



# World Bank Iraq Trust Fund Report to Donors

## International Reconstruction Fund Facility for Iraq Meeting *Dead Sea, Jordan, July 18-19, 2005*



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# THE WORLD BANK IRAQ TRUST FUND

## REPORT TO DONORS

March 30, 2004 – June 30, 2005

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## ABBREVIATIONS AND ACRONYMS

EC	European Commission
EOI	Expressions of Interest
EU	European Union
G-7	Group of Seven Industrialized Countries
GDP	Gross Domestic Product
IBRD	International Bank for Reconstruction and Development
IDA	International Development Assistance
IFC	International Finance Corporation
IMF	International Monetary Fund
ISN	Interim Strategy Note
IRFFI	International Reconstruction Fund Facility for Iraq
ISRB	Iraqi Strategic Review Board
ITF	Iraq Trust Fund (World Bank)
ITG	Iraqi Transitional Government
NGO	Non-Governmental Organization
PEP-MENA	The Private Enterprise Partnership for the Middle East and North Africa
PIU	Project Implementation Unit
PMT	Project Management Team
SBFF	Small Business Financing Facility
UN	United Nations
UNDG	United Nations Development Group
UNDP	United Nations Development Program
US	United States

## DEFINITIONS

A “**pledge**” is an amount indicated as a voluntary contribution by a donor.

A “**donor commitment**” is a legally-binding commitment to contribute a specific amount over a specific time frame, formalized through an Administration Agreement between the donor and the World Bank as Administrator of the World Bank Iraq Trust Fund.

An “**allocation**” refers to funding provided to a specific trust fund account for a discrete activity under preparation or implementation.

An “**approved project**” is a project for which a legally-binding Grant Agreement has been negotiated and signed by the Recipient and the World Bank.

A “**project commitment**” is an amount for which legally-binding contracts have been signed.

A “**disbursement**” is the actual transfer of an amount pursuant to a project commitment, for expenditures made or to be made in compensation for works, goods, and services rendered.

## **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.

The World Bank has prepared this World Bank Iraq Trust Fund Report to Donors for the International Reconstruction Fund Facility for Iraq (IRFFI) Donor Committee Meeting at the Dead Sea, Jordan on July 19, 2005. This Report covers the period March 30, 2004 (the effectiveness date of the ITF) through June 30, 2005. To comply with a commitment to donors made at the Tokyo meeting in October 2004 to present reports based on the calendar year, a summary of the status of the ITF as of December 31, 2004, is attached as Annex 1. The next report will cover the status of the ITF as of December 31, 2005.

## I. 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 G7 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, including a joint Donor Committee and a joint UN/World Bank Facility Coordination Committee.

## 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, 16 donors have deposited about US\$392 million in the ITF. Pledges pending deposit amount to US\$6 million, most of which are likely to be credited to the ITF in July or August 2005.

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 be inside or outside Iraq, and 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 (see Box 1: The World Bank Iraq Trust Fund – Key Principles). 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), which determines whether proposals are consistent with priority needs. 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 made available 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.

### Box 1: The World Bank Iraq Trust Fund

#### Key Principles

The World Bank Iraq Trust Fund operates under the following **principles**:

- **Iraqi leadership and priorities:** The ITF finances projects that are considered to be high priority by the Iraqi Strategic Review Board.
- **Iraqi participation in project design and preparation:** Iraqi teams are fully involved through the project processing cycle.
- **Iraqi implementation:** Investment projects are implemented by Iraqi authorities using Iraq's own institutions.
- **Iraqi-led donor coordination:** To ensure coordination and guard against duplication in funding, the Iraqi Strategic Review Board plays a central role in the project processing cycle.
- **Iraqi monitoring of project commitments and disbursements:** The World Bank informs the Recipient, the Ministry of Planning and Development Cooperation, and the Ministry of Finance of project allocations and disbursements to guard against extra-budgetary financing.

### 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, based on the preparation of the Watching Briefs in key sectors, and Joint Needs Assessment prepared in collaboration with the UN, was discussed by the World Bank's Executive Directors in January 2004. The strategy initiated work on three tracks in order to: (i) ***Build Iraqi institutional capacity***, especially to establish mechanisms of transparency and accountability urgently needed for utilizing large amounts of external funding for Iraq's reconstruction; (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 will define the World Bank Group's program for the next two years, providing a flexible framework for a program of World Bank lending and additional ITF grants that makes the best use of available resources and is consistent with Iraq's own development priorities. 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. The Bank has held discussions with the Minister of Finance, Iraq's Governor to the Bank, and the Minister of Planning and Development Cooperation, and various line ministries on the proposed strategy. The Second Interim Strategy Note will be presented to the Bank's Executive Directors once final agreement is reached with the Iraqi Transitional Government (ITG).

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. To fully exploit cross-sectoral synergies, the economic and sector work program has been clustered into three themes: (i) economic reform and transition; (ii) poverty, safety nets and social development; and (iii) public sector management. In close collaboration with counterpart ministries, the World Bank continues to prepare "just-in-time" short policy notes focusing on key reforms, including investment climate and state-owned enterprise reform, trade reform, telecommunication sector reform, financial sector reform, food and fuel subsidy reform, fiscal federalism, and options for pension reform. Recently the Bank completed studies on economic reform and transition (Country Economic Memorandum), social protection, the financial sector, and the Public (food) Distribution System. This work is informing the policy agenda of the ITG. The World Bank and IMF are collaborating in a number of areas, including joint workshops on intergovernmental finance and petroleum issues in December 2004 and January 2005 respectively. A joint Bank-Fund Public Expenditure Management Mission met in Amman in mid-February 2005 with a large group of Iraqi counterparts, as well as DFID-financed consultants, resulting in a comprehensive assessment of Iraq's public finance system. The Bank participated in the recent IMF Article IV consultations in Abu Dhabi, the first such consultations carried out in more than 30 years.

13. **Interim National Development Strategy for Iraq.** In 2004, the World Bank provided policy advice and inputs to the Prime Minister's Higher Economic Committee in drafting an interim National Development Strategy (NDS) for Iraq, which was presented at the Third IRFFI Donor Meeting in Tokyo in October 2004. The report outlines Iraq's medium and long-term priorities for reconstruction and reform, focusing on economic revival driven by private enterprise and guaranteed by a strong and transparent public sector, and calling for reform of the subsidy system, to be supported by strong formal safety nets. The NDS acknowledges that restoring security is Iraq's paramount challenge and a condition for successful reconstruction. The NDS sets Iraq on a course toward a diversified market-based economy, and can serve as a basis for developing meaningful sector strategies.

