

WORLD BANK IRAQ TRUST FUND

Update to IRFFI Donor Committee Naples, Italy – February 18, 2009

A. DONOR CONTRIBUTIONS

1. **There has been no change in donor contributions to the Iraq Trust Fund (ITF) since the Report to Donors covering the period through June 2008.** Seventeen donors have pledged US\$496.9 million to the ITF, and deposited US\$494.4 million into the ITF. Table 1 below shows the status of donor pledges, commitments, and deposits as of January 31, 2009.

**Table 1: Donor Pledges, Commitments and Deposits to ITF
January 31, 2009**

Donors	Pledges in Donor Currency ^{1/}		Pledges ^{1/}	Commitments ^{2/}	Deposits
	Currency	Currency (million)			
Australia	AUD	22.0	16.1	16.1	16.1
Canada	CAD	35.0	26.7	26.7	26.7
EC	EUR	143.0	179.3	179.8	179.7
Finland	EUR	2.0	2.6	2.6	2.6
Iceland	USD	1.0	1.0	1.0	1.0
India	USD	5.0	5.0	5.0	5.0
Japan	USD	130.6	130.6	130.6	130.6
Korea	USD	4.0	9.0	9.0	9.0
Kuwait	USD	5.0	5.0	5.0	5.0
Netherlands	EUR	5.0	6.2	6.2	6.2
Norway	NOK	45.0	6.7	6.7	6.7
Qatar	USD	5.0	5.0	5.0	2.5
Spain	USD	20.0	20.0	20.0	20.0
Sweden	SEK	40.0	5.8	5.8	5.8
Turkey	USD	1.0	1.0	1.0	1.0
United Kingdom	GBP	40.0	71.4	71.4	71.4
United States	USD	5.0	5.0	5.0	5.0
Total			496.4	496.9	494.4

^{1/} Includes pledges made at the 2003 Madrid Conference, plus additional contributions provided later.

^{2/} Commitments made in currencies other than US\$ are converted at the exchange rate as of the date of the administration agreement prior to their deposit into the fund, and is for indicative purposes only.

B. ITF-FINANCED OPERATIONS

2. **The ITF finances 18 grants, totaling US\$481.6 million, obligating 97% of donor deposits.** The ITF funds reconstruction/rehabilitation and capacity building programs aimed at

delivering key services to the population while establishing the building blocks for Iraq's sustainable economic recovery. ITF grants finance textbooks, schools, pharmaceuticals and health clinics, improved social safety nets, water supply and sanitation, irrigation and drainage, electricity, environment, private sector, and telecommunications sectors. The ITF also supports capacity building projects to build Iraqi institutions, develop baseline poverty data, and improve social safety net targeting mechanisms.

3. **Out of the 18 ITF-financed grants, 3 projects are completed** – the First Capacity Building Project (US\$2.5 million) closed in 2004, and the Textbook Provision Project (US\$38.8 million) closed in 2006. The Community Infrastructure Project (US\$20 million) was completed in December 2008. The project addressed rural water issues through a flexible program of small-scale, labor-intensive civil works to improve rural water supply and sanitation, and irrigation and drainage. The project also generated near-term local employment and strengthened the institutional capacity of the Ministry of Water Resources and its regional directorates. Twenty-two subprojects in 14 governorates were completed. The project reached about 146,000 end beneficiaries, improved approximately 88,000 hectares of irrigated areas, and created about estimated 172,000 days of local employment.

4. **Out of the 15 active ITF-financed grants, valued at US\$420.3 million, the vast majority (13 projects amounting to \$409.7 million) are implemented by Iraqi agencies, and focus on improving service delivery in a sustainable manner while building Iraqi institutions.** Two projects, totaling US\$10.6 million, are technical assistance and capacity building projects, implemented by the World Bank at the request of the Government of Iraq.

5. **Table 2 summarizes the project objective and implementation status of each ITF-financed project.**

Table 2: Project Objectives, Impact and Status
January 2009

Completed Projects

Project	Objectives	Impact
FIRST CAPACITY BUILDING		
<ul style="list-style-type: none"> • Grant Amount: US\$3.6m (US\$2.5m disbursed) • Implemented by: World Bank • Effective: Feb. 2004 • Closed: Aug. 2004 	Build the capacity of the Iraqi authorities to enable them to define, prioritize, and implement development projects and lead the reconstruction process.	<p>The project prepared Iraqi authorities to design and execute donor-funded projects.</p> <ul style="list-style-type: none"> • Over 581 Iraqi officials completed 22 workshops • Provided the essential tools for managing the project cycle, including modern procurement and financial management procedures, and sector-specific training to help the Iraqi team prepare sector strategies. • Participation in study tours and workshops helped Iraqi officials develop professional networks with counterparts in other ministries and neighboring countries.
TEXTBOOK PROVISION		
<ul style="list-style-type: none"> • Grant Amount: US\$40m (US\$38.8 disbursed) • Implemented by: Ministry of Education • Coverage: 	<p>Provide 69 million textbooks to improve learning conditions in primary and secondary schools throughout Iraq.</p> <p>Build institutional capacity, transferring effective project</p>	<p>The project financed the printing and distribution of more than 82 million textbooks (11 books per pupil), exceeding its primary objective.</p> <ul style="list-style-type: none"> • Cost savings, which resulted from competitive procurement procedures, financed 13 million additional textbooks.

