I. Introduction and Context

Country Context

1. Iraq’s challenge remains its endowments. While oil production is projected to continue increasing to reach about six million barrels per day, oil dependence makes the country highly susceptible to oil price fluctuations resulting in a hydrocarbons sector failing to generate sufficient employment for the large population. In addition, given its limited institutional capacity, the country faces great difficulties in effectively using the large revenues generated by oil and providing adequate services.

2. While the past years saw a country in transition, Iraq’s is undergoing a transformation as evidenced by the country’s shift from grant based assistance to partnership with the donor.
community, as well as the Government willingness to develop and agree on complex national compacts to share the country’s national resources through the proposed hydrocarbons law. It also aims at designing and implementing strategies in key areas such as energy, education as well as pension.

3. The Government prepared the National Development Plan (NDP) for 2010-2014 which complements the Poverty Reduction Strategy (PRS) jointly developed with the World Bank in 2009. The NDP’s economic pillar aims to achieve Gross Domestic Product (GDP) growth of 9.4 percent per annum, generate 3 to 4.5 million new jobs, diversify the economy away from oil and into agriculture, industrial sectors, and tourism; and create a stronger role for the private sector, both in terms of investment and job opportunities. The NDP is being updated to cover the period 2013-2017.

4. The Government has consistently executed its operating budget at 80%-90%, financing primarily public servant’s salaries and social benefits, as well as day-to-day government operating expenses. However, the execution of investment expenditure is lower, reduced to 75% in 2011. It is 70% for Construction and Housing and falls to less than 60% in other key development sectors including culture and youth 49%, Water and Sanitation 52%, Education 57%, and Health and Environment 58%. On the other extreme we have execution rate of 93% for the Energy sector, 94% Industry, and 100% for KRG investment budget. Budget execution rate indicates the effectiveness or lack thereof of the financial management system and government agencies in delivering the projects for which funds are approved; in Iraq this is hampered by delays in approving the budget generally taking place in February-March, delays in approving projects and transferring the funds, and lack of accountability.

**Sectoral and Institutional Context**

5. The new NDP proposes an investment program of 218 trillion Iraqi Dinars or US$186 billion over the five-year plan period. The Transport Sector is among the priority sectors of the NDP that is deemed critical in terms of enhancing connectivity with other sectors. However, weak sector institutions would hamper a satisfactory implementation of the investment program.

6. According to the Country Partnership Strategy (CPS) for the period of 2013 - 2016, the Iraqi capital budget suffers from chronic under-execution. The average execution rate of the capital budget is about 60 percent, and the failure to deliver key projects on time contributes to the public and investors being frustrated with the Government. The Bank is keen to help Iraq in leveraging its own vast public resources and building effective transport sector institutions to create jobs and deliver services. This will be achieved through facilitating knowledge sharing of best practices to help find practical solutions and to move from a transaction-based engagement to strategic support for institutional development. In the transport sector, this would be achieved through institutional reform and capacity building of the key transport institutions, such as the Ministry of Construction and Housing (MOCH) and the Ministry of Transport (MOT).

7. The Ministry of Construction and Housing (MOCH) has shown great enthusiasm to continue its engagement with the World Bank towards unlocking disbursement for the national budget and donor funds. To this effect, and together with Bank’s support, MOCH is laying the ground for institutional reform and development in the Roads and Bridges Sector. The recently launched Road Asset Management technical assistance financed by the on-going Bank financed Emergency Road Rehabilitation Project (ERRP) aims at enhancing MOCH’s State Corporation for
Roads and Bridges’ (SCRB) capacity in improving its management of the roads and bridges sector. This technical assistance aims to develop road maintenance and management strategies and establish a road asset management system. It would also support preparing a multi-year national road rehabilitation program, along with their associated financing plans, as well as capacity building measures.

8. The Bank is also engaged with the Ministry of Transport (MOT) to formulate a Transport Sector Master Plan towards laying the ground for establishing a modern and efficient national transport system. This US$4 million study also financed under ERRP aims to generate a structured transport sector master plan and an integrated multi-modal transport system for Iraq for the next 20 years. This plan would also include the formulation of subsector strategies, policies and tools needed to implement the plans. Specifically, this investment would conduct an institutional capacity assessment of the transport agencies including aviation, maritime, public transport, rail and roads and define a training plan and launch its implementation. It would also draw up a short-term master plan and launch urgently needed (‘fast track’) investment projects within 5 years to be financed through either the national budget or in partnership with the private sector and international financing organization.

9. Additional support is currently being prepared for MOT in terms of Reimbursable Technical Assistance (RTA). The Bank is preparing a proposal that would strengthen MOT capacity further. It is envisaged that once the Master Plan has been developed, MOT will have a road map for institutional building activities where national funds could be mobilized. The Bank could also provide financing for port, airports, urban transport and any other transport activities.

