

Iraq Reconstruction, Rehabilitation and Reform Program

Progress and the Way Ahead

**The World Bank
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Macroeconomic Context

- GDP down by about 30% in 03, projected to recover strongly by 60% in 04, per capita GDP reaching US\$900. Currency exchange successfully completed, new Iraqi Dinar exchange rate broadly stable since January at 1350-1450/US\$1; CPI inflation in 2003 was 36%, projected to decelerate to 30% in 2004
- Oil production at 2.6 mbd (close to prewar); power generation 75% of pre-war level
- Export/budget revenues for 2004 projected at \$14 billion, mostly for recurrent needs. Capex (about US\$15 bn) financed largely by grants and US supplemental budget.
- Private non-oil activity up strongly through trade, fiscal spending and rising public wage-bill, but insecurity looms large and unemployment remains very high – official rate is 30%, but in reality could be much higher
- Most public schools, universities, and hospitals open, many are being rehabilitated; water, sewerage rehabilitation is proceeding
- External debt discussions on-going, standstill on debt service payments.
- Important reforms initiated: liberalization of most prices except food and energy and of foreign investment regime; abolition of trade licensing and tariffs; liberal banking laws. WTO observer status obtained, early negotiations envisaged on WTO accession
- Recently reforms stalled while oil production and exports declined. Pending the formation of the provisional government, reforms of prices, SOEs, social safety nets & trade policy will not proceed. Planned 5% reconstruction levy not yet in effect

The Operational Context

- **Continued focus on partnership with Iraqi entities**
 - MOPDC as coordinator, and reliance on Iraqi Strategic Review Board Approval *WITH*
 - Strong line-Ministry contact on programs: MOF, CBI, MPWM, MOE, MOHE, MOH, MOT, MOC, MOE, Baghdad Municipality, Supreme Audit Board, others.
- **And International Partners**
 - UN on Emergency Programs, Training and Economic/Policy Work
 - DFID & USAID on Training and Economic Sector Work
 - Coordination with CPA and PMO
 - Regular Dialogue with Bilaterals (JICA, CIDA, etc.)
- **Implementation through Iraqi Ministries/Institutions**
- **Guided by WB Interim Strategy for Iraq**

Progress with WB Interim Strategy

- Prepared end-January, based on Needs Assessment, and covers WB work until October 2004
- Uses Donor Funds until Bank accesses IDA/IBRD funds
- In consultations with Iraqis, UN & others. Focus on Iraqi implementation, with WB support and capacity building.
- Three Pillars:
 - Emergency Operations (\$400-\$600): (i) essential infrastructure and services; (ii) employment-creating; and (iii) kick-starting economic activity
 - Build capacity to : (i) manage large donor projects; (ii) procure under donor financing; (ii) provide transparent accounting; and (iv) reforms in various sectors (private sector, power, telecom, environment, etc.)
 - Policy support for: (i) transition to an open market; (ii) capable public sector to support the private sector; and (iii) assurance that the poor and vulnerable do not lose out (safety nets, poverty, safety nets)
- Followed by Transition Support Strategy- with more focus on institutions, private sector development and social protection.

Theme 1: Emergency Operations

Provision of key infrastructure & social services, employment creation

- Education Sector the first to be implemented:
 - First Grant Agreement signed for \$40 mn Emergency Textbook Printing Project (May 15th). Implementation started to print 60 mn textbooks for this school year.
 - Second component, \$60 mn Emergency School Rehabilitation Project, to be signed end May. Will rehabilitate over 700 schools in 5 governorates.
 - Supported with UN/Donor collaboration on: curriculum reform, teacher training, overall sector reform.

Theme 1: Emergency Operations (continued...)

