

## **TERMS OF REFERENCE**

### **International Reconstruction Fund Facility for Iraq**

(Adopted at IRFFI Donor Committee Meeting, Bari, Italy - October 2007)

#### **I. Introduction**

1. One of the recommendations that came out of the June 24, 2003 meeting on the reconstruction of Iraq was that the United Nations (UN) and the World Bank (the Bank) should work with the Iraq Core Group, taking into account the views of donor countries, to develop a proposal for the establishment of a multi-donor funding framework for Iraq.

2. These terms of reference build on discussions held with Iraqi national authorities and donor representatives between August and December 2003 in Washington, D.C., Brussels, New York, Dubai, Madrid and Amman. They were revised between July and October 2007, at the request of the Donor Committee following its fifth meeting in Istanbul on March 20, 2007. The revisions occurred in response to a request from the Government of Iraq for a clear leadership role. The revisions also reflect the need, after four years of operation, for IRFFI to turn its primary attention to effective implementation of established priorities, notably through oversight and monitoring of the projects designed to fulfill them, as well as evaluation of their impact.

3. Given the unique circumstances of Iraq, it is critical to mobilize the donor community behind innovative solutions to help clear the way for the rapid reconstruction of Iraq. It is in this spirit that the International Reconstruction Fund Facility for Iraq (IRFFI) was established and is being implemented.

#### **II. Purpose and Principles**

4. A Needs Assessment<sup>1</sup> was carried out by the World Bank and the United Nations Development Group (UNDG), in consultation with the International Monetary Fund, during the period June through August 2003, in order to define the reconstruction requirements of Iraq. The Needs Assessment covered 14 priority sectors and cross-cutting themes, and identified investment needs and priorities for the short and the medium term.<sup>1</sup> The document was finalized following consultations in Dubai and Madrid with the Iraq Core Group, representatives of Iraq's Governing Council, Iraqi sector ministries and the Coalition Provisional Authority (CPA). At the Madrid Conference of October 23-24, 2003, the donors present, representatives of the Iraqi Governing Council and Iraqi Ministers of Planning and Finance endorsed the findings and recommendations of the Needs Assessment.

5. In parallel with the Needs Assessment, the World Bank and UNDG designed IRFFI ("the Facility") to help donors channel their resources and coordinate their support for reconstruction and development activities in Iraq, in line with the priority areas emerging from the Needs Assessment and validated by the Iraqi authorities.

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<sup>1</sup> The Needs Assessment sectors are: education; health; employment creation; water and sanitation; transport and telecommunications; electricity; housing and land management; urban management; agriculture, water resources and food security; finance; state-owned enterprises; investment climate; mine action; and government institutions. Cross-cutting themes include: macroeconomics; economic management; human rights; gender; and the environment. Other sectors, such as cultural heritage and drugs and crime, were also assessed with UN support outside of the joint UNDG/World Bank process.

6. The Government of Iraq has outlined its development objectives and priorities in the National Development Strategy (2004, 2005, and 2007) and the International Compact for Iraq (2007). The objective of the National Development Strategy (NDS) is to serve as the overarching framework for government reconstruction and development activities. The International Compact with Iraq (ICI) serves as a mechanism for Iraq to meet clear security, political, and economic reform benchmarks, with the support of the international community. The ICI builds on the NDS by providing specific goals for economic reforms, that when implemented, will substantially increase the Government of Iraq's ability to utilize its own resources in pursuit of its national vision. The ICI emphasizes the link between security and political stabilization issues on the one hand, and reconstruction and economic development on the other. It also provides a framework that defines how the international community will support those reforms.

7. The objective of IRFFI is to ensure coordinated, flexible and swift donor response for financing priority expenditures, including reconstruction activities, sector-wide programmes, investment projects, technical assistance and other development activities, within the framework of the NDS and ICI. In particular, IRFFI activities should support the implementation of the ICI and the evolution of the NDS. The emphasis of IRFFI has shifted since its inception towards implementation, monitoring, evaluation and the sustainability of projects.

8. While recognizing that the current situation in Iraq presents unique challenges and constraints, the proposed Facility operates, to the extent possible, based on those principles that normally apply to multi-donor trust funds in a post-conflict situation. The arrangements aim to ensure, in particular, that:

- Each project approved for funding is part of a priority programme of reconstruction and development activities identified and approved by the Government of Iraq, while allowing for new IRFFI contributions to the UN Trust Fund to be specifically earmarked to meet the needs of IDPs and returning refugees.

The activities financed by IRFFI are implemented as much as possible by the Iraqis themselves, under the ownership and leadership of the Government of Iraq, with the aim to develop sustainable local capacities.

- Implementation and funding modalities: (i) provide for transparency and accountability; (ii) facilitate efficient and prompt delivery; and (iii) support the progressive development of a unified budget and coherent public expenditures process.
- The unified donor coordination and funding structure avoids the emergence of gaps or duplications in funding, and promotes consistency in policy advice and sustained budget expenditure planning.

### **III. International Reconstruction Fund Facility for Iraq**

9. Consistent with the above principles, the Facility establishes a coordinated arrangement whereby donors can fund activities administered by UNDG on behalf of the Participating UN Organisations and/or activities administered by the World Bank, with an agreed structure for joint coordination and monitoring mechanisms. Close coordination is achieved through the Donor Committee and the Executive Committee. The Donor Committee oversees the activities of the Facility as a whole and endorses its overall priorities. The Executive Committee is chaired by the Chairperson of the Iraqi Strategic Review Board (ISRB) and is comprised of the Donor

Committee Chairperson, and representatives of the United Nations and the World Bank. The Executive Committee ensures alignment between IRFFI activities and the overall Iraqi priorities, including those enshrined in the ICI, and coherent planning, monitoring, and reporting between UNDG and Bank activities.