Project	Objectives	Impact
Nationwide • Effective: May 2004 • Closed: Dec. 2006	management skills to the ministry.	<ul style="list-style-type: none"> Benefited 6 million students in all 19,000 primary and secondary schools. Maximized local employment (55% of the grant amount financed local contracts).
COMMUNITY INFRASTRUCTURE REHABILITATION		
<ul style="list-style-type: none"> Grant Amount: US\$20m Implemented by: Ministry of Water Resources Coverage: 14 Governorates Effective: Dec. 2004 Closing: Dec. 2008 	Undertake a flexible program of labor-intensive civil works to generate near-term employment while improving rural water irrigation, drainage, and water supply.	<ul style="list-style-type: none"> Twenty-two subprojects in 14 governorates were completed, benefiting about 146,000 rural inhabitants by improving about 88,000 hectares of irrigated areas. Created nearly 20,000 job opportunities (177,000 man-days) A supplemental grant of US\$26 million was approved to extend the impact of the to more rural communities.

Active Projects

Project	Objective	Impact	Implementation Status
SCHOOL REHABILITATION			
<ul style="list-style-type: none"> Grant Amount: US\$60m Implemented by: Ministry of Education Coverage: Nationwide Effective: Oct. 2004 Closing: June 2009 	Alleviate school building hazards and overcrowding in primary and secondary schools through new school construction and major rehabilitation of existing schools. Create substantial local near-term employment.	New or rehabilitated facilities will benefit 75,000 students <ul style="list-style-type: none"> Rehabilitate 133 schools benefiting 45,000 students Construct 56 new schools Create 6,000 temporary jobs 	<ul style="list-style-type: none"> The major rehabilitation of 133 schools is complete 16 new schools are complete. 27 schools are under construction. The PMT agreed to reimburse the Bank for ineligible expenditures incurred for constructing schools in a location different from that approved.
ADDITIONAL FINANCING FOR SCHOOL CONSTRUCTION IN THE MARSHLANDS			
<ul style="list-style-type: none"> Grant Amount: US\$6m Implemented by: Ministry of Education Coverage: Marshland Areas of Southern Iraq Effective: Oct. 2006 Closing: June 2009 	Provides additional funding for the Emergency School Construction and Rehabilitation Project, to construct approximately 33 new schools in the Marshland areas of Basra, Nasiriyah and Maysan.	<ul style="list-style-type: none"> Involve local stakeholders to mobilize and train local community committees to undertake small site works Build 33 new schools to serve 6,000-8,000 students Help stabilize the resettlement of about 30 village communities Create over 90,000 man-days of construction work 	<ul style="list-style-type: none"> 30 out of 33 (6-classroom) schools are completed. Implementation is largely on track, although the project has experienced delays due to payment delays, contract performance issues, and land disputes.

Project	Objective	Impact	Implementation Status
SECOND CAPACITY BUILDING			
<ul style="list-style-type: none"> • Grant Amount: US\$7m • Implemented by: World Bank • Effective: Nov. 2004 • Closing: Aug. 2009 	<p>Build on the First Capacity Building project to help authorities tackle necessary reforms to move to a diversified and market-driven economy and to improve the delivery of public services.</p>	<ul style="list-style-type: none"> • More than 1,000 Iraqi officials will participate in activities to strengthen institutional capacity and reform • Participant evaluations confirm the value of providing a venue to discuss key policy issues and develop specific skills 	<ul style="list-style-type: none"> • More than 1,250 participants from various ministries and local institutions have about 60 workshops in economic management, public sector management and social safety nets. • Most of the remaining funds will finance activities designed to strengthen Iraq's management of public resources.
HEALTH REHABILITATION			
<ul style="list-style-type: none"> • Grant Amount: US\$25m • Implemented by: Ministry of Health • Coverage: 9 Governorates • Effective: Nov. 2004 • Closing: Feb. 2010 	<p>Improve emergency services in 9 hospitals to ensure at least one well-equipped emergency unit per governorate, and provide 12 hospitals with basic medical equipment and drugs.</p>	<ul style="list-style-type: none"> • Serve an estimated 100,000 patients per year, who will use emergency services provided by the 9 hospitals • Create about 1,000 short-term construction jobs (225,000 man-days) through the use of local contractors 	<ul style="list-style-type: none"> • Rehabilitation of 8 emergency units is complete and 6 are providing emergency services. • 90% of the medical equipment has been delivered. • 60% of pharmaceutical drugs are procured with most already distributed. • Training for 70 doctors and 60 nurses is complete.
PRIVATE SECTOR DEVELOPMENT			
<ul style="list-style-type: none"> • Grant Amount: US\$65m • Implemented by: Ministry of Planning and Development Cooperation and Iraqi Telecommunications and Post Company • Coverage: Nationwide • Effective: Nov. 2004 • Closing: June 2009 	<p>Lay the foundation for increasing investment and economic growth, fostering the development of the private and financial sectors by addressing:</p> <ul style="list-style-type: none"> • Selected priorities in institution building • Essential communications infrastructure. 	<ul style="list-style-type: none"> • Install a nationwide telecommunication backbone, which will create at least 1,000 short-term jobs and, ultimately, benefit every Iraqi and business 	<ul style="list-style-type: none"> • The Bank approved additional financing (US\$10 million). • The installation of the telecommunications network and the communications link for the banking network are expected to be completed by June 2009. • The Bank provided its no objection for contracts to the develop the Basra and Erbil industrial estates.

