NOTE: A review of these contracts will show that certain specific information has been omitted or redacted. These are standard types of omissions or redactions and have been made in accordance with Federal law, for instance, in order to safeguard business proprietary information as well as to preserve privacy and security.

(Contract begins on next page)

AWARD/CONTRACT	1. THIS CONTRACT IS A RATED ORDER UNDER DPAS (15 CFR 350)	RATING	PAGE OF PAGES 1 / 126
2. CONTRACT (Proc. Inst. Ident.) NO. RAN-C-00-03-00043-00	3. EFFECTIVE DATE July 18, 2003	4. REQUISITION/PURCHASE REQUEST PROJECT NO NMS # 10229/304	

5. ISSUED BY CODE

USAID
OFFICE OF PROCUREMENT – M/OP/REG/EGAS
1300 PENNSYLVANIA AVE., RRB, ROOM 7.09-044
WASHINGTON , DC 20523-7900

Email: jgriffin@usaid.gov

6. ADMINISTERED BY (If other than Item 5) CODE

USAID/IRAQ
OFFICE OF PROCUREMENT
WASHINGTON , DC 20521

7. NAME AND ADDRESS OF CONTRACTOR (No., street, country, State and ZIP code)

Bearing Point, Inc
Barents Group
1676 International Drive
McLean, VA 22102-4828

COPY

DUNS Number 01 409 7146
TIN: 22-3680505

CODE FACILITY CODE

8. DELIVERY

[ ] FOB ORIGIN [x] OTHER (See Below)

9. DISOUNT FOR PROMPT PAYMENT
Net 30 days

10. SUBMIT INVOICES (4 copies unless otherwise specified) To THE ADDRESS SHOWN IN: ITEM Block 12

11. SHIP TO, MARK FOR
MISSION DIRECTOR
USAID/IRAQ
WASHINGTON, DC 20521

12. PAYMENT WILL BE MADE BY CODE
CONTROLLER
USAID/CAIRO
WASHINGTON, DC 20521

13. AUTHORITY FOR USING OTHER THAN FULL AND OPEN COMPETITION:
[ ] 10 U S.C. 230(c)( ) [ ] 41 U.S.C. 253(c)

14. ACCOUNTING AND APPROPRIATION DATA:
SEE SECTION G

15A. ITEM	15B. SUPPLIES/SERVICES	15C. QUANTITY	15D. UNIT	15E UNIT PRICE	15F AMOUNT
0001	Technical Assistance for Economic Recovery, Reform and Sustained Growth in Iraq.				
				15G. TOTAL AMOUNT OF CONTRACT	$79,583,885

16. TABLE OF CONTENTS

SEC.	DESCRIPTION	PAGE(S)	SEC.	DESCRIPTION
	PART I THE SCHEDULE			PART II CONTRACT CLAUSES
A	SOLICIATION/CONTRACT FORM		I	CONTRACT CLAUSES
B	SUPPLIES OR SRIVICES AND PRICE/COSTS			PART III LIST OF DOCUMENTS, EXHIBITS AND OTHER ATTACH.
C	DESCRIPTION/SPECS/WORK STATEMENT		J	LIST OF ATTACHMENTS
D	PACKING AND MARKING			PART IV – REPRESENTATIONS AND INSTRUCTIONS
E	INSPECTION AND ACCEPTANCE		K	REPRESENTATIONS, CERTIFICATIONS AND OTHER STATEMENTS OF OFFERORS
F	DELIVERIES OR PERFORMANCE			
G	CONTRACT ADMINISTRATION DATA		L	INSTRS., CONDS., AND NOTICES TO OFFERORS
H	SPECIAL CONTRACT REQUIREMENTS		M	EVALUATION FACTORS FOR AWARD

CONTRACTING OFFICER WILL COMPLETE ITEM 17 OR 18 AS APPLICABLE

17. [X] CONTRACTOR'S NEGO TIATED AGREEMENT (Contractor is required to sign this contract and return ALL copies to the issuing office) Contractor agrees to furnish and deliver all items or perform all the services set forth or otherwise identified above and any continuation sheets for the consideration stated herein The rights and obligations of the parties to this contract shall be subject to and governed by the following documents (a) this award/contract, (b) the solicitation, if any, and (c) such provisions, representations, certifications, and specifications, as are attached or incorporated by reference herein (Attachments are listed herein)

18. [ ] AWARD (Contractor is not required to sign this contract) Your offer of Solicitation Number _____, including the additions or changes made by you which additions and changes are set forth in full above, is hereby accepted as to the items listed above and on any continuation sheets This award consummates the contract which consists of the following documents (a) the Government solicitation and your offer, and (b) this award/contract No further contractual document is necessary.

19A. NAME AND TITLE OF SIGNER (Type or print)
Darwin G. Johnson
Senior Vice President

20A. NAME CONTRACTING OFFICER
Anne Quinlan, Contracting Officer (JG)

19B. NAME OF CONTRACTOR	19C. DATE SIGNED	20B. UNITED STATES OF AMERICA	20C. DATE SIGNED
BY Darwin Johnson (Signature of person authorized to sign)	24 July 03	BY Anne Quinlan (Signature of Contracting Officer)	7/24/03

NSN 7540-01-152-8069
PREVIOUS EDITION UNUSABLE

STANDARD FORM 26 (REV. 4-85)
Prescribed by GSA
FAR (48 CFR) 53 214(a)

PART I - THE SCHEDULE

SECTION B - SUPPLIES OR SERVICES AND PRICE/COSTS

B.1 PURPOSE

The purpose of this contract is to provide economic rehabilitation and reform for Iraq to stimulate the country's international trade engagement, employment, and broad-based prosperity.

B.2 CONTRACT TYPE

This is a Cost-Plus-Fixed-Fee (CPFF) Level of Effort contract. For the consideration set forth below, the Contractor shall provide the level of effort specified in Section F in accordance with the performance standards specified in Section E.

B.3 ESTIMATED COST, FIXED FEE, AND OBLIGATED AMOUNT

a. CLIN 0001 (Basic Period) - July 18, 2003 to July 17, 2004.
The estimated cost for the performance of the work required hereunder, exclusive of fixed fee, if any, is [redacted] The total estimated cost plus fixed fee is 79,583,885. (b)(4)

b. CLIN 0002 (Option Year 1) - July 18, 2004 to July 17, 2005.
The estimated cost for the performance of work hereunder, exclusive of fixed fee, is [redacted] The total estimated cost plus fixed fee is $79,421,345. (b)(4)

c. CLIN 0003 (Option Year 2) - July 18, 2005 to July 17, 2006.
The estimated cost for the performance of work hereunder, exclusive of fixed fee, is [redacted]. The total estimated cost plus fixed fee is $81,157,438. (b)(4)

d. Within the estimated cost plus fixed fee (if any) specified in paragraph (a) above, the amount currently obligated and available for reimbursement of allowable costs incurred by the Contractor (and payment of fee, if any) for performance hereunder is $9,000,000. The Contractor shall not exceed the aforesaid obligated amount.

e. Funds obligated hereunder are anticipated to be sufficient for performance through September 30, 2003.

f. At the time of each payment of allowable costs to the Contractor, the USAID paying

office ordinarily pays the Contractor a percentage of fixed fee that directly corresponds to the percentage of allowable costs being paid. Two exceptions to paying fixed fee in this manner apply:

- If the Contracting Officer determines that this method results in paying a disproportionately higher ratio of fixed fee than the percentage of work the Contractor has completed, then the Contracting Officer may suspend further payment of any fixed fee until the Contractor has made sufficient progress to justify further payment, up to the agreed percentage.

- Because the clauses entitled "Allowable Cost and Payment" (FAR 52.216-7) and "Fixed Fee" (FAR 52.216-8) are incorporated into this contract, the terms and conditions of these clauses apply after total payments of fixed fee reach eighty-five percent (85%) of the total fixed fee.

g. The Cost Plus Fixed Fee (Level of Effort) type of contract requires the contractor to devote a specified level of effort for a stated time period. If performance is considered satisfactory by the Government, the fixed fee is payable at the expiration of the agreed upon period, upon contractor statement that the level of effort specified in the contract has been expended in performing the contract work. In the event the contractor has not expended the total level of effort at the expiration of the contract period, the amount of fee owed to the contractor will correspond to the percentage of total level of effort expended during the contract period of performance. For example, if the contractor has expended 85% of the total level of effort, then the contractor is entitled to a corresponding percentage of the fixed fee amount provided that the performance has been satisfactory.

B.4 INDIRECT COSTS (DEC 1997)

Pending establishment of revised provisional or final indirect cost rates, allowable indirect costs shall be reimbursed on the basis of the following negotiated provisional or predetermined rates and the appropriate bases:

Indirect Cost Pool	Allocation Base Description	Provisional Rate Effect 03/27/2002
[redacted]	[redacted]	[redacted]
[redacted]	[redacted]	[redacted]

(b)(4)

B.5 COST REIMBURSABLE

The U.S. dollar costs allowable shall be limited to reasonable, allocable and necessary costs determined in accordance with FAR 52.216-7, Allowable Cost and Payment, FAR 52.216-8, Fixed Fee, if applicable, and AIDAR 752.7003, Documentation for Payment.

SECTION C - DESCRIPTION/SPECIFICATIONS/STATEMENT OF WORK

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C.1 STATEMENT OF WORK

PURPOSE

The purpose of this project is to provide economic rehabilitation and reform for Iraq to stimulate the country's international trade engagement, employment and broad-based prosperity. The tasks performed under this scope will facilitate a rapid and responsible economic integration of Iraq with its regional and international partners in order to create sustainable job generation, adopt international standards of production, harmonize economic policy, reinforce traditional trade linkages and develop new trade partnerships, and will develop and implement a roadmap for managing the economic and technical work to assure the food policy safety net is available for those who may be unable to function on the private market after cessation of the UN food program.

OBJECTIVE

The objective of this project is to create and develop growing, integrated and sustainable economic activity in Iraq. Assistance provided over 12 months to Iraq will emphasize a broad-based economic growth and economic opportunities. Options are made available for an additional two one year options for continuation of all or part of this work. The contractor is expected to provide two broad levels of intervention:

Transactional Activities that create a competitive private sector through a) credit provision, b) development of local, regional and international business networks, c) support for business operations and strategy, d) workforce development and employment generation, e) entrepreneurship training and development, f) mobilization of domestic and foreign investment, and g) privatization of state-owned enterprises, and h) trade capacity development.

Economic Governance Activities including support to those public and private institutions that shape and implement economic and financial policy, regulatory, and legal reforms, including the Central Bank and Ministry of Finance.

TITLE

"Economic Recovery, Reform and Sustained Growth in Iraq"

To emphasize the potential continuity of the various activities to be carried out under the contract, tasks and indicative benchmarks have been provided in the discussions of the activities for years beyond the initial year. Contractor is accountable for achieving tasks and indicative benchmarks set forth in this contract as applicable. <u>All tasks under this contract are to be carried out subject to the supervision, direction, and any necessary redirection of USAID and under the overall policy</u>

direction of the Coalition Provisional Authority (CPA). Contractor is not accountable in the initial year for tasks and benchmarks that are established for the period beyond the end of the first year contract. However, Contractor is expected to plan to initiate actions as appropriate that are required to be initiated during the first year on a timely basis so that the ability of Contractor to carry out tasks and achieve benchmarks in either option year is not foreclosed, should the Contract be extended in accord with one or more of the two options that are provided. Indicative benchmarks and tasks established during the contract for the option years are expected to be renegotiated as appropriate if an option is exercised.

The selection of tasks and indicative benchmarks to be achieved in the first year of the contract is subject to the policy approval process of the US government regarding this activity, a process to be established by USAID to assure that economic governance activities carried out by the Contractor support the policy objectives of the United States government. It is expected that the US government will consult as appropriate with relevant Iraqis in determining the appropriate economic governance activities to be carried out regarding the five main components of the Program.

TASK OVERVIEWS

The five components described below will initiate the Program:

- Economic Governance: Policy, Regulatory and Legal Climate for Growth
- Microeconomic Foundations for Growth: Competitiveness Initiative
- Privatization: Assessment and Support
- Credit Activities: Lending to Micro Enterprises, Small- and Medium Size Businesses
- Food for Oil: Develop and implement a road map to assure an adequate Social Safety Net after phased cessation of the UN Food for Oil program.

(See Annexes A through E in Section J of this contract for more detail on the Statement of Work.)

A. Economic Governance: Policy, Regulatory and Legal Climate for Economic Growth

In preparation for its implementation of an improved policy, regulatory and legal climate for economic growth, and under appropriate US government furnished policy guidance under CTO supervision, the Contractor will make recommendations regarding the policy, regulatory and legal climate of Iraq to plan what is needed to promote rapid, broad-based economic growth. Contractor will request such guidance and available assessments from CTO, and will operate subject to CTO guidance, as provided. Contractor shall recommend the best available options for proceeding to implement an improved policy, regulatory, and legal climate for economic growth in Iraq. Contractor will examine government policies, laws, regulation, and government institutions that regulate or affect trade, commerce and investment. The government institutions will include, but are not limited to, Ministries of Economy, Trade, Finance, Investment, Export or their equivalent, the Central Bank and the banking system. All Contractor recommendations will take into account the policy framework and previous assessments to the extent such assessments are available. Based on the results of the Contractor's recommendations, the Contractor (with USAID approval) will begin to reform, revise, extract or otherwise advise on

changes to the policies, laws and regulations that impact the economy. Working closely with the Governing Council of Iraq and in coordination with the CPA and other US government agencies, donors and multilaterals, the Contractor will provide (under CTO guidance) macroeconomic reform advice, with a focus on tax, fiscal, exchange rate, monetary policy, and banking reform. Contractor will recommend changes to policies, laws and regulations that impede private sector development, trade and investment. Contractor will provide the judiciary with the tools required to enforce commercial contracts, and will redress issues of state-capture and administrative corruption.

A fuller description of one version of this SOW is provided in Annex A. The tasks in component A are considered to be especially subject to the overall policy guidance of the US Government.

B. Microeconomic Foundations for Growth: Competitiveness Initiative and Public Utilities Reform

The Contractor will identify the nature, breadth and scope of the private sector in Iraq. It will assess the private sector's size and capacity, identify business owners and private sector leaders, examine the overall environment for private sector growth, and identify the relationships between and among industries and government. It will assess the strengths, weaknesses, opportunities, and threats to the countries' industries, examine current exports and the potential for exports and will look at the constraints to export sector growth.

Based on the evaluation, the Contractor will implement a Competitiveness Initiative (CI) to strengthen small and medium-sized firms, develop exports, generate employment and create regional and international networks of buyer/supplier chains. The mix of activities to be carried out to select and weight activities among these goals is to be judged based on the evaluation.. Workforce development will orient public sector training and education institutions toward the needs of an emerging and competitive private sector. A Competitiveness Council of private sector leaders may be a key activity to help support the process by serving as a steering committee to prioritize and guide specific competitiveness initiatives. A key activity is also support for the design and effective operation of public utilities law, regulations, and regulatory bodies, including independent regulatory bodies, in an appropriate law and regulatory environment, and in connection with broader macroeconomic and banking activities. A fuller description of a version of this SOW, with a special focus on the potential for cluster development activities that may be carried out, is provided in Annex B.

C. Privatization: Assessment and Support

In close collaboration (under CTO supervision) with the CPA, Iraqi Governing Council and concerned US agencies, the Contractor will assess state-owned enterprises (SOEs) in Iraq in terms of their potential market value for sale as on-going concerns. Subject to appropriate guidance, Contractor will categorize the SOEs from largest to smallest in terms of economic impact. Subject to appropriate guidance, Contractor will also evaluate and recommend the potential for liquidation or dissolution of specific firms or industries, as necessary. Contractor recommendations will elaborate on the potential of specific firms or industries for sale to

strategic investors and identify the range of potential strategic investors. For specific SOEs or industries where strategic investment is unlikely, then the Contractor will discuss the feasibility for undertaking a "mass privatization" and discuss various options for its implementation possibilities, such as vouchering.

Based on Contractor recommendations (as approved by USAID), the Contractor will implement a privatization plan, focusing first if approved on strategic investors and on creating and supporting an institution responsible for undertaking privatization. Contractor should be aware that USAID expects to consult widely with relevant US government officials and within Iraq regarding Contractor plan. Contractor therefore needs to reflect the range of views available regarding these potentially controversial matters adequately in its initial recommendations and be prepared for policy direction to achieve differing goals. If changes to legislation are required, contractor will assist legislative reform specifically to allow for the privatization of State-owned industries and firms and/or establishing a privatization entity. The Contractor will implement USAID-approved recommendations to begin supporting the privatization of strategic industries and appropriate privatization of public utilities, including potentially food distribution and agro-processing industries. A fuller description of one version of this SOW is provided in Annex D.

D. Credit Activities: Lending to Micro Enterprises, Small- and Medium Size Businesses

The Contractor will undertake two credit activities for small and micro businesses. In the first, the Contractor will identify capable local lending institutions and develop with them a small business loan activity. If local institutions are not prepared to undertake small business loans programs, with the agreement of USAID, the Contractor will establish and manage the process of extending credit to small and medium-sized enterprises in targeted areas of Iraq. In the second activity, the Contractor will identify or establish an appropriate -credit lending facility, principally focused on micro-credit. The facility will extend loans to relevant entrepreneurs ($100-$10,000) based on best-practice lending experiences (e.g., group lending). A fuller description of one version of the activities to be carried out under this SOW is found in Annex D.

The plans for this activity are designed by USAID to include an unspecified amount of US government financial support for a broad range of lending programs that may be carried out under or in association with this activity. The amount to be made available directly through this activity, if any, will be specified in the budget eventually provided for this activity. However, such funds may also be provided directly by the USAID mission to institutions that will be carrying out relevant lending activities. In this circumstance, Contractor will prepare to help the US government utilize, manage, and account for these funds as they are agreed to be utilized in the form of direct loans, loan guarantees, or mixed partnerships of loans and loan guarantees in collaboration with other donors and the private sector, as appropriate and as USAID may direct. Contractor should prepare to make an early report and recommendations that will help USAID make its determinations and implement how USAID will make available these funds to Iraqi businesses and other recipients efficiently and in accord with high and appropriate standards of accountability, security, and safety through relevant lending activities.

E. After Food for Oil: Making a social safety net work.

The impact of the dependency culture created by the UN Food for Oil program, coupled with massive distortions in the market prices of agricultural inputs and outputs, will greatly hinder the formation of a viable agricultural production sector. USAID support for restarting and strengthening the agriculture sector is to be provided separately. The UN food program currently provides an extremely important source of support to the vast bulk of the population. In the short term, the Food for Oil program can be adjusted so that it supports the introduction of market based prices for agricultural commodities and production inputs. Careful management of humanitarian assistance programs, coordinated with macro economic policies, will be required to enable the private sector to begin operating in a market driven economy.

The Contractor will coordinate with the humanitarian assistance providers and parallel efforts to restart the agricultural sector to provide support for improved targeting of humanitarian assistance to the most needy. The Contractor will also recommend and implement after approval from USAID policies to provide a food safety net for the most needy poor.

F. IT Systems: Cross-cutting issue affecting all tasks

Project Management

To support effective project management, and to facilitate sharing of information with USAID and with other project participants, the Contractor will within the first month of the project implement a web-based project management system and maintain the web-based project management system as required during the period of performance. This system will be designed so that it can be retained by USAID for use by other contractors involved in the Iraq reconstruction program.

IT Assessment Overview

To provide a foundation for development of future IT systems, the contractor will review the overall ICT architecture of government systems in the Fiscal Sector, Financial Sector, Trade Sector, and Privatization. This review will take into account previous assessments and reviews if any that are available and appropriately targeted.

Information Technology for Fiscal Sector

Taking into account any available assessments, Contractor will carry out an analysis and prepare a plan to restart and upgrade as appropriate existing systems in all major areas of fiscal management, including the following:

- Financial Management Information System (this will be the first phase of implementation of a new system, as outlined elsewhere in this SOW)
- Budget Formulation and Execution (Financial Management Information System)
- Taxpayer Master File

- Tax Administration and Tax Revenue Systems
- Customs Administration Systems (in coordination with fiscal and trade teams)
- Property and VAT Tax Systems
- Audit Selection System

Information Technology for Financial Sector

Taking into account any available evaluations and assessments, the Contractor will carry out an analysis and prepare a plan to restart and upgrade as appropriate existing systems in all major areas of the financial sector, including the following:

- Central Bank Payment and Settlement Systems
- Central Bank Accounting System
- Commercial Bank Accounting Systems
- Off-Site Financial Analysis System
- Registrar/Depository Systems
- Clearing/Settlement Systems
- Trading System

Information Technology for Privatization

The Contractor will assess existing systems for capturing data for all State-Owned Enterprises with an eye to developing a Comprehensive Privatization Database.

Information Technology Implementation

The Contractor will implement a financial management information system as described more fully in Annex A. In addition, after the reviews and evaluations are completed the Contractor will propose to USAID implementation plans for the priority IT systems. With approval of USAID, the Contractor will conduct implementation of select priority systems.

Special Instructions

1. The advisors working on site under this project shall report on a daily basis to the counterpart specified by USAID and to the USAID CTO and one other person to be designated by the CTO on an ongoing basis.

2. Expatriate advisors will be authorized up to sixty (60) days in-country at full per diem, and subsequent days in-country at 50% of the daily per diem.

3. Expatriate advisors are authorized to work up to six days per week without premium pay.

4. The Contractor must obtain CTO or designee approval before making any changes in the key personnel stated in the contract. Additionally, the contractor must obtain the written approval of the CTO or designee if any key person under this contract will be out of Iraq or

working on other projects at any time during the project being implemented during this contract.

5. For the duration of the contract, the Contractor shall provide the personnel to work on-site. Travel off-site must be limited to essential trips related to the contract, and must be approved in advance, in writing, by the CTO.

6. The Contractor must establish adequate administrative controls for local national employee and expatriate time charges by maintaining time and attendance records. The Contractor shall establish records, premises and facilities for any commercial activity (non-USAID related) separate from activity conducted under the USAID contract. To avoid any appearance of impropriety involving USAID (or U.S. Government) funded activities, a clear distinction between office activities relating to commercial work and USAID activities must be maintained.

7. The contractor shall have adequate administrative systems (i.e., maintaining appropriate telephone logs) to segregate personal and commercial telephone calls from USAID project telephone calls in its billings to USAID. Absence of a system to properly identify project, personal and commercial telephone calls could result in total telephone charges being disallowed.

8. Before having interviews with the media, issuing press releases, holding news conferences, or otherwise communicating with the media regarding activities under this contract, the Contractor will consult with the CTO and USAID's Office of Legislative and Public Affairs. This requirement does not apply to media releases that are a necessary part of the public education component of the SOW.

9. Given the fluid setting and basic institutional setting, the specific tasks and benchmarks may change as the new government develops its priorities. Any changes in the *work plan* must be approved by the CTO and substantial changes in the scope of work approved by the CTO and contracting officer.

10. Program Coordination

The Contract's design and implementation requires cross-sector interaction. The USAID CTO and management team will coordinate with agriculture, environment and economic growth teams, in EGAT and in USAID Regional Bureaus, and others as needed to enhance program impact and synergies. A Contract support group may be established, consisting of representatives of key teams and bureaus, which would meet periodically to review crosscutting themes and provide input on activities implemented with core funds.

11. Donor Coordination - Other donors and international financial institutions (e.g., The World Bank) are likely to initiate separate support programs. These donors may be somewhat constrained from making the maximum contributions due to their limited access to grant-funded technical assistance, shrinking staff levels, and limited institutional access to the private sector and product market services. Under this USAID initiative, special attention is given to country-level sector strategic coordination such that the most cost effective and relevant national-level

programs are promoted across the major external supporters. From this mutually enforced effort, broader national commitments can be established such that producer and investor confidences are strengthened. However, it is equally important that USAID's development programs maintain momentum and lead the way as necessary and appropriate in Iraq.

12. Mission-Level Coordination Activities - USAID recognizes that the establishment of a USAID Mission in the Near East Region is problematical at this point. When a Mission is established, staffing and experience may not be initially commensurate with the challenges of this comprehensive and complex contact. This contract therefore places special coordination requirements on Contractor's "home office" management by USAID's CTO. The CTO, if not located in Iraq, will closely interact with the Mission-level technical officer for specific task orders where in some cases attention may have to be directed to explain aspects and strategies associated with the Contractor's activities.

13. Country-Level Engagement and Instilling Ownership - A highly interactive and participatory work style with national institutions will be required throughout the operation for sharing and educating. This is an important requirement given the primordial objective for generating local interest, commitment, and ownership. The contractor will be expected to partner with respected local institutions (e.g., developing country local, national, or regional institutions). Under USAID guidance, the Contractor will employ extensive efforts to interact with government officials and leading authorities. Where significant lack of appreciation or understanding regarding the nature and scope of the work, the Contractor will exert patience, experience, and diplomacy to educate accordingly.