- **Emergency Infrastructure Rehab- pre-appraised in May, appraised in June, implemented in 2nd half of 04 (\$100-\$120 mn):**
 - Baghdad and other Urban Areas
 - Rehab of Water Supply and Sanitation
 - Urban Development & Municipal Infrastructure
 - Capacity Building/Project Management
 - Followed by \$200-\$300 mn in Power and Transport (incl. Public Transport), Urban Development, Telecom (Stage II).
- **Emergency Community Infrastructure in Rural Areas- pre-appraised in May, appraised in June, implemented in 2nd half of 04 (\$20 mn Pilot):**
 - Labor-intensive projects of less than \$300,000 each
 - First phase (\$20 mn) will focus on irrigation rehabilitation, water supply and sanitation in rural areas. Strong focus on pilot-projects
 - Capacity Building/Project Management
 - Will link into Agriculture and Rural Development Policy Framework to assess medium/long-term needs for institutional development. To be followed by Agriculture Rehabilitation and Institutional Development Project (tentatively \$70 mn).

First Emergency Operations and Small WB Grants to NGOs...



WB VP, Minister of Education and Minister of Planning and Development Cooperation sign First Grant Agreement for Emergency Education Project



WB VP and H.E. Dr. Al-Khuzai, Member of Governing Council and NGO Head, sign WB Development Grant Facility for Iraqi Widows Organization (micro-credit facility)

Theme 2: Policy Support

Laying the Basis for Medium-Term Development

The Three Cornerstones of a Coherent, Medium Term Strategy:

- A Sustainable and Open Economy that Relies on Iraq's Private Sector- **Macro Stabilization & Transition to a Market Economy.**
- A Supporting & Transparent Public Sector that Encourages Private Sector Resources and Initiative to their Maximum, and Ensures Public Welfare- **Public Sector Reform.**
- A System to Ensure that the Poor and Vulnerable do not Lose Out from the Reforms Above- **Poverty, Social Protection & Social Development**
- WB discussions on Policy Work with MOP, MOF, CBI in Amman, Beirut and Washington during Spring Meetings.
- Economic & Sector Work, Capacity Building & Policy Advice.
- In addition, work has begun on sector-specific policies, which go hand-in-hand with overall reforms.

Theme 2: Policy Support

(continued...)

➤ Economic Reform and Transition

- Incentive Framework and Strategy, including Pricing Regime
- Oil and Gas Sector Reform
- Financial Sector, include. Public Bank Reform, Supervision, Payment System
- Investment Climate- tackling FDI, legal/commercial framework
- SOEs, Institutional Reform, Labor Adjustment, Public Awareness
- Agricultural and Rural Policy and Institutional Framework- unshackling the Agriculture input and output market.

➤ The WB Response

- Financial/PSD Seminar/Roundtables with Key Policy Makers- January/February
- Iraqi Business Women Workshop and Canada Study Tour- April
- SOE/Investment Climate Training Workshops-Policy Discussions-Study Tours- April/May
- Support to Prepare an Iraqi SOE and FDI Public-Private Working Group
- Study Tours for Transport Reform, Urban Mgmt, Water Utility Mgmt in May/June
- Capacity Building on Infrastructure Regulation-July
- Payment Systems and Banking Supervision Training- June and July

Theme 2: Policy Support (continued...)

➤ Public Sector Reform

- Financial Management and Procurement
- Priorities in Public Expenditures and Budget Management
- Civil Service Reform and Governance
- Fiscal Decentralization
- Anti-Corruption

➤ The WB Response

- Extensive Training on Procurement, Financial Management, Project Management- February
- Environmental and Social Safeguards Training-March
- Workshops and Development of Sector Policy Notes (Telecom)-March
- Review of Laws, including budget/financial mgmt, Competition Policy, Insurance, Public Contracts, Commercial Leasing, etc.
- Independent Assessment of Public Sector Procurement Framework
- Discussions with MOF for Capacity Building within Ministry
- Also tackled under work for SOE reform, Institutional Development for SOEs, Public Awareness Campaign, etc.

Theme 2: Policy Support

(continued...)

- **Poverty, Social Protection and Social Development**
 - **Poverty and Safety Nets- Affects of Price Liberalization and Mitigating Measures**
 - **Social Development Analysis, to identify the vulnerable groups**
 - **Development of Social Safety Nets**
- **The WB Response**
 - **Draft Country Social Analysis**
 - **WFP Collaboration to Analyze food subsidies, markets and impacts of PDS**
 - **Workshop on Pensions and Social Protection- June**
 - **Initial Assessments of Vulnerable Groups, Social Protection Options**

Theme 2: Policy Support

(continued...)