Project	Objective	Impact	Implementation Status
COMMUNITY INFRASTRUCTURE REHABILITATION (ADDITIONAL FINANCING)			
<ul style="list-style-type: none"> • Grant Amount: US\$26m • Implemented by: Ministry of Water Resources • Coverage: 12 Governorates • Effective: April 2008 • Closing: June 2010 	<ul style="list-style-type: none"> • Undertake labor-intensive civil works to restore rural water infrastructure, create local employment, enhance community participation, and increase institutional capacity. • Lay the groundwork for larger-scale irrigation and drainage rehabilitation and reform. 	<ul style="list-style-type: none"> • Fourteen subprojects will benefit about 38,000 rural inhabitants by improving about 23,000 hectares of irrigated areas • Create about 86,000 man-days of local employment.) 	<ul style="list-style-type: none"> • The pace of procurement is good. • Bidding documents for 13 out of 14 civil works contracts are prepared or already tendered. • 18 goods contracts are undergoing tendering and bid evaluation, and 1 is ready to be signed.
BAGHDAD WATER SUPPLY			
<ul style="list-style-type: none"> • Grant Amount: US\$65m • Implemented by: Mayoralty of Baghdad (MOB) • Coverage: Baghdad • Effective: Dec. 2004 • Closing: July 2009 	<p>Restore basic water supply and sanitation services for Baghdad through the reconstruction and rehabilitation of existing treatment facilities and networks and by providing capacity building to the Mayoralty of Baghdad.</p>	<ul style="list-style-type: none"> • Provide clean water and purge sewage backups for about one million residents of Baghdad (about 17 percent of city's population) • Create 2,000 short-term jobs. • Help the municipality design a comprehensive development plan for Baghdad 	<ul style="list-style-type: none"> • In response to rising costs and security concerns, MOB and the Bank agreed on a restructuring plan, canceling some components. • The pace of progress has improved and the quality of the works under implementation is good.
EMERGENCY WATER SUPPLY, SANITATION & URBAN RECONSTRUCTION			
<ul style="list-style-type: none"> • Grant Amount: US\$110m • Implemented by: Ministry of Municipalities and Public Works • Coverage: 9 Governorates • Effective: Dec. 2004 • Closing: July 2009 	<p>Restore basic water supply and sanitation services and urban services in the poorest areas of the country, choosing subprojects that will have high impact.</p>	<p>Rehabilitate water supply and sanitation systems in 9 cities, and urban infrastructure in 3 cities, which will:</p> <ul style="list-style-type: none"> • Provide clean water and purge sewage backups for over 2 million people in 7 municipalities, and • Create 3,000 short-term construction jobs 	<ul style="list-style-type: none"> • The project was restructured in Feb. 2008, cancelling some components in response to increased costs and security constraints. • The pace of progress has improved and the quality of the works under implementation is good.
EMERGENCY DISABILITIES			
<ul style="list-style-type: none"> • Grant Amount: US\$19.5m • Implemented by: Ministry of Health (MOH) • Coverage: 8 governorates • Effective: Nov. 2005 • Closing: Sep. 2009 	<p>Help Iraq develop targeted and cost-effective rehabilitation services in a community setting to reduce the burden of the disabled people.</p>	<ul style="list-style-type: none"> • Upgrade the infrastructure and equipment of 7 rehabilitation centers and/or prosthetic workshops • Develop the information base to promote evidence-based policy-making and improve the legal framework • Provide 250,000 people access to rehab services • Create over 83,000 man-days of local construction jobs 	<ul style="list-style-type: none"> • In April 2008, the MOH and the Bank agreed on a restructuring plan that would reduce the scope of the project in response to implementation delays and rising costs. • Project implementation and oversight has improved. • Civil works are underway at 6 sites. • Most medical aids have been delivered. • Training of 15 managers of rehabilitation centers, 66 physiotherapists, 20