14. **The International Finance Corporation.** The International Finance Corporation (IFC) has focused on supporting the financial sector and small and medium enterprises (SMEs) through both investment and technical assistance. On the investment side, IFC signed an agreement in March 2005 to acquire a minority stake in Credit Bank of Iraq, in partnership with the National Bank of Kuwait (NBK). IFC and NBK plan to increase capital of the Credit Bank of Iraq in stages to put it in a strong position within the domestic market. This investment will have a demonstration effect and pave the way for other international banks to invest in and transfer knowledge to the Iraqi market.



15. The Small Business Financing Facility (SBFF) provides investment and technical assistance to support financing of the SME sector. Partly funded by donors and partly funded by IFC, the SBFF will provide financing, including a first loss component, and technical partners to the nascent banking sector. The first bank has been identified and the first commitment is expected this fiscal year, following challenges in registering the shares of the joint venture partner and delays caused by security concerns.

16. IFC has also been active in technical assistance in Iraq through the Private Enterprise Partnership for the Middle East and North Africa (PEP-MENA). PEP-MENA launched a five-month banking training program in September 2005 that trained 250 Iraqi bankers in state-of-the-art practices in risk management, retail banking, accounting and finance, asset liability management, foreign trade, bank performance monitoring, credit appraisal, and financial analysis. At the conclusion of the program, PEP-MENA held a two day seminar for Iraqi senior executive bankers to discuss strategic options for the development of the Iraqi banking sector going forward.

#### **D. CURRENT METHODS OF WORKING IN IRAQ**

17. Iraq is a founding member of the International Bank for Reconstruction and Development (IBRD). The Government of Iraq received six IBRD loans between 1950 and 1973. The last loan closed in 1979. Iraq had been in non-accrual status until the clearance of arrears in December 2004. For over twenty years, no World Bank missions visited Iraq.

18. In early 2003, the World Bank began rebuilding its knowledge base on Iraq by initiating “watching briefs” covering all key economic sectors. World Bank staff visited Iraq in May 2003, following UN Security Council Resolution 1483, which called for a multilateral effort to rebuild Iraq. The World Bank worked intensively in Iraq during the summer of 2003 to prepare the UN-World Bank Needs Assessment.

19. Because the Bank implements through national institutions, the Bank typically maintains only a small international staff presence in client countries, even under normal circumstances. Currently, the Bank employs seven full-time Iraqi staff and consultants, and dozens of part-time consultants assisting with Bank operations on the ground, including specialists monitoring fiduciary controls, a senior economist, a procurement specialist, and advisors on health, private sector development, and the financial sector. Also, the World Bank has established four videoconferencing facilities (at Baghdad’s conference center in the Green Zone, the Ministry of Finance, the Ministry of Planning, and the Central Bank) that are used constantly to enhance communication among the Government, World Bank staff and consultants, and donors. The World Bank’s Interim Iraq Office in Amman continues to play a key role in facilitating communications, hosting meetings and workshops with Iraqi officials, and coordinating with the UN and other donors. The Bank intends to increase its number of Iraqi staff, including in areas outside of Baghdad, and to continue to locate more training in Iraq, as conditions permit. The World Bank will expand its international presence as soon as security allows, also taking into consideration effectiveness and efficiency.

## II. STATUS OF WORLD BANK ITF RESOURCES

### A. Pledges, Commitments and Deposits

20. **Pledges, Commitments and Deposits.** Seventeen donors have pledged US\$398 million to the ITF. Of these, 16 donors have deposited US\$392 million in the ITF account as of the end of June 2005. Several donors have additional commitments currently being processed, and which are likely to be considered as official ITF deposits by the end of July 2005. Table 1 shows status of pledges, commitments and deposits as of June 30, 2005.

**Table 1: Donor Pledges, Commitments and Deposits to ITF**  
As of June 30, 2005

Donors	Pledges in Donor Currency <sup>1/</sup>		Pledges	Commitments <sup>2/</sup>	Deposits
	Currency	Currency (million)	(US\$ million)	(US\$ million)	(US\$ million)
Australia	AUD	14.0	10.2	10.2	10.2
Canada	CAD	30.0	22.3	22.3	22.3
EC	EUR	83.0	102.5	102.5	102.5
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	2.5	2.5
Japan	USD	130.0	130.0	130.0	130.0
Korea	USD	3.0	3.0	3.0	3.0
Kuwait	USD	5.0	5.0	5.0	5.0
Netherlands	EUR	5.0	6.2	6.2	6.2
Norway	NOK	15.0	2.2	2.2	2.2
Qatar	USD	5.0	5.0	5.0	2.5
Spain	USD	20.0	20.0	20.0	20.0
Sweden	SEK	40.0	5.4	5.4	5.8
Turkey	USD	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
<b>Total</b>			<b>397.8</b>	<b>394.3</b>	<b>392.1</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 at the time of deposit.

21. **Sectoral Preferences of Donors.** Six of the 16 donors who have deposited funds in the ITF account have expressed a sectoral preference for their contributions. Two-thirds of the funding provided to the ITF is allocated to specific sectors requested by the donor. Table 2 shows deposits by donor and their sectoral preference, as applicable.

**Table 2 - Donor Deposits by Sectoral Preference**  
(US\$ million)

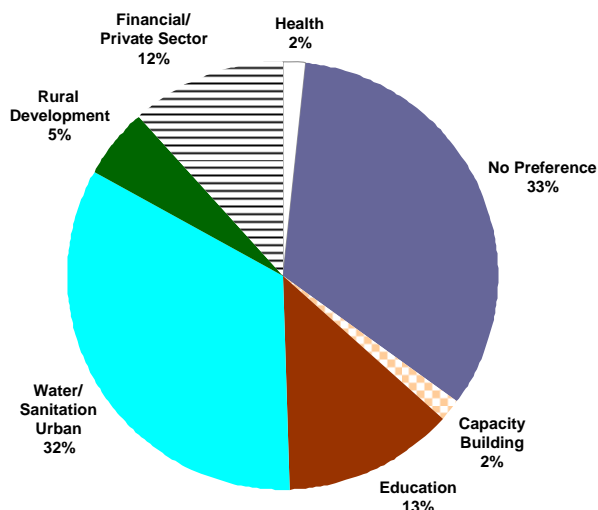
	No Preference	Capacity Building	Education	Infra-structure*	Rural Develop.	Health	Financial / Private Sector	Total
Australia	10.2							10.2
Canada	22.3							22.3
EC		7.3	49.5	25.7	20.0			102.5
Finland	2.58							2.58
Iceland						1.0		1.0
India	2.5							2.5
Japan*				90.0			40.0	130.0
Korea				3.0				3.0
Kuwait	5.0							5.0
Netherlands	6.2							6.2
Norway	2.2							2.2
Qatar	2.5							2.5
Spain**				8.0		6.0	6.0	20.0
Sweden				5.8				5.8
United Kingdom	71.4							71.4
United States	5.0							5.0
<b>Total</b>	129.9	7.3	49.5	132.5	20.0	7.0	46.0	392.182
<b>Allocations to Projects</b>		10.6	100.0	150.0	20.0	25.0	55.0	360.6

\* Infrastructure includes \$25.7 million from the EC for Urban Rehabilitation, \$90 million from Japan for Water Supply and Sanitation, a notional \$8 million from Spain for Infrastructure, and \$5.8 million from Sweden for Electricity.

