization
OFFP	Oil for Food Programme
OPR	Operational Procurement Review
PIM	Project Implementation Manual
PFS	Project Financial Statements
PMT	Project Management Team
PP	Procurement Plan
PSU	Primary Sampling Unit
QCBS	Quality- and Cost-Based Selection
RFP	Request for Proposals
SBD	Standard Bidding Document
SOE	Statement of Expenses

SSO Suleymaniya Statistics Office
 TA Technical Assistance
 TOR Terms of Reference
 UNDG United Nations Development Group
 UNDP United Nations Development Programme
 UNICEF United Nations Children's Fund
 USAID United States Agency for International Development
 WFP World Food Programme

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**EMERGENCY HOUSEHOLD SURVEY
AND POLICIES FOR POVERTY REDUCTION PROJECT (HSPR)**

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**MINISTRY OF PLANNING AND DEVELOPMENT COOPERATION OF
THE REPUBLIC OF IRAQ
EMERGENCY HOUSEHOLD SURVEY
AND POLICIES FOR POVERTY REDUCTION PROJECT (HSPR)**

GRANT AND PROJECT SUMMARY

Grant Recipient:	Ministry of Planning and Development Cooperation, Republic of Iraq
Beneficiaries:	Ministry of Planning and Development Cooperation and Kurdish Regional Government
Implementing Agencies:	Ministry of Planning and Development Cooperation and Kurdish Regional Government
Loan/Credit/Grant:	Grant
Amount & Terms:	US\$6.6 million on grant terms
Objectives & Description:	The project has three components corresponding to three key products: (i) a poverty assessment and related data set; (ii) a poverty and social impact analysis report; and (iii) a government strategy for poverty reduction, employment generation and safety net development. The project is supported by two complementary grants. The main grant is for the development of the outputs by the Government of Iraq, e.g. implementation of the expenditure survey, workshops, data analysis, Iraqi consultant fees, and dissemination (a recipient executed grant). A smaller complementary grant provides technical assistance, e.g. formal training inside and outside Iraq, on the job training, just in time advisory services by World Bank staff and international consultants. (a World Bank-executed grant).
Technical Annex:	This Project has been prepared in accordance with Emergency Recovery Assistance procedures (Operational Policy 8.50). There is no Project Appraisal Document for this Project.
Disbursement:	The grant is expected to be fully disbursed by June 30, 2008.
Closing Date:	June 30, 2008
Project ID Number:	P098979

**MINISTRY OF PLANNING AND DEVELOPMENT COOPERATION OF THE
REPUBLIC OF IRAQ
EMERGENCY HOUSEHOLD SURVEY
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TECHNICAL ANNEX

I. BACKGROUND AND INTERNATIONAL RESPONSE

Background

1. The Iraqi population has experienced a dramatic decline in standards of living. A generation ago, Iraq's income, education and health indicators were high compared to regional averages. However, while its neighbors have seen increased standards of living during the intervening years, Iraq's living standards have declined. Income per capita, which reached over US\$3,600 in the early 1980s, fell to less than US\$1,000 by 2001. Today an estimated 10 percent of the population lives below \$1 per day, unemployment is at least 30 percent of the working age population and underemployment is widespread. Most Iraqis have nominal access to basic services, but their quality is poor and deteriorating, and power shortages, contamination of drinking water with sewage, and shortage of essential medicines and equipment are persistent.
2. Iraq's volatile security is likely to have continuing consequences on poverty. Lack of access to employment and basic services will cause hardship for a large segment of the population. Long-term, chronic poverty may also develop in households whose primary earners are killed or whose livelihood is destroyed, and for those whose education is cut short. Even in the most optimistic scenario of a stable security and political situation, the important transformations being made in the Iraqi economy are likely to involve short term increases in unemployment as labor allocation moves to more productive areas.
3. The Public (food) Distribution System is the only large scale safety net functioning today. This system creates massive distortions in the economy, is highly inefficient and expensive. Subsidies (including both food and fuel subsidies) use half of government revenue – a magnitude far larger than all donor financing for reconstruction. Elimination of the subsidy programs are necessary conditions for a diversified market-based economy. However, elimination of the subsidy programs without creating large increases in poverty Iraq requires sufficient employment opportunities for the able bodied workforce and a suitable safety net for those unable to work.
4. The government's reform agenda – including elimination of subsidies, employment generation and development of a targeted safety net – are articulated in the National Development Strategy (NDS). The NDS was presented by the Transitional Iraqi Government in July 2005 as the basis for social and economic reforms for the reconstruction of Iraq, development of its economy, and the advancement of its people. The NDS is organized around four pillars: (i) strengthening the foundations of economic growth (including reform of the subsidy system, which is the only currently functioning safety net and diversifying the economy beyond its current dependence on oil); (ii) revitalizing the private sector as the engine of growth and job creation; (iii) improving the quality of life (improving access to clean water and sanitation, high-quality medical care, affordable housing; investing in education; providing a targeted safety net for the needy); and (iv) strengthening good governance and security. More

recently, the Cabinet approved the 2006 Budget with a 25 percent reduction in the PDS budget for 2006. This action makes development of an alternative safety net especially urgent.

5. The empirical basis to permit the government to move forward on its reform agenda is not yet in place. In particular, the data needed to understand the causes and nature of poverty and to develop an efficient targeted safety net is not currently available. Moreover, war, economic sanctions, and political directives to suppress data reduced the capacity of Iraq's central and governorate/regional statistical agencies to collect and publish reliable data. The 2003 war and subsequent looting damaged or destroyed many government offices – and databases and documents with them.

International Response

6. Since the invasion of Iraq in 2003, the donor community has provided assistance to the Government of Iraq (GOI) on a range of data collection, data analysis and policy issues related to poverty reduction, employment generation and safety net development.

7. The following assistance efforts related to household-level poverty data collection and analysis are particularly relevant to the proposed project.

- The World Food Programme worked with Iraqi statistical organizations and the Ministry of Health during the second half of 2003 to collect and analyze data for a Baseline Food Security Analysis. The objective of the project was to address key questions such as (i) Who are the food insecure? (ii) How many are they? (iii) Where do they live? (iv) Why are they food insecure? And (v) What is the magnitude of the problem? The survey covered 28,500 households in 16 governorates.
- The UNDP worked with Iraqi statistical organizations and the Norwegian research institute, Fafo, in the spring and summer of 2004 to collect and analyze data for the Living Conditions Survey. The objective of the project was to rapidly provide household-based statistical data to portray the living conditions of the population. The survey covered 22,000 households in all 18 governorates.
- The UK Department for International Development (DfID) worked with Iraqi statistical organizations in spring 2005 to collect and analyze data for a Rapid Household Budget Survey. The objective of the project was to provide sufficient information about household income and expenditure to help fill the needs to economic and social policy makers until a more comprehensive survey can be implemented. The survey covered 3,168 households in 16 governorates.
- UNICEF is currently working with Iraqi statistical organizations (spring 2006) to collect and analyze data for the Multiple Cluster Survey (MICS). The MICS provides internationally comparable data on women and children including the data needed for monitoring progress toward the goals established at the World Summit for Children. The survey is covering 18,144 households in all 18 governorates. The sample designs of the MICS and the Iraq Household Socio-Economic Survey (which is proposed in this technical Annex) have been coordinated to cover the same households.

8. The high degree of coordination and cooperation among donors and between the GOI and the various donors on statistical issues has been remarkable in all the efforts to date. Technical staffs of the various agencies have come to know each other well and routinely share advice and

comments with one another and seek ways to make their efforts complementary rather than competing.

9. The proposed Iraq Household Socio-Economic Survey is intended to contribute to the existing surveys by collecting data on expenditures as well as non-monetary aspects of poverty. This data would permit the establishment of a poverty line, to examine the relationships between monetary and non-monetary aspects of poverty and to develop a targeting mechanism for an efficient safety net program. Moreover, in the fast changing circumstances of Iraq, the proposed survey would provide needed updates of previous surveys. As indicated above, the proposed survey was designed to be complementary to the UNICEF MICS survey: the data from the two surveys can be combined for greater impact. Perhaps even more important than the data collection and analysis products, the objective of the proposed project is to strengthen the ability of Iraqi Government agencies to design, implement and analyze a regularly scheduled system of expenditure and living standard surveys in the future.

II. BANK RESPONSE AND STRATEGY

10. The proposed project is consistent with the Bank's Country Assistance Strategy. The Bank's overarching objective (as articulated in the Second Interim Strategy Note for Iraq) is to help Iraq build efficient, inclusive, transparent, and accountable institutions. The Bank's work program for Iraq is organized into four pillars, supporting government efforts to: (i) restore basic service delivery; (ii) enable private sector development; (iii) strengthen social safety nets; and (iv) improve public sector governance.

11. The Bank's strategy argues that building modern systems for data collection and dissemination is essential for providing policymakers with reliable information on which to base their decisions, and refers specifically to the proposed project, proposing "to support a comprehensive household survey and related capacity building to help the government collect data on poverty, understand the characteristics and causes of poverty, predict the impact of economic policies on poverty and design a poverty-reduction and safety and strategy."

12. The Bank has ongoing dialogue with the GOI in a variety of areas related to the proposed project. These include: economic reform and transition; poverty safety nets and social development; and public sector management. The Bank has prepared policy notes and/or reports on topics including: supporting private sector led employment generation; strengthening the management of public resources; the Public (food) Distribution System, and social protection (including labor policy and safety nets). The proposed project builds on the ongoing dialogue in all of these areas.

13. The proposed project builds on more than a year of frequent and in-depth interactions with the Iraqi statistical organizations.¹ Under the Second Capacity Building Project of the Iraq Trust Fund, the World Bank has been working with the Iraqi statistical agencies to assess and develop capacity in a variety of areas. The main focus of this series of activities, has been technical assistance and training designed to assist the Iraqi statistical organizations in the design and implementation of the proposed Iraq Household Socio-Economic Survey. To date, the Bank has

¹ Iraqi statistical organizations include COSIT, KRSCO, and the governorate-level statistical offices.

provided more than 800 participant-days of training on topics directly supporting the IHSES, including:²

- Statistical Capacity Assessment Workshop (Dec. 2004)
- Multi-Topic Household Survey Core Course (Jan. 2005)
- Sampling Core Course (Feb. 2005)
- Multi-Topic Household Survey Core Course, Baghdad (April, 2005)
- Training for Household Surveys (March 2005)
- Advanced Topics in Household Survey Design (June 2005)
- Data Management (June 2005)
- Customizing Survey Instruments to Local Conditions – Pretesting Questionnaire Instruments (Sept. 2005)
- Designing Smart Data Entry Programs (Oct. 2005)
- Modern Methods of Survey Fieldwork (January 2006)
- Learning from Pilot Surveys (April 2006)

Through these workshops and related on-the-job training, the Bank has developed an understanding of the capacity building needs of the Iraqi statistical agencies and the agencies have already begun building the specific capacity needed to implement the planned socio-economic survey.

14. The Bank's comparative advantage for the proposed project lies in (i) the experience it has had through the two Capacity Building Projects to work through formal and informal training; (ii) its operating principle of Iraqi ownership of policies and projects; (iii) its emphasis on integration of data collection, poverty analysis and safety net policies and programs; and (iv) its breadth of international experience and best practice in conflict-affected countries.

III. DETAILED PROJECT DESCRIPTION

Objectives

15. The objective of the proposed project is to strengthen the ability of the GOI to make informed decisions towards reducing poverty, creating jobs and protecting the vulnerable. Specifically, the project would focus on strengthening the ability of Iraqi officials to:

- collect and analyze data on poverty and unemployment;
- assess the effect of economic policy options on both poverty and employment, including the impact of sequencing reforms and policies; and
- develop information-based strategies to reduce poverty, generate employment, and improve the functioning of social safety nets.

(See also Annex 1: Logical Framework and Key Performance Indicators.)

² In addition to the above mentioned trainings, the Bank offered (i) a needs assessment workshop for the Committee for the Enhancement of Statistics – a group which includes the statistical staff of core ministries, line ministries and the KRG (December 2004); (ii) a General Data Dissemination System workshop (joint with IMF, May 2005); and (iii) a course on Foreign Trade Statistics (July, 2005).

Preliminary description

16. The proposed project has three components corresponding to three key products: (i) a poverty assessment and related data set; (ii) a poverty and social impact analysis report; and (iii) a government strategy for poverty reduction, employment generation and safety nets.

