

Statement by Mr. Christiaan Poortman, Regional Vice President
Middle East and North Africa Region
The World Bank
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Your Excellency Dr. Saleh; Your Excellency Dr. Hafedh; Your Excellency Ambassador Shirota; Ministers and Colleagues. I would also like to thank the Government of Japan for organizing this important meeting.

I am pleased to be here. I value these opportunities to take stock, exchange views, agree on the path forward, and renew our commitment to support Iraq's recovery and development.

It has been almost one year since we came together in Madrid. Today, I would like to look back briefly at achievements since then, including establishing and operationalizing the International Reconstruction Fund Facility for Iraq. I would also like to look to the future and suggest some principles that collectively we should keep in mind to best help Iraq achieve its goals.

Progress Since Madrid

To start off, a few words about achievements. First, there have been important political developments since Madrid. Now, an Interim Iraqi Government is in place and preparing for elections.

Second, there has also been progress on the economic front. The Iraqi economy shows many signs of revival from its low point in 2003. There is a new currency, and there is macroeconomic stability. Essential services are improving, albeit more slowly than desirable.

There are also encouraging efforts to significantly reduce Iraq's crippling debt. Unless this issue is brought to a satisfactory conclusion, Iraq has no possibility of economic and social sustainability, as we have again heard from the Deputy Prime Minister this morning.

Donor assistance is starting to flow and, more particularly, the International Reconstruction Fund Facility for Iraq—merely a concept at the time of Madrid—is now a reality. As you know, the Facility comprises two separate trust funds: a World Bank Iraq Trust Fund and a UN Development Group Iraq Trust Fund. Both of the trust funds are fully operational and now funding activities on the ground in Iraq.

World Bank Activities

Later today, we will discuss progress in implementing the World Bank Iraq Trust Fund using special arrangements given the security environment. Allow me, Mr. Chairman, to give a few highlights.

Donors began depositing resources in the World Bank Iraq Trust Fund in late March. As of now, deposits total about US\$370 million. These funds are fully allocated to projects that are completed, under implementation, or under preparation. In February, even before funds were deposited, we began implementing a Capacity Building Project funded retroactively by the European Commission. The project trained over 600 Iraqi officials in subjects crucial for an effective reconstruction program, including procurement and financial management.

An Emergency Textbook Project of US\$40 million was approved in May. The Ministry of Education is implementing this project, and the first batch of the textbooks has been delivered as we speak.

Iraqi authorities and World Bank staff are well advanced in preparing seven additional projects amounting to about US\$320 million for improving essential services such as education, health and water supply- some of the priority sectors highlighted by the Deputy Prime Minister this morning. Advance procurement of a number of these projects has already begun, with full implementation expected to start not later than the end of this year.

In addition to operations financed from the World Bank Iraq Trust Fund, the World Bank is using its own budget to help the Iraqi authorities prepare for the longer term and begin to

address key policy issues. In close collaboration with counterpart ministries, we are finalizing a number of short policy notes, including investment climate and state-owned enterprise reform, trade reform, telecommunication sector reform, financial sector reform, oil and gas sector reform, and social protection and safety net issues.

The International Finance Corporation, the private sector arm of the World Bank, is providing training to upgrade the managerial and technical capacity of banks. It is also moving forward to establish a Small Business Financing Facility to provide loans to micro and small business.

The Challenges Ahead

One year after Madrid, Iraq still faces monumental reconstruction and development challenges. The security challenge, as we all know, overshadows the situation and has hampered reconstruction efforts.

Given the enormity and complexity of the challenge before us, it behooves us to heed carefully the lessons of international experience. Let me share with you two of the key lessons.

First, post-conflict reconstruction is not just about physical infrastructure. In fact, that is the easier part. In the final analysis, we have learned that stability, recovery, and development depend on building inclusive, effective, and accountable institutions and sound policy frameworks. This work takes time. In Iraq, the trauma of the past twenty years has left its mark on society and institutions. We all need to recognize the scope of the work and the time required for remedial steps.

Second, international assistance is most effective when donors coordinate closely, and when the assistance is guided by the client government backed by its population.

(These Two Lessons Underscore the Need for Fostering Iraqi Ownership and Building Institutions)

In other words, we collectively need to focus on fostering Iraqi “ownership” of the reconstruction program and on building inclusive, effective, and accountable institutions in Iraq. We need to be especially mindful to support and work within a comprehensive Iraqi budget framework that encourages transparent spending and that integrates donor-financed capital expenditures, allowing authorities to plan effectively for future recurrent costs.

Iraq’s National Development Strategy is a highly commendable step in this direction, and is an impressive achievement considering the circumstances in Iraq. It is a first effort to articulate a national strategy anchored by a long-term vision for Iraq, and to identify sector needs and finance requirements within a multi-year fiscal framework.

International partners should, to the extent possible, strive to channel their assistance through Iraq’s own institutions, with appropriate support for ensuring fiduciary requirements, rather than creating parallel institutions. This may be initially slower, but it will ultimately be more effective and enhance sustainability.

Iraq’s government also has an obligation on its side: To operationalize the National Development Strategy, making its best efforts to establish effective mechanisms of communication and coordination between ministries and with external partners.

Looking Forward: The World Bank’s Program

Until Iraq chooses to borrow from the World Bank, we will depend on the Trust Fund as our only source of funding for operations. As mentioned previously, we are close to committing all the funds available to date. In order for the TF to continue channeling donor funds to Iraqi priority projects, additional funds are needed.

The World Bank plans to use a two-pronged strategy for use of additional funds: (i) scaling-up involvement in the sectors where TF-funded operations have a good implementation track record and are showing results; and (ii) commencing operations in a few additional priority sectors where there is a strong dialogue with Iraqi counterparts, and where priorities have been identified, such as electricity.

The Bank's overarching objective, however, will be to continue to build inclusive, efficient, transparent, and accountable Iraqi institutions that allow for stability, good governance, and sustainable economic prosperity. This is the way we are working in all our client countries. We will use Iraq's own vision and National Development Strategy as our framework.

Mr. Chairman, in conclusion I would like to note that we have made considerable progress since the Madrid Conference. As we know from other similar experiences, beyond humanitarian relief, the first phase of assistance in post-conflict reconstruction is devoted to preparation. We have gone beyond that.

Since the Madrid Conference, projects addressing emergency needs and longer term capacity building have been prepared. The Trust Funds are fully committed, and implementation is under way. Moreover, a robust pipeline of future operations is being built, and the basis for sound donor coordination has been laid.

This has been achieved in the first year of our involvement in Iraq, and I believe this is a promising start.

Thank you.