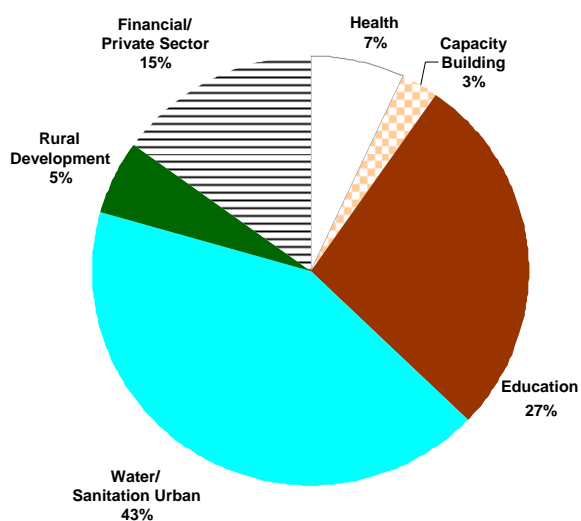
\*\* Amounts shown per sector are notional. Spain did not specify distribution among the three sectors.

22. Charts 1 and 2 below compare the sectoral preferences of deposits to the ITF expressed by donors to the sectoral distribution of funds allocated to specific ITF-financed projects.

**Chart 1: Donors' Sectoral Preferences**



**Chart 2: Sectoral Distribution of Projects Funded**



23. **ITF Allocations to Projects.** By the end of December 2004, the Bank and Iraqi authorities had prepared, approved, and entered into Grant Agreements for nine projects amounting to \$366 million, thereby committing nearly all (93%) of ITF deposits. One project (Capacity Building I, US\$3.6 million) is completed and closed. Of the eight on-going projects, seven of these (US\$355 million) are being implemented by Iraqi institutions (five ministries and the Municipality of Baghdad). Thus, about 90% of the funds deposited into the ITF are already directly under the control of Iraqi institutions. These implementation arrangements ensure Iraqi ownership, build the institutional capacity needed for recovery and sustainable development, and represent a significant achievement given Iraq's lack of recent capacity with international and Bank procedures. The Second Capacity Building Project (US\$7 million) was launched in November 2004, and is being implemented by the World Bank on behalf of the Ministry of Planning and Development Cooperation.

**B. Status of World Bank ITF-Financed Operations**

24. **Implementation Status of Projects.** Five of the seven grants being implemented by Iraqi institutions were launched in late 2004 or early 2005, and thus have been active for fewer than seven months. ITF grant implementation performance is consistent with the experience of the Bank and other international organizations in conflict-affected environments. The current rate of implementation is in line with Bank averages for contracting and disbursements for the elapsed time covered. Except for the two capacity building programs, the

ITF grants finance goods and works, which require time for bidding, contracting, performance, supervision and invoicing before disbursements can occur. The ITF does not finance quick-disbursing expenditures such as humanitarian aid electoral support costs, or government recurrent costs. Table 3 summarizes the status of the projects financed by the ITF as of June 30, 2005.

**Table 3: Projects Financed by the World Bank Iraq Trust Fund**

Project Name	Project Allocation (US\$ m)	Implementing Agency	Date of Grant Signing	Status
First Capacity Building (Project Closed)	3.6	World Bank	February 15, 2004	Closed. Financed 22 training activities for nearly 600 Iraqi officials.
Emergency Textbooks	40.0	Min. of Education	May 15, 2004	69 million textbooks delivered to 19,000 schools (contract value of US\$30 m). Procured through methods that yielded savings of about 25% (US\$9 m) compared to previous year. Savings will be used for printing 2005-06 textbooks.
Emergency School Rehabilitation	60.0	Min. of Education	October 14, 2004	Project is ahead of schedule. Rehabilitation of 137 schools in 14 governorates is underway, of which rehabilitation of 72 schools is one-third complete and will be fully completed by September 2005. Bidding for new school construction has been advanced to the Fall of 2005.
Emergency Health Rehabilitation	25.0	Min. of Health	December 4, 2004	Procurement is underway for local firms to design and supervise rehabilitation of eleven emergency health units. Procurement of pharmaceutical and equipment for the emergency units is also underway.
Emergency Baghdad Water Supply and Sanitation	65.0	Municipality of Baghdad	December 4, 2004	The municipality has nearly completed the first batch of procurement (US\$6-9 m. in pumps and spare parts). Procurement of consultants is well advanced, including for the preparation and implementation of a Baghdad City Development Plan.
Emergency Private Sector Development I	55.0	Min. of Planning and Min. of Telecom.	December 6, 2004	Procurement of a telecommunications backbone (US\$39 m.) is underway: tender documents will be issued in July 2005.
Capacity Building II	7.0	World Bank	December 6, 2004	To date, has financed 22 training activities covering pension reform, labor markets, social safety nets, statistical capacity building, microfinance, and fiscal decentralization.
Emergency Water Supply, Sanitation and Urban Reconstruction	90.0	Min. of Municipalities and Public Works	December 8, 2004	Procurement of consultants is well advanced. Contracts for the first batch of works will be signed in fall 2005.
Emergency Community Infrastructure	20.0	Min. of Water Resources	December 18, 2004	The PMT is finalizing 9 labor-intensive civil works contracts valued at US\$ 4.5 million.
<b>Total</b>	<b>365.6</b>			

25. **The Capacity Building I Project (US\$3.6 million)** was implemented from February to August 2004. The European Commission Rapid Response Mechanism was the first deposit to the ITF. Although this source of funds allowed only a six-month disbursement period, the rapid provision of funds to the ITF was greatly appreciated by the Iraqis and the ITF, since it enabled initial training programs to be launched without delay. The project focused on building capacity in key public administration areas and on strengthening strategic and technical skills of staff in Iraqi institutions. The project included training on managing the project cycle (such as procurement, financial management, project management, and safeguards), as well as sector-specific training for line ministries and training for private sector capacity enhancement. Twenty-two activities were completed and 581 participants were trained on the topics outlined above. Actual disbursements totaled US\$2.5 million in the limited six-month implementation period.

