

World Bank Iraq Trust Fund

Update to IRFFI Donor Committee

Naples, Italy – February 18, 2009

Proposed World Bank Interim Strategy Note for Iraq (FY09-FY11) Summary and Status

The World Bank is currently preparing its third Interim Strategy Note (ISN) for Iraq. This summary sheet provides background on the current status of the World Bank Group in Iraq, information on the ISN process, and summarizes the proposed strategy, which is expected to be presented to the World Bank's Board in March 2009.

1. Iraq has a long history of engagement with the World Bank. Iraq was a founding member of the World Bank, and received six loans from the International Bank for Reconstruction and Development (IBRD) between 1950 and 1973. The last loan closed in 1979. The World Bank re-engaged with Iraq in the summer of 2003 when it prepared a Needs Assessment together with the United Nations (UN).

2. Every 2-4 years, the World Bank designs a strategic plan to guide its operations in a client country, in consultation with the governmental authorities. The Country Strategy is tailored to the needs and circumstances of each country and lays down the level and type of assistance the World Bank would provide in the medium-term. The Strategy is expected to be fully aligned with the country's development priorities and allow for changes that can arise from rapidly changing economic or socio-political circumstances. It is also expected to be aligned with the Government's own fiscal planning, development agenda, and medium-term framework. The World Bank's Country Strategy in Iraq is outlined in an ISN while Iraq transitions to a more stable political, social, and security situation.

3. The World Bank's support to Iraq since 2003 has been framed around two ISNs. The first ISN (FY04-05) for Iraq was presented to the Board of Executive Directors in January, 2004. It built on the World Bank's work in 2003, including the preparation of Watching Briefs in key sectors and the joint Needs Assessment undertaken in collaboration with the UN. It was designed to rely on approximately US\$500 million from the World Bank Iraq Trust Fund (ITF) to finance emergency investment operations and capacity building projects. Activities under the first ISN were organized under three tracks 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.

4. The second ISN (FY06-07) was discussed by the Board of Executive Directors in September, 2005. It provided the framework for up to US\$500 million from IDA, as well as additional resources from the ITF. Under the overall umbrella of institution building, the second ISN was organized around four pillars: (i) restore basic service delivery; (ii) enable private sector development; (iii) strengthen social safety nets; and (iv) improve public sector governance.

5. Given that Iraq is a well endowed Middle-Income Country in a fragile environment, the upcoming ISN is proposed for a longer time horizon than the typical ISN, covering FY09-11. While the interim strategy contains lessons and principles of engagement, a more specific work program would be designed through annual business planning to be conducted jointly with the

Iraqi Government. This approach will help ensure that the World Bank program can meet the evolving needs of the Government as well as evolving opportunities for engagement. The strategy for Iraq is expected to be updated to a Country Assistance Strategy during the next cycle, following improvements in the political, social, and security situation.

6. The ISN process for Iraq was launched in May 2008, beginning with consultations with World Bank experts, and a stocktaking of the World Bank's engagement with Iraq to-date. The goal of the stocktaking exercise was to identify key bottlenecks from the implementation of the previous ISNs, and extract lessons for this ISN. This exercise highlighted a number of key factors underlying the design of this ISN: (i) the continuing centrality of institution building; (ii) the critical importance of commitment on the part of ministries and implementing agencies; (iii) the value of increased selectivity and the ability to identify and seize opportunities as they arise in order to achieve concrete results; (iv) the need to focus on reform efforts that do not overtax Iraq's existing capacity and that more clearly reflects the country's current political and security situation; and (v) the need for increased flexibility in the design and programming of World Bank assistance and for experimentation with alternative implementation arrangements for the World Bank's assistance program for Iraq.

7. A key innovation of this ISN is the consultative process that informed its content. Following internal consultations, the World Bank organized a series of meetings to discuss the key elements of the strategy with the Government, donors, civil society, and private sector representatives. During these meetings, the World Bank's team shared its thinking about the new ISN and received feedback on how the World Bank can help Iraq reach its development goals in an effective manner. The World Bank task team compiled feedback from these stakeholders to help improve the design of the ISN.

8. A draft ISN was shared with the Iraqi authorities in December 2008, and their comments were taken into consideration in revising the ISN. Before any country strategy can be implemented, it needs to be discussed by the World Bank's Board of Executive Directors, who represent the views and interests of the 185 member countries, including those of Iraq. Following Board discussion in March 2009, the ISN is expected to be disclosed to the public with the agreement of the Government. In addition, the World Bank will prepare a Public Information Notice that will summarize the main issues in the ISN.

9. The central operating principle of this ISN is that Iraq is well-endowed with financial and natural resources, and that the main role for the World Bank is to help Iraq use its resources more effectively and transparently and to lay ground for an increased role for the private sector. This principle affects both the form and the content of the proposed World Bank Group's program.

10. Regarding the form of the assistance, the main instruments of World Bank support will include: (i) the current portfolio; (ii) advisory services in selected areas; (iii) possible new IBRD financial support; and (iv) other World Bank instruments such as guarantees. The World Bank is currently administering 15 active grants funded by the ITF, to provide textbooks, schools, health clinics, improved social safety nets, water supply and sanitation, irrigation and drainage, and a comprehensive household survey. The ongoing IDA portfolio consists of five projects, supporting education, roads, electricity, and water. The World Bank's Analytical and Advisory Activities (AAA) program will help support the Government's efforts to enhance its ability to effectively use its resources to the benefit of the Iraqi people. The World Bank is ready to support the Government with financing of up to US\$500 million from IBRD for investment projects in sectors where a good track record of engagement exists and a champion can be identified on the government side. In addition, small grants from the State and Peace Building Fund will be

accessed and instruments such as IBRD or MIGA guarantees will be pursued to leverage private financing.

11. With respect to the content of the assistance, activities under this ISN will fall under at least one of three thematic areas of engagement: (i) continuing support to ongoing reconstruction and socio-economic recovery; (ii) improving the management of public resources, including human, natural and financial; and (iii) supporting policies and institutions that promote broad-based, private-sector-led growth, with the goal of revitalizing the private sector and facilitating job creation. IFC and MIGA will play a key role particularly (but not exclusively) with respect to the third objective. New activities under the ISN will be chosen on the basis of criteria for selectivity reflecting opportunities to achieve realistic results.

12. To achieve tangible results in a relatively short term, the World Bank will place a renewed emphasis on how this ISN will be implemented. Building on lessons learned from the implementation of the previous ISNs, this ISN will aim to: (a) enhance the effectiveness of institution building and analytical and advisory activities; (b) strengthen the implementation of the current portfolio; (c) introduce more flexibility in the World Bank's programming and ability to experiment with alternative implementation arrangements; and (d) foster donor coordination.

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