



International Reconstruction Fund Facility for Iraq World Bank Iraq Trust Fund



Emergency Household Survey and Policies Project (January 2007)

Progress Report Update - March 1, 2007



PROGRESS REPORT UPDATE TO MARCH 2007

THE WORLD BANK IRAQ TRUST FUND

ISTANBUL, MARCH 20, 2007

A. RECENT DEVELOPMENTS

1. Public financial management (PFM) serves as the centerpiece of analytic and advisory activities. The Bank is conducting a Public Expenditure and Institutional Assessment (PEIA) for Iraq, financed by the Bank's own budget, which will outline steps for strengthening the accountability and transparency of public finance institutions and policies and help Iraq meet the goals set in the Iraq Compact. The analytical and diagnostic work will help Iraq pursue an effective medium-term PFM reform program. A key element of the proposed approach is to build Iraqi ownership of the problems and solutions. The Bank is working on PFM on two tracks, at both the national and subnational levels. The box below describes the recent subnational PFM workshop, held in January 2007, which was financed through the Second Capacity Building Project.

**Box 1: Decentralized Financial Management Workshop
Erbil, January 2007**

Budget transfers to subnational levels are increasing in accordance with constitutional mandates, creating concerns about public financial management systems and capacity at the subnational (province and regional) levels. Consequently, at the request of the Ministry of Finance, and as part of the Bank's Public Expenditure and Institutional Assessment (PEIA), the Bank is providing capacity building on decentralized public financial management (PFM) in Iraq.

The Bank and the Ministry of Finance agreed to use the Kurdistan Region as a pilot. A World Bank mission visited Kurdistan in November 2006 to undertake an initial PFM assessment and to work with a KRG technical committee to design a workshop tailored to KRG needs.

The first workshop, financed by the Second Capacity Building Project, was held in Erbil from January 28-February 1, 2007. Fifty officials from the Kurdistan Regional Government (KRG) attended the workshop, along with officials from other provinces who participated as observers. The workshop provided exposure to international experience and hands-on-training to help the KRG define its priorities and develop an action plan to improve PFM. The KRG is now forming a steering committee that will work with the Bank to implement the action plan.

Following the workshop, from February 3-5, Bank staff met in Erbil with two officials from the federal Ministry of Finance and nine finance officials from various governorates to plan for a second workshop focusing on the needs of central and southern governorates. The workshop will be held in Dubai in April/May 2007, with the aim of developing a PFM action plan tailored to central and southern governorates.

The approach at the subnational level—like that at the national level—is to build Iraqi ownership for the problems and solutions, resulting in the identification and implementation of short- to medium-term actions that can strengthen the PFM system and improve budget execution.

2. The Emergency Community Infrastructure Project (US\$20 million) continues to progress at a rapid pace. Iraq's agriculture sector has been a major employer, accounting for over one-third of Iraq's non-oil GDP. By 2002, however, about 80% of Iraq's basic staples were imported, and about half of the population was subject to malnutrition and food insecurity. To help address these issues, the Emergency Community Infrastructure Project (US\$20 million) was approved in December 2004.

**Box 2: The Emergency Community Infrastructure Project
Implementation Methods and Status**

The Emergency Community Infrastructure Project (US\$20 million) aims to restore rural water infrastructure by rehabilitating rural irrigation and drainage networks, canals, and water supply systems while creating substantial local employment.

The project relies on community involvement to select and prioritize project sites.

Project implementation benefited from a stable project management team over its lifetime and from utilizing a community-based, flexible, programmatic approach to site selection and prioritization.

The project finances 22 subprojects distributed throughout Iraq. Fourteen subprojects in eleven governorates are completed, and the remaining eight subprojects are underway, with completion rates of about 75%.

The project has created about 114,000 work days of employment, improved 57,000 hectares of irrigated areas, and benefited over 70,000 farmers.

