

PROJECT IN DESIGN STATUS

PROJECT CONCEPT NOTE

IRAQ

Second Multi-Sector Institutional Capacity Building Project

Project Name	IRAQ: Second Multi-Sector Institutional Capacity Building Project
Region	Middle East and North Africa Region
Sector	Multi-sector: Public Sector Management
Project	P088247
Implementing Agency(ies)	World Bank
Date PID Prepared	October 8, 2004
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Project Amount	US\$7 million

I. Key Development Issues and Program Rationale

1. Nearly all of the sector assessments, jointly prepared by the World Bank and the United Nations, highlighted the need to build internal capacity within ministries to tackle the challenges of the transition. The Government's ability to absorb and implement new mandates and resources will be one of the most significant challenges to reconstruction. Iraq possesses a strong core capital of institutional potential with well educated and determined civil servants in key positions. However, checks and balances and improved financial systems are needed throughout to reestablish basic principles of good governance, transparency, and accountability.

2. The Iraqi authorities recognize the critical importance of strengthening the Iraqi human resource base by developing individual capabilities, incentives, and institutions so that they perform efficiently and effectively in the reconstruction and development of or Iraq.

3. The First Multi-Sector Institutional Capacity Building Project financed by ECD Rapid Response Mechanism through the Iraq Trust Fund has already demonstrated that it is beginning to meet the immediate training and capacity needs of Iraq. However, the need for continued training and technical assistance to upgrade the skills of Iraqis in all areas and to start building efficient and inclusive public and private institutions remains. In the short term, there is a need for continued training in project preparation and implementation to ensure timely and successful implementation of projects to be financed under the World Bank Iraq Trust Fund as well as from other donor sources. There is also a need to lay the groundwork for subsequent reforms downstream, develop the country's capacity to develop its own solutions and strategies, and to implement policies central to the success of its development agenda.

4. The World Bank Interim Assistance Strategy, discussed by the Board in January 2004, recognizes the need to build Iraqi institutional capacity as essential to lay the groundwork for Iraq's medium-term reconstruction and development program, and begin assisting in the transition from central planning to market economics. To address this need, the program will aim at building the capacity of Iraqis in economic reform and transition, public sector management, and managing the project cycle, including legal aspects of reconstruction.

II. Program Development Objectives

5. **Objectives.** The program will aim to (i) strengthen economic management and build up institutional capacity to cope with a more complex economic and social environment arising from the onset of the nascent market economy; (ii) assist the Government in building systems and strengthening the capacity of its human resources capacity to improve the efficiency, effectiveness, and quality of public services; and (iii) assist the Iraqi administration to build capacity in key public administration areas to facilitate use of public resources, including donor funds, for urgent reconstruction and development efforts. A separate component for debt management is under design and may be incorporated into this project.

6. The program is proposed as a two-year capacity building operation to support the Government of Iraq's technical assistance and capacity building needs.

7. Since country's capacity is already scarce in a post-conflict setting, it is important to develop a

Building Capacity in Post-Conflict Countries

Several key lessons have emerged from the Bank's experience in post-conflict countries in terms of capacity building ^{1/}:

- Leadership matters: Leadership is needed to articulate a vision for their domain and translate the vision into programs and insist on accountability for results.
- Build on what exists: avoid building new parallel institutions.
- Arrange learning activities within countries wherever possible.
- Define training needs in a strategic context: learning activities must be selective, focused, and support the government's reconstruction and development strategy.
- Ensure that training builds upon comparative advantage of international partners.

1/ The Social Development Note No 14 .

program where multiple approaches are used to build capacity. In the proposed Second Capacity Building Project, training outside Iraq will be supplemented heavily by on-the-job training, just-in-time advisory service, technical assistance and consultancies, all with the aim of helping to apply knowledge and skills learned in seminars. In addition, lessons learned from the First Capacity Building Program will be taken into account in implementing the activities of this Second Capacity Building Program. Some of the lessons include: 1) translation where workshops and materials could not be provided in Arabic; 2) for future operations, a task manager should be appointed from the Iraqi side to be the focal point for planning of, e.g., participation and briefing participants on workshop objectives, content and logistics; and 3) options for holding training sessions in Iraq (subject to security issues) and increasing the use of distance learning are being explored.

III. Description of Programs

8. The project will have a number of programs, each of which will be flexible enough to allow for modifications, revisions and adaptation as the need arises during its two-year implementation time frame. In order to build flexibility, it avoids going into specific details on the premise that, for each medium-term plan or initiative, these details will be developed and worked out during actual implementation. Since the resource requirements of capacity building are substantial, prioritizing and sequencing of interventions over an extended time frame to optimize strategic impact is crucially important. Specifically, the project will have the following four components.

9. The program will include capacity building in four areas: (i) economic reform and transition; (ii) poverty, social protection, and social development; (iii) public sector management; and (iv) managing the project cycle, including the legal/fiduciary aspects of reconstruction.

A. CAPACITY BUILDING FOR ECONOMIC REFORM AND TRANSITION PROGRAM

(US\$3 million). The program will cover (i) incentive framework economic reform and transition; and (ii) private sector enhancement and financial sector capacity building program

10. The Bank may be most valuable to the country in making the case for better management of public funds and transparency of economic policy choices (incentive regime, institutional structure and investment climate). It also can help in laying out carefully considered options that can facilitate greater policy consensus among Iraqi authorities and within a wider civil society and competing interests.

