



C O U N T R Y B R I E F



Middle East & North Africa Region (MENA) - Iraq

World Bank Trust Fund Projects

Under the Interim Strategy, all the \$400 million pledged to the World Bank Iraq Trust Fund have been allocated.

These consist of projects that are either being implemented, or are in an advanced stage of preparation. The First Capacity Building Program (US\$3.6 million), already completed by the Bank, included 600 Iraqi civil servants and 14 programs. Others in the pipeline include; (i) Emergency Textbook Provision Project (US\$40 million) to finance the printing and distribution of 69 million textbooks for 6 million students in Iraq's primary and secondary schools in all 18 governorates for the 2004/05 school year; (ii) Emergency School Project (US\$60 million); (iii) Emergency Community Infrastructure Project (\$20 million) to finance labor intensive water supply, sanitation, and irrigation rehabilitation in rural areas; (iv) Emergency Infrastructure Rehabilitation Program (US\$150 million) to finance water supply and sanitation rehabilitation in Baghdad and other urban areas; (v) Hospital Rehabilitation and Emergency Medical Supplies Provision Project (US\$30 million); (vi) First Private Sector Development Project (US\$55 million); and (vii) Second Capacity Building Program (US\$10 million).

In addition, the World Bank is providing advisory services to the Iraqi authorities, through sector analysis and policy advice, in: transitioning to a market economy; reforming the public sector, and tackling social development and safety nets.

(Continued)

Iraq has abundant human and natural resources: a population of 28 million, the world's third-largest oil reserves, considerable gas reserves, and ample water. It attained the status of a middle-income country in the 1970s, developing good infrastructure and well-performing education and healthcare systems. However, over the past 25 years, ruthless dictatorship, successive wars, and international sanctions have undermined the country's institutions and crippled its economy. Per capita income, once over US\$3,600, declined below US\$1,000 by 2001/2002. GDP fell by a further 41 percent in 2003, when a US-led invasion toppled the government of Saddam Hussein. The economy rebounded in 2004, growing by 46 percent, but annual growth slowed to about 4 percent in 2005-2006, due to high insecurity and weak institutions and governance (see Figure 1). Per capita income is estimated at about US\$1,635—less than a half of what Iraqis enjoyed 25 years ago.

The oil sector dominates Iraq's economy: it accounts for two-thirds of GDP and over 98 percent of exports and own government revenues. Since 2004, oil production fluctuated at about 2.0 million barrels per day, below government targets and below the pre-2003 levels (see Figure 2). High world oil prices, however, have boosted oil revenues significantly. Growth is also driven by consumption, which was pushed up by steep increases in salaries and pensions in the past three years. Agriculture, which has historically been an important employer, suffers from lack of investment and distorted input and output prices. Inflation remains high, driven by security costs, supply bottlenecks, and rising public spending. Despite this, the Central Bank of Iraq successfully stabilized the exchange rate at about 1,475 Iraqi Dinars per US dollar.

Although there is a scarcity of good data, surveys indicate that poverty and human development indicators have worsened significantly in the 1990s and did not improve much in recent years (see Figure 3). Unemployment is estimated at about 22-28 percent. Women's labor participation in the non-agricultural economy is 14 percent, a very low level even by regional standards. The government continues to provide large untargeted subsidies for food, fuel, and utilities amounting in total to about 50 percent of GDP.

Since 2003, Iraq has taken steps to reintegrate into the international financial system. In September 2004, the IMF approved the first stabilization program for Iraq in three decades, opening the way to a Paris Club agreement to write off 80 percent of Iraq's debt in three stages over 2004-2008. A subsequent IMF Stand-by Agreement approved in December 2005 unlocked the second stage of the Paris Club debt reduction agreement. As of September 2006, Iraq has restructured all of its debt with private creditors. Progress has been slow, however, in resolving claims from non-Paris Club bilateral creditors, which account for most of Iraq's debt. Iraq has gained an observer status in the World Trade Organization, and in December 2004 submitted a request for full membership.