17. These products will be produced by a GOI team with financial and technical assistance from the Bank. The proposed project is designed to encourage the GOI team to do as much of the data collection, analysis and strategy development as possible in order to ensure relevance to the specifics of the Iraqi context. Clearly, the GOI has many, highly educated civil servants who are quite competent to do the work themselves. At the same time it is recognized that after so many years of having been largely cut off from the international community, the GOI team could benefit from exposure to recently developed analytical techniques and from the experiences of other countries in solving problems of poverty, employment generation and safety nets. In the context of the proposed project, technical assistance from the Bank takes a variety of forms including: formal training (both inside and outside Iraq), on-the-job-training, and just-in-time advisory services.

18. In order to simplify administration and expedite progress on the products, the proposed project will have two sub-projects: (i) the development of the products will be implemented by the GOI team through a GOI-Executed sub-project; and (ii) the Bank support to the GOI team will be implemented through a Bank-Executed sub-project. The diagram below illustrates the relationship between the two sub-projects and the three components.

	GOI Executed Sub-Project	WB Executed Sub-Project
Component 1: Poverty Assessment and Data Sets	GOI team work on Poverty Assessment and Data Sets	Technical Assistance for Poverty Assessment and Data Sets
Component 2: Poverty and Social Impact Analysis Report	GOI team work on Poverty and Social Impact Analysis Report	Technical Assistance for Poverty and Social Impact Analysis Report
Component 3: GOI Strategy for Poverty Reduction, Employment Generation and Safety Nets	GOI team work on Strategy for Poverty Reduction, Employment Generation and Safety Nets	Technical Assistance for Strategy for Poverty Reduction, Employment Generation and Safety Nets

19. The proposed project will involve inter-sectoral teams from both the GOI and the World Bank. Responsibility for poverty, employment and safety net issues fall under various government entities, including Ministry of Planning and Development Coordination, Ministry of Finance, Ministry of Labor and Social Affairs, Ministry of Education, Ministry of Health and the Kurdish Regional Government. Accordingly, a Project Committee comprised of these and other relevant entities will be established to guide the work of the proposed project. The Iraqi statistical organizations will have a primary role in the implementation of the household survey; technical staff of all ministries will be involved in the analytical tasks, and policy makers would be expected to be most involved in development of the strategy, as well as oversight of the project as a whole.

20. It is expected that the following World Bank units will participate in the project by providing technical assistance: the Middle East and North Africa Social and Economic Development unit (MNSSED); Human Development unit (MNSHD); Rural Development unit (MNSRD); and the Private Sector unit (MNSIF). In addition, experts from the central Poverty Reduction and Economic Management (PREM) network and the Development Economics (DEC) unit will be called upon for advice. The MNSSED unit will coordinate the proposed project.

Component 1: Preparation of a Poverty Assessment Report and Data Sets

21. Preparation of a Poverty Assessment Report and Data Sets would entail two sub-components.

22. The first subcomponent is collection of data through a household socio-economic survey (IHSES). This survey is intended to provide the data and information needed on income and consumption poverty. Such data is also urgently needed for policy decisions (e.g. reform of fuel and/or food subsidies) and for the development of appropriate safety net programs. In addition, the survey is a necessary input into the creation of a Consumer Price Index (for measuring inflation, and indexing pensions, etc.) and the System of National Accounts (for monitoring macroeconomic growth, household consumption and savings and small enterprises). The most recent survey of this type was conducted in 1993 and did not include Kurdistan Region. Key features of the proposed survey include:

- Collection of detailed expenditure data over a 12 month period, using a 10 day diary and recall sections for less frequent purchases.
- Collection of living standard measurement data on a variety of other issues, to permit analysis of the relationships between issues (e.g. the relationship between consumption poverty and access to health services).
- The sample will be representative at the level of urban and rural areas within each governorate. Approximately 18,000 households will be interviewed. This sample will permit analysis of some variables after the first quarter of data is available. (See Annex 2: IHSES Sampling Design.)
- A series of quality control measures will be adopted including a range and consistency checks in the data entry program, field teams which complete data entry before leaving the community, and monthly data evaluation.

There are two types of direct outputs from the IHSES: data sets and tabulation reports.

23. The second subcomponent is development of a Poverty Assessment, including analysis of data from the socioeconomic survey, by a Project Committee (see description of the Project Committee in paragraph 32, below) and Iraqi consultants, with support from the Bank and other international experts. Financing will be used for such purposes as workshops, consultants, printing and translation of report, dissemination to donors, civil society and the public. The Poverty Assessment report will include:

- Poverty profile, providing data about the extent and nature of poverty and identifying relevant subgroups of the poor by their distinguishing characteristics. The poverty profile will be developed as a guide to identifying poverty trends and design of policy.
- Incentives and regulations, identifying biases that limit the efficient use of assets owned by the poor or constrain the poor from acquiring human capital, land or credit.

- Public expenditures and institutions, to identify possible reallocations of resources – within and across sectors – that could expand the access of the poor to physical and social infrastructure.
- Safety net analysis, identifying the type and scope of safety net(s) that are needed and identifying potential targeting mechanisms based on the poverty profile.
- Recommendations for a system of poverty monitoring (including a system of surveys for poverty monitoring)

The output of this sub-component is a Poverty Assessment Report.

24. Technical assistance will be provided to the IHSES Team for the IHSES subcomponent. (The IHSES Team is comprised of staff from the Central Organization for Statistics and Information Technology (COSIT), the Kurdistan Regional Statistical Commission (KRSCO), and the governorate-level statistical offices, supplemented where necessary with consultants hired for the project. See the section on implementation, below, for more details.) Technical assistance will be provided to the IHSES Team and the Project Committee for the Poverty Assessment subcomponent, giving them on-the-job training and technical assistance on poverty and inequality analysis as well as formal training courses. Potential course topics include: (i) mixing quantitative and qualitative methods for poverty analysis; (ii) poverty measurement and analysis; (iii) poverty impacts of policies and programs; (iv) study tour of other countries approaches to poverty focused administrative statistics; and (v) developing a system of surveys for poverty monitoring.

Component 2: Poverty and Social Impact Analysis of Proposed Policy Areas

25. The purpose of this component is to conduct analytical work to predict the likely impact of economic policies on poverty and employment generation, and assess the ability of existing safety net programs/policies to protect the poor from any negative impacts of economic reforms. The component would also help ensure that reforms are appropriately sequenced and accompanied by safety net measures. Iraq's fragility dictates that careful consideration be given to the social and poverty impact of all proposed reforms. Reforms that will potentially increase unemployment or poverty in the short term need to be structured and sequenced to minimize the adverse impact on the poor and accompanied by measures to protect vulnerable groups. Failure to do so could undermine efforts to improve security and stability.

26. Poverty and Social Impact Analysis (PSIA) would be performed for four areas of proposed policy changes. The specific areas to be addressed will be determined jointly by the Government of Iraq and the Bank team, based on what is relevant at the time of program implementation and to complement efforts by other UN and International Financial Institutions. It is anticipated that (i) achieving employment-generating economic growth and (ii) development of a social safety net and reform of the Public (food ration) Distribution System will be among the topics covered. Other potential areas for analysis include: trade policy, reforms of agricultural policy, and privatization. Analysis will be conducted jointly by the Government of Iraq, Iraqi experts, the Bank and other international experts. In order to ensure that the PSIA is provided in a time frame that meets the needs of policy makers, it is anticipated that preliminary drafts of some issues/chapters will be developed before the expenditure survey field work is complete. Such preliminary drafts may be developed using existing data and/or partial expenditure survey data, with final drafts to confirm the findings produced upon completion of the expenditure survey field work. Financing will be used for such purposes as workshops, consultants, printing and translation of report, dissemination to donors, civil society and the public. The output of this

component will be a Poverty and Social Impact Analysis Report, covering the four selected policy areas.

27. Technical assistance activities for the PSIA report will be provided to the Project Committee. This technical assistance will include both on-the-job training and formal training, including courses on various analytical techniques and/or international experience with relevant policy issues.

Component 3: Preparation of Poverty Reduction, Employment Generation and Safety Net Strategy

28. This component provides the needed resources to support the development of a strategy for poverty reduction, employment generation and safety nets. Although preparation of a formal Poverty Reduction Strategy Paper may be eventually possible, such an elaborate process is not expected to be the outcome of this component. In particular, it may not be possible to conduct extensive grass-roots consultations in the current security environment.

29. Preparation of this strategy will be fully the responsibility of the Project Committee to ensure that the process and the output are entirely owned by the Government of Iraq and other relevant Iraqi entities. Financing will be used for such purposes as workshops, consultants, printing and translation of report, dissemination to donors, civil society and the public. The output of this component will be documentation of the GOI strategy for poverty reduction, employment generation and safety nets.

30. Technical assistance to support this task will be provided to the Project Committee and may include workshops or study tours on topics such as: (i) poverty reduction in conflict-affected countries; (ii) demobilization and reintegration; (iii) refugees and Internally Displace Persons, etc.

IV. INSTITUTIONAL ARRANGEMENTS AND PROJECT IMPLEMENTATION

31. This is a multi-sectoral project, in which a variety of government entities will participate, including: Ministry of Planning and Development Cooperation, Ministry of Finance, Ministry of Social Affairs and Labor, Ministry of Education, and Ministry of Health and the Kurdish Regional Government. In order to simplify project implementation, the project will be managed through the Ministry of Planning and Development Cooperation working in close collaboration with the various government entities.

32. A Project Committee comprised of analysts and policy makers from the above government entities will be formed and will meet periodically. The Project Committee will ensure the analytical and strategic activities of the project are relevant to the various government entities and to ensure the capacity building benefits of the project are shared among the various government entities.

33. A Project Management Team (PMT) will be responsible for the overall management of the project, coordination and monitoring activities. Specifically, the PMT will: (i) coordinate project implementation including coordination of the meetings of the Project Committee and acting as liason between the Committee and research consultants involved in the project; (ii) ensure that

issues affecting or potentially affecting project implementation are identified and addressed in a timely manner; (iii) carry out project monitoring and progress reporting; (iv) cooperate in an annual independent audit of the project; (v) procure all Grant-financed goods and services under the project; and (vi) operate the financial management system. (For the IHSES subcomponent, these tasks will be performed in close coordination with the IHSES Team.) The PMT will report to the Minister of Planning and Development Cooperation and will have authorization to sign on behalf of the Minister for the purposes of this project. See Annex 9, which summarizes the responsibilities of the PMT and other agencies/bodies involved in the project.

Implementation of the IHSES Sub-Component

34. Component 1: Poverty Assessment and Data Sets is comprised of two sub-components: a nation-wide socio-economic survey and a poverty assessment. The nation-wide socio-economic survey is by far the largest and most complex sub-component of the project. The budget for the IHSES subcomponent is approximately \$3,275,000. (See Annex 3: Summary of Project Costs.)

35. Technical aspects of the IHSES subcomponent will be the responsibility of the IHSES Team. The higher level staff of the IHSES Team will be responsible for coordinating the survey at a national level (including design aspects of the survey and ensuring nationally consistent implementation of the field work). The higher level staff includes the IHSES Project Manager, the Technical Advisor, the Field Advisor, the Operations Room Manager, and the 6 Operations Room staff. Regional and Governorate Coordinators and the staff reporting to them will be responsible for implementing the field work in accordance with the directives of the higher level staff of the IHSES Team. (IHSES Team units within each governorate will be responsible for household interviews, data entry, local supervision, listing and mapping, and governorate-level supervision.) (See Annex 4: IHSES Team Organization Chart.)

36. Procurement, Disbursement and Financial Management aspects of the IHSES subcomponent will be the responsibility of the PMT. Centralizing these aspects of the project is intended to provide specialized support to the IHSES Team (as will all project components and subcomponents)

37. The survey will be conducted during a 12 month period, throughout Iraq, including the Kurdistan Region. The IHSES and the MICS surveys will share a common sample with a total size of 18,144 households. The survey distinguishes among 56 major strata, 5 of them in Baghdad and 3 in each of the other 17 governorates, corresponding to the Metropolitan, Urban and Rural sections of the governorates. The sampling strategy will be the same in all strata: two stage sampling, with groups of majals (Census Enumeration Areas) as the Primary Sampling Units and households as the second sampling units. (See Annex 2: IHSES Sampling Design.)