1. Incentive Framework (US\$1.5 million)

11. ***Rationale for World Bank Involvement.*** The economic transition and reform process in Iraq is complex, and requires both the best knowledge base available, and maximum resourcefulness in adapting this experience to the Iraqi needs. Iraq's economy is severely dislocated and security situation remains very difficult. A policy lock-in mechanism, enjoyed by the transition countries via integration with mature market economies¹ is unavailable. Large oil rents are likely to polarize the economic system of Iraq, and lead to volatile policy-setting process.

12. The Bank has accumulated a vast body of knowledge while assisting member governments with the formulation and implementation of sequenced multi-sector reforms while mitigating risks for vulnerable groups. It has a particular comparative advantage in defining an ***overall incentive framework*** supportive of competitive economic systems that deliver sustainable growth and poverty reduction.

13. ***Strategy to Build the Reform Capacity.*** Given the situation, the proposed program aims at: (a) securing a consensus and developing options on the overall incentive framework in key overarching areas, such as economy-wide subsidy reform, trade policy, and the governance of oil revenues; and (b) establishing the supporting institutional structures for the implementation of these policies.

14. ***Client Consultations:*** In order to build close working relationships and client ownership of the program, the proposed capacity-building activities will involve extensive consultations with Iraqi counterparts on sequencing, social implications and political economy of the proposed reforms and incentive frameworks.

15. The proposed program is ***aimed at senior Iraqi policy-makers and technical specialists***, primarily in the Office of the Prime Minister, Ministry of Planning and Development Cooperation (including the Central Statistical Organization), Ministry of Finance, Ministry of Trade, Ministry of Labor and Social Affairs, and other key sectoral ministries and agencies whose mandates may have significant cross-sectoral impact, the Central Bank, and – to the extent possible – local governments, which are likely to play an increasing role in the delivery of key services. If requested by the Authorities, Iraqi academics will also be able to participate in these capacity building activities.

16. ***Expected Outcomes.*** As a result of the proposed program of activities, it is expected that senior Iraqi policy-makers in the Ministries involved will have an effective grasp of priorities and tradeoffs in introducing broad incentive packages aimed at providing strong stimuli to the development of competitive

¹ Signifying a commitment mechanism for important policy measures which raises the costs and decreases the likelihood of policy reversal.

private sector, and restoring the delivery of essential services via optimal combination of public and private provision. This will be achieved by supporting institutional reform that will enable the key policymaking agencies to deliver these goals, and by training the civil servants both in policy-setting and technical formulation of reform steps.

17. **Type and Description of Activities.** The proposed program will comprise policy workshops, study tours, and hands-on technical assistance and training. The following key events are envisaged:

- High level policy assistance:
 - A workshop on operationalizing the *national development strategy*, which is being formulated by the Iraqi Authorities as an *overall incentive framework* to support transition to market economy, job creation, and competitive private sector;
 - A workshop on *food price reform*, to evaluate its social and macro/fiscal implications and to formulate recommendations towards the design of viable safety nets and the revival of domestic agriculture;
 - A workshop on *fuel price reform and oil sector governance*, to help strengthen fiscal sustainability, design fiscal policies to counter oil price volatility, and to support the diversification of the economy out of oil; and
 - A seminar on *trade reform*, focusing on trade policies and trade institutions, regional and WTO trade negotiations, trade and transport facilitation, and customs.
- Follow-up policy discussions on the implementation of reforms towards the close of the program (FY06):
 - A workshop on the lessons learned in the process of formulating and implementing the national development strategy and market-based incentive framework (PRSP type);
 - A workshop on the lessons learned from the reform of food subsidies
 - A workshop evaluating the efficiency of governance arrangements for the oil sector and of fiscal and other volatility-mitigating policies and the lessons learned from the domestic fuel price reform
 - A workshop evaluating the first results and consequences of the trade reform
- Technical workshops:
 - *Statistical Capacity Workshop*. This workshop would have three goals: (i) to systematically and comprehensively evaluate current statistical practices (including collection, processing, analysis, storage and dissemination). This would cover a broad range of statistical categories including the real sector, fiscal, financial, external and socio-economic statistics. (ii) to provide information to the Iraqi counterparts regarding international standards for production and dissemination of official statistics; and (iii) to help the counterparts develop prioritized plans for the short and longer term to improve statistical systems. This workshop would be conducted in coordination with the IMF.
 - *Poverty Measurement and Analysis* workshop for technical staff. This workshop would cover conceptual and practical issues associated with household survey based empirical analysis of poverty. It would address questions such as: How should individual “well-being” be assessed in deciding who is poor? Is a household survey a reliable guide? Where should the poverty line be drawn? What poverty measure should be used in aggregating data on individual well-being? Topics covered would include: qualitative and quantitative analysis; construction of a consumption/income indicator; adjustments for family composition and size; poverty lines; properties and robustness of poverty

measures; statistical inference for poverty indexes and poverty decomposition; describing and modeling the determinants of poverty. This workshop would be conducted in collaboration with the World Food Programme.