14. New Knowledge and Technical Information Share - There is a major knowledge void regarding economic governance development in pre- and post-conflict situations. In the spirit of the principal purpose and sub-purpose, knowledge generation becomes an extremely important service. Therefore, related lessons learned and knowledge generation activities are to be undertaken, to include a user-friendly Web site. This will provide broad service for all stakeholders to include help to USAID and others to learn from the Contract's activities. The CTO will ensure that the Contractor develops procedures such that lessons learned are systematically processed for the appropriate target group and "best practices" for the broader development professional community are provided.

SECTION D - PACKAGING AND MARKING

D.1 AIDAR 752.7009 MARKING (JAN 1993)

(a) It is USAID policy that USAID-financed commodities and shipping containers, and project construction sites and other project locations be suitably marked with the USAID emblem. Shipping containers are also to be marked with the last five digits of the USAID financing document number. As a general rule, marking is not required for raw materials shipped in bulk (such as coal, grain, etc.), or for semi-finished products which are not packaged.

(b) Specific guidance on marking requirements should be obtained prior to procurement of commodities to be shipped, and as early as possible for project construction sites and other project locations. This guidance will be provided through the cognizant technical office indicated on the cover page of this contract, or by the Mission Director in the Cooperating Country to which commodities are being shipped, or in which the project site is located.

(c) Authority to waive marking requirements is vested with the Regional Assistant Administrators, and with Mission Directors.

(d) A copy of any specific marking instructions or waivers from marking requirements is to be sent to the Contracting Officer; the original should be retained by the Contractor.

SECTION E - INSPECTION AND ACCEPTANCE

E.1 NOTICE LISTING CONTRACT CLAUSES INCORPORATED BY REFERENCE

The following contract clauses pertinent to this section are hereby incorporated by reference (by Citation Number, Title, and Date) in accordance with the clause at FAR "52.252-2 CLAUSES INCORPORATED BY REFERENCE" in Section I of this contract. See FAR 52.252-2 for an internet address (if specified) for electronic access to the full text of a clause.

FEDERAL ACQUISITION REGULATION (48 CFR Chapter 1)

NUMBER	TITLE	DATE
52.246-5	INSPECTION OF SERVICES--COST-REIMBURSEMENT	APR 1984

E.2 INSPECTION AND ACCEPTANCE

USAID inspection and acceptance of services, reports and other required deliverables or outputs shall take place at:

USAID/Iraq

or at any other location where the services are performed and reports and deliverables or outputs are produced or submitted. The CTO listed in Section G has been delegated authority to inspect and accept all services, reports and required deliverables or outputs.

SECTION F - DELIVERIES OR PERFORMANCE

F.1 NOTICE LISTING CONTRACT CLAUSES INCORPORATED BY REFERENCE

The following contract clauses pertinent to this section are hereby incorporated by reference (by Citation Number, Title, and Date) in accordance with the clause at FAR "52.252-2 CLAUSES INCORPORATED BY REFERENCE" in Section I of this contract. See FAR 52.252-2 for an internet address (if specified) for electronic access to the full text of a clause.

NUMBER	TITLE	DATE
	FEDERAL ACQUISITION REGULATION (48 CFR Chapter 1)	
52.242-15	STOP-WORK ORDER ALTERNATE I (APR 1984)	AUG 1989
52.247-34	F.O.B. DESTINATION	NOV 1991

F.2 PERIOD OF PERFORMANCE

The period of performance for CLIN 0001 is 7/18/03 through 7/17/04.

The period of performance for CLIN 0002 is 7/18/04 through 7/17/05

The period of performance for CLIN 0003 is 7/18/05 through 7/17/06

F.3 PERFORMANCE STANDARDS

Evaluation of the Contractor's overall performance in accordance with the performance standards set forth in Section C, Tangible Results and Deliverables, will be conducted jointly by the CTO and the Contracting Officer, and shall form the basis of the Contractor's permanent performance record with regard to this contract.

F.4 REPORTS AND DELIVERABLES OR OUTPUTS

In addition to the requirements set forth for submission of reports in Sections I and J and in the AIDAR clause 752.242-70, Periodic Progress Reports, the Contractor shall submit the following deliverables or outputs to the CTO specified in Section G:

Monthly Status Report: These are intended to be concise reports that summarize task order progress measured against Tasks and Benchmarks, and that identify implementation issues that may inhibit or enhance contractor performance. The report should be submitted to USAID within five (5) business days of the end of each month.

Quarterly Workplan Reports: The contractor shall prepare detailed quarterly reports which elucidate expected accomplishments in each major project component one week prior to the start of each quarter with the exception of the 1st quarter, for which the workplan will be expected within two weeks of the beginning of the quarter. These reports allow USAID to add written comments regarding expected results within five working days of their submission by the contractor.

Completion Report: At the end of the contract, within two months, the contractor shall prepare a completion report which highlights accomplishments, presents the final status of benchmarks and tasks, addresses lessons learned during implementation and suggests ways to resolve constraints identified.

F.5 PROGRESS REPORTING REQUIREMENTS

The contractor shall prepare and submit progress reports as specified in the Schedule of this contract. These reports are separate from the interim and final performance evaluation reports prepared by USAID in accordance with (48 CFR) FAR 42.15 and internal Agency procedures, but they may be used by USAID personnel or their authorized representatives when evaluating the contractor's performance.

During any delay in furnishing a progress report required under this contract, the contracting officer may withhold from payment an amount not to exceed US $25,000 (or local currency equivalent) or 5 percent of the amount of this contract, whichever is less, until such time as the contracting officer determines that the delay no longer has a detrimental effect on the Government's ability to monitor the contractor's progress.

F.6 KEY PERSONNEL

A. The key personnel which the Contractor shall furnish for the performance of this contract are as follows:

Chief of Party
Economic Governance Component Leader
Competitiveness Component Leader
Privatization Component Leader
Lending Component Leader
Social Safety Net Component Leader

B. The personnel specified above are considered to be essential to the work being performed hereunder. Prior to replacing any of the specified individuals, the Contractor shall immediately notify both the Contracting Officer and USAID Cognizant Technical Officer reasonably in advance and shall submit written justification (including proposed substitutions) in sufficient detail to permit evaluation of the impact on the program. No replacement of personnel shall be made by the Contractor without the written consent of the Contracting Officer.

F.7 SUBMISSION OF DEVELOPMENT EXPERIENCE DOCUMENTATION TO PPC/CDIE/DI

USAID contractors must submit one electronic and/or one hard copy of development experience documentation (electronic copies are preferred) to the Development Experience Clearinghouse at the following address.

Development Experience Clearinghouse
1611 N. Kent Street, Suite 200
Arlington, VA 22209-2111

Telephone Number 703-351-4006, ext. 100
Fax Number 703-351-4039
E-mail: docsubmit@dec.cdie.org
http://www.dec.org

F.8 LEVEL OF EFFORT

(a) The contractor shall devote the person-days level of effort of direct employee, consultant, or subcontractor labor for the period specified in the clause, Period of Performance, above. This total level of effort is organized by SOW Annex. The level of effort does not include person days for non-expert Iraqi labor.

(b) The number of person days for each Annex may be used for any other Annex, subject to the prior written approval or direction of the CTO and provided that the change does not increase the total level of effort. Once the total level of effort has been fully expended or the period of performance is over (whichever comes first), this contract is complete.

(c) The level of effort for each year of the contract is set forth below. In the event that USAID exercises both contract options, the total level of effort for the 3 years of contract performance is [redacted].

		Person Days
Annex A	Economic Governance	[redacted]
Annex B	Microeconomic Foundations for Growth	
Annex C	Privatization	
Annex D	Credit Activities	
Annex E	Social Safety Network	
Program Management		
	TOTAL	[redacted]

(b)(4)

SECTION G - CONTRACT ADMINISTRATION DATA

G.1 AIDAR 752.7003 DOCUMENTATION FOR PAYMENT (NOV 1998)

(a) Claims for reimbursement or payment under this contract must be submitted to the Paying Office indicated in the schedule of this contract. The cognizant technical officer (CTO) is the authorized representative of the Government to approve vouchers under this contract. The Contractor must submit either paper or fax versions of the SF-1034--Public Voucher for Purchases and Services Other Than Personal. Each voucher shall be identified by the appropriate USAID contract number, in the amount of dollar expenditures made during the period covered.

(1) The SF 1034 provides space to report by line item for products or services provided. The form provides for the information to be reported with the following elements:

Total Expenditures
[Document Number: XXX-X-XX-XXXX-XX]

Line Item No.	Description	Amt vouchered to date	Amt vouchered this period
001	Product/Service Desc. for Line Item 001	$XXXX.XX	$ XXXX.XX
002	Product/Service Desc. for Line Item 002	XXXX.XX	XXXX.XX
Total		XXXX.XX	XXXX.XX

(2) The fiscal report shall include the following certification signed by an authorized representative of the Contractor:

The undersigned hereby certifies to the best of my knowledge and belief that the fiscal report and any attachments have been prepared from the books and records of the Contractor in accordance with the terms of this contract and are correct: the sum claimed under this contract is proper and due, and all the costs of contract performance (except as herewith reported in writing) have been paid, or to the extent allowed under the applicable payment clause, will be paid currently by the Contractor when due in the ordinary course of business; the work reflected by these costs has been performed, and the quantities and amounts involved are consistent with the requirements of this Contract; all required Contracting Officer approvals have been obtained; and appropriate refund to USAID will be made promptly upon request in the event of disallowance of costs not reimbursable under the terms of this contract.

BY: _____

TITLE: _____

DATE: _____

(b) Local currency payment. The Contractor is fully responsible for the proper expenditure and control of local currency, if any, provided under this contract. Local currency will be provided to the Contractor in accordance with written instructions provided by the Mission Director. The written instructions will also include accounting, vouchering, and reporting procedures. A copy of the instructions shall be provided to the Contractor's Chief of Party and to the Contracting Officer. The costs of bonding personnel responsible for local currency are reimbursable under this contract.

(c) Upon compliance by the Contractor with all the provisions of this contract, acceptance by the Government of the work and final report, and a satisfactory accounting by the Contractor of all Government-owned property for which the Contractor had custodial responsibility, the Government shall promptly pay to the Contractor any moneys (dollars or local currency) due under the completion voucher. The Government will make suitable reduction for any disallowance or indebtedness by the Contractor by applying the proceeds of the voucher first to such deductions and next to any unliquidated balance of advance remaining under this contract.

(d) The Contractor agrees that all approvals of the Mission Director and the Contracting Officer which are required by the provisions of this contract shall be preserved and made available as part of the Contractor's records which are required to be presented and made available by the clause of this contract entitled "Audit and Records--Negotiation".

G.2 ADMINISTRATIVE CONTRACTING OFFICE

The Administrative Contracting Office is:

USAID/Iraq

G.3 COGNIZANT TECHNICAL OFFICER (CTO)

The Cognizant Technical Officer is Paul Bruning or his designee at USAID/ANE.

G.4 TECHNICAL DIRECTIONS/RELATIONSHIP WITH USAID

(a) Technical Directions is defined to include:

(1) Written directions to the Contractor which fill in details, suggest possible lines of inquiry,

or otherwise facilitate completion of work;

(2) Provision of written information to the Contractor which assists in the interpretation of drawings, specifications, or technical portions of the work statement;

(3) Review and, where required, provide written approval of technical reports, drawings, specifications, or technical information to be delivered. Technical directions must be in writing, and must be within the scope of the work as detailed in Section C.

(b) The CTO is authorized by designation to take any or all action with respect to the following which could lawfully be taken by the Contracting Officer, except any action specifically prohibited by the terms of this Contract:

(1) Assure that the Contractor performs the technical requirements of the contract in accordance with the contract terms, conditions, and specifications.

(2) Perform or cause to be performed, inspections necessary in connection with a) above and require the Contractor to correct all deficiencies; perform acceptance for the Government.

(3) Maintain all liaison and direct communications with the Contractor. Written communications with the Contractor and documents shall be signed as "Cognizant Technical Officer" with a copy furnished to the Contracting Officer.

(4) Issue written interpretations of technical requirements of Government drawings, designs, and specifications.

(5) Monitor the Contractor's production or performance progress and notify the Contractor in writing of deficiencies observed during surveillance, and direct appropriate action to effect correction. Record and report to the Contracting Officer incidents of faulty or nonconforming work, delays or problems.

(6) Obtain necessary security clearance and appropriate identification if access to Government facilities is required. If to be provided, ensure that Government furnished property is available when required.

LIMITATIONS: The CTO is not empowered to award, agree to, or sign any contract (including delivery or purchase orders) or modifications thereto, or in any way to obligate the payment of money by the Government. The CTO may not take any action which may impact on the contract schedule, funds, scope or rate of utilization of LOE. All contractual agreements, commitments, or modifications which involve prices, quantities, quality, schedules shall be made only by the Contracting Officer.

(c)The CTO is required to meet quarterly/semi-annually/annually with the Contractor and the Contracting Officer concerning performance of items delivered under this contract and any other administration or technical issues. Telephonic reports may be made if no

problems are being experienced. Problem areas should be brought to the immediate attention of the Contracting Officer.

(d) In the absence of the designated CTO, the CTO may designate someone to serve as CTO in their place. However, such action to direct an individual to act in the CTO's stead shall immediately be communicated to the Contractor and the Contracting Officer.

(e) Contractual Problems - Contractual problems, of any nature, that may arise during the life of the contract must be handled in conformance with specific public laws and regulations (i.e. Federal Acquisition Regulation and Agency for International Development Acquisition Regulation). The Contractor and the CTO shall bring all contracting problems to the immediate attention of the Contracting Officer. Only the Contracting Officer is authorized to formally resolve such problems. The Contracting Officer will be responsible for resolving legal issues, determining contract scope and interpreting contract terms and conditions. The Contracting Officer is the sole authority authorized to approve changes in any of the requirements under this contract. Notwithstanding any clause contained elsewhere in this contract, the said authority remains solely with the Contracting Officer. These changes include, but will not be limited to the following areas: scope of work, price, quantity, technical specifications, delivery schedules, and contract terms and conditions. In the event the Contractor effects any changes at the direction of any other person other than the Contracting Officer, the change will be considered to have been made without authority.

(f) Failure by the Contractor to report to the Administrative Contracting Office, any action by the Government considered to a change, within the specified number of days contained in FAR 52.243-7 (Notification of Changes), waives the Contractor's right to any claims for equitable adjustments.

G.5 PAYING OFFICE

The paying office for this contract is:

APO Address:
Accounts Payable
Attn: Homi Jamshed
USAID/Financial Management
Cairo, Egypt Unit 64902
APO AE 09839 4902

International Courier:
Office of Financial Management
USAID Building Lot 1/A Off Ellaselki Street New Maadi,
Cairo, Egypt Post Code No. 11435

Fax: 011-20-2-516-4719

Email: AcctsPayableEgypt@usaid.gov <<<mailto:AcctsPayableEgypt@usaid.gov>>>

NOTE: E-mail payment requests are preferred.

G.6 ACCOUNTING AND APPROPRIATION DATA

NMS Org/Request ID	10229/304
MAARD Number	267-00003-3-03010

Appropriation:	1) 72X1035 2) 723/41037 3) 723/41096
B.P.C.	1) HFDX0323267KG13 2) HES30323267KG13 3) HIQ30323267KG13
Amount Obligated:	1) $3,000,000 2) $1,000,000 3) $5,000,000

SECTION H - SPECIAL CONTRACT REQUIREMENTS

H.1 NOTICE LISTING CONTRACT CLAUSES INCORPORATED BY REFERENCE

The following contract clauses pertinent to this section are hereby incorporated by reference (by Citation Number, Title, and Date) in accordance with the clause at FAR "52.252-2 CLAUSES INCORPORATED BY REFERENCE" in Section I of this contract. See FAR 52.252-2 for an internet address (if specified) for electronic access to the full text of a clause.

NUMBER	TITLE	DATE
	FEDERAL ACQUISITION REGULATION (48 CFR Chapter 1)	
	AIDAR 48 CFR Chapter 7	
752.7027	PERSONNEL	DEC 1990

H.2 AIDAR 752.7004 EMRGENCY LOCATOR INFORMATION (JUL 1997)

The Contractor agrees to provide the following information to the Mission Administrative Officer on or before the arrival in the host country of every contract employee or dependent:

(1) The individual's full name, home address, and telephone number.

(3) The name and number of the contract, and whether the individual is an employee or dependent.

(4) The contractor's name, home office address, and telephone number, including any after-hours emergency number(s), and the name of the contractor's home office staff member having administrative responsibility for the contract.

(4) The name, address, and telephone number(s) of each individual's next of kin.

(5) Any special instructions pertaining to emergency situations such as power of attorney designees or alternate contact persons.

H.3 AIDAR 752.7005 SUBMISSION REQUIREMENTS FOR DEVELOPMENT EXPERIENCE DOCUMENTS (OCT 1997)

(a) Contract Reports and Information/Intellectual Products.

(1) The Contractor shall submit to the Development Experience Information Division of the Center for Development Information and Evaluation (PPC/DCIE/DI) in the Bureau for

Policy and Program Coordination, copies of reports and information products which describe, communicate or organize program/project development assistance activities, methods, technologies, management, research, results and experience as outlined in the Agency's ADS Chapter 540, section E540.5.2b(3). Information may be obtained from the Cognizant Technical Officer (CTO). These reports include: assessments, evaluations, studies, development experience documents, technical reports and annual reports. The Contractor shall also submit to PPC/ CDIE/DI copies of information products including training materials, publications, databases, computer software programs, videos and other intellectual deliverable materials required under the Contract Schedule. Time-sensitive materials such as newsletters, brochures, bulletins or periodic reports covering periods of less than a year are not to be submitted.

(2) Upon contract completion, the contractor shall submit to PPC/CDIE/DI an index of all reports and information/intellectual products referenced in paragraph (a)(1) of this clause.

(b) Submission requirements.

(1) Distribution. (i) The contractor shall submit contract reports and information/intellectual products (referenced in paragraph (a)(1) of this clause) in electronic format and hard copy (one copy) to U.S. Agency for International Development PPC/CDIE/DI, Attn: ACQUISITIONS, Washington D.C. 20523 at the same time submission is made to the CTO.

(ii) The contractor shall submit the reports index referenced in paragraph (a)(2) of this clause and any reports referenced in paragraph (a)(1) of this clause that have not been previously submitted to PPC/CDIE/DI, within 30 days after completion of the contract to the address cited in paragraph (b)(1)(i) of this clause.

(2) Format. (i) Descriptive information is required for all Contractor products submitted. The title page of all reports and information products shall include the contract number(s), contractor name(s), name of the USUSAID cognizant technical office, the publication or issuance date of the document, document title, author name(s), and strategic objective or activity title and associated number. In addition, all materials submitted in accordance with this clause shall have attached on a separate cover sheet the name, organization, address, telephone number, fax number, and Internet address of the submitting party.

(ii) The hard copy report shall be prepared using non-glossy paper (preferably recycled and white or off-white) using black ink. Elaborate art work, multicolor printing and expensive bindings are not to be used. Whenever possible, pages shall be printed on both sides.

(iii) The electronic document submitted shall consist of only one electronic file which comprises the complete and final equivalent of the hard copy submitted.

(iv) Acceptable software formats for electronic documents include WordPerfect, Microsoft Word, ASCII, and Portable Document Format (PDF). Submission in Portable Document

Format is encouraged.

(v) The electronic document submission shall include the following descriptive information:

(A) Name and version of the application software used to create the file, e.g., WordPerfect Version 6.1 or ASCII or PDF.

(B) The format for any graphic and/or image file submitted, e.g., TIFF-compatible.

(B) Any other necessary information, e.g. special backup or data compression routines, software used for storing/retrieving submitted data, or program installation instructions.

H.4 INSURANCE AND SERVICES

(a) Pursuant to AIDAR 752.228-3 Worker's Compensation Insurance (Defense Base Act); USAID's DBA insurance carrier is:

Rutherfoord International, Inc.
5500 Cherokee Avenue, Suite 300
Alexandria, VA 22312

Points of Contact:
Sara Payne or Diane Proctor
(703) 354-1616

Hours of Operation are: 8 a.m. to 5 p.m. (EST)
Telefax: 703) 354-0370
E-Mail: www.rutherfoord.com

(b) Pursuant to AIDAR 752.228-70 Medical Evacuation (MEDEVAC) Services, USAID's Medevac service provider is:

Medex Assistance Corporation
P.O. Box 5375
Timonium, MD 21094-5375
Telephone: (410) 453-6300 in Maryland;
or (800) 537-2029 (toll-free)
Telefax: (410) 453-6301

Applicants should request coverage in accordance with USAID Contract No. HNE-Q-00-98-00106-00.

Medevac services costs are allowable as a direct cost.

H.5 AUTHORIZED GEOGRAPHIC CODE

The authorized geographic code for procurement of goods and services under this contract is 935.

H.6 NONEXPENDABLE PROPERTY PURCHASES AND INFORMATION TECHNOLOGY RESOURCES

The Contractor is hereby authorized to purchase the following equipment and/or resources:

H.7 LOGISTIC SUPPORT

The Contractor shall be responsible for furnishing all logistic support in the United States and overseas.

H.8 LANGUAGE REQUIREMENTS

Contractor personnel and/or consultant shall have language proficiency to perform technical services.

H.9 PERSONNEL COMPENSATION

(a) Limitations:

(1) Salaries and wages may not exceed the Contractor's established policy and practice, including the Contractor's established pay scale for equivalent classifications of employees, which shall be certified to by the Contractor. Nor may any individual salary or wage, without approval of the Cognizant Contracting Officer, exceed the employee's current salary or wage, or the highest rate of annual salary or wage received during any full year of the immediately preceding three (3) years.

(2) In addition, there is a ceiling on the reimbursable base salary or wage paid to personnel under the contract equivalent to the maximum annual salary rate of the USAID "ES-6" (or the equivalent to the maximum ES-6 salary, if compensation is not calculated on an annual basis), as amended from time to time, unless the Contracting Officer approves a higher amount in accordance with the Agency policy and procedures in ADS 302 "USAID Direct Contracting."

(b) Salaries During Travel

Salaries and wages paid while in travel status will not be reimbursed for a travel period greater than the time required for travel by the most direct and expeditious air route.

(c) Return of Overseas Employees

Salaries and wages paid to an employee serving overseas who is discharged by the Contractor for misconduct, inexcusable non- performance, or security reasons will in no event be reimbursed for a period which extends beyond the time required to return him promptly to his point of origin by the most direct and expeditious air route.

(d) Annual Salary Increases

One annual salary increase not more than 3% (COLA, %, or Company Policy) (includes promotional increase) may be granted after the employee's completion of each twelve month period of satisfactory services under the contract. Annual salary increases of any kind exceeding these limitations or exceeding the maximum salary of ES-6 may be granted only with the advance written approval of the Contracting Officer.

(e) Consultants

No compensation for consultants will be reimbursed unless their use under the contract has advance written approval of the Contracting Officer; and if such provision has been made or approval given, compensation shall not exceed: 1) the highest rate of annual compensation received by the consultant during any full year of the immediately preceding three years or 2) the maximum daily salary rate of ES-6, whichever is less.

(f) Initial Salaries

The initial starting salaries of all employees whose salaries are charged as a direct cost to this contract must be approved, in advance and in writing, by the Contracting Officer. (any initial starting salaries included in the contractor's best and final and accepted during negotiations, are deemed approved upon contract execution).

Note: The Contractor must retain any approvals issued pursuant to sections (a) through (f) above for audit purposes. Approvals issued pursuant to the above must be within the terms of this contract, and shall not serve to increase the total estimated cost or the obligated amount of this contract, whichever is less (see Part I, Section B.3 of this contract).

(g) Work Week

(l) Nonoverseas Employees.

The length of the contractor's U.S., non-overseas employees workday shall be in accordance with the contractor's established policies and practices and shall not be less than 8 hours per day and 40 hours per week.

(2) Overseas Employee

The work week for the Contractor's overseas employees shall not be less than 40 hours and shall be scheduled to coincide with the work week for those employees of the USAID Mission and the Cooperation Country associated with the work of this contract.

(h) Definitions

As used in this contract, the terms "salaries" and "wages" mean the periodic remuneration received for professional or technical personal services rendered. Unless the contract states otherwise, these terms do not include any other elements of personal compensation described in the cost principle in FAR 31.205-6 "Compensation for Personal Services," such as (but not limited to) the differentials or allowances defined in the clause of this contract entitled "Differentials and Allowances" (AIDAR 752.7028). The term "compensation" is defined in FAR 31.205-6(a) and includes fees and honoraria related to the personal services provided under this contract, but excludes earnings from sources other than the individual's professional or technical work, overhead, or other charges.

(END-OF-CLAUSE)

H.10 SUBCONTRACTING PLAN AND THE SF 294 - SUBCONTRACTING REPORT FOR INDIVIDUAL CONTRACTS AND SF 295 - SUMMARY CONTRACTING REPORT

The Contractor's subcontracting plan dated 6/30/03 is hereby incorporated as a material part of this contract.