10. Iraq had the most comprehensive transportation system in the region, but its transport infrastructure has suffered from war damage, neglect and underinvestment. Rehabilitation of transport infrastructure is a national priority. If Iraq is to have the capacity to transport the high volumes of international freight required to reconstruct infrastructure, buildings, and services, and diversify from an oil-based economy, most of the existing transport infrastructure needs to be rehabilitated or reconstructed and expanded. The alleviation of some of the obstacles facing the private sector, including the deficiencies in infrastructure, will also provide much-needed job opportunities.

11. A recent Investment Climate Assessment (ICA) done by the World Bank revealed that: (i) nearly 40 percent of the firms in Iraq regard transport being a major constraint to effectively conduct business, (ii) losses of goods in transit represent large costs to firms which could be attributed to bad roads causing breakage or irregular routes forced by either inadequate infrastructure or congestion which in turn facilitate opportunities for goods to "disappear”, and (iii) transport is one of the constraints facing females to participate in the workforce.

12. Transport and Trade Routes: Iraq’s main transport and trade routes run North - South from Turkey, South-North through its port of Um Qasr, and East - West through its neighbors’ ports on the Mediterranean and Gulf of Aqaba. About 50% of Iraq’s imports come through its North - South corridor and enter through the Ibrahim El Khalil border from the EU, Russia and Central Asia via Turkey. Most Asian imports are transshipped at Dubai and use the port of Um Qasr to access the South - North corridor to reach Baghdad. This part of the corridor accounts for about 25% of total imports. The East - West corridors carry about 25% of the imports coming from Europe, Africa and Asia through the Mediterranean ports in Syria and Lebanon and the port of Aqaba in Jordan. Other
corridors link Iraq with Iran in the East and Saudi Arabia in the South-West (see figure 1). Oil exports are dealt with through oil-only ports such as Basra.

13. Because of institutional weaknesses and infrastructure deficiencies, Iraq’s transport and trade corridors are not playing their role efficiently. The limited role of these transport corridors in enabling international trade and economic diversification could be mainly explained by Iraq's performance in trade facilitation. The country faces some difficulties as regard to the core aspect of trade facilitation i.e. border clearance and customs. Customs procedures are cumbersome and the complexity and scope for discretion result in delays and opportunities for corruption. The willingness to reform is mixed. In Baghdad -- which retains overall control of all Iraqi borders -- the central customs authority has not been able to articulate a strategy to modernize and resort instead to a piecemeal approach based on specific initiatives (e.g. purchase of more X-ray machines or new software). While the Kurdish Regional Government is keen to embark upon customs reform, reflecting its dependence on the border crossing with Turkey, the decision to do so remains the prerogative of the authorities in Baghdad. The recently launched Trade and Transport Facilitation Assessment (TTFA) identified that among the main bottlenecks in the trade logistics are the lack of clarity in mandates amongst the Iraqi institutions and the lack of interest in institutional reform.

14. Weak road sector institutions. The State Corporation of Road and Bridges (SCRB) under the Ministry of Construction and Housing (MOCH) is in charge of rehabilitating and maintaining the main road network in Iraq which comprises of 48,000 km of expressways, primary and secondary roads, inclusive of all transport and trade corridors. A recent SCRB capacity assessment recommended that the staff strength of SCRB be kept lean, and the organization to function as the apex body of road and bridge experts framing long term plans, policies, standards and guidelines. It also recommended outsourcing to competent consultants the tasks of survey and investigations, preparation of designs, preparation of tender documents and supervision of works in order to be more efficient. By doing so, SCRB staff will focus more on the implementation of the projects and expedite progress and disbursement.

15. The capacity assessment also revealed weak contracting and consulting industries in Iraq, which in the absence of international companies, due to security reasons, is leading to the delivery of poor quality roads and delays in the execution of important projects. MOCH oversees eight state-owned companies specializing in the construction of infrastructure and public buildings. Most of these companies are self-financing and generate funding through implementing government projects. Today, they are engaged in many of the government's reconstruction program as well emergency response activities. Moreover and in recent years, some of these companies have extended their services to the private sector. However, these companies are not able to participate in the Bank financed projects due to their governance structure. Considering the available expertise in these companies and the substantial needs for their services, the revision to their formation would yield a greater participation in competition with the private sector in the reconstruction and development of Iraq’s infrastructure whether from government, donor or private funding.