38. Data from each Interviewer will be sent electronically to the IHSES Team Operations Room in Baghdad every 20 days, where it will be merged into a nation-wide data set. The nation-wide data sets will be distributed to after each of the 18 waves to all higher level staff of the IHSES Team and to the World Bank technical assistance team.) Once the full year of data is complete, it will be available on request. Three intermediate reports (each based on four months worth of data) and an annual report (based on the full year of data) will be produced and available to the public.

39. The technical capacity of COSIT, KRSCO's predecessor organization for Erbil and Dohuk (the Kurdistan Regional Statistical Organization), and the governorate-level statistical offices were assessed through two workshops: (i) a needs assessment workshop for the Committee for the Enhancement of Statistics – a group which includes the statistical staff of core ministries, line ministries and the Kurdish Regional Government (December 2004) and (ii) a General Data Dissemination System workshop (joint with IMF, May 2005).

Box 1: COSIT and KRSCO

COSIT was established in 1968 with the mandate of collection and dissemination of social and economic data to aid in the formation of national strategies and policies. COSIT is one of the MOPDC's largest bodies. COSIT consists of three main departments (Technical Affairs, Information Technology and Administration & Financial) and has regional offices within the governorates. COSIT has 614 permanent staff (245 in Baghdad and 386 located in other governorates) and an additional 228 contracted staff (143 in Baghdad and 85 in other governorates). COSIT also maintains 8 training centers and a computer center used to update the skills of its staff and to train new staff. COSIT's work program for 2006 includes completion of 18 regular surveys, 14 new surveys and 102 reports. During the past 3 years, COSIT has implemented four other household surveys of a similar sample size and staff requirement to the IHSES. The World Food Programme-sponsored survey in 2003 included 28,500 and another survey in 2005 included 22,050 households, mobilizing 540 field workers. The UNDP-sponsored survey in 2004 included 22,000 households and required mobilization of approximately 500 field workers. The UNICEF-sponsored survey, which will be completed this month, includes 18,144 households and approximately 300 field workers. The IHSES survey is expected to include the same sample as the UNICEF-sponsored Mics-3 survey (the same 18,144 households) and a similar sized field mobilization. (See also paragraphs 7-9.)

The KRSCO, which coordinates the statistical offices for Erbil, Dohuk and Suleymania, was established in 2006 and reports to the Kurdish Regional Minister of Planning. KRSCO's predecessor organization for Erbil and Dohuk (KRSO) and the Suleymaniya Statistical Office both participated in the UNDP-sponsored (2004) and the UNICEF-sponsored (2006) surveys. The numbers of households visited and the numbers of field staff mobilized indicated in the paragraph above include COSIT, KRSO and Suleymaniya Statistical Office portions of the work.

Implementation of all other Components and Sub-Components of the GOI Executed Sub-Project

40. Implementation of all components and sub-components of the GOI Executed Project, with the exception of the IHSES, will be the responsibility of the PMT in coordination with the Project Committee. The Project Committee will be the principle mechanism through which the PMT receives guidance from and reports to GOI ministries, the KRG and other relevant Iraqi entities.

41. The MOPDC is responsible for ensuring the PMT is appropriately staffed either with existing staff members or by hiring project staff out of the project grant budget. In addition, the MOPDC is responsible for securing adequate office space within the Ministry for the PMT. The PMT will act as both the "business office" for the project, responsible for all procurement, disbursement and financial management aspects of the project and for the technical aspects of all components and sub-components other than the IHSES.

42. The PMT will comprise: (i) a full-time Director, who will be responsible for coordinating project activities and the business functions of project management and liaising with the Project Committee, COSIT, KRSCO, the governorate-level statistical offices, and the World Bank; (ii) a

full-time Assistant to the Director; (iii) a Financial Officer; (iv) a full-time Accountant; and (v) a Procurement Officer. In addition, the MOPDC will support the PMT with drivers and messengers, as needed. The PMT staff will have the opportunity through the project to receive training relevant to their assignments.

43. In response to a request from the Iraqi Strategic Review Board, the schedule of activities to be funded under this project has been compressed to the maximum extent possible. Still, it will be very challenging for the GOI to complete all these activities within the planned schedule.

Implementation of the World Bank Executed Sub-Project

44. Capacity building and technical assistance to support the GOI's work on IHSES, the poverty assessment, the poverty and social impact analysis and development of a strategy, will be provided through a smaller, companion grant. This companion grant will provide the financial resources for on-the-job training, formal courses and technical assistance for all three project components.

45. Responsibility for implementation of the capacity building and technical support rests with the World Bank. World Bank staff will coordinate closely with the Project Committee, the PMT, COSIT, KRSCO, and the governorate-level statistical offices to ensure the capacity building and technical support activities are appropriate and timely and that the grant resources are used to the maximum benefit of the project.

Procurement

46. Procurement for this project, client executed part, will be carried out in accordance with the World Bank's *Guidelines: Procurement under IBRD Loans and IDA Credits*, dated May 2004, *Guidelines: Selection and Employment of Consultants by World Bank Borrowers*, dated May 2004, and the provisions stipulated in the Financing Agreement. For each contract to be financed by the Grant, the procurement methods or consultant selection methods, estimated costs, prior review requirements, and time frame are reflected in the Procurement Plan (PP). The PP will be updated, as required, to reflect the actual project implementation needs and improvements in institutional capacity. A general Procurement Notice was published in the United Nations Development Business (UN Development Business) on January 31, 2006 issue No. 671, and will be revised after the project is approved.

Assessment of the implementing agency's capacity to implement procurement

47. An Operational Procurement Review (OPR) for Iraq was completed in June 2005 and sent to the government for comments. The most urgent action needed from government is to clarify the legal framework for public procurement and enact needed legal and regulatory instruments. In the meantime, it is necessary that all World Bank-financed projects be implemented under clearly specified procurement procedures, which are to be reflected in relevant provisions of legal agreements and supported by a project implementation manual (PIM), which are prepared for each project. The PIM is derived from a Master Implementation Manual (MIM), which was developed for projects in Iraq in June 2005.

48. Assessment of the implementing agency capacity to carry out project procurement was conducted and it is in the Project Files. This project would be MOPDC's second experience with World Bank procurement guidelines and procedures. Procurement activities will be carried out by a PMT from MOPDC in Baghdad. A procurement officer, seconded by the MOPDC-Private Sector Development Project to the PMT for this project. The procurement officer has attended training workshops on Bank procurement guidelines. The PMT will be responsible for procurement for all components of the project, working closely with the IHSES Team for the IHSES subcomponent. (It is worth noting that COSIT, like all the major bodies at MOPDC, has its own purchase committees that can procure and contract up to 75 million Iraqi Dinar. During the year 2004 COSIT, had purchased goods and equipments worth of 256 million Iraqi Dinar. For more background on COSIT, see the Box 1.)

Procurement risk assessment

49. The procurement risk is rated **high**. The risks associated with procurement were identified in MOPDC and COSIT procurement capacity assessment and include: (a) the lack of adequate procurement laws and regulations, and of modern documentation practices; (b) habits acquired by procurement staff from the previous era, which will take time to modify; (c) limited experience of procurement staff in the use of Bank procurement guidelines and international sound procurement practice; (d) limited access of international Bank procurement staff to supervise the project in the field; (e) delays in implementing the procurement plan due to lack of experience in procurement planning and the volatile security conditions in Iraq; (g) possible looting of goods procured; and (h) delays in bid submission and/or implementation due to poor security conditions in some areas in Iraq. Measures to mitigate these risks are identified in Annex 6.

Iraq: High Risk – Weak Control Environment

Iraq's ability to manage public resources is undermined by poor security and outdated practices. Moreover; Iraq is ranked poorly on Transparency International's Corruption Perception Index, the lowest of all countries in the Region. There are reports from the auditors of the US Government Accountability Office and the auditors of the Office of the Commission on Public Integrity (published in the media) that significant amounts of funds cannot be accounted for, and that other reported spending could not be backed up with sufficient documentation. The audit also found that its efforts were hampered by rampant disorganization and poor bookkeeping and that contract files were "unavailable, incomplete, inconsistent and unreliable." As part of risk mitigation in the project, the following measurements were considered in the design of the operation and for the implementation of the project:

- Design the operations and procurement packaging with increased attention to mitigate the risk of weak control environment;
- Greater supervision attention would be devoted at the project level; e.g. lower the prior review threshold and conduct ex-post procurement reviews frequently;
- A Fiduciary Monitoring Agent is hired by the Bank and will also be conducting fiduciary monitoring of this project including spot physical inspection;
- Ensuring that the client from the start establish a good record keeping for all procurement and contract management and develop a good filing system;
- Train PMT and the designated procurement officer in particular on sound procurement practices following the ethics and code of conduct required by the implementing agency;
- Educate the PMT as well as private sector on the procedures the Bank takes in case of allegations of corruption;

- A Bank local procurement consultant who is on the ground will closely supervise procurement activities;
- Limit the use of non competitive procedures in procurement of goods and services as well as in consultants' selections;
- The Bank is now engaged with the government in supporting the government in the reform of the public procurement sector which will include as part of the reform drafting a unified public procurement law.

Procurement Plan

50. A Procurement Plan, which provides information on procurement packages and methods, is available in Annex 6. This plan, which is finalized and agreed between COSIT and the Bank at negotiation, will be available at both PMTs, in the Project Files, and on the Bank's external website. The Procurement Plan will be updated as required to reflect actual project implementation and improvements in institutional capacity.

Frequency of Procurement Supervision

51. In addition to the prior review of contracts, procurement supervision will be carried out from Bank offices as well as from the field, and based on the capacity assessment of the MOPDC, post reviews of procurement will be conducted on at least 20 percent of the contracts subject to post review. Where security conditions make travel to Iraq impossible for international Bank staff, the Bank will employ an independent supervising agent operating in Iraq to support the Bank in carrying out its supervision function. In addition, the Bank will rely on the reports of the Fiduciary Monitoring Agent (FMA) hired by the Bank, as well as on reports from a procurement consultant working for the Bank from within Iraq.

Disbursement

52. The proposed grant of US\$5.1 million, financing the GOI-Executed sub-project, is expected to be disbursed by June, 2008.³ Annex 3 describes the allocation of the grant proceeds according to each expenditure category.

53. The Bank's strategy in Iraq is to ensure Iraqi ownership and strengthen institutional capacity by financing operations that are implemented by Iraqi ministries and other recipient entities. Trained Project Management Teams (PMTs) will facilitate implementation and help ensure compliance with fiduciary and other safeguards. PMTs will be employed and paid by the implementing agency at regular salary levels, thereby avoiding the disadvantages of stand-alone Project Implementation Units, which can erode civil service institutional capacity over the medium and long term. The project will finance specialized technical support in procurement, financial management, and other areas, as needed. In addition, to ensure that project funds are used for the purposes intended and to help carry out project supervision, the Bank has hired an independent firm as Fiduciary Monitoring Agent (FMA). (See Annex 7 for more details on the role of the FMA).

³ Note that the Iraq Trust Fund is currently set to expire December 31, 2007, though an extension is expected. If, for some reason, the extension is not granted, the project will either need to be sped up or funds will need to be found from another source to complete the work.

54. As a further compensating control, disbursements will be made primarily through direct payment by the Bank to the consultants and vendors. Once authorized by the MOPDC, direct payments will be made by the World Bank directly into the account of the consultant or vendor in a commercial bank capable of receiving funds transferred from the international banking system. The Special Commitment method is available also for use for importing goods, whereby, the Bank issues special commitments to commercial banks to reimburse them for payments made to suppliers against Letters of Credit issued at the request of MOPDC for eligible expenditures.

55. The project management component and payments below the threshold of US\$20,000 normally will be made through payments by the Recipient from its own resources. These payments made from the Recipient's own resources will be reimbursed, on a periodic basis, by the Bank to the MOPDC upon presentation of full supporting documents, proof of payment and a signed withdrawal application. The Bank may later require the use of Statements of Expenditure (SOE) for payments below US\$20,000. The MOPDC-PMT and the main financial counterparts from the MOPDC will be subject to intensive training in Bank disbursement procedures.

Financial Management

56. The project is divided into two sub-projects: one that is GOI-Executed and the other one is Bank-executed. This section relates only to the GOI-Executed sub-project (the project) that is financed by an ITF grant and implemented by the Ministry of Planning and Development Coordination (MOPDC). Within the framework of MOPDC's systems, regulations, controls and in compliance with the grant agreement, a Project Management Team (PMT) will facilitate and manage the project implementation, including the financial management activities. For the IHSES subcomponent, the PMT will work closely with the IHSES Team. (A description of the IHSES team and related entities' structure is reflected in both paragraph 24 and Box 1.)

