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R2018-0017/1

January 26, 2018

**Closing Date: Tuesday, February 6, 2018
at 6 p.m.**

FROM: Vice President and Corporate Secretary

Iraq - Social Fund for Development Project

Project Appraisal Document

Attached is the Project Appraisal Document regarding a proposed loan to Iraq for the Social Fund for Development Project (R2018-0017), which is being processed on an absence-of-objection basis.

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Report No: PAD2444

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

PROJECT APPRAISAL DOCUMENT

ON A

PROPOSED LOAN

IN THE AMOUNT OF US\$300 MILLION

TO THE

REPUBLIC OF IRAQ

FOR THE

IRAQ SOCIAL FUND FOR DEVELOPMENT PROJECT

January 23, 2018

Social Protection & Jobs Global Practice
Middle East And North Africa Region

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CURRENCY EQUIVALENTS

(Exchange Rate Effective November 30, 2017)

Currency Unit = Iraqi Dinar

US\$1 = IQD1,190

FISCAL YEAR

January 1 - December 31

Regional Vice President: Hafez Ghanem

Country Director: Saroj Jah

Senior Global Practice Director: Michal Rutkowski

Practice Manager: Hana Brixi

Task Team Leader(s): Ghassan N. Alkhoja, Surat Nsour, Ramzi Neman

ABBREVIATIONS AND ACRONYMS

ARAP	Abbreviated Resettlement Action Plan
AXO	Abandoned Explosive Ordnance
BDS	Business Development Services
CAP	Community Action Plan
CDD	Community Driven Development
CDG	Community Development Group
CoMSec	Secretariat General of the Council of Ministers
COSIT	Central Organization for Statistics and Information Technology
CSO	Civil Society Organization
DA	Designated Account
E&S	Environmental and Social
EOI	Expressions of Interest
ESMF	Environmental and Social Management Framework
ESMP	Environmental and Social Management Plan
ESSRP	Emergency Social Stabilization and Resilience Project
EWR	Explosive War Remnants
FCV	Fragility, Conflict and Violence
FM	Financial Management
GOI	Government of Iraq
GRM	Grievance Redress Mechanism
GRS	Grievance Redress Service
HEIS	Hands-on Expanded Implementation Support
IBRD	International Bank for Reconstruction and Development
IDP	Internally Displaced Population
IFC	International Finance Corporation
ISIS	Islamic State of Iraq and the Levant
IT	Information Technology
IQD	Iraqi Dinar
KRG	Kurdistan Regional Government
KRSO	Kurdistan Region Statistics Organization
MFI	Micro-Finance Institution
MOP	Ministry of Planning
MSE	Micro and Small Enterprise
NCB	National Competitive Bidding
NGO	Non-Governmental Organization
PAPs	Project Affected People
PDO	Project Development Objective
PMO	Project Management Office
PMT	Project Management Team
POM	Project Operations Manual
PPSD	Project Procurement Strategy for Development
PRS	Poverty Reduction Strategy
RAP	Resettlement Action Plan

RPF	Resettlement Policy Framework
SAP	Safeguards Action Plan
SFD	Social Fund for Development
SOE	Statement of Expenditure
TOR	Terms of Reference
TPM	Third Party Monitoring
TPMA	Third Party Monitoring Agency
US\$	United States Dollar
UXO	Unexploded Ordnance
WA	Withdrawal Application
WBG	World Bank Group



BASIC INFORMATION

Is this a regionally tagged project? No	Country(ies)	Financing Instrument Investment Project Financing
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Situations of Urgent Need of Assistance or Capacity Constraints

Financial Intermediaries

Series of Projects

Approval Date 06-Feb-2018	Closing Date 31-Jan-2023	Environmental Assessment Category B - Partial Assessment
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Bank/IFC Collaboration No	
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Proposed Development Objective(s)

The project development objective is to: (i) improve access to basic services and; (ii) to increase short-term employment opportunities, in targeted communities.

Components

Component Name	Cost (US\$, millions)
Financing Community Sub-projects	262.00
Supporting Microfinance Systems Strengthening	3.00
Capacity Building and Institutional Development	30.00

Organizations

Borrower : Republic of Iraq



Implementing Agency : Ministry of Planning

Safeguards Deferral

Will the review of safeguards be deferred?