26. Building on the earlier capacity building efforts, in November 2004, the Bank began implementing the **Capacity Building II Project (US\$7 million)**. The project aims to strengthen economic management and build institutional capacity to improve public administration and services. The project has financed twenty-two workshops covering pension reform; labor markets; social safety nets; statistical capacity building; household surveys; microfinance; local budgeting and fiscal decentralization (the latter jointly with IMF); as well as the development of two websites for the Ministry of Finance and the Ministry of Planning. A total of 335 participants have been trained 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.

#### Box 2: Payroll and Human Resources Management Capacity Building



Under the ITF-financed Capacity Building II Project, two training sessions in payroll and human resources management were delivered to Iraqi civil servants in Amman in May and June 2005.

The participants, who work in the Ministry of Finance and five of the line ministries, came from Baghdad, Basra and Kirkuk, and may be one of the most wide-ranging groups of civil servants yet to receive training from the World Bank in any single capacity-building event.

27. Through the ITF, the Bank is financing two projects in the education sector. The **Emergency Textbook Provision Project (US\$40 million)** financed textbooks for all primary and secondary schools in the 18 governorates. The project became effective in May 2004 and all textbooks procured under the grant have been delivered and are being used for the current (2004/2005) school year. Project disbursements have lagged behind implementation due to time-consuming Ministry of Education quality control procedures. Disbursements and payments in the pipeline for textbooks now amount to over US\$21 million, for completed contracts totaling US\$30 million. Competitive bidding procedures for textbooks led to cost savings of over US\$9 million, which are being used to procure additional textbooks, including high priority textbooks

for the 200/2006 school year, and other educational items, not initially included in the original project. Procurement for additional textbooks is already well advanced.

**Box 3: Iraqi Children Proudly Display their New Textbooks**



The Emergency Textbook Provision Project financed 69 million textbooks that were delivered to all of Iraq's primary and secondary schools for the 2004/2005 school year.

Teachers report that they are pleased with the quality of the textbooks and, for the first time since sanctions were imposed, there is a textbook for every child.

The students consider their new textbooks so valuable that most of them cover their books with attractive paper to protect them.

28. The **Emergency School Construction and Rehabilitation Project (US\$60 million)**, signed in October 2004, is financing the construction of new buildings for about 110 existing primary and secondary schools in unsafe or overcrowded facilities, and major rehabilitation of about 140 schools. The project is ahead of schedule; the first phase of school rehabilitation of 137 schools in 14 governorates is underway. The rehabilitation of 72 of these schools is about one-third complete and is expected to be fully completed by September 2005. Procurement for the construction of new buildings for 117 schools has been brought forward and is now planned for fall 2005.

29. Two ITF-financed projects designed to restore and improve water supply and sanitation services -- critical needs in Iraq -- were approved in December 2004. The **Emergency Baghdad Water Supply and Sanitation Rehabilitation Project (US\$65 million)** aims to restore basic water supply and sanitation services throughout Baghdad. The project funds the rehabilitation and renewal of water treatment plants, pumping stations, sewerage and drinking water networks. It also provides technical assistance and capacity building to the Mayoralty of Baghdad and will help develop a comprehensive city development plan for Baghdad. The municipality has nearly completed the first phase of procurement (US\$6-9 million for pumps and spare parts). The PMT has also identified a shortlist of potential advisors to support the preparation and implementation of the Baghdad Comprehensive City Development Plan.

30. The **Emergency Water Supply and Sanitation and Urban Development Project (US\$90 million)**, also approved in December 2005, finances water supply and sanitation rehabilitation in nine governorates, and urban reconstruction in poor areas of three governorates. Proposals have been received recently for upgrading the water supply and sanitation systems for two subprojects, and firms should be selected in the near future. Contracts for the first batch of works will be signed in fall 2005. Procurement is well advanced for consultant services to review and finalize existing designs, prepare tender documents, and supervise future construction contracts for two other subprojects. The PMT has recently strengthened its team by recruiting a

financial management manager, financial management specialist, and other administrative staff. These efforts are expected to expedite project implementation.

31. An **Emergency First Private Sector Development Project (US\$55 million)**, approved in December 2004, finances part of the telecommunications backbone (almost US\$40 million), and related infrastructure to interconnect key parts of the National Bank of Iraq's payment system. The project also aims to strengthen the institutional framework for private sector development by enabling public institutions to support the private sectors and increasing private sector access to financial and foreign export markets. Bidding documents for the telecommunication backbone are being prepared, and are being issued in July 2005. Procurement is well underway for consulting services: tendered contracts total about US\$ 9 million.

**Box 4: Major Repairs Underway at Al Risafa Primary School in Baghdad**



The Emergency School Rehabilitation and Construction Project will finance the construction of new school buildings for 110 schools, and the major rehabilitation of about 140 schools.

Local Iraqi contractors work on one of the 135 schools to be rehabilitated by the end of September 2005.

All of the work is undertaken by local Iraqi contractors whose services are procured by the Ministry of Education using National Competitive Bidding procedures.

32. An **Emergency Community Infrastructure Rehabilitation Project (US\$20 million)**, approved in December 2004, is designed to address emergency needs for infrastructure development at the community level, generating employment through labor-intensive, small-scale civil works programs. The first phase will finance water supply, sanitation, and irrigation rehabilitation in rural areas throughout Iraq using a flexible programmatic approach and increasing community involvement. The design and bidding documents for the first four subprojects have been prepared for a total cost of US\$2.5 million. The designs for all nine subprojects under the second phase, amounting to about US\$10.5 million, are at a very advanced stage. Construction on the first irrigation subproject is expected to begin in July 2005.

33. The **Emergency Health and Rehabilitation Project (US\$25 million)**, signed in November 2004, aims to improve the quality of emergency services in selected health facilities and serve the urgent health needs of the Iraqi population. The final selection of consulting firms to design and supervise the rehabilitation of six of the eleven emergency health units is imminent; and five more are expected to be finalized in July/August 2005. Rehabilitation works will start in fall 2005.



### C. IMPLEMENTATION AND FIDUCIARY ARRANGEMENTS

34. Seven of the eight on-going ITF-funded operations are implemented by Iraqi institutions (line ministries or, in one case, the Municipality of Baghdad). The World Bank, as the ITF Administrator, supervises ITF-funded operations in accordance with the World Bank's applicable policies and procedures. The strategy of the World Bank in Iraq is to put in place implementation arrangements that rely to the maximum extent possible on Iraq's own institutions. At the same time, the World Bank is working with ministries to strengthen their controls and design measures to provide additional assurances, such as Monitoring Agents.