In accordance with FAR 52.219-9, SF 294 and SF 295 should be forwarded to the following address:

U.S. Agency for International Development
Office of Small and Disadvantaged Business Utilization
Room 7.08 RRB
Washington, D.C. 20523

H.11 EXECUTIVE ORDER ON TERRORISM FINANCING

The Contractor/Recipient is reminded that U.S. Executive Orders and U.S. law prohibits transactions with, and the provision of resources and support to, individuals and organizations associated with terrorism. It is the legal responsibility of the contractor/recipient to ensure compliance with these Executive Orders and laws. This provision must be included in all subcontracts/subawards issued under this contract/agreement.

H.12 IN-COUNTRY SECURITY

The Contractor must first verify and may only proceed to work in areas that have been determined permissive. Permissive environment conditions exist when:

1. Coalition forces are in control of urban areas, to include main access routes and dominating ground.

2. Principal access and internal routes have been cleared of unexploded ordnance (UXO) and mines to military standards.

3. Armed opposition is limited to occasional and infrequent acts of terrorism or insurgency, largely directed at military and overtly political targets.

4. Civilian criminal activity is generally deterred through coalition military framework security and/or local police operations, which are also able to provide security escort on an as needed basis.

In addition, the contractor is subject to the requirements of the Office of Foreign Assets Control (OFAC)."

H.13 AIDAR 752.7032 INTERNATIONAL TRAVEL APPROVAL AND NOTIFICATION REQUIREMENTS AND AIDAR 752.7027 PERSONNEL

In accordance with the above clauses, the Contracting Officer hereby provides prior written approval for country clearance and international travel, provided that concurrence with the assignment of individuals outside the United States and host country clearance is obtained by the Contractor, in writing, from the CTO prior to their assignment abroad, which must be within the terms of this contract, is subject to availability of funds, and should not be construed as authorization either to increase the estimated cost or to exceed the obligated amount (see Section B). The Contractor shall retain for audit purposes a copy of each travel concurrence.

PART II - CONTRACT CLAUSES

SECTION I - CONTRACT CLAUSES

I.1 NOTICE LISTING CONTRACT CLAUSES INCORPORATED BY REFERENCE

The following contract clauses pertinent to this section are hereby incorporated by reference (by Citation Number, Title, and Date) in accordance with the clause at FAR "52.252-2 CLAUSES INCORPORATED BY REFERENCE" in Section I of this contract. See FAR 52.252-2 for an internet address (if specified) for electronic access to the full text of a clause.

NUMBER	TITLE	DATE
	FEDERAL ACQUISITION REGULATION (48 CFR Chapter 1)	
52.202-1	DEFINITIONS	DEC 2001
52.203-3	GRATUITIES	APR 1984
52.203-5	COVENANT AGAINST CONTINGENT FEES	APR 1984
52.203-6	RESTRICTIONS ON SUBCONTRACTOR SALES TO THE GOVERNMENT	JUL 1995
52.203-7	ANTI-KICKBACK PROCEDURES	JUL 1995
52.203-8	CANCELLATION, RESCISSION, AND RECOVERY OF FUNDS FOR ILLEGAL OR IMPROPER ACTIVITY	JAN 1997
52.203-10	PRICE OR FEE ADJUSTMENT FOR ILLEGAL OR IMPROPER ACTIVITY	JAN 1997
52.203-12	LIMITATION ON PAYMENTS TO INFLUENCE CERTAIN FEDERAL TRANSACTIONS	JUN 1997
52.204-2	SECURITY REQUIREMENTS	AUG 1996
52.204-4	PRINTED OR COPIED DOUBLE-SIDED ON RECYCLED PAPER	AUG 2000
52.209-6	PROTECTING THE GOVERNMENT'S INTEREST WHEN SUBCONTRACTING WITH CONTRACTORS DEBARRED, SUSPENDED, OR PROPOSED FOR DEBARMENT	JUL 1995
52.215-2	AUDIT AND RECORDS--NEGOTIATION	JUN 1999
52.215-8	ORDER OF PRECEDENCE--UNIFORM CONTRACT FORMAT	OCT1997
52.215-14	INTEGRITY OF UNIT PRICES ALTERNATE I (OCT 1997)	OCT 1997
52.216-7	ALLOWABLE COST AND PAYMENT	DEC 2002
52.216-8	FIXED-FEE	MAR 1997

52.219-25	SMALL DISADVANTAGED BUSINESS PARTICIPATION PROGRAM--DISADVANTAGED STATUS AND REPORTING	OCT 1999
52.222-1	NOTICE TO THE GOVERNMENT OF LABOR DISPUTES	FEB 1997
52.222-3	CONVICT LABOR	AUG 1996
52.222-19	CHILD LABOR - COOPERATION WITH AUTHORITIES AND REMEDIES	SEP 2002
52.222-21	PROHIBITION OF SEGREGATED FACILITIES	FEB 1999
52.222-26	EQUAL OPPORTUNITY	APR 2002
52.222-29	NOTIFICATION OF VISA DENIAL	FEB 1999
52.222-38	COMPLIANCE WITH VETERANS' EMPLOYMENT REPORTING REQUIREMENTS	DEC 2001
52.225-13	RESTRICTIONS ON CERTAIN FOREIGN PURCHASES	JUL 2000
52.227-14	RIGHTS IN DATA--GENERAL	JUN 1987
52.227-16	ADDITIONAL DATA REQUIREMENTS	JUN 1987
52.228-7	INSURANCE--LIABILITY TO THIRD PERSONS	MAR 1996
52.232-9	LIMITATION ON WITHHOLDING OF PAYMENTS	APR 1984
52.232-17	INTEREST	JUN 1996
52.232-22	LIMITATION OF FUNDS	APR 1984
52.232-23	ASSIGNMENT OF CLAIMS	JAN 1986
52.233-1	DISPUTES	JUL 2002
52.233-3	PROTEST AFTER AWARD ALTERNATE I (JUN 1985)	AUG 1996
52.237-8	RESTRICTION ON SEVERANCE PAYMENTS TO FOREIGN NATIONALS	OCT 1995
52.237-9	WAIVER OF LIMITATION ON SEVERANCE PAYMENTS TO FOREIGN NATIONALS	OCT 1995
52.242-1	NOTICE OF INTENT TO DISALLOW COSTS	APR 1984
52.242-3	PENALTIES FOR UNALLOWABLE COSTS	MAY 2001
52.242-4	CERTIFICATION OF FINAL INDIRECT COSTS	JAN 1997
52.242-13	BANKRUPTCY	JUL 1995
52.243-2	CHANGES--COST REIMBURSEMENT ALTERNATE I (APR 1984)	AUG 1987
52.244-2	SUBCONTRACTS ALTERNATE II (AUG 1998)	AUG 1998
52.244-5	COMPETITION IN SUBCONTRACTING	DEC 1996
52.244-6	SUBCONTRACTS FOR COMMERCIAL ITEMS	MAY 2002
52.246-23	LIMITATION OF LIABILITY	FEB 1997
52.246-25	LIMITATION OF LIABILITY--SERVICES	FEB 1997
52.248-1	VALUE ENGINEERING	FEB 2000
52.249-6	TERMINATION (COST-REIMBURSEMENT)	SEP 1996
52.249-14	EXCUSABLE DELAYS	APR 1984
52.253-1	COMPUTER GENERATED FORMS	JAN 1991

AIDAR 48 CFR Chapter 7

752.202-1	USAID DEFINITIONS	JAN 1990
752.204-2	SECURITY REQUIREMENTS	
752.211-70	LANGUAGE AND MEASUREMENT	JUN 1992
752.225-70	SOURCE, ORIGIN, AND NATIONALITY REQUIREMENTS	FEB 1997
752.226-2	SUBCONTRACTING WITH DISADVANTAGED ENTERPRISE	APR 1997
752.226-3	LIMITATIONS ON SUBCONTRACTING	JUN 1993
752.228-7	INSURANCE-LIABILITY TO THIRD PERSONS	
752.228-70	MEDICAL EVACUATION (MEDVAC) SERVICES	MAR 1993
752.242-70	PERIODIC PROGRESS REPORTS	JUL 1998
752.7001	BIOGRAPHICAL DATA	JUL 1997
752.7002	TRAVEL AND TRANSPORTATION	JAN 1990
752.7006	NOTICES	APR 1984
752.7007	PERSONNEL COMPENSATION	JUL 1996
752.7008	USE OF GOVERNMENT FACILITIES OR PERSONNEL	APR 1984
752.7010	CONVERSION OF U.S. DOLLARS TO LOCAL CURRENCY	APR 1984
752.7011	ORIENTATION AND LANGUAGE TRAINING	APR 1984
752.7013	CONTRACTOR-MISSION RELATIONSHIPS	OCT 1989
752.7014	NOTICE OF CHANGES IN TRAVEL REGULATIONS	JAN 1990
752.7015	USE OF POUCH FACILITIES	JUL 1997
752.7025	APPROVALS	APR 1984
752.7028	DIFFERENTIALS AND ALLOWANCES	JUL 1996
752.7029	POST PRIVILEGES	JUL 1993
752.7033	PHYSICAL FITNESS	JUL 1997
752.7034	ACKNOWLEDGEMENT AND DISCLAIMER	DEC 1991

I.2 52.217-8 OPTION TO EXTEND SERVICES (NOV 1999)

The Government may require continued performance of any services within the limits and at the rates specified in the contract. These rates may be adjusted only as a result of revisions to prevailing labor rates provided by the Secretary of Labor. The option provision may be exercised more than once, but the total extension of performance hereunder shall not exceed 6 months. The Contracting Officer may exercise the option by written notice to the Contractor within 60 days.

I.3 52.217-9 OPTION TO EXTEND THE TERM OF THE CONTRACT (MAR 2000)

(a) The Government may extend the term of this contract by written notice to the Contractor within 60 days provided that the Government gives the Contractor a preliminary written notice of its intent to extend at least 60 days before the contract expires. The preliminary notice does not commit the Government to an extension.

(b) If the Government exercises this option, the extended contract shall be considered to include this option clause.

(c) The total duration of this contract, including the exercise of any options under this clause, shall not exceed 3 years.

I.4 52.219-26 SMALL DISADVANTAGED BUSINESS PARTICIPATION PROGRAM--INCENTIVE SUBCONTRACTING (OCT 2000)

(a) Of the total dollars it plans to spend under subcontracts, the Contractor has committed itself in its offer to try to award a certain amount to small disadvantaged business concerns in the North American Industry Classification System (NAICS) Industry Subsectors as determined by the Department of Commerce.

(b) If the Contractor exceeds its total monetary target for subcontracting to small disadvantaged business concerns in the authorized SIC Major Groups, it will receive percent of the dollars in excess of the monetary target, unless the Contracting Officer determines that the excess was not due to the Contractor's efforts (e.g., a subcontractor cost overrun caused the actual subcontract amount to exceed that estimated in the offer, or the excess was caused by the award of subcontracts that had been planned but had not been disclosed in the offer during contract negotiations). Determinations made under this paragraph are not subject to the Disputes clause of this contract.

(c) If this is a cost-plus-fixed-fee contract, the sum of the fixed fee and the incentive fee earned under this contract may not exceed the limitations in subsection 15.404-4 of the Federal Acquisition Regulation.

I.5 52.227-23 RIGHTS TO PROPOSAL DATA (TECHNICAL) (JUN 1987)

Except for data contained on pages __, it is agreed that as a condition of award of this contract, and notwithstanding the conditions of any notice appearing thereon, the Government shall have unlimited rights (as defined in the "Rights in Data--General" clause contained in this contract) in and to the technical data contained in the proposal dated upon which this contract is based.

I.6 52.232-25 PROMPT PAYMENT (FEB 2002)

Notwithstanding any other payment clause in this contract, the Government will make invoice payments under the terms and conditions specified in this clause. The Government considers payment as being made on the day a check is dated or the date of an electronic funds transfer (EFT). Definitions of pertinent terms are set forth in sections 2.101, 32.001, and 32.902 of the Federal Acquisition Regulation. All days referred to in this clause are calendar days, unless otherwise specified. (However, see paragraph (a)(4) of this clause concerning payments due on Saturdays, Sundays, and legal holidays.)

(a) Invoice payments--

(1) Due date.

(i) Except as indicated in paragraphs (a)(2) and (c) of this clause, the due date for making invoice payments by the designated payment office is the later of the following two events:

(A) The 30th day after the designated billing office receives a proper invoice from the Contractor (except as provided in paragraph (a)(1)(ii) of this clause).

(B) The 30th day after Government acceptance of supplies delivered or services performed. For a final invoice, when the payment amount is subject to contract settlement actions, acceptance is deemed to occur on the effective date of the contract settlement.

(ii) If the designated billing office fails to annotate the invoice with the actual date of receipt at the time of receipt, the invoice payment due date is the 30th day after the date of the Contractor's invoice, provided the designated billing office receives a proper invoice and there is no disagreement over quantity, quality, or Contractor compliance with contract requirements.

(2) Certain food products and other payments.

(i) Due dates on Contractor invoices for meat, meat food products , or fish; perishable agricultural commodities; and dairy products, edible fats or oils, and food products prepared from edible fats or oils are--

(A) For meat or meat food products, as defined in section 2(a)(3) of the Packers and Stockyard Act of 1921 (7 U.S.C. 182(3)), and as further defined in Pub. L. 98-181, including any edible fresh or frozen poultry meat, any perishable poultry meat food product, fresh eggs, and any perishable egg product, as close as possible to, but not later than, the 7th day after product delivery.

(B) For fresh or frozen fish, as defined in section 204(3) of the Fish and Seafood Promotion Act of 1986 (16 U.S.C. 4003(3)), as close as possible to, but not later than, the 7th day after product delivery.

(C) For perishable agricultural commodities, as defined in section 1(4) of the Perishable Agricultural Commodities Act of 1930 (7 U.S.C. 499a(4)), as close as possible to, but not later than, the 10th day after product delivery, unless another date is specified in the contract.

(D) For dairy products, as defined in section 111(e) of the Dairy Production Stabilization Act of 1983 (7 U.S.C. 4502(e)), edible fats or oils, and food products prepared from edible fats or oils, as close as possible to, but not later than, the 10th day after the date on which a proper invoice has been received. Liquid milk, cheese, certain processed cheese products, butter, yogurt, ice cream, mayonnaise, salad dressings, and other similar products, fall within this classification. Nothing in the Act limits this classification to refrigerated products. When questions arise regarding the proper classification of a specific product, prevailing industry practices will be followed in specifying a contract payment due date. The burden of proof that a classification of a specific product is, in fact, prevailing industry practice is upon the Contractor making the representation.

(ii) If the contract does not require submission of an invoice for payment (e.g., periodic lease payments), the due date will be as specified in the contract.

(3) Contractor's invoice. The Contractor shall prepare and submit invoices to the designated billing office specified in the contract. A proper invoice must include the items listed in paragraphs (a)(3)(i) through (a)(3)(x) of this clause. If the invoice does not comply with these requirements, the designated billing office will return it within 7 days after receipt (3 days for meat, meat food products, or fish; 5 days for perishable agricultural commodities, dairy products, edible fats or oils, and food products prepared from edible fats or oils), with the reasons why it is not a proper invoice. The Government will take into account untimely notification when computing any interest penalty owed the Contractor.

(i) Name and address of the Contractor.

(ii) Invoice date and invoice number. (The Contractor should date invoices as close as possible to the date of the mailing or transmission.)

(iii) Contract number or other authorization for supplies delivered or services performed (including order number and contract line item number).

(iv) Description, quantity, unit of measure, unit price, and extended price of supplies delivered or services performed.

(v) Shipping and payment terms (e.g., shipment number and date of shipment, discount for prompt payment terms). Bill of lading number and weight of shipment will be

shown for shipments on Government bills of lading.

(vi) Name and address of Contractor official to whom payment is to be sent (must be the same as that in the contract or in a proper notice of assignment).

(vii) Name (where practicable), title, phone number, and mailing address of person to notify in the event of a defective invoice.

(viii) Taxpayer Identification Number (TIN). The Contractor shall include its TIN on the invoice only if required elsewhere in this contract.

(ix) Electronic funds transfer (EFT) banking information.

(A) The Contractor shall include EFT banking information on the invoice only if required elsewhere in this contract.

(B) If EFT banking information is not required to be on the invoice, in order for the invoice to be a proper invoice, the Contractor shall have submitted correct EFT banking information in accordance with the applicable solicitation provision (e.g., 52.232- 38, Submission of Electronic Funds Transfer Information with Offer), contract clause (e.g., 52.232-33, Payment by Electronic Funds Transfer--Central Contractor Registration, or 52.232-34, Payment by Electronic Funds Transfer--Other Than Central Contractor Registration), or applicable agency procedures.

(C) EFT banking information is not required if the Government waived the requirement to by EFT.

(x) Any other information or documentation required by the contract (e.g., evidence of shipment).

(4) Interest penalty. The designated payment office will pay an interest penalty automatically, without request from the Contractor, if payment is not made by the due date and the conditions listed in paragraphs (a)(4)(i) through (a)(4)(iii) of this clause are met, if applicable. However, when the due date falls on a Saturday, Sunday, or legal holiday, the designated payment office may make payment on the following working day without incurring a late payment interest penalty.

(i) The designated billing office received a proper invoice.

(iii) The Government processed a receiving report or other Government documentation authorizing payment, and there was no disagreement over quantity, quality, or Contractor compliance with any contract term or condition.

(iv) In the case of a final invoice for any balance of funds due the Contractor for supplies delivered or services performed, the amount was not subject to further contract settlement actions between the Government and the Contractor.

(5) Computing penalty amount. The Government will compute the interest penalty in accordance with the Office of Management and Budget prompt payment regulations at 5 CFR part 1315.

(i) For the sole purpose of computing an interest penalty that might be due the Contractor, Government acceptance is deemed to occur constructively on the 7th day (unless otherwise specified in this contract) after the Contractor delivers the supplies or performs the services in accordance with the terms and conditions of the contract, unless there is a disagreement over quantity, quality, or Contractor compliance with a contract provision. If actual acceptance occurs within the constructive acceptance period, the Government will base the determination of an interest penalty on the actual date of acceptance. The constructive acceptance requirement does not, however, compel Government officials to accept supplies or services, perform contract administration functions, or make payment prior to fulfilling their responsibilities.

(ii) The prompt payment regulations at 5 CFR 1315.10(c) do not require the Government to pay interest penalties if payment delays are due to disagreement between the Government and the Contractor over the payment amount or other issues involving contract compliance, or on amounts temporarily withheld or retained in accordance with the terms of the contract. The Government and the Contractor shall resolve claims involving disputes and any interest that may be payable in accordance with the clause at FAR 52.233-1, Disputes.

(6) Discounts for prompt payment. The designated payment office will pay an interest penalty automatically, without request from the Contractor, if the Government takes a discount for prompt payment improperly. The Government will calculate the interest penalty in accordance with the prompt payment regulations at 5 CFR part 1315.

(7) Additional interest penalty.

(i) The designated payment office will pay a penalty amount, calculated in accordance with the prompt payment regulations at 5 CFR part 1315 in addition to the interest penalty amount only if--

(A) The Government owes an interest penalty of $1 or more;

(B) The designated payment office does not pay the interest penalty within 10 days after the date the invoice amount is paid; and

(C) The Contractor makes a written demand to the designated payment office for additional penalty payment, in accordance with paragraph (a)(7)(ii) of this clause, postmarked not later than 40 days after the invoice amount is paid.

(ii)(A) The Contractor shall support written demands for additional penalty payments with

the following data. The Government will not request any additional data. The Contractor shall--

(1) Specifically assert that late payment interest is due under a specific invoice, and request payment of all overdue late payment interest penalty and such additional penalty as may be required;

(2) Attach a copy of the invoice on which the unpaid late payment interest is due; and

(3) State that payment of the principal has been received, including the date of receipt.

(B) If there is no postmark or the postmark is illegible--

(1) The designated payment office that receives the demand will annotate it with the date of receipt, provided the demand is received on or before the 40th day after payment was made; or

(2) If the designated payment office fails to make the required annotation, the Government will determine the demand's validity based on the date the Contractor has placed on the demand, provided such date is no later than the 40th day after payment was made.

(ii) The additional penalty does not apply to payments regulated by other Government regulations (e.g., payments under utility contracts subject to tariffs and regulation).

(b) Contract financing payment. If this contract provides for contract financing, the Government will make contract financing payments in accordance with the Applicable contract financing clause.

(c) Fast payment procedure due dates. If this contract contains the clause at 52.213-1, Fast Payment Procedure, payments will be made within 15 days after the date of receipt of the invoice.

(d) Overpayments. If the Contractor becomes aware of a duplicate payment or that the Government has otherwise overpaid on an invoice payment, the Contractor shall immediately notify the Contracting Officer and request instructions for disposition of the overpayment.

I.7 52.252-2 CLAUSES INCORPORATED BY REFERENCE (FEB 1998)

This contract incorporates one or more clauses by reference, with the same force and effect as if they were given in full text. Upon request, the Contracting Officer will make their full text available. Also, the full text of a clause may be accessed electronically at this/these address(es):

http://arnet.gov/far/

I.8 AIDAR 752.7032 INTERNATIONAL TRAVEL APPROVAL AND NOTIFICATION REQUIREMENTS (JAN 1990)

Prior written approval by the Contracting Officer is required for all international travel directly and identifiably funded by USAID under this contract. The Contractor shall therefore present to the Contracting Officer an itinerary for each planned international trip, showing the name of the traveler, purpose of the trip, origin/destination (and intervening stops), and dates of travel, as far in advanced of the proposed travel as possible, but in no event less than three weeks before travel is planned to commence. The Contracting Officer's prior written approval may be in the form of a letter or telegram or similar device or may be specifically incorporated into the schedule of the contract. At least one week prior to commencement of approved international travel, the Contractor shall notify the cognizant Mission, with a copy to the Contracting Officer, of planned travel, identifying the travelers and the dates and times of arrival.

I.9 COMMUNICATIONS PRODUCTS (OCT 1994)

(a) Definition - Communications products are any printed materials (other than non-color photocopy material), photographic services or video production services.

(b) Standards - USAID has established standards for communications products. These standards must be followed unless otherwise specifically provided in the contract or approved in writing by the contracting officer. A copy of the standards for USAID financed publications and video productions is attached.

(c) Communications products which meet any of the following criteria are not eligible for USAID financing under this agreement unless specifically authorized in the contract or in writing by the contracting officer:

(1) All communications materials funded by operating expense account funds;

(2) Any communication products costing over $25,000, including the costs of both preparation and execution. For example, in the case of a publication, the costs will include research, writing and other editorial services (including any associated overhead), design, layout and production costs.

(3) Any communication products that will be sent directly to, or likely to be seen by, a Member of Congress or Congressional staffer; and

(4) Any publication that will have more than 50 percent of its copies distributed in the United States (excluding copies provided to CDIE and other USAID/W offices for internal use.

(d) The initial proposal must provide a separate estimate of the cost of every communications product as defined in paragraph (a) above [not just those which meet the criteria in paragraph (c)] which is anticipated under the contract. Each estimate must include all of the costs associated with preparation and execution of the product. Any subsequent request for approval of a covered communication product must provide the same type of cost information.

PART III – LIST OF DOCUMENTS, EXHIBITS AND OTHER ATTACHMENTS
SECTION J – LIST OF ATTACHMENTS

ATTACHMENT J.1

Annex A
Statement of Work

Economic Governance: Policy, Regulatory and Legal Climate for Economic Growth

PROGRAM OVERVIEW

USAID's economic governance assistance will support a restructured government in Iraq to implement a sound macroeconomic and structural policy framework that will support the economic restructuring, recovery and governmental transition to a sustainable market-driven economic system. Support will be targeted primarily towards the basic economic governance institutions currently in place. The USAID assistance will facilitate the capacity of the core economic management institutions to implement comprehensive economic reform measure by promoting the development of sustainable economic policy formulation and management capacity by Iraq's government officials and technical specialists and through the full development of Iraqi economic governance institutions.

Sustainable economic reform and recovery in Iraq depends upon the success of economic policy reform and institution-building programs. They will impact both on the immediate economic and social well being of the population, and on the prospects for long-term country buy-in to and participation in the full adoption and implementation of a sound macroeconomic and structural policy framework and administrative implementation system. Progress in core economic governance areas implies considerable support for human resource development. Essentially assistance will need to accelerate dramatically the public administrative capacity for operational and oversight, implying intensive ongoing on-the-job and formal training support. The ultimate goal is to have Iraq's government and private sector capable to assume responsibility for appropriately structured and managed market and non-market institutions to assure prudent and efficient economic governance. The program will be flexibly designed to facilitate maximum responsiveness to the emerging/ continuing executive, legislative, and judicial governance structures in Iraq. In doing so, it will directly support the priority USG objective of promoting a rapid and sustainable reconstruction and recovery effort in Iraq and will improve the living conditions of the population.