Yes No

PROJECT FINANCING DATA (US\$, Millions)

<input type="checkbox"/> Counterpart Funding	<input checked="" type="checkbox"/> IBRD	<input type="checkbox"/> IDA Credit	<input type="checkbox"/> IDA Grant	<input type="checkbox"/> Trust Funds	<input type="checkbox"/> Parallel Financing
Total Project Cost: 300.00	Total Financing: 300.00		Financing Gap: 0.00		
	Of Which Bank Financing (IBRD/IDA): 300.00				

Financing (in US\$, millions)

Financing Source	Amount
IBRD-88270	300.00
Total	300.00

Expected Disbursements (in US\$, millions)

Fiscal Year	2018	2019	2020	2021	2022	2023
Annual	5.86	22.12	32.70	63.03	97.65	78.65
Cumulative	5.86	27.98	60.68	123.71	221.35	300.00



INSTITUTIONAL DATA

Practice Area (Lead)

Social Protection & Labor

Contributing Practice Areas

Climate Change and Disaster Screening

This operation has been screened for short and long-term climate change and disaster risks

Gender Tag

Does the project plan to undertake any of the following?

a. Analysis to identify Project-relevant gaps between males and females, especially in light of country gaps identified through SCD and CPF

Yes

b. Specific action(s) to address the gender gaps identified in (a) and/or to improve women or men's empowerment

Yes

c. Include Indicators in results framework to monitor outcomes from actions identified in (b)

Yes

SYSTEMATIC OPERATIONS RISK-RATING TOOL (SORT)

Risk Category	Rating
1. Political and Governance	High
2. Macroeconomic	● Substantial
3. Sector Strategies and Policies	● Moderate
4. Technical Design of Project or Program	● Substantial
5. Institutional Capacity for Implementation and Sustainability	● Substantial
6. Fiduciary	High
7. Environment and Social	● Substantial
8. Stakeholders	● Low



9. Other

10. Overall

High

COMPLIANCE

Policy

Does the project depart from the CPF in content or in other significant respects?

Yes No

Does the project require any waivers of Bank policies?

Yes No

Safeguard Policies Triggered by the Project

Yes

No

Environmental Assessment OP/BP 4.01

✓

Natural Habitats OP/BP 4.04

✓

Forests OP/BP 4.36

✓

Pest Management OP 4.09

✓

Physical Cultural Resources OP/BP 4.11

✓

Indigenous Peoples OP/BP 4.10

✓

Involuntary Resettlement OP/BP 4.12

✓

Safety of Dams OP/BP 4.37

✓

Projects on International Waterways OP/BP 7.50

✓

Projects in Disputed Areas OP/BP 7.60

✓

Legal Covenants

Sections and Description

Schedule 2, Section I, Part A (5): The Borrower, through its Ministry of Planning (MOP), shall: establish, by no later than 90 days of the Effective Date, and thereafter maintain within each Participating Governorate throughout the period of implementation of the Project, a Project Management Team (“PMT”), under the direction of qualified management provided with sufficient resources, and staffed with competent technical and other personnel in adequate numbers and with composition, terms of reference and resources satisfactory to the Bank, as set forth in the POM. Each PMT shall be responsible for, inter alia: identification of Project activities and Subprojects at the local level; day to day implementation, supervision, management, reporting, monitoring and evaluation of said



Project activities and results (including fiduciary and safeguards management).

Sections and Description

Schedule 2, Section I, Part A (6): The Borrower, through its Ministry of Planning (MOP) shall: by no later than two years of the Effective Date, establish and maintain a Social Fund for Development (“SFD”) as a separate legal entity, in a form and with functions and management satisfactory to the Bank, and having the capacity to perform functions under the Project.

Sections and Description

Schedule 2, Section I, Part E. 7 (a) (b): The Borrower shall: (a) by no later than three (3) months after the Effective Date, establish, and thereafter maintain, throughout the period of implementation of the Project, a Grievance Redress Mechanism, satisfactory to the Bank, for the management of complaints related to the Project; and (b) ensure that adequate measures, satisfactory to the Bank, are put in place to ensure that all aspects of Project implementation are carried out in an inclusive, non-discriminatory and participatory manner.