35. **Project Management Teams.** In many emergency and conflict-affected environments, the World Bank and other donors rely on ring-fenced Project Implementation Units (PIUs). Experience elsewhere, however, has indicated that use of PIUs can undermine long-term sustainability and institution building. In Iraq, the World Bank is striving to strengthen Iraqi institutions through use of dedicated ministry staff and consultants constituting a flexible project management team (PMT). PMT members are civil servants paid by the ministry using the regular pay scale. The World Bank provides intensive training to PMT staff before and during project approval in all aspects of project management, including procurement and financial management. PMTs are thus designed to provide the skills needed for effective project implementation, yet be flexible and easily reintegrated into the ministry's institutional structure.

36. **Monitoring Agent.** While staff travel to Iraq is restricted, the ITF intends to employ two experienced firms as Monitoring Agents to help ensure that ITF funds are used only for the purposes intended and according to applicable Bank procedures. In the spring of 2004, none of the twelve responses to the initial Expressions of Interest (EoI) for the Monitoring Agent assignment offered the required qualifications in both procurement and financial management, and environmental and social safeguards. The World Bank, therefore, decided split the assignment into two contracts: a Project Management Monitoring Agent and a Safeguards Monitoring Agent. The Project Management Monitoring Agent will be responsible for monitoring the full cycle of financial/project management requirements, support initiatives to strengthen fiduciary capabilities of implementing agencies, and support the World Bank in conducting its reviews and audits. The Safeguards Monitoring Agent will be responsible for ensuring that environmental and social safeguard procedures are applied and for conducting post-reviews of selected subprojects. The World Bank reopened the procurement process in the fall of 2004, and reviewed new proposals early in 2005. So far, the Bank has not been able to engage firms that would be able to satisfactorily carry out, under the current conditions in Iraq, the range of functions required within a reasonable cost structure. The ITF has now begun to identify regional firms currently working in Iraq that may have the capacity to perform monitoring agent functions. In the meanwhile, PMTs have engaged a cadre of local consultants and firms to strengthen project supervision on the ground by conducting physical inspections of project implementation and providing support to PMTs on fiduciary requirements.

### D. ITF DISBURSEMENTS

37. **Disbursement Performance.** The comparative advantage of World Bank financing -- and the measure of its effectiveness -- is in the capacity building provided to Iraqi institutions, which should promote improved long-term project management ability. With the

exception of two small capacity-building projects, ITF resources are directed to large reconstruction and rehabilitation development projects to be implemented over 2-3 years by Iraqi institutions. ITF grants finance goods and works, which require time for bidding, contracting, performance, supervision, and invoicing before disbursements occur. The World Bank ITF does not finance quick-disbursing Government recurrent expenditures, electoral/political activities, budget support or humanitarian aid.

38. ITF grant proceeds are disbursed in accordance with the appropriate policies and procedures of the World Bank. Disbursement progress will be highly dependent on capacity of the implementing agencies, each of which is becoming knowledgeable about the procurement, financial management and project implementation requirements of the Bank. Main financial counterparts in PMTs receive intensive training in World Bank disbursement procedures. As part of the compensating controls, disbursements in Iraq at this stage are made primarily by direct payment by the World Bank to the contractors, consultants, and vendors. Small payments (e.g., below US\$10,000) are made by the implementing agency from its own resources and these payments are reimbursed, on a periodical basis, by the World Bank upon presentation of proof of payment and a signed withdrawal application.

39. Five of the seven Iraqi-implemented projects were signed in December 2004, and launched by the end of January 2005, and thus have been under implementation for a little over six months. As of June 30, 2005, US\$355 million out of US\$392 million (or 90% of the deposits into the ITF) are under the control of the Iraqi implementing agencies, which are responsible for contracting with vendors. Disbursement performance is well within what could be expected for the initial project start-up phase, especially in a conflict situation. Disbursement performance will always lag behind implementation progress since disbursements can be made only once work is satisfactorily completed and invoices are submitted for payment.

40. PMTs have made significant progress in learning how to implement ITF-financed projects, and ITF-financed projects are largely on track at this time, despite current conditions, including poor communication and difficulty of movement, that hinder project implementation throughout Iraq. As of June 30, 2005, over 100 tenders amounting to US\$68 million have been issued, of which 87 contracts are awarded and 53 signed. Implementation on the ground will continue to be challenging, and the World Bank intends to provide on-going close and proactive support to PMTs and the Iraqi implementing agencies to assist in improving the pace of implementation.

41. **ITF Disbursements.** Total ITF disbursements stand at over US\$27 million at the end of June 2005. Of this total, over US\$19 million has been disbursed to Iraq for grants that are implemented directly by Iraqi agencies. Disbursements from the two Bank-executed capacity building projects total approximately US\$4 million. Cost recovery for project processing, supervision, as well as all trust fund administration totals about US\$4 million. Based on the total amount of World Bank ITF allocations to projects (US\$366 million), the Bank's cost recovery to date represents about one percent of project funding. Table 4 summarizes the overall sources and uses of funds for the ITF from inception through June 30, 2005.

**Table 4: Sources and Uses of Funds**  
(US\$ Million)

	<u>Implementing Agency</u>	<u>Amount</u>	<u>Actual Disbursement</u>
<b>Sources of Funds</b>			
Donor Deposits			392.1
Investment Income			9.2
<b>Total Sources of Funds</b>			<b>401.3</b>
<b>Uses of Funds</b>			
<b><u>Operations</u></b>			
<b>Iraqi-Implemented Grants</b>			
Emergency Textbook Provision	Min. of Education	40.0	18.7
Emergency Education Rehabilitation	Min. of Education	60.0	0.1
Emergency Health Rehabilitation	Min. of Health	25.0	0.1
Emergency Baghdad Water Supply	Municipality of Baghdad	65.0	0.1
Emergency Water Supply, Sanitation and Urban Reconsruction	Min. of Municipalities and Public Works	90.0	0.1
Emergency Private Sector Development	Min. of Planning and Min. of Telecom.	55.0	0.1
Emergency Community Infrastructure	Min. of Water Resources	20.0	
<b>Subtotal</b>		<b>355.0</b>	<b>19.1</b>
<b>World Bank-Implemented Projects <sup>1/</sup></b>			
Capacity Building I (EC)	World Bank	3.6	2.5
Capacity Building II	World Bank	7.0	1.3
<b>Subtotal</b>		<b>10.6</b>	<b>3.9</b>
<b>Total Operations</b>		<b>365.6</b>	<b>23.0</b>
<b>Total Project Processing, Trust Fund Management and Administration <sup>2/</sup></b>		<b>10.9</b>	<b>4.3</b>
<b>Total Use of Funds</b>		<b>376.5</b>	<b>27.3</b>

1/ ITF-financed projects implemented by the World Bank, at the request of the Ministry of Planning and Development Cooperation.