Although the project focuses on near-term job creation and local impact, it may lay the groundwork for irrigation and drainage sector reform.

The success of the project has already led to the design of a follow-up project, for which designs for 15 subprojects are already completed and ready to finance (although financing is not yet available through the ITF or IDA.) The new project would create an additional 200,000 work-days and increase cropping intensity and crop yields in 100,000 hectares, serving 90,000 beneficiaries.

3. The Emergency Household Survey and Policies for Poverty Reduction Project (US\$5.1 million) finances the first nationwide expenditure survey since 1988. The project is progressing well—fieldwork began in November 2006 in all 18 governorates, and about 6,000 households have already been surveyed. The first sets of data have been submitted.

4. A sixteenth ITF-financed grant will cofinance the Emergency Electricity Reconstruction Project, which was negotiated in February 2007. The US\$130 million project is financed by a US\$124 million IDA credit and US\$6 million ITF grant. The project aims to: (i) restore the base load generation capacity of the Hartha Power Station, and (ii) build capacity in the Iraqi ministry of electricity to prepare, implement, and operate future projects. The project is scheduled for Bank approval in May 2007. The Bank is working closely with Iraq to ensure that the three IDA credits already approved are made effective prior to the approval of the Emergency Electricity Reconstruction Project.

5. A grant agreement to provide an additional US\$20 million of ITF funding to the Water Supply, Sanitation and Urban Reconstruction Project will bring the total value of the project to US\$110 million, once the supplemental grant agreement is formalized (expected in March 2007). The project aims to restore basic services in the poorest areas of Iraq, through the major rehabilitation of water supply and sanitation systems in nine cities, and urban infrastructure in three cities. Rising construction costs would have caused the cancellation of two components of the original project (Basra and Dokan), unless additional financing was provided.

6. In December 2006, the Bank recommended extending the ITF for three years, from December 31, 2007, to December 31, 2010, to allow financing to continue through project completion for the projects in the current portfolio. Donors agreed in principle to the extension at the Briefing to Donors held in Amman, Jordan in May 2006. The extension will only become effective once each donor to the ITF returns a formal amendment to the administration agreement. In February 2006, Kuwait became the fifteenth (out of seventeen) donors to formally approve the extension of the ITF, leaving only the EU and Japan to officially approve the extension. The delay in finalizing the extension of the ITF continues to cause serious project implementation delays. Responsible bidders are unwilling to compete for contracts for which the availability of financing remains uncertain. Large works contracts that extend beyond the current termination date of the fund can not be signed. Disbursements have been rejected for payment requests that extend beyond the project completion date. The Bank hopes that the extension issue can be resolved no later than the Donor Committee meeting.

7. The World Bank will announce its appointment of the new country manager in the International Zone as soon as the recruitment process is complete. The Bank is also finalizing formal agreements with the US State Department for office space and with the UK for logistical and security support for the Bank's international staff located in Iraq.

B. DONOR PLEDGES, COMMITMENTS, AND DEPOSITS

8. There has been no change in donor commitments or deposits since the December 2006 Progress Report. Seventeen donors have pledged US\$458 million to the ITF, and deposited US\$455 million in the ITF as of February 28, 2007. Table 1 shows the status of donor pledges, commitments, and deposits as of December 31, 2006.