57. A financial management assessment of MOPDC was undertaken, remotely, through video conferences and several meetings in Jordan and Lebanon. The purpose of the assessment is to determine whether the financial management arrangements available are acceptable to the Bank, and to help identify areas that need additional arrangements or controls. The assessment which takes into consideration the country-level risks, as well as the project-level ones resulted in a "high" FM risk-rating for both. This rating contributes to the "high" fiduciary risk that the Grant might not be used for the intended purposes, with due regard to economy, efficiency and the sustainable achievement of the project's development. The result of the assessment is available in Project files.

58. As to the country level, Iraq has been defined as one of the "high risk-weak control environment countries" that require special attention, from the Bank, at the Country, sector, and project level. Major reasons for this categorization are the security conditions, the glaring weaknesses of the banking system, which hamper the domestic payment system and the accuracy of the budget reporting, the many years of isolation that Iraq endured, the very low ranking in the Corruption Perception Index for 2005, and the various reports issued by independent auditors and other donors.

59. At the project level, the following high critical risks were identified that need the attention of all stakeholders and very close monitoring: (i) MOPDC not being able to maintain a project

account with a **sufficient balance** for monthly payments (individual payment less than US\$20,000) that constitute a major portion of the grant **throughout the life of the project** leading to interruption of the project execution; (ii) Not maintaining the needed **coordination and communication** between the PMT and COSIT, KRSCO, and the rest of the governorate-level statistics organizations due to a history of stand-alone functioning; (iii) Delays in getting Bank reimbursements due to the **inefficiencies of the banking payment system** that would seriously paralyze the project and IHSES sub-component specifically; (iv) **Controlling a large number of contracts** (over 350) for consultants engaged to perform various assignments and their monthly payments for a minimum of 14 months without the use of a special software; and (v) Controlling a **considerable amount of operating expenses** which mainly cover transportation, hotel expenses and per diem fees for ministry employees necessary for the survey purposes. (More FM risks are reflected in Annex 7)

60. The Bank will however benefit, to a certain extent, from the limited knowledge acquired from the implementation of the ongoing ITF-financed projects, and more specifically from the Emergency Private Sector Development (EPSDI) Project that has a few components currently being implemented by the MOPDC. To further help in mitigating the identified risks, the Bank and MOPDC have introduced some additional project arrangements such as:

- Establishment of a centralized FM function at the PMT supported by an experienced PMT financial officer (who is the EPSDI FO and has attended numerous FM training) and a full-time accountant;
- Use of direct payments for large contracts (mainly goods);
- Opening of a project account by MOPDC with a sufficient balance to cover monthly payments and MOF giving the PMT the authority to make sufficient advances (covering a minimum of 2-months) to the governorate-level statistics organizations;
- Opening of bank accounts for each statistics office in the governorates to facilitate money transfers for the IHSES subcomponent-related payments;
- Enhancement of the personnel and payroll controls related to the monthly consultants' payments;
- Documenting, developing and using a FM procedures manual in executing the FM responsibilities (the PIM);
- Use of parallel accounting records to reflect project activities;
- Submission of quarterly financial monitoring reports to cater for the project's reporting needs;
- Involvement of the fiduciary monitoring agent (FMA) responsible for monitoring the ITF-financed projects at early stages of the project to gain full understanding of the expected weaknesses.
- Appointment of an external auditor with international experience to review the quarterly FMRs and undertake the project annual audits.

Despite of the introduced mitigating measures, there will still be a few residual risks that might hamper the execution of the project. The Bank would need to closely monitor the implementation of this project, especially during the first six months after effectiveness. Would there be any indications of **non-compliance**, there need to be an immediate revision of the related project arrangements.

61. The full project FM arrangements, FM risks and related mitigating measures are disclosed in Annex 7.

Project Supervision

62. Project activities are planned to be completed by June 2008. Supervision, to be carried out by the Bank's local consultants with support from the Fiduciary Monitoring Agent, will include visits to the IHSES and PMT offices for the purpose of reviewing implementation progress, impact of project activities, and related documentation. The Bank's local consultants and FMA will also provide advice and support to the PMT, particularly on the Bank's procurement and FM requirements. The FMA is expected to coordinate closely with the Bank and the PMT.

63. The PMT will prepare and send to the Bank a quarterly progress report. The first report will be due starting at the end of the first quarter following the initial disbursement.

64. The Bank, as the Iraq Trust Fund (ITF) Administrator, will supervise ITF-funded operations in accordance with the Bank's applicable policies and procedures. While staff travel to Iraq is restricted, supervision of GOI-Executed operations will be carried out through consultants, the Fiduciary Monitoring Agent, and meetings in alternative locations. Each ITF-funded operation is required to include a results-based supervision plan that reflects realities on the ground.

65. Reporting to Donors. The Bank will maintain separate records and ledger accounts in respect of the funds deposited by the donors with the Bank under the ITF. Within ninety (90) days of the end of each quarter (March 31, June 30, September 30, and December 31), the Bank will prepare, on a cash basis, an un-audited statement of receipts, disbursements, and fund balance with respect to the ITF and forward a copy to each donor. Each such statement will be expressed in United States Dollars, the currency in which the ITF funds will be maintained by the Bank. In addition, within one hundred and eighty (180) days of the completion of all disbursements relating to activities financed from the ITF, the Bank will prepare on a cash basis an un-audited financial statement of receipts, disbursements, and fund balance with respect to the ITF and forward a copy to each donor.

66. The Bank will furnish the donors:

- (a) on a semi-annual basis, a consolidated report describing the operations of the ITF (including contributions, disbursements, and implementation progress) in the preceding six months; and
- (b) on an annual basis, a management assertion, together with an attestation from the Bank's external auditors, concerning the adequacy of internal control over cash-based financial reporting for trust funds as a whole.

67. The Bank will require a financial statement audit of the ITF to be performed by the Bank's external auditors on an annual basis. The costs of such an audit, including the internal costs of the Bank with respect to the audit, will be charged to the ITF. The Bank will provide each donor with a copy of the auditor's report.

68. The Bank will maintain close consultation and coordination with the donors. The Bank will provide each donor to the ITF with semi-annual reports on its quarterly ex-post evaluation of the

activities undertaken by the FMA. Within six months of completion of the activities, or of full disbursement of the contributions, whichever comes later, the Bank will provide a final progress report to each donor, together with a copy of the independent review of the performance of the FMA. Upon request by any donor, the Bank will send to such donor the draft and final reports received by the Bank from the FMA on the activities financed by the contributions.

Environmental and Social Safeguards

69. This is a Category C project, reflecting the fact that the project does not entail any physical works or environmental impacts.

V. FINANCIAL AND ECONOMIC JUSTIFICATION

70. This project is prepared as part of the interim strategy of the World Bank in addressing the pressing needs of the sector and according to the emergency recovery assistance procedures (OP 8.50). The project addresses the GOI's urgent need for data on the incomes, expenditures and living standards of the population. Such data is also urgently needed for policy decisions (e.g. reform of fuel and/or food subsidies) and for the development of appropriate safety net programs. In addition, the survey is a necessary input into the creation of a Consumer Price Index (for measuring inflation, and indexing pensions, etc.) and the System of National Accounts (for monitoring macroeconomic growth, household consumption and savings and small enterprises). The project also addresses the GOI's need for (i) empirical analysis of the causes and characteristics of poverty, (ii) empirical analysis of the likely impact of possible policy reforms on poverty and society; and provides resources to support the GOI's development of a strategy for addressing the inter-related challenges of poverty reduction, employment generation and safety net development.

VI. POTENTIAL RISKS AND MITIGATION

71. The political and security environment in Iraq is currently very unstable and uncertain, and poses obvious risks to the proposed project. Particularly noteworthy for this project is the risk that survey data collection may be disrupted in some parts of the country during some periods. The principle mitigation measures employed in this project are (i) flexible project design, (ii) use of technology and (iii) decentralized staff appointments and hiring.

72. The table below identifies general project risks that have been identified, and the measures to be taken to mitigate those risks. Procurement-related risks are identified in Annex 6. Financial management-related risks are identified in Annex 7.

Risk	Rating	Mitigation Measures
Significant uncertainty exists, given that the first full term government has just been formed and its priorities and policies are not yet known.	M	The project's emphasis on data collection and empirical analysis means that it is likely to be relevant to any government, whatever its policies. The project has been developed at the request of, and in close collaboration with, technical staff of the government, which should ensure ownership and continuity.
Security conditions deteriorate, making it difficult to collect data and to supervise the work in all parts of the country throughout the 12 month survey cycle.	H	Use of local contractors and local staff for data collection and supervision to the maximum extent possible. Adopting low visibility for staff who travel outside of their home governorate. Use of technology (including internet and cell phones) for communication. Flexible project design, such that survey can continue wherever and whenever security situations permit.
The Bank's inability to carry out in-country supervision	S	Use of local consultants to assist in supervision. Supervision of survey interviewers will be performed through (i) data entry program designed to identify fabricated data and (ii) random repeat interviews of some households. In addition, interviewer contracts will be based on tasks performed, removing the need to monitor actual hours worked.
Limited knowledge about the Bank's policies and guidelines by the Iraqi authorities leading non-compliance.	M	Use of GOI's existing policies and guidelines wherever possible. Regular communication between the Bank and the PMT and frequent training.
Insufficient cooperation between COSIT, KRSCO and the governorate-level statistical offices.	H	The survey has been designed by a team comprising representatives from COSIT, KRSCO's predecessor organization (KRRO) and the governorate-level statistical organizations. Details of the survey design have been agreed upon prior to the initiation of the Grant Agreement.
Insufficient analytical capacity within the GOI.	M	One of the main elements of the project is capacity building. This permits resources to go toward training where necessary and implies the flexibility to tailor analytical products to the skills of the GOI.
Difficulty of GOI in completing the project in accordance with their requested grant completion date of June 30, 2008	H	The IHSES and the project as a whole have been designed to permit overlap in the schedule of components. In addition, the World Bank executed sub-project is designed to provide support to the GOI team in a flexible and responsive manner, throughout the period of grant effectiveness.
Possible low level of coordination between various government entities.	M	The KRSCO's predecessor organization (KRRO) and the governorate-level statistical offices have been involved in the design of the project since the earliest stages. The PMT and

		Project Committee have explicit responsibility for coordinating with the various ministries and with the KRG, as well as identifying potential problems before they escalate.
Overall risk	H	

H = High Risk; S = Substantial Risk; M = Modest Risk; N = Low or Negligible Risk

VII. SCHEDULE OF KEY PROJECT EVENTS

73. The schedule of key project events assumes the Iraq Trust Fund closing date will be extended. If the ITF closing date is not extended, the project would need to be sped up or the MOPDC would need to find another source of funds to complete the project.

Event	Expected Date
Negotiations	March 10, 2006
Grant Signing	June 30, 2006
Train IHSES field staff	August 1, 2006 – August 30, 2006
IHSES survey data collection	September 1, 2006 – August 30, 2007
IHSES Tabulation Report and Data Sets complete	October 14, 2007
Poverty Assessment Report complete	December 31, 2007
Poverty and Social Impact Analysis complete	February 28, 2008
GOI Strategy for Poverty Reduction, Employment Generation and Safety Net Development complete	June 30, 2008
Planned Grant Closing date	June 30, 2008

Annex 1: LOGICAL FRAMEWORK AND KEY PERFORMANCE INDICATORS

1. The overall objective of the project is to strengthen the ability of the GOI to make informed decisions towards reducing poverty, creating jobs and protecting the vulnerable. The project is designed as three components, each of which serves as an input into the next component.