2/ Includes estimated requirements for Project Processing, Monitoring Agents, and Trust Fund Management and Administration through the life of the ITF.

## E. THE WORLD BANK'S COST RECOVERY AND INVESTMENT INCOME

42. **Cost Recovery Provisions of the ITF.** The World Bank recovers the cost of its project analysis and supervision, trust fund administration, monitoring agents, and management support to the ITF under two categories:

- (a) An administrative fee that offsets the cost of central services provided by the trust fund accounting, legal, loan accounting, and other support units of the World Bank. The fee is set at 0.4% for technical assistance projects (e.g., the capacity building

projects) and 0.2% for investment operations (e.g., the grants implemented by Iraqi institutions). The administrative fee is deducted after the signing of each Grant Agreement, as the project allocation is made.

(b) Actual full cost of other support, which covers eligible expenditures for the following:

- World Bank staff and consultants involved in activities that are solely for carrying out the World Bank's responsibilities under the ITF. The activities include: project analysis, appraisal, supervision, including procurement, financial management, safeguards, and other project specific activities.
- The ITF management team.
- Costs of contracts for the Monitoring Agents and for independent review of their performance.
- Costs of the annual external audit.

43. During the period covered by this Report, the Bank's full cost recovery was US\$4.3 million. The services delivered against this amount include the preparation and negotiation of Administration Agreements, setting up of trust fund operations, management of the trust fund, the work of World Bank project teams to appraise and supervise the seven Iraqi-implemented operations, and the cost of the external audit that covered the time period from inception of the ITF through December 31, 2004. This level of cost recovery represents about 1% of the total resources allocated to projects or the total fund. Currently disbursements for cost recovery are almost 16% of total disbursements, since some project disbursements are just beginning, while the project analysis and appraisal, and trust fund administration are front-loaded and on-going. Current estimates for total cost recovery over the life of the ITF (based on the current portfolio) are projected to be below 4% of the value of the fund.

44. **Investment Income Earned.** The World Bank invests donor deposits pending their disbursement. Investment income earned on these funds is deposited into the ITF account to be used for the purposes of the ITF. The investment income earned on ITF deposits during the reporting period is over US\$9 million. Investment income earned by the ITF to date is more than double the total cost recovery charged to the trust fund.

## F. INFORMATION DISSEMINATION

45. **Website for IRFFI.** A joint World Bank/UN website ([www.irffi.org](http://www.irffi.org)) is available for public access. A unique aspect of this site is that it is jointly managed and updated by World Bank and UNDP staff, using World Bank servers. A webmaster serves as the focal point for information posting from both institutions, with the assignment to be rotated between the World Bank and the UN. ITF progress reports outlining current project implementation progress and up-to-date financial data on deposits, commitments, and disbursements are posted on the website at the end of each month.

## **G. USE OF FUTURE DEPOSITS**

46. In order to continue channeling donor funds to Iraqi priority activities, the ITF needs to be replenished. The World Bank, through the Second Interim Strategy Note, will define a flexible framework to support a priority program that is agreed with the Iraqi Transitional Government. The ITF could finance follow-up projects where there is a good implementation track record showing results. The ITF may also be used to commence operations in a limited number of priority areas where the World Bank has a comparative advantage and where there is a strong dialogue with Iraqi counterparts. Project preparation work is currently progressing on a number of fronts. Projects are being designed to support measures that provide vulnerable populations with the means and skills to enter the labor market and become self-reliant, by strengthening education, training, and job placement assistance, providing quality rehabilitation services for the disabled, and improving maternal and neonatal care services. Both capacity building activities and investment operations are being designed that would improve basic information on poverty in Iraq, build capacity for training reform, provide private sector employment for former members of the military, and improve basic health services for vulnerable populations. Work is also underway to strengthen environmental management capacity in order to complement on-going water operations and reduce the health hazards caused by existing environmental problems. Finally, activities to improve trade performance would improve the pace of construction and overall economic recovery. The Bank, through these interventions, will continue to focus on strengthening Iraqi institutions to promote the development of efficient and transparent local institutions that can lead to stable economic prosperity.

**ANNEX 1: ITF STATUS AS OF DECEMBER 2004**

## STATUS OF WORLD BANK ITF AS OF DECEMBER 31, 2004

### A. STATUS OF ITF RESOURCES

1. **Overview.** As of December 31, 2004, 17 donors have pledged about US\$398 million to the World Bank Iraq Trust Fund (ITF). Of these, 16 donors have deposited US\$392 million in the ITF account. Pledges pending deposit amount to US\$6.0 million. Table 1 summarizes the status of donor commitments and deposits as of December 31, 2004. Nearly all of the deposited funds have been allocated to projects.

Table 1: Donor Pledges, Commitments and Deposits to ITF  
(as of December 31, 2004)

Donors	Pledges in Donor Currency <sup>1/</sup>		Pledges in US\$	Commitments <sup>2/</sup>	Deposits	Pending Contributions
	Currency	Currency (million)	(US\$ million)	(US\$ million)	(US\$ million)	(US\$ million)
Australia	AUD	14.0	10.2	10.2	10.2	
Canada	CAD	30.0	22.3	22.3	22.3	
EC	EUR	83.0	102.5	102.5	102.5	
Finland	EUR	2.0	2.6	2.6	2.6	
Iceland	USD	1.0	1.0	1.0	1.0	
India <sup>3/</sup>	USD	5.0	5.0	2.5	2.5	2.5
Japan	USD	130.0	130.0	130.0	130.0	
Korea	USD	3.0	3.0	3.0	3.0	
Kuwait	USD	5.0	5.0	5.0	5.0	
Netherlands	EUR	5.0	6.2	6.2	6.2	
Norway	NOK	15.0	2.2	2.2	2.2	
Qatar	USD	5.0	5.0	5.0	2.5	2.5
Spain	USD	20.0	20.0	20.0	20.0	
Sweden	SEK	40.0	5.4	5.4	5.8	
Turkey	USD	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	
<b>Total</b>			<b>397.8</b>	<b>394.3</b>	<b>392.1</b>	<b>6.0</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 a

<sup>3/</sup> Agreement letter signed for US\$ 2.5 million. Actual pledge total US\$ 5.0 million.

