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**MEMORANDUM AND RECOMMENDATION
OF THE COUNTRY DIRECTOR**

TO THE VICE PRESIDENT FOR THE MIDDLE EAST AND NORTH AFRICA

ON A

TRUST FUND GRANT

OF US\$90 MILLION

**TO
THE MINISTRY OF MUNICIPALITIES AND PUBLIC WORKS
THE REPUBLIC OF IRAQ**

FOR AN

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

**World Bank Iraq Trust Fund—TF053167
Trust Fund Grant – TF054455**

December 3, 2004

**Finance, Private Sector and Infrastructure Group
Middle East and North Africa Region**

Emergency Water Supply, Sanitation and Urban Reconstruction Project
Memorandum of the Country Director to the Vice-President

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REPUBLIC OF IRAQ
EMERGENCY WATER SUPPLY, SANITATION AND URBAN
RECONSTRUCTION PROJECT

1. I submit for your approval the following Memorandum and Recommendation on a Trust Fund Grant for the Emergency Water Supply, Sanitation and Urban Reconstruction Project (EWSS&UP) for US\$90 million.

2. The EWSS&UP is to be financed from the World Bank Iraq Trust Fund (WBIF). A detailed description of the project, including sector background, Bank response and strategy, project objective and description, institutional and implementation arrangements, economic justification, as well as an assessment of risks is provided in the Technical Annex, Report No. T7648-IQ.

Recipient: The Ministry of Municipalities and Public Works

Implementing Agency The Ministry of Municipalities and Public Works

Terms: Grant from the World Bank Iraq Trust Fund

Project Objectives

3. The principal objective of the project is to restore some basic water supply, sanitation and urban services for urban areas outside Baghdad City through (a) the reconstruction and rehabilitation of existing facilities, and (b) providing capacity building support through training and technical assistance. The project will complement support by other donors. The project will also create vitally needed short-term employment and help build Iraq's capacity to manage large-scale reconstruction.

Project Description

4. The project addresses the urgent sectoral needs of urban communities outside Baghdad including rehabilitation of water and sewer networks, pumping stations, small treatment plants, community roads and other urban facilities. It provides support to the MMWP to better manage projects at the design, supervision, operation and maintenance stages by building the capacity of its staff. The Project comprises of twelve physical components and one capacity building component, summarized below

⌚ **Component 1 - Rehabilitation and Upgrading of Karbala Water and Sewerage Systems**

5. Karbala is one of the most holy sites and consequently centres for pilgrimage for Shia'aa Moslems; Karbala's resident population is about 580,000 inhabitants and its visitors population can reach 3 to 4 millions during religious days. The main objective of this component is to provide an adequate supply of potable water and effective sewerage services to the resident and visiting population of Karbala. The component consists of the

rehabilitation of two treatment plants, part of the distribution network, and trunk and lateral sewer lines.

⌚ **Component 2 - Rehabilitation and Upgrading of Majar Water Supply System**

6. The Majar District in the Maysan Governorate has a population of approximately 120,000. The villages to be served under this project are Mabroka and Al-Yarmook, which have a combined population of about 18,000 and are considered to be two of the poorest villages in the Governorate. The main objective of the proposed component is to supply the 18,000 inhabitants of the aforementioned villages with potable water. It consists of replacement of two water treatment units, rehabilitation and extension of distribution networks, pumping stations and installation of new house connections.

⌚ **Component 3 - Rehabilitation and Upgrading of Beji Water Supply System**

7. The targeted villages to be served under this project are Albu To'ama & Hajaj, which have a combined population of about 16,000 inhabitants. These villages are spread out in a number of independent rural and agricultural communities and are considered two of the poorest villages in the Governorate of Salah Al-Din. This component consists of replacement of two water treatment units, rehabilitation of distribution networks and installation of new house connections.

⌚ **Component 4 - Rehabilitation and Upgrading of Kena'an Water Supply System**

8. The proposed component will serve three villages in the Kena'an district: Ezdihar, Hameed Al-Seba and Mohammed Abbas. The villages have a combined population of about 22,000, and are considered to be three of the poorest villages in the Governorate of Diyala. This component aims to better water services while improving economic conditions and reducing the incidence of waterborne diseases. It consists of replacement of three water treatment units, rehabilitation of distribution networks and installation of new house connections.

