



# International Reconstruction Fund Facility for Iraq

## World Bank Iraq Trust Fund

### Report to Donors



Status Report as of December 31, 2006





**The World Bank Iraq Trust Fund  
Report to Donors  
As of December 31, 2006**

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## ABBREVIATIONS AND ACRONYMS

AAA	Analytical and Advisory Activities
CPPR	Country Portfolio Performance Review
DFID	Department for International Development (UK)
EC	European Commission
FMA	Fiduciary Monitoring Agent
G-7	Group of Seven Industrialized Countries
IBRD	International Bank for Reconstruction and Development
ICI	International Compact for Iraq
IDA	International Development Assistance
IFC	International Finance Corporation
ILO	International Labor Organization
IMF	International Monetary Fund
IRFFI	International Reconstruction Fund Facility for Iraq
ISN	Interim Strategy Note
ISRB	Iraqi Strategic Review Board
ITF	Iraq Trust Fund (World Bank)
IZ	International Zone (Baghdad)
KRG	Kurdistan Regional Government
NDS	National Development Strategy
NGO	Non-Governmental Organization
MNA	Middle East and North Africa Region
PEIA	Public Expenditure and Institutional Assessment
PFM	Public Financial Management
PIU	Project Implementation Unit
PMT	Project Management Team
SWIFT	Society for Worldwide Interbank Financial Telecommunication
UN	United Nations
UNDG	United Nations Development Group
UNDP	United Nations Development Program
US	United States
WFP	World Food Program

## **INTRODUCTION**

As Administrator of the World Bank Iraq Trust Fund (ITF), the World Bank has agreed to furnish to the contributing donors, on a semi-annual basis, a report describing the operations of the ITF, including contributions, disbursements, and implementation progress of the portfolio. This Report covers the period from January 1, 2006, through December 31, 2006.



## **A. BACKGROUND: WORLD BANK RELATIONS WITH IRAQ**

1. **Iraq was a founding member of the World Bank, and received six loans from the IBRD between 1950 and 1973** for agriculture, education, flood control, telecommunications, and transport. The last loan closed in 1979. The World Bank reengaged with Iraq in the summer of 2003 when it prepared an Iraq Needs Assessment together with the UN. The UN-World Bank Needs Assessment was the basis for the October 2003 International Conference on Iraq in Madrid.
2. **The International Reconstruction Fund Facility for Iraq (IRFFI) was endorsed at the end of 2003, in response to international requests to help donors channel their resources and coordinate their support for reconstruction and development activities in Iraq.** Together, the World Bank and UN designed the structure, governance, and modalities of IRFFI in close consultation with donors and Iraqi authorities. IRFFI encompasses two trust funds: the World Bank Iraq Trust Fund (ITF) administered by the World Bank, and the UN Development Group Trust Fund administered by the United Nations Development Program (UNDP) on behalf of itself and participating UN organizations. The IRFFI structure is designed to promote close cooperation among donors by providing a common governance structure, including a joint Donor Committee.
3. **The Terms of Reference for IRFFI require the facility to fund Iraq's priority program,** currently defined by Iraq's National Development Strategy (NDS). Governance structures, such as the Iraqi Strategic Review Board (ISRB) are in place to ensure activities funded through IRFFI are in line with Iraq's own strategy and do not duplicate programs of other donors.
4. **The World Bank Board of Executive Directors approved the World Bank to act as Administrator of the ITF in January 2004.** The ITF became effective upon receipt of the first deposit, on March 30, 2004. By December 2004, the World Bank had committed nearly all the ITF deposits to approved projects. A more detailed description of the establishment of IRFFI and the World Bank's role in the Facility is included in Annex 1.
5. **All work conducted by the World Bank in Iraq must be governed by an Interim Strategy.** The World Bank's first Interim Strategy Note (ISN) for Iraq, discussed by the World Bank's Executive Directors in January 2004, initiated work to: (i) Build Iraqi institutional capacity; (ii) Prepare and start implementing emergency operations to address urgent needs; and (iii) Lay the groundwork for Iraq's medium-term reconstruction and development program. A Second Interim Strategy Note for Iraq, discussed by the World Bank's Board in September 2005, provided the framework for an expanded program of analytical and advisory activities; additional ITF resources; and up to US\$500 million of IDA lending. To provide a continuum of resources, it also provides the framework for up to US\$500 million of IBRD lending, assuming critical progress regarding IBRD creditworthiness.
6. **The strategy has a two-pronged approach, which includes:**
  - **A focused program of analytical and advisory activities (AAA)** — policy advice, capacity building, and economic and sector work — to assist the government transition to more productive, accountable, and efficient systems of resource allocation and governance; and

- **Investment projects to strengthen core state institutions and systems**, through Iraqi hands-on practical experience in the design, implementation and maintenance of projects designed to maximize local impact and job creation.

## **B. WORLD BANK STRATEGY IN IRAQ**

7. **A central challenge facing the government in its effort to bring stability and longer-term recovery to Iraq is to build Iraqi citizens' faith in governance and national institutions.** Internationally, Iraq's ability to attract foreign investment, access international capital markets, and receive support from the donor community requires that Iraq demonstrate its ability to utilize resources efficiently and transparently. Meeting these challenges requires strengthening core state institutions, and building effective systems for service delivery and job creation.

8. **Building institutions for sustainable development is the World Bank's comparative advantage**, given its method of working through country institutions and its relatively modest level of available resources. Consequently, the World Bank's most important contribution is to help Iraq build efficient, inclusive, transparent, and accountable systems and institutions. The World Bank helps Iraq address key issues at both the national and local levels to develop institutional frameworks, policies, and systems for more effective use of Iraq's own resources as well as international aid. Focusing on institution-building is consistent with experience in other conflict-affected countries, which demonstrates that initial aid should focus on improving policy, governance and developing effective institutions.

9. **World Bank activities emphasize Iraqi leadership in accordance with the World Bank's Articles of Agreement, which state that clients are responsible to implement projects financed through the World Bank.** Projects are designed hand-in-hand with Iraqi authorities, to ensure that they support Iraq's own priorities as described in its National Development Strategy (NDS). The NDS gives priority to restoring basic services and creating employment in the short-term. In the longer term, to position Iraq on a course towards a diversified market-based economy, the NDS stresses the importance of promoting good governance and private sector led growth, and managing strong and effective social safety net programs.

10. **The International Compact for Iraq (ICI) is expected to present a comprehensive reform program**, outlining the national vision for security, political, and economic reforms. The World Bank has provided technical support to Iraq in the drafting of the ICI, and will furnish financial and technical assistance, through ITF financing as well as its own budget, to support Iraq's implementation of ICI benchmarks. As part of the ICI process, the government and international partners are discussing a framework to effectively monitor ICI implementation. The World Bank expects to play a key role in supporting an Iraqi-led consultative group process.

### C. WORLD BANK ANALYTIC AND ADVISORY ACTIVITIES

11. **Given Iraq's own financial resources, the World Bank places special emphasis on its analytical and advisory activities (AAA), including capacity building, policy advice, and economic and sector work, as key vehicles of Bank assistance.** AAA is clustered into three themes: (i) economic reform and transition; (ii) poverty, safety nets, and social development; and (iii) public sector governance, particularly public resource management. In 2006, the Bank prepared a Briefing Book, in close collaboration with Iraqi counterparts, which served to inform the ICI and underpin key AAA activities, outlined in Box 1.

#### Box 1: Key Analytic and Advisory Activities

**Procurement:** Following on the Operational Procurement Review conducted in June 2005, the World Bank is now helping Iraq's Inter-Ministerial Procurement Committee draft a new procurement law and standard bidding documents. The World Bank also conducted a Business Community Procurement Workshop, to strengthen the Iraqi contractors, vendors, and consultants, in procurement management.

**Oil revenue management and fiscal federalism:** The World Bank has provided technical expertise on key constitutional topics during several UNAMI workshops. The World Bank and the US Institute for Peace (USIP) are organizing a study tour, scheduled for early 2007, for key members of the Iraqi Constitutional Review Committee to visit Washington, D.C.

**Petroleum sector:** The Ministry of Oil recently asked the World Bank's support in reviewing contracts for private sector field development. The World Bank also has ongoing sector work on subsidy reform and industry structure.

**Social Safety Nets:** The World Bank is the leading source of policy advice on the modernization of social safety nets and reform of the pension system. The World Bank has analyzed the Public (food) Distribution System (PDS) (2005), and is providing technical assistance to the government to review PDS procurement and financial management systems and identify weaknesses that impede efficiency and effectiveness.

**Financial system and private sector development:** The World Bank is advising the government on its strategy for public bank restructuring; and the World Bank has evaluated Iraq's business climate and recommended reforms to increase private sector development.

**Sectoral Issues:** The World Bank is providing policy support in a broad range of sectors, including electricity, agriculture, water, education, health, housing, transport, and water supply and sanitation.

12. **Public financial management (PFM) reform will provide the centerpiece of the 2007 AAA program, with particular emphasis on improved public expenditure management and support for the implementation of ICI objectives.** The World Bank has launched a Public Expenditure and Institutional Assessment (PEIA) for Iraq, which outlines steps for strengthening the accountability and transparency of public finance institutions and policies, to help Iraq meet the goals set in the ICI. The World Bank also supports public procurement reform, civil service reform (especially payroll), judiciary reform, and anticorruption. Within the context of the PEIA, supported by the ITF, the World Bank has already provided targeted capacity building to the Ministry of Education. An initial workshop to introduce concepts in budget and expenditure

analysis, and review available data was held in November 2006, and is described in Box 2. A follow up workshop to analyze data and identify main issues and trends is scheduled for February 2007.

13. **To help Iraq strengthen its public financial management systems and practices, the World Bank has launched work in two streams at the sub-national level.** The World Bank's own analytic work focuses on a study of public financial management in the provinces and in the Kurdistan region, to map out current budgeting, execution, and oversight practices, in order to help Iraq prioritize and sequence medium-term policy reforms at the provincial and regional levels. The World Bank conducted a mission to KRG in September 2006, to gather data and better understand the priorities and needs of the region. The analytic work serves to underpin a series of workshops focused on sub-national public financial management, being designed jointly with the provincial and KRG officials. Additional workshops on local budgeting and public financial management are planned, with KRG and its provinces as a pilot, as suggested by the federal Ministry of Finance.

#### **Box 2: Ministry of Education – Budget and Expenditure Analysis Workshop**

**The Iraqi Minister of Education (MOE) has been identified as a pilot ministry for budget and expenditure reform in Iraq,** and is expected to participate in the Public Expenditure and Institutional Assessment (PEIA).

**The workshop brought together 15 senior officials of MOE and MOPDC** to build capacity to enable participants to: (i) refine the Education Strategic Framework; (ii) develop cost estimates, analyze budget and expenditure patterns, and prepare future budget submissions; (iii) provide MOE input to the ICI; and (iv) present the findings of the workshop in a report that could contribute to the PEIA.

**The workshop encouraged interaction and learning between the two ministries and across divisions of MOE.** Through the use of case studies, discussion groups, and presentations from World Bank education and public sector specialists, participants: (i) reviewed the current Iraq MOE Strategy; (ii) analyzed investment and operational expenditures; (iii) assessed the effectiveness and sustainability of expenditures and their financing; (iv) learned about enrollment and cost projection models; (v) prepared an action plan to distribute data collection and other tasks needed to write the Education Chapter of the PEIA.

**Evaluation forms indicated that the event was highly successful,** and that participants were especially pleased with the practical examples provided by case studies and the mutual learning process employed. The workshop helped to build a solid team and ensured a promising start to the proposed PEIA.

#### **D. WORLD BANK OPERATIONS**

14. **The World Bank maximizes its impact by creating synergies between analytical and advisory activities and investment projects.** World Bank-administered investment projects, whether financed by the ITF or IDA, target key sectors where service delivery is critical for government credibility, typically combining urgent rehabilitation with institution building. Projects are designed to support interventions at both the national and local levels and maximize local employment to help address high unemployment and its link to instability. Investment projects, whether financed through IDA loans or ITF grants, are implemented through Iraqi agencies,

providing an opportunity for direct, hands-on learning and capacity building in project management, including modern procurement and financial management procedures.

15. **In June 2005, the government asked that IDA funding allocated for Iraq (US\$500 million) focus on basic services**—education, electricity, roads, and water supply and sanitation. It also asked that 17% of the IDA allocation (US\$85 million) be directed to the KRG, for projects to be determined by the KRG. The KRG chose to allocate its share of IDA resources to the power and transport sectors.

16. **As of December 31, 2006, the World Bank has approved US\$285 million in IDA credits** for Iraq, including:

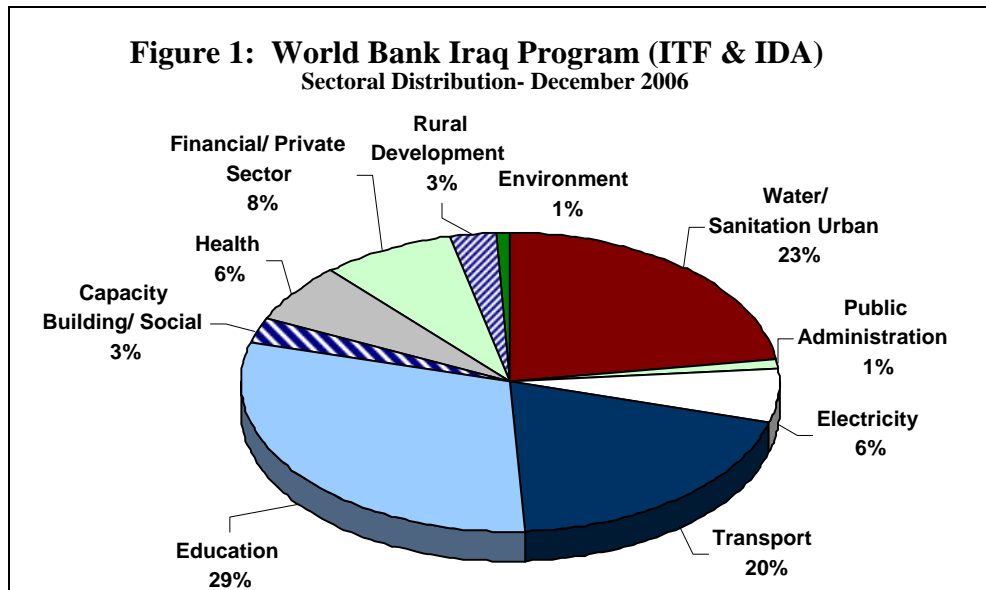
- Third Emergency Education Project, US\$100 million (November 2005)
- Emergency Road Rehabilitation Project, US\$135 million (June 2006)
- Dokan and Derbandikhan Emergency Hydropower Project, US\$40 million (December 2006)

A fourth IDA-financed project, the Emergency Electricity Reconstruction Project (US\$124 million from IDA and US\$6 million from the Iraq Trust Fund), is scheduled for negotiation in early 2007, with approval slated for the first quarter of 2007.

17. **Project effectiveness for the three approved IDA projects (one of which was approved over a year ago) remains unresolved.** Since the establishment of the current government in mid-2006, the World Bank has continued to press the issue of the legal effectiveness of Bank lending. The World Bank has worked with the Japanese government (the other significant lender to Iraq) to resolve this issue. Nevertheless, the government has not yet been able to specify Iraqi due legal process for approval and ratification of international agreements, including IDA loans.

18. **The ITF finances fifteen grants, amounting to about US\$411 million.** Two projects are now completed—the First Capacity Building Project closed in 2004, and the Textbook Provision Project closed in December 2006. The Community Infrastructure Project, which finances labor intensive irrigation and drainage rehabilitation of agricultural land, is nearly completed and will formally close at the end of 2007. Active ITF grants finance basic services delivery (in health, education and water supply), improved design and delivery of social safety net programs, and institution and capacity building programs.

