I. Project Context

Country Context

1. The Republic of Iraq – with an estimated population of about 30 million -- faces substantial development challenges. Chief among these is the need to build its infrastructure and supporting institutions after a history of authoritarian rule followed by war and occupation, a task made difficult by political instability and the excessive dependence on one commodity, crude oil, for its revenues.

2. Wars, sanctions and weak governance have contributed to a marked deterioration in Iraq’s standards of living in recent years. For example, the infant mortality rate in Iraq is close to the rates in the MENA region’s poorest countries, Djibouti and Yemen. Furthermore, school enrollment has declined over the past decades as a result of low quality of and low returns to education. Iraq’s poverty headcount index is relatively high at 22.9 percent based on 2007 household survey data. However, with a poverty gap of only 4.5 percent, Iraq’s poverty is shallow. Preliminary estimates from the 2012 household survey show that headcount poverty was reduced by about 4 percentage
points during 2007-2012, indicating that some benefits of growth have reached the poor.

3. Iraq has been locked in a wave of disputes between political, ethnic, and religious factions. Iraq’s security situation remains fragile and sectarian violence has markedly increased in 2013. Provincial elections for most of the governorates took place in April 2013, with national polls due in early 2014. Elections in KRG took place in September 2013.

4. Despite these obstacles, Iraq’s macroeconomic performance over the past few years has been sound, but downside risks to the 2013 outlook are materializing. Iraq enjoyed strong economic performance in 2012 because of its prospering oil sector. The country’s GDP grew at 8 percent due to increased oil production and high oil prices. The economy was expected to grow by 9 percent in 2013 driven primarily by rising oil production. However, whereas crude oil production of 3 million barrels per day (mbd) and exports of 2.3 mbd had been expected as averages for 2013, these will now at best be attained towards the end of the year. Disruptions have arisen from technical problems and a major maintenance shutdown with the southern export infrastructure, and terrorist attacks on the northern export pipeline to Turkey. For the time being, persistently higher oil prices are mitigating the effects of production shortfalls on trade and current account balances, but this is not sustainable in the medium to long term.

5. Although the 2012 budget out turn was broadly in line with International Monetary Fund (IMF) parameters, current spending sharply increased, partly due to spending on government wages, social safety net spending, and transfers to state-owned enterprises. Despite a 30 percent allocation from the overall budget, the under-execution of the investment budget remains an important constraint on critical infrastructure delivery. Significant structural weaknesses in budget practices (such as off-budget operations and direct financing from state-owned banks) persist. The projections of modest budget surplus in 2013 face downside risks due to disruptions in the oil sector, but as in the past, high oil prices and under spending of the capital budget will moderate the impact. Iraq is now entering a new country surveillance phase with the IMF following the expiration of the Stand-By Agreement (SBA) in February.

6. According to a recent Public Expenditure Review, 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 investor frustration. The Bank’s approach aims 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 and the Ministry of Transport, as well as relevant agencies/government bodies.

**Sectoral and institutional Context**

7. Iraq continues to suffer from weak and under-developed infrastructure sectors, and the roads sector is no exception. The lack of a sectoral strategy, chronic underfunding, weak institutions, and a complex conflict-affected environment compound the problem. Across the infrastructure spectrum – energy, water, transport, and municipal infrastructure – capital investments are needed to ensure a basic standard of infrastructure and effective institutions are needed to translate this investment into
a basic level of service delivery. Beyond investments, however, a fundamental sectoral transformation is required with a sequenced program which supports the development of a strategy and vision, while also building institutions and making investments. The particularly fragile context of Iraq suggests that such a program be delivered in a practical and incremental way as country circumstances permit and bringing in international best practice on service delivery systems in the context of conflict. Supporting the roads sector in Iraq is not only important for increasing social cohesion and national unity through connectivity but as a critical foundation for future regional integration and increased trade in the sub-region.

8. Organizational structure of the Transport sector. The Iraqi transport sector is managed by the two ministries: Ministry of Transport (MOT) is responsible for operational matters, namely ports, airports, rail and public transport; Ministry of Construction and Housing (MOCH) is responsible for infrastructure construction, maintenance and rehabilitation. The State Commission for Roads and Bridges (SCRB) under the MOCH is in charge of the construction, maintenance and the rehabilitation of the main road network in the central and southern governorates that comprises about 48,000 kilometers (km) of expressways, primary and secondary roads. In addition, it is mandated to design, prepare studies and supervise works, and collect fees/levies for road usage. The General Directorate for Roads and Bridges (GDRB) under MOCH in Kurdistan Regional Government (KRG) performs the same functions for approximately 32,000 km of roads in the northern governorates under the KRG. All road management duties remain the responsibility of these two organizations. Both are also entrusted with managerial tasks on tertiary roads.