- *Inequality and Pro-poor Growth* workshop for technical staff. This workshop aims to improve the understanding of the relationships between economic policies—both economy-wide and sector-specific—and income distribution and considers what makes some growth episodes more pro-poor than others. Topics would include: inequalities in income, consumption, land education and opportunities; how the distribution of welfare indicators can be represented and compared and how inequality measures are defined and calculated; why inequality is remarkably stable in some countries while change quickly in others; what economic forces shape the distribution of income; decomposition techniques for analyzing changes in distributions; impacts of economy-wide policies such as exchange rate policies, trade liberalization, indirect taxes on income distribution; impacts of sector-specific and poverty reduction policies on distribution; general equilibrium and partial equilibrium frameworks for poverty analysis; tools for assessing benefit incidence and public sector delivery.
 - In addition to the technical workshops identified above (poverty measurement and analysis and inequality and growth) it is envisioned that two other workshops would be conducted. The topics for these other workshops would be determined on the basis of the statistical capacity workshop.
- Support to Iraqi participants in capacity building events conducted by third parties
 - “Training the trainers” activities, which may be held as self-standing events, and/or via including the trainers in the events listed above. This will be available to three types of trainers:
 - Staff of the GoI training centers (e.g. those in MOPDC, MOF, etc.);
 - Faculty of some of the leading Iraqi universities; and
 - Training in transition issues to qualified Iraqis living abroad and to experts from other MENA countries willing to travel to Iraq in order to train the Iraqi civil servants

18. ***How Results would be Measured.*** At the end of the implementation period a survey of participating Iraqi agencies will be conducted, to evaluate their capacity to formulate reform policies with explicit perspective on the sustainability of market-focused reform. The main risk factor is the absence of political normalization causing the paralysis of policy action on the part of the central authorities.

2. **Private Sector Enhancement and Financial Sector Capacity Building Component** (US\$1.5 million)

19. ***Rationale for World Bank Involvement.*** The rationale for World Bank support of capacity building of the institutions that support the investment climate is based on the following premises:

- Iraq’s most pressing need is the creation of sustainable jobs.
- The private sector is the only vehicle that can meet this need in a sustainable way.
- A strong investment climate will deliver the kind of growth required to meet this challenge.

² Signifying a commitment mechanism for important policy measures which raises the costs and decreases the likelihood of policy reversal.

- Strong institutions in the public, academic and private sector are the basic building blocks of the investment climate
- However Iraq's Institutions that support the investment climate are weak across the board, or non-existent. They have been cut off from modern approaches and ways of thinking for some decades.

20. **Capacity Building Strategy.** The capacity building strategy has the following three levels of assistance:

- High-level assistance to policymakers so they can improve their policy-making capability. This includes knowledge creation activities so this capacity building is grounded in reality;
- Assistance to managers—to build managerial level capacity; and
- Skill transfer of critical capabilities through train the trainers type of approaches.

21. Job creation is also critically important at this point in Iraq's development. Of equal importance is the need to ensure efforts to create jobs do not impact the investment climate. The likely job creation agenda will include:

- Public sector work program;
- Matching grant scheme; and
- Micro-entreprise support.

22. In terms of capacity building, efforts will be undertaken to build: (i) policy-making capabilities in this area, and (ii) implementation capabilities. The following priority areas have been identified: (i) financial sector support –payments systems, housing finance, banking supervision, state bank restructuring, capital market development; (ii) investment climate support – micro-finance emphasizing gender challenges, property rights, and services sector (tourism, construction, professions, etc) capacity building framework, and (iii) PPI support – strengthening regulatory capabilities. If additional funding became available further activities under each of these heads as well as SOE reform would be possible.

23. The capacity building initiatives will cover the following four areas; investment, financial sector, SOE reform, and private provision of infrastructure. The capacity building work will be closely integrated with economic and sector work (ESW) funded by the Bank budget in each of these areas. It is anticipated this ESW, which will be programmatic (over several years) in nature, will provide the basis for the proposed policy dialogue. The investment climate aspects of this capacity building are also closely coordinated with proposed PSD I project which has a strong capacity building component.

24. **Two-Year Objective.** Over the next two years, the overall objective is to continue policy dialogue and provide technical assistance to develop and strengthen the needed institutions that would support a strong investment climate. The subsidiary objectives are:

- To ensure there is an awareness and understanding amongst policy makers of the key challenges they face in moving to a strong investment climate;
- To create a cadre of managers that will be exposed to international best practice and techniques in their respective areas; and
- To work on a short list of immediate high priority skill deficiencies.

25. **Types and Description of the Activities:**

Activity	Description of Activities	How do we measure results
<i>High Level Assistance to Policy Makers</i>		
Investment	Development of an understanding by key policymakers of critical components of the investment climate. This will include developing a long term approach as well as a short term policies that can encourage investment. This will include the following topics: property rights, competitiveness, cost of doing business, local economic development, gender issues, investment promotion, SME policy, reconstruction linkages and service sector policies. As well as seminars this work will include some diagnostic work requested by the Iraqi Authorities in terms of constraint analysis and identification of operational and financial needs.	Commitment to Investment Climate Reforms
Financial Sector	Development of an understanding amongst policy makers of critical financial sector needs. This will include the need to encourage competition, build strong regulatory capacity, broadening the range of financial services including the encouragement and development of Non Bank Financial Institutions and Insurance Companies. As well as seminars this work will include some knowledge building work in terms of constraint analysis and identification of operational and financial needs.	Commitment to Financial Sector Reforms
Private Participation in Infrastructure (PPI)	Development of an understanding of the critical challenges facing policymakers who wish to encourage PPI. This will include the establishment of regulators, tariff issues, industry structure, and internal incentives. This support will include seminars and knowledge provision activities.	Commitment to PPI Reforms
SOE Reform	Support to policymakers as they develop a SOE Reform Strategy. This is likely to evolve over time as the political situation stabilizes. This support will include seminars and knowledge provision activities.	Commitment to SOE Reform
Employment Program	Training to explain the methodology, strategies, approaches, and cases of successful labor redeployment programs and institutional arrangements in place elsewhere, support implement the design of policies and strategies, and training of service providers.	Development of strategy defined
<i>Managerial Capacity Building</i>		
Investment	Development of managerial capacity to key institutions: (i) private sector institutions such as business and industry associations, women's business groups; (ii) academic bodies such as tertiary level business and economic departments, and vocational training departments and; (iii) public institutions that support the private sector such as investment promotion agencies. This work will likely include business planning, knowledge provision, study tours twinning arrangements and seminars. The focus will be on the latter.	The emergence of an effective and coordinated group of institutions
Financial Sector	Development of managerial capability to operate financial sector regulatory bodies, information agencies, training institutes and the SOE Banks. This work will likely include business planning, knowledge provision, twinning arrangements, study tours and seminars	The emergence of effective financial sector institutions
Private Participation in Infrastructure	Development of managerial capability to operate regulatory bodies and PPI promotional agencies (linked to SOE Reform agenda). This work will likely include business planning, knowledge provision, twinning arrangements, study tours and seminars.	The emergence of effective regulatory and PPI coordinating institutions
SOE Reform	Development of managerial capacity to operate an SOE Reform Program including privatization and separation arrangements. This work will include study tours, and twinning arrangements.	The existence of an effective SOE reform capability
<i>Skill Building</i>		
Investment	Support to the development of skills in critical investment climate institutions.	Effective Investment Climate Processes
Financial Sector	Support to the development of critical skills in the high priority areas of payments systems, bank regulation and provision of modern bank services (including lending).	Effective Financial Sector Processes
Private Participation in Infrastructure	Provision of training in core PPI skills.	Effective PPI Reform processes
SOE Reform	Provision of training in critical aspects of SOE Reform, enterprise evaluation, transaction management, separation management, communications.	Effective SOE Reform processes
Employment Program	Training to explain the methodology, strategies, approaches, and cases of successful labor redeployment programs and institutional arrangements in place elsewhere, support the design of policies and strategies, and training of service providers	Development of strategy defined