19. In total, the World Bank has approved about US\$700 million for operations in Iraq—US\$285 million in IDA credits and US\$411 million in ITF grants. World Bank-administered grant and loan financing is supporting education (29%), followed by water supply and sanitation (23%) and transport (20%). The sectoral distribution of all approved ITF and IDA financing is illustrated in Figure 1.



#### E. DONOR PLEDGES, COMMITMENTS AND DEPOSITS TO THE ITF

20. Donor deposits to the ITF stand at US\$455 million as of December 31, 2006. Seventeen donors have pledged US\$458 million to the ITF, and deposited US\$455 million in the ITF account as of December 31, 2006.

21. Nearly 100% of amounts pledged to the ITF have been deposited into the trust fund. Although the Islamic Republic of Iran pledged US\$10 million to IRFFI at the Tokyo Donor Meeting in October 2004, the allocation between the World Bank and UNDG Trust Funds has yet to be decided and no commitment has been made. While Qatar pledged US\$5.0 million at the Madrid conference, it has deposited only US\$2.5 million to the ITF to date.

22. **Based on a review of administration agreements held with the EC and Japan, the World Bank has reclassified about US\$0.8 million of investment income as donor deposits.** During the creation of the ITF, the EC and Japan initially deposited funds into a temporary holding account, on an exceptional basis, pending the finalization of some terms of their contributions to the ITF. The letter agreements governing the funds stated that any investment income earned while the funds were “parked” in the holding account should be treated as an additional donor contribution to the fund. In line with the letter agreements, the World Bank reclassified about US\$0.2 million and US\$0.6 million as donor contributions from the EC and Japan, respectively. The amount of investment income earned by the fund was reduced by the same amount. Table 1 shows the status of donor pledges, commitments, and deposits as of December 31, 2006.

**Table 1: Donor Pledges, Commitments and Deposits to ITF**  
December 31, 2006

Donor	Pledges in Donor Currency		Pledges (US\$ million)	Commitments <sup>1/</sup> (US\$ million)	Deposits <sup>1/</sup> (US\$ million)	% of Pledge Deposited
	Currency	Currency (million)				
Australia	AUD	22.0	16.4	16.4	16.1	98%
Canada	CAD	30.0	22.3	22.3	22.3	100%
EC <sup>2/</sup>	EUR	123.0	150.0	150.0	150.0	100%
Finland	EUR	2.0	2.6	2.6	2.6	100%
Iceland	USD	1.0	1.0	1.0	1.0	100%
India	USD	5.0	5.0	5.0	5.0	100%
Japan <sup>2/</sup>	USD	130.6	130.6	130.6	130.6	100%
Korea	USD	4.0	4.0	4.0	4.0	100%
Kuwait	USD	5.0	5.0	5.0	5.0	100%
Netherlands	EUR	5.0	6.2	6.2	6.2	100%
Norway	NOK	45.0	6.7	6.7	6.7	100%
Qatar	USD	5.0	5.0	5.0	2.5	50%
Spain	USD	20.0	20.0	20.0	20.0	100%
Sweden	SEK	40.0	5.8	5.8	5.8	100%
Turkey	USD	1.0	1.0	1.0	1.0	100%
United Kingdom	GBP	40.0	71.4	71.4	71.4	100%
United States	USD	5.0	5.0	5.0	5.0	100%
<b>Total</b>			<b>458.0</b>	<b>458.0</b>	<b>455.2</b>	<b>99%</b>

<sup>1/</sup> Commitments in currencies other than US\$ are converted at the exchange rate as of the date of the administration agreement, for indicative purposes only. The "Deposits" column shows the actual US\$ equivalent amount credited to the ITF account.

<sup>2/</sup> The donor pledge, commitment, and deposit includes the amount of investment income earned while the contribution was held in a temporary holding account, pending finalization of terms of the trust fund agreement. The amounts total US\$0.2 million for the EC and US\$0.6 million for Japan.

23. **The terms of multi-donor trust funds administered by the World Bank prevent donors from directing contributions to specific projects, since funds are commingled in a single account, making it impossible to trace any specific contribution to a particular project or expenditure.** The provisions of the ITF do allow donors to specify sectoral preferences for their contribution. Seventy percent of the funding provided to the ITF is allocated to specific sectors as required by the donor. Table 2 shows donor deposits by sectoral preference, as applicable.

**Table 2: Donor Deposits by Sectoral Preference**  
(US\$ million)  
December 31, 2006

Donor	No Preference	Capacity Building	Educa-tion	Infrastruc-ture <sup>1/</sup>	Rural Develop-ment	Health	Financial/Private Sector	Econ Mgmt/Soc Pr/Employ	Total
Australia	10.2				5.9				16.1
Canada	22.3								22.3
EC		7.5	55.5	25.7	20.0	29.1		12.2	150.0
Finland	2.6								2.6
Iceland						1.0			1.0
India	5.0								5.0
Japan				90.6			40.0		130.6
Korea				4.0					4.0
Kuwait	5.0								5.0
Netherlands	6.2								6.2
Norway	6.7								6.7
Qatar	2.5								2.5
Spain <sup>2/</sup>				8.0		6.0	6.0		20.0
Sweden				5.8					5.8
Turkey <sup>2/</sup>		0.3	0.3	0.3		0.3			1.0
United Kingdom	71.4								71.4
United States	5.0								5.0
<b>Total</b>	<b>136.9</b>	<b>7.8</b>	<b>55.8</b>	<b>134.4</b>	<b>25.9</b>	<b>36.4</b>	<b>46.0</b>	<b>12.2</b>	<b>455.2</b>

<sup>1/</sup> Infrastructure includes US\$25.7 million from EC for Urban Rehabilitation; US\$90.6 million from Japan for Water Supply and Sanitation; US\$5.8 million from Sweden for power; US\$4.0 million from Korea, and notional amounts of US\$0.3 million from Turkey and US\$8 from Spain.

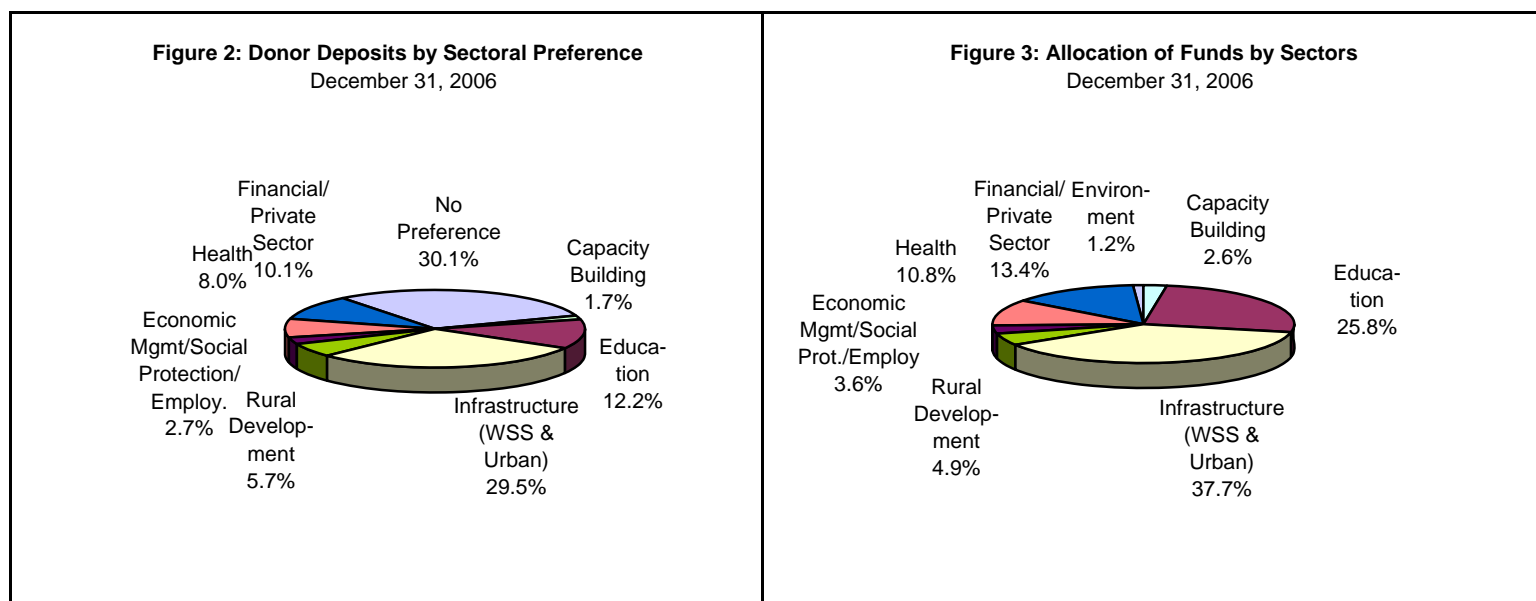
<sup>2/</sup> Split across sectors is notional only, since distribution is not specified by donor in the Administration Agreement.

24. **Table 3 summarizes the source and use of available funds by sector, as of December 31, 2006.** With the exception of Rural Development, ITF resources currently committed to specific sectors through grant agreements with Iraqi authorities exceed the funding designated to those sectors by donors. With the approval of an (US\$6 million) agriculture capacity development project that is under preparation with the authorities, the ITF will more than fully utilize the donor allocation to the Rural Development sector. The ITF is also slated to cofinance the Emergency Electricity Reconstruction Project (US\$124 million from IDA and US\$6 million from the ITF), which is scheduled for negotiations in early 2007.

**Table 3: Source and Use of Funds by Sectoral Preferences**  
(US\$ million)  
December 31, 2006

Inflows and Outflows	No Preference	Capacity Building	Educa-tion	Infra. (WSS & Urban)	Rural Develop-ment	Health	Financial/Private Sector	Environ-ment	Econ Mgmt/Soc Pr/Employ	Total
Donor Deposits	136.9	7.8	55.8	134.4	25.9	36.4	46.0	0.0	12.2	455.2
Investment Income	31.3									31.3
<b>Total Inflows</b>	<b>168.2</b>	<b>7.8</b>	<b>55.8</b>	<b>134.4</b>	<b>25.9</b>	<b>36.4</b>	<b>46.0</b>	<b>0.0</b>	<b>12.2</b>	<b>486.5</b>
Completed Projects										
Capacity Building I		3.6								3.6
Textbook Provision			40.0							40.0
Active Projects										
School Rehabilitation & Construction			60.0							60.0
Baghdad Water Supply & Sanitation				65.0						65.0
Health Rehabilitation						25.0				25.0
Capacity Building II		7.0								7.0
Private Sector Development							55.0			55.0
Water Supply, Sanitation & Urban Reconstruction				90.0						90.0
Community Infrastructure					20.0					20.0
Disabilities						19.5				19.5
Social Protection									8.0	8.0
Household Survey & Policies for Poverty Reduction									5.1	5.1
Household Survey & Policies Technical Assistance									1.5	1.5
Marshland Schools (Supplemental Grant)			6.0							6.0
Environmental Management								5.0		5.0
Subtotal		10.6	106.0	155.0	20.0	44.5	55.0	5.0	14.6	410.7
Project Appraisal and Supervision			1.9	2.7	0.4	0.8	1.0	0.1	0.3	7.2
Management & Administration		0.1	0.6	0.9	0.1	0.2	0.3	0.0	0.1	2.3
<b>Total Outflows</b>		<b>10.7</b>	<b>108.5</b>	<b>158.6</b>	<b>20.5</b>	<b>45.5</b>	<b>56.3</b>	<b>5.1</b>	<b>14.9</b>	<b>420.0</b>

25. **Figures 2 and 3 illustrate the breakdown of donor deposits and resources committed to projects by sector, respectively.**



## F. CHARACTERISTICS OF THE ITF PROJECT PORTFOLIO

26. **A distinguishing characteristic of ITF-financed investment projects is that they are implemented directly by Iraqi institutions.** Line ministries establish Project Management Teams (PMTs) and the World Bank trains PMT staff in procurement, financial management, and project management to enable them to undertake project execution. Iraqi governmental agencies are then able to carry out the entire contracting process, hiring private sector firms through internationally accepted procurement procedures, with on-going support from the World Bank.

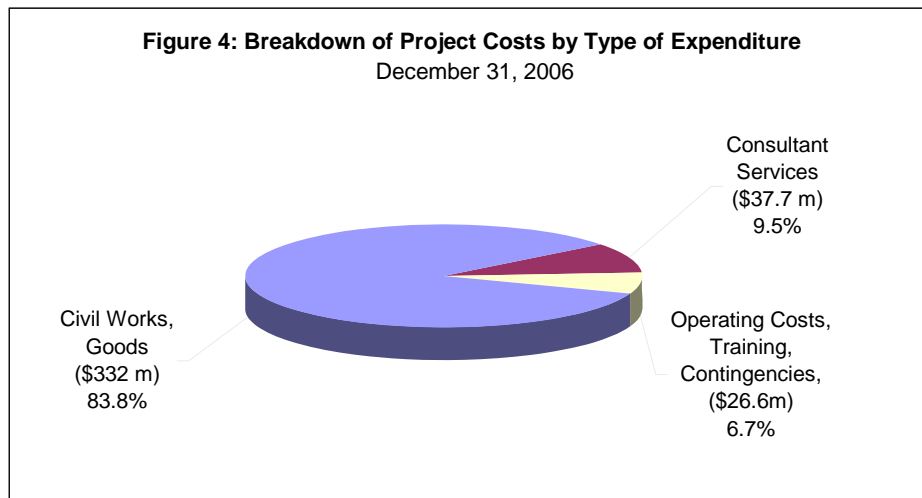
27. **Employing country systems for project implementation builds institutional capacity of key governmental agencies, increases local ownership and sustainability, minimizes security costs, and maximizes local employment.** Implementation by Iraqi agencies complements the methods employed by other donors. While donors who execute projects through their own systems can maintain managerial control of the project and may achieve a faster disbursement of funds, the World Bank's approach bolsters institutional capacity, improves internal controls, and reduces fiduciary risks in government institutions, in a sustainable manner. The practical, hands-on experience gained through implementing projects in line with World Bank policies helps develop strong and transparent fiduciary governance systems within the Iraqi ministries.

28. **The World Bank ITF is authorized to finance economic development activities, including rehabilitation/reconstruction and capacity building projects.** The ITF cannot finance quick-disbursing support to the political process (e.g. constitutional or electoral support activities), government recurrent expenditures, budget support, or humanitarian aid.

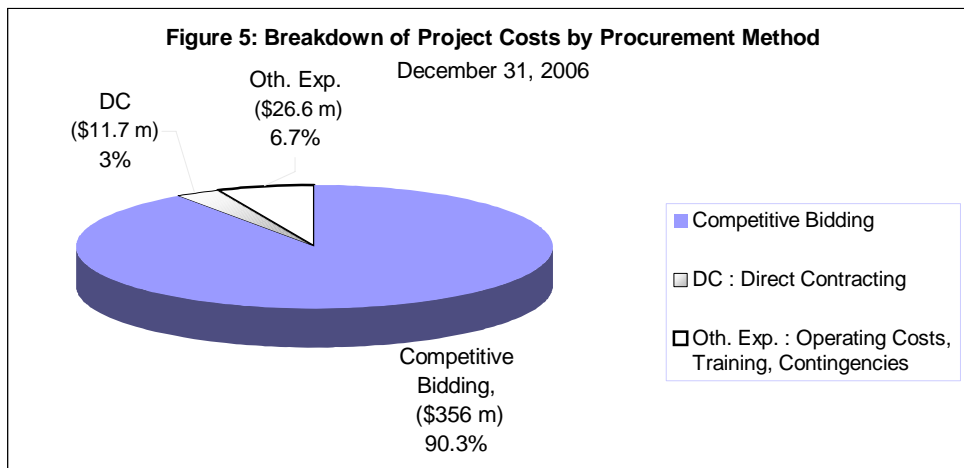
29. **The initial set of ITF-financed projects focused on "traditional" major reconstruction and rehabilitation projects, and most ITF financing is obligated to relatively large multi-year economic development projects that are national in scope and implemented by Iraqi**

**institutions.** About US\$340 million, 83% of the value of ITF projects, finances large-scale reconstruction and rehabilitation projects. Most ITF-financed projects span several governorates, and many are nation-wide.

