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FROM: Vice President and Corporate Secretary

Summary of Discussion at the Meeting of the Executive Directors
of the Bank and IDA, and the Board of Directors of IFC, March 19, 2009*

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* This summary consists of staff notes of the discussion and is not an approved record.

Distribution:

Executive Directors and Alternates
President
Bank Group Senior Management
Vice Presidents, Bank, IFC and MIGA
Directors and Department Heads, Bank, IFC and MIGA

IRAQ – INTERIM STRATEGY NOTE

1. The Executive Directors of the Bank and IDA and the Board of Directors of IFC discussed a joint Interim Strategy Note for the Republic of Iraq covering the period FY09-FY11 (R2009-0032 [IDA/R2009-0025, IFC/R2009-0034], dated February 26, 2009).
2. **Chairman's Opening Remarks.** The Chairman explained that this was the third Interim Strategy Note (ISN) for Iraq and was a joint IBRD, IDA and IFC effort. It reflected the transition to a more normal situation and followed the successful completion of the second review of the IMF Stand-By Arrangement, which triggered the final stage of Paris Club debt relief.
3. **Staff Introduction.** Staff said that the ISN had been prepared in close consultation with the Iraqi stakeholders and reflected greater ownership by the government. Staff noted the successful provincial elections held in January, which were evidence of improved security conditions. However, the global economic crisis had led to a drop in crude oil prices, forcing the government to revise its 2009 budget and seek alternative sources of funding. Staff added that Iraq also needed to strengthen management of oil revenues in order to assure continued reconstruction and economic recovery.
4. **Statement by the Executive Director Representing Iraq.** The Executive Director representing Iraq underlined the importance of the ISN and enhanced Bank Group involvement for assisting Iraq in meeting its development objectives. His full statement was circulated as ED2009-0280, dated March 18, 2009.
5. **ISN for Iraq Endorsed.** All speakers expressed broad support for the strategy outlined in the ISN. Some speakers asked why the Bank Group had not switched from an ISN to a full Country Partnership Strategy (CPS) given improvements in the situation on the ground. They urged that a CPS be introduced as soon as practicable.
6. Staff explained that an ISN had been chosen because of the continued uncertainty surrounding Iraq's political, institutional, security and economic situation. This ISN could be seen as an intermediate product between a typical short-term ISN and a full CPS.
7. **Bank Presence in Iraq.** Several speakers noted that other development partners, including the UN, had expanded their presence in Iraq and they encouraged the Bank to do the same. Some other speakers asked how the Bank's presence in Iraq would evolve in the future. Another speaker wondered about the capacity of Bank staff in Iraq to deliver on the ISN objectives, which were very labor intensive.
8. Staff explained that the Bank's presence in Iraq was tailored to the evolving security situation as well as the business needs of the program. Further details on this were provided in a written statement circulated at the Board meeting. Staff agreed that key areas such as capacity and institution building were labor intensive and noted that staffing was being increased for public finance management, private sector development and portfolio implementation. In addition, policy dialogue with the authorities would be supported through a number of visiting missions to supplement local staff.
9. **Macroeconomic Issues/Impact of Global Crisis.** Several speakers asked about the impact of the global economic crisis and the fall in oil prices on the success of the ISN program. Some speakers noted that lower oil prices had forced the government to dramatically reduce its budget and wondered how this would affect ongoing Bank projects. Some other speakers stressed that the energy sector was critical to sustainable growth in Iraq and urged the Bank to press the government for a comprehensive strategy to increase oil production as well as reliable electricity supplies. Another speaker noted that Iraq was dependent on oil exports and wondered why there was no effort by the Bank to encourage diversification of the economy. Several speakers observed that the debt situation remained fragile, and asked about the status of ongoing negotiations with creditors.
10. Staff said that the main impact of the global crisis was through depressed oil prices, which affected both export and fiscal revenues. Iraq's low integration with the world market had shielded it from more direct impact but due to the extreme dependency on oil revenue, public finances and the balance of payments had been adversely affected. Staff added that because of this Iraq would require greater

financial support combined with increased selectivity. The issue of further diversification would be addressed in the Bank's analytical work. Staff explained that Iraq had restructured its debt with all eighteen Paris Club creditors but progress had been slower with non-Paris Club bilateral debt. Further details were provided in the written staff statement.