Conditions

PROJECT TEAM

Bank Staff

Name	Role	Specialization	Unit
Ghassan N. Alkhoja	Team Leader(ADM Responsible)		GSP05
Ramzi Afif Neman	Team Leader		GSU05
Surat F. Nsour	Team Leader		GSP05
Nazaneen Ismail Ali	Procurement Specialist(ADM Responsible)		GGOPM
Jad Raji Mazahreh	Financial Management Specialist		GGOMN
Afrah Alawi Al-Ahmadi	Team Member		GSP05
Amer Abdulwahab Ali Al-Ghorbany	Environmental Safeguards Specialist		GEN05
Andrianirina Michel Eric Ranjeva	Team Member	Disbursements	WFACS
Christine Makori	Counsel		LEGAM



Cristobal Ridao-Cano	Team Member		GSP05
Dhiraj Sharma	Team Member		GPV05
Ehab Mohamed Mohamed Shaalan	Environmental Safeguards Specialist		GEN05
Haleem Hassan Kashkol Al-Kazali	Team Member		GSP05
Haneen Ismail Sayed	Team Member		MNC02
Ibrahim Ismail Mohammed Basalamah	Social Safeguards Specialist		GSU05
Kanthan Shankar	Team Member		GTFMR
Leena Mohammed Khider Al Abbasy	Team Member		GGOPM
Maria Eugenia Genoni	Team Member		GPV05
Marie Agnes Ndour Huchard	Team Member		GSP05
Matthew Grant Wai-Poi	Team Member		GPV05
Maya El-Azzazi	Team Member		GSP05
Michael J. Goldberg	Team Member		GFCSO
Mustafa Kadhim Mohammed Al-Misstaf	Team Member		GSP05
Natalia Robalino	Counsel		LEGIA
Peter J. Mousley	Team Member		MNC02
Piers E. Merrick	Team Member		MNADE
Saba Nabeel M Gheshan	Counsel		LEGAM
Sara Raja Hariz	Team Member		GSP05
Syed Mehdi Hassan	Team Member		GFCME
Extended Team			
Name	Title	Organization	Location



IRAQ
IRAQ SOCIAL FUND FOR DEVELOPMENT

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I. STRATEGIC CONTEXT

A. Country Context

1. Iraq is a country of rich natural resources and human potential but has suffered from decades of conflict and economic volatility. Over the past three years alone, the war against ISIS has led to the death of thousands and the internal displacement of over four million people. Recent estimates suggest that more than 11 million Iraqis need some form of humanitarian assistance¹. Agricultural production has declined by 40 per cent, undermining the country's food sufficiency, and hundreds of thousands of people have been forced to migrate to urban areas for jobs and support.

2. Poverty, which had seen a decline between 2007 and 2012, has risen sharply, with most recent estimates from 2014 at 22.5 percent. The historic decrease in global oil prices since 2014 has severely impacted Iraq's economy and coupled with security and humanitarian outlays, has significantly deteriorated Iraq's fiscal and external balances. It is estimated that there are 250,000 Syrian refugees in Iraq. The declining oil revenues and the war against ISIS pushed an additional three million into poverty. Over 2.4 million people continue to require food security assistance and approximately 8.5 percent of children in rural areas are reported to be malnourished. While oil prices have recovered to some extent from the historically low levels of 2016, and the progress in the fight against ISIS, Iraq's multifaceted fragility continues to leave it vulnerable to shocks and continued violence and instability.

3. Unemployment is high and labor force participation remains exceedingly low, especially for women and youth. Only 15 percent of Iraqi women of working age participate in the labor force - well below the already low rates of female labor force participation in the Middle East and North Africa (MENA) Region of 22 percent - while about 72 percent of adult men are employed compared to a regional average of 75 percent. Among youth ages 15–29, 72 percent of women and 18 percent of men are neither in school nor employed. The agriculture sector is the largest source of rural employment and livelihood in Iraq but is drastically underexploited. The public sector accounts for nearly all the formal jobs with the private sector not generating significant employment opportunities.