30. **ITF projects finance primarily civil works and goods.** Civil works and goods account for about 84% of the total value of the Iraqi-implemented investment projects. Consultant services, which consist primarily of local consultants hired for design, engineering, and supervision of works, account for less than 10% of portfolio value. Figure 4 illustrates the breakdown of costs for investment projects, by type of expenditure.



31. **Nearly all ITF resources are subject to competitive bidding procedures.** About US\$356 million, 90% of the grant funding is subject to competitive bidding procedures. Only about 3% of expenditures will be directly contracted, and less than 7% are for PMT operating and other costs that are not subject to procurement procedures. Figure 5 illustrates the breakdown of project costs by procurement method.



## G. CURRENT ITF PROJECT PORTFOLIO

32. **While the initial cohort of ITF projects financed predominantly large-scale multi-year investment projects, most of the recently approved grants aim to help Iraq develop strategic approaches to reducing poverty and protecting vulnerable populations.** The new projects directly support the World Bank's core objective—to help Iraq build effective institutions for sustainable development.

33. **The Emergency Household Survey and Policies for Poverty Reduction Project (US\$6.6 million) aims to help the government to establish a poverty line, target social assistance effectively, and make informed policy decisions.** The project includes a US\$5.1 million grant to enable Iraq to conduct the first comprehensive nationwide household survey since 1998. The Iraq Household Socio-economic Survey will combine income and expenditure data with a Living Standard Measurement Survey. The survey will cover about 17,000 households and the resulting data will enable Iraq to establish a poverty line and make evidence-based decisions, to help ensure social assistance is targeted to the neediest populations. Finally, the results will provide a basis for Iraq to prepare poverty and social impact assessments. The grant component was signed in July 2006. The project also includes a US\$1.5 million Bank-executed companion technical assistance grant, effective since May 2006, that finances workshops and other activities designed to prepare the statistical units of MOPDC and KRG to undertake modern data collection and analysis activities, paving the way for Iraq to implement the household survey.

34. **The Marshland Schools Supplemental Grant (US\$ 6 million) provides additional financing to the Emergency School Construction and Rehabilitation Project, to finance a new component to construct new schools in the Marshland areas of Thi Qar, Missan, and Basrah.** The project directly involves local stakeholders to mobilize and train local community committees to undertake small site works. The project will finance the construction of about 36 new schools, creating local employment and helping to stabilize the resettlement of about 30 village communities. The project became effective in October 2006, and construction is slated to begin in August 2007. The innovative features of this grant are outlined in Box 3.

### Box 3: Marshlands Schools Supplemental Grant

**School attendance in the marshland areas of Iraq is significantly lower than in the population as a whole,** largely because of the massive resettlement of people in these areas since 2003.

**The component has two important innovations:**

- The grant is being implemented by the MOE through a decentralized approach in which the governorates will undertake procurement and contract administration.
- The grant finances stakeholder involvement that will promote collaboration to improve education. The MOE will contract local NGOs to help set up stakeholder school site improvement committees. The site improvement committees will make decisions about how to make use of small school site improvement grants (US\$3000 per school), and prepare site improvement plans that will be implemented by communities using local labor under the supervision of the contracted NGOs.

**While NGOs have been involved in many school improvement and construction initiatives in the marshland areas, there have been very few examples of NGOs being contracted by the MOE to provide community mobilization support and monitor the decision-making and construction processes.**

35. **The Emergency Environmental Management Project (US\$ 5 million) aims to help Iraq strengthen key institutional and regulatory functions of the Ministry of Environment**, enabling the ministry to undertake policy analysis, formulate regulations, monitor environmental quality, promote environmental awareness, and conduct technical studies. The project became effective in December 2006.

36. **As of December 31, 2006, the ITF finances fifteen emergency projects amounting to about US\$411 million**, fully obligating 90% of the resources provided by donors. Table 4 identifies each ITF-financed project.

- Twelve of the fifteen ITF-financed projects, valued at US\$399 million, are grants implemented directly by Iraqi governmental authorities. Thus, 97% of the US\$411 million portfolio is implemented by the government of Iraq.
- Three projects, totaling US\$12 million, are capacity building programs implemented by the World Bank at the request of the government of Iraq.

**Table 4: Summary of ITF-Financed Projects  
December 31, 2006**

Project	Grant Amount (US\$ m)	Implementing Agency	Signing/ Effectiveness Date	Project Objective and Description:
First Capacity Building	3.6	World Bank	2/14/04	Build the capacity of the Iraqi authorities to enable them to define, prioritize, and implement development projects, and lead the reconstruction process.
Textbook Provision	40.0	Ministry of Education	5/15/04	Provide 69 million textbooks to improve learning conditions in primary and secondary schools throughout Iraq. Build institutional capacity, transferring effective project management skills to the ministry.
School Rehabilitation and Construction	60.0	Ministry of Education	10/14/04	Alleviate school building hazards and overcrowding in primary and secondary schools through construction of 117 new schools and the major rehabilitation of 134 existing schools.
Baghdad Water Supply and Sanitation	65.0	Mayorality of Baghdad	12/4/04	Restore basic water supply and sanitation services for Baghdad through the reconstruction and rehabilitation of existing treatment facilities and networks and provide capacity building to the Mayorality of Baghdad.
Water Supply, Sanitation, and Urban Reconstruction	90.0	Ministry of Municipalities and Public Works	12/8/04	Restore basic water supply and sanitation services and urban services in the poorest areas of the country, choosing subprojects that will have high impact.
Health Rehabilitation	25.0	Ministry of Health	12/4/04	Improve emergency services in 10 hospitals (to ensure at least one well-equipped emergency unit per governorate), and provide 12 hospitals with basic medical equipment and pharmaceuticals.

Project	Grant Amount (US\$ m)	Implementing Agency	Signing/ Effectiveness Date	Project Objective and Description:
Second Capacity Building	7.0	World Bank	12/6/04	Build on the first capacity building project to help authorities tackle necessary reforms to move to a diversified and market-driven economy and to improve the delivery of public services.
Private Sector Development	55.0	Ministry of Planning and Ministry of Telecommunication	12/6/04	Lay the foundation for increasing investment and economic growth, fostering the development of the private and financial sectors by installing essential communications infrastructure and addressing selected priorities in institution building.
Community Infrastructure Rehabilitation	20.0	Ministry of Water Resources	12/18/04	Undertake a flexible program of labor-intensive civil works, generating near-term employment while improving rural irrigation, drainage, and water supply.
Disabilities	19.5	Ministry of Health	11/23/05	Improve services to the disabled by helping Iraq develop a comprehensive policy and legal framework for disabilities, strengthen government-NGO partnerships, and reconstruct 11 rehabilitation centers.
Social Protection	8.0	Ministry of Labor and Social Affairs	6/6/2006	Enhance the impact of Iraq's social safety net and pensions programs. Assist Iraq to implement modern management and information systems to improve the delivery of social safety nets.
Household Survey and Policies for Poverty Reduction	1.5	World Bank	5/31/06	Provide the technical support needed for Iraq to undertake modern data collection and analysis for the companion ITF grant implemented by the Ministry of Planning Center of Statistics and the KRG Statistics Unit.
	5.1	Ministry of Planning and KRG	7/24/06	Finance a comprehensive household survey and data analysis, enabling the government to establish a poverty line, target social assistance to the neediest, and make informed policy decisions.
Emergency Environment Management Project	5.0	Ministry of Environment	12/20/06	Strengthen key institutional and regulatory functions of the Ministry of Environment to enable it to undertake policy analysis, formulate laws and regulations, monitor environmental quality, promote environmental awareness, and conduct technical studies.
Marshland School Construction	6.0	Ministry of Education	10/12/06	Provides additional funding to the Emergency School Construction and Rehabilitation Project, to construct about 30 new schools in the marshlands area of Basra, Nasiriyah and Missan.
			Total	410.7

## H. IMPLEMENTATION AND FIDUCIARY ARRANGEMENTS

37. **The World Bank established implementation arrangements that utilize Iraq's own institutions in order to build transparent and robust institutions over time.** In order to develop long-term sustainability and institution building, the World Bank works through dedicated ministry

staff that constitute a PMT in Iraq. Thus, even after the World Bank projects are completed and closed, the skills, experience, and systems acquired during project implementation will remain within the government.

38. **The World Bank provides intensive training and support to PMT staff before project approval and throughout project implementation, in all aspects of project management, including competitive and transparent procurement methods and financial management procedures.** The World Bank provides continuous assistance to PMT staff through daily contact, periodic workshops, joint supervision missions, and specialized local consultant support to strengthen fiduciary controls and project management capacity.

39. **The World Bank, as the ITF Administrator, supervises ITF-funded operations in accordance with the World Bank's applicable policies and procedures.** The World Bank employs a network of experienced Iraqi consultants, backed by staff in Jordan, Beirut, and Washington, to monitor project progress and support the PMTs on a daily basis. More detailed information about how the World Bank works in Iraq is presented in Box 4.

#### **Box 4: How the World Bank Works in Iraq**

**Iraqi Staff/Consultants in the "Red Zone."** Since 2004, the World Bank has employed about six professional-level Iraqis residing in the "Red Zone" in Baghdad. These local Bank staff work out of their homes (using satellite phone and email connections) and in the ministries, visiting project sites to facilitate project implementation. They are supported by two drivers, using ordinary cars. The World Bank's Iraqi staff generally does not enter the IZ due to the high security risk. The World Bank is considering recruiting Iraqi staff in northern and southern Iraq to further assist project supervision.

**International Staff in the IZ.** The World Bank finances a DFID expatriate consultant to serve as a liaison for the World Bank, and assist in coordination with the Iraqi government and donors. As of November 2006, a second international Bank staff, a public sector specialist, has also been based in the IZ Zone to provide additional analytic and advisory support for the World Bank's core work on public financial management. The World Bank's office is located in the "Freedom Building." The World Bank is in the process of finalizing an agreement with the US State Department for the premises; and the World Bank is also finalizing a MoU with the UK for logistical and security support for international staff.

**An Interim Office for Iraq in Amman,** has responsibility for overall Iraq program supervision and is used extensively for meetings and workshops. The office was established in Fall 2003, after the bombing of the UN headquarters in Baghdad, which also housed the World Bank's office. The office includes Iraqi administrative staff and drivers. In 2005, the World Bank's procurement specialist for Iraq relocated from Washington to Amman. The IFC and CGAP are co-located in the Amman office.

**Fiduciary Monitoring Agent.** The trust fund employs a fiduciary monitoring agent (FMA), an Iraqi firm in Baghdad, to help monitor the physical implementation of projects and compliance with procurement and financial management procedures required by the World Bank. The FMA visits projects sites and meets with ministry staff on a daily basis.

**Videoconferencing Facilities:** The World Bank has installed and maintained, on an exceptional basis, four VSAT facilities in Baghdad (IZ convention center, Ministry of Planning, Ministry of Finance, and Central Bank of Iraq). The VC hub at the IZ convention center was dismantled without warning in mid-2006 by Iraqi officials. We will reinstall the VC in the World Bank office in the Freedom Building once a lease/Memorandum of Agreement is signed with the US State Department. The World Bank is considering options of whether to reinstall the three VSATs or transfer them to the Iraqi government.

40. **The Fiduciary Monitoring Agent (FMA) has been operational for one year, visiting project sites throughout Iraq, to help ensure that donor funds are disbursed only for the**

**purposes intended by the ITF and according to applicable Bank procedures.** The FMA has become an increasingly useful partner for monitoring project progress and identifying local implementation issues. The FMA employs about 25 Iraqi staff, predominantly professional engineers and accountants, who are organized in teams to provide national coverage on procurement and financial management issues. As a local firm, the FMA maintains a low profile, enabling its staff to meet regularly with PMTs and to visit project sites throughout the country, providing hands-on implementation assistance on the ground. The FMA's monthly reports describe project progress, report findings, and make recommendations for follow up actions to be carried out by the PMTs or task teams. Reports typically include digital photos, which provide good evidence of the quality and progress of the work of contractors, conveying valuable information to Iraqi PMTs and World Bank task teams.

## I. FINANCIAL SUMMARY

41. **Table 5 summarizes the sources and uses of ITF funds**, including donor deposits and investment income earned, compared to grant commitments, costs for project appraisal and supervision, FMA services, trust fund management, and administration fees.

**Table 5: Sources and Uses of Funds**  
(US\$ Million)  
December 31, 2006

Sources and Uses of Funds	Current Program	Actual To Date
<b>Sources of Funds</b>		
Donor Deposits	455.2	455.2
Investment Income	31.3	31.3
<b>Total Sources of Funds</b>	<b>486.5</b>	<b>486.5</b>
<b>Uses of Funds</b>		
Project Financing		
Closed Projects		
Capacity Building I	3.6	2.5
Textbook Provision	40.0	38.6
Active Projects		
Capacity Building II	7.0	2.9
School Rehabilitation & Construction	60.0	7.5
Health Rehabilitation	25.0	2.0
Water Supply, Sanitation & Urban Reconstruction	90.0	4.7
Baghdad Water Supply	65.0	2.1
Private Sector Development	55.0	4.2
Community Infrastructure	20.0	10.4
Disabilities	19.5	0.2
Social Protection	8.0	
Household Survey & Policies for Poverty Reduction	5.1	0.3
Household Survey & Policies (Technical Assistance)	1.5	0.5
Marshland Schools (Supplemental Grant)	6.0	
Environmental Management	5.0	
Subtotal Approved Projects	410.7	75.9
Funding Available for Project Pipeline	49.2	
Total Project Financing	459.9	75.9
Cost Recovery for Project Appraisal & Supervision, and Trust Fund Administration	26.6 <sup>1/</sup>	9.5
<b>Total Use of Funds</b>	<b>486.5</b>	<b>85.4</b>

<sup>1/</sup> Includes projected requirements for project appraisal & supervision of the current portfolio, FMA, trust fund management and administration fees over the proposed life of the ITF (through December 31, 2010).

42. **The available resources in the trust fund stand at US\$486 million**, comprised of US\$455 million of donor deposits plus US\$31 million of investment income earned since the inception of the ITF.

43. **Nearly US\$411 million (90% of donor deposits and 84% of available resources) has been committed in grant funding for Iraq**, including US\$ 399 million for Iraqi-executed projects (97% of the value of projects) and about US\$12 million for Bank-executed capacity building projects.

44. **The provisions of the ITF allow the World Bank to recover the actual full costs incurred to appraise and supervise projects and administer the trust fund.** The World Bank recovers the full costs incurred to conduct project analysis, appraisal, supervision, trust fund management and administration through two mechanisms:

- An administrative fee of 0.4% for Bank-executed projects and 0.2% for the Iraqi-implemented projects is charged to offset the costs of central services provided by the central trust fund, accounting, legal, and loan departments, and other central support units of the World Bank.
- The actual full costs for World Bank staff and consultants who carry out project analysis, appraisal, negotiation, and supervision are charged directly to the trust fund. The actual full costs of the monitoring agent, the ITF management team, and the annual external audit are also charged directly to the trust fund.