Project	Objective	Impact	Implementation Status
			hospital-based specialized physicians, and 36 prostheses and orthoses technicians is complete.
SOCIAL PROTECTION			
<ul style="list-style-type: none"> • Grant Amount: US\$8m • Implemented by: Ministry of Labor & Social Affairs (MOLSA) and Ministry of Finance (MOF) • Coverage: Nationwide • Effective: June 2006 • Closing: Feb. 2010 • 	Assist Iraq to implement modern management and information systems to improve the delivery of social safety nets and pensions.	<p>Improve targeting and reduce leakages to increase the benefits that reach vulnerable populations, through:</p> <ul style="list-style-type: none"> • Implementing modern information systems to maintain data in order to improve management and policy decisions • Building technical capacity for policy analysis and design • Helping Iraq draft a pension reform strategy 	<ul style="list-style-type: none"> • After initial delays, the pace of implementation has improved. • Delivery and installation of equipment in 6 sites is complete. • 9 equipment contracts are under implementation. • The beneficiary assessment and pension survey work are underway. • 42 GOI staff have been trained in information technology systems.
HOUSEHOLD SURVEY & POLICIES FOR POVERTY REDUCTION			
<p>GRANT FINANCING</p> <ul style="list-style-type: none"> • Grant Amount: US\$5.5m • Implemented by: MOPDC and KRG Statistical Units • Coverage: Nationwide • Effective: July 2006 • Closing: Sep. 2009 	<ul style="list-style-type: none"> • Provides financial and technical assistance to help Iraq undertake the Iraq Household Socio-Economic Survey. The survey data will enable Iraq to establish a poverty line and make evidence-based policy decisions, to ensure social assistance is targeted to the neediest populations. 	<p>The survey is the first comprehensive nation-wide household survey since 1998. The survey will:</p> <ul style="list-style-type: none"> • Combine an income and expenditure survey with a Living Standard Measurement Survey • Provide results to serve as the basis to develop Poverty Reduction Strategy • Cover 17,000 households nationwide within 12 months 	<ul style="list-style-type: none"> • A 12 month cycle of fieldwork, covering about 18,000 households in all 18 governorates was completed in January 2008. • The Tabulation Report will be released in January 2009. • The inter-ministerial Iraqi team has agreed on a poverty line and is developing the Strategy for Poverty Reduction, Employment Generation and Safety Nets. • Additional financing of US\$2.5m was approved in April 2008, and the Government provided US\$0.7m of parallel financing.
<p>TECHNICAL ASSISTANCE</p> <ul style="list-style-type: none"> • Grant Amount: US\$3.6m • Implemented by: WB • Effective: May 2006 • Closing: Sep. 2009 			
ENVIRONMENTAL MANAGEMENT			
<ul style="list-style-type: none"> • Grant Amount: US\$5m • Implemented by: Ministry of Environment • Coverage: Nationwide • Effective: Dec. 2006 • Closing: Aug. 2010 	Aims to strengthen key institutional and regulatory functions of the ministry, to enable it to undertake policy analysis, formulate regulations, monitor environmental quality, promote environmental awareness, and conduct technical studies.	<ul style="list-style-type: none"> • Prepare an Environmental Action Plan, outlining critical priorities for the next 3-5 years • Install and monitor 18 air quality monitoring stations in 3 cities • Prepare solid waste management master plan for Baghdad; and a health care waste management plan 	<ul style="list-style-type: none"> • The contract to purchase air quality monitoring stations (56% of the grant amount) will be re-bid using national competitive bidding. • The selection of firms to provide the environmental and waste management consultant services was completed in November 2008.
EMERGENCY ELECTRICITY RECONSTRUCTION			
<ul style="list-style-type: none"> • Grant Amount: US\$6m 	Finance technical assistance to upgrade	<ul style="list-style-type: none"> • Provide consultant support, conduct feasibility studies, 	<ul style="list-style-type: none"> • The contract to provide consultant services to

Project	Objective	Impact	Implementation Status
<ul style="list-style-type: none"> • Implemented by: Ministry of Electricity • Coverage: Nationwide • Effective: April 2007 • Closing: Sep. 2010 	<p>technical skills in operations, maintenance and of power utilities, in coordination with the US\$124 million IDA project that aims to restore the base load generation capacity of the Hartha power plant.</p>	<p>training, and technical assistance to strengthen capacity of Ministry of Electricity to undertake improved power system planning and management.</p>	<p>support the PMT in the technical, commercial, evaluation and negotiation activities is in underway.</p> <ul style="list-style-type: none"> • The contract to supervise the rehabilitation of the Hartha plant was signed although the contract to rehabilitate the plant is not yet signed. • The preparation of the Environmental and Social Impact Assessment is experiencing delays.
REGIONAL HEALTH EMERGENCY RESPONSE			
<ul style="list-style-type: none"> • Grant Amount: US\$8.7m • Implemented by: Ministry of Health of Kurdistan Regional Government of the Republic of Iraq • Coverage: Erbil, Sulaymaniya and Dohuk • Effective: July 2008 • Closing: June 2010 	<p>Assist the Kurdistan Regional Government to establish rapid, coordinated and effective response services to health emergencies.</p>	<ul style="list-style-type: none"> • Establish and equip 3 Emergency Coordination Centers • Train about 290 medical and paramedical staff in pre-hospital emergency services • Construct/rehabilitate 3 blood banks 	<ul style="list-style-type: none"> • The project launch workshop was held in July 2008, and the project coordination unit is being set up. • Procurement is underway to contract design consultants, and bidding documents for the ambulances are being prepared. • A technical mission was held in Nov. 2008 to promote better coordination and resolve radio communication issues.

