



# International Reconstruction Fund Facility for Iraq

## World Bank Iraq Trust Fund

### Report to Donors



Status Report as of June 30, 2006



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**The World Bank Iraq Trust Fund  
Report to Donors  
As of June 30, 2006**

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**ABBREVIATIONS AND ACRONYMS**

AAA	Analytical and Advisory Activities
CPPR	Country Portfolio Performance Review
DFID	Department for International Development (UK)
EC	European Commission
FMA	Fiduciary Monitoring Agent
G-7	Group of Seven Industrialized Countries
IBRD	International Bank for Reconstruction and Development
IDA	International Development Assistance
IFC	International Finance Corporation
ILO	International Labor Organization
IMF	International Monetary Fund
IRFFI	International Reconstruction Fund Facility for Iraq
ISN	Interim Strategy Note
ISRB	Iraqi Strategic Review Board
ITF	Iraq Trust Fund (World Bank)
IZ	International Zone (Baghdad)
NDS	National Development Strategy
NGO	Non-Governmental Organization
MNA	Middle East and North Africa Region
PFM	Public Financial Management
PIU	Project Implementation Unit
PMT	Project Management Team
SWIFT	Society for Worldwide Interbank Financial Telecommunication
UN	United Nations
UNDG	United Nations Development Group
UNDP	United Nations Development Program
US	United States
WFP	World Food Program

## **INTRODUCTION**

As Administrator of the World Bank Iraq Trust Fund (ITF), the World Bank has agreed to furnish to the contributing donors, on a semi-annual basis, a report describing the operations of the ITF, including contributions, disbursements, and implementation progress. This Report covers the period from January 1, 2005, through June 30, 2006.

## A. BACKGROUND: WORLD BANK RELATIONS WITH IRAQ

1. **Iraq was a founding member of the World Bank, and received six loans from the IBRD between 1950 and 1973** for agriculture, education, flood control, telecommunications, and transport. The last loan closed in 1979. The Bank reengaged with Iraq in the summer of 2003 when it prepared an Iraq Needs Assessment together with the UN. The UN-World Bank Needs Assessment was the basis for the October 2003 International Conference on Iraq in Madrid.
2. **The International Reconstruction Fund Facility for Iraq (IRFFI) was endorsed at the end of 2003, in response to international requests to help donors channel their resources and coordinate their support for reconstruction and development activities in Iraq.** Together, the World Bank and UN designed the structure, governance, and modalities of IRFFI in close consultation with donors and Iraqi authorities. IRFFI encompasses two trust funds: the World Bank Iraq Trust Fund (ITF) administered by the World Bank, and the UN Development Group Trust Fund administered by the United Nations Development Program (UNDP) on behalf of itself and participating UN organizations. The IRFFI structure is designed to promote close cooperation and avoid duplication by providing a common governance structure, including a joint Donor Committee.
3. **The World Bank Board of Executive Directors approved the World Bank to act as Administrator of the ITF in January 2004.** The ITF became effective upon receipt of the first deposit, on March 30, 2004. By December 2004, the World Bank had committed nearly all the ITF deposits to approved projects. A more detailed description of the establishment of IRFFI and the World Bank's role in the Facility is included in Annex 1.
4. **All work conducted by the World Bank in Iraq must be governed by an Interim Strategy.** The World Bank's first Interim Strategy Note (ISN) for Iraq, discussed by the World Bank's Executive Directors in January 2004, initiated work 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. A Second Interim Strategy Note for Iraq, discussed by the Bank's Board in September 2005, provided the framework for additional ITF resources and up to US\$500 million of IDA lending. To provide a continuum of resources, it also provides the framework for up to US\$500 million of IBRD lending, assuming critical progress regarding IBRD creditworthiness. In June 2005, Iraq's Interim Government asked that IDA financing focus on four sectors—education, electricity, roads, and water supply and sanitation. The first IDA project, a Third Emergency Education Project (US\$100 million), was approved in November 2005 followed by the Emergency Road Rehabilitation Project (US\$135 million) approved in June 2006.

## WORLD BANK STRATEGY IN IRAQ

5. **Given the World Bank's method of working through country institutions, its role in providing policy advice, and its relatively limited financial resources for Iraq, the World Bank's most important contribution to Iraq would be to help Iraq develop institutions and systems for more effective and accountable use of financial resources.** The World Bank's comparative advantage and objective in Iraq are to help build institutions for sustainable development — reconstruction programs, macroeconomic policies, transparent governance, economic growth and employment, and social safety net systems. At the national level, the World Bank emphasizes undertaking sector-wide approaches, along with coherent and sustainable budget allocation and expenditure frameworks.

6. **The World Bank's strategy to help Iraq develop institutional frameworks, policies, and systems for more effective and transparent use of Iraq's resources is detailed in the Second Interim Strategy Note (ISN). The strategy has a two-pronged approach, which includes:**

- **A focused program of analytical and advisory activities (AAA)** — policy advice, capacity building, and economic and sector work — to assist the government's transition to more productive, accountable, and efficient systems of resource allocation and governance; and
- **Investment projects to strengthen core state institutions and systems**, through Iraqi hands-on practical experience in the design, implementation and maintenance of projects which maximize local impact and Iraqi job creation.

7. **The World Bank maximizes its impact by creating synergies between analytical and advisory activities and investment projects.** Analytical and advisory activities — capacity building, policy advice, and economic and sector work — are financed by the World Bank's own budget and are a key vehicle of World Bank assistance to support the government's transition to more efficient and accountable systems of governance and resource allocation.

8. **Building on work over 2003-2005, and prepared in close collaboration with Iraqi counterparts, the World Bank is finalizing a Briefing Book on the core reform agenda for the new government.** The Briefing Book gives priority to strengthening governance and institutions, promoting economic reforms, and modernizing social safety nets. The Briefing Book provides a platform for future policy advice from the World Bank to help Iraq conduct policy analysis, modernize public sector management, and formulate and implement sustainable economic and social reforms.

9. **World Bank activities emphasize Iraqi leadership in accordance with the World Bank's Articles of Agreement, which state that clients are responsible to implement projects financed through the World Bank.** Projects are designed hand-in-hand with Iraqi authorities, to ensure that they support Iraq's own priorities as described in its National Development Strategy (NDS). The NDS gives priority to restoring basic services and creating employment in the short-term. In the longer term, to position Iraq on a course towards a diversified market-based economy, the NDS stresses the importance of promoting good

governance and private-sector led growth, and managing strong and effective social safety net programs.

10. **World Bank-administered investment projects target key sectors where service delivery is critical for government credibility, typically combining urgent rehabilitation with institution building.** Projects support interventions at both the national and local levels, while also maximizing local content and local employment, which are immediate needs given the high unemployment and its link to instability.

### B. STATUS OF DONOR PLEDGES, COMMITMENTS AND DEPOSITS TO THE ITF

11. **Total deposits to the ITF stand at US\$454 million.** Seventeen donors have pledged US\$457 million to the ITF, and deposited US\$454 million in the ITF account as of June 30, 2006. Nearly 100% of amounts pledged to the ITF have been deposited into the trust fund. The Islamic Republic of Iran pledged US\$10 million to IRFFI at the Tokyo Donor Meeting in October 2004, but the allocation between the World Bank and UNDG Trust Funds is still undecided. Qatar pledged US\$5.0 million at the Madrid conference, and has deposited US\$2.5 million to the ITF to date. Table 1 shows the status of pledges, commitments, and deposits as of June 30, 2006, which has remained stable since the December 31, 2005 Report to Donors.

**Table 1: Donor Pledges, Commitments and Deposits to ITF  
June 30, 2006**

Donor	Pledges in Donor Currency <sup>1/</sup>		Pledges (US\$ million)	Commitments <sup>2/</sup> (US\$ million)	Deposits (US\$ million)	% of Pledge Deposited
	Currency	Currency (million)				
Australia	AUD	22.0	16.1	16.1	16.1	100%
Canada	CAD	30.0	22.3	22.3	22.3	100%
EC	EUR	123.0	149.8	149.8	149.8	100%
Finland	EUR	2.0	2.6	2.6	2.6	100%
Iceland	USD	1.0	1.0	1.0	1.0	100%
India	USD	5.0	5.0	5.0	5.0	100%
Japan	USD	130.0	130.0	130.0	130.0	100%
Korea	USD	4.0	4.0	4.0	4.0	100%
Kuwait	USD	5.0	5.0	5.0	5.0	100%
Netherlands	EUR	5.0	6.2	6.2	6.2	100%
Norway	NOK	45.0	6.7	6.7	6.7	100%
Qatar	USD	5.0	5.0	5.0	2.5	50%
Spain	USD	20.0	20.0	20.0	20.0	100%
Sweden	SEK	40.0	5.8	5.8	5.8	100%
Turkey	USD	1.0	1.0	1.0	1.0	100%
United Kingdom	GBP	40.0	71.4	71.4	71.4	100%
United States	USD	5.0	5.0	5.0	5.0	100%
<b>Total</b>			<b>456.8</b>	<b>456.8</b>	<b>454.3</b>	<b>99%</b>

<sup>1/</sup> The Islamic Republic of Iran has pledged US\$10 million to IRFFI at the Tokyo Meeting. The allocation between the World Bank and the UNDG Trust Funds is still pending.

<sup>2/</sup> 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.

12. **Seventy percent of the funding provided to the ITF is allocated to specific sectors as required by the donor.** Table 2 shows deposits by donor and their sectoral preference, as applicable.

**Table 2: Donor Deposits by Sectoral Preference  
(US\$ million)  
June 30, 2006**

Donor	No Preference	Capacity Building	Educa-tion	Infra. (WSS & Urban) <sup>1/</sup>	Rural Develop-ment	Health	Financial/Private Sector	Econ Mgmt/Soc Pr/Employ	Total
Australia	10.2				5.9				16.1
Canada	22.3								22.3
EC		7.3	55.5	25.7	20.0	29.1		12.2	149.8
Finland	2.6								2.6
Iceland						1.0			1.0
India	5.0								5.0
Japan				90.0			40.0		130.0
Korea				4.0					4.0
Kuwait	5.0								5.0
Netherlands	6.2								6.2
Norway	6.7								6.7
Qatar	2.5								2.5
Spain <sup>2/</sup>				8.0		6.0	6.0		20.0
Sweden				5.8					5.8
Turkey <sup>2/</sup>		0.3	0.3	0.3		0.3			1.0
United Kingdom	71.4								71.4
United States	5.0								5.0
<b>Total</b>	<b>136.9</b>	<b>7.6</b>	<b>55.8</b>	<b>133.8</b>	<b>25.9</b>	<b>36.4</b>	<b>46.0</b>	<b>12.2</b>	<b>454.4</b>

<sup>1/</sup> Infrastructure includes US\$25.7 million from EC for Urban Rehabilitation; US\$90 million for Japan from Water Supply and Sanitation; US\$5.8million from Sweden for power; US\$4million from Korea, and notional amounts of US\$0.3 million from Turkey and US\$8 million from Spain for Infrastructure.

<sup>2/</sup> Split across sectors is notional only, since distribution is not specified by donor in the Adminsitratio Agreement.