4. With the recent liberation of Mosul from ISIS, Iraq faces a historic opportunity for national reconciliation through the effective delivery of critical social services, economic growth and recovery programs. The reinstatement of trust between the state and its citizens is highly dependent on the Government of Iraq (GOI) demonstrating its capacity to deliver security, jobs and economic growth to all Iraqis, with a focus on the poor, the vulnerable and the millions of internally displaced people (IDP) impacted by the war against ISIS. Time will be of the essence for the government to address the needs of the thousands of people living in the areas recently liberated from conflict. Providing this population with livelihood opportunities and rapid employment will be critical in addition to recovery and rebuilding social cohesion.

5. **Situations of Urgent Need of Assistance or Capacity Constraints.** The proposed project is being processed under Paragraph 12, Section III, of the Bank Policy: Investment Project Financing (Projects in

¹ United Nations Office for the Coordination of Humanitarian Affairs (OCHA).



Situations of Urgent Need of Assistance or Capacity Constraints). Triggering Paragraph 12 is justified given the security challenges that Iraq has been facing over the past years and which have led to a decline in human development and decreases in indicators for public services, health standards, life expectancy and literacy, as well as an increase in poverty indicators. Three years of continuous conflict and economic stagnation have impacted nearly every aspect of Iraqi society. In 2017, the international community estimated that there are approximately 4.1 million internally displaced people. Agricultural production has declined by 40 percent, undermining the country's food sufficiency, and hundreds of thousands of people have been forced to migrate to urban areas for jobs and support. The number of health consultations performed in health clinics has increased, and around 23 hospitals and more than 230 primary health facilities have been damaged or destroyed. Schools in the governorates impacted by ISIS are forced to convene three sequential sessions to cope with the increased number of students. Nearly 3.7 million school-aged Iraqi children attend school irregularly, or not at all, and more than 765,000 displaced children have missed an entire year of education.

B. Sectoral and Institutional Context

6. The GOI has embarked on a comprehensive reform of social protection programs that introduced significant improvements to the existing system by promoting equity, resilience and opportunities for the Iraqi people. Through the World Bank Iraq Emergency Social Protection Support Program – Phase I (P099295), the GOI has developed and progressed in the implementation of the Social Protection Strategic Roadmap 2015-2019, with the vision of having “a comprehensive social protection system for Iraq covering social safety nets, social insurance, and labor market policies”. Two major achievements were the shift from categorical to poverty targeting in social assistance that improved outreach to the poor; and the issuance of the new integrated Social Insurance Law that is likely to have a positive impact on labor mobility and fiscal rationalization of the pensions fund.

7. Complementing this work, the GOI requested the World Bank's support in the design and financing of a Social Fund for Development (SFD) project to support locally driven initiatives to improve the living conditions and opportunities of the poor and most vulnerable in Iraq. Since early 2017, the World Bank has worked closely with senior decision makers in Iraq and provided broad guidance on the conceptual framework based on international good practices relevant to the Iraq context. The SFD will be a platform for mobilizing resources for communities to undertake locally driven initiatives.

8. The GOI has demonstrated its commitment and support to the design of this operation and established a high-level national team to guide and coordinate the development and institutionalization of the SFD, as well as five technical teams to work on the different aspects of the fund; namely: (i) Governance, Institutional, and Legislation; (ii) Financing and International Cooperation; (iii) Civil Society Organizations (CSOs) and Community Engagement; (iv) Operations and Implementation; and (v) Monitoring and Evaluation. These teams developed the design of the SFD, and the draft SFD law. The SFD would thus be established by law, as an autonomous institution that does not operate under civil service regulations. It is expected that the law will take some time to be issued and the SFD to be established and fully operational. In the meantime, the Government, through the Ministry of Planning (MOP), at the central and local levels, will initiate SFD activities in three governorates in the first year, then expand to another four in the second year, and ultimately scale-up to the rest of the country starting in year three of project implementation.