Component 1: IHSES Subcomponent	Collect high quality data on household income, expenditure and living standards for all governorates	Data sets and tabulation reports
	Strengthen capacity of Iraqi statistical bodies to conduct quality household surveys	Statistical staff trained (including on-the-job training)
Component 1: Poverty Assessment Subcomponent	Increase knowledge of living standards and income and expenditure patterns of Iraqi households	Poverty assessment report and dissemination of report (to policy makers and researchers)
	Strengthen capacity of MOPDC, MOF, MOLSA, and other government entities to analyze household survey data.	Technical staff of various government entities trained (including on-the-job training)
Component 2: Poverty and Social Impact Analysis	Increase knowledge of the poverty and social impact of existing and proposed economic policies	Series of analytical studies (specific topics to be determined by the Project Committee) and dissemination of analytical studies (to policy makers and researchers)
	Strengthen capacity of MOPDC, MOF, MOLSA and other government entities to analyze the impact of economic policies on poverty and social welfare	Technical and policy staff of various government entities trained (including on-the-job training)
Component 3: GOI Strategy for Poverty Reduction, Employment Generation and Safety Net Development	Development of a Poverty Reduction, Employment Generation and Safety net Strategy	Strategy document, written by the Project Committee and dissemination of strategy (including to the general public)
	Strengthen the capacity of policy makers to develop a comprehensive, information-based strategy	Workshops and/or study tours on international experience

Annex 2: IHSES SAMPLING DESIGN

Overall design and total sample size

1. The sampling design described here applies uniformly to the whole territory, including Kurdistan. It is based on the assertions that [a] a majal-based sample frame is available everywhere and [b] the World Health Organization's Multiple Indicator Cluster Survey (MICS,) will be conducted concurrently with the IHSES in all places.
2. The IHSES and the MICS will share a common sample with a total size of 18,144 households – six households in each of 3,024 Primary Sampling Units (PSUs.)

Major strata

3. The surveys distinguish 56 major strata, 5 of them in Bagdad and 3 in each of the other 17 governorates, corresponding to the Metropolitan, Urban and Rural sections of the governorate (Bagdad has three metropolitan strata.) Each stratum was allocated a sample of 324 households – six households in each of 54 PSUs.

Sampling strategy

4. The sampling strategy is the same in all strata: Two stage sampling, with groups of majals (Census Enumeration Areas) as Primary Sampling Units (PSUs) and households as Second Sampling Units.

First sampling stage

5. PSUs are groups neighboring majals, built with the intention of [a] containing from 70 to 100 households. (The majals are based on the October 1997 census in the 15 center and southern governorates. For the KRG, KRSO made available the 2004 population frame, through which households have been grouped into majals, consisting of around 30 households, with majals considered as PSUs. Unlike KRSO, the Suleymaniya Statistics Organization used the administrative divisions to creation blocks of 70-100 households, which are considered as PSUs.) [b] belonging to the same block (in urban areas,) or village (in rural areas,) and [c] containing 2 to 4 majals in urban areas and 2 to 3 majals in rural areas.
6. Within each stratum, the sample of 54 PSUs was explicitly allocated to qadhas, approximately in proportion to the population. To avoid having less than two PSUs in some of the smaller ones, qadhas were sometimes grouped into pairs. Qadhas (or pairs of qadhas) thus became minor strata.
7. Within each minor stratum the sample of PSUs was selected by systematic equal probability sampling.

Survey waves

8. The 54 PSUs selected in each major stratum will be sorted into 18 groups of three PSUs. Each group of three PSUs will constitute a survey wave, to be visited by the three interviewers of a field team approximately at the same time.
9. The grouping of PSUs into survey waves can be done according to operational convenience (for instance, striving to have the three interviewers in each team close to each other for better supervision.) The 18 survey waves assigned to each field team will be distributed randomly along the 12-month period of field operations.

Second sampling stage

10. A cartographic updating and household listing operation will be conducted in all 3,024 PSUs.

11. A quick count of households will be done prior to the listing. If the PSU appears to have more than 200 households, it will be divided into *segments* approximately equal in size, each with not more than 100 households, and one of the segments – randomly selected with equal probability – will be listed, rather than the whole PSU.

12. Within each PSU, a sample of six households will be selected by systematic equal probability sampling.

13. No additional households will be selected to replace non-respondents. The cover page of the household questionnaire will be completed for all six households selected in each PSU, including non-respondents, and it will have a field to record the result of the interviews, with the following categories: [1] all visits completed, [2] abandoned before last visit, [3] dwelling not found, [4] address is not a dwelling [5] dwelling permanently empty, [6] dwelling empty at the time of the visit, [7] household refused to be interviewed.

Sub-sample for the time use module

14. The time use modules will be administered to all household members 10 years or older in two of the six households visited in each PSU. These will always be the second and fifth households selected in the second sampling stage.

15. The time use modules will always be administered in the third of the seven scheduled visits to each household. This will result in a sample of time use modules that is randomly allocated to weekdays.

Documentation needs

16. To compute sampling weights for the survey, the following elements will be needed: [a] The total number of PSUs in each of the minor strata (qadhas or pairs of qadhas,) defined prior to the second sampling stage; [b] Whether the PSU was segmented and the number of segments in each of the 2,916 PSUs, and [c] The total number of households listed in each of the 3,024 PSUs (or segments.)

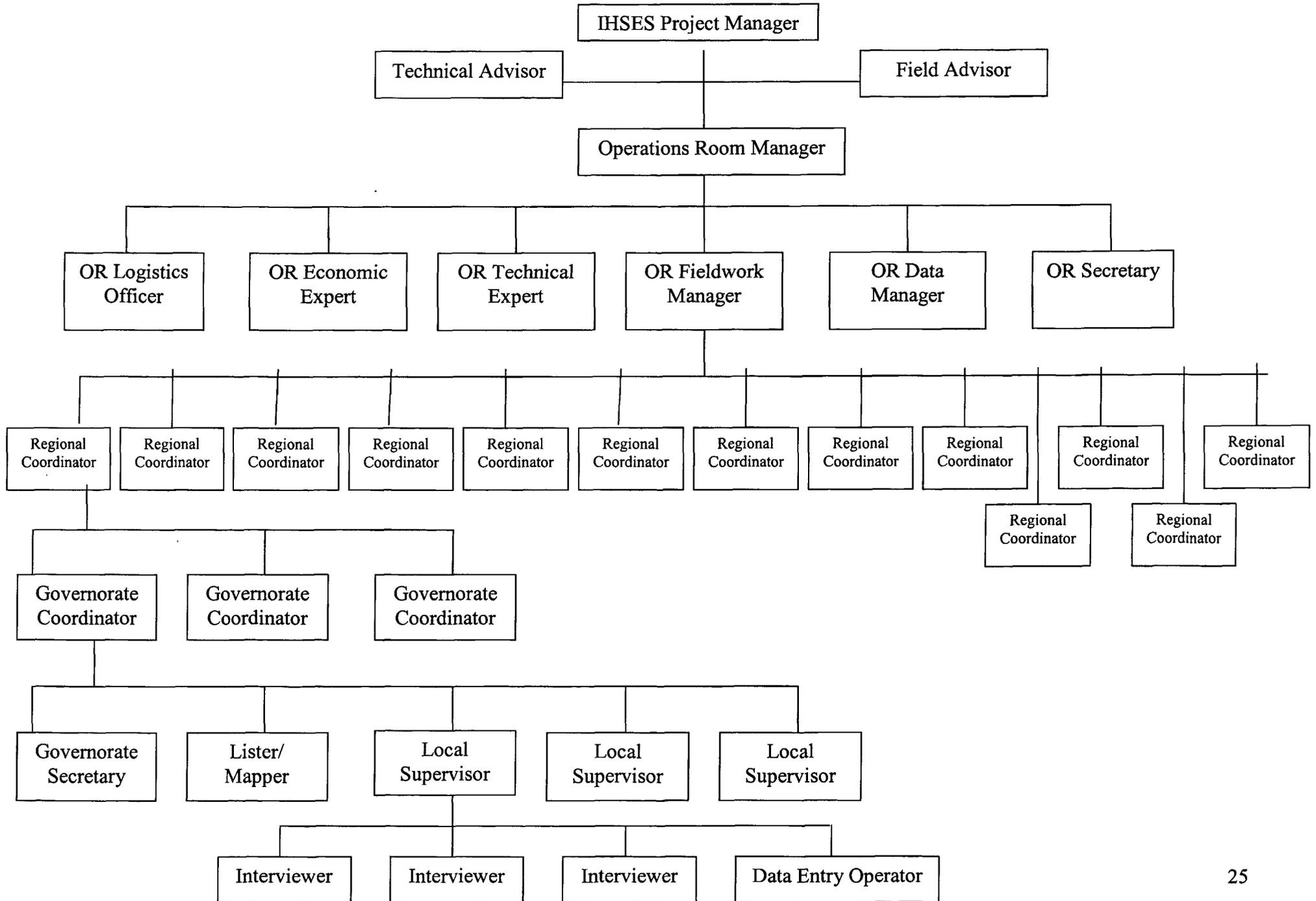
Process of adjusting sample if parts of the country need to be excluded for security reasons

17. No a priori exclusions will be made. Field staff will be instructed to take caution with respect to their own security. If an area is found to be unsafe at the time it is scheduled for a visit, it will be swapped with another of the sample PSUs not yet visited by the team. (The selection from among the sample PSUs will be made on a random basis by a member of the higher level staff of the IHSES team.) All swaps will be thoroughly documented.

Annex 3: SUMMARY OF PROJECT COSTS

	Cost	Percent of total project cost
Total Grants	6,600,000	100%
GOI Executed Sub-project	5,100,000	77%
Component 1: Poverty Assessment and Data Sets	3,828,740	58%
IHSES Sub-component	3,278,740	50%
Consultant Services & Training	1,708,500	26%
Goods	512,100	8%
Operating Costs	1,058,140	16%
Poverty Assessment Report Sub-Component	550,000	8%
Consultant Services & Training	500,000	8%
Goods	50,000	1%
Component 2: Poverty and Social Impact Analysis	510,000	8%
Consultant Services & Training	470,000	7%
Goods	40,000	1%
Component 3: GOI Strategy (Consultant	390,000	6%
Consultant Services & Training	340,000	5%
Goods	50,000	1%
Project Management Team and Contingency	124,600	2%
Consultant Services & Training	102,000	2%
Operating Costs	22,600	0%
Contingency/Unallocated	246,660	4%
WB Executed Sub-project	1,500,000	23%
Component 1: Poverty Assessment and Data Sets	1,079,825	16%
Component 2: Poverty and Social Impact Analysis	155,000	2%
Component 3: GOI Strategy	265,175	4%

Annex 4: IHSES TEAM ORGANIZATIONAL CHART



Annex 5: PROCUREMENT ARRANGEMENT

1. ***Procurement of Goods.*** Goods procured under this project will include IT equipment and supplies needed for project implementation. Procurement will be done mainly using Shopping procedures as the identified goods contracts are of small value estimated at US\$100,000 or less per contract.
2. ***Selection of Consultants.*** Consultants' services procured under this project will include: (i) selection of individual consultants to provide data collection, analysis and report/paper writing services. International consulting firms/individuals may not be interested in some contracts while the security situation is volatile. Accordingly, it is possible that shortlists for consultants' services for some contracts may be composed entirely of national/regional consultants. It is also expected that consulting offices associated with local universities may be included in the shortlists. University-based consultants will not be given preference over private consultants.
3. ***Operating Costs:*** The Grant will finance expenditures directly related to the management of the project, such as: (i) maintenance of office equipment; (ii) transportation and travel, including per diem allowances for project staff in travel status; (iii) rental of office space; (iv) office supplies, utilities and office administration, including translation, printing and advertising; (v) fuel costs; (vi) communication and workshops costs; (vii) costs for production of bidding documents; (viii) commercial bank charges; and (ix) any other project management support costs as agreed by the Recipient and the Bank, but excluding salaries of the Recipient's civil servants. These items will be financed by the project and will be procured using the ministry's administrative procedures for shopping, satisfactory to IDA.
4. ***Procurement Risk Assessment:*** The procurement risk is rated **high**. The risks associated with procurement were identified in MOPDC's procurement capacity assessment and include: (i) the lack of adequate procurement laws and regulations, and of modern documentation practices; (ii) habits acquired by procurement staff from the previous era, which will take time to modify; (iii) limited experience of procurement staff in the use of Bank procurement guidelines and international sound procurement practice; (iv) limited access of international Bank procurement staff to supervise the project in the field; (v) delays in implementing the procurement plan due to lack of experience in procurement planning and the volatile security conditions in Iraq; (vi) possible looting of goods; and (vii) delays in bid submission and/or implementation due to poor security conditions in some areas in Iraq.
5. Corrective measures that have been agreed include: (i) assigning the procurement officer who works on the Emergency Private Sector Project to also work on this project as part of the PMT; and (ii) using the MIM to develop a PIM. See procurement risk table below.