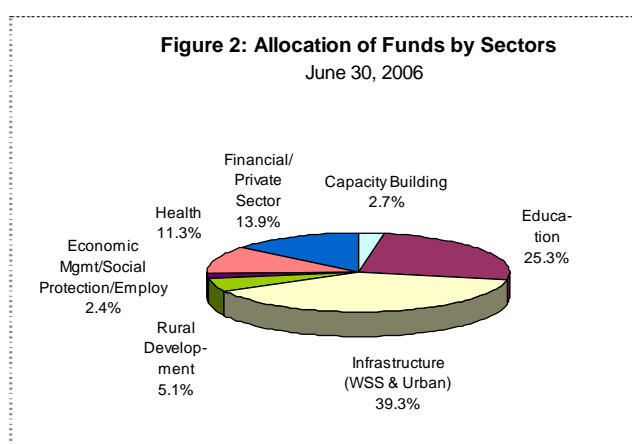
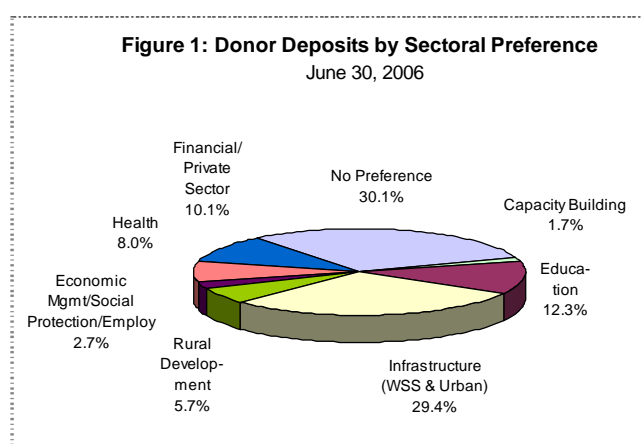
<sup>3/</sup> EC 2005 contribution (Euro 40 million) identified preferences for Euro 10 million for capacity building for poverty reduction, economic management, and education and training and Euro 30 million for operations in social protection, including health, education, and employment creation/economic management.

13. **Table 3 summarizes the current use of available funds by sector, as of June 30, 2006.** With the exception of Rural Development, ITF resources obligated to specific sectors through grant agreements with Iraqi authorities exceed the funding designated to those sectors by donors.

**Table 3: Source and Use of Funds by Sectoral Preferences**  
(US\$ million) ; June 30, 2006

Inflows and Outflows	No Preference	Capacity Building	Educational	Infra. (WSS & Urban)	Rural Development	Health	Financial/Private Sector	Environment	Econ Mgmt/Soc Pr/Employ	Total
Donor Deposits	136.9	7.6	55.8	133.8	25.9	36.4	46.0		12.2	454.4
Investment Income	20.2									20.2
<b>Total Inflows</b>	<b>157.1</b>	<b>7.6</b>	<b>55.8</b>	<b>133.8</b>	<b>25.9</b>	<b>36.4</b>	<b>46.0</b>		<b>12.2</b>	<b>474.6</b>
Approved Projects										
Capacity Building I		3.6								3.6
Textbook Provision			40.0							40.0
School Rehab. & Construction			60.0							60.0
Baghdad WS & Sanitation				65.0						65.0
Health Rehabilitation						25.0				25.0
Capacity Building II		7.0								7.0
Private Sector Development							55.0			55.0
WSS & Urban Reconstruction				90.0						90.0
Community Infrastructure					20.0					20.0
Disabilities						19.5				19.5
Social Protection									8.0	8.0
Household Survey & Policies Technical Assistance									1.5	1.5
Subtotal		10.6	100.0	155.0	20.0	44.5	55.0		9.5	394.6
Project Cost Recovery			1.0	1.2	0.4	0.8	0.8	0.1	0.3	4.5
Mgmt & Administration		0.1	0.8	1.2	0.2	0.4	0.4	0.0	0.1	3.2
<b>Total Outflows</b>		<b>10.7</b>	<b>101.8</b>	<b>157.4</b>	<b>20.6</b>	<b>45.7</b>	<b>56.2</b>	<b>0.1</b>	<b>9.9</b>	<b>402.3</b>

14. **Figures 1 and 2 illustrate the break-down of donor deposits and resources allocated by sector, respectively.**



### C. CHARACTERISTICS OF THE ITF PORTFOLIO

15. **A distinguishing characteristic of ITF-financed investment projects is that they are implemented directly by Iraqi institutions.** Line ministries establish Project Management Teams (PMTs) and the World Bank trains PMT staff in procurement, financial management, and project management to enable them to undertake project execution. Iraqi governmental agencies are then able to carry out the entire contracting process, hiring private sector firms through internationally-accepted procurement procedures, with on-going support from the World Bank.

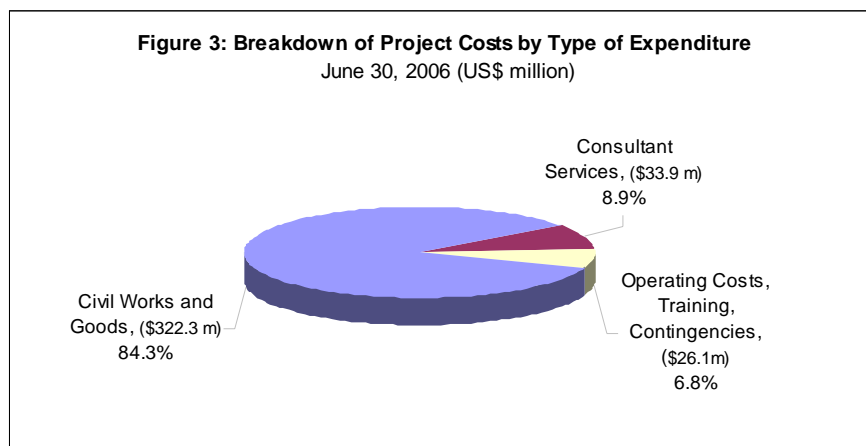
16. **Employing country systems for project implementation strengthens the institutional capacity of key governmental institutions, while also increasing local ownership and sustainability, minimizing security costs, and maximizing local employment.** The practical, hands-on experience gained through implementing projects in line with World Bank policies and requirements develops strong and transparent procurement, financial management, project management, and fiduciary governance systems within the Iraqi ministries.

17. **Implementing projects through Iraqi agencies complements methods used by other donors and agencies.** While donors who execute projects through their own systems can maintain managerial control of the project and may achieve a faster disbursement of funds, the Bank's approach bolsters the institutional capacity of the ministries, improving internal controls and reducing fiduciary risks of Iraqi agencies in a sustainable manner.

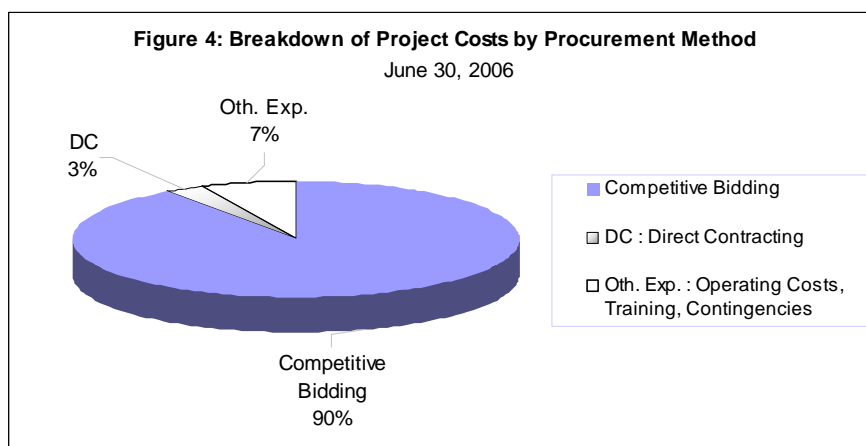
18. **The ITF is authorized to finance rehabilitation/reconstruction development projects and capacity building activities.** The ITF cannot finance quick-disbursing activities supporting the political process (e.g. constitutional or electoral support activities), government recurrent expenditures, budget support, or humanitarian aid.

19. **Most ITF financing is obligated to relatively large multi-year economic development projects that are national in scope and implemented by Iraqi institutions.** ITF-financed investment grants range in size between US\$8-90 million, with an average grant size of over US\$40 million. ITF-financed projects are underway in all 18 governorates.

20. **ITF projects finance primarily civil works and goods.** Civil works and goods account for about 84% of the total value of the Iraqi-implemented investment projects. Consultant services, which consist primarily of local consultants hired for design, engineering, and supervision of works, account for only about 9% of portfolio value. Figure 3 illustrates the breakdown of costs for investment projects, by type of expenditure.



21. **Nearly all ITF resources are subject to competitive bidding procedures.** About 90% of the project portfolio is subject to competitive procurement procedures, which are carried out directly by the Iraqi implementing agencies with the Bank's close assistance. About 3% of expenditures will be directly contracted without competitive procurement; only about 7% are not subject to procurement procedures and used for PMT operating costs, training, or contingencies.



#### D. CURRENT ITF PROJECT PORTFOLIO

22. **While the initial cohort of ITF projects included predominantly large-scale multi-year investment projects, the recently-approved grants focus on helping Iraq develop strategic approaches to reducing poverty, protecting the vulnerable, and designing sustainable economic programs.** The new projects directly support the Bank's core objective

to help Iraq develop institutional frameworks, policies, and systems for more effective and transparent use of Iraq's resources. In addition, the projects are consistent with post-conflict experiences, which demonstrate that initial aid should focus on improving policy, governance and developing effective institutions.

**23. The Emergency Social Protection Project (US\$8 million), which was signed on June 3, 2006, aims to help Iraq address the urgent need to improve Iraq's social safety net and pension programs.** The project assists Iraq to implement a modern management and information system, which will improve the targeting of safety nets and reduce leakages, thereby increasing the benefits that reach the poor.

**24. Complementing the Emergency Social Protection Project, the Emergency Household Survey and Policies for Poverty Reduction Project (US\$6.6 million) will enable the government to establish a poverty line, target social assistance to the neediest, and make informed policy decisions.** The project includes a US\$5.1 million grant to be implemented by Iraq to conduct a comprehensive household survey, analyze the resulting data, and prepare poverty and social impact assessments. The project was negotiated in March 2006 and is expected to be approved in July 2006. The project also includes a US\$1.5 million Bank-executed companion technical assistance grant, which has already been signed (May 2006). The technical assistance grant finances workshops and other activities designed to prepare MOPDC to undertake modern data collection and analysis activities, paving the way for Iraq to implement the household survey.

**25. As of June 30, 2006, the ITF finances twelve emergency projects amounting to about US\$395 million, fully obligating 87% of the resources provided by donors.**

- Nine of the twelve ITF-financed projects, valued at US\$383 million, are grants implemented directly by Iraqi governmental authorities. Thus, 97% of the US\$395 million portfolio is implemented by the government of Iraq.
- Three projects, totaling US\$12 million, are capacity building programs implemented by the Bank at the request of the government of Iraq.

**26. Table 4 identifies each ITF-financed project, with its implementation arrangements and basic objective.** More detailed information of the status of each project is provided in Annex 2.

**Table 4: Summary of Projects Financed by the ITF  
June 30, 2006**

Emergency Project Name	Grant US\$ m	Implementing Agency	Grant Signing	Objective / Impact / Implementation Status
First Capacity Building	3.6	World Bank	2/14/04	Closed. Trained about 600 Iraqi officials, paving the way for emergency operations.