9. Interventions under the SFD aim to increase trust and improve credibility all over Iraq by improving sustainable basic services at the level of the disadvantaged and poor communities. The SFD will be a community-driven development initiative launched through engagement in a consultative process among community members as well with local government. The SFD will establish a wider scale platform that will offer a more community-led development program in the long term, which would support mitigating against future shocks. The planned Emergency Social Stabilization and Resilience Project (ESSRP) (P165114), which is under preparation, will provide immediate support to liberated areas through cash for work, livelihood opportunities, and social service, while building, in the medium-term, resilient social safety net programs. The two operations will complement each other, bringing together an immediate response (in the liberated areas through ESSRP), with medium-term resilience support (social safety net), and long-term development through SFD's community-driven development approach.

10. The project, during the SFD establishment phase, which is expected to last up to 3 years, will be managed by the Ministry of Planning (MOP), and specifically by the Directorate General of Poverty Reduction Strategy. This Directorate is charged with implementation of the First Poverty Reduction Strategy, and has recently completed the development of the Second Poverty Reduction Strategy (2018-2022). The MOP will be supported by governorate-level offices that will assist in the implementation during the establishment phase.

C. Higher Level Objectives to which the Project Contributes

11. The overarching goal of the SFD is to deepen stabilization efforts in Iraq, restore citizen-state trust, and institute measures to strengthen social cohesion and local development priorities. It will also contribute to bottom-up building of capacity for eventual decentralization of service delivery. Its objective is to contribute to sustainable development of local communities and support and empower them to improve their livelihoods and access to basic services. The SFD is well aligned with, and complements the Second Poverty Reduction Strategy, and the Iraq Social Protection Strategic Roadmap 2015-2019. The project is also aligned with the objectives of the MENA Regional Strategy in that it is mitigating the urgent consequences of conflict and violence, by aligning with the pillar on renewing the social contract (generating short-term employment; improving access to essential services; enhancing mechanisms for accountability). The project also contributes to the pillars on resilience to IDP/Refugee shocks and to Recovery and Reconstruction. The establishment of the SFD provides a mechanism to provide targeted support to poor and vulnerable households in a transparent manner, strengthened by a clear governance structure and accountability mechanisms which will further support the renewal of the social contract and citizens' trust in the Government. When expanded in scale and scope in future years, SFD has the potential to serve as a platform for the effective and efficient national delivery of social services at the local level. Furthermore, the project also responds to the World Bank Group's strategic goals of ending extreme poverty and boosting shared prosperity in a sustainable manner through the provision of basic services to targeted communities.



II. PROJECT DEVELOPMENT OBJECTIVES

A. PDO

12. The project development objective is to: (i) improve access to basic services; and (ii) increase short term employment opportunities, in targeted communities.

13. This will be achieved through an adaptive approach of: (i) financing for community level subprojects in education, health, water, small-scale economic infrastructure, and access to markets; (ii) enhancing capacity of microfinance institutions (MFIs) to support micro and small enterprise (MSE) development; and (iii) provision of technical assistance and capacity building.

B. Project Beneficiaries

14. The project will benefit targeted communities, local government, non-governmental organizations (NGOs), MFIs, MOP, and the eventual SFD institution as follows:

- a) *Targeted communities.* These will benefit from the SFD sub-projects as end users of projects that respond to the needs that communities identify. Community members may find temporary job opportunities in the execution of sub-projects. The SFD will also empower specific groups such as women and youth through increased participation and engagement in the planning process, implementation and follow-up.
- b) *Local Government (at the governorate level).* SFD will build the capacity of local government to identify local challenges, needs of the local population, and formulate programs and projects to address these challenges. Local governments will be represented in the SFD Local Technical Team that will be tasked with ensuring consistency of action plans developed by the community, with local development plans and ensuring sustainability of operations and maintenance.
- c) *NGOs.* NGOs will play a key role in mobilizing communities, conducting needs assessments, facilitating identification of subprojects and priorities, and supporting implementation at the local level (augmenting the role of local government). The project will support capacity building to local NGOs to ensure that they adequately assume this role.

C. PDO-Level Results Indicators

15. *The PDO level results indicators are:*
- Households benefitting from improved access to basic services; of which female headed households;
 - Beneficiaries of short term employment, of which women.