**Table 1: Donor Pledges, Commitments and Deposits to ITF
February 28, 2007**

Donors	Pledges in Donor Currency		Pledges	Commitments ^{1/}	Deposits
	Currency	Currency (million)	(US\$ million)	(US\$ million)	(US\$ million)
Australia	AUD	22.0	16.1	16.1	16.1
Canada	CAD	30.0	22.3	22.3	22.3
EC	EUR	123.0	150.0	150.0	150.0
Finland	EUR	2.0	2.6	2.6	2.6
Iceland	USD	1.0	1.0	1.0	1.0
India	USD	5.0	5.0	5.0	5.0
Japan	USD	130.6	130.6	130.6	130.6
Korea	USD	4.0	4.0	4.0	4.0
Kuwait	USD	5.0	5.0	5.0	5.0
Netherlands	EUR	5.0	6.2	6.2	6.2
Norway	NOK	45.0	6.7	6.7	6.7
Qatar	USD	5.0	5.0	5.0	2.5
Spain	USD	20.0	20.0	20.0	20.0
Sweden	SEK	40.0	5.8	5.8	5.8
Turkey	USD	1.0	1.0	1.0	1.0
United Kingdom	GBP	40.0	71.4	71.4	71.4
United States	USD	5.0	5.0	5.0	5.0
			457.6	457.6	455.2

^{1/} The "Commitments" column shows commitments in currencies other than US\$ converted at the exchange rate as of the date of the agreement and is for indicative purposes only. The "Deposits" column shows the actual US\$ equivalent amount credited to the ITF account.

C. FINANCIAL SUMMARY

9. Table 2 summarizes the sources and uses of ITF funds, including donor deposits and investment income earned, compared to grant commitments, costs for project appraisal and supervision, trust fund management, and administration fees.

Table 2: Sources and Uses of Funds

(US\$ Million)

February 28, 2007

	Current Program	Actual To Date
Sources of Funds		
Donor Deposits	455.2	455.2
Investment Income	34.5	34.5
Total Sources of Funds	489.7	489.7
Uses of Funds		
Project Financing		
Closed Projects		
Capacity Building I	3.6	2.5
Emergency Textbook Provision	40.0	38.8
Active Projects		
Capacity Building II	7.0	3.2
School Rehabilitation & Construction	60.0	8.3
Health Rehabilitation	25.0	2.9
Water Supply, Sanitation & Urban Reconstruction	90.0	5.4
Baghdad Water Supply	65.0	5.0
Private Sector Development	55.0	4.2
Community Infrastructure	20.0	10.9
Disabilities	19.5	0.3
Social Protection	8.0	
Household Survey & Policies for Poverty Reduction	5.1	1.2
Household Survey & Policies (Technical Assistance)	1.5	0.7
Marshland Schools (Supplemental Grant)	6.0	
Environmental Management	5.0	
Subtotal Project Financing	410.7	83.1
Funding Available for Project Pipeline	49.2	
Total Project Financing	459.9	83.1
Project Processing and Supervision ^{1/}	20.5	8.0
Trust Fund Management and Administration ^{1/}	6.1	2.1
Cost Recovery for Project Processing, Trust Fund Administration and Fees	26.6	10.2
Total Use of Funds	486.5	93.3

^{1/} Includes estimated requirements for Project Processing, Monitoring Agent, and Trust Fund Management and Administration over the life of the ITF (through December 31, 2010).

10. Investment income, which is credited to the trust fund at the end of each month, totals almost US\$35 million, bringing the total value of the ITF to nearly US\$490 million.

11. The ITF finances fifteen emergency projects valued at about US\$411 million, fully obligating 90% of donor deposits. Twelve projects, amounting to US\$399 million, are grants implemented directly by Iraqi governmental authorities, which then carry out the entire contracting process, hiring private sector firms through internationally accepted procurement procedures. Thus, 97% of the value of the US\$411 million portfolio is executed by the government of Iraq. Iraqi implementation directly builds institutional capacity, increases local ownership and sustainability, while helping to maximize local employment and minimize security costs. However, it also affects the pace of implementation, because projects depend on the capacity of the implementing agency and are vulnerable to changes at the political and technical level.

12. Three projects, totaling US\$12 million, are Bank-executed capacity building programs implemented by the World Bank at the request of the Government of Iraq. To support Compact priorities, the remaining uncommitted resources in the Second Capacity Building Project (roughly US\$3 million) will be primarily directed to technical assistance in the areas of public sector governance and public resource management.