Iraq has undergone rapid political transition. A constitution was approved through public referendum in October 2005, followed by parliamentary elections in December 2005, and a constitutional government was appointed in May 2006. The new government has moved to get key reforms back on track, such as reducing fuel subsidies, liberalizing fuel imports, reforming the pension system, and strengthening the targeted safety net for the poor.

Iraq's abundant natural and human resource base could be the engine for a remarkable

World Bank Trust Fund Projects (continued)

The Bank has provided advisory services to the Prime Minister's Higher Economic Committee in drafting the National Development Strategy for Iraq, which seeks to provide an overall vision for the Iraqi economy, identify sector needs, and place external finance requirements within a multi-year fiscal context.

The World Bank continues to be part of International Advisory Monitoring Board (IAMB), commenced in December 2003 as an audit oversight body for the Development Fund for Iraq (DFI), which receives proceeds of Iraqi oil exports, balances from the UN Oil-for-Food Program and frozen Iraqi funds. Other members are the Arab Fund for Economic and Social Development, the International Monetary Fund, the United Nations, and a representative of the Interim Government.

socioeconomic revival. The country's main challenges are to restore security and rule of law, which are preconditions for sustainable reconstruction and growth. Iraq also needs to strengthen public sector governance, including public finance management, and tackle corruption.

Bank Group Relations

The Bank's overarching objective is to help Iraq build efficient, inclusive, transparent, and accountable institutions as needed for stability, good governance, and sustainable economic prosperity. Better institutional frameworks, policies, and systems will improve the efficiency and effectiveness of both national expenditures and international aid.

The Bank's assistance is guided by a Second Interim Strategy Note (ISN), which was discussed by the Bank's Board of Executive Directors in September 2005. The ISN, which covers a period of up to two years, provides a framework for additional World Bank Iraq Trust Fund resources and up to US\$500 million in IDA resources. To provide a continuum of resources, up to US\$500 million in IBRD lending could supplement the IDA and ITF envelope, assuming critical progress regarding IBRD creditworthiness.

Through the World Bank Iraq Trust Fund, the Bank has financed twelve emergency projects amounting to about US\$395 million to build institutional capacity; improve education and healthcare; rehabilitate water, sanitation, and urban infrastructure; rehabilitate irrigation and drainage systems; strengthen telecommunications; and establish better and sustainable systems for social protection. Nearly all (97 percent) of Iraq Trust Fund grants are implemented directly by Iraqi governmental authorities, which helps minimize security costs and maximize local employment, build capacity, and increase local ownership and sustainability. Details on the World Bank Iraq Trust Fund are available at: www.IRFFI.org.

In November 2005, the Bank's Board of Executive Directors approved the first World Bank loan to Iraq in over twenty years—the Third Emergency Education Project (US\$100 million). The Board approved a second IDA loan—the Emergency Road Rehabilitation Project (US\$135 million)—in June 2006. The World Bank and Iraqi authorities are finalizing the preparation of additional projects.

The Bank combines its investments with non-lending services—capacity building and economic and sector work—to help Iraq strengthen its policies, institutions, and governance and ensure the sustainability of investments. As a key piece of analytical work for 2006/2007, the Bank is launching a Public Expenditure and Institutional Assessment for Iraq, which will propose concrete steps for strengthening the accountability and transparency of public finance institutions and policies.

The International Finance Corporation (IFC), the private sector arm of the World Bank Group, has undertaken three investments in Iraq totaling US\$110 million, benefiting two local banks and a cement factory. The IFC is also providing technical assistance, mainly in the financial sector, through the donor-funded Iraq Small Business Financing Fund (ISBFF) and PEP-MENA. A number of initiatives to introduce private investment in different sectors of the economy are being developed jointly with the World Bank.

All dollar figures are in US dollar equivalents.

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