III. PROJECT DESCRIPTION

A. Project Components

16. The SFD will scale-up across all of Iraq over a period of five years starting in February 2018, using a phased approach. During the establishment phase, MOP will begin with three governorates, and expand to seven by year two, and subsequently to all 18 governorates by year five. The program will support community-level social and economic infrastructure. Significant capacity building for the establishment and management of the SFD would also be embedded in the project, in addition to capacity building for local government, communities, micro-finance institutions, MOP, and related NGOs. The project will include three components (with a US\$4.25 million in contingency costs) as follows:

Component 1 – Financing Community Sub-projects (US\$262 million)

17. The objective of this component is to improve access of communities to basic services. It will finance subprojects at the local level, that consist of basic essential services that represent priority investments identified by the community. These will be based on a menu that includes investments that can be realized using labor-intensive techniques and maximizing the use of local materials. The work will start with Muthanna, Salahdiheen, and Dohuk during the first year, and expand to Ninawa, Baghdad, Thiqr, and Qadisiya, during the second year, and subsequently to all 18 governorates by year five. The component will finance community level subprojects in education, health, water, small-scale economic infrastructure, and access to markets.

18. Targeting of communities within selected *Nahiyas* (local governments) of those governorates will consider the degree of need and the number of potential beneficiaries. Communities will be chosen according to total population size and the level of services accessed by community members. The objective of the targeting scheme is for the SFD to reach out to the most deprived communities that hold a substantial number of people for the program to reap economies of scale. The candidate indicators for the level of service provision will include factors such as electrification rate, percent of households served by safe drinking water, school enrolment rate of school age children, percentage of households with access to health services, connection to paved roads and irrigation networks, and availability of job opportunities in the area.

19. There are several criteria that determine sub-projects eligibility: subprojects must serve the targeted population, and must illustrate a firm commitment to the active participation and contribution of the beneficiaries equally, in implementation and maintenance/sustainability; and sub-projects must be technically feasible, financially viable and socially justified. The work will begin in specific sectors, such as education, health, agriculture and irrigation, and access to markets.

Component 2 – Supporting Microfinance Systems Strengthening (US\$3 million)

20. The objective of this component is to support the establishment of the overall MSE program of SFD through technical assistance and capacity building activities. Support will be provided to the Government of Iraq on: (i) enhancing capacity to manage MFIs that will be engaged under the SFD in the



future; (ii) reviewing the regulatory environment to allow MFIs to function without market distortions; and (iii) developing a framework for structured financing that would allow the flow of funds from SFD to MFIs in a sustainable manner, while meeting SFD objectives. No capitalization of microfinance institutions will take place under the component, only technical assistance and capacity building. The component, once implemented, would allow for capitalization of the MFI sector based on good practices that would ensure: (i) adequate outreach; (ii) sustainability; and (iii) impact, and capitalization can be done through government funds and/or donor financing. These activities may be incorporated into the project after a possible restructuring 12-24 months after effectiveness.

21. This component - and the decision to support the growth of the MFI market via the SFD – is based on considerations of priority and feasibility. Given the current state of development of the financial sector, actions needed to revive economic activity at the micro and small enterprise level, are not easily taken up by the Central Bank, commercial banks or other non-banking financial institutions that are the more likely drivers of MFI development.

Component 3 – Capacity Building and Institutional Development (US\$30 million)

22. This component will provide overall implementation and project management support for the duration of the project, to the establishment and operation of the SFD. This will include: (i) supporting MOP in managing the SFD functions during the establishment phase and project management activities; (ii) providing institutional development for the eventual SFD autonomous institution; (ii) building the capacity of local government, community groups, and NGOs; and (iv) contracting NGOs to undertake social and economic assessments for local communities.

23. Gender will play a key cross-cutting role to be supported across all components. Gender interventions are expected in the following areas: (i) voice and agency, through inclusion of women at community development groups (CDGs) and at the Board of Trustees of SFD; (ii) undertaking gender-sensitive social and economic assessments; (iii) holding targeted consultations, trainings and other community gatherings for women; (iv) developing community-level gender action plans; (v) increasing access for girls education under the education subprojects; (vi) improving access for maternal health care for health subprojects; and (vii) inclusion of gender-specific indicators and disaggregated data collection in the Results Framework for monitoring and follow-up.