Emergency Project Name	Grant US\$ m	Implementing Agency	Grant Signing	Objective / Impact / Implementation Status
Textbook Provision	40.0	Min. of Education	5/15/04	The project financed the printing and distribution of more than 79 million textbooks, benefiting 6 million students in all 19,000 primary and secondary schools for the 2004/05 school year. Cost savings of \$9 million, from using competitive procurement procedures, financed an additional 3.5 million textbooks for 2005/06.
School Rehabilitation and Construction	60.0	Min. of Education	10/14/04	Major rehabilitation of 134 schools is complete and 9 contracts for constructing 18 new schools are in the bid evaluation stage, with construction to start by July 2006. The project benefits over 100,000 families with children attending unsafe or overcrowded schools and will create thousands of jobs through use of Iraqi construction firms.
Baghdad Water Supply and Sanitation	65.0	Mayorality of Baghdad	12/4/04	The project will benefit about one million residents of Baghdad—about 17 percent of the city's population—by rehabilitating water supply and sanitation throughout the city. The mayorality has now moved to the construction phase—it has signed contracts for US\$8.5 million of goods and works. Also, it has recruited a team of advisors to help prepare and implement a Baghdad Comprehensive City Development Plan.
Health Rehabilitation	25.0	Min. of Health	12/4/04	The project finances rehabilitation of priority emergency services, including emergency obstetric care, in 11 selected hospitals, and provides 12 hospitals with basic medical and laboratory equipment and essential drugs. Rehabilitation of 2 health units has commenced, and 3 others will begin in Baghdad, Missan and Erbil in July 2006.
Second Capacity Building	7.0	World Bank	12/6/04	The project follows up the first capacity building project to help the authorities tackle medium-term policies, focusing on economic management, public sector management, and social safety nets. So far, more than 24 workshops have trained about 375 participants.
Private Sector Development	55.0	Min. of Planning and Min. of Telecom.	12/6/04	The contract for the supply and installation of a high-capacity national telecommunications network was signed on 6/23/2006.
Water, Sanitation, and Urban Reconstruction	90.0	Min. of Municipalities and Public Works	12/8/04	The project finances high-impact water supply and sanitation rehabilitation in 9 governorates; and urban reconstruction in the poorest areas of 3 governorates, benefiting over 2 million people. A US\$27 million contract is underway for urban rehabilitation and upgrading of the water supply system of Badawa. Procurement of other rehabilitation work is underway.
Community Infrastructure Rehabilitation	20.0	Min. of Water Resources	12/18/04	The project finances a flexible program of labor-intensive civil works to generate near-term employment while improving rural water infrastructure (irrigation, drainage, and water supply). 14 subprojects amounting to US\$12 million are underway, of which 6 are almost completed. In all, the project will finance 20 subprojects, creating more than 20,000 jobs.
Disabilities Project	19.5	Min. of Health	11/23/05	The project aims to improve services to the disabled by developing a comprehensive policy and legal framework for disabilities, strengthening government-NGO partnerships, and reconstructing 14 rehabilitation centers. The first 4 civil works design and supervision contracts have been signed and are underway.
Household Survey & Policies Technical Assistance	1.5	World Bank	5/31/2006	The project provides the technical assistance to enable Iraq to undertake modern data collection and analysis activities, paving the way for Iraq to implement the Household Survey and Policies for Poverty Reduction Grant, which was negotiated in March 2006 and will be financed by the ITF.

Emergency Project Name	Grant US\$ m	Implementing Agency	Grant Signing	Objective / Impact / Implementation Status
Social Protection Project	8.0	Ministry of Labor and Social Affairs	6/3/2006	The project aims to help Iraq strengthen its institutional capacity to reform social safety net and pensions programs, to better assist poor and vulnerable populations.
Total	394.6			

## E. IMPLEMENTATION AND FIDUCIARY ARRANGEMENTS

27. **The World Bank established implementation arrangements that rely to the maximum extent possible on Iraq's own institutions in order to build transparent and robust institutions over time.** In many emergency and conflict-affected environments, the World Bank and other donors rely on ring-fenced Project Implementation Units (PIUs). Experience elsewhere suggests, however, that stand-alone PIUs can undermine long-term sustainability and institution building. In Iraq, the World Bank works through dedicated ministry staff that constitute a PMT. PMT members are civil servants paid by the ministry using the regular pay scale. PMTs are thus designed to be fully integrated into the ministry's institutional structure. Even after the World Bank projects are completed and closed, the skills, experience, and systems acquired during project implementation will remain within the ministry.

28. **The World Bank provides intensive training and support to PMT staff before project approval and throughout project implementation, in all aspects of modern project management, including procurement and financial management procedures.** The Bank provides continuous assistance to PMT staff through daily contact, periodic workshops, joint supervision missions to Amman, and specialized local consultant support to strengthen fiduciary controls and project management capacity.

29. **The World Bank, as the ITF Administrator, supervises ITF-funded operations in accordance with the World Bank's applicable policies and procedures.** The World Bank employs a network of experienced Iraqi consultants, backed by staff in Jordan, Beirut, and Washington, to monitor project progress and support the PMTs on a daily basis. These professional-level Iraqi consultants, residing outside of the IZ, function as local Bank staff, work out of their homes (using satellite phone and email connections) and the ministries to monitor and facilitate the implementation of Bank projects. The World Bank's Interim Office for Iraq in Amman provides overall coordination of the Iraq work program. The World Bank also continues to finance, and make extensive use of, four video-conferencing facilities installed in the Ministry of Finance, Ministry of Planning and Development Cooperation, Central Bank of Iraq, and the Green Zone Conference Center.

30. **The World Bank is increasing its presence in the IZ to strengthen policy dialogue with Iraqi officials, overall program management, and donor coordination.** The World Bank occupies office space in the IZ and continues to fund a full-time DFID consultant, who represents the World Bank with the Iraqi central government and donors on the ground. The World Bank is evaluating possible additional staffing configurations and their budget

implications, to possibly further strengthen its presence in the IZ. The Bank intends to increase Iraqi staffing outside the IZ (security permitting) to increase project identification and supervision capacity.

31. **The World Bank engages a Fiduciary Monitoring Agent (FMA) to help ensure that donor funds are disbursed only for the purposes intended by the ITF and according to applicable Bank procedures.** The FMA has been operational for six months and is a useful partner in monitoring project progress and identifying local implementation issues. The FMA, an Iraqi firm in Baghdad, visits project sites throughout Iraq and implementing agencies to: (i) Monitor the physical progress of projects; (ii) Review the procurement of goods, works, and services; (iii) Evaluate the accuracy of financial reports; and (iv) Assess compliance with the procurement and financial management requirements of the Bank. The FMA employs about 24 Iraqi consultants, predominantly professional engineers and accountants, who are organized in teams to provide national coverage. As a local firm, the FMA maintains a low profile, enabling its staff to meet regularly with PMTs and to visit project sites throughout the country. The FMA's monthly reports with digital photos provide good evidence of the quality and progress of the work of contractors, conveying valuable information to Iraqi PMTs and World Bank task teams.

#### F. ITF DISBURSEMENTS

32. **ITF grants must be disbursed in accordance with the appropriate policies and procedures of the World Bank.** The World Bank provides intensive training in World Bank procurement and disbursement procedures to PMTs before and throughout project implementation. PMT staff receives daily support from World Bank staff and consultants, including the FMA.

33. **Disbursements correspond to actual expenditures—payments made for goods, works, and services delivered.** Disbursements can be made only once goods are delivered, work is certified to be satisfactorily completed, and invoices are submitted to the ministry for payment. Thus, disbursements are the last step in implementation, and represent a lag indicator of project progress. The pace of disbursement, although slow, is consistent with World Bank experience in the MNA region — countries in the MNA region typically disburse about 5% of project amounts in the first year of project implementation.

34. **As part of the compensating financial controls for ITF-financed grants, disbursements in Iraq are made primarily by direct payment by the World Bank to individual contractors, consultants, and vendors.** Small payments, typically those under US\$10,000, are made by the implementing agency from its own budget. Once a group of payments made by the ministry exceed the US\$10,000 threshold, they are claimed by the agency and reimbursed by the World Bank upon presentation of proof of payment and a signed withdrawal application.

35. **Table 5 reflects the sources and uses of ITF funds**, including actual disbursements, from the inception of the ITF through June 30, 2006.

**Table 5: Source and Use of Funds (US\$ million)  
June 30, 2006**

Sources and Uses of Funds	Current Program	Actual To Date
<b>Sources of Funds</b>		
Donor Deposits	454.2	454.2
Investment Income	20.2	20.2
<b>Total Sources of Funds</b>	<b>474.5</b>	<b>474.5</b>
<b>Uses of Funds</b>		
Project Financing		
Approved Projects		
Textbook Provision	40.0	36.9
School Construction & Rehabilitation	60.0	6.2
Health Rehabilitation	25.0	0.9
Baghdad Water Supply & Sanitation	65.0	0.6
Water Supply, Sanitation & Urban Reconstruction	90.0	1.3
Private Sector Development	55.0	0.3
Community Infrastructure	20.0	5.2
Disabilities	19.5	0.0
Social Protection	8.0	0.0
Capacity Building I	3.6	2.5
Capacity Building II	7.0	2.3
Household Survey Technical Assistance	1.5	0.0
Subtotal Approved Projects	394.6	56.3
Funding Available for Project Pipeline	59.7	-
<b>Total Project Financing</b>	<b>454.3</b>	<b>56.3</b>
Cost Recovery, Trust Fund Management, and Fees	20.2	7.7
<b>Total Use of Funds</b>	<b>474.5</b>	<b>63.9</b>

36. **Disbursements total US\$64 million (14% of donor deposits) as of June 30, 2006.** Project expenditures account for US\$56 million (90% of total disbursements). Expenditures for the Iraqi-implemented grants total over US\$51 million, while disbursements for the three Bank-executed capacity building projects (one of which is completed and closed) total less than US\$5 million.

37. **The provisions of the ITF allow the Bank to recover the full costs incurred to process projects and administer the trust fund.** The World Bank recovers the full costs incurred to conduct project analysis, appraisal, supervision, trust fund management and administration through two mechanisms:

- An administrative fee of 0.4% for Bank-executed projects and 0.2% for the Iraqi-implemented projects is charged to offset the costs of central services

provided by the trust fund accounting, legal, loan department, and other central units of the World Bank.

- The actual full costs for World Bank staff and consultants who carry out project analysis, appraisal, negotiation, and supervision are charged directly to the trust fund. The costs of the ITF management team, the monitoring agent, and the annual external audit are also charged directly to the trust fund.

**38. Disbursements for cost recovery charges and administrative fees remain below US\$8 million.** Approximately US\$4.5 million has been charged directly to the trust fund to recover the actual full costs of Bank staff and consultants engaged in project analysis, appraisal, negotiation, and supervision. The costs for trust fund management, FMA services, administrative fees, and the annual external audit total about US\$3.2 million. Current cost recovery charges remain below 2% of the ITF resources. Projections of the total cost recovery charges over the life of the ITF are estimated to be reach about 5% of the value of the fund.

**39. Table 6 summarizes the sources and uses of funds over time,** including donor deposits and investment income earned, compared to grants under implementation and actual expenditures incurred for cost recovery, trust fund management and administration and fees. As of June 30, 2006, about US\$72 million remains uncommitted in the ITF. Of this total, the current work program would require about US\$20 million to finance cost recovery, trust fund management and administration and fees over the life of the ITF, leaving about US\$52 million for additional projects. The current project pipeline includes projects valued at about US\$55 million—the shortfall of resources would be covered by investment income to be earned.