C. PROJECT IMPLEMENTATION ISSUES

6. **The 2007 Country Portfolio Performance Review (CPPR) helped to systematically identify both project-specific and cross-cutting project implementation issues, and to reach agreement with Iraqi authorities on actions to be taken** by the Bank, the Government, and implementing agencies, to improve project performance. A CPPR is typically an annual exercise, and the Bank is currently planning for a third CPPR, likely to take place in the spring of 2009.

7. **As a result of the CPPR, the Bank recommended that implementing agencies restructure projects that had been affected by implementation delays, cost increases, and security impediments that are severe enough to put the projects' development objectives at risk.** The Bank continues to work closely with the appropriate implementing agencies to follow up on specific actions with time-bound milestones to improve project implementation. Some project-specific actions that have been taken to improve the pace of project implementation and the likelihood of achieving results on the ground, are outlined below:

Water Supply, Sanitation and Urban Reconstruction Project: The Bank and the Ministry of Municipalities and Public Works agreed on a restructuring plan, reducing the number of sites to be rehabilitated to remain within the available grant financing, while still meeting the project's development objective. The project was formally restructured in February 2008. During the October-November 2008 supervision mission, the Ministry of Municipalities and Public Works agreed to finance the construction of a water treatment

plant, releasing resources to finance other components. The PMT requested an extension of the project closing date, which will be considered when the progress on civil works improves.

Baghdad Water Supply and Sanitation Project: The Bank and Mayoralty of Baghdad finalized the restructuring plan for the project, including cancelling components for which bidding has not started yet while honoring all on-going commitments. The proposed project restructuring is pending a final decision regarding the cancellation of the Comprehensive City Development Plan for Baghdad. Since agreeing on a restructuring plan, the pace of implementation and disbursement has improved. The PMT requested an extension of the project closing date, which is being finalized by the Bank.

Disabilities Project: Given the slow pace of project implementation, the Ministry of Health (MOH) and the World Bank agreed to a series of milestones to be achieved by the authorities in order to retain the project in the ITF portfolio and ensure that it can make progress toward meeting its development outcomes. Since the agreement was reached, project implementation has improved, and there is evidence of stronger oversight. A lack of institutional capacity has prevented the MOH from carrying out the policy development component of the project, and during the November 2008 supervision mission, the Bank agreed to cancel this component and reallocate the funds to civil works components. The Bank recently sent the MOH the amendment to the grant agreement, reallocating the grant proceeds and extending the project closing date.

8. The Bank approved additional financing to fill funding gaps and/or expand the impact of projects that have been performing well and delivering results, as described below:

Household Survey Project: The Bank approved additional financing of US\$2.5 million in April 2008 to offset a financing gap and to expand the scope of Bank-executed technical assistance to cover new activities on pro-poor budgeting, qualitative methods, data management, and report writing. The Government of Iraq also provided US\$0.7 million in parallel financing, to fill the funding gap created by price increases and currency fluctuations.

Supplemental Grant for the Community Infrastructure Project: The Bank approved US\$26 million to expand the impact of the Community Infrastructure Project in June 2008. The supplemental grant finances additional labor-intensive civil works to improve rural water supply and sanitation, irrigation, and drainage sites. The project also aims to create significant local employment, and introduces improvements to project implementation by: (i) further decentralizing bid evaluation; (ii) enhancing community participation by engaging the end-beneficiaries in project preparation; and (iii) building the capacity of Ministry of Water Resources and its regional directorates. The project is implementing at a rapid pace—as of the end of January 2009, 50% of the grant amount has been committed.

Additional Financing for the Private Sector Development Project: US\$10 million was approved in October 2008 to fill the funding gap caused by the appreciation of the Euro relative to the US dollar. The major contract that finances the supply and installation of the nation-wide telecommunications link is denominated in Euros, which had appreciated significantly beginning in 2007. The project also experienced unanticipated incremental costs incurred for site preparation and security arrangements. The availability of the additional financing helped ensure that both the microwave and banking networks can be operational by June 2009 as planned. While the implementation of the PSD components has been lagging, the contracts for feasibility studies and development plans for the Basra and Erbil industrial estates should be signed in the near future.