45. **The total projected cost recovery charges are estimated to reach about US\$ 27 million through the proposed termination date of the ITF of December 31, 2010.** Thus, the recommended three-year extension of the ITF, which is needed to complete the existing projects, can be funded within the resources currently available within the ITF. The proposed extension of the trust fund does not require incremental funding from donors. In fact, current projections indicate that the total investment income earned is likely to exceed the total costs incurred to process projects and manage the trust fund to December 31, 2010, and may allow the ITF to finance additional projects, in excess of the amount deposited by donors.

46. **As of December 31, 2006, about US\$49 million remains available for new projects.** Projects already cleared by ISRB and reviewed by the World Bank's Ad Hoc Committee total about US\$43 million, and include the Obstetrics and Neonatal Care Project (US\$11.3 million), Cofinancing for the Emergency Electricity Project (US\$6 million), Agriculture Sector Capacity Building (US\$6 million), and a supplemental financing for the Water Supply, Sanitation and Urban Reconstruction Project (US\$20 million). About US\$6 million remains available in the trust fund.

## J. DISBURSEMENT

47. **Disbursements correspond to actual expenditures—payments made for goods, works, and services delivered.** Disbursements can be made only once goods are delivered, work is certified to be satisfactorily completed, invoices are submitted to the ministry for review, and payment is requested from the World Bank. Thus, disbursements are posted during the last step of implementation, and can only provide a lag indicator of project progress.

48. **ITF grants must be disbursed in accordance with the appropriate policies and procedures of the World Bank.** The World Bank provides intensive training in World Bank procurement and disbursement procedures to PMTs before and throughout project implementation. PMT staff receives daily support from World Bank staff and consultants, including the FMA.

49. **As part of the compensating financial controls for ITF-financed grants, disbursements in Iraq are made primarily by direct payment by the World Bank to individual contractors, consultants, and vendors.** Small payments, typically those under US\$10,000, are made by the implementing agency from its own budget. Once a group of payments made by the ministry exceed the US\$10,000 threshold, they are claimed by the agency and reimbursed by the World Bank upon presentation of proof of payment and a signed withdrawal application. While these procedures were designed to minimize fiduciary risks, they have contributed to payment delays.

50. **Disbursements – actual payments made – total US\$85 million (19% of donor deposits) as of December 31, 2006.** Project expenditures stand at US\$76 million, accounting for about 89% of total disbursements. Project expenditures for the Iraqi-implemented grants total over US\$70 million (18% of the value of Iraqi-implemented projects), while disbursements for the three Bank-executed capacity building projects (one of which is completed and closed) total less than US\$6 million, and account for 49% of the value of Bank-executed projects.

51. **Actual expenditures through December 31, 2006 for all cost recovery charges total less than US\$10 million.** About US\$7 million has been charged directly to the trust fund to recover the actual full costs of Bank staff and consultants engaged in project analysis, appraisal, negotiation, and supervision (US\$ 5 million), and FMA services (US\$2 million). The actual charges for trust fund management stand at US\$1 million, while total administrative and audit fees remain below US\$1 million. Current cost recovery charges represent about 2% of the value of the ITF. Projections of the total cost recovery charges over the life of the ITF are expected to reach about 5% of the value of the fund.

## K. STATUS OF CONTRACTING

52. **While trust fund disbursements provide a lag indicator of project progress, the status of contracting represents a measure of future progress.** As of December 31, 2006, 70% of ITF grant monies have been tendered or contracted (US\$278 million), and the value of contracts awarded or completed now totals more than US\$170 million, about 43% of the value of the Iraqi grants, including those recently made effective. Table 6 shows the status of contracting by project as of December 31, 2006.

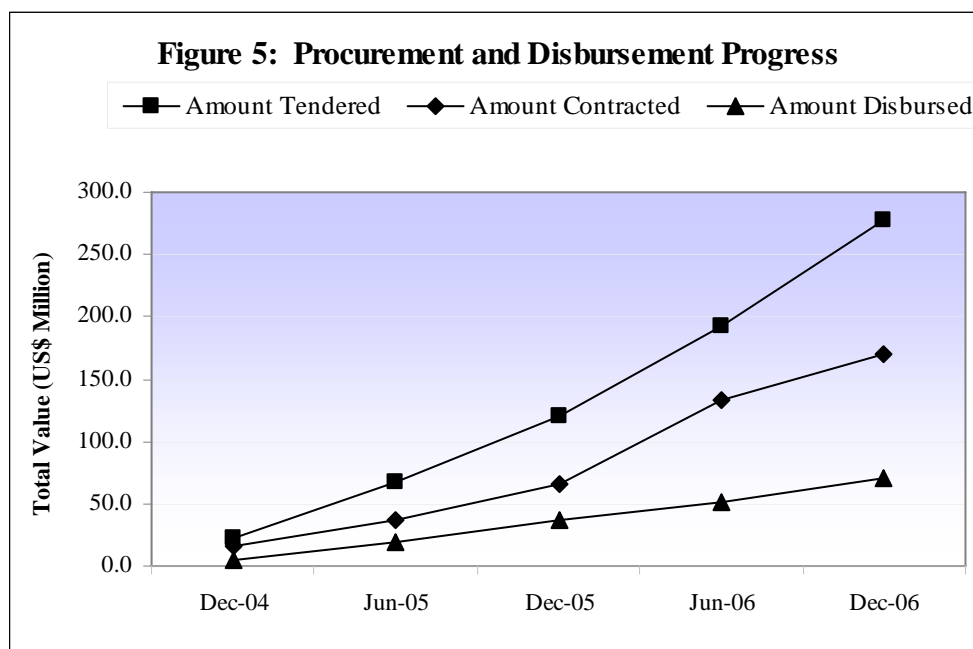
**Table 6: Status of Iraqi-Implemented Contracts by Project  
(US\$ Million)  
December 31, 2006**

<b>Iraqi-Implemented Project</b>	<b>Effective Date</b>	<b>Grant Amount</b>	<b>Tenders or RFPs Issued</b>	<b>Contracts Signed</b>	<b>Disbursements</b>
Textbook Provision	Mar-04	40.0	39.1	39.1	38.6
School Rehabilitation & Construction	Oct-04	60.0	35.0	24.5	7.5
Health Rehabilitation	Nov-04	25.0	19.8	8.1	2.0
Water Supply, Sanitation & Urban Reconstruction	Dec-04	90.0	80.2	30.0	4.7
Baghdad Water Supply	Dec-04	65.0	30.8	9.6	2.1
Private Sector Development	Nov-04	55.0	49.3	39.0	4.2
Community Infrastructure	Dec-04	20.0	19.5	17.0	10.4
Disabilities	Nov-05	19.5	3.1	2.6	0.2
Social Protection	Jun-06	8.0	0.9	0.1	0.0
Household Survey & Policies for Poverty Reduction	Jul-06	5.1	0.3	0.3	0.3
Marshland Schools (Supplemental Grant)	Oct-06	6.0	0.0	0.0	0.0
Environmental Management	Dec-06	5.0	0.2	0.0	0.0
<b>Total</b>		<b>398.6</b>	<b>278.2</b>	<b>170.3</b>	<b>69.9</b>
<b>As % of Grant Amount</b>			<b>70%</b>	<b>43%</b>	<b>18%</b>

53. **The pace of contracting has accelerated significantly over the past year.** As shown in Table 7, the value of signed contracts has increased by more than a factor of 2.5 over the past twelve months. Although the pace of contracting has been slower during the second half of the year, since June 30, 2006 the value of signed contracts grew by 28%. The value of tenders increased by 44%, reaching more than US\$278 million, representing about 70% of the value of Iraqi-implemented grants. Table 7 presents the growth in the value of tenders, signed contracts, and disbursements over time, which is graphically depicted in Figure 5.

**Table 7: Procurement and Disbursement Progress over Time**  
(US\$ Million)

ITF (Iraqi-Implemented Projects)	Dec-04	Jun-05	Dec-05	Jun-06	Dec-06
Amount Obligated	355.0	355.0	374.5	374.5	398.6
Amount Tendered	22.2	68.1	121.0	193.2	278.2
Amount Contracted	16.5	37.6	65.0	133.2	170.3
Amount Disbursed	5.5	19.2	37.4	51.4	69.9



## L. IMPLEMENTATION ISSUES

54. **The overall security environment hampers project implementation** and can affect all stages of implementation, including the delivery of goods to the project site, the progress of civil works, and the inspection of project sites. The Iraqi execution of projects and the engagement of local contractors help reduce the likelihood of being affected by violence. The broad geographical coverage of ITF-financed projects, with subprojects often located in 9-18 governorates, also reduces the impact of localized instability.

55. **Four of Iraq's eighteen provinces, accounting for about 40 percent of Iraq's populations, are highly insecure,** and most of Iraq's cities are experiencing high level of violence. The security situation in Baghdad can be seen on two tiers. The IZ is considerably dangerous but

stable. By contrast, the “Red Zone” has experienced worsening security over the past several months. The three provinces of the Kurdistan region are relatively stable and secure, which has enabled four Bank missions to visit in 2006.

56. **PMT staff, World Bank consultants, FMA, and project contractors operate under extraordinary circumstances.** Local Bank staff and consultants operate out of their homes and the ministries, visiting project sites to facilitate implementation of Bank projects. The World Bank’s Iraqi staff generally does not enter the IZ due to the high security risk. The FMA, an Iraqi firm in Baghdad, operates in the same low-key manner, traveling to project sites and ministry offices to monitor project progress and compliance with Bank procurement and financial management requirements. Despite these precautions, two FMA staff members were seriously injured in a coordinated car bomb attack, which took place close to their own vehicle. They returned to work within weeks, and continue to operate across Baghdad and throughout the country.

57. **While utilizing country systems for project implementation is critical to strengthen the institutional capacity of key governmental institutions, it also affects the pace of implementation.** There is a trade-off between timely disbursements on one side, and sustainability, institution building, and fiduciary safeguards on the other. Although employing competitive bidding procedures can result in initial delays, it also improves fiduciary controls and cost effectiveness.

58. **Iraq has experienced nearly constant political transition since 2003** as it moved toward a constitutionally-elected government. There have been four Iraqi governments in the last four years:

- A Governing Council appointed by the Coalition Provision Authority (July 2003-June 2004);
- An Iraqi Interim Government (June 2004-May 2005);
- An Iraqi transitional Government (May 2005-May 2006);
- And the current Iraqi National Unity Government (formed in May 2006).

Each government transition has brought changes in ministry staff, technical and government counterparts. These staffing changes require the provision of additional training and support, and slowing the progress on the ground, at least temporarily.

59. **The time needed for Iraqi implementing agencies to employ competitive bidding procedures has caused delays in many ITF-financed projects.** Procurement deserves special attention: as the first step in the implementation process, timely and high quality procurement is critical to swift project implementation. Slow preparation and processing of procurement documents, which typically require several iterations, have been a significant factor in delayed implementation. While many ministries have made significant progress in implementing Bank procurement procedures over the past year, the World Bank encourages PMTs to hire procurement consultants to provide additional procurement expertise to the teams.

60. **Despite the progress in procurement earlier in the year, the operating environment in Baghdad has deteriorated and government capacity has become increasingly stretched in recent months.** The frequent turnover of PMT personnel and loss of key senior and mid-level officials (due to political appointments, security concerns, and emigration), affect the speed of implementation. The volatile security situation over the past several months has prevented PMT staff from going to their office regularly for full work days. PMT staff receives intensive training and on-going support, and it takes time and experience to become proficient in project management

and Bank fiduciary procedures, especially in an environment of weak institutional frameworks. The sequential turnover of trained staff and experienced counterparts has been especially harmful to project implementation, and resulted in a substantial loss of time.

61. **Inefficient decision-making processes within ministries delay bidding document approval and signature of contracts.** Excess bureaucratic requirements, sometimes put in place to avoid the mere charge of corruption, have led some ministries to protracted decision-making and approval processes.

62. **Delays between physical implementation and actual payment to local contractors and suppliers continue to cause implementation problems.** Payment delays have been caused by two main factors over the past six months: (i) in the ministries, errors in filling out withdrawal applications and/or incorrect banking information of contractors; and (ii), inability of the domestic banking system to transfer funds to local branches or individual accounts. Such delays can have multiple and serious negative affects, causing contractors to interrupt work (delaying implementation), lose confidence in the contracting process (driving up the cost of future contracts), and even threaten PMT and Bank staff. The World Bank is considering piloting alternative payment methods, while ensuring adequate fiduciary controls remain in place. World Bank Loan Department personnel will discuss options to improve the flow of funds with central government officials. Local consultants and FMA teams continue to provide additional training and on-the-job support to PMTs, to help ensure that withdrawal applications are complete and include accurate banking information.

63. **The appreciation of the Iraqi dinar has significantly increased costs, which may cause a reduction in the scope of some projects.** The World Bank is exploring options with Iraqi authorities on a case-by-case basis. One possibility may be for Iraq to direct some of its unused investment budget toward financing components of ITF projects. This approach would help ensure the original objectives of the project could be met, while allowing Iraq to demonstrate its ability to deliver services to the population.

64. **Some project implementation impediments are within the control of the government, but have not yet been addressed.** Theses include: lengthy procedural delays; inadequate provision of advance funding from the Ministry of Finance to line ministries; and lack of clarity regarding the tax treatment of contractors, the use of competitive transportation services by contractors; and contract approval rules. These issues were detailed in a letter to the government in November 2006, and the World Bank staff in Baghdad continues to follow up.

65. **The delay in finalizing the extension to the termination date of the ITF has caused implementation delays in several active projects.** Currently, the ITF terminates on December 31, 2007, requiring all projects to be completed on or before September 31, 2007, in order to allow for a minimum three month grace period to effect disbursements. The ITF cannot disburse any funds after December 31, 2007. Unless the ITF is extended, Iraq would have to seek alternative sources of funding to complete any on-going projects after December 31, 2007. In its December 2005 Report to Donors, the World Bank recommended extending the ITF three years, to December 31, 2010, to allow the completion of the projects currently financed by the ITF. The proposal was presented at the Briefing to Donors held in Amman in May 2006, and donors agreed in principle to extend the life of the trust fund. The extension requires each of the 17 donors to the ITF to sign an amendment letter to the donor administration agreement. As of December 31, 2006, 14 out of 17 donors have returned signed amendment letters. The EC, Japan, and Kuwait have not yet provided formal agreement to the extension of the fund. The delay in the extension of the ITF continues to cause serious implementation delays in some projects. For instance, contracts that extend beyond

the closing date of the project can not be signed. Responsible bidders are unwilling to compete for contracts for which the availability of financing remains uncertain. Finally, disbursements have been rejected in cases where payment requests extend beyond the project completion date. The World Bank is following up with the donors who have not yet signed the amendment letter to reiterate that the extension of the ITF is needed to finance the current projects to completion and does not imply any commitment on the part of donors to provide additional funds to the ITF.

66. **Some additional benefits of extending the ITF are outlined in Box 5, below:**

**Box 5: Benefits of Working through the ITF**

**IRFFI provides a coordinated and coherent multi-lateral vehicle to build the basics of good governance**—the ability to: authoritatively allocate resources and deliver basic services in an effective and transparent way; and establish an adequate level of economic legality to facilitate investment and create productive work for conflict resolution and development.

**The multi-donor trust fund approach encourages small donors to participate in the international rebuilding efforts in Iraq.** The pooling of donor resources allows donors with only modest resources or those unable to mount bilateral aid programs, to be able to contribute in a significant manner to Iraq's long-term economic development.

**The ITF provides an existing platform for donors to work with the new government and to provide sustained support to the government** throughout its transition to assuming full leadership of donor coordination.

**The ITF provides a unique mechanism for donors to implement projects through Iraqi governmental agencies, seamlessly integrating institution-building into each investment operation.** The ITF preference for client-execution inherently strengthens the Iraqi ministries and develops a cadre of national staff with high-level fiduciary governance and project management skills.