B. POVERTY, SOCIAL PROTECTION AND SOCIAL DEVELOPMENT PROGRAM (US\$1.5 million)

26. ***Rationale for World Bank Involvement.*** As Iraq begins to cope with the dire economic and social conditions and makes the difficult transition from tightly controlled command state to an independent market-oriented economy, it will be critical to put in place effective social protection mechanisms for the vulnerable populations in Iraq. Social protection and poverty alleviation mechanisms help enable political and economic stability and mitigate the negative short-term consequences that may follow from structural reforms. The World Bank has extensive experience in anti-poverty and social protection policy development across many countries, supporting interventions and fostering community and social development, and helping to protect the vulnerable while implementing sequenced multi-sector reforms that will be necessary for long-term growth. The Bank is well-placed to bring together these experiences in a timely way to help the Iraqis develop and implement sustainable strategies.

27. ***Strategy to Build the Capacity in this Sector.*** The World Bank in partnership with the Iraqi authorities has a three-pronged strategy for capacity building in Poverty/Social Protection/Social Development.

- First, assistance to staff concerned with planning and policymaking within the ministries with a social protection and development mandate. Key ministries will include the Ministry of Labor and Social Affairs, the Ministry of Finance, Ministry of Planning, and the Veteran's Agency within the Ministry of Defense. Capacity building will be geared toward enhancing the policy dialogue and expanding the horizon of creative policy options through exchange of international experiences. Academics, selected civil society organizations and other donors will be included in particular events to widen the discussion;
- Second, engaging in analytic and sector assessments in partnership with Iraqi technical staff and policymakers, supported with technical workshops to reinforce ideas and to engage the GOI early in strategic planning;
- Third, knowledge sharing and skill transfer of program implementation capabilities for managers and line staff.

28. ***Goals and Expected Outcomes.*** It is expected that activities will improve the capacity to: (i) analyze both existing programs and potential interventions considered for implementation and transform analysis into policy formulation; (ii) implement more efficient and effective interventions within line ministries with a social protection mandate; and (iii) integrate more effectively the efforts of GOI and civil society in the provision of social protection and poverty alleviation mechanisms. The capacity building program will culminate in the development of a Sector Strategy that provides concrete policy and implementation steps to support the broad directions determined in the National Development Strategy currently under preparation.

29. ***Description of the Activities.*** Three types of activities are envisaged: (i) workshops with policy makers intended to present policy tradeoffs and help formulate strategy, fully integrated with analytic work; (ii) hands-on workshops and core courses on technical topics for technical and operational staff in line ministries; and (iii) non-traditional capacity building modalities to enhance the timeliness of delivery and cross-fertilization of ideas, including distance learning and targeted study visits.

30. . Many activities will be developed and implemented jointly with the World Bank Institute (WBI), World Food Programme (WFP), and in cooperation with bilateral donors involved in these areas to avoid overlap and ensure complementarity. All activities will be integrated with technical assistance and sector analyses. Following each activity, participant teams will be asked to prepare specific action plans to stimulate implementation. Specific activities could include:

- *Safety Nets Capacity Building.* It will consist of trainings and workshop for technical staff and policy makers and will be jointly prepared and implemented by WBI, WFP, USAID and DFID. The objective will be to provide participants with an in-depth understanding of the conceptual and practical issues involved in the development of safety nets interventions to protect poor and vulnerable population groups from income risk and to ensure they have adequate access to essential services.
- *Design and Management of Public Pension Systems.* This activity will include workshops for technical staff and policy makers to discuss the economic rationale and objectives of the public pensions system, introduce participants to the international experiences in the design and management of these systems, and develop capacity to assess Iraq's pension status and future options using the Pension Reform Options Simulation Toolkit (PROST).
- *International Experiences in Labor Market Policies and Programs.* This will consist of learning-by-doing activities, and technical training, based on the Bank's core course on labor market policies and programs and tailored to the specific issues facing Iraq. The objective is to provide participants with tools to design more effective labor market policies by exposing them to international best practices and policy experiences and by promoting informed discussions among labor market experts and policymakers. The issues to be covered include unemployment, underemployment and poverty especially among certain groups, over-staffing in public and private sector enterprises, low productivity in the informal sector, inadequate skills development, child labor practices.
- *Targeting and Claims Assessment Study Tour and Workshops.* This activity will be geared to managers and line staff responsible for the implementation of programs. Selected key staff will be invited to study the program targeting methods, IT systems, and claims monitoring and assessment protocols in several countries with experience relevant for Iraq. The study tour will be bracketed by two hands-on workshops that examine targeting and processing issues, and then review the lessons from the study tour toward an implementation plan for Iraq.
- *Community Driven Development Concepts and Methodologies* will include training workshops on Community Driven Development (CDD) concepts and methodologies for Iraqi counterparts to explore ways to build the capacity of communities to manage resources; build community capacity (strategic planning for communities); tools/mechanisms for building civic participation at the local government level; use information/communication tools to improve the involvement of communities in project design and execution.
- *Distance Learning Program on Conditional Cash Transfers.* Practitioners of conditional cash transfers from around the world will be brought together via real-time video links using the Global Distance Learning Network (GDLN) to exchange good practice lessons and share ideas for the successful implementation in difficult circumstances. Drawing on the experiences of programs such as *Oportunidades* and *Bolsa Familia* in Latin America, and the new programs in Turkey and the West Bank-Gaza, a variety of issues will be addressed including monitoring of conditionalities, information and administrative systems, delivery of cash, coordination with civil society and local governments. The objective is to build the capacity of line ministry operational staff to implement a conditional cash transfer program effectively.

C. PUBLIC SECTOR MANAGEMENT PROGRAM (US\$1.5 million)

31. ***Rationale for World Bank Involvement.*** Iraqi policy makers and top officials currently face the daunting challenge of needing to re-orient their ministries and departments to operate in a market-oriented system. They need to re-examine the mission and goals of their organizations, and how to align their organization's structure, business processes and outputs so that they will best foster a regulatory environment that will allow the private sector to flourish while at the same time delivering critical goods and services to the citizenry. Bank experience in Timor Leste and Afghanistan suggests that top policy-makers need guidance and support to help think through the issues, and international examples against which they can compare their own experience. Bank staff who have worked in these post-conflict countries emphasized that this need should be addressed early in the reconstruction process.

32. ***Strategy to Build the Capacity in this Sector.*** The content and format of capacity building in Iraq's reconstruction will be different from some other post conflict countries that the Bank has helped rebuild, where conflict had completely eroded capacity. Both World Bank and United Kingdom's Department for International Development's (DfID) assessments point out that the Iraqi situation is different: skills exist in most areas and there is a strong culture of compliance. Records have been destroyed and government facilities have been looted, and prior to the recent conflict, governance and accountability mechanisms were weak or perverted. But within that framework, government organizations were reasonably well-functioning. Whatever the area of public sector management (PSM), the objective of training and capacity building will be to instill improved governance and accountability mechanisms, and over a period of time and to the extent possible, adoption of international best practices.

33. The PSM areas the Bank will want to strengthen are areas identified as priority for Iraqi reconstruction. This component will attempt to build on or complement other development partners' capacity building efforts. A systematic mapping of capacity needs and donors' cooperative effort to fill the gaps and avoid overlap is required. The table below lists some priority areas of public sector management, and summarizes development partners' ongoing or planned involvement in these functional areas.

Iraq Public Sector Management and Development Partners' Involvement

	World Bank	IMF	DfID	USAID	CPA
Public Administration					
Organizational Structure and Responsibilities			x		
Civil Service Management including salary and pension reform			x		X
Center of Government			x		
SOE Restructuring	X				
Public Expenditure Management					
Budget management including preparation, execution and accounting		x	x		X
Financial Management systems	X	x	x	x	
Board of Supreme Audit	X				
Procurement	X				
Tax and Customs Administration		x		x	
Legal / Judicial Reform					
Anticorruption	X				X
Sub-National Government				x	
Project Management	X				

Aid Coordination will also be an important area for the new government to ensure that aid funds have maximum developmental impact, and are subject to satisfactory financial management, control and procurement arrangements. Effective arrangements for coordination need to be established both externally -- between the Government and the Bank and other development agencies concerned -- and internally -- between the Ministries of Finance and Planning and the sector ministries and local authorities concerned. The Bank can support the development of suitable legal and institutional structures in this field.

34. Some public sector management areas are uncovered or very lightly touched by development partners, and in addition to the areas noted in the table above constitute areas for intensive Bank support. These are:

- (a) Strengthening of Sub-National Governments for Service Delivery. Although all development partners have emphasized service delivery, little has been said on any concerted plan to strengthen local government via changed legal framework, their governance structures, resources available to them, and their capacity to manage these resources. Decentralization is an area where the Bank will synchronize work with IMF, which wants to jointly sponsor capacity building in this area.
- (b) Strengthening the Board of Supreme Audit. Supporting the Board of Supreme Audit would directly address accountability – an urgent need highlighted in the Joint Needs Assessment. There is need to examine the existing structure of external audit, what reform needs are, and how best to support them.
- (c) Legal Reform and Court Administration is an area in which no development partner has ventured. If large-scale legal reform is not feasible at this stage of reconstruction, the Bank can support the legal framework for local governments and service delivery.

- (d) The Development of Robust Anticorruption Strategies and Institutions will be an important area for the new government, to ensure that domestic revenues and aid flows are used to best advantage. Some steps have been taken recently, such as the creation of Inspector General posts within line ministries, but the legal, institutional, prosecutorial, preventive and public awareness dimensions of an effective anticorruption strategy need to be carefully thought through and implemented.
- (e) Petroleum Sector is an area where the IMF wants to sponsor joint training with the Bank, in addition to Decentralization. Although this is not strictly a public sector management area, there are significant overlaps with Iraq's revenue management.