10. The Facility will have two trust funds for donor participation. Donors may channel resources through either or both the World Bank Iraq Trust Fund, administered by the Bank, or the UNDG Iraq Trust Fund, administered by the United Nations Development Programme (UNDP) on behalf of itself and Participating UN Organisations. Each trust fund has its particular characteristics as described in Annexes 1 and 2. In summary:

- The World Bank and the UNDG Organisations utilize their complementary strengths to address Iraqi development priorities, each in accordance with its operational policies.
- Whenever possible and to the extent that it does not jeopardize the privileges and immunities accorded to them and the safety and security of their staff, the participating UN Organisations and the World Bank, in consultation with the appropriate Iraqi authorities, promote donor visibility on information, project materials and at project sites.
- A donor enters into an Administration Agreement with the respective Trust Fund Administrator, as the case may be. Donors contributing to both trust funds enter into one Administration Agreement with the World Bank and another Administration Agreement with UNDP.
- The UNDG and the Bank both offer “holding accounts” as part of the Facility for the benefit of donors who may wish to deposit all or part of their contributions to an account pending their allocation decisions.
- Unless otherwise agreed by the donors and the Bank and the UNDG Organisations, the respective Trust Fund arrangements will terminate on the earlier of: (i) December 31, 2010; or (ii) such date as the contribution funds will have been fully disbursed.

### **Interface between the Government of Iraq and the Facility**

11. To operationalize the principles noted above, activities financed by the World Bank Iraq Trust Fund and the UNDG Iraq Trust Fund are carried out under the leadership of the Government of Iraq in order to ensure that gaps are filled and overlaps avoided and that there is consistency and coherence between Facility-financed activities and the overall Iraqi priorities and budget.

12. Iraqi-led development assistance for IRFFI is carried out as follows:

- The NDS provides strategic vision and direction.
- The ICI provides the mechanism for overall coordination between the Government of Iraq and the international community.
- The ISRB provides overall guidance for donor assistance. It holds the final approval Authority for the Government of Iraq on recommendations for project funding from both the UNDG Iraq Trust Fund and the World Bank Iraq Trust Fund.

- The Ministry of Planning and Development Cooperation of Iraq (MoPDC), serving as Chair of the ISRB, is the Government’s primary interlocutor with the Facility.
- The MoPDC ensures that resources are applied toward Iraq’s prioritized needs and are equitably distributed. The Ministry works closely with the Ministry of Finance to ensure conformity with the overall budgetary framework, and maintains an overview of the project development and implementation processes of the two Trust Funds.

### **The World Bank Iraq Trust Fund**

13. The World Bank Iraq Trust Fund is administered by the Bank according to its policies and procedures. The Bank may apply emergency procedures, simplified project design, and project start-up support through training of Iraqi authorities on Bank procedures, including procurement and financial management. Details of the World Bank Iraq Trust Fund are provided in Annex 1. The World Bank operates on three tracks:

- Capacity building of Iraqi counterparts that facilitates sound project implementation;
- Sectoral programmes that may include a menu of specific projects, which can be expanded; and
- Projects and policies that aim to establish building blocks for sectoral and structural policy reforms and larger scale development.

14. The Bank may operate in all priority socio-economic sectors and cross-cutting themes identified by the Government of Iraq, with particular emphasis on areas where the Bank has comparative advantage. For project financing, the categories of expenditures that are eligible for financing from the World Bank Iraq Trust Fund include:

- Investment and capital expenditures, including pre-feasibility studies, and incremental recurrent costs directly relating to the supported investment and capital expenditures; and
- Technical assistance and training.

15. A donor may state a preference that its contribution be used to support one or more of the sectors in which the fund addresses Iraqi priorities. In the event that a donor's preference cannot be accommodated, the World Bank may allocate the contribution to other sectors with the agreement of the donor.

### **United Nations Development Group Iraq Trust Fund**

16. The role of the United Nations in Iraq derives from the relevant Security Council Resolutions (SCRs). As set out in the current SCR 1770, the Special Representative of the UN Secretary General in Iraq shall play an active role in the coordination of donors’ critical reconstruction and assistance programmes through the Facility, as well as facilitating and promoting contributions of UN agencies funds and programmes through the unified leadership of the SRSG.

17. The vehicle for receipt of contributions to support the UNDP-administered Iraq Trust Fund is known as the “UNDG Iraq Trust Fund” and helps finance the implementation of the activities entrusted to the UN system in Iraq by its executive bodies. The UN may operate in all priority socio-economic sectors and cross-cutting themes identified by the Government of Iraq,

with particular emphasis on areas where the UN has comparative advantage. Its functions may cover technical assistance and capacity building across the following areas, in particular:

- (i) capacity and institution building for human development and social justice;
- (ii) the delivery of essential social services, in the area of health in particular;
- (iii) the empowerment of civil society and local communities;
- (iv) the protection and reintegration of and delivery of assistance to vulnerable groups including internally displaced persons and returning refugees;
- (v) water resources and food security;
- (vi) infrastructure rehabilitation;
- (vii) the promotion of human rights and the rule of law; and
- (viii) private sector development and employment generation, with due regard to cross-sectoral issues such as gender equality and environmental protection and management.