9. Underfunding is a key issue in the roads sector. Unlike other sectors in Iraq which face chronic under-execution of capital budgets, in the roads sector, the execution rate is reaching 90% and a key issue facing the sector is underfunding. In 2013, for example, the funding needs have been estimated to be around US$1 billion, yet only US$400 million has been allocated by the Government due to the competing demand for funding by all other sectors. Of this amount, about 70% is allocated for salaries and overheads, leaving less than 30% for maintenance and rehabilitation of existing infrastructure assets and for new construction. Given the chronic underfunding, 60% of the 48,000 kilometers of expressways, primary and secondary roads in Iraq are in poor condition.

10. The road network is in poor condition, with a high rate of traffic fatality. Iraq used to have the most comprehensive transportation system in the region, but its transport infrastructure has suffered from almost a four-decade war, neglect and underinvestment. As a result, the road network, which is one of the country’s major assets, is now in poor condition. In addition, poor sector management and maintenance has resulted in an increase in the number and severity of traffic accidents; and today the sector lags well behind its international and regional comparators. A total of 5,708 traffic fatalities were reported in Iraq in 2010 while other sources such as the WHO estimate fatalities at double that amount (Global Status Report on Safety, 2013). The estimated fatality rate in Iraq per 10,000 vehicles is 29.4 and ranks 47th in the world, whereas in terms of fatality rate per 100,000 population it is 31.5 and ranks 8th in the world. As motorization increases as a result of the country’s development, the road safety situation is expected to worsen even further.

11. Poor condition of road assets limits access to health services, education and job opportunities for poor households. The poor condition of the road network has significantly affected mobility, particularly for the poor, and especially in rural areas. Most of the population is
inadequately serviced by unpaved roads with the impact falling disproportionately on certain income groups. For example, poor workers in non-wage agriculture are more likely than others to live on unpaved roads, or to live more than five kilometers from a market. Improving road asset conditions will considerably increase their access to health services, education and job opportunities.

12. Weak contracting and consulting industries in the road sector impact the quality of road construction and project implementation. The road sector capacity assessment has brought to light weaknesses in the contracting and consulting industries. The absence of international companies, due to security problems, has translated into the construction of poor quality roads and contributed to delays in the execution of important projects. Local contractors are currently not geared to execute these works effectively, casting doubts on their ability to successfully implement the country’s ambitious plans. It is essential that the country builds a healthy and robust contracting industry, which will not only carry out works within the country but in neighboring countries as well. Currently, MOCH oversees eight State Owned Enterprises (SOEs) which specialize in the construction of infrastructure and public buildings. Most of these SOEs are self-financing and generate revenues by implementing government projects. Today, they are involved in many of the Government’s reconstruction programs and are not allowed to participate in Bank financed projects because of their governance structure. Considering the expertise that these companies could make available to the country and the need for their services, the possible privatization of these SOEs would result in a greater private sector participation in the reconstruction of Iraq’s infrastructure. It is worth mentioning that the consulting sector has also suffered from the absence of highly qualified experts, advanced tools, equipment and machinery, as well as systems and staff with knowledge and experience of advance technology and know-how. Limited capacity in design and supervision to perform high standard services is a key factor that contributes to limiting the performance of the local consulting industry.

13. Trade, and hence economic growth, has been impeded by the bad condition of roads. Iraq has three main transport corridors: 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. Other corridors link Iraq with Iran in the East and Saudi Arabia in the South-West. Oil exports pass through oil-only ports such as Basra. Iraq’s transport corridors are inefficient because of institutional weaknesses and infrastructure deficiencies. The traffic along the South-Center Iraq and East-West Corridors is being served by Expressway 1 and carry between 15,000 and 30,000 Annual Average Daily Traffic, 40% of which is trade traffic. The traffic along the North-South Corridor is being served by the road between Ibrahim El-Khalil and Duhok. 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. Addressing the institutional weaknesses and infrastructure deficiencies along Iraq’s main transport corridors should result in better service quality along these corridors, which also carry most of the goods for trade.