Procurements Risks

Risk	Rating	Mitigating Measures
The lack of adequate laws and regulations, absence of modern standard documentation, and persistent procurement habits acquired previously may take time to modify.	H	Continuous training will be provided. Close monitoring and advice of the Iraqi team through the Bank's local procurement consultant and the FMA.
Lack of experience using the Bank's procurement guidelines and sound international procurement practices.	M	Training will be provided to the PMT on World Bank procurement guidelines, bidding document preparation, and bid evaluation. Close supervision by Bank staff, including the Bank's procurement consultant based in Baghdad. A project launch workshop in Arabic/English is planned soon after the Financing Agreement is signed.
Inability of international Bank procurement staff to supervise the project in the field.	H	Post reviews and other procurement matters will be covered in the first instance by local procurement consultants working for the Bank. The Fiduciary Monitoring Agent will assist in conducting post reviews. Conduct training on the MIM.
Delays in implementing the procurement plan due to lack of experience in procurement planning and the volatile security conditions in Iraq as well as long time taken by proposal/bids evaluation committees.	H	Close monitoring of procurement plan by the Bank and the PMT.
Possibility of high prices due to security conditions in Iraq.	L	Price and physical contingencies have been provided for in the project budget.
Damage/looting of goods.	M	Insurance will provide cover until goods are delivered and handed over to the client. PMT to ensure the goods are in safe places.
Average Risk	H	

Legend: **L:** Low **M:** Medium **S:** Substantial **H:** High

Annex 6: Procurement Plan

A. General

1. Project Information:

Country: Republic of Iraq
Recipient: Ministry of Planning and Development Cooperation
Project Name: Emergency Household Survey and Policies for Poverty Reduction (HSPR)
Grant No.: P098979
Grant Amount: US\$ 6.6 million
Project Implementing Agency (PIA): Ministry of Planning and Development Cooperation
and Kurdish Regional Government

2. **Bank approval of the procurement plan:** May 31, 2006

3. **Date of General Procurement Notice:** January 31, 2006

4. **Period covered by this procurement plan:** 18 months

B. Goods and Non-Consulting Services.

1. **Prior Review Thresholds:** Procurement Decisions subject to Prior Review by the Bank as stated in Appendix 1 to the Guidelines for Procurement:

	Procurement Method	Prior Review Threshold	Comments
1.	ICB (Goods)	All	
2.	NCB (Goods)	>= US\$100,000 and first two contracts irrespective of the value	
5.	Shopping (goods)	>= US\$100,000 and first two contracts irrespective of the value	
6.	Direct contracting	All	

2. **Prequalification.** N. A.

3. **Reference to (if any) Project Operational/Procurement Manual.** The Project Management Team (PMT) will prepare a Project Implementation Manual (PIM) by the start of the project. The PIM will be based on the Iraq Master Implementation Manual (MIM) financed under the Capacity Building Trust Fund for Iraq.

4. **Any Other Special Procurement Arrangements:** Advance procurement is planned under the project mainly to recruit individual consultants to start the data collection.

5. **Other Special Procurement Arrangements:** None.

6. **Procurement Packages with Methods and Time Schedule.** Goods will be procured mostly by using shopping as the value of each contract is smaller than US\$100,000. There is no domestic preference under the project. A detailed procurement plan is attached.

C. Selection of Consultants

1. **Prior Review Threshold:** Selection decisions subject to Prior Review by Bank as stated in Appendix 1 to the Guidelines Selection and Employment of Consultants:

	Selection Method	Prior Review Threshold	Comments
a.	Competitive Methods (Firms)	> = US\$100,000 and first two contracts irrespective of the value or the selection method	
b.	Single Source (Firms)	All	
c.	Individual Consultants	> = US\$50,000	
d.	Single Source (Individual)	All	

2. **Short list comprising entirely of national consultants:** Short list of consultants for services, estimated to cost less than US\$100,000 equivalent per contract, may comprise entirely national consultants in accordance with the provisions of paragraph 2.7 of the Consultant Guidelines.

3. **Any Other Special Selection Arrangements:** None.

4. **Consultancy Assignments with Selection Methods and Time Schedule:** The project will recruit about 400 individual consultants mainly for data collections. Most of these consultants will be individual local consultants. An advertisement was published in at least one widely distributed local newspaper to solicit CVs from interested individual consultants and a committee from COSIT, KRSCO and the governorate-level statistical offices will be selecting these individual consultants for the IHSES subcomponent. These consultancy services are indicated in the procurement plan.

D. Implementing Agency Capacity Building Activities with Time Schedule

1. The agreed Capacity Building Activities are listed with time schedule.

Expected outcome / Activity Description	Estimated Duration	Start Date	Comments
Training and support to MOPDC staff on: procurement, setting up a procurement monitoring system, filing system, bidding document preparation, bid evaluation, preparation of RFP, proposal evaluation, reporting and spot physical inspection.	Several workshops	May 2006	This will be planned as part of the capacity building for all projects for Iraq as well as under this project as needed. This could be done by those local trainers already trained under the MIM workshop as well as in part by the Monitoring Agent.

IRAQ
Emergency Household Survey and Policies for Poverty Reduction (HSPR)
Initial Procurement Plan—Goods

Procurement System Ref. #	Location/ Description	Estimated Cost (US\$) /c	Estimated No. of Packages	Procurement Method	Review By Bank (PRIOR / Post)	Submission/ Readiness Date	WB No Objection Date	Invitation Date	Expected Bid-Opening Date	Evaluation & Recomm.	WB No Objection Date	Contract Award Date	Start Date	Completion Date	Comments
1. GOODS															
G.SH.01/2006	(20) Labtop Computers for Reg. Offices	\$ 24,000	1	SH	PRIOR	10-May-06	17-May-06	20-May-06	31-May-06	07-Jun-06	21-Jun-06	28-Jun-06	03-Jul-06	17-Aug-06	
G.SH.02/2006	(56) Desktop Data Computers + (32) Pen Drives	\$ 40,800	1	SH	PRIOR	10-May-06	17-May-06	20-May-06	31-May-06	07-Jun-06	21-Jun-06	28-Jun-06	03-Jul-06	17-Aug-06	
G.SH.03/2006	(5) Photocopiers	\$ 25,000	1	SH	POST	07-Jun-06		10-Jun-06	17-Jun-06	24-Jun-06		29-Jun-06	04-Jul-06	18-Aug-06	
G.SH.04/2006	(76) Data Entry Printers + (20) Scanners	\$ 32,800	1	SH	POST	07-Jun-06		10-Jun-06	17-Jun-06	24-Jun-06		29-Jun-06	04-Jul-06	18-Aug-06	
G.SH.05/2006	(265) Cell Phones	\$ 28,500	1	SH	POST	07-Jun-06		10-Jun-06	17-Jun-06	24-Jun-06		29-Jun-06	04-Jul-06	18-Aug-06	
G.SH.06/2006	(18) Generators	\$ 27,000	1	SH	POST	07-Jun-06		10-Jun-06	17-Jun-06	24-Jun-06		29-Jun-06	04-Jul-06	18-Aug-06	
G.SH.07/2006	Furniture	\$ 30,000	1	SH	POST	07-Jun-06		10-Jun-06	17-Jun-06	24-Jun-06		29-Jun-06	04-Jul-06	18-Aug-06	
G.NCB.01/2006	(18) Internet Connection	\$ 80,000	1	SH	PRIOR	10-May-06	17-May-06	20-May-06	31-May-06	07-Jun-06	21-Jun-06	28-Jun-06	03-Jul-06	17-Aug-06	
G.NCB.01/2006	Promotion Campaign Goods	\$ 140,000	1	NCB	PRIOR	20-Jun-06	27-Jun-06	30-Jun-06	28-Jul-06	11-Aug-06	25-Aug-06	30-Aug-06	04-Sep-06	04-Oct-06	
G.SH.08/2006	Printing of Reports	\$ 328,000	Several	SH	POST	15-Jun-06		18-Jun-06	25-Jun-06	02-Jul-06		07-Jul-06	12-Jul-06	10-Sep-06	
Total for Goods		\$ 752,100													

Legend:

- ICB = International Competitive Bidding (in accordance with section 2 of the Guidelines)
- NCB = National Competitive Bidding (in accordance with section 3.3 of the Guidelines)
- SH = Shopping (in accordance with section 3.5 of the Guidelines)
- NA = Not applicable

IRAQ
Emergency Household Survey and Policies for Poverty Reduction (HSPR)
Initial Procurement Plan—Consultants Services

Procurement System Ref. #	Location/ Description of Assignment	Estimated Cost (US\$)	Selection Method	Review by Bank Prior / Post	Advertisement for EOI Date	Short Listing	No Objection Date	Contract Award Date	Start Date	Completion Date	Comments
2. CONSULTANTS' SERVICES											
2.1 Consultants for COSIT											
CON.TE.01/2006	(1) Technical Expert	\$ 31,500	IC	PRIOR	13-Mar-06	31-May-06	07-Jun-06	14-Jun-06	17-Jun-06	09-Dec-07	
CON.LO.01/2006	(1) Logistic Officer	\$ 22,500	IC	PRIOR	13-Mar-06	31-May-06	07-Jun-06	14-Jun-06	17-Jun-06	09-Dec-07	
CON.RC.01-02/2006	(2) Regional Coordinator	\$ 50,400	IC	PRIOR	13-Mar-06	31-May-06	07-Jun-06	14-Jun-06	17-Jun-06	11-Aug-07	
CON.EE.01/2006	(1) Economic Expert	\$ 31,500	IC	POST	13-Mar-06	06-Jun-06		20-Jun-06	23-Jun-06	15-Dec-07	
CON.SEC.01/2006	(1) Secretary - PM	\$ 5,400	IC	POST	13-Mar-06	06-Jun-06		20-Jun-06	23-Jun-06	15-Dec-07	
CON.SEC.02/2006	(1) Secretary - OR	\$ 5,400	IC	POST	13-Mar-06	06-Jun-06		20-Jun-06	23-Jun-06	15-Dec-07	
CON.SEC.GC.01-18/2006	(18) Secretary - Governorate Coordinator	\$ 50,000	IC	POST	13-Mar-06	06-Jun-06		20-Jun-06	23-Jun-06	15-Dec-07	
CON.INT.001-204/2006	(204) Interviewers	\$ 856,800	IC	POST	13-Mar-06	06-Jun-06		20-Jun-06	23-Jul-06	16-Sep-07	
CON.LS.01-74/2006	(74) Local Supervisors	\$ 310,800	IC	POST	13-Mar-06	06-Jun-06		20-Jun-06	23-Jul-06	16-Sep-07	
CON.L&M.01-18/2006	(18) Listers & Mappers	\$ 75,600	IC	POST	13-Mar-06	06-Jun-06		20-Jun-06	23-Jul-06	16-Sep-07	
CON.DEO.01-72/2006	(72) Data Entry Operators	\$ 252,000	IC	POST	13-Mar-06	06-Jun-06		20-Jun-06	23-Jul-06	16-Sep-07	
Subtotal for 2.1		\$ 1,691,900									
2.2 Consultants for Project Management (PMT Team) & Auditing											
CON.LCS.AUDIT	External Audit	\$ 70,000	LCS	PRIOR	05-Jun-06	05-Jul-06	12-Jul-06	16-Oct-06	31-Oct-06	31-Oct-07	
Subtotal 2.2		\$ 70,000									
Total for Consultants		\$ 1,761,900									

Legend:

LCS = Least-Cost Selection (in accordance with section 3.6 of the Guidelines)

IC = Selection of Individual Consultants (in accordance with sections 5.1 - 5.4 of the Guidelines)

NA = Not Applicable

ANNEX 7: FINANCIAL MANAGEMENT AND DISBURSEMENT

FINANCIAL MANAGEMENT

1. The GOI-Executed sub-project is financed by an ITF grant and implemented by MOPDC within a framework of its systems, regulations, controls and in compliance with the grant agreement. A PMT will facilitate and manage the project implementation in coordination with MOPDC statistics organization (COSIT), KR statistics organization (KRSCO) entities, and other governorate-level statistics organizations. The FM responsibility is centralized at the PMT, in having direct relationship with the Bank, requesting disbursements, consolidating all payments, maintaining project accounting records and preparing reports. However, for the IHSES subcomponent, the disbursement at the governorate level is the responsibility of each governorate-level statistics organization who deals directly with the consultants involved in the survey. Arrangements for flow of funds between the PMT and the consultants, through the related statistics organizations are established. On-site frequent monitoring of continuity of FM arrangements will be performed by the FMA Independent quarterly review and annual audit will be performed by an external auditor accepted by the Bank. A Project Implementation Manual (PIM) will be developed based on the Master Implementation Manual (MIM) to be used as guidance for carrying out the fiduciary responsibilities. **Further details of the FM associated risks, mitigating measures and FM arrangements are disclosed below.**

Country Financial Management Risk

2. A Country Financial Accountability Assessment (CFAA) has not been undertaken for Iraq. However; numerous reports, including the International Monetary Fund-World Bank April 2005 report on Iraq Public Financial Management⁴ show a **high** inherent risk in almost all the main functions of a financial management system (budgeting, internal controls, accounting, reporting). The security situation, the glaring weaknesses of the banking system, which hamper the domestic payment system and the accuracy of the budget reporting, and the many years of isolation that Iraq endured, the very low ranking in the Corruption Perception Index for 2005 and years before, have contributed to this risk. In fact, Iraq has been defined, by the Bank, as one of the “**high risk-weak control environment countries**” that require special attention, from the Bank, at the Country, sector, and project level.