B. Project Cost and Financing

Project Components	Project cost	IBRD or IDA Financing	Trust Funds	Counterpart Funding
Financing community sub-projects	262.00 million USD	IBRD Loan		
Supporting Small and Micro Enterprises Strengthening	3.00 million USD	IBRD Loan		
Capacity Building and Institutional Development	30.00 million USD	IBRD Loan		



Unallocated	4.25 million USD	IBRD Loan
<hr/>		
Total Costs	299.25 million USD	
<hr/>		
Total Project Costs	300 million USD	
Front End Fees	0.75 million USD	
Total Financing Required	300 million USD	

C. Lessons Learned and Reflected in the Project Design

24. The project design takes into account lessons learned from international experience and previous/ongoing social protection programs in Iraq. These include the following:

- a) The SFD status as an autonomous institution managed by a Board headed by the Prime Minister and with wide stakeholder representation including the private sector, civil society, and academia will ensure strong government commitment and ownership, while keeping it immune from political interference and falling under the public sector’s typical bureaucracy (as evidenced from Indonesia, Philippines, Afghanistan).
- b) Implementation should be flexible and adaptable to the dynamic circumstances of Iraq, particularly given the conflict and fragility context to accommodate possible unforeseen circumstances.
- c) Use of existing poverty maps and national statistical data to improve geographical targeting toward poor areas.
- d) Investing in capacity building and training for project staff and community groups is crucial for long-term sustainability, as well as potentially contributing to enhanced social capital formation and improved local governance, and to prevent elite capture of projects.
- e) Importance of using mixed targeting mechanisms to reach out to the poor and vulnerable on the one hand and to address issues of national priority on the other, including IDP.
- f) Alignment with national strategies (i.e., the Iraq PRS), and complementarity with other initiatives, as the SFD is not a substitute for effective sectoral policies and programs.

IV. IMPLEMENTATION

A. Institutional and Implementation Arrangements

25. During the establishment phase of the project (envisaged as the first two years), MOP with its central and governorate-level offices will manage SFD operations. The objective is that once the draft SFD law is issued and the institution is fully operational, all functions would be transferred from MOP to SFD. A transition plan will be developed during the project’s first six months and agreed upon by the Board of Trustees on hand-over aspects from MOP to the SFD. Implementation will be reviewed on a regular basis and adjusted based on adaptive principles, to ensure responsiveness to changing requirements in a shock-susceptible environment. While there is a risk that the draft SFD law may not be enacted in a timely manner, MOP will be fully equipped to implement SFD operations until the law is enacted and the new



SFD organization is established.