**Directing funds through the ITF reduces transaction costs both for the Iraqi government and for donors,** since the overall administration and security costs of the ITF are modest, and the supervisory, administrative and financial infrastructure is already in place.

## M. IMPACT

67. **The World Bank's principal objective is to help Iraq develop institutional frameworks, policies, and systems to lead to more effective, accountable, and transparent use of its resources.** Table 8 outlines project impact, key facts, and major objective for each ITF-financed project. Beyond the impact of any specific project, the ITF may be the only vehicle that provides support to Iraq's own national and sub-national structures. Executing projects through Iraqi institutions strengthens those institutions through the hands-on project implementation experience. Projects financed through the ITF continue to help Iraq deliver improvements in education, health services, irrigation and drainage, and water supply and sanitation. Projects also finance capacity building programs, building skills in the civil service to implement development programs, conduct poverty analyses, undertake sectoral analyses, and design social protection schemes to target services to the neediest citizens.

**Table 8: Project Objectives, Impact and Status**

December 31, 2006

**Completed Projects**

Project	Objectives	Impact
<b>FIRST CAPACITY BUILDING</b>		
<ul style="list-style-type: none"> <li>• <b>Grant Amount:</b> US\$3.6m</li> <li>• <b>Implemented by:</b> World Bank</li> <li>• <b>Effective:</b> Feb. 2004</li> <li>• <b>Closed:</b> August. 2004</li> </ul>	Build the capacity of the Iraqi authorities to enable them to define, prioritize, and implement development projects and lead the reconstruction process.	<p>The project prepared Iraqi authorities to design and execute donor-funded projects.</p> <ul style="list-style-type: none"> <li>• Over 580 Iraqi officials completed 22 workshops</li> <li>• Provided the essential tools for managing the project cycle, including modern procurement and financial management procedures, and sector-specific training to help the Iraqi team prepare sector strategies.</li> </ul> <p>Participation in study tours and workshops helped Iraqi officials develop professional networks with counterparts in other ministries and neighboring countries.</p>
<b>EMERGENCY TEXTBOOK PROVISION</b>		
<ul style="list-style-type: none"> <li>• <b>Grant Amount:</b> US\$40m</li> <li>• <b>Implemented by:</b> Ministry of Education</li> <li>• <b>Coverage:</b> Nationwide</li> <li>• <b>Effective:</b> May 2004</li> <li>• <b>Closed:</b> December 2006</li> </ul>	Provide 69 million textbooks to improve learning conditions in primary and secondary schools throughout Iraq. Build institutional capacity, transferring effective project management skills to the ministry.	<p>The project financed the printing and distribution of more than 82 million textbooks (11 books per pupil), exceeding its primary objective.</p> <ul style="list-style-type: none"> <li>• Cost savings, which resulted from competitive procurement procedures, financed 11 million additional textbooks.</li> <li>• Benefited 6 million students in all 19,000 primary and secondary schools.</li> <li>• Maximized local employment (55% of the grant amount financed local contracts).</li> <li>• The ministry adopted competitive procurement procedures for projects financed through other sources.</li> </ul>

**Active Projects**

Project	Objective	Impact	Implementation Status
<b>EMERGENCY SCHOOL REHABILITATION</b>			
<ul style="list-style-type: none"> <li>• <b>Grant Amount:</b> US\$60m</li> <li>• <b>Implemented by:</b> Min of Education</li> <li>• <b>Coverage:</b> Nationwide</li> <li>• <b>Effective:</b> October 2004</li> </ul>	Alleviate school building hazards and overcrowding in primary and secondary schools through new school construction and major rehabilitation of existing schools. Create substantial local near-term employment.	<p>New or rehabilitated facilities will benefit 128,000 pupils</p> <ul style="list-style-type: none"> <li>• Major rehabilitation of 134 schools benefiting 46,000 students</li> <li>• Construction of 117 new schools for 82,000 students</li> <li>• 6,000 jobs created</li> </ul>	<p>Major rehabilitation of 131 schools are complete (benefiting 45,000 pupils)</p> <ul style="list-style-type: none"> <li>• Construction of 32 new schools underway</li> <li>• 3,000 construction jobs created</li> <li>• Almost 50% of funds (US\$28m) are contractually committed.</li> </ul>

Project	Objective	Impact	Implementation Status
<b>SECOND CAPACITY BUILDING</b>			
<ul style="list-style-type: none"> <li>• <b>Grant Amount:</b> US\$7m</li> <li>• <b>Implemented by:</b> World Bank</li> <li>• <b>Effective:</b> November 2004</li> </ul>	<p>Build on the first capacity building project to help authorities tackle necessary reforms move to a diversified and market-driven economy and to improve the delivery of public services.</p>	<p>More than 1,000 Iraqi officials will participate in activities to strengthen institutional capacity and reform. Participant evaluations confirm the value of providing a venue to discuss key policy issues and develop specific skills.</p>	<ul style="list-style-type: none"> <li>• More than 900 participants from various ministries and local institutions have attended 45 workshops in economic management, public sector management and social safety nets.</li> <li>• Most of the remaining funds will be directed to activities designed to enhance public financial management, in line with Iraq's Compact priorities.</li> </ul>
<b>EMERGENCY HEALTH REHABILITATION</b>			
<ul style="list-style-type: none"> <li>• <b>Grant Amount:</b> US\$25m</li> <li>• <b>Implemented by:</b> Ministry of Health</li> <li>• <b>Coverage:</b> Nine Governorates</li> <li>• <b>Effective:</b> November 2004</li> </ul>	<p>Improve emergency services in 10 hospitals (to ensure at least one well-equipped emergency unit per governorate), and provide 12 hospitals with basic medical equipment and drugs.</p>	<ul style="list-style-type: none"> <li>• Serve an estimated 100,000 patients per year, who will use emergency services provided by the 10 hospitals.</li> <li>• Create about 1,000 short-term construction jobs (225,000 man-days) through the use of local contractors.</li> </ul>	<ul style="list-style-type: none"> <li>• Rehabilitation of 5 hospitals is underway.</li> <li>• Rehabilitation of 3 additional hospitals is slated to begin by the end of February 2007.</li> <li>• 50 doctors were trained in Emergency Preparedness and Response in September 2006.</li> </ul>
<b>EMERGENCY PRIVATE SECTOR DEVELOPMENT</b>			
<ul style="list-style-type: none"> <li>• <b>Grant Amount:</b> US\$55m</li> <li>• <b>Implemented by:</b> Ministry of Planning and Iraqi Telecommunications and Post Company</li> <li>• <b>Coverage:</b> Nationwide</li> <li>• <b>Effective:</b> November 2004</li> </ul>	<p>Lay the foundation for increasing investment and economic growth, fostering the development of the private and financial sectors by addressing:</p> <ul style="list-style-type: none"> <li>• Selected priorities in institution building;</li> <li>• Essential communications infrastructure.</li> </ul>	<p>Install a nationwide telecommunication backbone, which will create at least 1,000 short-term jobs and, ultimately, benefit every Iraqi and business.</p>	<ul style="list-style-type: none"> <li>• The US\$40m contract to supply and install the high-capacity national telecommunications network has been awarded.</li> <li>• Contract to strengthen the Export Promotion Agency and Economic Development Fund has been awarded.</li> <li>• Procurement for feasibility studies for industrial estates is nearly complete.</li> </ul>
<b>EMERGENCY COMMUNITY INFRASTRUCTURE</b>			
<ul style="list-style-type: none"> <li>• <b>Grant Amount:</b> US\$20m</li> <li>• <b>Implemented by:</b> Ministry of Water Resources</li> <li>• <b>Coverage:</b> Fourteen gov.</li> <li>• <b>Effective:</b> December 2004</li> </ul>	<p>Undertake a flexible program of labor-intensive civil works to generate near-term employment while improving rural water irrigation, drainage, and water supply.</p>	<ul style="list-style-type: none"> <li>• Twenty-two subprojects will benefit about 150,000 rural inhabitants by improving about 90,000 hectares of irrigated areas.</li> <li>• Will create more than 20,000 job opportunities in total (180,000 man-days).</li> </ul>	<ul style="list-style-type: none"> <li>• Fourteen subprojects in 8 governorates are complete, creating about 114,000 days of employment, improving 57,000 hectares of irrigated areas, and benefiting 71,000 farmers.</li> <li>• Eight subprojects are underway and about 60% completed.</li> </ul>

Project	Objective	Impact	Implementation Status
<b>EMERGENCY BAGHDAD WATER SUPPLY</b>			
<ul style="list-style-type: none"> <li>• <b>Grant Amount:</b> US\$65m</li> <li>• <b>Implemented by:</b> Mayoralty of Baghdad</li> <li>• <b>Coverage:</b> Baghdad</li> <li>• <b>Effective:</b> December 2004</li> </ul>	Restore basic water supply and sanitation services for Baghdad through the reconstruction and rehabilitation of existing treatment facilities and networks and by providing capacity building to the Mayoralty of Baghdad.	<ul style="list-style-type: none"> <li>• Provide clean water and purge sewage backups for about one million residents of Baghdad (about 17 percent of city's population).</li> <li>• Create 2,000 short-term jobs.</li> <li>• Help the municipality design a comprehensive development plan for Baghdad.</li> </ul>	<ul style="list-style-type: none"> <li>• Contracts for US\$9m of goods and work are signed</li> <li>• Physical implementation is lagging due to difficult conditions in Baghdad.</li> <li>• Team of advisors has been recruited to help the municipality prepare and implement a Baghdad Comprehensive City Development Plan.</li> </ul>
<b>EMERGENCY WATER SUPPLY, SANITATION &amp; URBAN RECONSTRUCTION</b>			
<ul style="list-style-type: none"> <li>• <b>Grant Amount:</b> US\$90m</li> <li>• <b>Implemented by:</b> Ministry of Municipalities and Public Works</li> <li>• <b>Coverage:</b> Nine governorates</li> <li><b>Effective:</b> December 2004</li> </ul>	Restore basic water supply and sanitation services and urban services in the poorest areas of the country, choosing subprojects that will have high impact.	Rehabilitate water supply and sanitation systems in nine cities, and urban infrastructure in three cities, which will: <ul style="list-style-type: none"> <li>• provide clean water and purge sewage backups for over 2 million people in 7 municipalities, and</li> <li>• Create 3,000 short-term construction jobs.</li> </ul>	<ul style="list-style-type: none"> <li>• The first phase of civil works to rehabilitate and upgrade the water supply system of Badawa is underway.</li> <li>• Five other civil works contracts are expected to start by March 2007.</li> <li>• The ministry completed a nationwide water and wastewater survey.</li> </ul>
<b>EMERGENCY DISABILITIES</b>			
<ul style="list-style-type: none"> <li>• <b>Grant Amount:</b> US\$19.5m</li> <li>• <b>Implemented by:</b> Ministry of Health</li> <li>• <b>Coverage:</b> Fifteen governorates</li> <li>• <b>Effective:</b> November 2005</li> </ul>	Reduce the burden of the disabled by helping Iraq develop targeted and cost-effective rehabilitation services in a community setting.	<ul style="list-style-type: none"> <li>• Upgrade the infrastructure and equipment of 14 rehab centers and/or prosthetic workshops</li> <li>• Develop the information base to promote evidence-based policy-making and improve the legal framework.</li> <li>• Provide 250,000 people access to rehab services.</li> <li>• Create over 83,000 man-days of local construction jobs.</li> </ul>	<ul style="list-style-type: none"> <li>• Design work for 11 hospitals is underway.</li> <li>• Construction is scheduled to begin in April 2007.</li> <li>• In November 2006, Ministry officials participated in a study tour to Bosnia to gain experience from a similar successful Bank-financed project.</li> </ul>
<b>ADDITIONAL FINANCING FOR SCHOOL CONSTRUCTION IN THE MARSHLANDS</b>			
<ul style="list-style-type: none"> <li>• <b>Grant Amount:</b> US\$6m</li> <li>• <b>Implemented by:</b> Ministry of Education</li> <li>• <b>Coverage:</b> Marshland Areas of Southern Iraq</li> <li>• <b>Effective:</b> October 2006</li> </ul>	Provides additional funding for the Emergency School Construction and Rehabilitation Project, to construct approximately 36 new schools in the Marshland areas of Basra, Nasiriyah and Missan.	<ul style="list-style-type: none"> <li>• Involve local stakeholders to mobilize and train local community committees to undertake small site works.</li> <li>• Build 36 new schools to serve 6,000-8,000 students.</li> <li>• Help stabilize the resettlement of about 30 village communities.</li> <li>• Create over 90,000 man-days of construction work.</li> </ul>	Construction is expected to begin in August 2007.

Project	Objective	Impact	Implementation Status
<b>EMERGENCY SOCIAL PROTECTION</b>			
<ul style="list-style-type: none"> <li>• <b>Grant Amount:</b> US\$8m</li> <li>• <b>Implemented by:</b> Ministry of Labor &amp; Social Affairs and Ministry of Finance</li> <li>• <b>Coverage:</b> Nationwide</li> <li>• <b>Effective:</b> June 2006</li> </ul>	<p>Enhance impact of Iraq's social safety net and pensions programs. Assist Iraq to implement modern management and information systems to improve the delivery of social safety nets.</p>	<p>Improve targeting and reduce leakages to increase the benefits that reach vulnerable populations, through:</p> <ul style="list-style-type: none"> <li>• Implementing modern information systems to maintain data in order to improve management and policy decisions.</li> <li>• Building technical capacity for policy analysis and design.</li> <li>• Helping Iraq draft a pension reform strategy.</li> </ul>	<p>The project launch workshop, held in September 2006, clarified implementation arrangements and provided training on procurement and financial management.</p>
<b>EMERGENCY HOUSEHOLD SURVEY &amp; POLICIES FOR POVERTY REDUCTION (HSPPR)</b>			
<p><b>GRANT FINANCING</b></p> <ul style="list-style-type: none"> <li>• <b>Grant Amount:</b> US\$5.1m</li> <li>• <b>Implemented by:</b> MOPDC and KRG Statistical Units</li> <li>• <b>Coverage:</b> Nationwide</li> <li>• <b>Effective:</b> July 2006</li> </ul> <hr/> <p><b>TECHNICAL ASSISTANCE</b></p> <ul style="list-style-type: none"> <li>• <b>Grant Amount:</b> US\$1.5m</li> <li>• <b>Implemented by:</b> WB</li> <li>• <b>Effective:</b> May 2006</li> </ul>	<p>Provides financial and technical assistance to help Iraq undertake the Iraq Household Socio-Economic Survey. The survey provides needed data to enable Iraq to establish a poverty line and make evidence-based policy decisions, to ensure social assistance is targeted to the neediest populations.</p>	<p>The survey is the first comprehensive nation-wide household survey since 1998. The survey will:</p> <ul style="list-style-type: none"> <li>• Combine an income and expenditure survey with a Living Standard Measurement Survey;</li> <li>• Provide results to serve as the basis to develop Poverty Reduction Strategy;</li> <li>• Cover 17,000 households across the country over a 12 month period.</li> </ul>	<ul style="list-style-type: none"> <li>• Fieldwork began in November 2006. Thus far, over 3,000 households in all 18 governorates have been surveyed.</li> </ul>
<b>EMERGENCY ENVIRONMENTAL MANAGEMENT</b>			
<ul style="list-style-type: none"> <li>• <b>Grant Amount:</b> US\$5m</li> <li>• <b>Implemented by:</b> Ministry of Environment</li> <li>• <b>Coverage:</b> Nationwide</li> <li>• <b>Effective:</b> December 2006</li> </ul>	<p>Aims to strengthen key institutional and regulatory functions of the ministry, to enable the ministry to undertake policy analysis, formulate regulations, monitor environmental quality, promote environmental awareness, and conduct technical studies.</p>	<ul style="list-style-type: none"> <li>• Analyze environmental issues and produce an Environmental Action Plan, outlining critical priorities for intervention in the next 3-5 years.</li> <li>• Install and monitor 18 air quality monitoring stations installed in three cities.</li> <li>• Prepare solid waste management master plan for Baghdad; and a health care waste management plan.</li> </ul>	<p>Project became effective in December 2006.</p>

68. **Project summary sheets, which provide additional detailed information on the strategic context, donor coordination, and detailed implementation status of each project,** are included in Annex 2.