1. Fiscal Reform

Fiscal institutions and policy are central to Iraq's ability to establish itself as a legitimate government and to manage fiscal resources. As the Ministry of Finance in Iraq tries to increase non-oil revenues and improve efficiency of expenditures they face a formidable task. Correct and appropriate decisions by Central Banks no longer to finance fiscal deficits force the Ministries of Finance to institute tighter fiscal management policies. At a minimum they must ensure that revenues are in place to finance expenditure requests. In the longer run, they must be

able to forecast revenues and design a tax program that match expenditure needs, and ensure that expenditures are directed to the priority social and public good obligations of the government. They must also be in a position where the central government can address the center- periphery issues and ensure funding and services to those regions that fulfill their revenue obligations to the central government.

Ministry of Finance (MOF) currently operates at levels from elementary to relatively sophisticated. The basic legal framework is normally in place, but Treasury operations are often much less than appropriately sophisticated. Often revenues are collected inappropriately. This problem will plague economic modernization unless the fiscal system is rationalized where revenue collections are modernized and citizens can count on receiving services for their tax contributions. A first step towards fiscal sustainability in Iraq is the reform of the tax policy and tax administration including customs administration, and establishing transparent fiscal systems and fiscal accountability.

The MOF will need to develop capacity in the macro-economic policy analysis, tax policy including customs, trade and natural resource tax issues, tax administration, including customs administration, budget planning, and inter-governmental fiscal relations.

1.) Macro-economic Analysis Unit. The key to successful macro-economic management is to develop the capability to analyze and monitor the economic information on which decision-makers around the world depend. One of the first things required by Ministries of Finance is a macro-economic analysis unit to carry out this function for the ministry. The assistance will establish a macroeconomic analysis unit in the MOF, which will develop macro-economic analysis to support design and management of the economic program. It will estimate revenue and expenditures, and financing requirements. It will analyze the fiscal impacts on monetary and real sectors and vice versa. It will also develop forecasting models designed to facilitate effective fiscal policy-making activities. Analysts will inform policy makers of parameters required to stay within economic targets. A core staff of Iraqi economic analysts will be hired and trained to conduct basic macroeconomic data analysis and modeling activities working with resident and intermittent expatriate expertise The work of these units will be crucial in facilitating rational discussion and formulation of expenditure and revenue policies within the context of the annual budget process as well as monitoring the economic program.

2) Tax Policy Analysis Unit. The assistance will be utilized to establish a tax policy office in one or more Ministries of Finance and provide experts to work with Iraqi professionals to design a tax policy framework for Iraq in which work is determined to be conducted, a framework that will accommodate the short term need for revenues and more importantly the medium term need for market-oriented tax systems.

In general, as development occurs, it is appropriate to move reliance on tax sources away from trade taxes and to income and consumption taxes, as administrative capacity increases. The usual initial reliance on trade taxation does not provide the strongest incentive for private sector growth while it also increases costs of good to consumers. This standard limitation is an inevitable feature of the tax system until tax inspectorates are set up and operational, so reliance on administration of taxes at the border can be reduced.

Technical assistance will help the MOF undertake the tasks needed to respond to the short-term requirements for changes in the revenue system, such as preparing a decree to change the income tax legislation. It will also help rationalize the tax policy framework in the medium term focusing on both indirect and direct taxes. It will recommend changes needed to make the tax regime more effective. Concerns that could be addressed include revising the income tax, introducing excise taxes on selected goods, converting any business receipts tax into broad based consumption tax, revising fixed taxes, providing an improved fiscal regime for petroleum and mining sectors and for transit pipelines. The experts will help selected MOFs analyze options in the area of tax policy that meet international standards, prepare changes in tax policy and help develop capacity of Iraqi experts to manage tax and customs policy.

3.) Tax Administration. The assistance will help the Iraqi Government and their Ministries of Finance rationalize the design and implementation of efficient tax administration systems. Efficient revenue collection is critical to meeting Iraq expenditure needs. However, existing institutional arrangements on occasion do not support compliance requirements in an open market or transitional economy. Authorities provided to tax administration offices often are lacking at appropriate levels of delegation for such matters as audit and enforcement. In some countries decentralized offices of revenue collection use outdated and manual procedures.

Through the assistance the tax inspectorate will modernize its organization and procedures. A more effective organization will be established including establishment of a large tax payer unit (LTU), model tax offices for medium sized taxpayers, and introduction of new operating concepts such as adoption of taxpayer identification and of functional organizational structure in accordance with best practices. Modern techniques of tax administration will be developed and piloted in selected offices. The assistance will help establish procedures to recruit and staff. It will provide training in core tax administration areas, including registration, audit, collections, returns processing, and taxpayer services.

4.) Budget Planning. The assistance will help the MOF develop systematic and sound budget planning and review procedures, a basic IMF-consistent budget classification system, procedures for review of public investment budget, and preparations for presentation of results to Cabinet or Donor meetings, where these are lacking. In some countries, there is little capacity to work on the development budget. Moreover, there is often little capacity to do budget planning and analysis to maintain the fiscal discipline to which it aspires. USAID assistance would coordinate closely with the Treasury, World Bank and other donor advisors. Work will be needed on such matters as financial management tasks and to help develop comprehensive control procedures ensuring accountability and transparency in financial management. Expertise through this activity will collaborate with other donors such as the World Bank as needed. Budget activity will supplement the efforts of other donors to help establish financial accountability and transparency in Iraq. It will support the work of officials such as Inspector Generals and others, within or outside of the Ministry of Finance, and other appropriate Ministries or Agencies involved in the processes of budget planning and administration.

5) Intergovernmental Fiscal Finance. The assistance will work with the local government officials to analyze the applicability of an intergovernmental finance (IGF) system to Iraq and if appropriate provide assistance to design a system. Iraq is, in principle, an administratively centralized nation of provinces. Generally, experience demonstrates a reluctance of provinces to send tax revenues to the central government.

An IGF could be critical to bringing Iraq together from a fiscal perspective by addressing center periphery issues. An IGF system addresses revenue sources and expenditure obligations across central, provincial and local governments and if effective, promotes a sound allocation of fiscal resources in relation to expenditure need; and promotes effective revenue-raising practices on the part of provincial and local governments. The system would provide revenue sharing across Iraq and the development of systematic grant policies and procedures to be integrated into the budget cycle. A fiscal federal system would give the provinces confidence that money can be sent from the provinces to the center and the provinces, and local governments could still enjoy benefits of taxation from their region.

2. Financial Sector Reform

Iraq remains in the nascent stages of financial sector development. Its Central Bank will operate under assumptions that it will issue and manage domestic currency, has the ability to operate independently and will not finance the government. It will oversee the implementation of the regulatory, organizational and technical infrastructure required for the development of a functioning competitive financial system, and the re-establishment of monetary control, banking laws and regulations, bank supervision and bank licensing. In this regard, the Central Bank with donor support may need to develop a relevant legal framework. This would include laws such as the Central Bank Law (assuring independence), the Banking Law, and the Financial Law that may need to be drafted, discussed, approved, implemented and enforced.

Other laws such as a law on Bank Licensing may be needed. A payments law may also be needed. If necessary, emergency payments systems may be set up to facilitate transactions and other services of the government in countries where there is an absence of a functioning financial system. A temporary system can also facilitate key payments for receiving and channeling foreign assistance. The temporary system will establish correspondent accounts and serve as a channel for collection of budgetary revenues. These functions will eventually be taken over by the commercial banking institutions.

The contractor will support each of the key financial restructuring reform processes enumerated below. The team will work with other multilateral and bilateral donors and with other USAID grantees with expertise in financial sector reform. This will include (but not be limited to) the following priority tasks:

1.) Macro-economic Unit. In Iraq, the assistance will establish or improve a macro-economic analysis unit in the Central Bank, which will develop analytical capability to support design and monitor the exchange rate policy and the monetary program. It will analyze the monetary impacts on the banking system and economic growth and vice versa. It will develop the capacity to estimate money demand and prices, both critical factors in economic management. The unit will collect and analyze statistics critical to development of macro economic program, including statistics such as money supply, emission, international reserves, exchange rate, banking reserves, domestic assets, government overdrafts, inflation, trade. It will advise policy makers on effective approaches for effective monetary and exchange rate policy. Analysts are to inform policy makers on parameters required to stay within economic targets. To supplement

expatriate expert assistance, a core staff of Iraqi economic analysts for selected countries will be hired and trained to conduct basic macroeconomic data analysis and modeling activities. The work of this unit will be crucial in facilitating rational discussion and formulation of monetary and exchange rate policy within the context of the overall economic program.

2) Reform of Central Bank Operations and the Payment System. An immediate priority of the Central Bank in selected countries is to reorganize its operations, reducing its staff and rationalizing and modernizing its regional operations. Such Central Banks may need to establish a temporary payment system in order to facilitate control of payments from donor funding. In Iraq, customers receive cash from the Central Bank to make payments in the provinces. Where such rudimentary banking systems exist, there are normally other related problems. The assistance will support development of the payment system, if necessary. Movement towards a system for payments through a branch network should progress towards an automated inter-bank clearing and settlements system.

Where commercial accounts remain in Central Banks, such accounts are to be transferred from the Central Bank to other licensed banking institutions. The assistance will provide support to the planning and implementation of the transfer. However, the operations will depend on having developed confidence in commercial banks to observe fiduciary responsibility with the public's money.

In Iraq, the long term goal is that the assistance will support the full and comprehensive implementation of a non-cash payments system for management of financial transactions and reserve accounts, which facilitates the conduct of secure, time-effective and cost-effective inter-bank financial transactions, and the conduct of financial transactions between the Central Bank and licensed banking institutions, on an electronic basis. The experts will work with the Central Bank (CB) to develop a strategy for achieving the long-term goal and to help implement it

Where necessary, assistance will provide support for comprehensive implementation of improved bank operating procedures in the CB; specifically including customer transaction data entry and management procedures, fiscal agency functions, internal audit, personnel management, and client relations. Support for the comprehensive adoption and implementation of sound (international accounting standards (IAS)) and efficient operating procedures in licensed financial institutions. On the banking operations and payments system side, basic operating procedures related to personnel management, budget and finance, and accounting will have to be developed.

3.) Commercial Banking System Reform The money bazaars act as channels for financial intermediation and the *hawala* serves as a conduit for payments. It is appropriate to re-establish regulation of financial intermediation as well as foreign currency transactions. The assistance will support the regulatory and financial review of the financial status of six commercial banks in the banking system in order to determine their future viability for becoming operational and performing core banking services, including providing payment services, foreign exchange operations and on-lending functions for donor credit programs.
The financial status of commercial banks is weak. The sector banks do not take deposits and will either rely on donor funding or government credits. The contractor will review the appropriate

approach to the non-performing loan portfolios and will develop a strategy for timely and effective resolution/liquidation of problem institutions. The contractor will review and revise legal/regulatory framework and provide the CB with appropriate authorities in problem bank resolution and liquidation. Also the policies and procedure manuals governing resolution/liquidation of problem/failed banking institutions will be reviewed and revised. The contractors will also provide ongoing training provided to staff in the above areas for understanding legal/regulatory framework to give CB appropriate authorities in problem bank resolution. The contractor will institute core-training programs for Central Bank staff including programs in accreditation, certification and liquidation processes. Contractor will review bank-licensing legislation and ensure that the legislation's treatment of new banks is equally applicable to domestic and foreign banks. The contractor will design incorporation of *hawalas* into the banking system in a manner consistent with transparency, accountability and appropriate governing regulations. Contractor assistance will also support an effective public information and consultative program designed to disseminate information on Iraq's financial systems. It will emphasize the requirements for Central Bank independence and the critical role of the Central Bank for assuring the development of competitive financial systems.

4.) Prudential and Regulatory Reform. The CB will assume prudential oversight of the financial system. To ensure that this happens, the contractor will work with the Central Bank and donors to assess the requirements to establish a sound financial sector regulatory framework. This will involve the creation and staffing of a supervision unit within the Central Bank. Contractor assistance will require the provision of legal and technical support for the full institutionalization of the framework of prudential standards, regulations and implementing instructions designed to establish a sound licensing and prudential oversight system for financial operations and to encourage savings mobilization on the part of local financial institutions.

As the unit develops, the contractor will provide support for the comprehensive design and implementation of sound policies and procedures for licensing, off-site analysis, enforcement of laws and prudential standards, reporting, accounting, and finally on-site examination. Appropriate supervisory standards and procedures should be fully implemented for commercial banking institutions which establish a stringent bank licensing system and tight financial reporting and performance requirements

The contractor will support development and institutionalization of the operations of the banking regulatory unit in the Central Bank, including improvements in the organizational structure, operating procedures, and staffing issues as required. Assistance will include staff training for bank supervision (in cooperation with other donors where appropriate) the legal frameworks of the financial sector, analysis of bank compliance with standards, prudential supervision, reporting requirements, and accounting.

The contractor will provide policy advice to Central Bank managers, and to appropriate Agencies and Ministries, as appropriate, to assure the provision and appropriate regulation of non-bank financial operations that can support the availability of basic financial intermediation services in Iraq (if these cannot be adequately provided by the licensed commercial banks in the banking system).

3. Commercial and Utilities Law Reform

The commercial law framework currently in place was inherited from an old regime. As such, it is woefully deficient in terms of establishing a market-friendly legal and regulatory environment for business formation and operation, is non-transparent, and contravenes the exercise of private property rights. The basic building blocks of a market economy-oriented commercial law framework will need to be developed and institutionalized. This includes the strengthening of property rights-related legislation, corporate and contract law, and the competition law framework. Particular focus will be placed on establishing both a near-term and a longer-term legal strategy for reestablishing property rights to agricultural land and housing units.

It should be clearly understood that the efforts undertaken will be designed to establish the basic legal framework for a functioning market economy; taking appropriate advantage of the unique opportunity for rapid progress in this area presented by the current configuration of political circumstances. In addition key selected practical commercial law-related issues which directly affect the exercise of property ownership and use rights (e.g. agricultural land and housing rights) will be addressed from a practical implementation perspective. Clearly these efforts will create a basic commercial law framework, which in order to be put into effective practice will require significant institution-building efforts on a much longer-term basis.

Commercial law and utilities regulatory and legal reform will also require trade and market access legislation and corollary regulatory reforms designed to open trade flows; and to create a WTO-consistent trade and investment legal framework which will both promote competitive development of domestic business; and lay the groundwork for greater integration into international financial and trading networks. As the country's economy is starting up again, it will be essential to assure an appropriate legal and regulatory framework for major utilities such as gas, oil, water, and power. Iraq once had a solid framework of law.

While commercial law may appear to be a longer-term issue, trade liberalization will yield immediate benefits in the form of improved access to a range of goods. Targeted training will need to be provided to relevant executive and judicial branch officials on appropriate administrative and judicial oversight of the core elements of the commercial law framework.

4. Trade Policy Reform

For thousands of years, the Middle East has been the crossroads of the world. Major trading routes by land and by sea go through the Middle East. The future of Iraq is tied to trade within the Middle East, and to Europe, Asia and the Western Hemisphere. In this regard its trade policy regime of Iraq is important to establishing open competitive borders that allow it to strengthen its traditional role as part of the trade bridge between Asia and Europe. As will be set forth in any future National Development Framework, trade is critical to the economic future of Iraq. Foreign markets will absorb natural resources, goods, and services from Iraq. Foreign markets will supply basic inputs for economic output. Finally open markets will provide access to skills and technology available in other countries. Seen in this context, it is easy to see the importance of open borders in facilitating economic growth in Iraq.

The contractor will provide analysis to the MOF and other relevant agencies (Ministry of Economy or Ministry of Trade, as appropriate) on how to achieve open markets, both internally and externally, and to develop a successful trade promotion strategy. One priority will be to look at the impact of distorted customs procedures, exchange rates, and customs duties on effective rates of protection and how effective protection impacts markets. The experts will recommend a plan to coordinate revision of custom tariffs at the same time distorted customs exchange rates are changed. Assistance will provide policy options to the policy makers with discussion of impacts and implications for the real sector and economic growth.

The contractor will review the economic situation of Iraq and identify potential for development of exports. Based on comparative advantage, possible exports include natural resources, agricultural products such as horticulture, and textiles, to name a few. There are other possibilities to be explored given the developments in international markets in the past 20 years. The World Bank can be expected to conduct surveys of traditional and relevant regional trade patterns including unofficial trade estimates. However, now may be the time to look beyond traditional patterns and explore new market potential with new products such as high valued fruits and vegetables, flowers, seed export and other possibilities.

MODUS OPERANDI, TASKS AND BENCHMARKS FOR ECONOMIC GOVERNANCE

The contractor will design, implement and institutionalize policy and institutional reforms in core macroeconomic and structural reform areas. Reforms are envisioned in fiscal reform, financial sector reform, trade, legal and regulatory, and privatization. The support provided in these areas will be oriented towards institution building and engagement of Iraqis in the economic governance process.

This agenda in turn reflects the range of potential economic policy and institutional reform areas in which support could be required; and the uncertainty regarding the exact contours of the economic and political governance structures that will emerge in Iraq over the medium term. This in turn underscores the importance of continuing to maintain a reasonably high degree of flexibility in the USAID support program.

The tasks and benchmarks outlined below reflect the basic steps needed to rebuild capacity in a modern market oriented society. The delivery dates for the benchmarks specified below are illustrative. The contractor will identify specific tasks and benchmarks through discussions with Iraqi officials and authorized USAID officials. Those tasks and benchmarks will be included in the first work-plan, with USAID approval, completed soon after arrival in Iraq.

The Contractor's team will be assembled within two weeks of contract signature. Under the guidance of USAID, Contractor will develop its implementation plans in collaboration with the U.S. Treasury and Department of State/EB. Coordination with other donors such as the IMF, World Bank, and others will be carried out under the guidance of USAID. After security and other training, if required, and upon approval of USAID, the entire contract team will deploy to Baghdad and will begin immediately to work with counterparts identified by U.S. authorities

there, including for example representatives of the State Oil Marketing Organizations (SOMO). Deployment will not occur until a sufficiently secure environment is available. The Contractor will be responsible for providing communications equipment compatible with USG frequencies, vehicles for staff equipped with GPS transmitters, and full support for in-country staff.

Within 30 days after the contract is signed, the contractor will be responsible for submitting a work plan for program areas described above to include priority and sequencing of tasks and benchmarks. Benchmarks will be evaluated on a best efforts basis, given extreme fluidity of the institutional environment within which advisory and training support will be provided.

The COP will work with the contractor staff and Iraqi country counterparts responsible for each of the program areas to develop the plan with a proposed format for reporting on progress as described in Section VI, reporting requirements.

Within 30 days the contractor will have determined and assessed the equipment needs of the unit the contractor is supporting within the CB and the MoF, and initiated procurement to cover these needs. The contractor will have established an office, and recruited and selected personnel.

Within that context, the following discrete task support areas are envisaged but not limited to the following priority tasks.

STATEMENT OF WORK – (TASKS, SCHEDULE AND BENCHMARKS)

The SOW for Economic Governance is organized as follows.

Fiscal Reform: Development of capacity in the Ministry of Finance (MOF) will improve capacity for economic management. It will also enhance credibility of the government if it can operate with transparency and demonstrate good financial management practices. Individual sections include: Macro-economic Analysis Unit; Tax Policy (Review of customs and trade policies); Tax Administration; Budget Planning (public investment planning capability, public expenditure review): and Inter-governmental Fiscal Reform.

Financial Sector Reform: Reform and restructuring of the banking system will improve the capacity for macro- economic management, improve transparency in operations of the Central Bank and enhance its credibility, and will make it possible for private sector to get access to business and investment capital through financial intermediation. Individual tasks include: Macro-Economic Unit; Reform of Central Bank Operations and Payment System; Legal Framework for Private Commercial Banking System; Commercial Banking Reform/Privatization of Problem Banks; and Reform of Central Bank Prudential and Supervisory Regulatory Framework.

Trade And Private Sector Development. Individual tasks include: Rationalize Trade and Tariff Regime; Assess market opportunities for exports; and Development of private sector capacity to effectively deliver business services and training.

1. FISCAL REFORM

Within the context described above, the contractor will support each of the key fiscal policy and administrative reform processes enumerated above. This will include (but not be limited to) the following priority tasks:

a) Macro-economic Unit

Tasks

Support for the development and institutionalization of the economic data gathering and analysis activities of the Macroeconomic and Fiscal Analysis Unit of the MoF. This includes: the generation of comprehensive monthly and quarterly macroeconomic indicators reports, analysis of government revenue and expenditure figures; implementation of revenue estimation methodologies for all major sources of tax revenue; full development and implementation of a detailed accounting framework-based macroeconomic projection model; the effective coordination of economic survey and data collation and analysis activities with other offices in Ministry of Finance and other relevant governmental agencies; and the conduct of rigorous ongoing macroeconomic analysis and projection analyses which effectively feed into the annual budget planning process and the ongoing budget monitoring process.

Support for the development and presentation of a rigorous macroeconomic analysis (and analytical process). That report should include:

- fiscal policy outlook paper to form the basis for preparation of the annual budget.
- assessment, implications and consequences for financing of the budget based on consolidated fiscal accounts, and
- implications for state owned enterprises (SOEs) and for structural reform.
- analysis of fiscal linkages and implications for the monetary sector and real sector.

Benchmarks

A rigorous macroeconomic analysis and fiscal policy outlook paper has been developed and presented to form the basis for preparation of the reworking of the budget for the current year (August 2003) and preparation of the budget for the coming fiscal year. (November – December 2003).

The Macroeconomic and Fiscal Analysis Unit of the MoF coordinates the economic survey and data collation and analysis activities with other relevant governmental agencies; in a manner which allows accurate monthly and quarterly reporting on inflation, unemployment, and aggregate and sectoral production and trade figures and trends. (Begin reporting on a near-current basis quarterly starting October 2003)

The Macroeconomic and Fiscal Analysis Unit of the MoF generates comprehensive monthly and quarterly macroeconomic indicators reports and government revenue and expenditure figures. (March 2006)

The Macroeconomic and Fiscal Analysis Unit of the MoF fully implements detailed revenue estimation models for the current and future major sources of tax revenue (August 2003 – March 2006)

The Macroeconomic and Fiscal Analysis Unit of the MoF develops and fully operationalizes a detailed accounting framework-based macroeconomic projection model; and conducts rigorous ongoing macroeconomic analysis and projection analyses which facilitate improved GDP and national income estimates and which effectively feed into the budget planning process and the ongoing budget monitoring process for the current and coming budget years (August 2003-March 2006).

Demonstrate progress on development and institutionalization of the economic data gathering and analysis activities of the Macroeconomic and Fiscal Analysis Unit of the MoF. This includes: the generation of comprehensive monthly and quarterly macroeconomic indicators reports, analysis of government revenue and expenditure figures; full implementation of revenue estimation methodologies for all major sources of tax revenue; full development and implementation of a detailed accounting framework-based macroeconomic projection model; the effective coordination of economic survey and data collation and analysis activities with other offices in Ministry of Finance and other relevant governmental agencies; and the conduct of rigorous ongoing macroeconomic analysis and projection analyses which effectively feed into the annual budget planning process and the ongoing budget monitoring process. (Quarterly reporting and forecasts starting in October 2003)

Rigorous macro-economic analysis and implications for financing of the budget based on consolidated fiscal accounts have been developed and presented. (December 2003).

Develop and present analysis of implications of macro-economic analysis of state owned enterprises (SOEs) for structural reform. (December 2003).

Develop and present paper on macroeconomic analysis and fiscal linkages to monetary sector and real sector with implications for fiscal policy framework.. (February 2004)

b) Revenue Policy Including Tax Policy

Tasks

Establishment of data on the revenue system including the tax system as it currently exists and has been administered recently, and, to the extent feasible, over the past 15 years or so to the extent possible to serve as baseline. Estimation of the principal sources of revenues, including tax revenues.

Identify priorities for revenue and tax reform that respond to short term and medium term fiscal problems.

Assist preparation of an appropriate mix of sustainable revenue sources, including such possibilities as natural resource taxation, income taxation, and consumption taxation. After selection of appropriate mix, design strategy for implementation, including design of relevant regulations..

Design, and introduce excise taxes on selected products.

Design fiscal regime for petroleum, mining and transit pipelines. Prepare legislation, implementing regulations and strategy for implementation.

Assess need for property tax at provincial and local levels and make recommendations, including implementation regulations and strategy for implementation.

Assess appropriateness of VAT for Iraq and recommendations for design and implementation if appropriate.

Benchmarks

Identify priorities for the revenue and tax policy regime to facilitate policy to meet short-term revenue needs and to develop a revenue and tax system that meets medium term needs of an efficient market-oriented economy. Provide design of a comprehensive income tax system consistent with current international practice, including the strategy for implementation and necessary regulations (March 2004-September 2004)

Analysis of administratively and politically feasible changes in tax policy and their foreseeable net revenue and incentive effects. IMF analysis and recommendations will be taken as a point of departure/basis for the unit's work (March 2004)

Support design and implementation of excise taxes. (December 2003 – June 2004).