18. The UNDG Iraq Trust Fund is administered by UNDP, in its capacity as chair of the UNDG, according to its regulations and rules. Under the UNDG Iraq Trust Fund, donors may earmark their contributions by sector/cross-cutting theme and/or by UN agency. Its detailed operational modalities are described in Annex 2.

#### **The Administrators**

19. The Administrators, i.e. the Bank and UNDP, are each responsible for establishing and maintaining appropriate records and accounts to identify the contributions to the trust funds, the commitments to be financed out of the contributions, and the receipt and disbursement of said funds, in accordance with the arrangements set forth herein.

#### **IV. Coordination Arrangements**

20. Coordination between the two trust funds is ensured by the Donor Committee, Executive Committee, and the Secretariat.

#### **The Donor Committee**

21. The Donor Committee comprises donors whose paid-in contributions or binding commitments to either or both of the trust funds amount to a minimum of US\$10 million. In addition, two seats on the Donor Committee are given to representatives of other donors who do not meet this contribution threshold, according to a procedure to be decided upon by the Committee. The World Bank, UNDG, IMF, and the MoPDC hold observer status. The Donor Committee may be expanded to include other institutional observers. The Donor Committee Chairmanship will be drawn from among the international donor members of the Donor Committee. A detailed description of the role of the Chair is attached in annex to these Terms of Reference.

22. The Donor Committee endorses overall priorities for, and provides strategic guidance to, the Facility's two trust funds. Based on the priorities of the Government of Iraq, the Committee will:

- Ensure coherence and collaboration between the Facility, NDS, and ICI;
- Review progress of the Facility's operations and ensure reporting to all its donors, including the results of periodic Facility-level monitoring and evaluation studies,

which may be commissioned by the Donor Committee and financed through the Facility;

- Ensure that the Facility supports activities consistent with the priorities of the Government of Iraq and that the Facility is sufficiently flexible to adapt to changes in those priorities;
- Review the programme progress reports and recommend actions to be taken to respond to identified opportunities and/or addressing constraints;
- Oversee monitoring and evaluation results of IRFFI programmes.
- Work to attract new funding to the IRFFI Trust Funds and new international donor members to the Donor Committee

23. The Donor Committee will meet on a semi-annual basis or more frequently as its members deem necessary, in such location as it may decide. Donor Committee representatives in Baghdad shall have regular informal meetings.

#### **The IRFFI Executive Committee**

24. The Executive Committee is chaired by the Chairperson of the ISRB, and is comprised of the Donor Committee Chairperson and representatives of the UNDG and the World Bank.

25. The Executive Committee ensures close coordination among the UNDG ITF, the WB ITF, the donors, and Government of Iraq. The Executive Committee reviews the Facility's program, for purposes of conformity with its objectives, makes recommendations, and coordinates the overall programmes of activities to be financed by both trust funds. It ensures that IRFFI programmes are coordinated with those funded from the national budget and bilateral donors. The Executive Committee may advise donors on the most appropriate allocation of their resources, based on needs, priorities, and absorptive capacities. The Executive Committee shall liaise closely with the Iraqi Government, on a continuing basis, to assure both programme and implementation coherence with Iraqi priorities. In addition, the Executive Committee shall:

- Facilitate coordination among IRFFI and the NDS and the ICI;
- Ensure cooperation among the IRFFI, ISRB, and ICI Secretariats;
- Ensure timely completion, and maintain close oversight, monitoring and evaluation activities, and ensure that the synthesis and conclusions are available to all stakeholders;
- Coordinate such monitoring and evaluation exercises and studies as required by either the IRFFI mandate, or by the Donor Committee.

26. The Bank and the UNDG Trust Funds, according to their internal governance structures, have full authority in the allocation of funds within their agreed purpose and the priority programme of Iraq. Broadly, the processing of programme/project proposals for financing by either of the trust funds will be as follows:

- *For the World Bank Trust Fund:* Potential recipients, in consultation with World Bank staff, submit their programme/project proposals to ISRB, which vets them to determine if

they support Iraqi development priorities. The World Bank is responsible to determine the eligibility of the proposal for funding from the World Bank Iraq Trust Fund in line with World Bank policies and binding legal agreements with donors to the Trust Fund. The World Bank appraises the proposed project, following which a grant agreement is negotiated and signed with the recipient. Appropriate disbursement arrangements are determined during project appraisal and negotiations, which may include the establishment of a designated account and/or a direct payment process.

- *For the UNDG Iraq Trust Fund:* Based on the Iraqi priorities and plans, the UN, in consultation with the Government of Iraq, develops a time-based and costed programme of assistance for Iraq. This assistance strategy is reviewed and approved by the ISRB.

27. The Administrators review reports prepared or circulated by the Secretariat on the activities of both trust funds in connection with their submission to the Facility's donors. The Administrators prepare a formal report and bring recommendations to the Donor Committee at every meeting of the latter, or more frequently as needed.

28. The Executive Committee meets on a quarterly basis, in Baghdad or at another location exceptionally determined by its members. Reports and recommendations of the Executive Committee and minutes of its meetings are prepared by the Secretariat and shared with the Facility's donors.

### **The Secretariat**

29. The IRFFI Secretariat is staffed by representatives of the donors, MoPDC, the World Bank and UNDG, and will be based in Baghdad. Its responsibilities are informational, administrative, and secretarial.