9. **Some projects have experienced occasional—but severe—payment delays for contracts denominated in Iraqi dinars.** To help improve the pace of local currency payments, the Bank proposed to pilot an alternative disbursement method called a Designated Account (DA)—a revolving advance account financed by the trust fund. The Bank typically uses a DA for projects in which there are no significant concerns about the recipient’s ability to properly safeguard and account for the funds. The proposal included additional mitigating measures to manage any incremental fiduciary risk introduced by the weak control environment in Iraq. The Bank’s senior management approved the use of a DA for two projects (Household Survey and School Construction and Rehabilitation) on an exceptional basis. The draft evaluation of the use of the DA for the Household Survey Project found that the quality and timeliness of withdrawal applications were satisfactory, monthly reconciliation statements were prepared, and no ineligible expenditures were detected. While the DA had expedited the payment process for the Household Survey Project, it was established too late in the lifetime of the project to have the intended impact. The Bank’s financial management team is currently preparing a report assessing the adequacy of the DA management by both projects, which is expected to be finalized soon.

10. **Despite changing the Iraqi commercial banking partner, piloting DAs in two projects, and reducing the number of links in the payment chain, the Bank continues to face occasional, but lengthy delays, in making payments in Iraqi dinars.** The Bank continues to work with senior managers of its commercial banking partner, Standard Chartered Bank, to further eliminate transfers in the payment chain, and utilize inter-banking transfers, wherever possible, to speed up the transaction time. Beginning on March 2, 2009, the Bank will be able to transfer funds directly to Warka bank in Iraq; local contractors and suppliers who have accounts in Al Warka may be able access funds the same day.

D. FIDUCIARY CONTROLS AND MONITORING

11. The Bank engages a local firm of about 24 professional consultants as a Fiduciary Monitoring Agent (FMA), to help monitor the physical implementation of projects, and the implementing agencies’ compliance with procurement and financial management requirements. The FMA reports issues to the Bank as they arise, to ensure the teams can follow up on any implementation concerns. The FMA also provides monthly reports that document the physical progress of projects, report findings, and make recommendations for follow-up actions. Reports include digital photos, which provide evidence of the delivery of goods, as well as the quality and progress of the work of contractors.

12. The Bank conducted its third annual evaluation of the performance of the FMA in October 2008, as input to the renewal of the contract. Project task teams as well as procurement and financial management specialists who work on the Iraq program completed a questionnaire and provided their qualitative assessment of the FMA’s performance during 2008. Overall, the FMA received 92% satisfactory/good ratings. Some teams recommended more concise reporting and improved coordination of data and reports with PMTs. There was some variation in performance across FMA teams, and specific concerns were discussed with the firm’s management as part of the contract negotiations.

13. Bank task teams employ Iraqi consultants outside the International Zone, who work from their homes and the ministries, to help supervise project implementation, visiting project sites and supporting the PMT responsible for project implementation on a regular basis. These Bank consultants as well as the FMA teams join the task team for regular supervision missions.

14. Bank oversight of project implementation found that two schools in Anbar province, financed by the School Rehabilitation and Construction Project, were not located on the intended sites. The Bank requested an investigation by the Ministry of Education, which determined that the local “focal point” that was responsible for oversight of project implementation in the governorate, changed the location of the two schools, due to the difficult security conditions at the time. The focal point failed to inform the Ministry of Education or the Bank. Although the new locations were within the same city, the change was made without proper approval or documentation as required by Bank policies. For this reason, the Bank considers the expenditures ineligible and has requested reimbursement of the full amount (US\$1.5 million), to avoid suspension of the project. The Government has reportedly initiated the repayment, and the Bank is following up on the funds transfer.

15. The Bank completed an internal audit of its overall Iraq work program in June 2008, which included (but was not limited to) the ITF-financed program. The audit focused on management’s handling of the special risks inherent in Iraq, and the effectiveness of key financial and administrative controls. While the study pointed out areas for improvement (e.g. closer management of turnover of staff working on Iraq, increased oversight of expenditures, consistent review of procurement and disbursement processes) the audit also noted several good practices adopted for the Iraq program, (e.g. the use of an FMA and local consultants to assist with supervision of ITF projects, the on-going provision of training to PMTs, and the careful management of travel expenditures and the budget).

16. The donors to IRFFI commissioned an independent review of the projects financed by both the Bank and UN Iraq Trust Funds. Preliminary results noted that, despite difficult security conditions: (i) most ITF-financed projects showed a meaningful impact and were making progress toward their development objectives; and (ii) some projects are strengthening Government capacity and contributing to medium-term service delivery. The quality of project monitoring of ITF projects was judged to be robust, and the quality of project reporting was rated good. The review did not encounter evidence of systematic corruption, and noted that the level of transparency was good.