Project Financial Management Risk

3. **High critical** risks were identified that need the attention of all stakeholders and very close monitoring: (i) MOPDC not being able to maintain a project account with a **sufficient balance** for monthly payments (individual payment less than US\$20,000) that constitute a major portion of the grant **throughout the life of the project** leading to interruption of the project execution; (ii) Not maintaining the needed **coordination and the communication** between the PMT and COSIT, KRSCO, and the rest of the governorate-level statistics organizations, due to a history of stand-alone functioning; (iii) Delays in getting Bank reimbursements due to the **inefficiencies of the banking payment system** that would seriously paralyze the project and IHSES sub-component specifically; (iv) **Controlling a large number of contracts** (over 350) for consultants engaged to perform various assignments and their monthly payments for a minimum of 14 months **without the use of a special**

⁴ Enhancing Sound PFM-Short- to Medium-Term Reforms.

software; and (v) Controlling a **considerable amount of operating expenses** which mainly cover transportation, hotel expenses and per diem fees for ministry employees necessary for the survey purposes.

4. Other **critical risk** factors are: (i) **Limited capacity** to meet the project's financial management requirements; (ii) **Security** conditions do not allow timely visits by the Bank team and possibly the FMA to follow on the survey aspect and also hampers the consultants visits to provide the technical assistance; (iii) **Irregular reporting** from COSIT, KRSCO and the rest of the governorate-level statistics organizations to the PMT leading to delays in authorizing payments; (iv) Possible limitation of access to project-related documentation by either the PMT, FMA, or external auditor; and (v) Spread-sheet-based records keeping of over 5,000 transactions throughout the project life and possible loss of information and inefficiencies.

Financial Management Risk Table

Risk	Rating	Mitigation Measures
Country Level		
Limited knowledge about the Iraqi financial systems, controls, and procedures in general and lack of knowledge about the MOP which is still under establishment	H	Use of MOPDC and MOP controls strengthened by the use of a PMT, the centralization of FM function undertaken by experienced professional, the parallel accounting system, mainly the Direct payment disbursement method, the opening of bank accounts in all governorates, the engagement of a Fiduciary Monitoring Agent (FMA) and external auditor, and documenting all project needed procedures in a PIM based on the MIM.
Counterparts limited knowledge about the Bank's policies and guidelines.	M	Frequent workshops and communication between the Bank and the PMT.
Project Level		
Not being able to maintain a project account with sufficient balance for monthly payments (individual payment less than US\$20,000) throughout the life of the project leading to shortages and delays in payments and reimbursements.	H	PMT has acquired MOF authorization of maintaining a project account throughout the project life; however, any shortage or delay need to be immediately dealt with.
Not maintaining the coordination and communication needed between the PMT and COSIT, KRSCO and the rest of the governorate-level statistics organizations.	H	Participation of all parties in workshops and agreement on means of communication and documentation of activities.
Delays in getting Bank reimbursements due to the inefficiencies of the banking payment system.	H	Timely dealing with the bottlenecks .Advances to cover a minimum of 2-months expenses. The Bank issuing payment advices and giving PMT access to ClientConnection to timely monitor payment dates and investigate any considerable delays.

Risk	Rating	Mitigation Measures
Country Level		
Controlling a large number of contracts (over 350) for consultants engaged to perform various assignments and their monthly payments for a minimum of 14 months without the use of special software.	H	Centralizing the FM function, including the maintenance of contracts, payments process, establishing a simple payroll system through time sheets and clear monitoring responsibilities; maintaining personnel files for each consultant. Considering the use of a simple database.
Records keeping of over 5,000 transactions throughout the project life and being able to generate accurate and timely reports.	H	Using spreadsheets-based records and maintaining very close control, double-checking, daily backups to ensure accuracy and prevent the loss of data. Consider the development and use of a simple data-base.
Controlling operating expenses which mainly cover transportation, hotel expenses and per diem fees for ministry employees necessary for the survey purposes.	H	Establishing controlling forms linking the visit purpose and result with the payment made, or consider the option of purchasing cars (for transportation fees).
Limited capacity to meet the project's financial management requirements.	H	Having qualified FO and accountant to maintain the centralized financial management function. They will record commitments, process payments, maintain project accounts and prepare reports. Related training would be provided to them as well as on-the-job support from the FMA.
Security conditions do not allow timely visits by the Bank team to follow on the survey aspects and as well visits by the consultants providing the technical assistance.	M	Engagement of the FMA. Holding workshops outside Iraq.
Irregular reporting from COSIT, KRSCO and the rest of the governorate-level statistics organizations to the PMT leading to delays in authorizing payments.	H	Establishing clear processes for flow of information and funds, documenting them in the PIM and monitor proper compliance to the PIM.
Limitation on access to project-related documentation by the PMT, FMA, or external auditor.	M	Reflecting this arrangement in the legal document and the minutes of negotiations.
Overall FM Risk:	H	

Legend: L: Low M: Medium S: Substantial H: High

Existing FM Arrangements

COSIT – FM Structure and Payment Process

5. COSIT is responsible for central data collection and analysis for the Iraqi government and its various ministries. COSIT is domiciled in MOPDC and consists of three main departments: Technical Affairs, Information Technology, and Administration and Financial. The Technical Affairs department has nine regional directorates at COSIT General Directorate, 18 directorates in the governorates and a

team following on the governorates affairs. The Administrative and Financial department has five directorates: Accounting, Payments, Payroll, Records Management, and administration. The Information Technology department has 3 teams. COSIT has an independent financial and financial status. Its budget is discussed with a central committee at the MOPDC and not with the financial department at MOPDC. It appears as a separate budget within MOPDC budget. COSIT has an IQD current account in Rasheed Bank. Budget allocations are transferred monthly by MOF based on COSIT request. The payments team at the Financial and Administrative department at COSIT is responsible for ensuring the eligibility of the payment and its compliance with the enforced rules, allocated budget, and existence of proper signatures. The "internal audit" at MOPDC verifies the payment on ex-ante basis. In regards of project consultants' payments in Baghdad, a project financial committee pays the remunerations directly to beneficiaries based on payment lists certified by the project manager. While, each COSIT accountant based in the governorates, travels to Baghdad and receives the cash remunerations based on payment lists prepared by the project financial committee and approved by project manager. A sub-committee in each governorate distributes the payments based on the list, which are certified by the COSIT Governorate Director and accountant. Then all payments lists are sent to COSIT in Baghdad to be checked.

6. This above-mentioned payment method was applied in payments made for the UNDP Supported Living Conditions Survey that was implemented by COSIT in 2004. That survey involved 500 consultants and staff from COSIT and other departments. The target of the survey was 22,000 families. Disbursements of funds by UNDP was made in US\$ and according to the progress of work and wired in instalments through one of the banks in Baghdad. When COSIT received the payments in US\$, it had to notify the MOF, which record the funds as Government Income and reflects them in MOPDC account. Then it authorizes COSIT to withdraw these amounts in IQD. For the purpose of assessing the FM capacity of COSIT, their handling this project was taken into consideration; however, the fact that the project was over a period of three months (an average of 50 working days) and required only one payment per consultant, makes handling over 350 contracts over 14 months a very challenging activity.

KRSCO – Available Information

7. KRSCO coordinates the statistical work of Erbil, Dohuk and Suleymaniya. KRSCO was established in 2006 and reports to the KRG Minister of Planning. A regional statistical law is under discussion in the Kurdish Regional Parliament. KRSCO structure is under development as part of MOP. Prior to the establishment of the KRSCO, the KRSO (coordinating statistical work for Erbil and Dohuk) and the Sulaimaniya Statistics Office (SSO) used to function independently. In regards to experiences with similar projects, both the KRSO and SSO participated in the UNDP-sponsored (2004) and the UNICEF-sponsored (2006) surveys. The numbers of households visited and the numbers of field staff mobilized indicated in the paragraph above include COSIT, KRSO and SSO portions of the work. For the UNDP-sponsored survey 3,577 households were visited in the Kurdistan Region of Iraq. This compares to 2,916 households to be visited in the Kurdistan Region of Iraq for the UNICEF-sponsored survey and the proposed IHSES.

Project Arrangements

8. The PMT will be supported by an experienced Financial Officer (FO) who is currently supporting the Emergency Development Project I Project (EPSDI), an ITF-funded project partly implemented by MOPDC. The FO will be assisted by a full-time accountant and together they will undertake the responsibilities of maintaining contracts, ensuring timely payments authorization, submitting withdrawal applications to the Bank, keeping financial records of the project, and preparing periodic reports and financial statements.

9. Payment Authorization, Execution and Flow of Information. Financial activities are subject to MOPDC and MOP controls and procedures, as well as the PMT verification and approval processes. The process of a payment with a focus on the monthly consultants' payments is summarized as follows:

- The PMT will maintain a file for every consultant that has a copy of the contract, personal information (ID, address, contacts) and other related information; each governorate will also maintain copies of the contracts of the consultants reporting to it.
- Based on the disbursement plan, the PMT will transfer advances to COSIT and each of the governorate-level statistics organizations' bank accounts to cover a minimum of 2-months payments.
- Each consultant (interviewer, data entry operator, lister, mapper or other) needs to prepare a monthly time sheet where actual hours spent is allocated per activity (family visited or data set) and has it verified and certified by his/her direct supervisor.
- A "financial committee" will be composed at COSIT and each governorate-level statistics organization and has the statistics organization accountant as one of its members. This committee will receive the certified time sheets, ensure their compliance with the related contracts in terms of ownership, payment conditions and amount. Accordingly, the committee will prepare or update the monthly payroll sheet that discloses monthly gross payment for each consultant, any deductions, and the net amount. The committee will sign the time sheets and the monthly payroll sheet and submit them for the statistics organization's director who is delegated by the PMT Manager to authorize payments. Once authorization is complete, the committee would withdraw the total payroll amount from the bank account and makes the payments. Each consultant would sign against his/her name as a proof of receiving the payment.
- The statistics organization's accountant will keep copies of the time sheets and monthly payroll sheets and any supporting documentation.
- Each month all time sheets, payroll sheets and bank reconciliation statements are sent to the PMT to support the incurred expenditure and replenish the advance.
- As for the Kurdish Region, each of the Dohuk, Erbil and Suleimaniya statistics organization will send its time sheets and monthly payroll sheets to the KRSCO who will verify them before sending to the PMT.
- The PMT FO and accountant will verify that each payment authorization process has been fully respected as per the contract terms and the PIM. They will update the contracts database or spread sheet with the payments made and fill the withdrawal application with the total amount requested. Proper segregation of duties will be maintained between the FO and the accountant.
- The PMT Director will review and sign the withdrawal application which will be submitted to the Bank for reimbursement.

10. The process of per diem, hotel and transportation expenses payments control will be enhanced by maintenance of records of all trips made at all levels. Proof of approved trips along with invoices, where applicable, need to be submitted. Despite of any mitigating measure, the residual risk related to the transportation fees is high. (The alternative was to purchase cars. This alternative was rejected for two reasons. First, the number of cars needed to be used by the local supervisors and others is too high – more than 50 local supervisors. Second, new cars are currently targets of looting and would increase the security risk for the project staff.)