30. The Secretariat reports directly to the Chairperson of the Executive Committee on substantive matters. The Executive Committee coordinates the overall work programme of the Secretariat.

31. The Secretariat answers inquiries from donors. It handles logistical arrangements for meetings of both the Donor Committee and the Executive Committee, and prepares and distributes minutes of the meetings. In addition, the Secretariat shall:

- Coordinate the flow of information and maintain IRFFI-related databases;
- Ensure maximum possible co-ordination with the MoPDC and ICI Secretariat, to strengthen alignment of mutually supportive priorities, and optimize the complementarities of the two Secretariats
- Promote public dissemination of IRFFI information;
- Provide logistical support to the Executive Committee and its staff and consultants.

## Terms and Conditions of the World Bank Iraq Trust Fund

### A. General

In the context of the World Bank Iraq Trust Fund, the Administration Agreement to be entered into between IBRD and/or IDA (collectively, the Bank) and a donor country or agency (the Donor) will consist of: (a) a two-page letter addressed by the Bank to the Donor acknowledging the Donor's contribution to the World Bank Iraq Trust Fund and setting out procedures for deposit of the contribution in trust with the Bank; and (b) an annex to the letter, which will constitute an integral part of it, setting out standard terms and conditions to govern all Donors' contributions to the World Bank Iraq Trust Fund (the Annex). The letter will be countersigned by the Donor. Below are the basic terms and conditions of the World Bank Iraq Trust Fund. Further details may be provided as circumstances become clearer in Iraq and Donors agree.

### B. Salient Terms and Conditions of an Administration Agreement

1. **Objective:** The objective of the World Bank Iraq Trust Fund is to promote the sustainable reconstruction and development of Iraq. In pursuing that objective, the World Bank Iraq Trust Fund provides a vehicle for Donors to channel their resources and, as part of the larger Facility, coordinate their support for reconstruction and development activities in Iraq, consistent with the priorities identified by the Government of Iraq in the National Development Strategy (2004, 2005, and 2007) and the International Compact for Iraq.

2. **Eligible Expenditures:** The categories of expenditures that will be eligible for financing from the World Bank Iraq Trust Fund are: (a) investment and capital expenditures, including pre-feasibility studies, and incremental recurrent costs directly relating to the supported investment and capital expenditures; and (b) technical assistance and training.

3. **Approval Process for Funding Proposals:** The Bank may apply emergency procedures, simplified project design, and project start-up support through training of Iraqi authorities on Bank policies and procedures, including procurement and financial management. Project/programme proposals made by potential recipients will be approved by the Iraqi Ministry of Planning and Development Cooperation ("MoPDC") through the Iraqi Strategic Review Board (ISRB). ISRB and MoPDC will work closely with the Iraqi Ministry of Finance to ensure conformity of the proposals with Iraq's overall budgetary framework. The World Bank, as Administrator of the World Bank Iraq Trust Fund, will determine the eligibility of each proposal to receive financing from the Fund.

4. **The Fiduciary Monitoring Agent:** One or more recipient entities inside or outside Iraq, including governmental entities, private entities, NGOs or international organizations, will be responsible for implementing the activities to be financed from the World Bank Iraq Trust Fund. The Bank, as administrator of the World Bank Iraq Trust Fund, will engage a suitably qualified and experienced independent firm (the Fiduciary Monitoring Agent) to monitor implementation of recipient-executed projects, including the physical implementation of projects and compliance with the Bank's procurement and financial management requirements. The responsibilities of the Fiduciary Monitoring Agent will include monitoring the procurement of goods, services and other items, including monitoring expenditures for recipient-executed projects financed from the World Bank Iraq Trust Fund, and assisting with the pre-screening the financial management capacity of potential grant recipients so as to ensure that contribution funds are disbursed only for the purposes specified in paragraph 2 of this Annex and according to applicable Bank procedures.

- (b) The Fiduciary Monitoring Agent will report to the Bank. The Bank will have the authority to change the terms of reference/scope of work of the Fiduciary Monitoring Agent and, where justified, to replace the Fiduciary Monitoring Agent with another firm or agency. The Bank will give advance notice to the MoPDC, the Executive Committee, and the Donors to changes to the terms of reference/scope of work of the Fiduciary Monitoring Agent. The Bank will perform ex-post evaluations of the activities undertaken by the Fiduciary Monitoring Agent, and will, upon completion of the World Bank Iraq Trust Fund, arrange for an independent review of the performance of the Fiduciary Monitoring Agent and report its findings to the Donors in accordance with the provisions of paragraph 11 (b) of this Annex.
- (c) The contribution funds may be used by the Bank to: (a) pay the reasonable fees, travel and other reimbursable costs of the Fiduciary Monitoring Agent; and (b) pay the cost of goods, services and other items of expenditure in furtherance of the World Bank Iraq Trust Fund activities.
- (d) The selection and recruitment of the Fiduciary Monitoring Agent by the Bank, and the procurement of goods and services to be used by the Fiduciary Monitoring Agent in the performance of its obligations, will take place on an untied basis and in accordance with the Bank's "Guidelines for Procurement under IBRD Loans and IDA Credits" and the "Guidelines for the Selection and Employment of Consultants by World Bank Borrowers".