35. In addition, the Bank would work with other donors and multilateral agencies on an as needed basis to ensure that training touched upon critical needs and concerns in sufficient depth. For example, in the area of financial management, this could involve working with the IMF on areas such as payments systems, debt management, sales tax and customs reform. Or it could involve working closely with Britain's Department for International Development on machinery of government or pay and employment issues. In all such areas, care would be taken to avoid duplication and add real value.

36. ***Types of Activities.*** The Bank's capacity building strategy on governance and public sector reform would be primarily directed towards two groups of officials. The first would be a small group of senior decision-makers who will have both policy and senior managerial responsibilities. The second would be a larger group of mid-level managers and administrators, who will have important managerial and technical duties and could play an important role as change agents. The first group would be assisted with relatively short policy workshops and examples of best practice from a variety of institutional settings (both post-conflict and other), which would allow them to make critical policy and managerial decisions. The second group would receive a broader package of training that would cover both relevant technical information as well as modern managerial skills and practices.

37. While the Bank would not provide such training directly, it would also work with Iraqi counterparts to help devise strategies and mechanisms for the wholesale training of large numbers of front-line staff. This training could take advantage of a variety of innovative learning techniques, including those for distance learning and the training of trainers.

38. In terms of modalities, the training and capacity building agenda would move forward by a combination of technical assistance (TA), policy seminars, broader training courses, training of trainers, the development of appropriate training material, and distance training techniques. Work will also move forward in helping to develop the training infrastructure in institutions such as the Ministry of Finance. Twinning arrangements with appropriate institutions elsewhere in the region will also be pursued. Specific initiatives could include:

- (a) TA-funded experts and tailored training can support top ministry officials' capacity building needs:
 - i. The development of detailed training and capacity building strategies for key institutions, such as the Ministry of Finance, the Ministry of Planning and Development Cooperation and the Ministry of Municipalities and Public Works, and the Board of Supreme Audit.
 - ii. TA can fund consultant-months of resident advisors within key ministries (Finance, Planning and Development, and Public Works). The selection of ministries would include the Ministry of Public Works, and the Board of Supreme Audit.

- iii. Specialized training for top officials can help reinforce awareness of relevant issues and build ownership of future reforms. This can improve the quality of interaction between top officials and donor-supported resident advisors, and ministry leaders' adequate supervision of their advisors. In turn, resident advisors funded by the Bank can suggest areas where top policy makers need rethinking, and specialized training on these topics can be delivered on a selective basis.
- (b) Refurbishment of existing training infrastructure, installation of distance learning network, and training of trainers can support mid-level manager and technical officials' capacity needs. The objective is to train large numbers without having to transport them to foreign locations, to develop instructors who can conduct general officials' training, and to produce relevant and high-quality training material that officials can refer to in the course of their work
- i. A central training organization, conveniently located in Baghdad is necessary. The need for a National Institute of Public Administration was articulated in the Bank-UN Joint Needs Assessment. Fortunately, the central training organization does not need to be built from scratch as there already exist two government training organizations in Baghdad, either of which could be refurbished and reoriented to serve as a central training facility. The first option is the Finance Ministry's Training Center, which is temporarily housing part of the ministry but will be vacated in 2004. This organization has 90 employees including IT specialists. The MoPDC's National Center for Planning and Management Development is the other facility, which could be built up to become the central training organization. Either choice would require some construction, IT hardware and software, and institutional development to take on the role of a central training organization.
 - ii. Apart from serving as the local facility that hosts learning events, the central training organization would ideally reduce officials' travel to receive training. If this facility is outfitted with video connection, senior officials can be trained in Baghdad via videoconference from established regional training institutes—such as the Finance Institute in Beirut. Security permitting, if the video link could be extended to a location each in north and south Iraq, provincial officials' travel to Baghdad could also be reduced. A GDLN site could be installed (\$200,000 for installation and US\$15,000 in monthly operating cost). But these capital and recurring costs may be worthwhile to reach a larger number of civil servants. An added benefit of a dedicated video conferencing facility at the central training organization (whether in MoPDC or MoF) is its utilization by that ministry.

Description of the Activities

39. A core of training and capacity building activities that can support top and general officials in the identified PSM areas via a combination of TA and training. The activities can be grouped under four major categories:

- Increasing understanding of the institutional environment and the authorities' reform program
- Support for institutional improvements including new laws and regulations
- Designing, putting in place and strengthening systems for a well-functioning public sector; and

- Training and capacity building activities for upgrading the skills that are necessary for the public management system to function efficiently.

40. The proposed capacity building activities fit within the provided categories as follows:

PSM Component Categories and Activities

Component Category	Activity
Increasing understanding of the institutional environment and the authorities reform	<ul style="list-style-type: none"> ▪ TA for initial assessment of capacity needs in key ministries (MoF, MOPDC, and MPW), which would support the development of detailed training and HR development strategies for these institutions
Support for institutional improvements including new laws and regulations.	<ul style="list-style-type: none"> • TA for resident advisors in MMPW, the Board of Supreme Audit and other selected institutions • TA for legal framework under which local governments work • TA for developing a viable anticorruption strategy and legal framework • TA for strengthening key human resource management mechanisms and the legal framework under which the civil service operates
Designing, putting in place and strengthening systems for a well-functioning public sector.	<ul style="list-style-type: none"> • Constructing additions to existing facilities • IT hardware and software • Institutional development of existing facility • Installation of video link
Training and capacity building activities for upgrading the skills that are necessary for the public management system to function.	<ul style="list-style-type: none"> • Policy seminars for top officials in selected ministries • Managerial and technical training for mid-level staff in core ministries such as Finance and Planning • Training of trainers • Developing course materials and modules for front-line officials

41. The PSM component’s design is sufficiently flexibility to adapt to changing security circumstances. PSM areas will be prioritized, the selected activities sequenced, and the necessary monitoring mechanisms and indicators for evaluation will be prepared for each area.