11. **Private Sector Development/IFC Role.** A number of speakers underlined the need to create a vibrant private sector in Iraq and hoped that IFC and MIGA would be ready to engage through institution building, lending and guarantees. Some speakers commented that this was particularly important with regard to large infrastructure investments, where guarantees could help to encourage private sector resources. They also felt that IFC should leverage investments in Iraq by other countries in the region to supplement its limited resources. One speaker asked about the possibility of using Private Public Partnerships (PPPs). Another speaker stressed the need to improve the business climate and build a more conducive legal infrastructure.

12. Staff said that IFC involvement would increase as the security situation stabilized and the business environment improved. IFC would help in the formulation of PPP policies and in mobilizing South – South capital flows. Staff stressed that an improved legal and regulatory framework was critical for encouraging increased private investment. Further details were provided in staff's written statement. IFC staff added that an IFC regional priority was to increase activities in conflict countries such as Iraq. This would include supporting the SME sector through advisory services and training in the management of small businesses. IFC was trying to leverage its resources by raising donor funding through PEP-MENA I. It saw investment opportunities in finance, infrastructure, manufacturing and construction materials and expected much of this to come from sponsors in the region. MIGA staff noted that Iraq had just joined MIGA in October 2008.

13. **Governance/Capacity Building.** A large number of speakers noted the weakness of Iraqi institutions and stressed the importance of capacity building. Several of them noted that this was particularly important in the area of Public Financial Management (PFM). Some speakers emphasized the importance of the banking sector and asked about proposed actions in this area. A different speaker stressed the need to strengthen anti-corruption efforts.

14. A number of speakers underscored the importance of Iraqi adherence to the Extractive Industries Transparency Initiative (EITI). Another speaker asked about progress on a successor agreement to the Development Fund for Iraq, which he felt was essential for control, transparency and accountability of oil revenues. A different speaker felt that because the Bank was a member of the International Advisory and Monitoring Board (IAMB), which supervised the use of oil revenues, the ISN should have discussed progress in this area, on which the Board had asked to be kept informed.

15. Staff said that the anti-corruption agenda was being addressed on two tracks. UNDP and bilateral agencies such as USAID were taking the lead at the macro level with the Bank participating through the PFM Project now under preparation and an initiative to train internal auditors within the line ministries to assure rigorous financial management. At the micro level fiduciary management was being dealt with on a project by project basis, including quarterly and annual audits. The written staff statement outlined the control systems in place to monitor the use of financial resources. Staff said that weaknesses in the banking sector were being addressed by the Banking Sector Project funded through the Iraq Trust Fund (ITF). Further details on this were provided in the written staff statement. Staff explained that the Iraqi government had made a commitment to join EITI. Additional details on the current status of developments in this regard were provided in the written staff statement.

16. **Bank Lending Program.** A number of speakers requested more details on the pipeline of possible projects under the ISN. Some speakers felt that there should be greater prioritization of the development agenda. A speaker felt that the rehabilitation of infrastructure should be a priority. He also asked about the expected timing of government requests for IBRD funding due to the fall in oil prices and consequent deterioration of the fiscal outlook. In addition, he asked about the potential for innovative co-financing arrangements to better leverage Iraq's own resources. Another speaker requested clarification

on the proposal for further application of OP/BP 8.0 in Iraq and some assurance that this was an adequate instrument for assuring control.

17. Some speakers noted that the work program under the ISN would be dominated by previously existing resources from IDA and the Iraq Trust Fund (ITF). They questioned the appropriateness of using resources meant for low-income countries and immediate post-war interventions when the ISN stated that Iraq was a relatively well-off middle-income country with billions of dollars in surplus. Another speaker urged that disbursement of ITF and IDA resources be accelerated.