⌚ **Component 5 - Upgrading of Al Hussainia Water Supply System**

9. This component will serve one of the poorest cities in Baghdad Governorate that has suffered from years of neglect. It has a total population of approximately 135,000 inhabitants of which more than 60% do not have access to adequate water supply for all purposes. The proposed component will serve to increase the quantity, quality and access to potable water for the inhabitants of Al Hussainia City while reducing the demand on Baghdad pipeline. This component consists mainly of the supply and construction of a water intake, a raw water transmission line, a water treatment plant consisting of five water treatments units, with recommended two- year's supply of spare parts, and a distribution network including house connections.

🕒 **Component 6 - Upgrading of Al-Samawa Water Supply System**

10. This component aims at reducing the shortage in potable water supply in Al-Samawa (population 196,000), Al-Khadir (population 86,000) and Al-Suwair (population 38,000) cities and in 10 large villages along the potable water pipeline between Al-Rumaitha and Al-Samawa, with an estimated population of 44,000. It consists of supply and installation of 8 water treatment units, to cover part of the potable water shortage in both Al-Samawa and Al-Khidir. It also includes the supply and installation of 25 km of a new water pipeline to convey potable water to both areas, a staging water tank with capacity to serve Al-Khadir city. In addition, the component includes the rehabilitation and upgrading of three low lift pumps (two operational and one stand by pump), three high lift pumps (two operational and one stand by pump) and a pumping station.

🕒 **Component 7 – Upgrading of Badawa Water Supply System**

11. This project is located in Badawa slum, Quarter 94, in Arbil City where about 6,000 thousand extremely poor families, with a total size of 42,000 inhabitants, live. The area is completely dependant on water wells to supply drinking water. The existing water distribution network is available to only 30% of the population and provides about 14 l/c/d. Losses in the network exceed 20% and the limited supply is often interrupted by power failures. The proposed component will help provide potable water and sewerage services to the population of Badawa, and will protect the water wells. The component consists of supplying and installing a water distribution network, drilling 10 wells, installing pump houses, storage tanks, chlorinators and diesel generators.

🕒 **Component 8 - Upgrading of Dohuk Water Supply and Stormwater Drainage Systems**

12. Over the past 2 years the Governorate of Dohuk has distributed 10,000 plots of land in the western sector of the city to poor and displaced families. At present, a population of approximately 32,000 lives in the component area without any sewage or potable water services. This component will consist mainly of supplying and constructing a water distribution network and a storm-water drainage system to relieve the existing conditions.

🕒 **Component 9 - Upgrading of Dukan Water Supply System**

13. The existing water supply system in Dukan was first constructed in 1982 and is in urgent need for a total and complete rehabilitation. The objective of this component is to increase the access and supply of water to parts of Dukan. This component will address all aspects of rehabilitation and upgrading of the existing water supply system: it will include the installation of a water supply system (distribution network, pumps, reservoir tanks, etc.), the construction of intake works and the construction of a water treatment plant.

🕒 **Component 10 - Karbala Urban Rehabilitation**

14. Karbala is an important religious centre that attracts around 5,000 daily visitors and around 3 to 4 million visitors during important religious events. The streets and squares in the city are in a dilapidated condition, due to the conflict and lack of maintenance and resources. In their current state, they are impeding the flow of vehicular and human traffic of both the locals and visitors. The bazaar is in a derelict state that needs urgent rehabilitation and upgrading. Lastly, the existing slaughterhouse which currently serves as the only public slaughterhouse in the Governorate is outdated, severely contaminated, and located within a major residential area. The objective of this component is to carry out urgently needed urban rehabilitation projects to accommodate the large number of visitors in an area that has not undergone rehabilitation works for over a decade. This component involves (i) the rehabilitation of existing damaged streets and squares, (ii) the rehabilitation of the traditional market (Bazaar) in Al-Abbas street; and, (iii) an Environmental Impact Assessment Study (EIAS) and Design of a New Municipal Slaughterhouse.

🕒 **Component 11 – Badawa Urban Rehabilitation**

15. This component will address the poverty stricken district of Badawa in south-eastern Arbil. The work is municipal in nature and compliments the concurrent World Bank initiative for Water & Sanitation Improvements for this area. This component includes (i) the construction of storm water network to collect and drain rainwater into the city trunk main, and, (ii) upgrading of un-paved neighbourhood roads and main streets.