2. To move forward with project preparation as quickly as possible, the ITF allocates funds to projects based on donor commitments. Because the ITF operates on a “cash” basis, if a project is in the final stage of preparation, but funds are not yet deposited in the ITF account or the funds on deposit are specified for a different sector, the project cannot be finalized and the Grant Agreement cannot be signed. Table 1 shows cumulative donor commitments and deposits compared to allocations to projects by month from February through December 2004.

**Table 1: Monthly Donor Commitments and Deposits, and Allocations to ITF-Financed Operations (Cumulative)**  
(US\$ Millions)

	Feb-04	Mar-04	Apr-04	May-04	Jun-04	Jul-04	Aug-04	Sep-04	Oct-04	Nov-04	Dec-04
Donor Commitments	5.0	113.4	115.9	128.1	154.3	253.3	293.3	386.3	394.3	394.3	394.3
Deposits to the ITF	0.0	6.0	113.4	118.4	123.1	230.8	230.8	270.8	373.8	382.1	392.1
Allocation to Projects	3.6	3.6	103.6	123.6	278.6	278.6	278.6	365.6	365.6	365.6	365.6
Grant Agreement Amount	0.0	3.6	3.6	43.6	43.6	43.6	43.6	43.6	345.6	345.6	365.6

3. **ITF Allocations to Projects.** By the end of December 2004, the Bank and Iraqi authorities has prepared, approved and commenced nine projects amounting to \$366 million, thereby committing nearly all (93%) of ITF deposits. One project (Capacity Building I, US\$3.6 million) is completed and closed. Of the eight on-going projects, seven of these (US\$355 million) provide grant funding directly to Iraq and are being implemented by Iraqi institutions (five ministries and the Municipality of Baghdad). Thus, about 90% of the funds deposited into the ITF are already directly under the control of Iraqi institutions. These implementation arrangements ensure Iraqi ownership, build the institutional capacity needed for recovery and sustainable development, and represent a significant achievement given Iraq’s lack of recent capacity with international and Bank procedures. The Second Capacity Building project (US\$ 7 million) project was launched in November 2004, and is being implemented by the World Bank on behalf of the Ministry of Planning and Development Cooperation.

4. **Projects Launched Since Tokyo Donor Meeting.** Since the Third IRFFI Donor Meeting in Tokyo, seven projects financed by the ITF were approved and signed with the Iraqi authorities before the end of December 2004. The seven new projects include: two water supply and sanitation projects; a health project; a private sector development project that includes a telecommunications component; a community infrastructure project; a school construction/rehabilitation project; and a second capacity building project. Table 3 shows each project being financed by the ITF, along with the amount financed, the implementing agency, and the date of grant signature.



Table 3: Projects Financed by the World Bank Iraq Trust Fund  
As of December 31, 2004

<b>Project Name</b>	<b>Project Allocation (US\$ M)</b>	<b>Implementing Agency</b>	<b>Date of Grant Signing</b>
First Capacity Building (Project Closed)	3.6	World Bank	February 15, 2004
Emergency Textbooks	40.0	Min. of Education	May 15, 2004
Emergency School Rehabilitation	60.0	Min. of Education	October 14, 2004
Emergency Health Rehabilitation	25.0	Min. of Health	December 4, 2004
Emergency Baghdad Water Supply and Sanitation	65.0	Municipality of Baghdad	December 4, 2004
Emergency Private Sector Development I	55.0	Min. of Planning and Min. of Telecom.	December 6, 2004
Capacity Building II	7.0	World Bank	December 6, 2004
Emergency Water Supply, Sanitation and Urban Reconstruction	90.0	Min. of Municipalities and Public Works	December 8, 2004
Emergency Community Infrastructure	20.0	Min. of Water Resources	December 18, 2004
<b>Total</b>	<b>365.6</b>		

5. The intensive work to finalize project preparation in November and December 2004 was followed by further intensive work to launch project implementation. In December, Bank staff began organizing Project Launch Workshops, for members of Iraqi PMTs and representatives from governorates involved in ITF projects (as relevant) to review implementation details of each project. Project Launch Workshops will cover World Bank requirement in procurement, financial management, and safeguards, in order to advance progress on the ground. As a result, the first phase of procurement will be underway immediately following the workshops.

## B. STATUS OF ITF-FINANCED OPERATIONS

6. **Implementation Status of Projects.** The Bank continues to place emphasis on building Iraqi capacity which is critical for longer-term sustainability. As in its work with any country, the Bank operates in a manner to promote the development of efficient and transparent local institutions, necessary conditions for stability and economic prosperity.

7. **The Capacity Building I Project** (US\$3.6 million) was implemented from February to August 2004. The European Commission Rapid Response Mechanism was the first deposit to the ITF. Although this source of funds allowed only a six-month disbursement period, the rapid provision of funds to the ITF was greatly appreciated by the Iraqis and the ITF, since it enabled the training program to be launched without delay. The project focused on building capacity in key public administration areas and on strengthening strategic and technical skills of staff in Iraqi institutions. The project included training on managing the project cycle (e.g. procurement, financial management, project management and safeguards), as well as sector-specific training for line ministries and training for private sector capacity enhancement. Twenty-two activities were completed and 581 participants were trained on the topics outlined above. Actual disbursements totaled only US\$2.5 million in the limited six-month implementation period.

8. In November 2004, as a follow-up to the successful Capacity Building I project, the Bank began implementing a **Capacity Building II Project** (US\$7 million). The project aims to support Iraqi authorities in tackling medium-term policies, and finances training related to economic reform; poverty and social safety nets; public sector management; and project preparation and implementation.

9. Through the ITF, the Bank is financing two projects in the education sector. The **Emergency Textbook Provision Project** of US\$40 million is financing textbooks for all primary and secondary schools in the 18 governorates. The project became effective in May 2004. As of December 2004, signed textbook contracts amount to nearly US\$30 million, and almost 75 percent of textbooks have been delivered. Project disbursements have lagged behind implementation due to lengthy quality control by the Ministry of Education. The Ministry introduced new quality control procedures that were expected to reduce the lag between textbook delivery and payment to vendors.

10. An **Emergency School Construction and Rehabilitation Project** of US\$60 million, signed in October 2004, is financing the construction of new buildings for about 110 existing primary and secondary schools in unsafe or overcrowded facilities, and major rehabilitation of about 140 schools. The procurement process is underway for phase 1 of school rehabilitation – consisting of 64 schools in 14 governorates, estimated to cost US\$3.4 million. Plans are underway to meet the ministry's project management in early 2005 to launch Phase 1 of school construction and Phase 2 of school rehabilitation.