D. MANAGING THE PROJECT CYCLE PROGRAM; PROCUREMENT, FINANCIAL MANAGEMENT, SAFEGUARDS, PROJECT MANAGEMENT STRENGTHENING, AND THE LEGAL ASPECTS OF RECONSTRUCTION (US\$1 million)

42. ***Rationale for World Bank Involvement.*** Experience by the Bank in other post-conflict countries shows that constraints to reconstruction are often due not to a lack of funds, but rather to difficulties in developing and implementing time-bound investment programs according to established international procedures. A conflict affected country’s ability to use aid is usually low immediately after the conflict due to institutional constraints, and lack of familiarity with implementing projects financed by IFIs. Ensuring that the projects funds can disburse is essential to ensure successful and timely implementation of the projects, and achievement of their objectives.

43. For every Bank-financed project, the recipient must (i) establish adequate Procurement and financial management arrangements, including the systems for planning, organization and procedures,

record keeping, accounting for funds, managing disbursements, and contract management that are adequately documented in a Project Implementation Manual (PIM); and (ii) appoint competent procurement and financial management personnel to operate the systems. To assist the Recipient in meeting those requirements, the Bank will build on the existing capacity without creating parallel institutions by building capacity in project management, procurement, financial management, and safeguards of line ministry staff involved in projects financed under the World Bank Iraq Trust Fund to ensure rapid and successful implementation of those projects. This will be done through training workshops, technical assistance and on-the-job assistance.

44. To meet the challenges of implementing the ITF program and the wider lending program, the Bank designed a phased support plan complementing the Bank intervention strategy. Capacity building activities will be delivered in a phased manner through a series of advisory and training workshops, which will be performed as stand-alone activities, during project preparation and project launch, during the development of sector work and as follow up activities based on sector work recommendations. These capacity building activities will focus on project-specific issues, how to implement efficiently grant or Bank financed projects, and on country-level activities targeting the public and private sectors. The training sessions will be designed to introduce and increase the knowledge of the Iraqi teams of Bank guidelines and regulations. Training of trainers activities which will be delivered in Iraq will also be included in this activities in order to ensure in-country capacity to provide continuing support and training to others.

45. The component will focus on four areas of the project cycle – project management, procurement, financial management, and environment and social safeguards. It will also include training in legal aspects of reconstruction.

Project Management

46. Well-trained personnel are a condition for the effective utilization of development resources and donors funds. Project Management will aim to provide modular training programs for management of investment and technical co-operation projects in accordance with the procedures of the World Bank. It will provide information and tools for successful project management: how to improve preparation and management of projects, how to do effective monitoring and evaluation, explore the discipline of project cycle management, including team work and inter-personal skills.

47. The activities will provide participants with practical action-oriented learning that supplements their academic and professional preparation. The learning objective will be to help the participants to develop the competencies needed to effectively apply the process of systematic project management in accordance with the reporting practices and procedures required under the Bank-financed projects which have large applicability to requirements for internationally financed projects.

Procurement

48. Public procurement constitutes a sizeable proportion of the gross domestic product in all countries and is a central issue for national development. It is directly related to the proper functioning of the market economy, the elimination of corruption and of the misuse of public office, the democratization process, and the expansion of world trade. Procurement under World Bank financing is governed by policies and procedures defined in the Procurement and Consultant Guidelines which inform those carrying out a project that is financed in whole or in part by the World Bank of the arrangements for procuring works, goods and consultant services required for the project.

49. The objectives of the Program's activities in this cluster are to contribute to enhanced economy, efficiency, transparency and accountability in the management of the procurement process, thereby maximizing value for donors' funds and reinforcing good governance.

50. The activities will be designed to upgrade participants' skills in the management of the procurement process in accordance with World Bank procurement guidelines and best industry practice:

- The courses will be based on modular training materials that will include components on procurement of services, goods and works, and information systems. The training modules will explain in an application-oriented manner the procurement guidelines of the World Bank, its standard bidding documents and relevant operational directives. The detailed contents cover subjects such as the project cycle and its connection to the procurement process, procurement planning, preparation of bidding documents and requests for proposals, bid evaluation, types of contracts, contract award and contract administration. The learning will also include practical business competencies that are indispensable for execution of the procurement process, like international trade terms, shipment, forwarding, inspection and insurance arrangements. Additional training focusing on contract supervision and management will also be organized.
- **Specialized Training in Procurement:** Some sector ministries, such as the Ministry of Health, Ministry of Education, Ministry of Telecommunications, will require specialized training in the procurement of health goods and drugs, and textbooks and IT respectively. The training would be conducted by reputable institutions.
- **Specific Training in Procurement of Works, Goods and Consultants Selection** would be planned for procurement staff from key ministries. Participants would attend these courses each in his preference. Separate two-week workshops on each subject will be prepared to train about 25 participants for each.
- A comprehensive workshop integrating project management, procurement management, financial management and disbursement disciplines for project teams. This training will focus on World Bank procedures and reporting requirements. The workshop would be best conducted in Iraq, if security conditions permit. Project teams members involved in procurement, construction and accounting/disbursement would be identified from all key ministries to attend this course.
- **Training of the Private Sector:**
 - Training on proposal preparation and explanation on the proposal evaluation process to be conducted for local consultants that are active or interested in consulting services under Bank financed projects. Two-three days training workshops would be designed for 50 participants each.
 - Training of local contractors and suppliers on business opportunities, bid preparation and explanation of bid evaluation process. This training would be prepared in coordination with contractors unions, printing union, and other existing unions such as drug distributors and drug manufactures unions.
- **Partnership with an Local Learning Institution to Provide Training:** If the security situation permits Bank travel to Iraq, the Bank would develop a partnership with a local education/training institution to provide procurement training. Under this component, a consultant would work with the institution to develop the curriculum and set up the program. Training materials and training for the trainers would also be provided under this component.

