

International Reconstruction Fund Facility For Iraq

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 Assessment¹ 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.¹ 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.

¹ 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.