🕒 **Component 12 - Basra Urban Rehabilitation**

16. This component addresses the deteriorated condition of the main streets, the unpaved internal streets, and the stagnant water pools due to the lack of storm water drainage in Al-Jamiaa neighbourhood west of Basra. The work is municipal in nature and will focus on the selected sub-district (Al-Jamiaa) within the larger Al-Qibla district and is aimed to improve the municipal service sector. The component will provide for: (i) resurfacing of main streets, (ii) upgrading of neighbourhood internal dirt roads to paved roads, (iii) the construction of pedestrian sidewalks; and, (iv) construction of a new storm water drainage network.

🕒 **Component 13 - Capacity Building and Technical Assistance**

17. This component is essential to ensure the proper implementation of the project and to train MMWP staff throughout Iraq on efficient utility practices and financing.

Project Costs

18. The estimated total cost of the project is US\$65.45 million, of which US\$65.00million would be financed from the World Bank Iraq Trust Fund. The costs by components are shown in the table below.

Table 1: Project Components Costs

Project Component	Total Cost	% of Total
1.Rehabilitation and Upgrading of Karbala Water Supply and Sewerage Systems	16.340	18
2. Rehabilitation and Upgrading of Majar Water Supply System	3.160	3
3. Rehabilitation and Upgrading of Beji Water Supply System	1.830	2
4. Rehabilitation and Upgrading of Kena'an Water Supply System	1.890	2
5. Upgrading of Al Hussainia Water Supply System	7.600	8
6. Upgrading of Al-Samawa Water Supply System	12.340	14
7. Upgrading of Badawa Water Supply System	1.500	2
8. Upgrading of Dohuk Water Supply and Stormwater Drainage Systems	4.920	5
9. Upgrading of Dukan Water Supply System	4.480	5
10. Karbala Urban Rehabilitation	6.400	7
11. Badawa Urban Rehabilitation	7.760	9
12. Basra Urban Rehabilitation	7.780	9
13. Technical Assistance and Capacity Building	4.000	4
BASELINE COST	80.000	88
14. PMT Salaries	0.450	1
15. Price Contingencies	4.000	4
16. Physical Contingencies	6.000	7
TOTAL PROJECT COST	90.450	100

Implementation Arrangements

19. The project will be implemented by the MMPW. A Project Management Team (PMT) reporting to the Minister of the MMWP has been nominated with experienced staff seconded, on a full time basis, mainly from existing technical and financial units. Many of these staff have attended initial training courses and workshops organized by the World Bank, UN agencies and other bilateral donors. The PMT will closely coordinate its daily activities with the different departments of the ministry. The PMT includes, but will not be limited to a core team of: a director, two procurement specialists, two project engineers, one financial management specialist, one environmental safeguards specialist, one administrative assistant, one quality assurance staff and one legal advisor.

20. The PMT will be supported, from time to time by consultants of different expertise to assist with final designs, tender documents, tendering, procurement, financial management and supervision of works. The consultants will also provide on-the-job

training. The capacity building component provides financing for additional professional training locally or with international institutes.

Procurement

21. Procurement for this Project will be carried out in accordance with the World Bank's "Guidelines: Procurement Under IBRD Loans and IDA Credits" dated May 2004; and "Guidelines: Selection and Employment of Consultants by World Bank Borrowers" dated May 2004, and the provisions stipulated in the Grant Agreement. Also, procurement will be undertaken in conformity with the Master Implementation Manual (MIM), due for completion in January 2004. Detailed description of the procurement methods or consultant selection methods are specified in the Procurement Plan (PP). The PP will be updated at least annually or as required.

Disbursement

22. The Bank's strategy in Iraq is to ensure Iraqi ownership and strengthen institutional capacity by financing operations that are implemented by Iraqi ministries and other recipient entities. Trained PMTs will facilitate implementation and help ensure compliance with fiduciary and other safeguards. PMTs will be employed and paid by the implementing entity at regular salary levels, thereby avoiding the disadvantages of stand-alone Project Implementation Units that can erode civil service institutional capacity over the medium and long term. The project will finance specialized technical support in procurement, financial management, and other areas as needed. In addition, to ensure that project funds are used for the purposes intended and to help carry out project supervision, the World Bank will employ two independent firms as Monitoring Agents. As a further compensating control, especially given that the project will be approved before the Monitoring Agents are in place, disbursements will be made primarily by direct payment by the Bank to the contractors, consultants, and vendors. Once authorized by the MMPW, direct payments will be made by the World Bank directly into the account of the contractor, consultant, or vendor in a commercial bank capable of receiving funds transferred from the international banking system. The project management component and payments below the threshold of US\$10,000 normally will be made through payments by the Recipient from its own resources. These payments made from the Recipient's own resources will be reimbursed, on a periodic basis, by the World Bank to the MMPW upon presentation of proof of payment and a signed withdrawal application. The PMT and the main financial counterparts from the MMPW will be subject to intensive training in the Bank's disbursement procedures.