➤ Other Sector Policies to Support Reforms have Taken Place

➤ Health

- Strong Collaboration with WHO/EMRO to support MOH
- WB to focus on Master Planning, National Health Accounts, Health Management, Information System, Pharmaceutical Procurement.
- Two WB local staff within MOH
- Senior Policy Seminar in January, jointly with MOH
- NHA Workshop and Training to MOH- May
- Health Master Planning Training- May

➤ Education

- In addition to First and Second Emergency Operations
- Education Policy Roundtable in January
- Workshop on ICT and Teacher Training (jointly with British Council and Microsoft)
- Higher Education Reform Training- June

Theme 2: Policy Support

(continued...)

➤ Telecom

- High-Level Telecom Policy Workshop in collaboration with ITU
- Support to H.E. Minister of Communications in Developing a Policy Note
- Training and Development of Workplan for WB Support to MOC on Restructuring, Regulatory Reform, Legal Framework, etc.

➤ Agriculture

- Collaboration with Ministry of Agriculture for Development of Institutional Framework for Agricultural and Rural Development, to be followed by potential WB assistance to the Sector

Theme 3: Training and Capacity Building

- **First Use of Donor Funds (EC Funds to be followed by \$10-\$20 mn from IRFFI)**
- **Sector Specific Training, Internships, Study Tours.**
- **Training in Amman, Beirut, Canada, Washington, UK, Tunisia, Egypt, and Baghdad through VCs.**
- **Includes Project Implementation, Procurement, Financial Management, Social and Environmental Safeguards.**
- **Includes Sector-Level Training in Education, Health, Telecom, Infrastructure, PSD, SOEs, Financial Sector, etc.**
- **Table of Training Delivered Provided Separately.**

IFC Role

IFC received Board approval in December for:

- **Small Business Financing Facility, to finance micro and small businesses and TA. Donors approached for:**
 - \$30 million for TA (\$16 mn so far from donors)
 - \$25 mn (fully funded by donors) for a subordinated tranche of investment component for financial institutions to lend to SMEs (IFC will contribute \$50 mn)
 - IFC is identifying participating financial institutions, technical experts & service providers
 - First partner already identified
- **The Private Enterprise Partnership for the Middle East (PEP-ME) for Iraq, Afghanistan, West Bank Gaza and Yemen**
 - A 4 year, \$40 mn TA initiative for private sector development
 - Seeking \$30 million from donors

Cross-Cutting Issues

➤ Environment

- WB Environmental and Social Safeguard Training- March
- Development Environmental and Social Assessment Framework for Iraq- Implemented WB Programs
- Follow-up Training on Safeguards for Infrastructure Projects-May
- Continued dialogue with stakeholders and Donors on Gulf Environmental Action Plan

➤ Gender

- Pilot Post-Conflict Grant Facility (\$50,000) to the Iraqi Widow's Association, providing Micro-credit to Widow's in Diwaniyeh. To be followed by TA and potential additional funding
- Mainstreaming Gender in our CDD Projects
- Workshops in Amman, & Study Tour for Iraqi Businesswomen to Canada-March

➤ Employment Generation

- Key Component of Rural Project
- Micro-credit pilot project (Diwaniyah)
- IFC's SME Facility

Goals As We Move Forward

- **Strong Efforts to Avoid Overlap:**
 - Weekly WB/UN/CIC Videoconference through Amman Office
 - WB/UNAMI Coordination in Amman
 - Regular Communication with MOP, ISRB
 - Dialogue with CPA, PMO to ensure cross-briefings
 - Dialogue with Donors
 - Reliance on Iraqi initiative and role of Coordinating Ministry should help mitigate overlap.
- **Support to Iraqi Ministries and Agencies as they Begin to Implement WB Programs**
 - Amman Office with Constant Contact with Baghdad
 - Increased Number of Higher-Level Iraqi Technical Staff in Baghdad
 - Videoconference Facilities in Green Zone, MOP and soon in CBI
- **Coordination for IRFFI through set-up of Secretariat**

Thank You



The World Bank