E. PROJECT PIPELINE

17. **Four new projects are currently at various stages of preparation**, as outlined below:

- **Public Finance Management Reform Project (US\$18 million).** The Bank has been working closely with the Ministry of Finance (MOF) on public sector governance, including PFM reform. The Public Expenditure and Institutional Assessment (PEIA), which was conducted in close collaboration with MOF, was sent to MOF for comment in June 2008. The PEIA, together with a report on decentralized PFM, provides the analytical background for the PFM Reform Project. Following pre-appraisal missions in June and September 2008, the task team conducted an appraisal mission in November 2008 to reach agreement on the design of the project with the Iraqi authorities, including detailing activities and implementation arrangements. The Bank works closely with key donors, including the IMF, US Treasury, and UK Department for International Development (DFID), whose technical assistance to the Government’s PFM Action Plan provides important background for the PFM Reform Project. The Bank intends to continue close coordination with key partners throughout the project life cycle. The US\$16 million grant aims to help Iraq improve its capital budgeting, budget execution and control functions, and public procurement procedures. The grant will finance international and local consultants, technical

assistance, training and capacity building, and a small amount of goods. The project will also include a US\$2 million companion grant, to be executed by the Bank on behalf of MOF, to provide just-in-time technical assistance and on-the-job training to support MOF and help ensure the speedy and effective implementation of the project. The project was appraised in November 2008. Negotiations are expected to take place in March 2009, with Bank approval by March/April 2009.

- **Banking Reform Project (US\$10 million).** The project aims to help MOF restructure the state-owned banks, Rafidain and Rasheed, based on solid analytic work. Conducted in parallel with efforts to strengthen the regulatory and supervisory framework of the Central Bank of Iraq (CBI), the project aims to help CBI develop its information technology systems, human resources, risk management policies, and internal control framework. In addition to working closely with Iraqi institutions (CBI and Board of Supreme Audit), the Bank collaborates with key partners, including the IMF and US Treasury. The IMF has been instrumental in furthering the restructuring process, and US Treasury advisors in Baghdad have been providing critical technical support to the Central Bank and state-owned banks. The Bank intends to continue the practice of holding regular meetings and conference calls to promote donor coordination during project implementation. The task team conducted an appraisal mission in November 2008; negotiations are expected to take place in March 2009, with Bank approval by March/April 2009.
- **Pension Reform Project (US\$6 million).** The MOF requested World Bank assistance to support the implementation of the Unified Pension Law and to build the institutional capacity of the National Board of Pensions to implement the law in a sustainable manner. The project will help Iraq unify the policies and administrative bodies of private and public sector pension schemes. The proposed project will also help Iraq develop a long-term pension strategy with a focus on expanding social insurance coverage. While the ITF will finance key technical assistance activities, MOF has committed to financing the needed capital investments. The project has been designed jointly with the Iraqi authorities. The Bank review of the concept note is planned for March 2009, with Bank approval to take place by March/April 2009.
- **The National Education Strategy Project (US\$3 million).** In February 2008, UNICEF, UNESCO, and the World Bank jointly organized a workshop that brought together senior officials from the four ministries of education (the federal ministries of education, higher education, and scientific research, and the KRG ministry of education). The workshop underscored the importance of Iraq developing a national education strategy that is fully owned by all stakeholders to guide future investments. The Bank team met with the authorities in December 2008 to help them design a technical assistance project to help Iraq develop a coherent, Iraqi-owned, national education strategy, and the Project Concept Note is being prepared for Bank review.

F. ITF FINANCIAL STATUS

18. **Total resources available in the ITF stand at US\$568.3 million (US\$494.4 million in donor deposits plus US\$74.0 million of investment income).** Of this, US\$481.6 million are obligated through grant agreements, and US\$37.0 million have been set aside to cover the new projects described above. US\$32.4 million have been allocated to cover project preparation and supervision, trust fund management, and administration fees over the life of the ITF. US\$17.7 million remain unallocated in the ITF. Table 3 summarizes the source and use of available funds as of January 31, 2009.

Table 3: Sources and Uses of Funds
(US\$ Million)