16. Inadequate infrastructure to support transport and trade movement along the main transport and trade corridors. SCRB has estimated that 80 per cent of the existing roads in Iraq are in bad condition and require immediate attention; this situation is applicable to the main transport and trade corridors. The roads serving the East-West Corridors, leading to its western borders (Abu Kamal, Al Tanf and Al Karama) suffered significant damage during the last decade due to war acts and maintenance delays. These roads lack capacity and axle load control for the projected increase in
trade as the country reconstructs its economy. The road north from Um Qasr to Baghdad lacks capacity for the projected traffic through this corridor and is in need of rehabilitation and maintenance. From the North side, there are about 3,000 heavy trucks entering Iraq daily from Turkey through Ibrahim El Khalil border crossing and these trucks currently use the mountainous, 2-lane, windy and dangerous road through Zakho to reach Duhok and the rest of Iraq causing about 0.5 fatalities per km, therefore there is an urgent need to direct this heavy traffic through a safer route to reach Duhok on its way to Erbil and the rest of Iraq.

17. From emergency projects to long term planning. In 2003, the United Nations/World Bank Needs Assessment yielded among others an Emergency Road Rehabilitation Project (ERRP (P087735) SDR 93.2 million) with the objective to improve the condition of road assets by rehabilitating highly damaged segments of the country's highway and rural road networks, reestablishing critical river crossings, and restoring the capacity to manage and maintain road assets. So far under ERRP, about 255 km of highways and 220 km of village roads have been rehabilitated and 3 bridges have been reconstructed and the project is scheduled to close on June 30, 2014. In parallel to ERRP, SCRB has been investing about US$120 million per year in road rehabilitation and maintenance. The ERRP also supports long term planning through two important technical assistance activities. The first such activity will support the development of a Road Asset Management system and 5-year investment plan and the second will deliver a Transport Sector Master Plan. The Ministry of Transport (MOT) is engaged in supervising the delivery of this Master Plan.

18. Lessons learned from ERRP include: (i) government commitment and ownership to work closely with the World Bank is a key perquisite for timely preparation and implementation of investment and technical assistance activities; (ii) lack of interest from international contractors to undertake civil works contracts in Iraq (excluding the KRG region) even when they are in joint venture with local companies; (iii) delay in payments to contractors and associated linkage with income tax clearance; (iv) limited capacity and knowledge in World Bank safeguard and fiduciary policies and procedures not only within SCRB but also within the local consulting industry; and (v) limited capacity in local supervision consultants to perform high standard services.

19. Project Financing: The World Bank has been working in close coordination with other development partners in the Mashreq region on transport and trade facilitation issues. The Islamic Development Bank (IsDB) has expressed interest in this proposed Project. The project will be implemented in several contracts to be financed in parallel by the Government of Iraq, IsDB and World Bank. The latter's procurement guidelines and safeguards policies are expected to apply for all project investments.

Relationship to CAS

20. The objectives of the project are consistent with the Country Partnership Strategy (CPS) for 2013 - 2016 endorsed by the Board on November 13, 2012. According to the CPS, “the World Bank will help Iraq improve the quality and delivery of its core infrastructure services through a combination of investment and institutional development “to achieve results in the area of economic diversification for broadly-shared prosperity.

21. The Project will support achieving results in this area by improving the quality and delivery of the road infrastructure services through a combination of road rehabilitation investment and institutional development for SCRB which is mandated to deliver the road infrastructure services in
Iraq. In particular, the project will help achieving economic diversification for broadly-shared prosperity through improved road sector governance, improved accessibility, reduction in travel time, transport and trade costs and in road fatalities.

II. Proposed Development Objective(s)

Proposed Development Objective(s) (From PCN)
22. The proposed Project Development Objective is to reduce the transport cost, travel time and traffic fatalities between Baghdad west and Rutba along Expressway 1 and between Girsheen and Derabun along Ibrahim El Khalil to Duhok road.

Key Results (From PCN)
23. The proposed Project will support a combination of: (i) institutional capacity building and strengthening, (ii) skills and technology development, as well as (iii) strategic infrastructure investments to develop fluid and efficient transport and trade corridors. The key results will be:

- Reduction in transport cost, travel time and traffic fatalities between Baghdad-Rutba and Ibrahim El Khalil - Duhok.
- Training of SCRB and GDRB staff, local consultants and construction companies on World Bank safeguards policies, procurement procedures and financial management.

III. Preliminary Description

Concept Description
24. Delivering on its investment plan. The 5-year investment plan for SCRB includes 250 projects (new construction and rehabilitation) over the period of 2013-2017 requiring US$ 3.6 billion, which averages at US$ 730 million per year. SCRB’s annual investment budget has increased from US$ 292 million in 2010 to US$ 320 million in 2012 and its planned budget for 2013 is US$ 400 million, and the disbursement rate was around 70% in 2011. The proposed Transport Corridors and Trade Project (TCTP) will be designed to improve this disbursement rate by assisting SCRB to become a more effective and transparent institution and by increasing the private participation in the design and implementation of road projects. It would also lay the ground for mobilizing the needed resources from the national budget to meet the sector needs as stipulated in the NDP and SCRB investment plan, which is about US$ 730 million per year. Specifically, through working with the Bank and other development partners and utilizing Bank procedures and policies, SCRB would be able to use modern techniques in addressing its priorities in a more programmatic manner and more importantly to be able to manage increased funds required to implement the investment plan.