18. Staff said that the focus would be on investments in reconstruction and rehabilitation, and prioritization/sequencing would be determined jointly with the government. Co-financing with the government would also be encouraged. Timing of funding requests would take place at an early stage of ISN implementation and potential projects had already been identified. Further details on this were provided in the written staff statement. Staff suggested that the project pipeline be discussed in the context of the Annual Business Planning (ABP) exercise. Staff added that acceleration of project implementation was a priority for the new Iraq Country Manager and provided additional detailed information on this in the written staff statement. Staff explained that application of OP/BP 8.0 was linked to emergency situations arising from a natural or manmade disaster and decisions were made by the Regional VP on a case-by-case basis, with the country lending program adjusted to accommodate this.

19. **Monitoring and Evaluation.** Some speakers welcomed the monitoring framework in Annex I and the inclusion of several outputs with quantifiable results. They looked forward to strong metrics in the new projects arising from the ABP exercise. Some other speakers were concerned that the ISN provided little information on the evolution of development indicators and did not give a clear picture of the current state of development in Iraq. Some speakers were concerned by the 47 percent of problem projects. Another speaker asked about the status and scope of the expected household survey, which would help to address the lack of data on development indicators.

20. Staff said much progress had been made on data collection and analysis but work still needed to be done. The recently completed household survey was a highlight of the Bank program and would be used in preparing a poverty assessment as well as in addressing some of the existing gaps in terms of the availability of development indicators in Iraq.

21. **Donor Coordination.** A number of speakers stressed the importance of donor coordination and urged the Bank to strengthen its efforts in this area.

22. Staff agreed on the importance of improving donor coordination and provided further details on developments in this area in the written statement.

23. **Refugees/Displaced Persons.** A speaker asked about efforts to address the problem of displaced persons and refugees.

24. In its written statement staff outlined a number of activities to support refugees and displaced persons.

25. **Chairman's Concluding Remarks.** The Chairman summarized the discussion and his remarks were circulated subsequently as R2009-0032/1 [IDA/R2009-0025/1, IFC/R2009-0034/1], dated March 23, 2009.

MOROCCO – MUNICIPAL SOLID WASTE SECTOR DEVELOPMENT POLICY LOAN

26. The Executive Directors approved a Development Policy Loan in the amount of Euro 100 million (US\$132.7 million equivalent) to the Kingdom of Morocco to help finance the Municipal Solid Waste Sector Reform Program (R2008-0035, dated February 26, 2009).

27. **Staff Introduction.** Staff explained that this was the first operation in a series of two Development Policy Loans (DPLs) to provide budget support and solidify, sustain and deepen the

implementation of the Municipal Solid Waste Reform Program in Morocco. The DPL built on a five year engagement in the solid waste sector and this instrument was carefully chosen to support implementation of reforms while mainstreaming social inclusion and environmental considerations in the municipal solid waste program. Staff noted that although it was not explicitly listed in the Country Assistance Strategy (CAS), the DPL supported several CAS objectives, including improving competitiveness/business climate, increasing access to basic services and enhancing public governance.

28. **DPL To Morocco Endorsed.** All speakers expressed support for the Municipal Solid Waste Sector DPL to Morocco. A number of speakers commented that while the solid waste sector was not an explicit focus of the Bank's 2005 CAS, this operation was well aligned with the CAS strategic objectives. Another speaker drew attention to the very positive IMF assessment of Morocco's economic resilience during the current global crisis due to the good policies followed by the government.

29. **Private Sector Participation.** A speaker noted that private firms collected 2/3 of urban waste and that municipal solid waste management (SWM) services were not cost-effective. He asked how the DPL would help reverse this trend. Another speaker wondered how municipalities with limited resources could finance SWM and felt that the operation should use Public-Private Partnership (PPP) arrangements in order to provide better and more competitive service while reducing the financial burden on municipalities. A different speaker asked about the scope for IFC participation in improving the efficiency, transparency and accountability of private sector participation in SWM. A speaker was pleased by efforts to promote a private sector role for provision of MSW services and recognition of the need for improved accountability and transparency in bidding and contracting.

30. Staff said that the planned reforms would focus on the revision of contracting documents and procedures to improve cost-effectiveness. Further details on how this would be done were provided in a written staff statement circulated at the Board meeting. Staff noted that the Bank was supporting the development of a strategy for Private Sector Participation in the solid waste sector which would inform municipalities about the most appropriate and cost effective options. Staff added that the focus of the DPL program was on supporting private sector participation in SWM and it was thus likely that opportunities for IFC involvement would arise.