Provide support for the design, introduction and implementation of providing an international best practices-consistent consumption tax. .(June 2004 – December 2004)

Provide support for design for fiscal regime for petroleum, mining and transit pipelines. Prepare legislation, implementing regulations and strategy for implementation. (By September 2004)

Provide support to institutionalize revenue and tax policies including passage of an overarching regulation and implementing procedures. (October 2004 – March 2005)

Assess appropriateness of design of property tax system at the provincial and municipal/district level. (June 2004-December 2005.) .

If property tax regime fits tax policy strategy, provide support for regulation and implementing instructions and procedures, and appropriate staffing and training of tax administration personnel) of an international best practices- as adapted to the circumstances of Iraq (March 2004 -March 2005)

Assess appropriateness of any consumption tax regulatory regime and system. (September 2004-December 2004).

If the consumption tax regime fits tax policy strategy, provide support for design, regulation and implementing instructions and procedures, and appropriate staffing and training of tax administration personnel) of an international best practices- as adapted to Iraqi circumstances. (March 2005-September 2005)

c. Tax Administration

Tasks

Review and assess the organizational structure of the tax administration from a regional and a functional perspective (collections, audits, arrears, processing, etc.). Make recommendations for efficient improved operation.

Develop and institutionalize modern techniques of tax administration.

Design organizational incentives to improve collections such as large taxpayer unit or medium sized business unit.

Design pilot programs to modernize tax system and introduce new operating concepts such as the taxpayer identification number.

Provide support for the design, implementation and institutionalization of core operating procedures in key tax administration functional areas (including registration, audit, collections, returns processing, and taxpayer education) for the major taxes. Provide support for the development and issuance of all related public and internal use forms and management information reports.

Support the design and implementation of a computerized audit selection methodology based on risk analysis for each major source of tax revenue.

Support the design and implementation of an automated tax information computerization system at the provincial and municipal/district levels covering relevant taxes. This system should be designed and established to operate in an integrated manner as appropriate with the computerized database for customs revenues

Support the development and implementation of a database from samples of tax returns and management information reports related to major sources of tax revenue; including audits performed, average collection from audits, arrears statistics, and tax, fines and penalties collected.

Support the design, compilation and distribution of monthly reports that contain performance indicators other than tax revenue for all major sources of tax revenue. These should indicate activity levels for key tax administration functions including collection and audit

Support the implementation and institutionalization of an overall training (and employee development) strategy and training development and delivery program; including a comprehensive "training of trainers" program covering all major functional areas of tax administration.

Support the full implementation and institutionalization of a policy for exchanging tax data and other financial information with countries and for full implementation of a negotiation strategy and system for bilateral tax information exchanges and tax treatment arrangements with key trading partners.

Support a comprehensive public information and consultative program designed to disseminate information on the new tax policy and administration system to selected Iraqi public officials, business groups, and the wider public. Strengthen the consultative process and build public understanding of and support for the principles behind and ultimate objectives of tax policy and administrative reform in Iraq.

Benchmarks

Present recommendations on assessment of organizational structure of tax inspectorates. (October 2003)

Based on recommendations and decisions taken by government of Iraq identify priorities for institutionalizing modern techniques of tax administration and timetable to do so. (November 2003)

Present recommendations as to appropriate organizational incentives, including a work plan and a time table for implementation. (November 2003)

Present recommendations on appropriate new operating concepts for Iraq such as the taxpayer identification number and a work plan and time table to introduce them. (November 2003)

Compile the specification of basic application software necessary to carry out all core tax administration functions customized for each new tax adopted and for all existing taxes. (November 2003 – February 2005)

Procurement, delivery and installation are finished by June 2004 and adapted for major taxes by October 2004).

A comprehensive public information and consultative program designed to disseminate information on the new tax policy and administration system to Iraq public officials, business groups, and the wider public; to strengthen the consultative process between the Iraqi government and country stakeholders; and to build public understanding and support for the principles behind and ultimate objectives of tax policy and administrative reform in Iraq is effectively implemented. (October 2003 – November 2003).
Prepare plan and time table for design and institutionalization of core operating procedures in key tax administration functional areas (including registration, audit, collections, returns processing, and taxpayer education) for the major taxes, and support for the development and issuance of all related public and internal use forms and management information reports. (October 2003 – March 2005)

All appropriate tax administration staff at the provincial and regional/local level (a minimum of three-quarters of tax administration staff at the provincial, regional, and local level) receive training in all core tax administration functions and in management of the tax information computerization system for all major taxes. (October 2003 – May 2004 2004)

Develop and implement plan for appropriate staffing and training support. (December2003 – May 2004 2004)

Prepare tax regulation for shifting of business receipts tax to consumption tax (January 2004 – June 2004)

Implement an automated tax information computerization system for property taxation on a pilot basis in a minimum of six municipalities; through integration with donor programs to refine and facilitate effective use of existing fiscal cadastre information. (March 2004– September 2004)

Implement an automated tax information computerization system which covers the VAT and excise taxes in integrated manner with the computerized data base for customs revenues, at the provincial and regional levels. March 2004-September 2004)

Develop and implement an overarching regulation and implementing instructions and procedures (March 2004 October 2004) for major taxes.

Design tax information computerization plan based on a unique taxpayer identifying number and develop taxpayer master file. (March 2004– June 2004)

The exchange of tax data and other financial information with other major trading partners is regularized and intensified; and formal agreements on information exchanges and bilateral taxation arrangements executed with at least five major trading partners. (March 2004 – June 2004)

A "training of trainers" program for Iraq's tax administration officials to allow staff to carry out future training programs is refined and updated with training modules covering all core tax administration functions created for all major, with a minimum of ten training modules presented. (December 2003-June 2004).

Support for is provided for the full and comprehensive design and implementation of a computerized audit selection methodology based on risk analysis for each of the major sources of tax revenue (June 2004– December 2004);

Develop and implement of a database from samples of tax returns and management information reports which is used to provide monthly reporting information related to the performance of major sources of tax revenue; including audits performed, average collection from audits, arrears statistics, and tax, fines and penalties collected. (Database finished by June 2004 – implemented and use made of reports by December 2004)

Using models developed in the meantime by the Macroeconomic and Fiscal Analysis in the Department of the relevant Ministry of Finance, projections are made and revenue targets are made for the budget year beginning in 2004 and full blown tax program is implemented for the first time in budget year 2005).

d) Budget Planning/Administration and Financial Management Information System Budget Tasks

Support for the full and comprehensive implementation of an IMF-consistent budget that provides budgetary information by organizational structure, functional classification, economic classification and source of financing at the line agency and municipal levels.

Support for the development of an integrated annual budget that covers the general government sector, provinces, municipalities/districts and the public enterprise sector.

Support for the full institutionalization of sound budget planning and reporting procedures in a manner which effectively incorporates program impact and cost-efficiency analysis into the

budget review and determination process and subsequently reviews in detail progress towards those goals for major expenditure programs..

Support for the full institutionalization of an active internal audit section within the MOF and the implementation of selective audits on line departments; as well as regional governments and public enterprises receiving funds from the Consolidated Budget of Iraq.

Set up and support the institutionalization of the operation of the MOF public enterprise monitoring unit; including (1) maintenance of detailed financial information on the financial performance of the major public enterprise units, (2) effective tracking of resource flows between the MOF and the public enterprise sector, and (3) provision of periodic recommendations on financial management reform priorities and progress in major public enterprise units

Support the full integration of the capital and recurrent budgeting processes through the operation of the MOF joint budget planning unit and the institutionalization of a unified annual budget planning process for recurrent and capital expenditures.

Support the design and institutionalization of the rolling planning process for the public infrastructure program: including (1) the effective provision of guidance to line agencies and municipalities in the construction and articulation of their public investment plans, (2) the development of more rigorous program and project analysis methodologies and processes in key public investment sectors, and (3) improved project identification and monitoring processes at the regional and municipal levels.

Development and implementation of a fully automated budget planning, reporting, and tracking system at the central, provincial and municipal/district levels.

Support for the development and implementation of specialized training programs covering all aspects of the budget planning and execution and procurement processes; including the full institutionalization of "training of trainers" programs in these areas that permit staff of the Iraqi Government to carry out these training activities in an autonomous manner. The training materials for these programs shall be prepared and refined in Arabic and English languages; and will be provided at the line agency and regional government level.

Support for implementation of specialized training programs that will be conducted for relevant administrative staff of regional government institutions and relevant administrative staff of the future Cabinet of Ministers and Province-wide Legislative Assembly to promote input from the Iraqi people into and capacity to develop and monitor capital and recurrent budget planning activities.

FMIS Tasks

Support the introduction of comprehensive treasury and financial management systems and processes consistent with international best practices. These functions include budget execution, expenditure control, government payments, accounting, financial reporting, cash management, debt management, internal and external audit, and procurement.

Support the reorganization of financial operations to establish an effective treasury organization and a single treasury account.

Perform functional and technical requirements analysis to document the requirements for both the hardware, software and communications components of an automated Financial Management Information System (FMIS).

Identify any hardware and/or communications infrastructure, or upgrades to existing infrastructure that will be required to fully utilize the new FMIS. Procure, install and integrate the new infrastructure components.

Evaluate FMIS software package options and acquire, configure, customize and implement the most appropriate FMIS package.

Recommend changes in treasury and financial management processes to increase efficiency, ensure accountability and transparency, and fully utilize the enhanced functionality of the new FMIS.

Identify and document any potential requirements for automated interfaces between the new FMIS and existing or planned systems such as budget formulation, fixed assets management, or payroll systems, etc.

Develop and assist in implementing a training program on reformed financial management processes and use of the new FMIS.

Develop and assist in implementing a training program on administration and technical operation of the new FMIS software, hardware and any associated networking components.

Support the development of a government-wide framework of standards and processes for internal audit/control in line ministries.

Support the implementation of an effective and efficient debt management capability in the Ministry of Finance.

Support the development of a comprehensive cash flow forecasting capability and assist in implementing more efficient cash management processes.

Support the development and implementation of a plan for establishing and monitoring procurement processes consistent with international best practices.

Benchmarks

Establish the MOF Public Enterprise Monitoring Unit and effectively maintain detailed financial information on the financial performance of the major public enterprise units. Effectively track resource flows between the MOF and the public enterprise sector in relation to the utilization of FY 2003 fiscal transfers and the preparation of the FY 2004 budget. (November 2003 – June 2004)

The MOF Public Enterprise Monitoring Unit provides detailed recommendations on financial management reform priorities and progress in a minimum of one major public enterprise in the form of providing adjustments to the CY 2003 budget and three major public enterprise units in relation to preparation of the FY 2004 budget. (September 2003 – June 2004).

Provides detailed recommendations on financial management reform priorities and progress in a at least three major public enterprise units in relation to preparation of the FY 2005 budget. (September 2003 – December 2004). For the FY 2006 budget, detailed recommendations on financial management reform priorities and progress in at least two additional major public enterprises shall be prepared.

Development of a rough but integrated budget package for Fiscal Year 2004 that covers the general government sector, regional and local government and the public enterprise sector. (September 2003- December 2003))

Development of a rough but integrated FY 2004 budget that covers the general government sector, provinces, municipalities/districts and the public enterprise sector. (September 2003 - December 2003))

Develop for adoption sound budget planning and reporting procedures for preparation of the FY 2005 budget under a budget cycle in a manner that effectively incorporates program impact and cost-efficiency analysis into the budget review and determination process and subsequently reviews in detail progress towards those goals for a minimum of 10 major expenditure programs. (September 2003 – December 2004).

Implementation of an IMF-consistent budget system, that provides budgetary information by organizational structure, functional classification, economic classification and source of financing at the line agency and municipal levels. (September 2003 - December 2003). Full and comprehensive implementation by December 2004.

Specialized training programs covering the budget planning and execution process are to be conducted for relevant administrative staff of the future Cabinet of Ministers and Provincial authorities in order to promote Iraqi input into and capacity to develop and monitor capital and recurrent budget planning activities. A minimum of two formal training modules and required follow-up on-the-job training with relevant Cabinet of Ministers, Provincial authorities and staff will be provided. (September 2003– December 2003) . An additional six formal training modules completed by June 2004.

A comprehensive public information and consultative program will be implemented. The program is to be designed to disseminate information on the new budget planning and administration system to Iraqi public administrators and senior officials, high profile beneficiary groups, and the wider public, to serve the purposes of a consultative process and to build public understanding of the principles behind and ultimate objectives of budget policy and administrative reform in Iraq. (September 2003-December 2005)

The internal audit section is to be trained to implement selective audits on a minimum of four line department, provincial government, municipal and district governments and/or public enterprise units receiving funds during FY 2003. The training is to improve capacity so that the unit can make systematic recommendations for improvement of financial planning and management as a result of these audit activities. If the unit is not fully ready, the priority is to assure that key audits and recommendations are carried out (September 2003 – March 2004).

Detailed guidance is to be provided to line agencies and municipalities in the construction and articulation of their public investment plans for preparation of the FY 2004 budget. (September 2003 –December 2003).

Refined project identification and monitoring processes introduced for the FY 2005 budget cycle at the provincial and local levels. (October 2003 -June 2004)

The MOF internal audit section implements selective audits on a minimum of ten line department, municipal government and/or public enterprise units receiving funds during CY 2003, and makes systematic recommendations for improvement of financial planning and management as a result of these audit activities (March 2004 – September 2004).

Detailed and rigorous program and project analysis methodologies and processes introduced in a minimum of three major public investment sub-sectors (March 2004– June 2004).

A fully automated budget planning, reporting, and tracking system (including the installation and application of appropriate budget planning and execution software) is implemented in at least 50% of line agencies and one-third of all provinces and localities (municipalities and districts). (March 2004–July 2004). It is implemented in all line agencies and an additional one-third of all provinces and localities (municipalities. and districts) (June 2004-December 2004). It is implemented in all remaining provinces and municipalities. (January 2005-July 2005).

A "training of trainers" programs in the budget planning and execution and procurement areas will be implemented, and a minimum of six modules provided in each subject area. The training materials for these programs shall be prepared and refined in Arabic and English languages. (March 2004 – October 2004).

Specialized training programs (including manuals and related instructional materials) covering in detail all aspects of the budget planning and execution and procurement processes are refined and carried out on at least a monthly basis. A minimum of three-quarters of all line agency and provincial staff involved in budget planning, execution, and procurement processes will be provided training. The training materials for these programs shall be prepared and refined in Arabic and English languages. (March 2004 – December 2004).

Detailed and rigorous program and project analysis methodologies and processes introduced in a minimum of five additional major public investment sub-sectors (December 2004).

e) Intergovernmental Fiscal Relations

Tasks

Comprehensive assessment of how a comprehensive intergovernmental finance system that appropriately defines the financial relationship between the central government and municipalities would fit in Iraq. This will include development and implementation of an expenditure and revenue assignment system and grant allocation system which promote (1) effective provision of key public services, (2) strong local revenue raising incentives, and (3) vertical and horizontal equity in the allocation of fiscal transfers. It will include support for the full implementation of appropriate budget planning, recording and reporting requirements for provincial ad local governments as appropriate.

Develop formula for revenue sharing and grants allocation based on revenue capacity.

Develop tools to analyze revenue capacity in provinces and at local levels of government.

Develop presentation to explain to officials importance of revenue capacity formula for fiscal management and implications for respective budgets.

Develop approach to collect fiscal information needed to analyze and utilize fiscal information at provincial and local levels of government.

Benchmarks

Present basic report on recommendations on inter-governmental fiscal relations to officials with timetable for implementation. (March 2004)

Present recommendations for how to implement the system in Iraq and present implications for revenue collection, service delivery and budget management. (March 2004 – June2004)

Demonstrate how formula for revenue sharing and grants can in influence budget distribution. (March 2004)

Present the approaches to analyzing revenue capacity, a key concept in the criteria for revenue sharing and distribution of grants, and propose alternative ways to define revenue capacity with implications for fiscal situation. (June 2004)

Compile and provide quarterly reports on fiscal information by province and local government unit feasible (March 2004 – February 2006)

Compile fiscal information for provinces and local governments where feasible and develop data base to show fiscal surpluses and deficits, and needs for revenue sharing and grants. (June 2004)

Assess what is needed to support for the full implementation of appropriate budget planning, recording and reporting requirements for provincial and local governments. (municipalities/urban and districts/rural) (September 2004)

Training and Public Information

With respect to the macroeconomic reforms, it is critical to provide appropriate training and public information. The adoption and effective implementation of sustainable reforms in the areas enumerated above will require large-scale training efforts; as well as public information support designed build understanding of and support for key economic reforms during a period of social and political volatility. The support program will undertake targeted training efforts designed to facilitate the development of nascent economic policy-making and administrative oversight capability in the areas of fiscal policy and administration, financial sector restructuring, commercial law reform, and privatization. In addition, public information support will be provided to encourage understanding of the public at large, and of key political constituencies, of the importance of reform progress in these areas.

As a result the contractor will be expected to provide both formal and on-the job training in the core economic reform areas in which technical assistance will be provided; including but not limited to the following: efficiency and equity implications of alternative tax policy regimes for business; property law principles and practices; competition law principles and practices; trade law principles and practices; accounting; financial and cost accounting principles and practices; and, extra-judicial dispute resolution. A minimum of three formal training courses, of at least 3-

5 days duration, will be held in each of the above-mentioned areas for appropriate executive, legislative and judicial branch personnel as well as NGOs and journalists.

In addition, the contractor will provide corollary public information support designed to promote understanding and support of the competition program and related economic reform processes. This will include a combination of newsprint, pamphlet, and radio informational reports detailing the major fiscal, financial sector, commercial law, and privatization-related reforms being implemented as well as their prospective impact on the economic and social development of Iraq. In addition, the public information component of the project will also support the preparation of formal materials and the logistical requirements for the formal training activities specified above.

2. FINANCIAL SECTOR

a) Currency Exchange Tasks

If directed by USAID, Contractor is to prepare a currency, and organize and carry out an extremely rapid and thorough exchange of currencies, eliminating the current currency and substituting a replacement currency designed and prepared and produced in large quantities to a very high standard of excellence. The currency exchange is to be carried out effectively and simultaneously throughout Iraq. Old currency units are to be collected and destroyed.

b) Macro-Economic Unit

Tasks

Support a macro-economic unit to collect and analyze statistics critical to development of macro economic program, including statistics such as money supply, emission, international reserves, banking reserves, domestic assets, trade.

Support capacity to estimate money demand and prices as a part of the economic program

Support development and presentation of macroeconomic analysis and implications of money supply for economic growth.

Support development and presentation of macroeconomic analysis and impact of banking system and credit needs on economic growth.

Support development and presentation of macroeconomic analysis and impact of exchange rate management on real sector growth, export potential and economic growth.

Support development and presentation of financial programming and development of economic program.

Benchmarks

Prepare and present plan including draft currency design and estimates of currency in circulation and the rules for the exchange for an effectively simultaneous currency exchange. Plan should assure that there are sufficient places planned for currency exchange to assure a high probability of successful exchange for the vast majority of Iraqi citizens. (October 2003)

Build appropriate relationships with relevant NGO and other organizations to support efforts to carry out currency exchange. (October 2003-January 2004)

Select and publicize a massive campaign to help assure all citizens of conditions and characteristics of new currency, and how and where exchange will take place. This will include a combination of fora, and newsprint, pamphlet, and radio informational reports detailing the content of and purpose behind the core financial sector reforms being implemented in Iraq. (October 2003-Janaury 2004)

Hire the personnel and make available the equipment necessary to meet and overcome relevant issues regarding a successful currency exchange (October 2003-January 2004)

Provide under sufficient security sufficient quantities of the proposed new currency to assure a high quality currency exchange operation. Carry out the currency exchange. (January –March 2004).

Prepare a detailed accountability statement of the sources and uses of the new currency as part of the overall report to be prepared on the operation, including lessons learned. (May –June 2004).

Present quarterly series on statistics supportive of analysis of macro economic program such as such as money supply, emission, international reserves, banking reserves, domestic assets, and trade. (January 2004 and quarterly thereafter.)

Prepare rigorous macroeconomic analysis of implications of money supply for economic growth, with special emphasis on the issues that arise when multiple currencies are in circulation. (December 2003)

Present analysis of estimates of money demand and prices as a part of the economic program. (December 2003)

Prepare macroeconomic analysis on impact of banking system and credit needs on economic growth. (March 2004)

Prepare macroeconomic analysis and impact of exchange rate management on real sector growth, export potential and economic growth. (December 2003/January 2004 and thereafter)

Prepare analysis and make presentation of financial programming and implications for the economic program. (March 2004 and thereafter)

c) Central Bank (CB) Operations

Tasks

Assess regional and functional structure of the Central Bank and make recommendations to rationalize its operations.

Assist Central Bank establish/improve domestic payment system.

Assist Central Bank establish/improve regional and international operations through standard banking telecommunications networks.

Support development and institutionalization of more efficient operating procedures within the payments system division of the Central Bank

Benchmarks

Develop and implement core operating procedures within the payments system division of the CB, which facilitate efficient conduct of CB client transactions in a cost-effective and time-effective manner. (September 2003 – March 2004)

Help develop and operate the cash-based payments system for payment of wages and salaries and social assistance payments will operate in a well-organized and time-effective manner. (September-December 2003)

Design an effective public information and consultative program disseminate information on the changing structure of the Iraqi financial system and on the requirements and effective role of the CB in promoting the development of a competitive Iraqi financial system will be carried out. . This will include a combination of fora, and newsprint, pamphlet, and radio informational reports detailing the content of and purpose behind the core financial sector reforms being implemented in Iraq. (November 2003 – March 2005)

Develop and implement core bank operating procedures in the CB; specifically including customer transaction's data entry and management procedures, fiscal agency functions, internal audit, personnel management, and client relations. (December 2003- March 2004)

Design and conduct comprehensive training programs (including training of Iraqi nationals as trainers) for payments system personnel in the CB, including separate components on (1) payments procedures related to customer accounts, and (2) payments procedures related to the Interbank payments monitoring and control system; (3) audit in internal controls, and liquidity and funds , with a minimum of 10 training modules provided (available in Arabic and English). (December 2003 – June 2005)

Assist the design and establish functioning basic non-cash payments system for management of financial transactions and reserve accounts, which effectively facilitates (1) the conduct of secure and relatively time-effective payment order-type transactions through the banking system, and (2) the conduct of financial transactions between the CB and licensed banking institutions on an electronic basis. (December 2003- June 2004)

Develop, establish and make operational efficient operating procedures in the payments system division of the CB, including full and comprehensive elaboration of organizational structure and position descriptions, and the development of rigorous internal operating procedures covering personnel planning and management, budget and finance, and accounting. (December 2003 – July 2004)

Develop and establish a detailed and comprehensive "training of trainers" program for payments system personnel in the CB (March 2004- September 2004)

Prepare and finalize reconciliation's of all depository and collection (including tax and customs) accounts for the CB and its major customers for current year (February 2004) and for the upcoming fiscal year (April 2005)

Facilitate organizational and financial arrangements for a private security service to transfer of public funds from foreign sites into Iraq and among CB branches within that country. (October 2003)

d) Commercial Bank Reform

Tasks

Perform financial viability assessment of 6 commercial banks to determine their future capacity for becoming commercial banks, for providing payment services, and for facilitating financial intermediation.

Help develop criteria for bank privatization, bank liquidation and resolution and bank restructuring.

Help set up procedures to eliminate non-performing loans from banks' books and help design market approach(s) for addressing bad loan portfolios in the banking system.

Help develop criteria for new entry into the commercial banking system.

Provide strategic advice on the provision and appropriate regulation of supplementary financial operations which ensure adequate availability of basic banking services in Iraq if these cannot be adequately provided by the licensed commercial banks in the banking system of that country.

Design Central Bank problem bank resolution process and advisors will assist the CB to implement the policies and guidelines adopted by the CB to work with management of troubled banks.

Advisors will assist the CB in developing bank privatization techniques to minimize the impact of problem banks on the system (e.g., merger; change of ownership; new capitalization; resolution of problem assets; as well as liquidation.) Training will be provided to appropriate personnel to strengthen the understanding of each method and to assist in determining the optimal technique for each circumstance.

The advisors will work with the staff, management and expatriate advisors as directed by the Governor of the CB and with the approval of USAID.

Assist the incorporation of the *hawala* system into the formal banking system as appropriate.

Benchmarks

Perform detailed regulatory and financial diagnostics of a minimum of 3 commercial banking institutions in order to determine their future viability for becoming operational and performing core banking services, including providing payment services and on-lending functions for donor credit programs. (September 2003-October 2003)

Provide recommendations on status of commercial banks. (October 2003.)