**Table 6: Sources and Uses of Funds From Inception Through June 30, 2006**  
(US\$ Million)

Sources and Uses of Funds	Dec-04	Jun-05	Dec-05	Jun-06
<b>Source of Funds</b>				
Donor Deposits	392.1	392.1	454.3	454.3
Investment Income	4.1	9.2	15.3	20.2
<b>Total Source of Funds</b>	<b>396.2</b>	<b>401.3</b>	<b>469.6</b>	<b>474.5</b>
<b>Use of Funds</b>				
Approved Projects	365.6	365.6	385.1	394.6
Expenditures for Cost Recovery, Trust Fund Management, and Fees	2.0	4.3	5.7	7.6
<b>Total Use of Funds</b>	<b>367.6</b>	<b>369.9</b>	<b>390.8</b>	<b>402.2</b>
<b>Balance</b>	<b>28.6</b>	<b>31.4</b>	<b>78.9</b>	<b>72.3</b>

**40. While trust fund disbursements provide only a lag indicator of project progress, the status of tenders may represent a measure of future progress.** As of June 30, 2006, 52% of ITF grant monies have been tendered or contracted. The value of contracts awarded or completed has doubled since January 2006 and now totals more than US\$133 million. Table 7 reflects the status of contracting by project as of June 30, 2006.

**Table 7: Status of Iraqi-Implemented Contracts by Project through June 30, 2006  
(US\$ Million)**

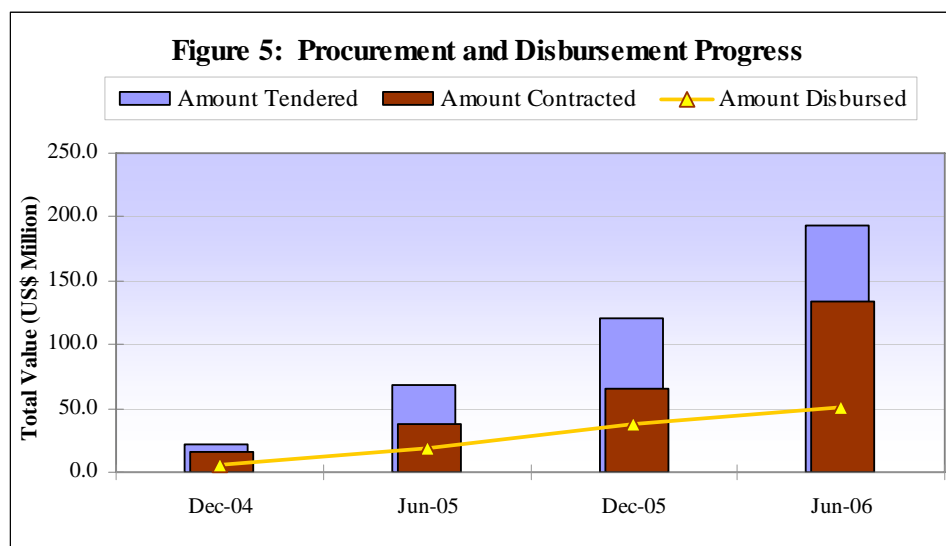
Iraqi-Implemented Project *	Grant Amount	Tenders or RFPs Issued	Contracts Signed	Disbursements
Textbook Provision	40.0	38.8	38.5	36.9
School Construction & Rehabilitation	60.0	33.1	10.1	6.2
Baghdad Water Supply & Sanitation	65.0	12.5	7.7	0.6
Health Rehabilitation	25.0	19.8	3.0	0.9
Private Sector Development	55.0	47.7	38.1	0.3
Water Supply, Sanitation, and Urban Reconstruction	90.0	27.4	25.5	1.3
Community Infrastructure	20.0	13.0	10.0	5.2
Disabilities	19.5	0.9	0.3	0.0
<b>Total</b>	<b>374.5</b>	<b>193.2</b>	<b>133.2</b>	<b>51.4</b>
As % of Grant Amount		<b>52%</b>	<b>36%</b>	<b>15%</b>

\* The Emergency Social Protection Project (US\$ 8 Million) signed on 6/03/2006 is not launched yet as of June 30, 2006.

41. **The pace of contracting has accelerated significantly since the last Report to Donors (December 2005).** As shown in Table 8, the value of signed contracts has more than doubled in the past six months, increasing from US\$65 million in December 2005 to US\$133 million in June 2006. The value of tenders has increased by 60%, while disbursements are 37% higher than compared to December 2005. Figure 5 graphically depicts the growth in the value of tenders, signed contracts, and disbursements since the first Report to Donors in December 2004.

**Table 8: Procurement and Disbursement Progress over Time  
(US\$ Million)**

Iraqi-Implemented Projects	Dec-04	Jun-05	Dec-05	Jun-06
Amount Obligated	355.0	355.0	374.5	374.5
Amount Tendered	22.2	68.1	121.0	193.2
Amount Contracted	16.5	37.6	65.0	133.2
Amount Disbursed	5.5	19.2	37.4	51.4



## G. IMPLEMENTATION AND DISBURSEMENT ISSUES

42. **The overall security environment complicates project management and delays project implementation.** PMT staff, World Bank consultants, and project contractors operate under extraordinary circumstances, affecting all aspects of project implementation, from the delivery of goods to the inspection of project sites.

43. **Although the volatile environment can be disruptive to project implementation, the World Bank's reliance on Iraqi execution of projects, and its selection of project sites, produce mitigating effects.** Most ITF projects are national in scope, with subprojects located in 9-18 governorates. The broad coverage of ITF projects reduces the impact of any localized instability, while promoting economic equity throughout the nation. ITF-financed projects employ many Iraqi contractors and consultants, who operate and travel throughout Iraq in a low-key fashion, to minimize their risks while conducting business.

44. **Utilizing country systems for project implementation inherently strengthens the institutional capacity of key governmental institutions.** While implementing projects through governmental agencies helps modernize public sector management systems, the reliance on recipient execution also affects the pace of implementation, as will be discussed in more detail below.

45. **The World Bank launched the first Country Portfolio Performance Review (CPPR) for Iraq early in 2006.** CPPRs, which normally take place on an annual basis, are carried out with government counterparts to improve the implementation and impact of Bank-financed projects. CPPRs help the Bank, the government, and implementing agencies to identify generic and project-specific issues that affect implementation, and agree on actions to be taken by both the government and the World Bank to improve project performance. The major factors affecting project implementation, identified through the detailed assessment of the eight Iraqi-implemented projects, are outlined in Box 1, and discussed further below.

### Box 1: Factors Affecting Project Implementation and Disbursement

- Staff Turnover and PMT Capacity
- Project Readiness to Disburse
- Procurement Capacity and Timely Procurement Processing
- Processing of Payments and Disbursements
- Lack of Clarity on Systemic Issues affecting Externally-Financed Projects

46. **Each of Iraq's three political transitions generated substantial staff turnover in political and technical counterparts in the Iraqi government.** Although PMT staff receives intensive training and on-going support, it takes time and experience to become proficient in project management and Bank fiduciary procedures, especially given an environment of weak institutional frameworks. Sequential turnover of trained PMT staff has been especially harmful to project implementation, requiring re-training and resulting in a substantial loss of time. The World Bank continues to emphasize PMT staff training, while seeking the commitment of the

Iraqi government to minimize to the extent possible PMT staff turnover, which inevitably delays project implementation.

47. **The time needed for Iraqi implementing agencies to employ competitive bidding procedures in line with World Bank requirements has caused disbursement delays in many ITF-financed projects.** Procurement deserves special attention: as the first step in the implementation process, timely and high quality procurement is critical to timely project implementation. Slow preparation and processing of procurement documents, which typically require several iterations, have so far been the main factor in slow implementation. Inefficient processes within ministries to approve bidding documents and sign contracts have also caused implementation delays. While many ministries have made significant progress in implementing Bank procurement procedures over the past six months, the World Bank encourages PMTs to hire procurement consultants to provide additional procurement expertise to the teams. Despite these difficulties, as noted earlier, Table 8 and Figure 5 illustrate an appreciable acceleration in contracting, including the steep increase in the value of signed contracts over the past six months.

48. **Although employing competitive bidding procedures can result in initial delays, it also improves fiduciary controls and can generate cost savings.** Some ministries acknowledge the benefits of the World Bank's transparent approach to procurement, and have adopted these procedures more broadly. For instance, competitive bidding procedures led to significant cost savings (about US\$9 million) in the Textbook Provision Project. The cost savings financed 3.5 million more textbooks than planned under the project. The additional textbooks were printed and delivered by local contractors, extending the impact of the project beyond its original scope.

49. **In an effort to provide Iraq access to grant funding as quickly as possible, and to ensure that all trust fund monies were committed to approved projects by the end of 2004, ITF-financed projects were designated for fast-track preparation, and approval under World Bank emergency procedures.** In line with these standard procedures, some complex infrastructure reconstruction/rehabilitation projects were designed to finance the consultant contracts for the preparation of engineering designs and bidding documents before the procurement of civil works. This design feature resulted in low disbursement rates and the perception of slow project implementation in the start-up phase of the program—by design, large disbursements would not be expected early in project implementation. In order to manage expectations better, in the future, the Bank intends to seek project approval only after the government prepares detailed designs and tender documents.

50. **Several ITF-financed grants have experienced significant delays between physical implementation and actual payment to local contractors and suppliers.** Payment delays can have serious negative affects, causing contractors to interrupt work (delaying implementation), lose confidence in the contracting process (driving up the cost of future contracts), and even threaten PMT and Bank staff. Delays have been caused by a combination of factors: (i) within ministries, slow processing of invoices and errors in filling out withdrawal applications (submitted with missing data or wrong bank account numbers); (ii) within the Bank, delays following the outsourcing of disbursement processing to Chennai, India, which initially lacked Arabic translation services; (iii) within the commercial banking system, significant delays in transferring funds to individual accounts. World Bank teams, including members of the Loan and Treasury departments, investigate payment delays to identify specific impediments to

disbursement. The provision of additional training and support to PMTs, to help ensure that withdrawal applications are complete and that contractors provide accurate banking information, may be beginning to alleviate some of the delays. Delays resulting from the inefficiencies of the commercial banking system within Iraq, which relies on manual processes and does not have access to SWIFT and other electronic banking features, will be monitored closely.

51. **Several issues have surfaced regarding the application of Iraqi policies or laws to projects financed by external sources, which also contribute to implementation delays.** The World Bank has been working closely with the Minister of Finance to clarify the tax treatment of contractors financed by World Bank projects, the use of competitive transportation services by contractors, and the appropriate procedure for opening Letters of Credit for World Bank-financed projects. The Ministry of Finance agreed to clarify these issues in writing with the line ministries responsible for implementing World Bank-administered projects.

52. **The Bank contracted Development Alternatives, Inc. to conduct an external evaluation of the implementation of the ITF, building on previous analyses of trust fund programs for post-conflict country programs.** The study reviewed the experience to date with the design, objectives, and governance structure of the ITF. Final results were shared with the donors at the Briefing to Donors on IRFFI Progress, held in Amman, Jordan in May 2006. The main findings are outlined in Box 2.

#### **Box 2: ITF External Review: Main Conclusions**

**The ITF allowed the World Bank to participate early in Iraq's reconstruction, combining rehabilitation with longer-term institution building, before IDA could be made available to Iraq.**

**Donors deposited funds to the ITF promptly and ITF-financed projects were processed quickly, providing grant funding to Iraq without delay.**

**Although the rate of disbursements has been affected by many factors, overall, the pace of project implementation has been expeditious** under difficult circumstances.

**Due to the continued volatile situation on the ground, the innovative governance and coordination structures of IRFFI (e.g. the common Donor Committee, Facility Coordination Committee, and Secretariat) have not been fully tested.** With political progress and improved security, the governance structures may yet promote cooperation and realize significant benefits.