23. The proposed grant of US\$90 million will be disbursed over a period of 4 years. The allocation of the grant proceeds and the disbursement amounts are shown below.

Table 2: Disbursement Schedule (US\$ million)

Calendar Year	2005		2006		2007	
Absolute	20.7		49.3		20.1	
Cumulative	20.7		69.9		90.0	
FY	05	06	07	08		

Financial Management

24. The Recipient (MMPW) is required 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. The Grant Agreement also commits the recipient to have the accounts, records, and financial statements of the grant to be audited each fiscal year by a qualified auditor acceptable to the Administrator (Bank) with scope and standards accepted internationally.

25. The financial management risk associated with this operation is considered as high. Critical risk factors are: (i) the security situation rendering the on-site Bank work and assessments, financial or other, not possible; (ii) the Bank’s limited knowledge about the Iraq government financial systems, controls, and procedures; (iii) the limited knowledge of the MMPW on the Bank financial management policies and procedures, (iv) the MMPW not making available the necessary financial resources to honour payments below the value of US\$10,000 equivalent; (v) the security situation not allowing timely implementation of the project activities; (vi) the risk of information and confirmation of the work not being transferred from local technical implementation units to the PMT on a timely manner; (vii) the validation of any variation order that may be identified during the implementation of the work; and (viii), variation order requests which may exhaust the Grant funds, financing 100% of the project activities, (ix) failure of banking system in Iraq which will delay or prevent transfer of funds to contractors and suppliers or to reimburse MMPW, and (x) duplicate use of same invoice for payment by more than one donor. The above risks will be partially mitigated during the project preparation while the unmitigated residual risk will be closely monitored and supervised during implementation as part of the Bank and the Monitoring Agent’s supervision efforts.

Environmental and Social Safeguards

26. The project will be limited to the rehabilitation and reconstruction of existing damaged facilities, and as such, it is rated as a category “B” project. Based on section 13 of OP 4.01, exemption has been sought from the World Bank’s executive management (March 2004) in order that any Environmental Assessment requirements will not be conducted prior to project appraisal. Instead, all components will be processed in accordance with the Environmental and Social Screening Assessment Framework (ESSAF) for Iraq, which was disclosed by the MMPW in October 2004. In addition, a waiver/exception to the notification requirements under paragraph 7(a) of the policy OP 7.50 has been submitted to you. The ESSAF entails that: (a) all components be screened by the MMPW through a checklist attached in the ESSAF; (b) that a code of practice be

included as part of civil work contracts as well as of purchase and installation of equipment contracts; (c) that Environmental Monitoring Plan (EMPs) will be undertaken (if needed) during project implementation for certain components that require due diligence and tight environmental management of issues and aspects, particularly component 5, 6, and 7; d) and that capacity building is undertaken on the environmental issues and on corrective environmental measures in order to enable the MMPW and the Ministry of Environment, to address any potential aspects that may arise during the screening and implementation of the components. The World Bank team and the Recipient will be taking the necessary measures to ensure compliance with the ESSAF.

Project Supervision

27. Considering the unfamiliarity of the Iraqi counterparts with Bank guidelines and procedures, strong supervision efforts including frequent field visits would be needed, particularly during the early stages of project implementation. Should the security situation prevent Bank staff and international consultants from traveling to Iraq during project implementation, project supervision would primarily rely on local Iraqi consultants and UN partners in Iraq, supported by Bank staff and international consultants working from outside Iraq. Regional consultants with branch offices in Baghdad could also be recruited to assist with project implementation

Risks

28. The proposed Project is subject to substantial risks, including: (i) security; (ii) political risks; (iii) Government commitment; and (iv) unfamiliarity with Bank safeguards and procedures (accountability, financial management, and procurement). To mitigate these risks, several measures have been identified. Training on project management and procurement has been provided and the Project provides for additional training and capacity building for PMT staff. Security issues will be managed through project and contract design, and the extensive use of national consultants and contractors. Critical

29. I recommend that the Regional Vice President for the Middle East and North Africa approve the proposed Trust Fund Grant.

Joseph Saba

Country Director
Middle East and North Africa