Provide criteria for addressing future of 3 commercial banks and 3 sector banks. (December 2003)

Make recommendations on criteria for new entry in commercial banking system. (March 2004)

Assess whether to review loan portfolios of 3 commercial banks. (December 2003- June 2004.)

Make recommendation on approach to clean-up bank losses. (March 2004)

Assist CB implement policies and guidelines adopted to work with management of troubled banks. (March 2004-September 2004).

Assist CB develop approaches to privatization. (March 2004- June 2004)

Work with bank, CB staff and privatization assistance to implement reform of commercial banking sector (June 2003 – December 2005)

e. Bank Regulation

e-1) Evaluation and Assessment

Tasks

Taking any available prior work fully into account, the advisor(s) will carry out an assessment of bank supervision in Iraq, using the 25 Basle Core Principles of Bank Supervision as the base for

analysis. Area evaluated will include the legal/regulatory framework, supervisory authority, regulatory reports, off-site analysis, licensing policies and procedures institutional capacity of the CB on-site examination policies, procedures and staff capabilities. This assessment will help determine the status of bank supervision in Iraq

The contractor will assess institutional capacity for supervision and provide recommendations, an action plan and timetable to implement.

The contractor will assist implement institutional changes as agreed upon by the government of Iraq and USAID.

The contractor will assess training needs, provide recommendations, an action plan and timetable for implementation.

Advisors will assist in the formulation and implementation of an overall mission statement and strategic plan for bank supervision. The mission statement and strategic plan will outline the role, and overall goals and objectives of bank supervision.

The contractor will assess how to develop public relations strategy to inform public as reform progress and help design strategy as requested.

Benchmarks

Present findings of assessment with recommendations for making improvements. These findings will be used to determine future progress. (October 2003)

The advisors will presents results and a timetable for reform of assessment of institutional capacity. (December 2003)

The advisors will present results of their training needs assessment to be used as the basis for the formulation of a classroom based training supervision accreditation program. (December 2003)

Advisors will present their recommendations for the mission statement and strategic plan for bank supervision including the role, and overall goals and objectives of bank supervision. (November 2003)

As requested by the CB and approved by USAID, the advisors will assist the CB in other banking sector issues, including but not limited to, studies and evaluation of the costs and benefits of deposit insurance and of the range of payments activities being carried out above. Five evaluation studies will be carried out. (on going)

Assist implementation of a comprehensive plan for outreach. (November 2003-November 2004)

e-2) Legal/Regulatory Framework/Enforcement

Tasks

Based upon their review of current banking laws and regulations (particularly prudential regulations, enforcement authorities, and licensing), the advisors will make recommendations and help draft, where necessary, legislation and regulations to provide a better framework for bank supervision and to provide the CB staff with the appropriate legal and punitive authority to carry out their supervisory mandate. The advisors will work closely with the IMF and other donors on this focus.

The advisors will assist in the public outreach aspect of supervision by helping to design appropriate materials to introduce new regulations and policies to the financial and accounting community. The forum for distributing these materials may be by conducting meetings, seminars or training. Advisors will assist other TA programs dealing with financial sector issues such as collateral, mortgage, bankruptcy, and relevant judicial processes. (on-going).

Benchmarks

Develop and prioritize the legal framework of regulations and implementing instructions required to establish a sound licensing and prudential oversight system for banking operations and to encourage savings mobilization on the part of local quasi-banking financial institutions including through micro-enterprise finance if appropriate. (December 2003 – September 2004)

Present recommendations on priorities for the banking framework and a timetable for drafting and implementation (November 2003)

e-3) Bank Licensing and Banking Operations

Tasks

Provide support to prepare bank licensing legislation.

The advisors will assist the CB in developing and implementing new procedures and criteria to analyze applications for new bank licenses and banking activities. These procedures and criteria should incorporate international standards of licensing, including thorough background assessments of potential owners. Also, the criteria should provide a basis to determine the integrity of ownership, the sources of financial capitalization, the financial capacity for on-going banking operations, the adequacy of management and reasonableness of the business plan. The contractor will help design the Licensing and Corporate Activities manual and oversee pilot testing of the procedures and staff training.

Advisors shall provide support for review and implementation of a sound accounting system in the Headquarters Office and integrated into the newly formed branch offices; and for the institutionalization of sound accounting procedures and practices at Headquarters Office and all branch offices.

The advisors will assist the staff in providing phased improvement of the range of tools, consistent with current banking law and supervisory authority, which can be used to enforce corrective actions for banks and to resolve weaknesses identified during onsite inspection and offsite analyses.

The contractor will assist the supervisory staff in designing and presenting Outreach Seminars for the banking community to introduce the new Licensing and Corporate Activities process/requirements.

Benchmarks

Procedures and criteria to analyze applications for new bank licenses and banking activities completed, and early training completed of relevant bank staff in their use. (January 2004).

Institutionalization completed of sound accounting system in Headquarters office and integrated into newly formed branch offices. (September 2004)

Phase I improvement in tools to enforce corrective actions in banks and resolve weaknesses identified during onsite inspections and offsite analyses. (March 2004)

e-4) Strengthening Off-site Supervision

Tasks

The advisors will assist the CB in developing and implementing an effective and timely regulatory reporting process. An effective regulatory reporting process will provide a basis for the early detection of problems, and help identify systemic trends through the bank performance reporting process. (ongoing, first 12 months)

An assessment of the effectiveness and capabilities of the back office operations will be conducted to ensure their appropriateness and ability to support the mission of CB. The advisor will recommend enhancements and prepare technical specifications for any computer hardware and software required. (ongoing, first 12 months)

The advisors will assist the CB in developing instruction manuals and/or training seminars to ensure that bankers as well as CB staff understand the financial reporting requirements, and their purpose. The need for banker training in the preparation of regulatory reports/accounting rules will be determined. (Could include development of Examination Procedures Manual, Problem Bank/Liquidation Procedures Manual, or Licensing and Corporate Activities Manual). (on going first 18 months)

The advisors will assist the CB in beginning the elaboration of an internal bank rating system to provide a analytical basis for making supervisory decisions. The rating system should appropriately identify risk(s) in a financial institution and correspond to certain types of enforcement actions similar to the CAMELS rating system used by many OECD countries. The rating system will also incorporate ratings 'S' for risk management. The advisors will develop written policy guidelines and procedures based on the above recommendations. Training will also be provided to inspectors in the use of the bank rating system. (Ongoing, first 18 months)

The advisors will work with the CB in beginning the development of an early warning process setting forth criteria that would serve as the basis for identifying troubled banks. This is a prerequisite for the CB taking measures/requiring corrective actions to resolve problems before they become irremediable. The specific ratios will be developed as well as procedures for performing the periodic analysis using the ratios and other criteria. Inspectors will be trained in these processes. (ongoing, first 24 months)

The CB Bank Supervision Department evolves its processes so that risk-based supervision becomes the basis for both its inspection and enforcement functions. ("Risk-based supervision", used in this context refers to the process whereby bank supervisors based their analysis not just on the current financial condition of a bank, but on an approach which looks at the banks systems for identifying and managing risk; and the commercial banks' management develop institutionalized systems and internal controls for identifying and managing risks). (ongoing, first 24 months)

Benchmarks

An off site analytical system will be designed. The contractor will provide training to CB on offsite analytical techniques throughout the system's development (December 2003-March 2006)

The early warning indicator monitoring system based on an automated data base system in CB will have been developed and tested. (October 2004)

Comprehensive computerized off-site financial analysis system is effectively applied on a quarterly basis to the financial performance data provided by licensed financial institutions. (April 2004– March 2006)

A standardized off-site bank financial process and format is established and fully made operational (June-July 2004)

A functioning computerized off-site financial analysis system is established and made operational. (June 2004)

In-house training for trainers will have begun on selected on site and off site supervisory topics. (October 2004)

The Accreditation process (test, case exercises) will have been finalized and the initial supervisors will have begun the formal Accreditation process. (October 2005)

The Problem Bank Procedure Manual will have been developed and presented to CB for adoption. Training will have been provided to supervisors and other appropriate individuals on use of the manual (July 2004)
Help prepare other priority training manuals as appropriate (October 2004)

e-5) On-site Examination Policies/Procedures/Training

Tasks

The advisors will develop and implement an on-site inspection process based on prudential bank regulations which would result in a CAMELS (capital, assets, management, earnings and liquidity, sensitivity to market risk) type rating process. This will consist of developing inspection procedures for the on-site inspection of all major areas of bank activity, classroom training of these procedures, and training in and testing of the procedures during on-site inspections. An integral component of the program will be advisors participating in on-site inspections alongside CB examiners. (ongoing, first 24 months)

Develop on-site examination procedures with a focus on understanding risks inherent in banking and banking activities. The advisors will assist the CB in drafting the policies and procedures relating to the overall inspection process. This will include procedures for planning the inspection, conducting the inspection on-site, formatting work papers and communicating inspection results.

The advisors will assist the CB in developing a basic on-site inspection manual based on international standard of banking supervision. Many other developing countries have had similar inspection manuals developed and tested, these can become the foundations for the inspection manual of Iraq. However, it is imperative to customize the manuals to the law of Iraq and to its prudential norms. This will include helping in the development of an outline for the manual, drafting chapters, testing the policy and procedures in the chapters during on-site examinations, providing classroom training geared toward the chapters and helping to put the chapters in final form. Imperative to this manual development and its usability, is the advisors ability to assure ownership by Iraq of the manual and the manual revision process.

The advisors will work with CB staff in finalizing the format for the "Report of Inspection" which will be used to communicate inspection findings to both bank management and the management of CB. This report will be tested during on-site inspections to determine its usefulness and to train inspectors in preparing the report.

The advisors will work with CB. in developing enforcement procedures for violations of prudential standards and CB relevant laws disclosed by the onsite inspection.

Benchmarks

Assist with development of on-site processes and procedures. (June 2004)

Establish working group including expert advisors to draft the on-site supervision manual. (March 2004).

Determine potential CAMELS ratings of commercial bank through on site inspections and corrective action taken for areas of non-compliance with regulations and supervisory norms. (December 2005)

Complete a number of training sessions agreed upon with Central Bank management and USAID on site supervision techniques reflected in the inspection manual (March 2005)

Support initiation of a minimum of 25 percent of onsite examinations of commercial banking institutions to be carried out by the staff of the CB bank supervision unit, and provide the schedule for these exams. (September 2005-February 2006)

The CB will have developed standardized documents relating to on-site examinations e.g. request letters to bank management, reports of examination and formatted working (June 2005)

e-6) Agency Management, Organization and Outreach

Tasks

The CB Bank Supervision Department implements an institutionalized program for training, career advancement and certification of bank supervision officials. There is an established, required training program for bank examiners, with career advancement contingent on certification at different levels.

A strategy is developed and made operational for the provision and appropriate regulation of financial services in Iraq which are being provided outside the context of the operation of licensed commercial banks in the banking system

The contractor will provide training to CB senior management to enable them to effectively evaluate staffing needs, develop job descriptions, and assess and reward staff as appropriate.

Full adoption and effective implementation of sound (IAS-consistent) accounting standards (provided by the CB) in all licensed financial institutions

The CB will have developed a training program and training materials for both on-site inspection and off-site analysis and a core group of examiners trained in all aspects of these disciplines.

Benchmarks

Design and develop improved computerized accounting system in the CB Headquarters Office and newly licensed branch offices. (January 2004-April 2004) Implement improved computerized accounting system in CB and in branches (July 2004).

The CB will have established an organizational structure that supports effective and efficient bank supervision -- position descriptions which reflect duties and responsibilities and reporting requirements (March 2004)

Full reconciliation of the end-year accounting records at the CB head office and its branches for

FY 2003 (November 2004); and for FY 2004 (May 2005)

Present strategy for the provision and appropriate regulation of financial services in Iraq which are being provided outside the context of the operation of licensed commercial banks in the banking system with action plan and time table. (June 2004)

Prudential regulations and implementing instructions designed to promote the establishment and operation of financially responsible micro-finance institutions and to facilitate effective savings mobilization activities on the part of micro-finance institutions are refined and fully made operational if appropriate for the banking system of Iraq. (June 2004)

A training program to facilitate the adoption and full and effective implementation of IAS-consistent accounting standards in licensed financial institutions is established. (November 2003) A minimum of 8 training modules is provided. (April 2004-April 2005)

A training program to facilitate the adoption and full and effective implementation of efficient core operating practices in licensed financial institutions is established. (January 2004) A minimum of 8 training modules in Arabic and English are to be provided. (August 2004 – March 2005)

Continued comprehensive training programs (including training for trainers of Iraq) for the development of strong and sustainability transferable expertise among the staff of the CB bank supervision unit in the areas of licensing, onsite examination, offsite financial analysis, prompt corrective action procedures, international accounting standards, audit and internal controls, and liquidity and funds management are conducted regularly to ensure that the staff are fully competent in all areas of bank supervision. A minimum of 15 training modules will be provided (available in Arabic and English). (October 2004 – March 2006)

Regular IAS training programs will be offered at the CB and its branches to facilitate the full adoption and effective implementation of IAS-consistent accounting standards and related core bank operating procedures (provided by the CB) in all licensed financial institutions (November 2003-November 2004). A minimum of 10 training modules (available in Arabic and English) will be provided. (November 2003 – November 2004)

3. Trade and Private Sector Development

Assistance to be delivered on trade will focus on trade policy in goods, services, and agricultural matters and initially the impact of proposals that have been made for a dual customs exchange rates and tariff structure, to provide separately for the impacts of oil and natural gas. The effort is designed to assure adequate preparations for WTO accession, provided it has not already been accomplished for Iraq. The other focus will be to explore trade and export possibilities and opportunities for investment to support that objective.

Tasks

These activities will need to be coordinated by Contractor under the supervision of USAID with the activities of other US government agencies.

Exchange Rate and Tariff Rates Optimization: The implementer shall provide an analysis and continuing support to policy makers in selected Middle East countries on the importance of coordinating exchange rate changes and tariff policy and work with the tax policy assistance and the monetary unit to develop appropriate tariff structure.

Trade and Foreign Direct Investment Laws. Iraq should adopt a regime of investment that will promote the repatriation of capital and the inflow of new capital. This regime should be blind as to whether the investor is from that country or elsewhere Over the next 12-18 months, the implementer shall assist in the development and approval of core commercial laws, including those governing, trade laws[1], sanitary and phytosanitary measures, and customs laws.

Export Opportunities: The implementer shall conduct a study on Iraq 's economic situation and opportunities to initiate business activity in selected areas for which that country has the appropriate climate, location, skills and capital.

Assistance should review standards and certifications to set up a system whereby standards for trade are consistent with international standards to ensure access to export markets

Benchmarks

Paper prepared on policy options for improving tariff structure and dealing with non-tariff barriers, if any, to ensure they are favorable to economic growth. (December 2003)

Make recommendations on tariff restructuring and dealing with non-tariff barriers and time table for implementation (December 2003)

Analysis prepared of impact of energy trade on potential economic growth in selected Middle Eastern country and resources and polices required to initiate activity. (December 2003)

Export assessment prepared analyzing prospects for selected export activities in fruits and vegetable, flower, seeds, textiles or other appropriate products or services. (December 2003)

Draft customs code and implementing instructions developed (December 2003)

In collaboration with separate agriculture project and other US government agencies as appropriate, draft sanitary and Phyto-sanitary measures are developed (December 2003- March 2003)

[1] Such laws should be consistent with WTO standards.

Analysis of impact of trade with regional markets versus trade with Europe or Asia and recommendations for policy framework to pursue it. (March 2004).

Assess "behind the border" concerns regarding the trade regime and make recommendations for dealing with such matters. 5 such concerns addressed per year. (Ongoing, all three years)

Annex B
Statement of Work

Micro-Economic Foundations for Growth: The Competitiveness Initiative (CI)

SUMMARY

The purpose of this component is to support the adoption of a competitiveness strategy and program by the public and private sector of Iraq. To improve the country's standing in the global economy will require attention to the macro and micro-economic conditions affecting competitiveness. (Annex A focused on Macroeconomic reform). Attention at the industry cluster level is particularly required since networks of business compete more effectively than do individual firms. Finally, it requires a local process of private-public dialogue that serves as a self-correcting mechanism for promoting necessary conditions for competitiveness policy reform, institutional agility, transparency, efficient infrastructure, etc. During this transition there will be many obstacles and constraints facing Iraq and its industry cluster especially with the demise of protections and subsidies for favored sectors.

Initially, the contractor will undertake an evaluation of the private sector of the country to identify the nature, breadth and scope of the private sector in Iraq. It will assess the private sector's current size and capacity, identify business owners and private sector leaders, examine the overall environment for private sector growth, identify the relationships between and among industries and government. It will assess the strengths, weaknesses, opportunities, and threats to the countries' industries, examine current exports and the potential for exports and will look at the constraints to export sector growth.

Based on the results of the evaluation, the contractor will implement a *Competitiveness Initiative* focused on strengthening small and medium-sized firms, developing exports, generating employment and creation regional and international networks of buyer/supplier chains. Cluster development will be undertaken in at least four industry clusters. Workforce development will also be carried-out to assure that the public sector training and education institutions are oriented toward meeting the needs of an emerging and competitive private sector. A Competitiveness Council, made up of private sector leaders, will serve as a steering committee to prioritize and guide specific competitiveness initiatives.

OBJECTIVES

The general objective of this component is to increase the competitiveness of Iraq's businesses and their contribution to the economic growth of the nation. Indicators related to GDP growth, investment, and growth in exports will measure progress. The project will provide a Competitiveness Report that will benchmark and measure year-to-year progress in competitiveness-related indicators at the industry- and the country level.

The specific objectives are:

- To establish a Competitiveness (CI) led by the country's private sector leaders themselves and capable of analyzing constraints, preparing strategies, proposing action initiatives and engaging the government in effective, productive and practical dialogue;

- To assist government agencies in identifying 3-5 key initiatives that can have an impact on Iraq's competitiveness and assist in providing responsive and effective technical assistance in design and/or implementation of these;

- To work with at least 3 industry clusters in crafting competitiveness strategies for their industries and helping in the initial implementation of action initiatives;

- To accelerate the understanding within Iraq of the competitiveness challenges by working with think tanks, universities, the media and business associations to disseminate tools, information, and approaches.

The overall approach will draw upon the competitiveness methodologies developed by USAID and implemented in several countries around the world, most recently in Sri Lanka, Mongolia, Bulgaria, and Croatia. USAID's approach, entitled the "Manual for Action in the Private Sector," includes a competitiveness benchmarking exercise, a review of the business environment, work with selected industry clusters and engagement with the economic leadership of a nation (private and public) to implement practical initiatives leading to rapid economic growth.

This overall approach will be adapted to the unique environment of Iraq. The country is emerging from years of autocratic rule and strong central control of economic activity. It lacks an institutionalized process of private-public dialogue. Privatization of key state-owned enterprises will be needed. The new government will seek to open up its trade and investment linkages and to put into place the institutions promoting democracy, free enterprise and reliance on a market-driven private sector as the engine of economic recovery and growth.

Therefore, the Contractor will focus on the following tasks:

- Formation of a Competitiveness Council made up of predominantly private sector leaders (with some government representation) that will prioritize major constraints to rapid growth in investment, economic growth, employment and exports with a focus on the broad sharing of the benefits of this growth;

- Fostering an institutionalized dialogue process between the private sector and the public sector through this Council but also including other major stakeholders;

- Work with 4 industry clusters on the basis of self-selection (e.g. the willingness to convene, contribute counterpart LOE and provide counterpart financing or contributions for subsequent initiatives)

- Development of national and sector strategies, action plans, deliverables and results tied to specific timetables for delivery

- Identification and delivery of short term technical assistance (STTA) for the achievement of these results, beginning with assistance to the government in its investment promotion strategy and organization

- Commitment to placing Iraq's leaders and stakeholders in the driver's seat in terms of setting priorities, identifying constraints, developing action initiatives, identifying STTA needs, etc. as long as these are consistent with the overall objectives of the project and with USAID policies, regulations and guidelines

- Provide subcontracts to work with existing local networks of research institutes, academic faculties, business associations, consultants and other stakeholders, respecting the existing roles that these institutions play in advising the government

- Work with the economic press and media to disseminate the findings and contribute to the implementation of the proposed initiatives

- Work with cities outside the capital to develop regional competitiveness initiatives.

TASKS AND BENCHMARKS

Task 1: Institutionalization of effective private-public dialogue that goes beyond the interests of individual companies or groups and focuses on the broader business environment, including that for small businesses.

Activity 1—Develop and receive USAID approval on 3 month rolling work plan (3 M-RWP), with the analysis to be undertaken, technical assistance to be provided, due dates, and sources to be consulted.

- The first task has been to prepare a 3M-RWP. This RWP will be revised after the first meeting of the CI Board and be presented for USAID approval. This RWP will be subsequently revised after each meeting of the CI Board and will also take into account USAID guidance and feedback.

Activity 2--Organize a Competitiveness Council. This will serve as both a Board of Directors for the CI Project as well as an embryonic Business Roundtable that will be encouraged to take on a life of its own beyond the project period. Those leading it will decide on the exact name later. It will serve as a steering committee that will prioritize and guide specific competitiveness initiatives. It will be referred to here as the CI Board. The term CI will refer to the USAID project and the project staff.

- In Month 3, the team leader (who will devote a proportion of his time from his base in Washington or wherever, as agreed with the CTO) will communicate with Iraq's leaders that would be appropriate to serve on the CI Board and schedule a meeting for the first week of April. At this meeting, the objectives, functions, composition and operating

procedures would be agreed upon along with an initial list of key constraints and strategic priorities. The objectives, personnel and resources of the USAID project would also be presented and input from the CI board would be received.

- In Month 5, the COP and the Team Leader will moderate a second session of the CI Board that will elaborate in detail the action initiatives, timetable and responsible parties for approximately 10 priorities identified by Iraq's Leaders.

- In Month 6, after further elaboration, these will be presented to key government leaders from various ministries and agreements will be reached on action items to be undertaken.

- The CI will then design an action plan and technical assistance for the implementation of 4 initiatives in support of the CI Board action plan, including potential STTA and local procurement of analytic or other inputs. The CI Board will be briefed monthly.

Activity 3—Work with Industry Associations to enhance capacity for effective private-public dialogue and pro-active competitiveness action initiatives.

- The COP will meet with key industry associations and explain the objectives and operations of the CI to them. He will also meet with executives of key industry clusters related to the oil industry.

- The result of these meetings will be to prepare bi-monthly meetings of at least four industry clusters that would commission an industry competitiveness strategy that would include Gap Analysis, SWOT Analysis, Diamond Analysis, Vision Statement, Strategic Plan and Action Initiatives. The four industry strategies would be finalized in Month 3 of the project.

- STTA would be designed programmed to assist in the implementation of action initiatives for the four industry clusters and would be delivered over the course of the subsequent 6 months.

- Local contracts would be let to local consultants and/or research institutes to respond to the action plans of the four industry clusters mentioned above and would be delivered over the course of the subsequent 6 months (month 4-9 of the project).

Activity 4—CI Will Make Presentations to Private and Public Leadership in 3 Secondary Cities. The CI will organize presentations on secondary city competitiveness and give these to private and public sector leaders in at least three secondary cities, encouraging regional competitiveness initiatives (see Result 5 below).

- The COP and/or Team Leader will meet with mayors and industry leaders from three secondary cities selected in consultation with USAID and on the basis of self-selection based on demonstrated interest. The COP and Team Leader, accompanied by at least one of the CI staff, will travel to make presentations to the leadership of these cities and, if

desired by them, assist in setting priorities and helping them organize their own local competitiveness initiative.

Task 2: Government agencies benefiting from technical assistance will modify their practices and/or policies to provide and environment to further the country's competitiveness.

Activity 1—Moderate bi-monthly sessions with relevant private and public sector officials to focus on definition and achievement of at least 4 action initiatives, with potential project assistance.

- The CI will hire a specialist with experience in the government who understands the dynamics of reform and can help monitor and push forward those reforms that are identified by the CI.

- At the government's and USAID request, the Contractor will hire experts in foreign investment promotion strategy and organization, such as the ex-officials of the Irish Industrial Development Authority (IDA) to assist in advising the government and the project.

- Convene CI Board to develop a vision statement for Iraq's competitiveness, broad strategic priorities and specific action initiatives, some of which will require joint private-public action and others of which will fall mainly under the purview of the government. They will identify these but illustrative examples might be workforce development, export facilitation, investment promotion, SME development, and transparency initiatives such as creating a mandatory comment period prior to implementing new laws and regulations.

- Convene a joint session of the CI Board and government leaders, ideally chaired by the Prime Minister if not Deputy Prime Minister and composed of a Ministers (or Deputy Ministers) from the relevant cabinet agencies. At this session, the proposed initiatives would be discussed and decisions taken. It will be important that all parties receive the proposed initiatives *prior* to the meeting so that decisions can be taken and the focus can be on implementation.

Activity 2—Implement at least 4 reform initiatives, monitor and follow up on progress.