**Although these coordinating structures have not been fully operational, there is evidence of effective coordination among UN, donor, and World Bank teams on Iraq's program.**

**Even when different donors work in the same sector, the projects are complementary, varying in scope, geographical coverage, or implementation method.**

**The joint IRFFI website has been very successful at providing easy access to up-to-date information.**

53. **The termination date, or end-disbursement date, of the ITF is December 31, 2007.** The World Bank requires projects to be completed three to four months before the end-disbursement date, to allow adequate time to disburse against existing contracts. Thus, all ITF-

financed projects are required to be completed on or before September 30, 2007. Unless the ITF is extended, Iraq would have to seek alternative sources of funding to complete any on-going projects after December 31, 2007. Some bidders have already expressed concerns about bidding on contracts for which the source of funding is unclear after December 2007. Similarly, some contractors are reluctant to sign long-term contracts for which the source of funding is not guaranteed. For these reasons, in the December 31, 2005, Report to Donors, the World Bank recommended that donors extend the ITF for three years (to December 31, 2010) to allow the ITF to fully finance the current portfolio of projects, and the new projects expected to be approved over the coming six to nine months. Additional benefits of extending the ITF are outlined in Box 3.

### **Box 3: Benefits of Working through the ITF**

**The multi-donor trust fund approach encourages small donors to participate in the international rebuilding efforts in Iraq.** The pooling of donor resources allows donors with only modest resources or those unable to mount bi-lateral aid programs, to be able to contribute in a significant manner to Iraq's long-term economic development.

**The ITF provides an existing platform for donors to work with the new government and to provide sustained support to the government** throughout its transition to assuming full leadership of donor coordination.

**The ITF provides a unique mechanism for donors to implement projects through Iraqi governmental agencies, seamlessly integrating institution-building into each investment operation.** The ITF preference for client-execution inherently strengthens the Iraqi ministries and develops a cadre of national staff with high-level fiduciary governance and project management skills.

**Directing funds through the ITF reduces transaction costs both for the Iraqi government and for donors,** since the overall administration and security costs of the ITF are modest, and the supervisory, administrative and financial infrastructure is already in place.

54. **The World Bank presented a proposal to extend the ITF to donors at the Briefing to Donors on IRFFI Progress, held in Amman on May 24, 2006.** Donor representatives expressed support for the extension of the ITF, and the World Bank recently sent each ITF donor an amendment to the administration agreement. The extension of the ITF will become effective after the World Bank receives a signed amendment letter from each donor to the fund.

### **H. WORLD BANK ROLE IF ITF IS REPLENISHED**

55. **World Bank programs in Iraq aim to support the development of efficient, inclusive, transparent, and accountable institutions, which are necessary to promote fiduciary governance, economic stability, and prosperity.** Experience in other conflict-affected environments indicates that it typically takes several years for international aid to reach its maximum effectiveness, due to limited aid absorption capacity during the early post-conflict

years. Initial aid programs should focus on improving policies, institutions, and governance and on building credible institutions of social inclusion to lay the groundwork for effective development.

**56. The World Bank can provide an integrated package of services designed to set the stage for the longer-term economic prosperity of Iraq.** By leveraging the use of all of the resources at its disposal, the World Bank can provide a coherent package of policy advice and analytic studies, IDA lending, and ITF-financed activities to support the government to develop and implement a strategic approach to reducing poverty, protecting the vulnerable, and designing a sustainable long-term economic program.

**57. The Bank will lend up to US\$500 million of IDA resources in the key sectors requested by Iraq (education, electricity, roads, and water supply and sanitation).** The World Bank approved the Third Emergency Education Project (US\$100 million) in November 2005, and the Emergency Road Rehabilitation Project (US\$135 million) in June 2006, although neither project is effective yet, pending Iraqi ratification of the loans. Two projects to rehabilitate the power sector are currently being processed, valued at about US\$190 million.

**58. The World Bank's analytical and advisory services, funded through its own budget, continue to be a key vehicle to help Iraq build transparent, accountable, and efficient institutions and systems to use the country's resources more effectively.** The World Bank will continue to provide strong technical support to the government, particularly in the core areas of governance/institutions, economic reform, and social protection. The World Bank will use its strengthened presence in the International Zone to help the government tackle core reforms.

**59. Additional ITF funding could be used to "operationalize" analytic and advisory activities, and complement IDA lending by providing financing for "softer" sectors,** freeing up loan funding for revenue-generating investments. Trust fund resources could finance projects that aim to help Iraq:

- Strengthen institutions to design and implement sustainable pension programs and safety net systems to help alleviate poverty, and protect the most vulnerable groups;
- Improve institutional capacity to promote fiduciary governance, the rule of law, and transparent public sector management systems, and the financial and banking sectors, to advance good governance;
- Test smaller-scale, fast-impact pilot operations in new areas, especially inclusive community-based projects, which have proven helpful in post-conflict environments to facilitate reconciliation and economic recovery;
- Generate immediate employment, maximize local ownership, and develop the private sector;
- Develop and articulate sector strategies to underpin Iraq's own investment programs;
- Expand the coverage of existing ITF-financed grants that are demonstrating success and are expected to result in relatively swift implementation; and/or
- Broaden the impact of IDA projects through providing co-financing.

**60. Several projects, valued at almost US\$130 million, have been identified as appropriate for ITF financing.** Additional ITF financing would be required to further develop the initial project concepts, which are briefly outlined in Box 4.

#### **Box 4: ITF Project Pipeline**

**Community Infrastructure II** – Finances a program of small, labor-intensive sub-projects to rehabilitate rural irrigation and drainage networks, canals, and water supply systems. Designs for 15 sub-projects are already completed. The project would create 200,000 work-days and increase cropping intensity and crop yields in 100,000 hectares, serving 90,000 beneficiaries. The project builds on Community Infrastructure I, which is proceeding well and is expected to be completed by mid-2007.

**Labor and Employment Services** – Aims to improve job placement and employment services by modernizing the management of vocational training centers, linking training to skills demanded by private sector, and providing access to business development centers. The project would also pilot innovative employment services.

**Judicial Institutional Strengthening** – Building on several anti-corruption and judicial reform activities undertaken by the Bank, the project aims to support the development of an independent and efficient judiciary—essential to promoting good governance, the rule of law, and stimulating investment. The project would help Iraq: (i) adopt a management and information center with staff trained in modern judicial administration; (ii) strengthen access to legal information; (iii) promote judicial independence; and (iv) strengthen the ability of the judiciaries to address new legal matters, including those related to anti-corruption.

**Sub-national Financial Management Strengthening** – Aims to help sub-national governments design and implement credible Public Financial Management (PFM) reform programs, including setting and monitoring PFM standards. The project would set the stage for the anticipated increase in investment flows to sub-national governments, and demonstrate the importance of integrating investment and recurrent budget formulation and execution.

**Microfinance** – Aims to help Iraq: (i) formulate a clear legal/regulatory framework for microfinance; (ii) design viable microfinance schemes; (iii) develop business plans; and (iv) monitor and supervise loan performance. The project would also provide funding to NGOs to enable them to provide micro-credit to beneficiaries.

**National Community Empowerment** – A social investment fund, which aims to recapitalize villages, towns, and urban neighborhoods to maximize employment, avoid aid dependency, and develop effective links between communities and local governments. The project would finance: (i) community grants for public infrastructure, revolving funds, social services, and training; (ii) implementation support; and (iii) monitoring and evaluation studies.

**61. A joint World Bank/UN IRFFI website ([www.irffi.org](http://www.irffi.org)) is available for public access.** The IRFFI website is jointly managed and updated by World Bank and UNDP staff, using World Bank servers. The website serves as a repository for up-to-date news, monthly reports and data,

providing regular updates on the financial status of deposits, commitments, and disbursements as well as project implementation progress to donors and other interested parties.

**ANNEX 1: ITF BACKGROUND AND COUNTRY CONTEXT**

## ANNEX 1: BACKGROUND AND COUNTRY CONTEXT

### A. The International Reconstruction Fund Facility for Iraq

1. **Mandate.** At their meeting on April 12, 2003, the Group of Seven Industrialized Countries' (G-7) Finance Ministers and Central Bank Governors recognized the need for a multilateral effort to rebuild and develop Iraq. United Nations (UN) Security Council Resolution 1483 (May 22, 2003) noted the statement of the G-7 and called for the international financial institutions to assist the people of Iraq in reconstruction and to facilitate assistance by the broader donor community. In response, on June 24, 2003, the UN hosted a meeting of some 50 states which, collectively, became known as the Liaison Group. The Liaison Group, in turn, requested a small number of major donors, known as the Core Group, to convene a Donors' Conference. The Liaison Group also asked the World Bank and the UN to assess Iraq's reconstruction needs, and to design a multi-donor trust fund to coalesce donor support around Iraq's priority reconstruction needs.

2. **Joint Needs Assessment.** The World Bank and the UN, with support from Iraqi national officials and the International Monetary Fund (IMF), conducted a Needs Assessment during the period June through August 2003. The Needs Assessment was finalized following consultations in Dubai and Madrid with the Core Group, representatives of Iraq's Governing Council, Iraqi sector ministries, and the Coalition Provisional Authority. The final document was presented at the Donors' Conference in Madrid on October 23-24, 2003, where it was endorsed by the donors present and representatives of the Iraqi Governing Council.

3. **The Design of IRFFI.** In parallel with the Needs Assessment, the Bank and the UNDG designed the International Reconstruction Fund Facility for Iraq (IRFFI). The IRFFI aims to help donors channel their resources and coordinate their support for reconstruction and development activities in Iraq in line with the priorities identified in the Needs Assessment and validated by Iraqi authorities. The World Bank and UN designed the structure, governance, and modalities of the IRFFI in close consultation with the Core Group, other donors, and Iraqi national authorities over the period August through December 2003 at meetings held in Washington, D.C., Brussels, New York, Dubai, Madrid, and Amman.

4. **The IRFFI facility encompasses two trust funds:** the World Bank Iraq Trust Fund (ITF) administered by the World Bank, and the UN Development Group Trust Fund (UNDG Trust Fund) administered by the United Nations Development Program (UNDP) on behalf of itself and participating UN organizations. The IRFFI structure is designed to promote close cooperation and avoid duplication by providing a common governance structure.

### B. The World Bank Iraq Trust Fund

5. **ITF Effectiveness.** On January 29, 2004, the World Bank Board of Executive Directors approved the World Bank to act as Administrator of the ITF. The ITF became effective upon receipt of the first deposit, on March 30, 2004. Since then, 17 donors have deposited about US\$454 million in the ITF, amounting to almost 100% of the pledged amounts.

6. **Eligible Sectors.** The ITF finances eligible operations in all sectors and cross-cutting themes identified in the Needs Assessment, with the exception of mine action, and with particular emphasis on areas where the World Bank has comparative advantage. The ITF does not finance quick-disbursing Government budget recurrent expenditures or humanitarian relief, nor does it finance peacekeeping efforts, or other security, military, or political interventions. ITF resources are dedicated to specific reconstruction and rehabilitation projects to be implemented by Iraqi institutions, and training/technical assistance programs designed to increase institutional capacity.

7. **Recipients.** Recipients of grants from the ITF need to meet the World Bank's eligibility criteria, including financial viability. Recipient entities responsible for implementing activities financed from the ITF can include: Iraqi ministries, governorates and municipalities, private entities, NGOs, UN agencies, or international financial institutions.