14. The dire state of the road network is felt at the macro, firm, and household levels. At the macro level, economic growth is constrained due to the basic low level of annual capital investment in infrastructure and roads in particular. In addition, the state of the roads network is adding to the cost of trade and commerce and impeding the international and inter-regional mobility of goods and services. Weak economic integration is also contributing to low economic productivity. At the firm level, access to labor and markets is hindered; and at the household level, there are fewer
employment and economic opportunities, poor access to health and education services and importantly, high mortality from accidents. Furthermore, in a country divided by sectarian and other divisions, the ability to leverage a well-functioning road for political and social integration between regions and communities is weakened.

15. The Bank’s support to the sector in Iraq seeks to address all of these issues through a strategic and incremental program of interventions based on country circumstances, and anchored in international best practice. The Bank, through the on-going Emergency Road Rehabilitation Project (ERRP), is already supporting Iraq, and the Transport Corridors Project (TCP) will provide continuity of support with an explicit focus on capacity building of the road agencies and securing immediate gains from investment in road infrastructure. However, the TCP is one part of a longer-term engagement which supports immediate, mid-term and long-term actions in a practical and incremental manner appropriate to the country circumstances. Following this principle, the Bank support comprises investments in infrastructure to reap immediate gains in services for citizens, and improve economic mobility, as well as technical assistance that will pave the way toward building more efficient institutions in the sector. Investments in the sector will also provide the critical foundation for regional integration and increased trade in the sub-region in the future. Over the next few years, the Bank expects to be using a combination of investments in public agencies (the current strategy), to using risk management instruments to attract Public Private Partnerships (PPP) (in the medium term), to Reimbursable Advisory Services (RAS) and more investment lending as appropriate. The Bank will work in partnership with other IFIs such as the Islamic Development Bank (IsDB) as well as the Government of Iraq.

16. Overall, the Bank’s program comprises the following:

a. Supporting the evolution of a transport vision and strategy by financing the preparation of a Transport Sector Master Plan (TSMP), through the on-going Bank financed ERRP, planned to be completed by June 2014, the objective of which is to develop a structured master plan and an integrated multi-modal transport system for the next 20 years. A proposal for a 2014-2033 institutional vision for the road sector is currently under preparation, with an anticipated completion date of December 2013.

b. Supporting the building of institutional capacity of the transport agencies, starting with the road agencies with an immediate focus to adopt international techniques to plan and manage the road network assets as well as applying international standards on procurement and environmental and social safeguards. It should be noted that this is the first time in Iraq that a government agency will use World Bank procurement guidelines and safeguard policies for all its projects funded through their own budget. A mid-term plan (5+ years) to improve the institutional capacity of the road agencies as well as state owned construction companies will also be formulated, focusing on corporatizing the road agencies and possibly privatizing the construction companies. A long-term plan (10+years) foresees the spinning off of the expressways to an independent agency, which would be responsible for the construction and operation and maintenance of the expressways, and would be financed through a combination of government budget, tolls, and shadow tolls. The operations, maintenance and expansion of the primary and secondary roads would remain with the corporatized road agencies, financed through government budget. It is envisaged that the MOCH would be entrusted with sector regulation.

c. Supporting the financing of investments in road infrastructure. Already, ERRP is financing
the rehabilitation of some of the highly damaged segments of Iraq’s highway network and restoring several critical river crossings. The TCP will further finance the safeguarding and developing of the road network with a focus on Iraq’s main international and regional transport corridor arteries, Expressway No.1 and the North-South transport corridor, that connect its population living in about 10 governorates with each other and between the governorates and the major Iraq international gateways.

d. The engagement of the Bank, together with its international financing partners, on a program that involves transport corridors, provides a platform to further the dialogue on regional integration. The two major investments of TCP are part of two international corridors, connecting Iraq to its western, northern and southern neighbors and beyond. Furthermore, the TCP activities will be complemented by other Bank on-going support towards customs reform in Iraq, which should further promote regional integration.

e. A broader benefit of the TCP will be to improve mobility between Iraq's areas of high or rising poverty with its areas of low or falling poverty. Overall, poverty in Iraq is highest in rural areas. The divergence between urban hubs and their hinterland is starkest for the region containing the southern portion of the project. According to preliminary analysis from the 2012 Household Income and Expenditure survey, headcount poverty fell by more than 10 percentage points in Basra, while rising in the four provinces around it. Improved transport links will facilitate movement of people, goods, and services between these locations, providing an equalizing force in Iraq's development outcomes. Similarly, the Baghdad-West to Hitt section improves accessibility of the sparse regions of Anbar province. Finally, the northern project component, in addition to enabling land trade with Turkey, promotes economic activity very close to Nineveh province, which is another high and rising poverty region. Thus, the groundwork for prosperity to spread from its current spatial concentration is being laid.