- Over the course of the ensuing year, the CI public sector reform specialist will follow up on at least 4 of the specified initiatives, manage the procurement of STTA and/or locally procured analytic inputs, identify potential delays and obstacles and notify CI and government officials of the problems while seeking ways to overcome them. This activity assumes the identification of champions within the government that are supporting these initiatives and also the support of USAID and the US Embassy. Examples of initiatives might be development of an FDI promotion strategy and organization or changes of specific legal or regulatory constraints.

Task 3: Private business associations and firms receiving technical assistance will improve their overall competitiveness in the world.

Activity 1—Make presentations to 5 industry clusters and work in-depth with at least four of them to develop competitiveness strategies and action plans._ Presentations and moderation of strategy sessions may take place in 5 clusters but in-depth work will be done in four industry clusters due to limitations of STTA and budgets for local consulting and research. These four clusters will be chosen in conjunction with USAID. However, the more occasional coaching provided to other clusters may potentially achieve some results by the clusters themselves, even if not supported by STTA and local assistance.

- The COP will meet with the Chamber of Commerce, Employers Association, AMCHAM (when established), various associations, executives from the oil and supporting industries and other sector and regional representatives to present the CI initiative.

- The Team Leader, COP and CI private sector specialist ("Cluster Coordinator") will moderate competitiveness presentations designed to elicit the key strategies and action initiatives in at least four industry clusters.

- STTA will be programmed with industry experts in these three areas to assist in the development of a strategic plan for the industry including specific action initiatives to be undertaken to be provided in month 5-6 of the project.

- Implementation of the action plan will be made in each of the three industry clusters, possibly including additional STTA and locally procured expertise.

Task 4: Citizens, particularly in relevant private and public sectors will have a better understanding of competitiveness and how Iraq and its industries can become more competitive.

Activity 1—Make presentations on Building the Competitiveness of Iraq to government officials, industry leaders, business associations, universities and research institutes.

- Approximately 20 presentations will be made to industry associations, government officials, universities, the economic press, research institutes and other stakeholders.

- Research on competitiveness challenges identified by the CI Board will be commissioned to local research institutes as well as international experts and the results will be widely disseminated to universities, research institutes, private sector associations, government officials and the economic press.

Activity 2—Work with the economic media to disseminate information on the competitiveness challenges facing the country and build support for reforms and initiatives needed to build competitiveness.

- The CI team will provide monthly reports on the CI to the economic press, provide reports, outputs, materials and video clips that may be relevant.

Activity 3—Work with universities, economic faculties and management training institutes to ensure better understanding of how Iraq can become competitive.

- The CI team will sign MOUs with 3 leading universities or institutes.

- The CI will commission their participation in relevant competitiveness research and consulting;

- CI will procure and endow them with a competitiveness library of approximately 30 relevant books and 100 articles.

- The CI will provide with them competitiveness workshops and presentations at their respective institutions.

Task 5: Competitiveness initiatives will be undertaken in 2 or more secondary cities outside the Capital.

Activity 1—Visit 2 secondary cities, make presentations on competitiveness and identify the most responsive leadership with which to design and then support their initiatives.

- The CI team will travel to at least 2 secondary cities (to be identified with USAID) and give workshops to local leaderships groups, making a determination as to which of these has the pre-conditions for cooperating on a secondary city initiative; if none do, visits to other secondary cities will be made until the team finds the appropriate counterpart;

- CI will moderate a strategy session resulting in action initiatives and then support these with STTA and local research and consulting expertise.

Benchmarks for the Competitiveness Initiative (Tasks 1-5)

The following will be benchmarks to measure progress towards achieving the stated results.

a. The CI team will prepare a 3M-RWP to USAID that will include analysis to be undertaken, technical assistance to be provided, due dates and sources to be consulted. On a monthly basis, a brief 1-2 page report on the results of activities will be presented to USAID and to the CI Board.

b. A series of workshops, conferences and individual training courses will be given to relevant groups and individuals:

1. Investment promotion workshop and strategic plan provided to the government

2. 10 competitiveness workshops given to industry clusters, universities and government officials; and one national level presentation at a major conference.

a) 20 media events present competitiveness topics (radio, TV, press)

b) Competitiveness Report published and distributed four years consecutively, sponsored by the CI, a leading government agency and/or a leading business association;

c) 30 books and 100 major articles distributed to 3 local institutes or economics faculties;

d) Research contracts with local institutes or professors provided to study and present results on competitiveness of 3-5 industry clusters.

e) Counterparts from consulting firms, research institutes, executive training firms, and/or universities will be given versions of the competitiveness presentations and training sessions for presenters will be given.

c. Guidance on competitiveness provided to USAID and periodic updates on the competitiveness situation from the USAID funded competitiveness survey are completed

The results of the initial competitiveness survey provided to USAID by Month 9 including original benchmarking report, bibliography, description of private-public dialogue, overview of business environment and initial review of 3 industry clusters; Monthly reports are submitted to USAID by the COP on progress; Other briefings are given as needed

d. The general direction of USAID's intervention for the mid-term (30 months) is completed and agreed to between the consultant and USAID

By Month 27, the COP and CI Team Leader will prepare this outcome and present it in draft for review and comment to USAID.

Annex C
Statement of Work

PRIVATIZATION: ASSESSMENT AND SUPPORT

The contractor will initiate and complete a study of state-owned enterprises in Iraq (to be identified by USAID) assessing the status of those enterprises in terms of their potential market value for sale as on-going concerns. Contractor studies will take account of other available analyses and studies of privatization in Iraq. The contractor will categorize the SOEs from largest to smallest in terms of economic impact. The contractor will also evaluate and recommend the potential for liquidation or dissolution of specific firms or industries, if necessary. The assessment/study will also elaborate on the potential of specific firms or industries for sale to strategic investors and identify the range of potential strategic investors. For specific SOEs or industries where strategic investment is unlikely, then the contractor will analyze and report to USAID regarding the feasibility for undertaking a "mass privatization" and discuss various option for its implementation possibilities, such as vouchering. Contractor analysis and assessment of the "mass privatization" option shall take due account of the deficiencies alleged in previous mass privatizations, and shall recommend options for overcoming and responding to these deficiencies in the case of Iraq. Contractor analysis shall take due account of the special circumstances in Iraq's economic situation that might either favor or oppose such a "mass privatization."

Based on the results of the assessments and evaluations, the contractor, with USAID approval, will begin implementation of a Comprehensive Privatization Program (CPP), focusing potentially on strategic investors or on creating and supporting the institution responsible for undertaking privatization. If changes to legislation are required, contractor will provide assistance to develop authorizing legislative reform specifically to allow for the privatization of State-owned industries and firms and/or establishing a privatization entity. The contractor will implement USAID-approved recommendations to begin supporting the privatization, especially those in the oil and supporting industries.

Should strategic sector evaluation be selected, the contractor will focus on three areas of activity:

1. Provide oversight and guidance in the financial restructuring of enterprises comprising the current list of companies, and others that may be identified in the future, selling those assets of value in an effort to increase the competitiveness of the firm, and in turn, the economy.

2. Provide counsel in identifying and negotiating enterprises' liabilities to state-owned bank and non-bank financial institutions, utilities, and other creditors with outstanding claims upon the enterprises.

3. Conceive and implement a public relations and communications strategy that will serve to inform and educate the public.

APPROACH AND OBJECTIVES

The government may use a combination of selected strategic enterprise sales, or a tender program and a broad-based Mass Privatization Program (MPP) or a combination of the two approaches. The MMP would also entail improving/developing the capacity for secondary trading of shares. Of the total companies still in the state hands, it is expected that a percentage of selected enterprises will be sold through Strategic Investor Sales (SIS), direct sales, and the remainder will be privatized through MPP, providing the strategic reasons for undertaking the latter approach are in place.

USAID will provide assistance to the government to commence enterprise privatization and selected enterprise restructuring in a manner that ensures competition and transparency. Specific Objectives are:Undertake a comprehensive survey of SOEs and state regulated enterprises and industries.

- Assist the Government to refine policies and strategies, and implement legislation and regulation making privatization and/or resolution of target enterprises more competitive and transparent, and ensuring the efficient and methodic resolution of distressed debt owed to commercial
- Assist the Government to establish and implement competitive and transparent tender, sale and resolution procedures for all state-owned companies with a goal of rapid divestiture.
- Assist the Government to prepare and implement strategies to sell or liquidate the current state owned companies.
- Assist the Government to conceive and implement a comprehensive communications and public relations strategy informing and educating the public about economic restructuring and privatization.

Specific Work Requirements are described below.

TASKS

This project will be divided into two phases. The first phase is intended to last for no longer than one year and will seek to establish consensus, develop an approved base line and action plan for the CPP and complete the initial drafting of the privatization and securities laws.

The second phase is intended to last for approximately two years focusing on implementation of the CPP action plan and a secure and regulated secondary trading capability.

<u>Phase One</u>

A. Establish Consensus and an Approved CPP Design and Action Plan encompassing both MPP and SIS.

Assist the Government to structure and coalesce around a design and action plan for the overall CPP. While the overall commitment is strong, there is not yet consensus on a specific design. Differences are driven by the concern that the CPP be fair and that problems encountered in other privatization programs be avoided. As noted there are different views on the extent of social and state capital to be included in the program, what should be included in the MPP and the SIS, on the speed and pace of implementation, and on who should participate. All of this is compounded by politics and individual agendas and the fact that responsibility for privatization is diffuse. The net effect is that stakeholders have not come together with consensus on the CPP. The Contractor will provide senior advisors specialized in strategic investor sales, in mass privatization programs and securities trading to forge a consensus on the design of the CPP, including timetable, tasks and responsibilities. (Again, in this context, the CPP is not only privatization but also a secure and regulated secondary trading capability). The contractor will work closely with other donor-funded programs, thereby avoiding any program design incompatibilities.

B. Legal Support

On legal issues, the mass privatization advisor, the strategic investor sales advisor, and securities trading advisor will review relevant laws and make a preliminary assessment of:

- laws that may need to be changed immediately (or new laws written) so that overall CPP (SIS and MPP) can proceed effectively
- further work on laws and regulation that will need to be included in Phase II.

Phase Two: Implementation

Phase Two will depend *inter alia* on the Governments approval of the design of the CPP, and the adequacy of the legal framework.

A. Develop the CPP

Planning and Communication:

1. Liaise closely with other strategy advisors.
2. Coordinate contractors complementary work focusing primarily on the supply side of CPP, and on public education and securities trading.

Supply-side work: inventory of companies and shares:

1. Review print-out on all companies on which Government has basic data, including number of shares and shareholders.
2. Work with Government and Privatization Entities to ensure consensus on companies to include in CPP (aim for as many companies as possible to be included in SIS or in the MPP).
3. Work with Government to maximize fundamental data and financial information flow from companies whose details have not yet been collated.
4. Agree with Government on parameters of the CPP:

   Enterprises to be sold directly via SIS and via MPP

% of shares to go through MPP and SIS; and % of companies? theoretical ?value? to go into MPP. An ideal MPP could aim for the divestiture of a uniform percentage of equity in participant companies. However, companies for which equity stakes are to be sold to strategic investors may be exempt from this uniform structure.

5. Ensure Government Agencies have company information, etc. in electronic form.

Supply-side work: offering materials

1. Develop template - all information to be prepared for/about companies for sale.
2. Assist Government staffs, and other Government representatives in obtaining information from companies, as required.

Public Education Program

1. Prepare an action plan for public information and education, plus a cost estimate. This will require discussions among the relevant Government Privatization Agencies and Ministry of Finance (MoF) to obtain firm commitments at high levels and approval of funding for such public education work.

2. A fair and transparent action program should include: initial phase: explaining the CPP and its long-term objectives/benefits including the introduction of secondary trading second phase: the auction process and what citizens need to do to participate in the MPP; assist in conducting auction; announcement of auction results; regular press releases, press briefings and advertisements.

3. Plan and carry out shareholder communications: develop a standard notification package to be used to advise and inform new shareholders; seek government approval for dissemination of shareholder notification package, as required; distribute to new shareholders, with a receipt, of his/her new shareholding.

B. Secondary Trading

Develop a Share Registry and Depository

1. Work with Government to introduce and operate a centralized share Registry and Depository.
2. Develop and initiate a secure share Registry to coincide with the MPP.
3. Plan eventually to spin-off Share Registry and Depository from Government as an independent entity to ensure the independence and integrity of the financial process.
4. Assist in the development of an appropriate and just fee schedule, if applicable.

Develop a Clearing and Settlement System

1. Work with the Government and Stock Exchange and other market participants to develop/purchase the appropriate Clearing/Settlement System.
2. Integrate Registry, Depository, Clearing/Settlement System and Trading Systems to ensure effective and smooth operation with each other.
3. Use existing relevant capabilities in the proposed financial infrastructure containing Share Registry, Depository, Clearing/Settlement and Trading Systems.

4. Spin-off appropriate financial system(s) from Government if required, to ensure integrity of information and independence.
5. Train relevant staff in new system
6. Design and introduce appropriate and fair fee scales if required.

Develop Secondary Trading System

1. Work with Government and Stock Exchange to develop appropriate operating procedures, rules, membership requirements and governance procedures required for a world-class exchange.
2. Assist Government and Exchange in developing or buying and adapting an appropriate trading system.
3. Ensure compatibility of proposed system to be integrated.
4. Ensure that secondary trading of newly acquired shares may begin on conclusion of the MPP. (The systems could be used in advance for trading of shares in companies that are already private).
5. Train registered staff of market participants.

Privatization Investment Funds (PIF)

1. Review the feasibility and costs/benefits of PIFs. Assuming review confirms the desirability of establishing PIFs, proceed with the following tasks.
2. Support in the formation of three-to-five PIFs.
3. Establish definition, purpose and operation of PIFs
4. Establish regulatory framework necessary within which PIFs will operate - in consultation with other advisors? work on stock exchange regulations.
5. Train appropriate personnel.
6. Design and introduce appropriate and fair fee scales as required.

Develop Market Intermediaries

1. Assist in the development of broker-dealers, corporate finance practitioners, investment advisors, large and small institutional investors, when required.
2. Establish regulations and recruitment methods for creating a broker/dealer association provide training in trading and in corporate finance.
3. Provide training in basic asset management controls and organization.
4. Advise on long-term development of financial instruments/products and trading in addition to secondary trading of shares.
5. Assist in the development of OTC trading of lesser-known, smaller companies if allowed by regulatory authorities.

Develop a Supervision and Regulatory Capability

1. Assist and support the relevant authority to ensure supervision of trading/clearance procedures. Assist Governments efforts to oversee/regulate trading of securities in conjunction with Securities Commission to avoid abuses.

2. Propose and initiate self-regulating organizations if required, recommending an organization structure, and developing and initiating actions to start the first organization.
3. Develop an independent broker-dealer SRO, if it is determined that the Stock Exchange cannot be converted into an acceptable infrastructure (exchange) SRO. Membership should be required in a SRO to access the privatization and secondary markets. In the absence of a more fully functioning civil judicial system, the best alternative means of enforcement may be to suspend or revoke SRO membership.

Other Necessary Tasks
1. Assist in training and registration of trading and operational staff and principals.
2. Assist in the training and registration of financial research analysts, portfolio managers, and investment advisors.
3. Assist in development of commission rate, transfer fee and securities tax schedules if applicable.

C. *Selected Enterprise Restructuring*

If the assessment in Phase 1 indicates the need, develop a plan and scope of work to assist with the restructuring of selected SOEs. This should be understood as a short term requirement to yield immediate employment and productivity benefits. The longer-term objective is still to prepare these industries for privatization and private management. (Note of Caution: Direct involvement of USAID in the restructuring of individual firms or industries can be resource intensive and unless carefully designed may not be cost effective)

TANGIBLE RESULTS / BENCHMARKS

USAID will judge the Contractor's success (or lack thereof) in the task order based upon whether or not the Tangible Results and Benchmarks are achieved. In the event any one or more of the Tangible Results or Benchmarks are not achieved or should the Contractor at any time realize that they are not achievable, then the Contractor shall immediately advise USAID in writing and, in the next report required as part of the task order 'Reporting Requirements', shall provide a complete explanation of the circumstances relating thereto.

Phase One

Benchmarks:
- Within 60 days complete an initial survey of SOEs and State regulated enterprises
- Within 90 days, a draft plan for the CPP showing tasks, responsibilities and timetables
- Within 120 days, a draft plan for establishing secondary trading
- Within 120 days, a preliminary review of relevant privatization and securities laws by non-lawyers.

Tangible Results:

- Within 180 days a completed plan for the CPP including the broad parameters for SIS and the MPP which is approved by the Government

Phase Two

Benchmarks (These are quite aggressive and may need to be adjusted following Phase 1):

Comprehensive Privatization Plan including MPP and SIS

- 60 days: Finalize inventory of Companies
- 120 days: Finalize Data on Companies
- 80 days: Finalize Preparation, Agreement, Financing and Information and Publicity Campaign
- 240 days: Preparation of Secondary Trading

Registrar / Depository

- 60 days: Review laws and regulations affecting share transfer and clearing and settlement
- 120 days: Implement initial registrar software solution
- 180 days: Full roll-out of registrar, including operating procedures and training

Clearing / Settlement

- 90 days: Review options for clearing and settlement
- 120 days: Develop clearing and settlement strategy
- 180 days: Develop tender materials for complete electronic clearing and settlement solution
- 240 days: Operating clearing and settlement system

Trading Systems

- 120 days: Develop operating procedures, rules, membership requirements, and governance procedures for the Stock Exchange
- 180 days: Review options for an electronic trading system
- 240 days: Develop tender materials for electronic trading system
- 360 days: Operating trading system

Annex D
Statement of Work

Credit Activities: Lending Microenterprises and to Small- and Medium- Sized Business

The contractor will undertake two credit activities for small- and medium-size (SME) business and for micro enterprises. USAID's judgment is that capable local lending organizations do not exist. Contractor should therefore prepare itself to assume an SME lending responsibility in a short time period. Contractor should report within two weeks of arrival in country regarding how it will carry out direct management. With the explicit agreement of USAID, the contractor will itself establish and manage the processes and procedures to extend credit to small and medium-sized enterprises in areas of the countries(y) to be determined jointly with USAID. Nonetheless, from the beginning Contractor should prepare itself eventually to spin off the lending activity. Sustainability of the program should be considered as a key component in establishing the institutional vehicle

That is, Contractor will identify or establish a micro-credit lending facility. The facility will extend loans to micro-entrepreneurs ($50-$10,000) based on best-practice micro lending experiences (e.g., group lending). Sustainability should be considered in choosing the mechanism.

BACKGROUND – SME LENDING

The largest and most urgent challenge that any new government faces is revitalizing the economy and creating new jobs. High unemployment reflects a dire state in the productive sector, particularly where there are large, socially owned enterprises involved. The need for new job creation will only increase when workers are laid off from these firms as they are restructured for privatization, or liquidation. Credit availability is key to revitalizing the economy. The region's capital stock has been seriously depleted and there has been virtually no investment in plant and equipment for many years.

There exists however, the opportunity to create a vibrant private sector. Historically, small and medium size enterprises have been successfully engaged in trading activities, agribusiness, light manufacturing, and a variety of other sectors. This program will address these opportunities.

PURPOSE – SME LENDING

The primary objective of any initial activities is to create rapid employment generation in a productive and growing private sector.

STATEMENT OF WORK - SME LENDING

USAID will immediately establish within three-month a start-up program (with the potential for expansion and extension) to support rapid employment generation in the region through loans

and business advisory support to eligible, creditworthy private enterprises. The Small Business Lending (SBL) program will provide quick disbursing financing for eligible businesses.

USAID will fund the establishment of a revolving loan fund that will be held in trust by the contractor until the end of the contract at which time USAID will make a determination whether to grant the fund in part or in whole the institutions implementing this activity. The contractor will propose to USAID a sub-agreement concerning the trust and the management of these funds.

The initial term of this program is one year: a performance review will be conducted after nine months and, based upon program effectiveness and the availability of funds, the project may be extended and expanded. The SBL program will work closely with other USAID Mission development programs.

In developing the SBL program activities, the contractor will identify capable local lending institution(s). The contractor will give due consideration to Islamic financial institutions for participation in the program if there are such institutions and if there is a demand for their services. If local institutions are not prepared to undertake small business loans and if in the view of the contractor and USAID, local institutions cannot be adequately prepared to assume and SME lending responsibility in a short time period, then, with the explicit agreement of USAID, the contractor will itself establish and manage the processes and procedures to extend credit to SMEs. Sustainability of the program should be considered in choosing the implementation mechanism. If there is a demand for Islamic lending, a separate segregated fund may be established.

Reports and other Products – SME Lending

The contractor, will indicate how they would propose to: (a) establish the loan fund (logistics, documentation and licensing, flow of funds etc.); (b) manage the loan fund (origination, analysis and approval, documentation, disbursal and collection and loan monitoring); (c) audit and monitor the portfolio and respond to non-compliance or non-payment; (d) conduct training of local national counterparts; and, (e) divest/transfer the portfolio at close of project.

For indicative purposes, suggested loan parameters would be $5,000 to $250,000, with an average size loan of $75,000. While final lending parameters will ultimately be set by USAID, the contractor should propose the parameters (tenor, rate, loan size, etc.) of the lending facility. Eligible borrowers would be required to be: (a) private or privatizing registered businesses; (b) capable of demonstrating a high likelihood of repayment (primary and secondary source of payment); have the potential for near term employment generation; and, (c) not be in conflict with other USAID eligibility criteria (tobacco/alcohol, war crimes, related, etc) which are yet to be determined.

TASKS – SME LENDING

The contractor will undertake the following tasks:

1. Establish a loan facility: Undertake all such activities as may be required to establish a loan facility to finance eligible businesses. (Note: loan and interest reflows are intended to be recycled.) The contractor will:
   a. assume responsibility for USAID funds intended for the loan pool
   b. establish and manage an account for loan proceeds
   c. establish agreements with acceptable institution/bank agents to support SBL in loan origination and servicing.
   d. obtain necessary lending permits/licenses as required under law
   e. establish internal audit procedures acceptable to USAID to ensure proper oversight and accountability of the loan funds

2. Manage the loan fund: Set up a loan production unit which will be charged with:
   a. loan origination and assessment of loan applications
   b. loan approval within the established lending criteria
   c. loan documentation (note and credit agreement) and collateral
   d. monitoring and oversight of the loan portfolio
   e. restructuring or collections activities in events of default
   f. periodic reporting as stipulated by USAID

3. Audit and monitor the portfolio and partner institution/bank agents, to:
   a. conduct regular internal audits
   b. conduct regular loan and collateral reviews
   c. provide regular audit reports to USAID

4. Train LPU and partner institution/bank agent's staff: Train LPU local staff in areas of credit analysis, loan structuring, and loan administration.

5. Transfer the portfolio prior to, or at, close of the project (per USAID direction): Develop options for disposition of the loan portfolio and provide recommendations to USAID for the sale or otherwise dispose of the portfolio

6. Coordinate with other donors/IFI lending programs and other USAID contractors and grantees. Contractor will be responsible for coordinating with other lending programs.

Loan Approval and Role of Partner Institutions/Bank Agents. The LPU will be guided by policies, procedures and loan terms and conditions as established by USAID in consultation with the contractor. The LPU will make all lending decisions, although with a strong consultative relationship (and possibly co-approval) by USAID. It is intended that the contractor will work in conjunction with partner institution/bank agents (operating on a fee basis) for loan origination and loan servicing (disbursal and collections), however all loan decisions will be made by the LPU.

Lending Priorities/Requirements - Consideration of loan requests will reflect the priority of generating employment and supporting economic rehabilitation, and as such, will give preference to (a) firms with high employment generation potential; (b) projects which help reactivate existing local productive potential; (c) firms which will utilize domestic inputs and

have export potential. Particular areas of focus would be agri-processing, trade, and light manufacturing. As noted in the "Benchmarks, Tangible Results and Level of Effort" section, all loans should show the ability to repay debt from projected free cash flows or the asset conversion cycle in a reasonable period of time and should be supported by a viable secondary source of repayment (collateral or acceptable personal guarantees). As noted, it is intended that this activity work in close cooperation with USAID's development activities and should therefore first seek lending activities and partner institution/bank agents based in the regions targeted by the Mission.

*Risks Associated with Lending*_It is understood that lending in any transitional economy entails a high risk and that not all borrowers will be able to fulfill the initial conditions of loans. However, it is expected that with appropriately structured loans (use of borrowing bases, etc.), clear expectations for repayment, somewhat lower disbursement targets, and tight loan monitoring, delinquency should remain within acceptable levels (5% or less. The SBL program should draw upon lending techniques which feature strong repayment records (abundant guarantees, close interaction with the borrower, frequent debt service, etc.), commercial finance techniques (borrowing base lending, accounts receivable lockboxes, etc.) and should employ a high frequency of audit.