5. **Use of Donor Contributions:** No contribution to the Trust Fund will be accepted unless it equals or exceeds one million United States dollars (US\$1,000,000). Donor contributions will be held in US dollars. For contributions received in a currency other than US dollars, the Bank will, upon receipt of the funds, convert them into US dollars and transfer them to the Bank's US dollar-denominated IBRD cash account "T". While a Donor shall not tie its contribution to a specific project, it may state a preference that its contribution be used to support one or more of the sectors of Iraq's priority economic development program as defined in its National Development Strategy or International Compact for Iraq. The World Bank is responsible to determine the eligibility of the project proposal for funding from the World Bank Iraq Trust Fund in line with World Bank policies and binding legal agreements with donors to the Trust Fund. In the event that a Donor's preference cannot be accommodated, the Bank may allocate the contribution to other sectors with the agreement of the Donor.

6. **Terms and Conditions of Grants Made Out of the World Bank Iraq Trust Fund:** The Bank will pass all or part of the Donor contribution to a recipient for purposes of carrying out activities eligible for financing from the World Bank Iraq Trust Fund. Terms and conditions pursuant to which funds will be made available to the recipients entities will be set out in grant agreements which will include, without limitation, the requirement that: (a) the procurement of goods, works and services will be procured in accordance with the "Guidelines for Procurement under IBRD Loans and IDA Credits" and "Guidelines for the Selection and Employment of Consultants by World Bank Borrowers", as may be amended from time to time; (b) the investment activities financed from the World Bank Iraq Trust Fund to be carried out in accordance with environmental and social screening and assessment guidelines approved by the Bank; and (c) the recipient maintain an appropriate and adequate financial management system, including records and accounts, and prepare financial statements adequate to separately reflect the operations, resources and expenditures related to the investment activities financed from the World Bank Iraq Trust Fund.

7. **Disbursements:** Disbursements would normally occur within the cost estimates for activities to be financed from the World Bank Iraq Trust Fund, and the total level of disbursements would be consistent with Iraq's overall macroeconomic and fiscal framework as agreed with the IMF and the Bank. Appropriate disbursement arrangements are determined during project appraisal and

negotiations, which may include the establishment of a designated account and/or a direct payment process.

8. **Audits:** As required under regular Bank lending operations, a grant agreement with a recipient will obligate the recipient, among other things, to maintain an appropriate and adequate financial management system, including records and accounts, and prepare financial statements adequate to separately reflect the operations, resources and expenditures related to the activity financed under the grant from the World Bank Iraq Trust Fund. Specifically:

- (a) The recipient shall maintain or cause to be maintained a financial management system, including records and accounts, and prepare financial statements in accordance with consistently applied accounting standards acceptable to the Bank, adequate to reflect the operations, resources and expenditures related to the activities financed under the World Bank Iraq Trust Fund.
- (b) The recipient shall: (i) commencing with the fiscal year in which the grant becomes effective to and including the fiscal year in which the last withdrawal from the Grant Account is made, have the financial statements referred to in subparagraph (a) above for each such fiscal year or other period agreed to by the Bank, audited, in accordance with consistently applied auditing standards, acceptable to the Bank, by independent auditors acceptable to the Bank; (ii) furnish to the Bank as soon as available, but in any case not later than six months after the end of each such year or such other period agreed to by the Bank, (A) certified copies of the financial statements referred to in subparagraph (a) above for such year or such other period agreed to by the Bank, as so audited, and (B) an opinion on such statements by said auditors, in scope and detail satisfactory to the Bank; and (iii) furnish to the Bank such other information concerning such records and accounts and the audit of such financial statements, and concerning said auditors, as the Bank shall have reasonably requested.
- (c) For all expenditures with respect to which withdrawals from the Grant Account were made on the basis of statements of expenditure, the recipient shall: (i) retain, until at least one year after the Bank has received the audit report for or covering the fiscal year in which the last withdrawal from the Grant Account was made, all records (contracts, orders, invoices, bills, receipts and other documents) evidencing such expenditures; (ii) enable the Bank's representatives to examine such records; and (iii) ensure that such statements of expenditure are included in the audit for each fiscal year, or other period agreed to by the Bank, referred to in subparagraph (b) above.

9. **Bank's Cost Recovery:** The Bank's cost recovery will consist of two components:

- (a) The Bank's administrative fee of 0.4% for Bank-executed projects and 0.2% for Recipient-executed projects will be deducted from contributions to the World Bank Iraq Trust Fund at the time funds are allocated to a disbursing trust fund. The Bank may invest contribution funds pending their disbursement in any instrument in which the Bank is authorized to invest its own funds. Investment income earned on the contribution funds will be deposited into the account to be used for purposes of the World Bank Iraq Trust Fund on a monthly basis.
- (b) In addition to the above administrative fee, the Bank may also deduct from the World Bank Iraq Trust Fund and transfer to itself the actual full costs of Bank staff and consultants (including both Short Term Consultants and Extended Term Consultants) involved in analyzing, appraising and supervising eligible activities supported by the Trust Fund and trust fund management. On a semi-annual basis, the Bank will notify the Donor Committee of the amounts used for such purposes.

10. **Monitoring, Evaluation, and Briefings Requested by the Donors:** The Bank may charge its share of the actual direct costs of:

- (a) The organization of informal briefings to Donors and the Iraqi Government, which may be scheduled outside of full Donor Committee Meetings;
- (b) IRFFI-level monitoring and evaluation studies, and management reviews intended to evaluate and strengthen the performance of IRFFI, as commissioned by the Donor Committee.