#### **N. INFORMATION DISSEMINATION**

69. **A joint World Bank/UN IRFFI website ([www.irffi.org](http://www.irffi.org)) is available for public access.** The IRFFI website is jointly managed and updated by World Bank and UNDP staff, using World Bank servers. The website serves as a repository for up-to-date news, monthly reports and data, providing regular updates on the financial status of deposits, commitments, and disbursements as well as project implementation progress to donors and other interested parties.

**ANNEX 1: ITF BACKGROUND AND COUNTRY CONTEXT**

## ANNEX 1: BACKGROUND AND COUNTRY CONTEXT

### A. The International Reconstruction Fund Facility for Iraq

1. **Mandate.** At their meeting on April 12, 2003, the Group of Seven Industrialized Countries' (G-7) Finance Ministers and Central Bank Governors recognized the need for a multilateral effort to rebuild and develop Iraq. United Nations (UN) Security Council Resolution 1483 (May 22, 2003) noted the statement of the G-7 and called for the international financial institutions to assist the people of Iraq in reconstruction and to facilitate assistance by the broader donor community. In response, on June 24, 2003, the UN hosted a meeting of some 50 states which, collectively, became known as the Liaison Group. The Liaison Group, in turn, requested a small number of major donors, known as the Core Group, to convene a Donors' Conference. The Liaison Group also asked the World Bank and the UN to assess Iraq's reconstruction needs, and to design a multi-donor trust fund to coalesce donor support around Iraq's priority reconstruction needs.

2. **Joint Needs Assessment.** The World Bank and the UN, with support from Iraqi national officials and the International Monetary Fund (IMF), conducted a Needs Assessment during the period June through August 2003. The Needs Assessment was finalized following consultations in Dubai and Madrid with the Core Group, representatives of Iraq's Governing Council, Iraqi sector ministries, and the Coalition Provisional Authority. The final document was presented at the Donors' Conference in Madrid on October 23-24, 2003, where it was endorsed by the donors present and representatives of the Iraqi Governing Council.

3. **The Design of IRFFI.** In parallel with the Needs Assessment, the World Bank and the UNDG designed the International Reconstruction Fund Facility for Iraq (IRFFI). The IRFFI aims to help donors channel their resources and coordinate their support for reconstruction and development activities in Iraq in line with the priorities identified in the Needs Assessment and validated by Iraqi authorities. The World Bank and UN designed the structure, governance, and modalities of the IRFFI in close consultation with the Core Group, other donors, and Iraqi national authorities over the period August through December 2003 at meetings held in Washington, D.C., Brussels, New York, Dubai, Madrid, and Amman.

4. **The IRFFI facility encompasses two trust funds:** the World Bank Iraq Trust Fund (ITF) administered by the World Bank, and the UN Development Group Trust Fund (UNDG Trust Fund) administered by the United Nations Development Program (UNDP) on behalf of itself and participating UN organizations. The IRFFI structure is designed to promote close cooperation and avoid duplication by providing a common governance structure.

### B. The World Bank Iraq Trust Fund

5. **ITF Effectiveness.** On January 29, 2004, the World Bank Board of Executive Directors approved the World Bank to act as Administrator of the ITF. The ITF became effective upon receipt of the first deposit, on March 30, 2004. Since then, 17 donors have deposited about US\$454 million in the ITF, amounting to almost 100% of the pledged amounts.

6. **Eligible Sectors.** The ITF finances eligible operations in all sectors and cross-cutting themes identified in the Needs Assessment, with the exception of mine action, and with particular emphasis on areas where the World Bank has comparative advantage. The ITF does not finance quick-disbursing Government budget recurrent expenditures or humanitarian relief, nor does it finance peacekeeping efforts, or other security, military, or political interventions. ITF resources are dedicated to specific reconstruction and rehabilitation projects to be implemented by Iraqi institutions, and training/technical assistance programs designed to increase institutional capacity.

7. **Recipients.** Recipients of grants from the ITF need to meet the World Bank's eligibility criteria, including financial viability. Recipient entities responsible for implementing activities financed from the ITF can include: Iraqi ministries, governorates and municipalities, private entities, NGOs, UN agencies, or international financial institutions.

8. **Emphasis on Iraqi Ownership.** The ITF emphasizes Iraqi ownership and building Iraqi institutional capacity. Unlike other donors, World Bank-financed programs, including those financed by the ITF, are implemented by Iraqi institutions with the goal to enhance knowledge transfer (e.g. current international standards for procurement, financial management and governance). This approach is critical in order to assist Iraq to develop institutional policies and systems that can be leveraged by all donors, and will promote the more effective use of all donor funds as well as Iraq's own resources.

9. The process for selecting projects to be financed by the ITF has been designed to ensure Iraqi ownership from the earliest stage. Under the ITF, potential grant recipients, in consultation with World Bank staff, submit project proposals for approval to the Iraqi Strategic Review Board (ISRB). The ISRB determines whether proposals are consistent with priority needs and ensures coordination among donor programs. Following ISRB approval, the World Bank proceeds to appraise the project. For satisfactorily appraised operations, the World Bank, as the ITF Administrator, and the recipient negotiate and sign a Grant Agreement. The Grant Agreement spells out the terms and conditions under which funds will be provided to the recipient entity, and governs the actual use and disbursement of funds. It specifies measurable indicators to monitor implementation progress. It also contains detailed financial management, procurement, monitoring, and other fiduciary arrangements to ensure that funds are used for eligible expenditures.

### C. The Interim Strategy of the World Bank Group

10. All work conducted by the World Bank in Iraq must be governed by an Interim Strategy. The World Bank's first Interim Strategy Note for Iraq, discussed by the World Bank's Executive Directors in January 2004, initiated work on three tracks in order to: (i) Build Iraqi institutional capacity, especially to establish mechanisms of transparency and accountability; (ii) Prepare and start implementing emergency operations to address urgent needs, especially to generate employment and kick-start economic activity, and restore essential infrastructure and services; and (iii) Lay the groundwork for Iraq's medium-term reconstruction and development program and begin assisting in the transition from central planning to a market-driven economy, through policy advice and analytical work. The first Interim Strategy relied on the ITF to finance capacity building projects and investment operations, and on the World Bank's own resources to conduct diagnostic economic and sector work.

11. Following a request from the Iraqi authorities for US\$500 million in IDA resources, the World Bank began discussions with a designated inter-ministerial committee to prepare a Second

Interim Strategy Note. The Second Interim Strategy Note, endorsed by the Board in September 2005, defines the World Bank Group's program for the next two years, providing a flexible framework for a program of World Bank lending and ITF grants that makes the best use of available resources and is consistent with Iraq's own development priorities. The World Bank's strategy emphasizes Iraqi ownership, crucial for restoring stability and for the success of the reconstruction program. The strategy is based on Iraq's National Development Strategy and on consultations with Iraqi authorities. The World Bank's overarching objective is to help Iraq build efficient, inclusive, transparent, and accountable Iraqi institutions as needed for stability, good governance, and sustainable economic prosperity. Under the umbrella of institution building, the World Bank Group's work program is organized into four pillars: (i) Restore basic service delivery; (ii) Enable private sector development; (iii) Strengthen social safety nets; and (iv) Improve public sector governance, with particular focus on public resource management. The World Bank will emphasize policies and institution building in all four areas, using analytical and advisory work and resources from the ITF, IDA, and IFC. Under the strategy, the World Bank anticipates launching 5-10 investment operations in up to seven key areas: agriculture/irrigation, education, electricity, healthcare, transport, urban upgrading, and water supply/sanitation. The World Bank will also deepen its analytic and advisory services.

12. **Economic and Sector Work.** The World Bank, through its own budget, is also laying the groundwork for Iraq's medium-term program by providing policy advice and sharing international experience with Iraq in a number of key areas. The World Bank's AAA is focused in three core areas: (i) economic reform and transition; (ii) public sector management, including public finance management and anti-corruption; and (iii) poverty and social safety nets. Specific economic and sector work activities include papers and continuing policy dialogue and advice on: (i) public sector reform and public finance management, including key areas of subsidy reform, oil revenue management and anti-corruption; (ii) incentive framework and labor market; (iii) state-owned enterprises and investment climate; (iv) housing construction/housing finance; (v) country water assistance strategy, including donor workshop with the Ministry of Water Resources; (vi) agricultural sector strategy; and (vii) country social assessment.

**ANNEX 2: PROJECT SUMMARY SHEETS**

## FIRST CAPACITY BUILDING PROJECT (CLOSED)

**Grant Amount:** US\$3.6 million    **Effectiveness Date:** February 2004    **Closing Date:** August 2004

**Implementing Entity:** World Bank

### **Strategic Context and Donor Coordination:**

The project was designed to respond to the immediate and most urgent training needs of the Iraqi public sector staff. The activities undertaken were agreed upon by the Ministry of Planning and Development Cooperation and the various ministries concerned, and focused on priority areas for Iraq's development agenda and the preparation and implementation of the World Bank Iraq Trust Fund-financed projects. The European Commission's Rapid Response Mechanism (EC-RRM) provided €3 million for a six-month implementation period, with no extension of the closing date.

### **Project Objective and Description:**

The overall aim of the project was to **build the capacity of the Iraqi authorities** to enable them to participate effectively in the definition and prioritization of international programs of support and to play a leading role in the reconstruction process.

**Geographic Coverage:** Nationwide

### **Beneficiaries:**

The project focused on the immediate need for Iraqi ministries to become familiar with prioritizing, designing and executing donor-funded projects. Overall it benefited over 550 officials from various ministries and local institutions.

### **Project Components and Costs:**

- (i) training on managing the project cycle (procurement, financial management, project management, and safeguards);
- (ii) sector specific training for line ministries; and
- (iii) training for private sector capacity enhancement.



*Payroll and Human Resources management Workshop*

### **Project Costs by Type of Expenditure:**

Capacity building: US\$3.6 million

### **Detailed Status of Implementation and Disbursements**

During the life of the project, twenty-two activities were completed and 581 Iraqis from 19 ministries were trained (coming from the Central Bank, the Mayoralty of Baghdad, the Supreme Audit, various, universities, private banks, Chambers of Commerce and Business Associations). The objectives were achieved and enabled the Iraqi officials to design and implement projects and start developing sector strategies towards meeting the MDGs. Participation in study tours and workshops helped Iraqi officials develop professional networks with counterparts in other ministries and neighboring countries.

## EMERGENCY TEXTBOOK PROVISION PROJECT (CLOSED)

**Grant Amount:** US\$40 million      **Effectiveness Date:** May 2004      **Closing Date:** December 2006

**Implementing Entity:** Ministry of Education (MoE)

### **Strategic Context and Donor Coordination:**

The US and UN (UNESCO and UNICEF) financed textbooks for the 2003/2004 school year. The Bank responded to an urgent request from the Ministry of Education to finance textbooks for 2004/2005. *The Ministry of Education used its own resources in addition to cost savings from 2004/2005 to finance textbooks for 2005/2006, and has adopted the Bank's procurement procedures.* The Bank supported the ministry in developing a strategic framework and a donor coordination strategy.

### **Project Objective and Description:**

The objective of the project was to provide **urgently needed textbooks** in order to improve conditions of learning in primary and secondary schools.

### **Geographic Coverage:**

Nationwide (all 18 governorates)

### **Beneficiaries:**

The project benefited all 6 million primary and secondary school pupils, who received 11 books each on average.

### **Near-Term Employment Creation:**

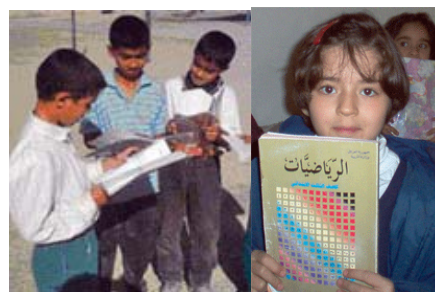
The project was designed to maximize local content and employment by contracting local printers to the maximum extent possible, taking into consideration the quantity of paper available in Iraq. Contracts to Iraqi printers amount to US\$14 million; and an estimated US\$7.5 million was spent on local labor costs.

### **Project Components and Costs:**

1. **Provision of textbooks for primary and secondary schools** (US\$39.5 million): Printing and distribution of approximately 69 million textbooks (600 titles).
2. **Project management and capacity building** (US\$0.5 million): Provision of supplies and equipment for the MoE's Project Management Team needed to manage the project, and provision of technical assistance and capacity building to ensure effective project management and transfer of skills.

### **Project Costs by Type of Expenditure:**

Goods (textbooks): US\$ 37.5 million  
 Other goods: US\$ 0.2 million  
 Consultants: US\$ 0.4 million



### **Implementation Status:**

The project closed on December 31, 2006. All textbooks have been delivered and are being used by students. Competitive bidding procedures led to cost savings of about US\$9 million, which were used to deliver an additional 13.5 million textbooks for 2005/2006. Therefore, the project has exceeded its main development objective in financing the printing and distribution of more than 82 million textbooks (16% more than initially estimated). Savings of approximately US\$1 million will be cancelled from the Grant. The MOE requested that an equivalent allocation be made to the ESCRP Additional Financing for construction of Marshland Schools.

## EMERGENCY SCHOOL CONSTRUCTION AND REHABILITATION PROJECT

**Grant Amount:** US\$60 million

**Effectiveness Date:** October 2004

**Closing Date:** June 2007

**Implementing Entity:** Ministry of Education

### Strategic Context and Donor Coordination:

The Ministry of Education Situation Analysis, building on the UN/World Bank Joint Needs Assessment, identified almost US\$700 million in urgent repair and reconstruction needs over three years: over 12,000 schools (over 80%) require repair, including 2,300 that require minor repair, 9,400 that require major repair, and around 1,300 that need to be demolished and rebuilt. An additional 3,000 school buildings are also needed. The World Bank, the UN, and the US are the main donors supporting education and are coordinating their efforts. The US focused initially on minor rehabilitation; the UN is supporting both minor and major rehabilitation. The Bank is the only donor significantly financing new major construction, and the only donor working through Iraq's Ministry of Education.

### Project Objective and Description:

The project aims to alleviate urgent school building hazards by constructing new schools to replace unsafe or overcrowded facilities, and by rehabilitating schools needing urgent repair.

### Geographic Coverage:

Nationwide (both construction and rehabilitation will take place in all 18 governorates)

### Beneficiaries:

The project benefits over 100,000 families with children attending primary and secondary schools. It directly benefits about 130,000 pupils (about 7% of pupils in overcrowded or damaged schools.) Construction of new buildings will provide spaces for 42,000 students in primary and secondary schools, and benefit a further 40,000 by eliminating multiple school sessions. The rehabilitation of schools will directly benefit 45,700 students.

### Near-Term Employment Creation:

The project maximizes local content by using Iraqi firms for design and supervision of work, and for reconstruction and construction. It is expected that the project will produce over 6,000 job opportunities, over half of which are underway through ongoing reconstruction work.