51. Advisory work would be provided to the project implementation teams under this component, and would consist of on-the-job, just-in-time advise using the learning-by-doing approach to capacity building.

Financial Management

52. In the public sector, financial management ensures accountability and efficiency in the management of public resources, and in the private sector, it promotes investment and growth. Therefore, the first objective of the Bank's financial management work is to improve the country's financial management performance.

53. This program will complement the training provided under the First Capacity Building project and build on the lessons learned during its implementation. The objective is to develop skills and enhance the knowledge towards quality operations through capacity building activities such as advisory work, seminars, workshops and training sessions. The knowledge and experience are key factors for development and sound operations either for project implementation or for the day-to-day government operations.

54. The Bank's Interim Strategy for Iraq identified three sector investment projects, financed from the World Bank Iraq Trust Fund, and sector work. Depending on the resolution of the threshold conditions, the Bank could move to a wider program of lending estimated at US\$3 billion.

55. It is also imperative that the country-level activities be initiated early in the reconstruction process. The activities would concentrate on (i) the public sector involved in public expenditure analysis and management, (ii) the control bodies, such as the Board of Supreme Audit (Diwan Al Rekaba Al Mouhasabi); and (iii) financial staff working at the various ministries. The activities would present best practices, introduce Iraqis to new methodologies and methods to increase the efficiency of day-to-day operations, establish a link with foreign institutions for knowledge transfers and advisory work, and provide advise for the introduction of Financial Management Accounting Systems at the ministries levels. These activities will be closely coordinated with the Public Sector Management activities.

56. The accounting profession and the private sector training program will include: Introduction to International Accounting Standards and Auditing Standards, training program for the public accountants in order to elevate the level of the profession performance and establish links with international professional bodies.

Training of Iraqi Lawyers on Legal Aspects of Reconstruction

57. ***Rationale for Bank Involvement.*** Implementing IFI projects and the emergence of a private sector, requires building the capacity of the Iraqi government and private sector lawyers to draft, negotiate construction contracts and international business transactions. This implies that all players in the field of negotiating international contracts must have sufficient knowledge and skills to be able to comply with the international standards and obligations, and to represent in the best way possible the interest of the government or their clients within the framework of the national legislation. Iraq's virtual isolation for two decades, its lack of experience with IFIs projects, and the development of new private sector

58. ***Capacity Building Strategy.*** The sub-component will aim to build the capacity of the Iraqi Government and private sector lawyers to train government lawyers on negotiating with international organizations, including the World Bank, draft and negotiate construction contracts, financial contracts negotiations international business transactions. Those negotiating international contracts must have

sufficient knowledge and skills to be able to comply with the international standards and obligations, and to represent the interest of the government or their clients within the framework of the national legislation.

59. **Types of Activities.** A series of four two-week training workshops designed for Iraqi lawyers and legal advisors of ministries and government agencies involved in the negotiation of reconstruction contracts, and those involved in the tendering of procurement for the reconstruction for the construction contracts and related procurement issues.

60. **Description of the Activities.** The component will include four training workshops on Construction contracts and related procurement issues, focusing on the following aspects:

Construction contracts and related procurement issues:

- *Negotiation and Drafting:* provide intensive training on the lawyering skills of advising, negotiating, drafting, researching, planning, reviewing and revising legal documents, monitoring performance and alternative dispute resolution. The Objective of strengthening the legal skills and applying them while learning the rules of the game for international commercial and public financing, international investment, international trade, international commercial contracting for goods, services and civil works, good governance, and public private partnership with the objective of enabling participants to develop appropriate techniques of negotiation, analyze models and rules governing construction contracts, and negotiate and draft effective instruments; and identify legal issues related to the procurement
- *Finance and disputes* to address financing construction, delays in construction works, warranties, remedies and powers, disputes, and labor law and relations.

International commercial transactions

- *Negotiating Commercial Contracts:* to address negotiation techniques, basic features of commercial contracts, financial aspects of commercial transactions, standard allocation of risks and transfer in commercial transactions, and disputes in commercial transactions.
- *Project Finance:* to introduce participants to project finance and address such topics as mobilizing domestic resources and mobilizing foreign capital for development.

IV. Potential Risks and Mitigation Measures

61. Past capacity building interventions in post conflict countries often failed to make a lasting impact. Some of the factors were: (i) turn around and lack of ability to retain trained staff; (ii) lack of cohesion of the programs; (iii) wrong participants attending the training; (iv) lack of follow-up activities with the participants to ensure the applicability of what they have learned; and (v) lack of ownership of the activities. The Bank's experience also indicates that in-country activities have the highest impact.

62. To guard against these risks, the Bank will secure country ownership of the program, ensure strict observance of the selection criteria proposed for each training; and prepare follow-up activities for the participants. As soon as feasible and to the extend possible, the activities will take place in-country to reach optimal impact.