8. **Emphasis on Iraqi Ownership.** The ITF emphasizes Iraqi ownership and building Iraqi institutional capacity. Unlike other donors, World Bank-financed programs, including those financed by the ITF, are implemented by Iraqi institutions with the goal to enhance knowledge transfer (e.g. current international standards for procurement, financial management and governance). This approach is critical in order to assist Iraq to develop institutional policies and systems that can be leveraged by all donors, and will promote the more effective use of all donor funds as well as Iraq's own resources.

9. The process for selecting projects to be financed by the ITF has been designed to ensure Iraqi ownership from the earliest stage. Under the ITF, potential grant recipients, in consultation with World Bank staff, submit project proposals for approval to the Iraqi Strategic Review Board (ISRB). The ISRB determines whether proposals are consistent with priority needs and ensures coordination among donor programs. Following ISRB approval, the World Bank proceeds to appraise the project. For satisfactorily appraised operations, the Bank, as the ITF Administrator, and the recipient negotiate and sign a Grant Agreement. The Grant Agreement spells out the terms and conditions under which funds will be provided to the recipient entity, and governs the actual use and disbursement of funds. It specifies measurable indicators to monitor implementation progress. It also contains detailed financial management, procurement, monitoring, and other fiduciary arrangements to ensure that funds are used for eligible expenditures.

### C. The Interim Strategy of the World Bank Group

10. All work conducted by the World Bank in Iraq must be governed by an Interim Strategy. The World Bank's first Interim Strategy Note for Iraq, discussed by the World Bank's Executive Directors in January 2004, initiated work on three tracks in order to: (i) Build Iraqi institutional capacity, especially to establish mechanisms of transparency and accountability; (ii) Prepare and start implementing emergency operations to address urgent needs, especially to generate employment and kick-start economic activity, and restore essential infrastructure and services; and (iii) Lay the groundwork for Iraq's medium-term reconstruction and development program and begin assisting in the transition from central planning to a market-driven economy, through policy advice and analytical work. The first Interim Strategy relied on the ITF to finance

capacity building projects and investment operations, and on the Bank's own resources to conduct diagnostic economic and sector work.

11. Following a request from the Iraqi authorities for US\$500 million in IDA resources, the Bank began discussions with a designated inter-ministerial committee to prepare a Second Interim Strategy Note. The Second Interim Strategy Note, endorsed by the Board in September 2005, defines the World Bank Group's program for the next two years, providing a flexible framework for a program of World Bank lending and ITF grants that makes the best use of available resources and is consistent with Iraq's own development priorities. The Bank's strategy emphasizes Iraqi ownership, crucial for restoring stability and for the success of the reconstruction program. The strategy is based on Iraq's National Development Strategy and on consultations with Iraqi authorities. The Bank's overarching objective is to help Iraq build efficient, inclusive, transparent, and accountable Iraqi institutions as needed for stability, good governance, and sustainable economic prosperity. Under the umbrella of institution building, the Bank Group's work program is organized into four pillars: (i) Restore basic service delivery; (ii) Enable private sector development; (iii) Strengthen social safety nets; and (iv) Improve public sector governance, with particular focus on public resource management. The Bank will emphasize policies and institution building in all four areas, using analytical and advisory work and resources from the ITF, IDA, and IFC. Under the strategy, the Bank anticipates launching 5-10 investment operations in up to seven key areas: agriculture/irrigation, education, electricity, healthcare, transport, urban upgrading, and water supply/sanitation. The Bank will also deepen its analytic and advisory services.

12. **Economic and Sector Work.** The World Bank, through its own budget, is also laying the groundwork for Iraq's medium-term program by providing policy advice and sharing international experience with Iraq in a number of key areas. The Bank's AAA is focused in three core areas: (i) economic reform and transition; (ii) public sector management, including public finance management and anti-corruption; and (iii) poverty and social safety nets. Specific economic and sector work activities include papers and continuing policy dialogue and advice on: (i) public sector reform and public finance management, including key areas of subsidy reform, oil revenue management and anti-corruption; (ii) incentive framework and labor market; (iii) state-owned enterprises and investment climate; (iv) housing construction/housing finance; (v) country water assistance strategy, including donor workshop with the Ministry of Water Resources; (vi) agricultural sector strategy; and (vii) country social assessment. In addition the World Bank is preparing a briefing book on core reform agenda for the new government, drawing on the Bank's knowledge accumulated over 2003-2005. The briefing book will be provided in English and Arabic to the new government, and subsequently shared with international partners.

**ANNEX 2: STATUS OF ITF-FINANCED PROJECTS AS OF JUNE 30, 2006**

**EMERGENCY TEXTBOOK PROVISION PROJECT**

**Grant Amount:** US\$40 million      **Effectiveness Date:** May 2004      **Closing Date:** December 2006

**Implementing Entity:** Ministry of Education (MoE)

**Strategic Context and Donor Coordination:**

The US and UN (UNESCO and UNICEF) financed textbooks for the 2003/2004 school year. The Bank responded to an urgent request from the Ministry of Education to finance textbooks for 2004/2005. *The Ministry of Education is using its own resources in addition to cost savings from 2004/2005 to finance textbooks for 2005/2006, and has adopted the Bank's procurement procedures.* The Bank is supporting the ministry in developing a strategic framework and a donor coordination strategy.

**Project Objective and Description:**

The objective of the project is to provide urgently needed textbooks in order to improve conditions of learning in primary and secondary schools.

**Geographic Coverage:**

Nationwide (all 18 governorates)

**Beneficiaries:**

The project benefited all 6 million primary and secondary school pupils, who received 11 books each on average.

**Near-Term Employment Creation:**

The project was designed to maximize local content and employment by contracting local printers to the maximum extent possible, taking into consideration the quantity of paper available in Iraq. Contracts to Iraqi printers amount to US\$14 million; and an estimated US\$7.5 million was spent on local labor costs, although there is no specific data on employment created.

**Project Components and Costs:**

1. **Provision of textbooks for primary and secondary schools** (US\$39.5 million): Printing and distribution of approximately 69 million textbooks (600 titles) for six million students (12 grades) in all governorates for the school year 2004/2005.
2. **Project management and capacity building** (US\$0.5 million): Provision of supplies and equipment for the MoE's Project Management Team needed to manage the project, and provision of technical assistance and capacity building to ensure effective project management and transfer of skills to the MOE.

**Project Costs by Type of Expenditure:**

Goods (textbooks): US\$ 37.5 million  
Other goods: US\$ 0.2 million  
Consultants: US\$ 0.4 million

**Implementation Status:**

*The project objective has been achieved. All textbooks have been delivered and are being used by students. Competitive bidding procedures led to cost savings of about US\$9 million, which were used to deliver an additional 13.5 million textbooks for 2005/2006. In all, the project financed more than 82 million textbooks.*

**EMERGENCY SCHOOL CONSTRUCTION AND REHABILITATION PROJECT****Grant Amount:** US\$60 million**Effectiveness Date:** October 2004**Closing Date:** June 2007**Implementing Entity:** Ministry of Education**Strategic Context and Donor Coordination:**

The Ministry of Education Situation Analysis, building on the UN/World Bank Joint Needs Assessment, identified almost US\$700 million in urgent repair and reconstruction needs over three years: over 12,000 schools (over 80%) require repair, including 2,300 that require minor repair, 9,400 that require major repair, and around 1,300 that need to be demolished and rebuilt. An additional 3,000 school buildings are also needed. The World Bank, the UN, and the US are the main donors supporting education and are coordinating their efforts. The US focused initially on minor rehabilitation; the UN is supporting both minor and major rehabilitation; and the Bank is financing major reconstruction and construction. *The Bank is the only donor significantly financing new construction, and the only donor working through Iraq's Ministry of Education.* In addition, the Bank is supporting the ministry in developing a strategic framework and a donor coordination strategy.

**Project Objective and Description:**

The project aims to alleviate urgent school building hazards and school overcrowding by constructing new schools to replace unsafe or overcrowded facilities, and by rehabilitating schools needing urgent repair.

The project will also create substantial near-term employment through rehabilitation by local construction companies.

**Geographic Coverage:**

Nationwide (both construction and rehabilitation will take place in all 18 governorates)

**Beneficiaries:**

The project benefits over 100,000 families with children attending primary and secondary schools. It directly benefits about 130,000 pupils (about 7% of pupils in overcrowded or damaged schools.) Construction of new buildings will provide spaces for 42,000 students in primary and secondary schools, and benefit a further 40,000 by eliminating multiple school sessions. The rehabilitation of schools will directly benefit 45,700 students.

**Near-Term Employment Creation:**

*The project maximizes local content by using Iraqi firms for design and supervision of work, and for reconstruction and construction.* It is expected that the project will produce over 6,000 job opportunities, over half of which are underway through ongoing reconstruction work.

**Project Components and Costs:**

1. **Construction or rehabilitation of 260 primary and secondary schools** (US\$58.6 million)
  - (a) **Construction of 117 schools** (US\$48.4 million): construction will take place in three stages at an average cost of US\$414,000 per school and US\$1,150 per student;
  - (b) **Rehabilitation of 143 schools** (US\$7.6 million): at an average cost of US\$181 per student.
2. **Project management and capacity building** (US\$1.43 million)

**Project Costs by Type of Expenditure:**

**Civil works:** US\$ 56.1 million; **Goods:** US\$ 0.4 million; **Consulting services:** US\$2.5 million (of which US\$0.25 million for international consultants and US\$2.25 million for local consultants)

**Implementation Status:**

*Major rehabilitation of 134 schools (actual cost: US\$7.3 million) is completed.* The ministry has contracted local firms for design of new school construction, preparation of bidding documents, and supervision of works. Nine contracts for the construction of 18 new schools are in the bid evaluation stage, with construction expected to start by July 2006.

<b>EMERGENCY HEALTH REHABILITATION PROJECT</b>
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**Grant Amount:** US\$25 million      **Effectiveness Date:** November 2004      **Closing Date:** December 2006

**Implementing Entity:** Ministry of Health

**Strategic Context and Donor Coordination:**

Estimated reconstruction needs of the health sector range from US\$3 to US\$4.6 billion. The US and Japan are the largest donors to the health sector, focusing on major construction and reconstruction of hospitals and health centers. *The Bank has a broad knowledge of health sector issues and can respond selectively to Iraq's immediate needs while laying the groundwork for medium- and long-term health system reform.* Many donors expect the Bank to play a leadership role in policy and system reform.

**Project Objective and Description:**

This project responds to an urgent need to improve emergency services in 11 hospitals throughout Iraq, selected to ensure at least one well equipped emergency unit per governorate and taking into account the work of other donors in the six remaining governorates. The project design was based on the following criteria: respond to urgent needs; avoid duplicating the work of other donors (some donors are rebuilding entire hospitals); and achieve visible impact nationwide.

*Beyond its specific objective of improving access to quality emergency services, the project is expected to build ownership and capacity within the slowly reconstituting Iraqi administration and to become a model for locally driven reconstruction work in the health sector.*

**Geographic Coverage:**

Nine governorates in the north, center, and south of Iraq: Baghdad, Diyala, Kirkuk, Missan, Karbala, Anbar, Salah Deen, Erbil, Sulaimanyiah.

**Beneficiaries:**

About 15 million Iraqis live within the areas serviced by the 11 emergency health units. From this population, an estimated 100,000 people will use the emergency health services per year.

**Near-Term Employment Creation:**

Creating immediate employment is not a project objective; however, the project will create an estimated 1,000 short-term jobs through civil works undertaken by local construction companies.