### Project Components and Costs:

1. **Construction or rehabilitation of 260 primary and secondary schools** (US\$58.6 million)
  - (a) **Construction of 117 schools** (US\$48.4 million): construction will take place in three stages.
  - (b) **Rehabilitation of 143 schools** (US\$7.6 million): at an average cost of US\$181 per student.
2. **Project management and capacity building** (US\$1.43 million)

### Project Costs by Type of Expenditure:

**Civil works:** US\$ 56.1 million; **Goods:** US\$ 0.4 million;

**Consulting services:** US\$2.5 million (95 % local consultants)



*School construction  
in Najaf*



*Rehabilitated Al-Theeka primary  
School (Diwaniyah).*

**Implementation Status:**

- Major rehabilitation of 134 schools (actual cost: US\$7.3 million) is completed, benefiting 45,000 pupils and creating 3,000 construction jobs. The ministry contracted local firms for design of new schools, preparation of bidding documents, and supervision of works. The design of 32 new schools has been completed, and construction works began in October 2006. Remaining schools are halfway through the design phase.



*A primary school rehabilitated in Baghdad*

## SECOND CAPACITY BUILDING PROJECT

**Grant Amount:** US\$7 million    **Effectiveness Date:** November 2004    **Closing Date:** September 2007

**Implementing Entity:** World Bank

### **Strategic Context and Donor Coordination:**

The project builds on the first Capacity Building Project, which provided urgent training related to reconstruction (including procurement, financial management and project management). Many training activities are carried out jointly with other donors, such as the IMF and DFID.

### **Project Objective and Description:**

The program aims to **strengthen economic management and build institutional capacity** needed to shift to a market-driven economy; improve the efficiency, effectiveness, and quality of public services; and facilitate use of public resources, including donor funds, for urgent reconstruction and development efforts.

**Geographic Coverage:** Nationwide

### **Beneficiaries:**

The project directly benefits over 1,000 officials and helps lay the groundwork for crucial institutional strengthening and reform. Participants include staff of various ministries and local institutions.

### **Project Components:**

1. Economic reform and transition
2. Poverty, social protection, & social development
3. Public sector management
4. Managing the project cycle

### **Project Costs by Type of Expenditure:**

**Capacity building:** US\$7 million



*Iraq Business Community Workshop (Nov 06)*

### **Detailed Status of Implementation and Disbursements**

Forty-six training activities have taken place to date, reaching about 900 participants from various entities, such as the Ministry of Planning and Development Cooperation, Ministry of Finance, Ministry of Trade, Ministry of Labor, and the Central Bank.

**On November 12-16, 2006**, over 40 participants attended an Iraq Business Community Procurement Workshop, which aimed to strengthen Iraqi private sector capacity in modern procurement management practices. Financed by the capacity building 2 project, the seminar was organized in coordination with the Iraqi Ministry of Planning and Development Cooperation, the Iraqi Engineering Syndicate and the Iraqi Contractors' Union.

Participant evaluations confirm the value of providing a venue to discuss key policy issues and develop specific skills. Most of the remaining funds will be directed to activities designed to enhance public financial management, in line with Iraq's Compact priorities.

## EMERGENCY HEALTH REHABILITATION PROJECT

**Grant Amount:** US\$25 million      **Effectiveness Date:** November 2004      **Closing Date:** September 2007

**Implementing Entity:** Ministry of Health

### **Strategic Context and Donor Coordination:**

Estimated reconstruction needs of the health sector range from US\$3 to US\$4.6 billion. The US and Japan are the largest donors to the health sector, focusing on major construction and reconstruction of hospitals and health centers. *The Bank has a broad knowledge of health sector issues and can respond selectively to Iraq's immediate needs while laying the groundwork for medium and long-term health system reform.* Many donors expect the Bank to play a leadership role in policy and system reform.

### **Project Objective and Description:**

This project responds to an urgent need to **improve emergency services in 10 hospitals throughout Iraq**, selected to ensure at least one well equipped emergency unit per governorate and taking into account the work of other donors in the six remaining governorates. The project design was based on the following criteria: respond to urgent needs; avoid duplicating the work of other donors (some donors are rebuilding entire hospitals); and achieve visible impact nationwide.

*Beyond its specific objective of improving access to quality emergency services, the project is expected to build ownership and capacity within the slowly reconstituting Iraqi administration and to become a model for locally driven reconstruction work in the health sector.*

### **Geographic Coverage:**

Nine governorates in the north, center, and south of Iraq: Baghdad, Diyala, Kirkuk, Missan, Karbala, Anbar, Salah Deen, Erbil, Sulaimanyiah.

### **Beneficiaries:**

About 15 million Iraqis live within the areas serviced by the 10 emergency health units. From this population, an estimated 100,000 people will use the emergency health services per year.

### **Near-Term Employment Creation:**

Creating immediate employment is not a project objective; however, the project will create an estimated 1,000 short-term jobs through civil works undertaken by local construction companies.

### **Project Components and Costs:**

1. **Rehabilitation of priority emergency services in 10 selected hospitals**, and the provision of basic medical and laboratory equipment to the rehabilitated hospitals (US\$ 21.4 million);
2. **Provision of a 3 to 6 month supply of up to 37 essential emergency drugs;**
3. **Support to strengthen planning and management capacity** (US\$ 1.7 million); and
4. **Support to project management** (US\$ 0.9 million).

### **Project Costs by Type of Expenditure:**

**Civil works:** US\$ 14.7 million; **Goods:** US\$ 8.4 million;  
**Consulting services:** US\$1.9 million (90 % for local firms)  
**Training:** US\$1.8 million; **Operating Costs:** US\$0.1 million



*Hospital Renovation in Baghdad*

### **Implementation and Status:**

Five hospitals are under reconstruction and another three contracts in Kirkuk, Karbala and Anbar are awaiting contract signature by the MOH with civil works to start by February 2007. Two contracts for hospitals in Diyala and Baghdad / Al Karkh are being procured.

Cardiac equipment, ventilators, resuscitation and operating equipment worth US\$1.6 million were awarded in July 2006. Also, the first batch of pharmaceuticals valued at \$1.3 million have been procured and stored in a rehabilitated warehouse until they are transported to various health facilities.

Twenty-five doctors were trained in Emergency Preparedness and Response training in August 2006 in Cairo; the training was organized by Maryland University. Also, a four week training course for 25 chief emergency doctors was carried out in Tokyo in September 2006.



*Hospital Renovation in Sadr City*



*Pharmaceuticals stored in Baghdad*

## EMERGENCY DISABILITIES PROJECT

**Grant Amount:** US\$19.5 million    **Effectiveness Date:** November 2005    **Closing Date:** September 2007

**Implementing Entity:** Ministry of Health

### Strategic Context and Donor Coordination:

Iraq has a growing population of disabled resulting from the war and related accidents, yet social and rehabilitation services for this group have declined. Given the country's high unemployment rates and poor community services, becoming disabled poses a serious risk for the entire family to fall into poverty. *Although improving services to the disabled is a government priority, it has not been specifically addressed by the donor community. The Bank is drawing on its global experience to not only provide immediate assistance, but to ensure that sector development takes place through the establishment of a sound policy framework that will provide the basis for sustainability and for further reform measures.*

### Project Objective and Description:

This project aims to help prevent the disabled from falling deeper into poverty and to reduce the burden of physical and psycho-social disabilities through targeted and cost-effective rehabilitation services in a community setting. Specifically, the project will upgrade the infrastructure and equipment of 11 specialized rehabilitation centers countrywide; improve the information base on the disabled to allow evidence-based policymaking, and improve the policy and legal framework for the disabled.

### Geographic Coverage:

The 11 rehabilitation centers are situated in 15 governorates.

### Beneficiaries:

The project will directly benefit an estimated 250,000 persons with physical disabilities who would otherwise not have access to quality rehabilitation services needed for leading a productive life. The project will also impact an estimated 1.4 million of Iraqis representing the families of the disabled.

### Near-Term Employment Creation:

Creating immediate employment is not a project objective; however, the project will create short-term jobs through civil works undertaken by local construction companies.

### Project Components and Costs:

1. **Service delivery** to the disabled (US\$13.2 million)
2. **Development of a long-term strategy** and action plan for the disabled (US\$.5 million);
3. **Capacity building** to support implementation
4. **Monitoring and project management** (US\$.5 million)

### Project Costs by Type of Expenditure:

**Civil works:** US\$5 million; **Goods:** US\$12 million;

**Consulting services:** US\$1.4 million;

**Training:** US\$1 million; **Operating Costs:** US\$0.1 million

*Bosnia Study Tour (Sept 06)*



### Implementation and Status:

To date, the Ministry of Health has awarded eleven design and supervision consultancy contracts.

A study tour to Bosnia was conducted from September 5 to 9, 2006. Its objective was to examine the achievements of the War Victims Rehabilitation Project and gain experience in managing disabilities in a post-conflict situation. The Bosnia experience was particularly relevant to the Iraqis as a means to understand the realities of project implementation under very difficult circumstances in the context of a politically fragile and divided environment.

## EMERGENCY PRIVATE SECTOR DEVELOPMENT PROJECT

**Grant Amount:** US\$55 million    **Effectiveness Date:** December 2004

**Closing Date:** June 2007

**Implementing Entity:**

Ministry of Planning (Components 1 and 2) Iraqi Telecommunications and Post Company (ITPC, Components 3 and 4)

**Strategic Context and Donor Coordination:**

*The telecommunication components were designed to complement assistance provided by JICA and by the U.S. Treasury (payment system). The PSD components were conceived in consultation with the Iraqi government, the Iraqi private sector, and the main donor agencies: USAID and DFID. The PSD agenda continues to be coordinated USAID, DFID, the EC, and UNIDO.*

**Project Objective and Description:**

*The project aims to lay the foundation for increasing investment and economic growth by addressing selected priorities in institutional capacity building and essential communications infrastructure to help foster the development of the private and financial sectors. A secondary objective is to generate job creation through the development of the private sector.*

**Geographic Coverage:**

The communication infrastructure will cover Baghdad, the north, the south and the west regions. Private sector development components would benefit private enterprises and organizations throughout the country. Specifically, two industrial estates studies will be undertaken for Erbil in the north (in coordination with the Kurdistan Regional Government) and Basra in the south.

**Beneficiaries:**

The project has national impact, benefiting every Iraqi and business, by financing Iraq's national communications backbone.

**Near-Term Employment Creation:**

Installation of telecommunications infrastructure will create at least 1,000 short-term jobs. Most importantly, the national communications backbone will create thousands of jobs through downstream communications companies, and provide an essential building block to enable private sector development.

**Project Components and Costs:**

1. **Develop enabling public institutions** that support the private sector. (US\$ 6.8 million)
2. **Improve the competitiveness of Iraqi private firms** by improving their ability to access finance and foreign markets. (US\$ 5 million)
3. **Build reliable telecommunications infrastructure** to interconnect key parts of the Central Bank's payments and settlements system. (US\$ 3 million)
4. **Build a high capacity national backbone communications network** capable of supporting corporate needs and develop the human capacity to operate it efficiently. (US\$ 39.5 million)
5. **Finance project management.** (US\$ 0.7 million)

**Goods and civil works:** US\$42.5 million; **Consulting services:** US\$ 12.2 million

**Near Term Employment:** Iraqi labor, supervised by an international supplier, will install the \$40 million telecommunications infrastructure. International consultants will deliver most of the TA under the PSD components. However, most TA RFPs require local participation during implementation and emphasize the importance of building local capacity.

**Detailed Status of Implementation and Disbursements:**

The US\$40m contract for the supply and installation of a high-capacity national telecommunications network was signed on 6/23/2006. Procurement for consultancy services for remaining components is underway, including feasibility studies for industrial estates in Erbil and Basra.

<b>EMERGENCY BAGHDAD WATER SUPPLY AND SANITATION PROJECT</b>
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**Grant Amount:** US\$65 million      **Effectiveness Date:** December 2004      **Closing Date:** August 2007

**Implementing Entity:** Mayoralty of Baghdad

**Strategic Context and Donor Coordination:**

*The project was designed to complement US-funded water supply and sanitation rehabilitation. For example, the project supports network rehabilitation linked to the US-funded rehabilitation of the Baghdad sewerage treatment plant. The Bank meets regularly with major donors and collaborates closely with the Japan Bank for International Cooperation (including joint missions).*

**Project Objective and Description:**

The project aims to help restore basic water supply and sanitation services for the capital city of Baghdad through the reconstruction and rehabilitation of existing treatment facilities and networks and by providing capacity building support. It funds rehabilitation of four water pumping stations and water treatment plants, and replaces the water supply network in Za'afarania district and the sewerage collection system in Sadr City. The project includes the development of a Comprehensive City Development Plan to ensure that future expansion of the water supply and sanitation networks are in line with the overall urban development plan for the city. *The project will also create vitally needed short-term employment and help build Iraq's capacity to manage large-scale reconstruction.*

**Geographic Coverage:** Municipality of Baghdad

**Beneficiaries:**

The project is expected to improve the quality of life of about one million residents of Baghdad (17 percent of Baghdad's population) by improving the supply of potable water, eliminating sewerage backup in streets and homes, and contribute to reducing the incidence of waterborne diseases, a major factor in infant and child mortality.

**Near-Term Employment Creation:**

The project will create substantial employment—estimated at 2,000 short-term jobs—through construction contracts awarded to Iraqi firms. The number of jobs created will be tracked and reported on a quarterly basis.

**Project Components and Costs:**

1. **Rehabilitation of chlorine and chemical units at al-Karkh water treatment plant** (US\$2.8 m)
2. **Rehabilitation of 2B pumping station in Shark Dijla water treatment plant** (US\$4.5 m)
3. **Extension and rehabilitation of the al-Rasheed water treatment plant** (US\$7.2 m)
4. **Rehabilitation of the Abu Nawas raw water pumping station** (US\$6.2 m)
5. **Rehabilitation and renewal of the Sadr City sewerage network** (US\$15 m)
6. **Rehabilitation and renewal of the drinking water network in Za'afarania** (US\$15.4 m)
7. **Capacity building**, including system design, feasibility studies, and audits (US\$3.9 m)
8. **Development of a comprehensive city development plan** for Baghdad (US\$3 m)
9. **Price and physical contingencies** (US\$7 m)

**Project Costs by Type of Expenditure:**

**Civil works and goods:** US\$ 51.1 million; **Consulting services:** US\$6.9 million (local: US\$4.6 million; international: US\$2.3 million); **Price and physical contingencies:** US\$7 million

**Detailed Status of Implementation and Disbursements:**

The Mayoralty of Baghdad contracted local and international consultants to prepare tender documents and detailed designs, and to subsequently supervise works. It has now moved to the phase of contracting civil works—signing contracts for US\$9 million of goods and works under components 2 and 4. Two bids worth US\$15 each are under evaluation and are expected to be committed by March 2007 under component 5 (Sadr City) and 6 (Za'afarania). Also, it has recruited a team of advisors to help the municipality prepare and implement the Baghdad Comprehensive City Development Plan.

**EMERGENCY WATER SUPPLY, SANITATION, AND URBAN RECONSTRUCTION PROJECT**

**Grant Amount:** US\$90 million      **Effectiveness Date:** December 2004      **Closing Date:** August 2007

**Implementing Entity:** Ministry of Municipalities and Public Works (MoMPW)

**Strategic Context and Donor Coordination:**

The Joint UN-World Bank Needs Assessment estimated total needs for rehabilitation and reconstruction of water supply and sanitation facilities to be about US\$6.8 billion over four years. *The Bank worked closely with the MoMPW to identify project components, which were coordinated with the work of the US, DFID (in the south), and UN agencies (in the north). Unlike the financing of the other donors, Bank financing is implemented by the MoMPW, which ensures Iraqi ownership and builds Iraqi institutional capacity. The Bank's interventions are carefully designed for sustainability (i.e., new water treatment units are accompanied when necessary by distribution network rehabilitation).* The Bank meets regularly with other major donors, and is collaborating closely with the Japan Bank for International Cooperation (including joint missions) to identify joint and complementary financing opportunities for future projects.

**Project Objective and Description:**

The project's objective is to help restore basic water supply and sanitation services and urban services in the poorest areas of the country, choosing subprojects that will have high impact. The project finances water supply and sanitation rehabilitation in nine cities, and rehabilitation of urban infrastructure in the poorest areas of three cities.