13. Two projects are completed: the (Bank-executed) First Capacity Building Project was completed in August 2004 and the Textbook Provision Project, implemented by Iraq's Ministry of Education, was completed in December 2006.

14. Civil works and goods still account for about 80% of total estimated project costs. Nearly all ITF resources—over US\$356 million, or 90% of the value of ITF grants—are subject to competitive bidding procedures. Only about 3% of expenditures will be directly contracted, and less than 7% are for operating costs.

15. Disbursements—actual payments made for goods, works, and services delivered and certified to be satisfactorily completed—stand at about US\$94 million (19% of ITF resources). Close to 90% of disbursements are for project expenditures (US\$84 million out of US\$94 million). Disbursements for the Iraqi-implemented projects stand at almost US\$77 million (82% of total disbursements), while disbursements for the three Bank-executed capacity building projects, one of which is completed and closed, total about US\$6 million.

16. The ITF provisions allow the World Bank to recover the actual full costs incurred to conduct project analysis, appraisal, supervision, trust fund management and administration. Total charges for these services at the end of February 2007 stand at about US\$10 million. Approximately US\$8 million have been charged directly to the ITF to recover the actual full costs for project analysis, appraisal, negotiation, and supervision (including US\$2 million for fiduciary monitoring agent services). The actual charges for trust fund management stand at US\$1 million, while total administrative and audit fees remain below US\$1 million. Current cost recovery charges represent about 2% of the ITF resources.

17. The total costs for the project analysis, appraisal, supervision, trust fund management, and administration fees, charged up through the proposed December 31, 2010, termination date of the ITF, are forecast to reach about US\$27 million (about 5% of the fund). Thus, extending the current portfolio of projects does not require incremental funding from donors.

18. Although Table 2 reflects that about US\$52 million remain available for new projects, the US\$20 million additional financing for the Water Supply, Sanitation and Urban Reconstruction Project will be formalized in March 2007, and the US\$6 million grant to the Emergency Electricity Project is scheduled to be signed by the end of June 2007. Projects under preparation that are already cleared by ISRB and reviewed by the World Bank's Ad Hoc Committee total another US\$17 million, and include the Obstetrics and Neonatal Care Project (US\$11 million) and the Agriculture Sector Capacity Building (US\$6 million), leaving about US\$9 million available in the trust fund.

19. Although trust fund disbursements provide a lag indicator of project progress, the status of contracts points to future progress. About 74% of ITF grant monies have been tendered or contracted, valued at more than US\$295 million. Contracts valued at more than US\$183 million have been awarded or completed. Table 3 reports the status of contracting by project as of end-February 2007.

Table 3: Status of Iraqi-Implemented Contracts by Project
(US\$ Million)
February 28, 2006

Iraqi-Implemented Project	Effective Date	Grant Amount	Tenders or RFPs Issued	Contracts Signed	Disbursements
Textbook Provision	Mar-04	40.0	39.1	39.1	38.8
School Rehabilitation & Construction	Oct-04	60.0	35.0	34.1	8.3
Health Rehabilitation	Nov-04	25.0	19.8	8.1	2.9
Water Supply, Sanitation & Urban Reconstruction	Dec-04	90.0	80.2	30.0	5.4
Baghdad Water Supply	Dec-04	65.0	45.1	9.6	5.0
Private Sector Development	Nov-04	55.0	51.1	39.0	4.2
Community Infrastructure	Dec-04	20.0	19.5	19.5	10.9
Disabilities	Nov-05	19.5	3.1	2.6	0.3
Social Protection	Jun-06	8.0	0.9	0.1	0.0
Household Survey & Policies for Poverty Reduction	Jul-06	5.1	1.2	1.2	1.2
Marshland Schools (Supplemental Grant)	Oct-06	6.0	0.0	0.0	0.0
Environmental Management	Dec-06	5.0	0.2	0.0	0.0
Total		398.6	295.2	183.3	76.9
As % of Grant Amount			74%	46%	19%