January 31, 2009

Sources and Uses of Funds	Current Program	Receipts/ Expenditures
Sources of Funds		
Donor Deposits	494.4	494.4
Investment Income	74.3	74.3
Total Sources of Funds	568.7	568.7
Uses of Funds		
Project Financing		
Completed Projects		
Capacity Building I	2.5	2.5
Textbook Provision	38.8	38.8
Community Infrastructure	20.0	18.5
Subtotal Completed Projects	61.3	59.8
Active Projects		
Capacity Building II	7.0	5.6
School Rehabilitation & Construction	60.0	32.9
Marshland Schools Supplemental Grant	6.0	3.8
Health Rehabilitation	25.0	15.0
Disabilities	19.5	4.4
Regional Health Emergency Response	8.7	0.4
Water Supply, Sanitation & Urban Reconstruction	110.0	34.8
Baghdad Water Supply	65.0	17.1
Community Infrastructure Supplemental Grant	26.0	
Private Sector Development	65.0	38.2
Electricity Reconstruction	6.0	0.5
Household Survey & Policies for Poverty Reduction	5.5	5.4
Household Survey & Policies (Technical Assistance)	3.6	2.2
Social Protection	8.0	1.5
Environmental Management	5.0	0.2
Subtotal Active Projects	420.3	162.1
Total Portfolio	481.6	221.9
Projects Under Preparation		
Public Financial Management	18.0	
Banking Sector Reform	10.0	
Education Sector Strategy	3.0	
Pension Reform	6.0	
Subtotal Projects Under Preparation	37.0	
Total Project Financing	518.6	221.9
Cost Recovery		
Project Appraisal and Supervision	27.5	16.4
Trust Fund Management and Administration	4.9	3.0
Total Cost Recovery	32.4	19.3
Total Use of Funds	551.0	241.3
Available Resources	17.7	327.4

19. **Commitments and disbursements for Iraqi-implemented projects have increased significantly since June 2008.** As shown in Table 4, commitments have increased by US\$42.4 million over past six months, as a result of significant progress made on the Baghdad Water Supply Project, which has increased commitments by nearly US\$25 million over that time period. Project disbursements have increased by US\$57.5 million, about half of which is attributed to the Private Sector Development Project.

Table 4: Six Monthly Procurement and Disbursement Progress
US\$ million

	Dec-04	Jun-05	Dec-05	Jun-06	Dec-06	Jun-07	Dec-07	Jun-08	Dec-08
Granted	355.0	355.0	374.5	374.5	398.6	424.6	424.6	458.5	468.5
Tendered	22.2	68.1	121.0	193.2	278.2	316.8	319.6	382.0	400.9
Committed	16.5	37.6	65.0	133.2	170.3	231.7	273.7	310.2	352.6
Disbursed	5.5	19.2	37.4	51.4	69.9	88.5	115.8	149.0	206.5
As % of Grant Amount									
Tendered	6%	19%	32%	52%	70%	75%	75%	83%	86%
Committed	5%	11%	17%	36%	43%	55%	64%	68%	75%
Disbursed	2%	5%	10%	14%	18%	21%	27%	32%	44%

By end-January 2009, disbursements for projects implemented by the Iraqi agencies total US\$211.6 million (45% of the value of the grants), and grant commitments are projected to reach US\$363.3 million (78% of the value of the grants).

G. THIRD INTERIM STRATEGY NOTE FOR IRAQ

20. The Bank is in the final stages of updating the strategic framework to guide its engagement in Iraq for the coming 2½ years through an Interim Strategy Note (ISN). The ISN was designed in close consultation with the GOI and key development partners. Iraq is a well endowed middle-income country in a fragile environment. In addition, Iraq is heavily dependent on volatile oil revenues. This volatility has caused Iraq to shift over the course of a year from having a surplus budget to facing a revenue shortfall. This situation demonstrates how important it is for Iraq to manage its resources effectively, and to strengthen its private sector to diversify the economy and promote long-term growth and economic stability. Over the ISN period, the Bank will engage in activities to: (i) support the ongoing reconstruction and socio-economic recovery; (ii) improve the management of public resources; and (iii) support policies and institutions that promote broad-based, private-sector-led growth. The Bank will also continue its focus on improving implementation of the existing ITF and IDA projects, to maximize the results of the grant and loan portfolio.

21. The ISN process was launched in May 2008, with a stocktaking of the progress made under the previous strategies. Consultations with Government authorities, development partners, and representatives of the private sector and civil society were held in Baghdad, Amman, and Beirut during the fall of 2008. A draft ISN was shared with the authorities in December 2008 for comment. A formal review of the ISN by Bank management is currently underway, and the discussion of the strategy at the Bank's Board of Executive Directors is scheduled for March 2009.

22. The Bank has been strengthening its presence in Baghdad to support its operational program. Currently the Bank employs about 33 staff/consultants in Baghdad—5 in the Bank office focusing on country dialogue and donor coordination, and 28 outside of the International

Zone to supervise and monitor project implementation. These figures include 24 FMA staff plus 4 staff/consultants hired by sector teams to help the Bank supervise project implementation and provide on-the-job training and support to the PMTs. (3 other staff who supported project implementation had to relocate outside of Iraq for security reasons.)

23. The new Country Manager has been in place since August 2008 and has been joined by an internationally recruited Senior Public Sector Specialist, strengthening sustained policy dialogue in key areas of Bank involvement. The Country Manager works closely with the UN and other development partners to strengthen donor coordination and revive selected Sector Working Groups. Given the importance of private sector development, the Bank and the UK are working together to identify a private sector specialist to be posted in Baghdad. Finally, the Bank is seeking local project specialists to work outside the International Zone to follow up on project implementation issues with the implementing agencies and provincial authorities.