The project will also create vitally needed short-term employment and strengthen Iraq's capacity to manage large-scale reconstruction. It will also contribute to the reduction of waterborne diseases, a major contributor to infant and child mortality.

**Geographic Coverage:**

Water Supply/sanitation in nine municipalities: Karbala, Majar, Beji, Kena'an, Al Hussainia, Al-Samawa, Badawa, and Dukan;

Complementary urban upgrading in three of the municipalities: Karbala, Badawa, and Basra.

**Beneficiaries:**

Rehabilitation financed under the project will benefit over 2 million in nine municipalities.

**Near-Term Employment Creation:**

The project will create substantial employment – estimated at a minimum of 3,000 short-term jobs – through construction contracts awarded to Iraqi firms. Although there were no initial projections of job creation, numbers of jobs created will be tracked and reported on a quarterly basis.

**Project Components and Costs:**

1. **Rehabilitation and upgrading of water systems** (US\$54 million) in:
  - (a) **City of Karbala** (US\$16.34 million): rehabilitation of two treatment plants, part of the distribution network, and trunk and lateral sewer lines;
  - (b) **Majar** District in Maysan Governorate (US\$3.16 million): replacement of two water treatment units, rehabilitation and extension of distribution networks, pumping stations and installation of about 3,000 house connections, in order to supply 18,000 inhabitants in two villages with potable water;
  - (c) **Beji** in Salah al-Din Governorate (US\$1.83 million): replacement of two water treatment units, rehabilitation of distribution networks, and installation of about 2,000 home connections, to provide potable water to 16,000 inhabitants in two villages;
  - (d) **Kena'an** District in Diyala Governorate (US\$1.89 million): replacement of three water treatment units, rehabilitation of distribution networks and installation of about 2,700 house connections, to provide potable water to about 22,000 inhabitants in three villages;

- (e) City of **Al-Hussainia** in Baghdad Governorate (US\$7.6 million) supply and construction of a water intake, a raw water transmission line, a water treatment plant with five water treatment units, and a distribution network including house connections, to supply potable water to city of 135,000 inhabitants, of which 60% do not have access adequate water access;
  - (f) **Al-Samawa** in Al-Muthana Governorate (US\$12.34 million): supply and installation of 8 water treatment units, supply and installation of 25 km of a new water pipeline, and a staging water tank, and the rehabilitation and upgrading of 3 low lift pumps, three high lift pumps, and a pumping station, in order to reduce water shortage in the cities of Al-Samawa (pop. 196,000), Al-Khadir (pop. 86,000) and Al-Suqair (pop, 38,000) and 10 large villages;
  - (g) **Badawa** slum in Erbil City (US\$1.5 million): supply and installation of a water distribution network, drilling 10 wells, installing pump houses, storage tanks, chlorinators and diesel generators in order provide potable water and sewerage to the Badawa population (total 42,000), which is entirely dependent on water wells;
  - (h) **Dohuk** Governorate (US\$4.92 million): supply and construction of a water distribution network and storm-water drainage system to relieve existing conditions in the western section of the city, where 10,000 plots of land were distributed to poor and displaced families.
  - (i) **Dukan** (US\$4.48 million): total rehabilitation of the water supply system, including distribution network, pumps, reservoir, tanks, etc., and construction of intake works and a water treatment plant.
2. **Urban rehabilitation** (US\$22 million) in
    - (a) **Karbala** (US\$6.4 million): rehabilitation of existing damaged streets and squares, the traditional market and Al-Abbas street, and an environmental impact assessment study of a new municipal slaughterhouse.
    - (b) **Badawa** (US\$7.76 million): construction of a storm water network to collect and drain rainwater into the city trunk main, and upgrading of unpaved neighborhood roads and main streets.
    - (c) **Basra** (US\$7.78 million): resurfacing of main streets, upgrading of neighborhood internal dirt roads to paved roads, construction of pedestrian sidewalks, and construction of a new storm water drainage network.
  3. **Capacity building** (US\$4 million), including consulting services to undertake final designs and tender documents and for construction and implementation supervision.
  4. **Physical and price contingencies** (US\$10 million)

#### Project Costs by Type of Expenditure:

**Civil works:** US\$65 million

**Goods:** US\$11 million

**Consulting services:** US\$4 million (60% local)

**Price and physical contingencies:** US\$ 10 million



#### Detailed Status of Implementation and Disbursements:

The Ministry of Municipalities and Public Works contracted local and international consultants to prepare tender documents and detailed designs, and to subsequently supervise works. The design phase is completed and the ministry is now moving to the phase of contracting civil works. Work is underway for the US\$27 million contract for urban rehabilitation and upgrading of the water supply system of Badawa (Erbil). The ministry has also completed a nationwide water and wastewater survey to update the 2003 Joint Needs Assessment. The ministry, with possible help from Japan through a PHRD grant, is preparing a comprehensive National Water Supply and Wastewater Sector Study. The study aims at enhancing water supply and wastewater services in Iraq and will include: appropriate sector strategies, and policies; options for restructuring sector institutions; a medium-term investment program to enhance

current services; an emergency plan for efficient asset management; and an indicative sector-wide financing plan.



*Work in Progress (Badawa)*

## EMERGENCY COMMUNITY INFRASTRUCTURE REHABILITATION PROJECT

**Grant Amount:** US\$20 million      **Effectiveness Date:** December 2004      **Closing Date:** June 2007

**Implementing Entity:** Ministry of Water Resources

### **Strategic Context and Donor Coordination:**

The project employs a flexible programmatic approach that allows interventions to adapt to the changing realities on the ground and to the interventions of other donors. Although the project's focus is on job creation and local impact, it could help lay the groundwork for irrigation and drainage sector rehabilitation and reform.

### **Project Objective and Description:**

*The project aims to generate near-term employment while addressing urgent rural rehabilitation needs through a flexible program of labor-intensive civil works to improve rural water supply and sanitation and irrigation and drainage.* The project finances four pre-identified subprojects and 16 additional subprojects that have been identified and prepared during the course of the project.

### **Geographic Coverage:**

Fourteen governorates. Subprojects are currently under implementation in the governorates of Missan, Baghdad, Thi-Qar, Sulaymaniyah, Wasit, Najaf, Diyala, Karbala, Erbil and Salahuddin. Other potential project areas are: Babel, Missan, Dahook and El-Qadisiah.

### **Beneficiaries:**

The project will benefit about 120,000 rural inhabitants by improving irrigation, drainage, and water supply, affecting about 80,000 hectares.

### **Near-Term Employment Creation:**

Job creation is a specific project objective. The project will create more than 20,000 job opportunities in total.

### **Project Components and Costs:**

1. Subprojects in 10 governorates (US\$12 million)
2. Subprojects to be identified in other priority areas (US\$3 mil.)
3. Procurement of goods for the MoWR (US\$ 2.3 million)
4. Project management and capacity building (US\$0.7 million)
5. Physical and price contingencies: US\$2 million

### **Project Costs by Type of Expenditure:**

**Civil works:** US\$15 million;

**Goods:** US\$2.3 million (earthmoving equipment, vehicles);

**Consulting services & institutional strengthening:** US\$0.7 mil.

**Contingencies:** US\$2 million



### **Detailed Status of Implementation and Disbursements:**

*After a slow start, the project is now fully satisfactory and implementing at a rapid pace.* The project is now fully satisfactory and implementing at a rapid pace. Fourteen subprojects amounting to US\$9 million are completed in eight governorates. Eight subprojects are underway (completion rates averaging 60% with five of them expected to close by end-June 2007).

So far, the project has created an estimated 114,000 man-days of employment, has improved 57,000 hectares of irrigated areas; and has benefited over 70,000 farmers. There has been an average of 6-7 bidders per contract, indicating a competitive procurement environment.

The Bank and the Ministry of Water Resources are discussing a possible follow-up project, subject to additional deposits to the Iraq Trust Fund.



*Building canals near Sulaymaniyah*



## EMERGENCY SOCIAL PROTECTION PROJECT

**Grant Amount:** US\$8 million    **Effectiveness Date:** June 2006    **Closing Date:** September 2007

**Implementing Entity:** Ministry of Labor and Social Affairs, Ministry of Finance

### **Strategic Context and Donor Coordination:**

The World Bank is responding to a direct request from the Minister of Labor and Social Affairs in October 2005, followed up by an official letter in January, 2006, for support in social safety net and pension reform design and implementation processes within the context of the Government's NDS. The ultimate goal is to provide vulnerable populations with the support they need to sustain themselves. The project will also complement the "Strengthening Policy Making for Poverty Reduction, Employment Generation and Safety Net Development" project (SPM) also under preparation by the Bank.

The main donor involved in the project is USAID, which has been providing policy advice in Pensions and Safety Net, and supporting the design of the revised Social Safety Net Program. USAID is financing Bearing Point, who has a presence on the ground. The Project will finance the scaling up of the Bearing Point/USAID SSN information system pilot. Bearing Point/USAID staff were part of project preparation and appraisal missions, as well as the launch workshop that took place in September 2006. They will be invited to join all supervision missions.

### **Project Objective and Description:**

The project aims to strengthen Iraq's capacity to develop equitable and sustainable social safety net and pensions programs to better assist poor and vulnerable populations. The project will finance the implementation of modern management and information systems improve the targeting of safety nets and reduce leakages, thereby increasing the benefits that reach the poor.

### **Geographic Coverage:**

Nationwide

### **Project Components and Costs:**

1. Safety Nets (US\$6.3 million)
2. Pensions (US\$0.8 million)
3. Project Management (US\$0.8 million)



### **Project Costs by Type of Expenditure:**

**Goods:** US\$4.5 million (IT equipment);

**Technical Assistance:** US\$1.1 million; **Training:** US\$0.8 million; **Contingencies:** US\$1.6 million.

### **Implementation and Status:**

The project launch workshop was held on September 10-19, 2006 to ensure all stakeholders understand the project components and implementation arrangements, and to provide training on procurement and financial management.

<b>EMERGENCY HOUSEHOLD SURVEY &amp; POLICIES PROJECT</b>
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**Grant Amount:** US\$6.1 million      **Effectiveness Date:** July 2006      **Closing Date:** September 2007

**Implementing Entity:** US\$5.1 million are implemented by the Ministry of Planning and Development Cooperation; the Kurdish Regional Government (Statistics Agency). **The US\$1.5 million technical assistance component is implemented by the World Bank.**

**Strategic Context and Donor Coordination:**

The proposed project is consistent with the Bank's Country Assistance Strategy: helping Iraq build efficient, inclusive, transparent, and accountable institutions as stated in the second ISN.

The survey was designed to complement and update the UNDP sponsored survey which was done two years ago. Moreover, the survey was very carefully coordinated with UNICEF's Household Survey, visiting the same households in order to merge the two survey data sets.

**Project Objective and Description:**

The project aims to strengthen Iraq's ability to establish a poverty line, target social assistance to the neediest, and make informed policy decisions. The project finances a comprehensive household survey, data analysis, and poverty & social impact assessments.

**Geographic Coverage:** Nationwide

**Beneficiaries and output:**

	<b>GOI Executed Sub-Project (US\$5.1 million)</b>	<b>WB Executed Sub-Project (US\$1.5 million)</b>
<b>Component 1: Poverty Assessment and Data Sets</b>	GOI team work on Poverty Assessment and Data Sets	Technical Assistance for Poverty Assessment and Data Sets
<b>Component 2: Poverty and Social Impact Analysis Report</b>	GOI team work on Poverty and Social Impact Analysis Report	Technical Assistance for Poverty and Social Impact Analysis Report
<b>Component 3: GOI Strategy for Poverty Reduction, Employment Generation and Safety Nets</b>	GOI team work on Strategy for Poverty Reduction, Employment Generation and Safety Nets	Technical Assistance for Strategy for Poverty Reduction, Employment Generation and Safety Nets

**Project Components and Outputs:**

The project has three components:

- (i) collect and analyze data on poverty and unemployment.
- (ii) assess the effect of economic policy options on both poverty and employment, including the impact of sequencing reforms and policies;
- (iii) develop information-based strategies to reduce poverty, generate employment, and improve the functioning of social safety nets.

**Implementation and Status:**

Field work started last November in all 18 governorates, initiating the 1<sup>st</sup> nation-wide household survey in Iraq since 1998. **3,000 households were surveyed so far.**

**SUPPLEMENTAL GRANT FOR MARSHLAND SCHOOLS (US\$6 MILLION)**

**Grant Amount:** US\$6 million      **Effectiveness Date:** October 2006 **Closing Date:** September 2007

**Implementing Entity:** Ministry of Education

**Strategic Context and Donor Coordination:**

The MoE and the Bank have prepared a new component to the Emergency School Construction project to be financed by additional financing of US\$6 million. Signed on October 31, 2006, it finances the construction of about 30 small schools in the marshland areas of Basra, Thi-Qar, and Missan using small contractors and local labor. It will emphasize local stakeholder involvement, using NGOs to mobilize and train local school/community committees to undertake small site improvement works in each school site.

The project was prepared with representatives from the three governorates concerned, and will be implemented in the governorates under the overall guidance of the Project Management Team in Baghdad.

**This Marshland Schools component would benefit 6,000 – 8,000 children** and help stabilize the resettlement of about 30 communities in existing villages.

**Project Objective and Description:**

The project provides additional funding for the Emergency School Construction and Rehabilitation Project, to construct approximately 36 new schools in the Marshland areas of Basra, Nasiriyah and Missan.

**Geographic Coverage:** Marshland Areas of Southern Iraq (Basra, Thi-Qar and Missan)

**Near-Term Employment Creation:**

The project will create over 90,000 man-days of construction work.

**Implementation and Status:** Construction is expected to begin in August 2007.

**EMERGENCY ENVIRONMENT MANAGEMENT PROJECT**

**Grant Amount:** US\$5 million    **Effectiveness Date:** December 2006    **Closing Date:** September 2007

**Implementing Entity:** Ministry of Environment (MOE)

**Strategic Context and Donor Coordination:**

The Second Interim Strategy for Iraq supports sector reform agenda on environment, water and waste water management, energy, agriculture and drainage and education sectors to be funded through the ITF as well as International Bank for Reconstruction and Development (IBRD) and International Development Agency (IDA) credit. The environment section of the *Second Interim Strategy* calls for (a) the *provision* of training on environment and social safeguards based on the Environment and Social Screening and Assessment Framework (ESSAF) for Iraq, (b) developing and implementing the Emergency Environment Management Project (EEMP) and (c) preparing a regional project in Shatt El Arab. EEMP is the first environmental operation in Iraq.

**Project Objective and Description:**

The project development objective is to strengthen key institutional and regulatory functions of the Ministry of Environment. These key institutional and regulatory functions will enable Ministry of Environment to undertake environmental policy analysis and coordination, formulate laws and regulations, monitor environmental quality, promote environmental awareness and conduct technical studies.

**Geographic Coverage:** Nationwide.

**Beneficiaries / Outputs:**

- Prepare an Environmental Action Plan to analyze environmental issues and propose priorities for intervention in the next 3-5 years.
- Install and monitor 18 air quality monitoring stations installed in three cities;
- Prepare Master Plan for solid waste management in Baghdad;
- Prepare a health care waste management plan.

**Project Components and Costs:**

The project will comprise three components:

- (i) Strengthen the Environmental Management Capacity of the MOE (US\$0.9 million)
- (ii) Develop Capacity in Environmental Monitoring (US\$ 2.6 million)
- (iii) Strengthen Technical Capacity in Waste Management (US\$0.8 million)

**Implementation and Status:** Project effective since January 2007.

**ANNEX 3: ITF IRAQI-IMPLEMENTED PROJECTS BY GOVERNORATES**

IBRD 35173