11. Two grants that aim to restore and improve water supply and sanitation -- still a critical need in Iraq -- became effective in December 2004. An **Emergency Baghdad Water Supply and Sanitation Rehabilitation Project** (US\$65 million) will finance water supply and sanitation infrastructure throughout Baghdad; and an **Emergency Water Supply and Sanitation**

**and Urban Development Project** (US\$90 million) will finance water supply and sanitation rehabilitation in nine governorates, and urban reconstruction, such as roads, sidewalks, and community centers, in the poorest areas of three governorates. The project management teams expect to prepare the requests for proposals for consulting services and bidding documents for goods/works as part of the project launch.

12. An **Emergency Community Infrastructure Rehabilitation Project** (US\$20 million) also became effective in December 2004. The first phase of this grant will finance labor-intensive water supply, sanitation, and irrigation rehabilitation in rural areas throughout Iraq using a flexible programmatic approach, increasing community involvement, and generating employment opportunities.

13. The **Emergency Health and Rehabilitation Project** (US\$25 million) signed in November 2004, is designed to improve the quality of emergency services in selected health facilities. Procurement of consulting firms to support project implementation is underway, including the hiring of local consulting firms to prepare the designs for rehabilitating 12 hospitals. The procurement process for emergency pharmaceuticals is also underway, with a planned bid opening in the first quarter of 2005. A supervision mission to Amman in February will focus on launching civil works for hospital rehabilitation.

14. An **Emergency First Private Sector Development Project** (US\$55 million) will finance part of the telecommunications backbone estimated at US\$39.5 million, and related infrastructure needed for a payment system, and will also develop and strengthen the institutional framework for private sector development. The operation became effective in November 2004, and a project launch workshop was scheduled for January 2005. Bidding documents will be issued to prospective bidders in early before the end of the first quarter of 2005.

15. **Disbursements.** The signing of the six additional projects in December brings the total resources available for use by Iraqi implementing agencies to US\$355 million out of US\$396, or 90% of the ITF resources. Since six of the eight on-going projects were only signed in December 2004, project disbursements as of the end of December reflect only expenditures incurred for the two capacity building projects and partial payments for textbook contracts, and total about US\$8 million. Table 4 summarizes the sources and uses of ITF funds from trust fund inception through December 31, 2004.

**Table 4: Sources and Uses of Funds  
as of December 31, 2004  
(US\$ Million)**

	<u>Implementing Agency</u>	<u>Amount</u>	<u>Actual</u>
<b><u>Sources of Funds</u></b>			
Donor Deposits		392.1	392.1
Investment Income		4.1	4.1
<b>Total Sources of Funds</b>		<b>396.2</b>	<b>396.2</b>
<b><u>Uses of Funds</u></b>			
<b><u>Operations</u></b>			
<b>Iraqi-Implemented Grants</b>			
Emergency Textbook Provision	Min. of Education	40.0	5.5
Emergency Education Rehabilitation	Min. of Education	60.0	0.0
Emergency Health Rehabilitation	Min. of Health	25.0	0.0
Emergency Baghdad Water Supply	Municipality of Baghdad	65.0	0.0
Emergency Water Supply, Sanitation and Urban Reconsruction	Min. of Municipalities and Public Works	90.0	0.0
Emergency Private Sector Development	Min. of Planning and Min. of Telecom.	55.0	0.0
Emergency Community Infrastructure	Min. of Water Resources	20.0	0.0
<b>Subtotal</b>		<b>355.0</b>	<b>5.5</b>
<b>World Bank-Implemented Projects <sup>1/</sup></b>			
Capacity Building I (EC)	World Bank	3.6	2.5
Capacity Building II	World Bank	7.0	0.1
<b>Subtotal</b>		<b>10.6</b>	<b>2.6</b>
<b>Total Operations</b>		<b>365.6</b>	<b>8.1</b>
<b>Total Project Processing, Trust Fund Management and Administration <sup>2/</sup></b>			
		<b>10.9</b>	<b>2.0</b>
<b>Total Use of Funds</b>		<b>376.5</b>	<b>10.1</b>

1/ ITF-financed projects implemented by the World Bank, at the request of the Ministry of Planning and Development Cooperation.

2/ Includes estimated requirements for Project Processing, Monitoring Agents, and Trust Fund Management and Administration through the life of the ITF.

16. It is important to acknowledge that project disbursement performance is a lag indicator of project implementation progress: disbursements can only be made once work is satisfactorily completed and vendors submit invoices. Disbursement progress will be highly dependent on the procedures and capacity of the implementing agencies, each of which is becoming knowledgeable about World Bank requirements and procedures. Implementation on the ground in the current circumstances will be challenging, and the World Bank intends to

provide on-going close and proactive support to the project management team and implementing agencies.

17. Total cost recovery charges since ITF inception total US\$2 million. The services delivered against this amount include the establishment of the trust fund, preparation and negotiation of Administration Agreements, management of the trust fund, and the cost of World Bank project teams to analyze, appraise and supervise seven Iraqi-implemented operations. Based on the total amount of ITF project grants of US\$366 million made over the period February 2004-December 2004, the Bank's cost recovery to totals less than one percent of project funding. While disbursements for cost recovery are almost 20% of total disbursements as of end-December 2004, this simply reflects the fact that some project disbursements have not yet begun for those projects just signed, while project analysis and appraisal, and trust fund administration have been underway for several months. Over the life of the trust fund, total cost recovery is estimated to cost less than 5% of trust fund resources.

18. **Investment Income Earned.** The World Bank invests donor deposits pending their disbursement. Investment income earned on these funds is deposited into the ITF account to be used for the purposes of the ITF. The investment income earned on ITF deposits during the reporting period is almost US\$4.1 million. Investment income earned by the ITF is more than double the cost recovery charges.

19. Having processed nine projects in close team work with Iraqi counterparts over almost a year, Bank teams are unanimously impressed by the competence, dedication, and commitment of their Iraqi counterparts, including nearly unparalleled attendance and concentration during project missions and implementation workshops. At the same time, project implementation can be slowed by unfamiliarity with basic modern methods and technology, including simple preparation of Excel spreadsheets, caused by years of sanctions and isolation. Our Iraqi counterparts have noted that, due to security constraints in Iraq, they can accomplish more in one week in Amman than in several weeks in Baghdad. This underscores the extent to which the current conditions in Iraq, especially poor communication and difficulty of movement, hamper reconstruction work.