11. **Fiduciary Responsibilities of the Bank:** The Bank will be responsible only for performing those functions specifically set forth in the Administration Agreement and will not be subject to any other duties or responsibilities to the Donors, including, without limitation, any duties or obligations that might otherwise apply to a fiduciary or trustee under general principles of trust or fiduciary law. Without prejudice to the foregoing, the Bank will have no responsibility to the Donors with respect to the performance of the Fiduciary Monitoring Agent and will have no obligation to reimburse the World Bank Iraq Trust Fund or provide any compensation to any Donor if the contribution funds are not disbursed for their intended purposes as a result of actions of the Fiduciary Monitoring Agent.

12. **Reporting:** (a) The Bank will maintain separate records and ledger accounts in respect of the funds deposited by the Donors with the Bank under the World Bank Iraq Trust Fund. Within ninety (90) days of each March 31, June 30, September 30, and December 31, the Bank will prepare, on a cash basis, an unaudited statement of receipts, disbursements, and fund balance with respect to the World Bank Iraq Trust Fund. Each such statement will be expressed in United States dollars, the currency in which the ITF funds shall be maintained by the Bank. Within one hundred eighty (180) days of the completion of all disbursements relating to the activities financed from the World Bank Iraq Trust Fund, the Bank will prepare on a cash basis an unaudited financial statements in United States dollars of receipts, disbursements, and fund balance respect to the World Bank Iraq Trust Fund. The Bank will provide the Donors: (a) on a semi-annual basis, with a consolidated report describing the operations of the World Bank Iraq Trust Fund (including contributions, disbursements, and implementation progress) in the preceding six (6) months; and (b) on an annual basis, audited financial statements with a management assertion, together with an attestation from the Bank's external auditors, concerning the adequacy of internal control over cash-based financial reporting for trust funds as a whole. In addition, the Bank will cause a financial statement audit to be performed by the Bank's external auditors. The costs of such audits, including the internal costs of the Bank with respect to such audits, shall be paid for by the World Bank Iraq Trust Fund. The Bank shall provide each donor with a copy of the auditors' report. (b) The Bank will maintain close consultation and coordination with the Donors. Within six (6) months of the completion of the activities, or of full disbursement of the contributions, whichever comes later, the Bank will provide a final progress report to each Donor, together with a copy of the independent review of the performance of the Fiduciary Monitoring Agent.

13. **Termination:** Unless otherwise agreed by the Donors and the Bank, the World Bank Iraq Trust Fund arrangement will terminate on the earlier of: (i) December 31, 2010; or (ii) or such date as the contribution funds will have been fully disbursed. Upon termination: (i) any agreement entered into among the Bank, the Fiduciary Monitoring Agent, and/or other third parties will not be affected by the termination, and the Bank will be entitled to continue permitting withdrawals of contribution funds in respect of such agreements as if this arrangement had not been so terminated; and (ii) any remaining contribution funds, including any applicable investment income, will be returned to the Donors on a pro-rata basis, and the Bank's functions pursuant hereto will be considered terminated. Within six (6) months following such termination, the Bank will furnish to the Donors an unaudited financial statement with respect to the aggregate amount contributed by all Donors.

14. **Legal Documentation:** The Bank will enter into a separate grant agreement with the appropriate recipient in connection with each project financed from the World Bank Iraq Trust Fund.



**Terms and Conditions for Activities Managed under the UNDG Iraq Trust Fund**

**I. General**

1. Donor contributions to the UNDG Iraq Trust Fund (UNDG ITF) will be utilized to finance projects and/or programmes (“Projects”) carried out by Participating UN Organisations (“the Participating UN Organisations”) within the framework of a priority programme of reconstruction and development activities validated by the Government of Iraq. .

2. To support uniform and consolidated reporting, the UNDG ITF will be administered by the United Nations Development Programme (“UNDP”) under its financial regulations and rules, and by the respective Participating UN Organisations in accordance with their financial regulations and rules, as further set forth in this Annex 2. UNDP will serve as the Administrative Agent on behalf of the Participating UN Organisations.

**II. Contributions to the Fund**

1. Contributions to the UNDG ITF may be accepted from governments of Member States of the United Nations, of the Specialized Agencies or from intergovernmental or non-governmental organisations, or from private sources.

2. Contributions to the UNDG ITF may be made in any of the following forms:

- a) As unearmarked voluntary contributions, utilization of which will subsequently be determined by the Trust Fund Steering Committee (refer to Section IV below);
- b) As contributions for the purpose of financing a specific sector of activity or cross-cutting theme<sup>2</sup> – the Project(s) and Participating UN Organisation(s) concerned will then be subsequently determined by the Trust Fund Steering Committee (refer to Section IV below);
- c) As contributions for the purpose of financing a specific Participating UN Organisation – the Project(s) concerned will then be subsequently determined by the Participating UN Organisation and the Trust Fund Steering Committee;
- d) As contributions for the purpose of financing a specific Participating UN Organisation in a specific sector of activity – the Project(s) concerned will then be subsequently determined by the Participating UN Organisation and the Trust Fund Steering Committee.

3. Contributions to the UNDG ITF may be accepted in fully convertible currency or in any other currency that can be readily utilized. Such contributions shall be deposited into bank accounts designated by UNDP. Each individual contribution should amount to the equivalent of at least US\$200,000.