11. Monitoring and Control. Some additional monitoring and control activities need to be maintained as follows:

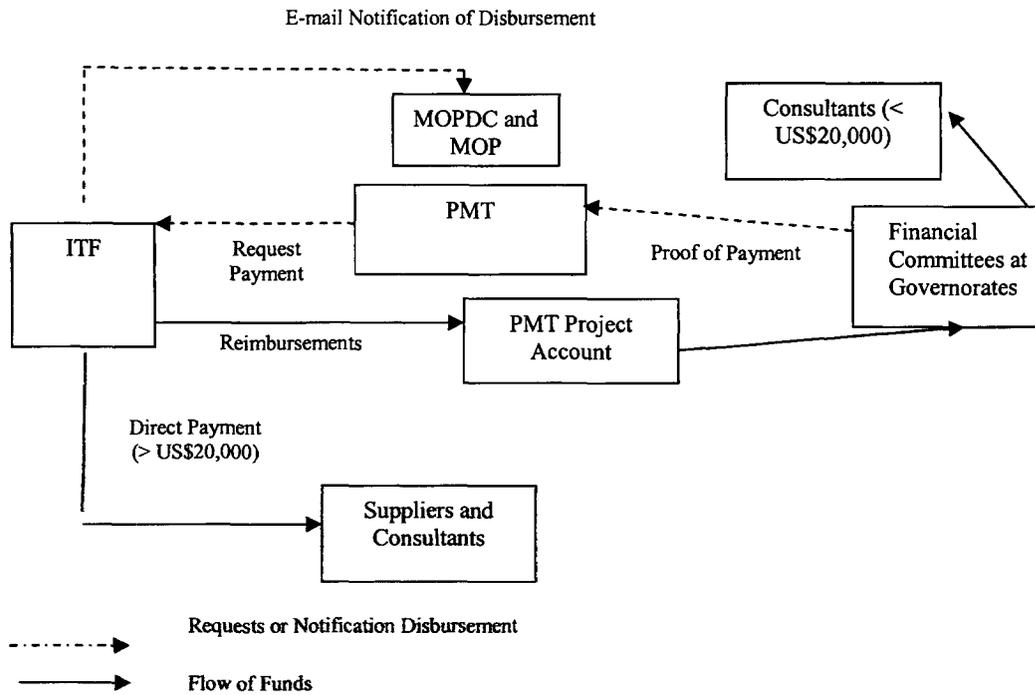
- The PMT FO or accountant will make visits to attend payments distribution at the governorate-level statistics organizations and verifies the existence of the beneficiaries on a sample basis and in coordination with the PMT Director. Results of these visits will be made available to the Bank.
- The PMT Director/assistant might use the time sheets, payroll sheets and contracts' database to make comparisons with plans and technical results or performance to ensure that the payments are made for the intended purposes with due care to efficiency and economy.

12. Accounting System. Spreadsheet applications will be used to record the project's financial transactions and generate reports. Based on the number of contracts and the payment terms, the PMT will be handling over 5,000 payments transactions throughout the project life. This huge number of transactions normally requires the use of a management information system or accounting software; however, due to the lack of knowledge about the software business in Iraq, the project will keep using spreadsheets. Procedures for protecting the data and preventing losses will be maintained. Use of a simple database that can be internally developed will be considered.

13. Budgeting and Disbursement Forecasts. The PMT will maintain a project budget and detailed disbursement plan per month and quarter. This plan will be developed based on the initial procurement plan and estimated payments cycles, and revised upon need. It will be used as a monitoring tool to analyze budget variances and manage cash.

14. Project Records Reconciliation. The PMT FO assisted by the accountant will monthly reconcile accounts of funds disbursed by the Bank to accounting records. He will also reconcile the project account balance granted by MOPDC and the advances given to all governorates with reimbursements made by the Bank.

15. Flow of Funds Charts



Reporting

16. **Quarterly:** The PMT will be responsible for generating the interim quarterly financial reports/Financial Monitoring Reports (FMRs), and have them reviewed by the external auditor, and submitted to the Bank within 75 days from quarter then ended. The proposed format of the reports is in the Project files. These reports consist of:

- **Financial Reports:** These will include a statement of sources and uses of funds by component, use of funds/expenditure report by category and governorate comparing actual and planned expenditures. In addition, a narrative report explaining all variances that exceed 15 percent when compared to planned and proposed corrective actions should be included as an annex to the financial reports.
- **Contracts Reports:** these reports will provide information on contracts, including information on all authorized contract variations, and showing financial status of contracts against plans.

17. **Annually:** The PMT will be responsible for preparing the consolidated Project Financial Statements (PFS), and have them audited by the external auditor, and submitted to the Bank not later than six months after the end each fiscal year. The PFS include:

- Statement of Sources and Uses of Funds by component
- Appropriate schedules classifying project expenditures by category and governorate showing cumulative balances.
- List of commitments or signed contracts.

Audit

18. An external independent auditor acceptable to the Bank and with international experience will be engaged to carry out the project audit and review, to issue the required independent opinions, and to prepare the "management letter" according to the following plan. The audit reports will encompass all of the project's activities and will be in accordance with the international auditing standards. An escrow account will be used to pay the auditors after the project's closing date

19. Quarterly: The auditor will *review* the quarterly FMRs and express an explicit professional opinion (negative assurance) whether the project FMRs give a true and fair view of the state of the project's affairs. The PMT will remit the related opinion and the FMRs within 75 days of the quarter then ended.

20. Annually: The auditor will *audit* the project and the annual PFS and issue an independent opinion on the PFS and verify compliance with the terms of the Grant Agreement. The PMT will remit a project audit report to the Bank not later than six months after the end of each fiscal year.

21. In addition to the audit report, the auditor will prepare a "management letter" identifying any observations, comments, and/or deficiencies in the financial management systems and controls that the auditor considers pertinent, and will provide recommendations for their improvements.

Fiduciary Monitoring Agent (FMA)

22. The Bank has engaged an independent firm that will operate in Iraq as FMA for ITF-financed projects. This FMA has dual roles:

- Verifying and validating to the Bank the projects' financial management and procurement arrangements and internal controls agreed upon with the implementing agencies.
- Providing advisory services and technical support to the Iraqi government and the ITF-financed projects relating to the projects' financial management and procurement arrangements and the generation of periodical and reliable financial reports.

23. To perform his responsibilities, the FMA will be granted regular access to the project documents at MOPDC, MOP and all governorate-level statistics organizations.

Project Implementation Manual

24. The PMT will draft and use a Project Implementation Manual (PIM) based on the Master Implementation Manual (MIM) prepared for all Bank projects implemented in Iraq.

Bank Financial Management Supervision

25. Where security conditions make travel to Iraq impossible for Bank staff, supervision missions will be undertaken from Amman, Jordan. Close monitoring of financial management arrangements will be conducted the through out the project life.

FM Action Plan

Action	By Whom	Date
Open the bank accounts at all governorate-level statistics organizations.	PMT	Upon effectiveness
Finalize disbursement plan	PMT	By negotiations
Start the external auditor selection process	PMT	Upon effectiveness

DISBURSEMENT

1. The Bank's strategy in Iraq is to implement projects through the Iraqi Ministries (rather than Project Implementing Units outside government structures), ensuring that appropriate and effective financial controls are in place over the use of funds provided by the Bank, while at the same time working together to strengthen the Ministries' own financial control processes and procedures. Taking into consideration the high risk environment assessed for the project, including the assessed high financial management risk, the disbursement arrangements will compensate by continuing to use conservative disbursement methods. The disbursement methods used will be:

Direct Payments to suppliers and consultants for eligible expenditures, for disbursements over US\$20,000.

Reimbursement to the MOPDC for eligible expenditures under US\$20,000 paid from the MOPDC resources.

Special Commitments to a commercial bank to reimburse the commercial bank for payments made to a supplier against Letters of Credit issued at the request of the MOPDC for eligible expenditures.

2. These are the disbursement methods that have been used for the existing WB ITF projects currently under implementation and which have proven to be effective. Extensive training has been provided to the existing MOPDC PMT FO on the Bank's disbursement processes. Further training will be extended to the accountant. Supporting documentation, e.g., copies of invoices and receipts, is required to be provided with all requests to disburse funds. The original copies of the supporting documentation will be maintained by the MOPDC and made available for review by Bank representatives upon request.

3. The agreements with the Donors to the WB ITF allow for the financing of 100 percent of project expenditures. The MOPDC and MOP contribute implementation support, including the assignment of MOPDC staff to the PMT, assignment of statistical staff for work on the IHSES sub-component, and some related operating expenses.

4. The allocation of the proceeds of the Grant by expenditure category is as follows:

Allocation of Grant Proceeds

	Category	Amount of the Grant Allocated (expressed in USD)	Percentage of Expenditures to be Financed
Part A	Component: Poverty Assessment and Data sets	3,828,740	100%
A-1	Consultants' services & training	2,208,500	100%
A-2	Goods	562,100	100%
A-3	Operating costs	1,058,140	100%
Part B	Component: Poverty and Social Impact Analysis	510,000	100%
B-1	Consultants' services & training	470,000	100%
B-2	Goods	40,000	100%
Part C	Component: GOI Strategy for Poverty Reduction	390,000	100%
C-1	Consultants' services & training	340,000	100%
C-2	Goods	50,000	100%
Part D	Component D: Project Management Team and Contingency	124,600	100%
D-1	Consultants' services & training	102,000	100%
D-3	Operating Costs	22,600	100%
	Unallocated	246,660	100%
	Total	5,100,000	

Annex 8: RESPONSIBILITIES MATRIX AND ORGANIZATIONAL CHART

1.00	Financial Management								
1.01	Make available funds from own resources		E		N	N		N	N
1.02	Launch Workshop	N	E			E		S	E
1.03	Document Accounting, Reporting & Auditing Procedures		N					S	R
1.04	Appoint Project Auditor (external)		N					S	R
1.05	Appoint Consultants ^{5/}	N	N					S	R
1.06	Remit Specimen of signatures	N	E					N	N
1.07	Submit internal request for payments or replenishment of advance + supporting documents (timesheets, invoices and other)		N		E	N			
1.08	Request for reimbursement of own funds from the WB		N						R
1.19	Prepare requests for Direct payments		R						R
1.10	Review claims and authorize payments		N						E
1.11	Make payments		N						E
1.12	Monitor payments for timeliness							S	N
1.13	Keep project accounts		S					S	
1.14	Prepare monthly financial reports		N		S	S		S	
1.15	Prepare quarterly Financial Monitoring Reports (FMRs)		N		S	S	R	R	A
1.16	Conduct SOE or payments < US\$20,000							E	S
1.17	Supervise FM aspects	N	N					S	E
2.00	Planning, Monitoring & Evaluation								
2.01	Establish project preparation, implementation, technical monitoring (supervision) & reporting procedures at center and at the Directorate level		N		S			S	R
2.02	Conduct Annual audits	R	R		S	S	E		R
2.03	Conduct Monitoring as per plan		N		N	N		E	R
2.04	Submit agreed-upon reports								R
2.05	Review PMT's procurement procedures		E					S	E
2.06	Review implementation progress		E					S	E
2.07	Review Technical Documentation and Contracts								R
2.08	Compare Project Estimates with Actual Prices							S	R
2.09	Review timeliness of implementation		E					S	R

⁵ Financial Management consultants

No.	Activities/Bodies Involved	Bodies Involved					
		1	2	3	4	5	6
2.10	Conduct site visits to assess progress of implementation and quality		E				E E
2.11	Prepare Quarterly Progress Reports to Iraqi relevant authorities & WB		R				R
2.12	Review of safeguard requirements						
3	Procurement						
3.01	Prepare and revise Procurement Plan		R		S		A
3.02	Appoint Consultants		R		S		R
3.03	Establish a procurement monitoring & record keeping system		R		E		R
3.04	Prepare simplified bidding documents for shopping procedures for smaller contracts based on the MIM				S		R
3.05	Prepare and revise a Project Implementation Manual		R		S	S	R
3.06	Prepare Standard Bidding Documents for Goods and RFP for consultants' services based on the MIM				S		R
3.07	Prepare specific contract documents for each package.				S		R
3.08	Invite bids/quotes/proposals				S		
3.09	Evaluate bids				S		
3.10	Obtain WB No objection if required						R
3.11	Award and sign contracts		N		N		N
3.12	Monitor progress of activities under implementation		E		E	S	
3.13	Conduct physical inspection of completed Projects		E		E	E	N
3.14	Coordinate procurement training to MOPDC & PMT staff		E		S	S	N
3.15	Conduct training on procurement to Iraqi staff		N		S	S	S
3.16	Keep records on procurement.						
3.17	Follow up on complaints		E				N
3.18	Conduct Post Review						E E

Diagram of Project Organization