**Project Components and Costs:**

1. **Rehabilitation of priority emergency services in 11 selected hospitals**, and the provision of basic medical and laboratory equipment to the rehabilitated hospitals (US\$ 21.4 million);
2. **Provision of a 3 to 6 month supply of up to 37 essential emergency drugs** to be used at 12 emergency facilities, including 11 rehabilitated through this project (US\$ 2.9 million);
3. **Support to strengthen planning and management capacity** within the central and governorate health administrations (US\$ 1.7 million); and
4. **Support to project management** (US\$ 0.9 million).

**Project Costs by Type of Expenditure:**

**Civil works:** US\$ 14.7 million; **Goods:** US\$ 8.4 million; **Consulting services:** US\$1.9 million (of which US\$1.3 million for local firms for design and supervision of works); **Training:** US\$1.8 million; **Operating Costs:** US\$0.1 million

**Implementation and Status:**

Local firms have completed the designs for rehabilitating 10 out of 11 emergency health units, and the Ministry of Health has now moved to the phase of contracting civil works. Rehabilitation of two health units (Missan and Salah Deen) has commenced, and rehabilitation of three other health units and 3 others in Baghdad, Missan and Erbil is expected to start in July 2006.

**EMERGENCY DISABILITIES PROJECT**

**Grant Amount:** US\$19.5 million    **Effectiveness Date:** November 2005    **Closing Date:** December 2007

**Implementing Entity:** Ministry of Health

**Strategic Context and Donor Coordination:**

Iraq has a growing population of disabled resulting from the war and related accidents, yet social and rehabilitation services for this group have declined. Given the country's high unemployment rates and poor community services, becoming disabled poses a serious risk for the entire family to fall into poverty. *Although improving services to the disabled is a government priority, it has not been specifically addressed by the donor community. The Bank is drawing on its global experience to not only provide immediate assistance, but to ensure that sector development takes place through the establishment of a sound policy framework that will provide the basis for sustainability and for further reform measures.*

**Project Objective and Description:**

This project aims to help prevent the disabled from falling deeper into poverty and to reduce the burden of physical and psycho-social disabilities through targeted and cost-effective rehabilitation services in a community setting. Specifically, the project will upgrade the infrastructure and equipment of 11 specialized rehabilitation centers countrywide; improve the information base on the disabled to allow evidence-based policymaking, and improve the policy and legal framework for the disabled.

**Geographic Coverage:**

The 11 rehabilitation centers are situated in 15 governorates.

**Beneficiaries:**

The project will directly benefit an estimated 250,000 persons with physical disabilities who would otherwise not have access to quality rehabilitation services needed for leading a productive life. The project will also impact an estimated 1.4 million of Iraqis representing the families of the disabled.

**Near-Term Employment Creation:**

Creating immediate employment is not a project objective; however, the project will create short-term jobs through civil works undertaken by local construction companies.

**Project Components and Costs:**

1. **Service delivery** to the disabled (US\$13.2 million)
2. **Development of a long-term strategy** and action plan for the disabled (US\$.5 million);
3. **Capacity building** to support implementation
4. **Monitoring and evaluation and project management** (US\$.5 million)

**Project Costs by Type of Expenditure:**

**Civil works:** US\$5 million; **Goods:** US\$12 million; **Consulting services:** US\$1.4 million (mainly local firms for design/supervision of works); **Training:** US\$1 million; **Operating Costs:** US\$0.1 million

**Implementation and Status:**

To date, the Ministry of Health has awarded four out of nine consultancy contracts, and the remaining 5 are expected to be signed by Fall 2006. A study tour to Bosnia to visit rehabilitation centers and prosthetics workshops and to examine first-hand the experience in managing disabilities in a post-conflict situation is scheduled for October 2006.

**EMERGENCY PRIVATE SECTOR DEVELOPMENT PROJECT**

**Grant Amount:** US\$55 million    **Effectiveness Date:** December 2004    **Closing Date:** December 2007

**Implementing Entity:**

Ministry of Planning (Components 1 and 2) Iraqi Telecommunications and Post Company (ITPC, Components 3 and 4)

**Strategic Context and Donor Coordination:**

*The telecommunication components were designed to complement assistance provided by JICA and by the U.S. Treasury (payment system). The PSD components were conceived in consultation with the Iraqi government, the Iraqi private sector, and the main donor agencies: USAID and DFID. The PSD agenda continues to be coordinated USAID, DFID, the EC, and UNIDO.*

**Project Objective and Description:**

*The project aims to lay the foundation for increasing investment and economic growth by addressing selected priorities in institutional capacity building and essential communications infrastructure to help foster the development of the private and financial sectors. A secondary objective is to generate job creation through the development of the private sector.*

**Geographic Coverage:**

The communication infrastructure will cover Baghdad, the north, the south and the west regions. Private sector development components would benefit private enterprises and organizations throughout the country. Specifically, two industrial estates studies will be undertaken for Arbil in the north (in coordination with the Kurdistan Regional Government) and Basra in the south.

**Beneficiaries:**

The project has national impact, benefiting every Iraqi and business, by financing Iraq's national communications backbone.

**Near-Term Employment Creation:**

Installation of telecommunications infrastructure will create at least 1,000 short-term jobs. Most importantly, the national communications backbone will create thousands of jobs through downstream communications companies, and provide an essential building block to enable private sector development.

**Project Components and Costs:**

1. **Develop enabling public institutions** that support the private sector. (US\$ 6.8 million)
2. **Improve the competitiveness of Iraqi private firms** by improving their ability to access finance and foreign markets. (US\$ 5 million)
3. **Build reliable telecommunications infrastructure** to interconnect key parts of the Central Bank's payments and settlements system. (US\$ 3 million)
4. **Build a high capacity national backbone communications network** capable of supporting corporate needs and develop the human capacity to operate it efficiently. (US\$ 39.5 million)
- 5/6. **Finance project management.** (US\$ 0.7 million)

**Project Costs by Type of Expenditure:**

**Goods and civil works:** US\$42.5 million; **Consulting services:** US\$ 12.2 million

Iraqi labor, supervised by an international supplier, will install the \$40 million telecommunications infrastructure. International consultants will deliver most of the TA under the PSD components. However, most TA RFPs require local participation during implementation and emphasize the importance of building local capacity.

**Detailed Status of Implementation and Disbursements:**

The contract for the supply and installation of a high-capacity national telecommunications network was signed on 6/23/2006. Procurement for consultancy services for remaining components is underway, including feasibility studies for industrial estates in Arbil and Basra.

**EMERGENCY BAGHDAD WATER SUPPLY AND SANITATION PROJECT**

**Grant Amount:** US\$65 million      **Effectiveness Date:** December 2004      **Closing Date:** August 2007

**Implementing Entity:** Mayoralty of Baghdad

**Strategic Context and Donor Coordination:**

*The project was designed to complement US-funded water supply and sanitation rehabilitation. For example, the project supports network rehabilitation linked to the US-funded rehabilitation of the Baghdad sewerage treatment plant. The Bank meets regularly with major donors and collaborates closely with the Japan Bank for International Cooperation (including joint missions).*

**Project Objective and Description:**

The project aims to help restore basic water supply and sanitation services for the capital city of Baghdad through the reconstruction and rehabilitation of existing treatment facilities and networks and by providing capacity building support. It funds rehabilitation of four water pumping stations and water treatment plants, and replaces the water supply network in Za'afarania district and the sewerage collection system in Sadr City. The project includes the development of a Comprehensive City Development Plan to ensure that future expansion of the water supply and sanitation networks are in line with the overall urban development plan for the city. *The project will also create vitally needed short-term employment and help build Iraq's capacity to manage large-scale reconstruction.*

**Geographic Coverage:** Municipality of Baghdad

**Beneficiaries:**

The project is expected to improve the quality of life of about one million residents of Baghdad (17 percent of Baghdad's population) by improving the supply of potable water, eliminating sewerage backup in streets and homes, and contribute to reducing the incidence of waterborne diseases, a major factor in infant and child mortality.

**Near-Term Employment Creation:**

The project will create substantial employment—estimated at 2,000 short-term jobs—through construction contracts awarded to Iraqi firms. The number of jobs created will be tracked and reported on a quarterly basis.

**Project Components and Costs:**

1. **Rehabilitation of chlorine and chemical units at al-Karkh water treatment plant** (US\$2.8 m)
2. **Rehabilitation of 2B pumping station in Shark Dijla water treatment plant** (US\$4.5 m)
3. **Extension and rehabilitation of the al-Rasheed water treatment plant** (US\$7.2 m)
4. **Rehabilitation of the Abu Nawas raw water pumping station** (US\$6.2 m)
5. **Rehabilitation and renewal of the Sadr City sewerage network** (US\$15 m)
6. **Rehabilitation and renewal of the drinking water network in Za'afarania** (US\$15.4 m)
7. **Capacity building**, including system design, feasibility studies, and audits (US\$3.9 m)
8. **Development of a comprehensive city development plan** for Baghdad (US\$3 m)
9. **Price and physical contingencies** (US\$7 m)

**Project Costs by Type of Expenditure:**

**Civil works and goods:** US\$ 51.1 million; **Consulting services:** US\$6.9 million (local: US\$4.6 million; international: US\$2.3 million); **Price and physical contingencies:** US\$7 million

**Detailed Status of Implementation and Disbursements:**

During 2005, the Mayoralty of Baghdad contracted local and international consultants to prepare tender documents and detailed designs, and to subsequently supervise works. The mayoralty has now moved to the phase of contracting civil works—it has signed contracts for US\$8.5 million of goods and works under components 2 and 4. Also, it has recruited a team of advisors to help the municipality prepare and implement the Baghdad Comprehensive City Development Plan.

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

**Grant Amount:** US\$90 million      **Effectiveness Date:** December 2004      **Closing Date:** August 2007

**Implementing Entity:** Ministry of Municipalities and Public Works (MoMPW)

### **Strategic Context and Donor Coordination:**

The Joint UN-World Bank Needs Assessment estimated total needs for rehabilitation and reconstruction of water supply and sanitation facilities to be about US\$6.8 billion over four years. *The Bank worked closely with the MoMPW to identify project components, which were coordinated with the work of the US, DFID (in the south), and UN agencies (in the north). Unlike the financing of the other donors, Bank financing is implemented by the MoMPW, which ensures Iraqi ownership and builds Iraqi institutional capacity. The Bank's interventions are carefully designed for sustainability (i.e., new water treatment units are accompanied when necessary by distribution network rehabilitation).* The Bank meets regularly with other major donors, and is collaborating closely with the Japan Bank for International Cooperation (including joint missions) to identify joint and complementary financing opportunities for future projects.

### **Project Objective and Description:**

The project's objective is to help restore basic water supply and sanitation services and urban services in the poorest areas of the country, choosing subprojects that will have high impact. The project finances water supply and sanitation rehabilitation in nine cities, and rehabilitation of urban infrastructure in the poorest areas of three cities.

The project will also create vitally needed short-term employment and strengthen Iraq's capacity to manage large-scale reconstruction. It will also contribute to the reduction of waterborne diseases, a major contributor to infant and child mortality.

### **Geographic Coverage:**

Water Supply/sanitation in nine municipalities: Karbala, Majar, Beji, Kena'an, Al Hussainia, Al-Samawa, Badawa, and Dukan;

Complementary urban upgrading in three of the municipalities: Karbala, Badawa, and Basra.

### **Beneficiaries:**

Rehabilitation financed under the project will benefit over 2 million in nine municipalities.