4. The value of a contribution-payment, if made in other than United States dollars, shall be determined by applying the United Nations operational rate of exchange in effect on the date of

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<sup>2</sup> The sectors and cross-cutting themes include: Education; health; employment creation; water and sanitation; transport and telecommunications; electricity; housing and land management; urban management; agriculture, water resources and food security; finance; state-owned enterprises; investment climate; mine action; government institutions, rule of law, civil society and media; macroeconomics; economic management; cultural heritage; drugs and crime; human rights; gender; and, environment.

payment. Gains or losses on currency exchanges shall be recorded in the UNDG ITF Account, established to transfer funds to Participating UN Organisations by the Administrative Agent.

5. Each Participating UN Organisation shall establish a separate ledger account under its financial regulations and rules for the receipt and administration of the funds disbursed to it from the UNDG ITF Account. Each Participating UN Organisation assumes full programmatic and financial accountability for the funds disbursed to them by the Administrative Agent. The separate ledger account established by the Participating UN Organisation shall be administered by the respective Participating UN Organisation in accordance with its own regulations, rules, directives and procedures, including those relating to interest. The respective separate ledger accounts shall be subject exclusively to the internal and external auditing procedures laid down in the financial regulations, rules, directives and procedures applicable to the concerned Participating UN Organisation.

6. As the Administrator of the Fund, UNDP will be responsible for receiving all donor contributions in the UNDG ITF Account established for this purpose, and in turn, will make contribution-payments to the respective Participating UN Organisation as soon as possible after the donor funds and instructions from the Trust Fund Steering Committee, as appropriate, are received.

7. Where the uncommitted balance in the UNDG ITF Account on the date of a scheduled disbursement is insufficient to make that disbursement, the Administrative Agent shall consult with the Trust Fund Steering Committee and make a disbursement, if any, in accordance with the Trust Fund Steering Committee's instructions. The Administrative Agent shall promptly notify the Donor in such circumstances and shall advise the Donor of the Trust Fund Steering Committee's decision in that regard.

### **III. Utilization of the Fund**

1. The Fund shall be utilized for the purpose of meeting the costs of the Projects carried out by the Participating UN Organisations. Details of such Projects, including the respective Project budgets, shall be as set out in the relevant Participating UN Organisation's Project documents. The Projects selected for funding will be part of a priority programme of activities prepared in consultation with the Government of Iraq based on its development objectives and priorities in the National Development Strategy (NDS) and the International Compact with Iraq (ICI). The Iraq Strategic Review Board (ISRB) provides overall guidance and holds the final approval Authority for the Government of Iraq on Project funding.

2. The categories of expenditures that will be eligible for financing from the UNDG ITF are: (a) investment and capital expenditures, including pre-feasibility studies, strategic supplies and incremental recurrent costs directly relating to the supported investment and capital expenditures; (b) technical assistance and training; and (c) service delivery.

3. The UNDP's administrative fee is [in the range 0.75 to 1.75] percent. It will be deducted from contributions to the UNDG ITF at the time they are deposited. UNDP may invest contribution funds pending their disbursement in any instrument in which UNDP is authorized to invest its own funds. Investment income earned on the contribution funds will be deposited into the account to be used for purposes of the UNDG ITF. In addition to the above administrative fee, UNDP may also deduct from the UNDG ITF and transfer to itself the actual costs of its support to the Secretariat, and of UNDP staff supporting the Trust Fund Steering Committee in analysing and appraising activities supported by the Fund. On a semi-annual basis, UNDP will notify the Donor Committee of the amounts used for such purposes.

#### **IV. Administration of the Fund and Management Arrangements**

1. The overall management of the UNDG ITF activities will be led and coordinated by a UNDG Iraq Trust Fund Steering Committee, which will be chaired by the Deputy Special Representative of the Secretary General (DSRSG), or his/her representative, and include representatives of the UN Country Team (UN CT).

2. The responsibilities of the UNDG Iraq Trust Fund Steering Committee will include the following:

- Review and final approval of Project proposals and resource allocations, based on Iraqi priorities and plans, ISRB approvals and donor agreements;
- Internal UN review of Fund requirements and priorities;
- Review and approval of the Fund's annual reports, and;
- Overall monitoring and evaluation of UN implemented Projects under the UNDG ITF.

3. The UNDG Iraq Trust Fund Steering Committee will meet regularly or as determined by the DSRSG. Decisions will be made in close consultation with the Donor Committee and Government of Iraq. Decisions on the selection of an implementing UN Organisation will be made based on demonstrated operational and absorptive capacity and expertise.

4. UNDP's responsibilities as Administrative Agent will include the following:

- Receipt, administration and management of contributions from Donors;
- Disbursement of such funds to the Participating UN Organisations;
- Consolidation of financial and programmatic reports based on submissions by each of the Participating UN Organisations, and provision of such consolidated reports to each donor that has contributed to the Fund;

5. The Participating UN Organisations would sign a standardized Memorandum of Understanding (MOU) with UNDP, setting out the terms and conditions under which UNDP would work as Administrative Agent and the Participating UN Organisations would receive and use funds from the UNDG ITF account.

6. Each Donor would sign a standardized Letter of Agreement (LOA) with UNDP as Administrative Agent, setting out the terms and conditions governing the receipt and administration of the contributions.

7. Project-level management, procurement and expenditures shall be governed by the regulations, rules and directives of the respective Participating UN Organisations.

#### **V. Implementation and Budgeting of Funds**

1. The aggregate of the amounts budgeted for the Projects together with any estimated payments in respect of indirect costs shall not exceed the total resources available to the UNDG ITF.

2. If unforeseen increases in commitments or expenditures are expected or realized (whether due to inflationary factors, fluctuation in exchange rates or unforeseen contingencies) the assistance to be provided under the UNDG ITF may be reduced, suspended or terminated by the respective Participating UN Organisation.