31. **Social and Environmental Impacts.** A speaker underlined the importance of regular monitoring of the program supported by the SWM DPL to assure that the potential impact of transferring waste workers to the private sector and the effects of increased costs for SW services on poor customers were mitigated. Another speaker welcomed the attention to the social impact of SWM reforms on vulnerable groups and concurred that the private sector and civil society groups could jointly mitigate the negative impacts of landfill closings as well as help to identify a sustainable role for informal waste-pickers in the privately operated waste facilities. A different speaker asked to what extent the national government's Department of Environment would be involved in monitoring and evaluation (M&E) of sector reform, particularly in assuring that the requirements of the Environmental Impact Assessment (EIA) were being met.

32. Staff said that the Department of Environment had been a key counterpart in the design of the proposed operation and would play an important role in managing the EIA system as required for the SW sector. Staff recognized the potential negative impacts of the reforms on waste-pickers, municipal employees and poor households and noted that the Poverty and Social Impact Assessment preceding each DPL operation identified mitigation measures to protect these vulnerable groups. Monitoring of these measures would be undertaken at both the provincial and national levels and reported to the National Commission of Municipal Solid Waste.

33. **Prior Actions/Triggers.** A speaker felt that the number of prior actions and triggers for DPL-2 was too large. Another speaker commended the Moroccan authorities for their progress on structural reform and for meeting the eight prior actions for this operation. She particularly welcomed Morocco's advances in environmental protection and plans under the DPL to cover a portion of the land-filling costs through the Clean Development Mechanism as well as to generate a revenue stream from the sale of Certified Emission Reductions, which would support global mitigation of climate change. She was also

pleased by the Operational Policy Matrix, which included linkages between program objectives, prior actions and indicative triggers for the follow-on operation along with outcomes/monitoring indicators.

34. Staff agreed that the list of prior actions was long but explained that the multi-dimensional nature of the reform program and complexity of the sector made all these policy actions necessary. They were deemed realistic given progress already made and the need to sustain this.

35. **Sustainability of Solid Waste Sector.** A speaker pointed out that recent analysis showed that municipalities could not afford the additional costs of modernizing municipal SWM services, even with increases in municipal revenues and VAT transfers from the government's tax reform program. He wondered how the DPL would assure long term financial sustainability of the SW sector beyond completion of the two DPLs.

36. Staff explained that sustainability would be achieved through cost reduction and revenue enhancement. Revenue measures would include a targeted subsidy mechanism, the earmarking of a portion of the municipal services tax and the establishment of solid waste fees. Cost reduction would be assured through private sector participation based on improved contracts.

37. **Inter-Municipal Cooperation.** A speaker asked how the DPL program would address the lack of inter-municipal cooperation and resultant economies of scale, which had adversely affected the quality and cost efficiency of Moroccan municipal SWM systems.

38. Staff said that under the Solid Waste Law all provinces were obliged to prepare provincial master plans which assessed opportunities for inter-municipal solid waste infrastructure. Eligibility of projects for government financial support was conditioned on inter-municipal cooperation where the possibility for this existed, thus creating an incentive for such cooperation.

39. **MENA Pipeline in SWM Sector.** A speaker noted the widely felt need in the region for assistance in SWM and asked about the current MENA pipeline in this area.

40. Staff said that countries in the MENA region had shown growing interest in Bank support for the solid waste sector and the portfolio included projects in Tunisia, Jordan, Kuwait, and Algeria. Egypt and Lebanon had also recently expressed interest.

41. **Strategic Framework.** A speaker noted the lack of a strategic framework for SWM in the project document and felt that one was needed for ensuring sustainability.

42. Staff said that the sector policy reflected in the Solid Waste Law set key strategic objectives and principles for integrated SWM. Further details were provided in staff's written statement.

43. **Donor Coordination.** A speaker commented that the range of development partners participating in the SWM reform program had enriched the policy dialogue and advanced donor coordination in Morocco. Another speaker commended staff for their collaboration with other donors.