17. Project Estimated Cost. TCP forms part of an Iraq Transport Corridors Program, the latter costing US$1 billion, to be implemented over a period of four years. The program covers about 1,000 km of roads, and involves both new construction and rehabilitation. TCP will finance 25 km of new construction and 380 km of road rehabilitation, provide technical assistance to build and strengthen institutional capacity, while at the same time providing a platform to further the dialogue on regional integration. TCP will be financed through an International Bank for Reconstruction and Development (IBRD) Loan of US$400 million and a KRG contribution of US$13 million, and the Islamic Development Bank (IsDB) will be providing a parallel loan of US$218 million as a first stage for the rehabilitation of 257 km of roads with additional funding expected in a second stage. The Central Government of Iraq is already investing US$235 million towards the construction and rehabilitation of part of the Program. The Project Description and Table 1 below provide details on the precise portions financed by TCP as well as details on the overall project cost and financing plan in the currency of commitment.

II. Proposed Development Objectives
The Project Development Objective is to improve road transport connectivity and safety on selected road sections along Expressway 1 and the North-South transport corridor in Iraq.

III. Project Description
Component Name
Transport Corridors Improvements.
Comments (optional)
(a) Rehabilitation of Expressway No. 1.
(b) Upgrading of the existing corridor between Ibrahim Khalil and Duhok
(c) Construction of HDPE ducts for fiber optics along 380km of Expressway No. 1

Component Name
Institutional Strengthening and Capacity Building in the Road Sector

Comments (optional)
(a) MOCH/SCRB and KRG/GDRB organizational improvement.
(b) MOCH-Baghdad construction companies organizational improvement

Component Name
Project Implementation and Monitoring

Comments (optional)
(a) Support to project management and implementation entities

IV. Financing (in USD Million)

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For Loans/Credits/Others

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V. Implementation

18. The TCP implementation would follow the implementation of the on-going ERRP with minor enhancement. Project activities in the central and southern Governorates of Iraq would be implemented by the SCRB; and Projects activities in the KRG will be implemented by the GDRB.

19. Two PMTs are envisaged to oversee the project implementation building on the ones already established under ERRP. PMT staff from various departments within the implementing SCRB and GDRB would continue to be seconded on a full-time and/or on a part-time basis to work in the PMT. Others could also be invited to join as needed. The team would also be supported by national and international consultants and advisers on an as-needed basis. The PMT model would provide the opportunity for on-the-job training and capacity building to staff will be reintegrated into their respective agency structures at project completion. However, in addition to the PMT staff, formal and on-the-job training will be provided to other members of the SCRB and GDRB who are involved in the carrying out of relevant tasks comprising the TCP. The PMTs staff would include project managers, senior technical staff (highway engineers), procurement specialists, financial management specialists, accountants, environmental and social safeguards specialists, and administrative support staff.

20. A PCU will be established under MOCH to coordinate with other Ministries and IFIs, consolidate the reporting from the two PMTs and report to the Minister of Construction and Housing on a monthly basis and to the IFIs on a quarterly basis.
VI. Safeguard Policies (including public consultation)

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Comments (optional)

VII. Contact point

World Bank
Contact: Ibrahim Khalil Dajani
Title: Senior Operations Officer
Tel: 5366+241 / 9
Email: idajani@worldbank.org

Borrower/Client/Recipient
Name: Republic of Iraq
Contact:
Title:
Tel:
Email:

Implementing Agencies
Name: IRAQ: Ministry of Construction and Housing
Contact: Amer Ahmed Saed
Title: PMT Manager
Tel: 9647704446300
Email: amer.moch2011@gmail.com

Name: KRG - Ministry of Construction and Housing
Contact: Omer B. Mustafa
Title: Director General - GDRB
Tel: 9647504452599
Email: dgrbomer@yahoo.com
VIII. For more information contact:

The InfoShop
The World Bank
1818 H Street, NW
Washington, D.C. 20433
Telephone: (202) 458-4500
Fax: (202) 522-1500
Web: http://www.worldbank.org/infoshop