#### **VI. Ownership of Equipment, Supplies and Other Property**

Ownership of equipment, supplies and other property financed from the UNDG ITF shall vest in the respective Participating UN Organisation undertaking the activities. Matters relating to the

transfer of ownership by the Participating UN Organisation shall be determined in accordance with the applicable policies and procedures of the Participating UN Organisation.

**VII. Audit**

Project level auditing shall be subject exclusively to the internal and external auditing procedures provided for in the financial regulations, rules and directives of the respective Participating UN Organisation. The activities of the Administrative Agent shall be subject exclusively to the internal and external auditing procedures provided for in the financial regulations, rules and directives of UNDP.

**VIII. Reporting**

Consolidated Fund level reporting will be provided to all UNDG ITF Donors by UNDP, as Administrative Agent, on a semi-annual basis. The UNDP Administrator shall also provide to the UNDP Executive Board an annual report on the activities of the UNDG ITF prepared in accordance with UNDP accounting and reporting procedures, which shall provide information on income and expenditure incurred during the previous year.

**IX. Other Matters**

1. Notwithstanding the completion of the Projects financed from the UNDG ITF, any unutilized balances shall continue to be held in the UNDG ITF account until all commitments and liabilities incurred in implementation of the Projects have been satisfied and Project activities have been brought to an orderly conclusion.
2. The Fund shall terminate upon completion of all Projects funded through the UNDG ITF and after satisfaction of all commitments and liabilities. Any balance then remaining shall be disposed of by the Trust Fund Steering Committee in consultation with the Donor(s).

**Chairperson of the Donor Committee  
Appointment**

The Chairperson shall be appointed from among the international members of the Donor Committee. The selection of the Chairperson shall occur in a manner of the Committee's choosing, by election, consensus or other means.

The Chairperson shall normally serve for a period of one year. The term may be extended for an additional year on agreement by the members of the Donor Committee.

**Responsibilities to the Donor Committee**

The Chairperson shall oversee the functioning of the Donor Committee. In this role, the Chairperson shall:

- Chair meetings of the Donor Committee.
- Ensure the convening, preparation, conduct and follow-up of Donor Committee meetings, in particular, the Chair shall take forward the Conclusions, decisions and recommendations of those meetings, with the support of the Executive Committee and the IRFFI Secretariat.
- Oversee ongoing coordination and communication with the two Administrators between meetings of the Donor Committee, ensuring that decisions and requests are followed up.
- Maintain ongoing consultation with Donor Committee members as required.
- Serve as the representative of the Donor Committee in relations with the Government of Iraq, the Donors, the Administrators (United Nations and the World Bank), and as required with other organizations and individuals.
- Serve as the spokesperson for the Donor Committee in public events and before the media.
- Working with the Executive Committee and the IRFFI Secretariat, ensure that monitoring and evaluation occurs and is within the framework of the IRFFI governance mechanism and implementation arrangements.
- Maintain contacts with individual donors to ensure that concerns that may arise between meetings of the Donor Committee are acknowledged and channeled to the appropriate part of the IRFFI mechanism.

**Responsibilities to the Executive Committee**

The Chairperson of the Donor Committee shall be a member of the Executive Committee of the IRFFI.

As a member of the Executive Committee, the Chairperson shall:

- Represent the concerns of the Donor Committee to the Executive Committee.
- Ensure that decisions and requests of the Donor Committee to the Executive Committee are followed up.
- Oversee coordination and communication between the Donor Committee to the Executive Committee.

**Terms of Reference of the IRFFI Executive Committee**

The IRFFI Executive Committee has replaced the Facility Coordinating Committee (FCC) following the recognized need for greater Iraqi ongoing participation and the changing management requirements.

(a) The Executive Committee shall be chaired by the Chairperson of the ISRB and shall consist of the Donor Committee Chairperson, representatives of the United Nations Development Group Iraq Trust Fund (UNDG ITF) and representatives of the World Bank Iraq Trust Fund (WB ITF).

(b) The Executive Committee shall review the Facility's activities, for purposes of conformity with the IRFFI objectives, make recommendations, and define the overall programmes of activities to be financed by both trust funds.

(c) The Executive Committee shall advise donors on the most appropriate allocation of their resources, based on needs, priorities, and absorptive capacities.

(d) The Executive Committee shall be responsible for ensuring close coordination among the UNDG ITF, the WB ITF, the Donors, and Government of Iraq.

(e) The Executive Committee shall ensure that IRFFI programmes are coordinated with those funded from the national budget and bilateral donors.

(f) The Executive Committee shall liaise closely with the Iraqi Government, on a continuing basis, to assure both programme and implementation coherence with Iraqi priorities. To this regard, the Executive Committee shall:

- Facilitate coordination among IRFFI, the NDS, the ICI and the ICG;
- Ensure cooperation among the IRFFI, ISRB, and ICI Secretariats;
- Ensure timely completion, and maintain close oversight, of monitoring and evaluation activities, and ensure that the synthesis and conclusions are available to the Donor Committee on a quarterly basis;
- Coordinate such monitoring and evaluation exercises and studies as required by either the IRFFI mandate, or by the Donor Committee.

(g) The Executive Committee shall meet on a quarterly basis, in Baghdad or at another location exceptionally determined by its members.

(h) Reports and recommendations of the Executive Committee and minutes of its meetings are prepared by the Secretariat and shared with the Facility's donors.