Loan Origination - With the objective of rapid loan disbursement, the LPU should focus early on loan origination - identifying potential candidates and supporting them to prepare loan applications. The intent is to facilitate a flow of applications of potentially viable loan candidates in a manner that will present an accurate representation of current and prospective operations and collateral positions. It is envisioned that loan origination will be done in conjunction with partner institution/bank agents and will be supported by the SBL program. In conjunction with this loan origination function, the LPU will:

- prepare a format for provision of loan requests, including historical and projected financial information, description of operations, markets and management, company registration and incorporation data, collateral and other information as shall be required by the LPU
- establish a process for defining the universe of businesses and identifying high potential loan candidates
- conduct an outreach effort and contact prospective companies to explain the program
- support interested and qualifying companies to prepare business plans and loan requests (although loan requests and projection will obviously not be prepared by the SBL program).

*Drawing Upon Regional Experience*_Contractors should draw upon the experience of other lending programs undertaken by USAID and others in other regions. In particular, contractors should employ successful lending practices and draw upon credit policies and procedures, loan and collateral documentation and operations procedures developed in other countries.

Period of Performance The initial period of performance will be one year. A comprehensive review will be conducted after nine months and, if successful in meeting project objectives and depending upon funding availability, two additional option period of one year each are available to be exercised.

Benchmarks, Tangible Results, and Level of Effort – SME Lending

The contractor understands and agrees that achievement of the benchmarks and tangible results are the essence of their contract, and that USAID will judge contractor's success based upon whether or not the benchmarks and tangible results are achieved Tangible Results: During the performance period, the contractor will set up and oversee a Small Business Lending facility to provide rapid disbursement of loans to creditworthy businesses. It is understood that rapid disbursal (it is assumed that the contractor will disburse $38.0 million within 12 months) in combination with difficult business conditions will likely result in some level of delinquency. But contractor should ensure that appropriate measures are taken to: (a) exclude non-creditworthy borrowers; (b) ensure that loans and collateral are correctly documented and pledged, and (c) that sufficient loan structuring and monitoring takes place such that the level of delinquency is at all times under 5 percent. It is expected that contractor will ensure that adequate risk management and internal control procedures are in place to uncover fraud or noncompliance on the part of borrowers or partner institution/bank agents in a timely manner.

The Contractor should provide assumptions of loan volume and timing. For indicative purposes, it is assumed that loans will be in the neighborhood of $5,000 to $250,000, with an average size loan of $75,000. This suggests approximately 110 loans in year one. The following tangible results are presented for indicative purposes only and should be modified, as appropriate:

As a necessary precondition for receiving its award, the MFI will demonstrate a management information system that is fully operational.

Within 30 days of project start:

- A comprehensive work plan to be approved by USAID
- A set of oversight and audit procedures
- Application for a lending license (if required)
- Complete local hire staffing of the LPU
- Identify partner institution/bank agents to support loan origination and servicing

Within 45 days:

- Complete loan projections.
- Establish framework operating procedures operations
- Complete loan and collateral documentation templates
- Establish procedures for collateral perfection
- Conclude servicing agreements with partner institution/bank agents
- Develop a comprehensive origination strategy
- Written articulation of public awareness procedures

Within 60 days:

- Complete credit policies and procedures, loan follow-up and recover policies, accounting systems, loan and collateral documentation, and oversight and audit functions, to be approved by USAID

Within 90 days:

- A minimum of 50 business plans and loan
- Applications prepared and reviewed
- A minimum of 25 loan requests reviewed

Within 180 days:

- A minimum of 200 business plans and loan applications prepared and reviewed
- A minimum of 100 loan requests reviewed
- Commencement of audits

BACKGROUND - MICROLENDING

USAID seeks to implement a sustainable microfinance activity in the region. Focusing on urban areas, the program will establish legally registered and operational microfinance institutions in select urban areas.

The institution will be legally registered under the prevailing laws and regulations of the country. Once registered, however, the fund will adapt the peer group lending methodology of some of USAID's successful microfinance programs, such as the Kazakhstan Community Loan Fund (KCLF). By using tools and methodologies that have been demonstrated as successful, the microfinance program will be able to develop its lending programs rapidly.

In the region, there is a very strong potential for microfinance activities. The region is densely populated and, while the region has undergone significant economic turmoil, the natural resources and infrastructure to support small businesses exists. A microfinance program, using culturally appropriate, sound lending methodologies has the potential to be successful in this region. In the region, there are many microenterprises, many of which would be in need of loan capital.

USAID would apply its basic approach: 1) establish a legally registered and operating organization; 2) identify and train a high quality local staff that takes ownership of the management of the organization; 3) create credit policies and procedures designed to establish operational and financial sustainability; 4) build the funds systems in a manner that is consistent with Central Bank regulations and requirements; 6) draw upon existing, working models for micro and rural finance in the region (including models for Islamic lending); and 7) establish a local board of directors with local leaders that offers the funds' strategic leadership.

All loan officers will be trained. In addition, staff will be trained in financial management systems and a loan monitoring system. This process and structure already has proven to be adaptable and appropriate in regions such as Central Asia.

Over the initial one-year period of implementation, the program will be on track to become a financially sustainable institution. Should both option periods be exercised, as an estimate, the institution could achieve approximately 3,000 active clients, a loan portfolio of $0.8 million with an average loan size of $400. It is expected at the end of year 1 to be on track to achieve operational self-sufficiency in Year 2 of operations.

The team will monitor project results through three basic mechanisms: 1) the loan monitoring system that provides daily updates to the financial status of micro finance institutions; and 2) tracking progress against projections using MICROFIN models.

By adapting proven methodologies, USAID would establish a sustainable microfinance institution that will create opportunities for income generation and employment throughout the region. The peer group methodology will also facilitate the notion that individuals can work together through solidarity groups to their mutual advantage. In an area of economic disruption, ethnic unrest and insecurity, the ability of groups to function in a mutually beneficial way is a significant step in creating stability. By creating employment and income generating opportunities, the project will also support economic development in the region.

IMPLEMENTATION PLAN - MICROLENDING

A. Introduction

The project will establish a sustainable microfinance institution in the region. The project will be established and begin lending operations within the first three months of project inception. The project will support the development of microenterprises in the region. In particular, activities will:

1. Establish a sustainable microfinance institution operating in accordance with local laws and regulations that help individuals and small enterprises to become established;
2. Generate income and employment through legitimate business activity;
3. Establish peer groups that not only provide training and support to individuals as entrepreneurs, but also which promote group problem solving and conflict resolution. Peer groups will provide specific examples that demonstrate a mechanism for collaboration among individuals and by working together, positive change and individual growth can be achieved.

One model employed by USAID that has been very successful is the one that is operating in Kazakhstan. The methodology and institutional framework for the project will be adapted to the policy and legal environment that exists in the region. The model is flexible enough to accommodate the institutional, registration, and reporting requirements of each country. It can also be adapted to changes in local policies that may be favorable to micro finance operations.

B. Approach to Microfinance Operations

USAID's approach to building local institutions is to find or create legal mechanisms to register the local credit institution. Rather than form partnerships of multiple external institutions, USAID would draw upon the experience of current, successful micro finance programs to help build the program. The program will support the training and staff development of the local staff. The loan monitoring system will be derived from tools developed and used by USAID partners. By creating a local legal entity and supporting it with local consultants and locally adapted services, the program will have immediate independence and a sense of mission. The implementor will register during the first three months of program award. The elements of USAID's approach are as follows:

Provide female-headed households and other rural and urban small-scale businesses with access to credit and training.

- Create credit policies and procedures that will assist the funds to achieve operational and financial self-sufficiency and have the internal management capacity to operate independently within the one year implementation period, and the two one year options, if exercised..
- Implement a group-lending methodology.
- Build the systems to be compliant with Central Bank regulations. This will include the accounting system, loan tracking system, and provisioning. This will be a key strategy to allow possible transformation into a non-banking financial institution -- reporting to the Central Bank -- should that opportunity arise in the future.
- The implementor would demonstrate a strong commitment to building local management capacity. This would require no more than two long-term expatriate advisors. They will supervise the development of a local staff.
- Establish a local Board of Directors consisting of business leaders, lawyers, donors, and NGO representatives to offer strategic leadership.

C. Microfinance Lending Strategy

The basic lending methodology will be small, stepped group loans that gradually teach entrepreneurs how to borrow money while placing few restrictions on group membership. Based on discussions with local traders and mini-businesses, most loans will be made for working capital at two to four months and extend to twelve months for fixed asset loans. No collateral will be required for loans, as individual repayments will be "guaranteed" by the group. Loan sizes will be stepped and start at minimal amounts. It is proposed that these begin at $50-$100 and step up in increments of $100. Clients will need to learn the essence of borrowing and repaying funds before taking larger loan amounts. Teaching clients to understand their own expenses, income, and need for savings will be paramount to the project's lending strategy.

One important aspect of the program will be to offer loan sizes that directly meet the cash/flow needs of the business. That means that within a group, members will be allowed to take different loan sizes and terms. This approach has worked well in Kazakhstan and has served the clients' needs as well as keeping delinquency low. A key element to such a lending approach is *group empowerment*. Groups will be encouraged to self-form among trusted businesses and friends. The implementor will take no role regarding who can participate in a group. Groups will be empowered to make decisions regarding loan sizes and loan terms for each group member and

must approve member loan applicants before disbursements can occur. Along with teaching clients about how to borrow, the implementor will teach woman how to save for emergencies. Savings will be required for the business but will also be allowed for family emergencies given the inter-relationship between the two. Groups will be taught the basic concepts of saving small amounts of money each month and setting them aside for future use.

To achieve one of its goals of reaching female-headed households, the project will work with business start-ups. One start-up business will be allowed in each group to provide these new businesses access to credit as well as a support network. USAID has found that limiting one start-up per group allows for stronger groups and may circumvent potential delinquency issues. The group formation process will take four weeks and will be managed by the loan officers. The goal of the formation process is to provide a structured environment for new clients to learn about the program, set up a system for how the group will work, and become comfortable with group members' businesses. During the group formation process, the loan officer is responsible for visiting each group member's business. This site visit is used to gather key financial data on *each product or service*, such as the frequency and quantity of purchasing, the level of sales, and profit margins. This information, in conjunction with the client's loan application (that contains an income statement and balance sheet), is used to generate simple financial ratios (such as turnover and profitability) that will help management understand the client's strengths and weaknesses.

D. Disbursements and Repayments - Microlending

One of the keys to a successful group-lending program is reaching large numbers of women entrepreneurs. To do this effectively, a program must have clear and efficient methods to disburse loans that are simple for clients and easy for the institution. The program will approve and disburse loans within ten days of their initial receipt. Before disbursement, group members will sign individual loan contracts and amortization schedules that reflect their individual loan. The group's loan officer will be present during the disbursement to facilitate the process. The Group Bookkeeper signs a receipt that she/he received the loan and will go directly to a group meeting to distribute the funds to each member. After receiving their loan from the Group Bookkeeper, individuals sign receipts that will be returned to the organization with the first loan installment. Loan installments will be made every 15 days. Each group will be allowed to develop its own system for collecting installments from its members, however, mandatory meetings will be required twice a month to collect loan installments. Meeting times are usually set the day the repayment is due and the Group Bookkeeper accepts installments from each member.

E. Management, Financial & Information Systems – Micro Lending

The organization will be a locally run and managed institution. Initially, the Chief of Party will be involved in hiring and training local staff with much of the first year devoted to instilling transparent and efficient management practices. For example, new concepts such as group decision-making will be introduced to develop an inclusive, modern management style. It will be management's philosophy to keep staff to a minimum. According to best practices, administrative expenses should be 25% or less of total operational expenses. This benchmark

will be monitored to ensure that the institution is running efficiently. The basic management structure will be:

General Director - Responsible for the overall management and supervision of the program. He/she will report directly to the Board of Directors on all finance and management issues.

Finance Department – Will consist of a Chief Accountant to reconcile daily disbursements and repayments and be responsible for tax reporting and making consolidated statistical reports. Cashiers are hired on an as-needed basis as the office grows. Normally one Cashier is needed for the first year or when more than one thousand clients are being served at any location.

Operations Department - Responsible for outreach to the community. Loan Officers are the key staff and manage the group formation process and conduct all client training. Regional Monitors will be hired to oversee the sub-offices.

Branch Managers – Will be hired to manage the two branch activities in the region. They will run their offices as cost centers and have the authority to make all lending decisions. Once the headquarters structure is in place, Branch Managers will be hired.

Systems Department – Responsible for managing loan tracking system and completing daily crosschecks with the accounting system. The Department will consist of one computer specialist and one data entry person for the first year.

Sub-Offices – After the first year of operation, the implementor will begin setting up sub-offices. These sub-offices will serve to reach rural clients that are far from the center and will require conveniently located points to make financial transactions.

A Board of Directors will be established during the first year of operation. This body will oversee the general operations and will provide strategic leadership in terms of expansion plans, policy issues, and fund-raising prospects. The Board will not be involved in the day-to-day management but serve as a resource for the institution. Representatives will come from the business and legal community, NGO bodies, and donors. As the organization expands operations, it will take on a more formal organizational framework to adequately manage its growing staff. In the beginning of year three, a headquarters structure will be established to monitor all branch activities and provide assistance functions that are necessary for all the branches (for example, making consolidated tax reports). The headquarters structure will remain small, consisting of the General Director, Director of Finance, Director of Operations, and an internal auditor.

USAID will fund the establishment of a revolving loan fund that will be held in trust by the contractor until the end of the contract at which time USAID will make a determination whether to grant the fund in part or in whole the institutions implementing this activity. The contractor will propose to USAID a sub-agreement concerning the trust and the management of these funds.

F. Finance & Management Information Systems - Microlending

The implementor will demonstrate to USAID a Management Information System that is fully operational. This is a precondition that must be met in order to obtain an award. Implementor will install and use appropriate accounting software that is used elsewhere. This software should follow international accounting standards and allow for standardized balance sheet and income statement generation. The use of this software will give management a solid basis from which to control all loan disbursements, installments, income, investments, and other financial activities. It will also provide all the required financial data for tax reporting. In conjunction with the accounting software, management will install a loan tracking system. The loan tracking system will house two types of information. The first is general information about a client's address, business type, gender, ethnic group, and number of employees. This information is input into the system once a loan has been approved. The system also maintains financial information on each client including a current and historical income statement (from which business growth and profits can easily be tracked), current and historical balance sheets (from which changes in equity can be monitored), and all disbursement and repayment information. The loan tracking system is a flexible tool and will provide management with any type of client and financial data requested. This includes critical data on loan officer productivity – in terms of numbers of loans disbursed, new clients, and active portfolio. The system can also generate delinquency information by individual client, loan officer, loan size, loan term, business type, or group. These reports can be made on a daily basis to assist managers in effectively monitoring client and staff activities. The loan tracking system is also designed to provide a counter-check to the accounting system to ensure against internal fraud or potential bribery. The two systems will be kept up-to-date every day and reconciled at the close of business. It will be through this type of risk management strategies from which deliberate as well as unintentional mistakes will be identified.

G. Implementation Plan and Lending Targets – Microlending

The first three months of operation will focus on identifying office space, hiring staff, equipping the office, and registering the organization. It will also be during this time that the implementor will closely cooperate with local government, national banks, advice from other donors to secure registrations and appropriate waivers that will facilitate lending activities. This will include the ability to disburse loans in cash, keep large volumes of cash on-hand, set interest rates higher than the inter-bank lending rate, offer non-collateralized loans, and house client emergency saving funds.

Once the key administrative staff and systems are in place, the objective will be to hire and train loan officers to immediately begin lending. Staff will need to be trained in micro finance technologies, modern management practices, and goal setting. Loan Officers will be the focus of this training as they are the heart of the program and are the critical point of contact with clients. The following steps will be taken to screen, identify, and train new loan officers:

1. Training to loan officer candidates who have passed through an interview process. This training introduces loan officers to the group lending methodology and a participatory decision-making atmosphere. At the end of an initial training, the best candidates are selected for a more intensive training phase.

2. An exam is given to finalists and if they pass, a reference check is made on each candidate.
3. Immediately following the first training, a Business Assessment course is held to teach loan officers how to communicate with clients and learn the basics of business assessment.
4. In addition practical hands-on training is given to each loan officer to introduce them to forms, filing systems, and the requirements of using a computer.
5. A course is to be devoted to completing a thorough market survey of the region. During this period, the region will be delineated into territories so that loan officers adequately cover the city while not competing with each other. These boundaries will be used for the life of the program.
6. An intensive Financial Analysis course is given to introduce the concepts of income statements, balance sheets, and how to make a quick but thorough financial assessment of micro businesses.
7. A course is provided to review in detail the steps of group formation. Further, loan officer candidates practice among themselves conducting information meetings, etc.
8. Finalists are selected among the candidates and are allowed to begin marketing the program and forming groups. This is always done with close supervision from a senior staff member for a substantial initial period.

Once loan officers are trained, the group formation process will begin. A simple flyer will be developed as an informational tool. All marketing, however, will be done on an individual basis through word of mouth. This type of interaction is important in order to build trust and answer questions from potential clients. The first disbursements will take place in the beginning of the second quarter. During the first months of lending, a trainer or branch manager will always be present. The staff will continue to provide hands-on training and guidance as loan officers begin to work with clients and learn the business of micro crediting. The first year will focus on developing a client friendly reputation. The offices will primarily serve residents as well as the surrounding areas. To reach more isolated rural communities, the second year will be devoted to establishing sub-offices to meet growing loan demand and to increase the project's outreach to new locations.

H. Technical Training - Microlending

Over the life of the project, the following training will be conducted:

- *Micro Finance Methodologies Course* – This is a course designed to introduce staff to different micro finance methodologies (group lending, village banking, individual lending), poverty lending technologies, examples of successful world-wide programs, and best practice benchmarks regarding productivity, efficiency, and transparency. This course also introduces the concepts of operational and financial self-sufficiency and how to calculate interest rates (based on C-GAP methods).

- *Delinquency Management Training* - This course is designed to present loan officers and managers with the tools to understand delinquency management and the importance of addressing these issues *before* late repayments occur. This seminar provides hands-on, practical guidance about how to integrate best-practice delinquency management systems into every day work.

I. Incentive Systems - Microlending

Typically, USAID implements an incentive system for its loan officers that provide an incentive for productivity as well as quality performance. Based on this system, the program will develop its own incentive system for loan officers based on the following indicators:

Number of active loans
- Active portfolio
- Number of loans disbursed in a period
- Portfolio at Risk (in number and volume)

All staff will be evaluated each year and provided a performance-based raise. This raise will be based on achieving individual goals, properly implementing their responsibilities, and performing beyond their job description. Once the program is well established, a group-based bonus package may be devised for branches based on annual indicators set by the headquarters.

J. Lending Targets

The program will have an aggressive strategy to serve the maximum number of clients throughout the region in four years. The successful implementation of this strategy will result in reaching 4,500 clients by the end of year four through a loan portfolio of over $1 million. The majority of these clients will be rural, female heads of households. Efficiency and gender indicators will be monitored hand-in-hand with lending targets to balance growth, effectiveness, and profitability.

K. Building Sustainability - Microlending

The vision of sustainability will be built on the principles of sustainability that incorporates both financial and institutional benchmarks and will take the following measures over the life of the project:

a) Focus on empowering local staff to independently manage the activity.
b) Use trend analysis to monitor key growth, profitability, efficiency, and portfolio activity.
c) Install a computerized accounting system that meets international accounting standards.
d) Hold annual, staff-wide strategic planning meeting to set goals and discuss plans for the following year.
e) Develop a risk management system that includes hiring an internal auditor.
f) Develop the internal capacity to conduct all staff training.
g) Hold regular management meetings to assess quarterly performance and evaluate management's position on its strategic indicators.
h) Conduct regular marketing assessments to determine the need for new products and/or services.
i) Use MICROFIN as a planning tool to assist in making long-term strategic decisions.
j) Obtain donor-donated resources to purchase fixed assets – such as a small office building – to strengthen the equity position. In the long-term, this will provide management with

an equity base to borrow funds and continue its expansion beyond donor funding. This will be accomplished using funds obtained outside of the project.

k) Integrate a policy of team decision-making and internal promotions as a means to retain qualified and committed staff.
l) Constantly develop new tools to provide management with the most up-to-date client information.

In addition to the above-mentioned issues that will be integrated into the day-to-day management, there will be special attention given to client retention. It is commonly recognized that delinquency is a threat to the sustainability of micro finance institutions, however, client desertion's impact is less well understood. When a good client leaves, they take with them future revenues and future client references. It is therefore imperative to understand why they are leaving: were they unhappy with the staff; was the loan amount inappropriate; was the interest rate too high; are they leaving for another program. To understand these problems, the project will conduct an exit interviews with all leaving clients. By consistently monitoring these issues, management will be able to make changes, retrain staff, or make other management interventions to address client concerns. The result of this effort will be higher client retention, quality portfolio growth and increased opportunities for sustainability.

Ultimately, the project must be operationally and financially sustainable. Based upon experience, USAID would expect the program to be operationally sustainable in year 2 of the project. The implementor will continue to monitor program results using several mechanisms: 1) MICROFIN to continue to track results against our projections; 2) the loan monitoring system to provide daily balances of loan portfolio and financial performance; 3) monthly reporting on the performance of our credit projects; and 4) continued monitoring of the microfinance market in the region.

L. Other Sources of Finance

To ensure outreach across the region, management must garner additional resources for lending capital. If additional sources of funding are located, this will facilitate even greater growth in the loan portfolio. To address the lending capital needs of the project, the implementor will undertake various initiatives:

The primary element in attracting additional funds is to establish a local organization that is operating legally in Iraq, which establishes strong local management and an impressive lending history. Once these are established, USAID has found that additional funds can be identified and secured.

M. Activity Monitoring – SME Lending

Project Monitoring will be conducted at three levels. First, using the loan monitoring system, the financial performance will be available on a daily basis. Using MICROFIN, the project team will monitor program activities against the lending targets. Finally, the implementor will collect performance information. These data help to compare the relative performance of each activity against our other projects in other countries. The project team will conduct a monitoring review

on a quarterly basis to assess the funds' performance and any issues that may be affecting that performance, as well as appropriate actions to resolve any problems. Monitoring reports will be included in each semi-annual report provided to USAID.

Annex E - Prepare For Phased Cessation of the UN Food for Oil Program

The impact of the dependency culture created by the UN Food for Oil program, coupled with massive distortions in the market prices of agricultural inputs and outputs, will greatly hinder the formation of a viable agricultural production sector. However, the UN food program currently provides an extremely important source of support to a large portion of the population. In the short term, the Food for Oil program can be adjusted so that it supports the introduction of market based prices for agricultural commodities and production inputs. Careful management of humanitarian assistance programs, coordinated with macro economic policies, will be required to enable the private sector to begin operating in a market driven economy.

The Contractor will coordinate with the humanitarian assistance providers and the efforts to support an improved agriculture sector to provide follow on assistance to the Food for Oil Program. Specifically, the Contactor will develop techniques and recommendations for follow on activities to the current Food for Oil program (and its US government funded follow on humanitarian activities) to prepare for and fund support for food for those Iraqis who are judged unable to support themselves due to youth, illness or age in the market-based economy that is to be put into effect. The current Oil for Food program is managed by the Ministry of Trade. Follow on activities will need to be designed in collaboration with that Ministry. The pace of transition needs assessment and structure from the Oil for Food program so that (1) assessments are made and identification is carried out of the current recipients of Oil for Food program recipients who will be able eventually to fend for themselves in the private sector, (2) assessments are made and identification is carried out of those members of the current Oil for Food program who will be unable eventually to fend for themselves in the private sector; and (3) assessments are made and identification is carried out of those members of the current Oil for Food program of those about whom it is uncertain as to which will be able to fend for themselves in the private sector. The third group is likely to be large at first and will decline over time as the transition to the private sector continues. Contractor will help the GOI design a system for providing support for the provision of nutrition on a permanent basis for those Iraqis in (2) and on a transition basis if possible for those Iraqis in (3). Contractor will support the implementation by the GOI of a system that will carry out the program implied by GOI acceptance of the above program.

- In collaboration with donor funded humanitarian programs and the GOI, review option of purchasing humanitarian food supplies locally to support market driven domestic production of wheat, rice, sugar, and oil.
- Coordinate proposed activities with the Iraqi Ministry of Agriculture in collaboration with USAID selected and other donor contractors and grantees selected to assist the Ministry of Agriculture. Recommend programs to improve targeting the humanitarian assistance to the most needy.

Anticipated outputs from this effort would include the following:

- Humanitarian assistance programs will be purchasing domestically produced wheat, oil, sugar and rice at prices that are market driven.

- Prices for locally produced foods will be relatively stable and at a level that covers the cost of production and provides a reasonable profit for the producer.
- Programs designed to provide a targeted food safety net for the most needy will be developed by Contractor.

Volume of imported food aid distributed under the UN oil for food program will be reduced by at least 15 percent in the first year.