### **Near-Term Employment Creation:**

The project will create substantial employment – estimated at a minimum of 3,000 short-term jobs – through construction contracts awarded to Iraqi firms. Although there were no initial projections of job creation, numbers of jobs created will be tracked and reported on a quarterly basis.

### **Project Components and Costs:**

1. **Rehabilitation and upgrading of water systems** (US\$54 million) in:
  - (a) City of **Karbala** (US\$16.34 million): rehabilitation of two treatment plants, part of the distribution network, and trunk and lateral sewer lines;
  - (b) **Majar** District in Maysan Governorate (US\$3.16 million): replacement of two water treatment units, rehabilitation and extension of distribution networks, pumping stations and installation of about 3,000 house connections, in order to supply 18,000 inhabitants in two villages with potable water;
  - (c) **Beji** in Salah al-Din Governorate (US\$1.83 million): replacement of two water treatment units, rehabilitation of distribution networks, and installation of about 2,000 home connections, to provide potable water to 16,000 inhabitants in two villages;

- (d) **Kena'an** District in Diyala Governorate (US\$1.89 million): replacement of three water treatment units, rehabilitation of distribution networks and installation of about 2,700 house connections, to provide potable water to about 22,000 inhabitants in three villages;
  - (e) City of **Al-Hussainia** in Baghdad Governorate (US\$7.6 million) supply and construction of a water intake, a raw water transmission line, a water treatment plant with five water treatment units, and a distribution network including house connections, to supply potable water to city of 135,000 inhabitants, of which 60% do not have access adequate water access;
  - (f) **Al-Samawa** in Al-Muthana Governorate (US\$12.34 million): supply and installation of 8 water treatment units, supply and installation of 25 km of a new water pipeline, and a staging water tank, and the rehabilitation and upgrading of 3 low lift pumps, three high lift pumps, and a pumping station, in order to reduce water shortage in the cities of Al-Samawa (pop. 196,000), Al-Khadir (pop. 86,000) and Al-Suqair (pop, 38,000) and 10 large villages.
  - (g) **Badawa** slum in Arbil City (US\$1.5 million): supply and installation of a water distribution network, drilling 10 wells, installing pump houses, storage tanks, chlorinators and diesel generators in order provide potable water and sewerage to the Badawa population (total 42,000), which is entirely dependent on water wells.
  - (h) **Dohuk** Governorate (US\$4.92 million): supply and construction of a water distribution network and storm-water drainage system to relieve existing conditions in the western section of the city, where 10,000 plots of land were distributed to poor and displaced families.
  - (i) **Dukan** (US\$4.48 million): total rehabilitation of the water supply system, including distribution network, pumps, reservoir, tanks, etc., and construction of intake works and a water treatment plant.
2. **Urban rehabilitation** (US\$22 million) in
    - (a) **Karbala** (US\$6.4 million): rehabilitation of existing damaged streets and squares, the traditional market and Al-Abbas street, and an environmental impact assessment study of a new municipal slaughterhouse.
    - (b) **Badawa** (US\$7.76 million): construction of a storm water network to collect and drain rainwater into the city trunk main, and upgrading of unpaved neighborhood roads and main streets.
    - (c) **Basra** (US\$7.78 million): resurfacing of main streets, upgrading of neighborhood internal dirt roads to paved roads, construction of pedestrian sidewalks, and construction of a new storm water drainage network.
  3. **Capacity building** (US\$4 million), including consulting services to undertake final designs and tender documents and for construction and implementation supervision.
  4. **Physical and price contingencies** (US\$10 million)

**Project Costs by Type of Expenditure:**

**Civil works:** US\$65 million

**Goods:** US\$11 million

**Consulting services:** US\$4 million (local: US\$ 2.6 million; international: US\$1.4 million)

**Price and physical contingencies:** US\$ 10 million

**Detailed Status of Implementation and Disbursements:**

During 2005-2006, the Ministry of Municipalities and Public Works contracted local and international consultants to prepare tender documents and detailed designs, and to subsequently supervise works. The design phase is nearly completed and the ministry is now moving to the phase of contracting civil works. The ministry signed a US\$27 million contract for urban rehabilitation and upgrading of the water supply system of Badawa (Arbil). The ministry has also completed a nationwide water and wastewater survey to update the 2003 Joint Needs Assessment. The ministry,

with possible help from Japan through a PHRD grant, is preparing a comprehensive National Water Supply and Wastewater Sector Study. The study aims at enhancing water supply and wastewater services in Iraq and will include: appropriate sector strategies, and policies; options for restructuring sector institutions; a medium-term investment program to enhance current services; an emergency plan for efficient asset management; and an indicative sector-wide financing plan.

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## EMERGENCY COMMUNITY INFRASTRUCTURE REHABILITATION PROJECT

**Grant Amount:** US\$20 million

**Effectiveness Date:** December 2004

**Closing Date:** June 2007

**Implementing Entity:** Ministry of Water Resources

### **Strategic Context and Donor Coordination:**

The project employs a flexible programmatic approach that allows interventions to adapt to the changing realities on the ground and to the interventions of other donors. Although the project's focus is on job creation and local impact, it could help lay the groundwork for irrigation and drainage sector rehabilitation and reform.

### **Project Objective and Description:**

*The project aims to generate near-term employment while addressing urgent rural rehabilitation needs through a flexible program of labor-intensive civil works to improve rural water supply and sanitation and irrigation and drainage.* The project finances four pre-identified subprojects and 16 additional subprojects that have been identified and prepared during the course of the project.

### **Geographic Coverage:**

Fourteen governorates. Subprojects are currently under implementation in the governorates of Al Methane, Baghdad, Thi-Qar, Sulaymaniyah, Wasset, Najaf, Diyala, Karbala, Erbil and Salahuddin. Other potential project areas are: Babel, Missan, Dahook and El-Qadisiah.

### **Beneficiaries:**

The project will benefit about 120,000 rural inhabitants by improving irrigation, drainage, and water supply, affecting about 80,000 hectares.

### **Near-Term Employment Creation:**

Job creation is a specific project objective. The project will create more than 20,000 job opportunities in total.

### **Project Components and Costs:**

1. **Subprojects in 10 governorates** (US\$12 million)
2. **Subprojects to be identified in other priority areas** (US\$3 million)
3. **Procurement of goods for the MoWR** (US\$ 2.3 million)
4. **Project management and capacity building** (US\$0.7 million)
5. **Physical and price contingencies:** US\$2 million

### **Project Costs by Type of Expenditure:**

**Civil works:** US\$15 million (rehabilitation subprojects are expected to range from US\$300,000 to US\$1,000,000 each); **Goods:** US\$2.3 million (earthmoving equipment, vehicles, communication equipment, office equipment); **Consulting services and institutional strengthening:** US\$0.7 million; **Contingencies:** US\$2 million

### **Detailed Status of Implementation and Disbursements:**

*After a slow start, the project is now fully satisfactory and implementing at a rapid pace.* Fourteen subprojects amounting to about US\$12 million are underway, of which six are almost completed. The Ministry of Water Resources recently signed three additional civil works contracts, and is carrying out bidding for three others. Of the 15 goods contracts, half are completed and the remaining is in an advanced stage of procurement. The Bank and the Ministry of Water Resources are discussing a possible follow-up project, subject to additional deposits to the Iraq Trust Fund.

**EMERGENCY SOCIAL PROTECTION PROJECT**

**Grant Amount:** US\$8 million

**Effectiveness Date:** June 2006

**Closing Date:** June 2009

**Implementing Entity:** Ministry of Labor and Social Affairs, Ministry of Finance

**Strategic Context and Donor Coordination:**

The project involves key donors and Government stakeholders, including USAID, DFID and the UN, including the World Food Program (WFP) and the International Labor Organization (ILO). Donors have been included in most policy and capacity building training activities sponsored by the Bank, and the Bank has helped to identify potential consultants for DFID. Donor expertise will be sought where relevant and expedient in the execution of the proposed project, and DFID is placing a consultant in Baghdad to support the project.

**Project Objective and Description:**

**The objective of the project is to strengthen the policy, management and administrative capacity in the Ministry of Labor and Social Affairs and the Ministry of Finance to develop, manage, and monitor pension and social safety net reforms, to better assist poor and vulnerable populations.**

**Geographic Coverage:**

Nationwide

**Project Components and Costs:**

1. **Safety Nets** (US\$6.3 million)
2. **Pensions** (US\$0.8 million)
3. **Project Management** (US\$0.8 million)

**Project Costs by Type of Expenditure:**

**Goods:** US\$4.5 million (IT equipment); **Technical Assistance:** US\$1.1 million; **Training:** US\$0.8 million; **Contingencies:** US\$1.6 million.

## SECOND CAPACITY BUILDING PROJECT

**Grant Amount:** US\$7 million    **Effectiveness Date:** November 2004    **Closing Date:** November 2006

**Implementing Entity:** World Bank

**Strategic Context and Donor Coordination:**

The project builds on the first Capacity Building Project, which provided urgent training related to reconstruction (including procurement, financial management and project management). Many training activities are carried out jointly with other donors, such as the IMF and DFID.

**Project Objective and Description:**

*The program aims to: (i) strengthen economic management and build institutional capacity needed to shift to a market-driven economy; (ii) improve the efficiency, effectiveness, and quality of public services; and (iii) facilitate use of public resources, including donor funds, for urgent reconstruction and development efforts.*

**Geographic Coverage:** Nationwide

**Beneficiaries:**

The project will directly benefit over 1,000 officials and help lay the groundwork for crucial institutional strengthening and reform.

**Project Components and Costs:**

1. **Economic reform and transition**
2. **Poverty, social protection, and social development**
3. **Public sector management**
4. **Managing the project cycle**, including the legal/fiduciary aspects

**Project Costs by Type of Expenditure:**

**Capacity building:** US\$7 million

**Detailed Status of Implementation and Disbursements**

Twenty-four training activities have taken place to date, involving 375 participants from various entities, such as the Ministry of Planning and Development Cooperation, Ministry of Finance, Ministry of Trade, Ministry of Labor, and the Central Bank.

## EMERGENCY HOUSEHOLD SURVEY & POLICIES TECHNICAL ASSISTANCE PROJECT

**Grant Amount:** US\$1.5 million      **Effectiveness Date:** May 2006      **Closing Date:** September 2007

**Implementing Entity:** World Bank

### **Strategic Context and Donor Coordination:**

The Bank's overarching objective is to help Iraq build efficient, inclusive, transparent, and accountable institutions. Modern systems for data collection and dissemination are essential for providing policymakers with reliable information on which to base policy decisions. The *Household Survey and Policies for Poverty Reduction Grant*, which was negotiated in March 2006 and will be financed by the ITF, will be the first comprehensive household survey to be conducted in Iraq since 1993, examining income, expenditures, and living standards. The survey will yield valuable data on poverty, complementing other surveys financed by the United Nations.

### **Project Objective and Description:**

*The project provides the technical assistance to enable Iraq to undertake modern data collection and analysis activities, paving the way for Iraq to implement the Household Survey and Policies for Poverty Reduction Grant.*

### **Geographic Coverage:**

Nationwide

### **Project Components and Costs:**

Technical assistance for:

1. **Poverty Assessment and Data Sets** (US\$1.1 million)
2. **Poverty and Social Impact Analysis** (US\$0.1 million)
3. **Strategy for poverty reduction, employment generation and safety net development** (US\$0.3 million)

### **Project Costs by Type of Expenditure:**

**Technical Assistance:** US\$ 1.5 million