25. A corridor approach enables attention to be focused on the areas that account for most of the transport and trade of a country, ensuring that the measures implemented make sense in terms of national transport and international trade. There are three corridors in Iraq that carry more than 90% of the imports and 50% of the road traffic (people and goods). One of them is oriented North-South linking Europe and Central Asia to northern Iraq and Baghdad, the other oriented South-North links Baghdad to the port of Um Qasr which is Iraq’s only port for handling containers (about 300,000 per year) and bulk solid cargoes (about 8 million tons per year). The third corridor is oriented East-West linking Iraq to its neighboring Jordan and Syria and through them to Europe, Asia and Africa.

26. Expressway 1 which is a 1,200 km long 6-lane dual carriageway (4-lane dual carriageway
in some segments) serves the traffic along the East-West and South-North Corridors, linking Um Qasr in the South with Jordan and Syria via Baghdad (Corridor 1 in Figure 1). The traffic on the North-South Corridor linking Europe and Central Asia to northern Iraq and Baghdad is being served by a road linking Ibrahim El Khalil border crossing to Duhok via Zakho. This route is not adequate for the incoming heavy trucks traffic (about 3,000 per day) which is causing serious safety problems and as a result local residents have been complaining and threatening to close the road, therefore the alternate route via Derabun and Grsheen is being proposed for rehabilitation and the Kurdish Regional Government started working on some segments.

27. Because the improvement of Expressway 1 and Ibrahim El Khalil - Duhok road offers significant benefits in terms of better and safer circulation for import traffic, reduction in domestic transportation times, costs and safety improvements, the task team is not including a lending component related to customs reform, since this would add risk to the project. Instead, the team proposes a technical assistance component on customs reform, to be led by PREM. This TA would follow up on the diagnostic work already undertaken (from the PREMTR mission and the ongoing Transport and Trade Facilitation Assessment), beginning with awareness building among senior policymakers (e.g. Prime Ministers Advisory Council, National Investment Commission) of the importance of customs reform, and then providing targeted assistance for articulation of the reform strategy and engagement of other partners in the reform effort. In the short-term this could include a TA on 1) helping the Iraqi authorities on trade policy side (notably with respect to realism on their tariff reform and WTO ambitions); 2) assisting both Baghdad and Erbil authorities developing a strategy and a plan for Customs modernization; and 3) providing options on potential Information and Communication Technology (ICT) systems so the custom authorities could make an informed decision on selecting a suitable automated Customs system. Having an improved transport corridor system in place through this project will multiply the impact of customs reform if and when it occurs.

28. The Project would provide a combination of technical assistance and civil works and equipment, with a focus on: (i) institutional capacity building and strengthening; (ii) strategic infrastructure investments to develop fluid and efficient transport corridors. The proposed project components and their subcomponents are:

Component A: Institutional Strengthening, Capacity Building and Enhancing Governance in the Road Sector. This component would lay the ground for improved institutional capacity and much stronger governance in the sector through supporting key investment activities including:

• MOCH/SCRB and KRG-MOCH/GDRB organizational and capacity improvement.
• MOCH/SCRB state-owned construction companies organizational improvement.
• Enhancement of the Road Sector Governance.
• Training of local contractors and consultants
• Axle load control enhancement

Component B: Transport Corridors Improvement. This component would lay the ground for improving transport and trade through supporting key investments in infrastructure improvement
including:

- Rehabilitation of Expressway No. 1 Corridor. The total constructed length of this corridor is 965 km, and the rehabilitation of approximately 175 km of critical need for safety improvement would be financed by IBRD under this subcomponent. The rehabilitation of other sections of Expressway 1 would be financed in parallel by the Government of Iraq and the Islamic Development Bank (IsDB). The World Bank procurement guidelines and safeguard policies will be adopted and applied to the rehabilitation of all sections regardless of the funding source. The three parties (GoI, WB and IsDB) will agree during project preparation on the location of each respective section(s).

- Construction of a new road section along the Ibrahim El Khalil-Duhok corridor. This subcomponent would finance the construction of a 25 km section between Girsheen to Derabun. The Kurdish Regional Government (KRG) is financing the upgrading of other sections along the corridor between Duhok and Ibrahim El Khalil.

Component C: Project Implementation and Monitoring. This component would finance the operational costs of the two Project Management Teams (one in Baghdad and one in Erbil) to coordinate, implement, supervise and monitor the Project implementation.

IV. Safeguard Policies that might apply

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V. Financing (in USD Million)

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