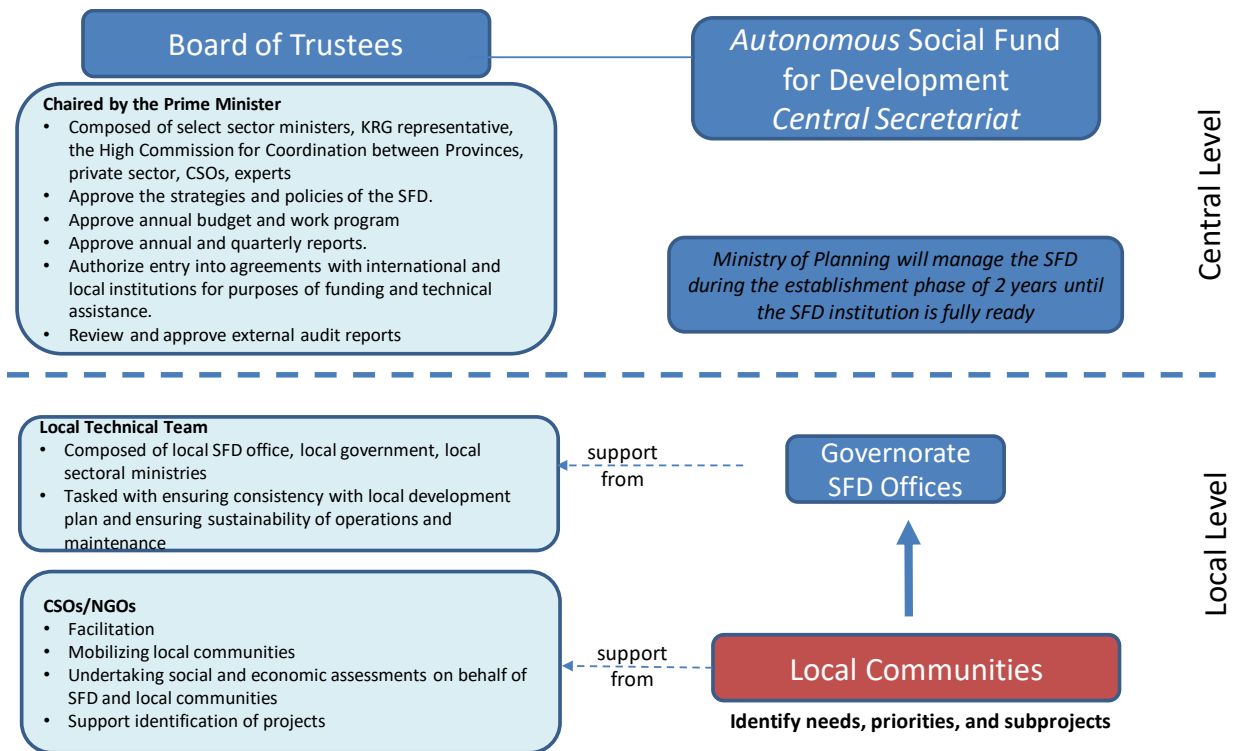
Project Management Office and Teams at MOP

26. During the establishment phase, and until the draft SFD law is enacted, implementation responsibility will lie with MOP. During this period, overall interim implementation will be guided by the Supreme Committee for Poverty Reduction Strategy (PRS). This committee is an existing umbrella body, chaired by the Prime Minister, and is charged with overseeing a number of poverty-related policies and strategies. The Supreme Committee for Poverty Reduction Strategy is also the oversight body for the planned ESSRP, thus bringing coordination and synergy across poverty- and service delivery-related activities. Day-to-day coordination during the establishment phase will be undertaken by the Technical Committee of Poverty Reduction Strategy chaired by the Secretary General of the Council of Ministers. These arrangements are expected to be in place for approximately two years, depending on the speed by which: (i) the draft SFD law can be enacted by the Council of Representatives; and (ii) the length of time it will take to set up the organizational aspects of the SFD institution. In the interim, a project management office (PMO) will be established at MOP, under the Directorate General of the PRS, to oversee implementation of SFD. At the level of the governorates, a project management team (PMT) will be established at the MOP office located in the governorate. The PMO and PMTs will also rely on consultancy services to complement the existing capacities at the local level.

27. The PMO will be headed by a Project Manager, and would include the following functions: social development, microfinance, communications, fiduciary, environment, social, monitoring and evaluation, and administration. Similarly, the PMT will be managed by a Project Manager, and would include a Procurement Specialist, a Community Development Specialist, an M&E Specialist, and an Administrative Assistant, in addition to engineers assigned to the various local community subprojects. Once the draft SFD law is enacted, it is anticipated that the MOP based PMO and PMT staff would be transferred to the SFD institution once it is fully established and functional, in accordance with the transition plan. The institutional structure of the SFD, once the draft law is enacted, is illustrated in Figure 1 below.



Figure 1: SFD Governance and Institutional Arrangements



B. Results Monitoring and Evaluation

28. The project will have a comprehensive monitoring and evaluation (M&E) framework to ensure appropriate follow-up on indicators at all levels (input, outputs, outcomes). The M&E framework will enable the SFD Board and management to monitor implementation progress, identify challenges, and assess impact of the sub projects financed under the SFD. The Results Framework will guide the monitoring of SFD implementation. Achievement of these results would derive from project implementation and other related indicators (such as local capacity development). Monitoring would be carried out by MOP, and eventually by the SFD institution itself, as well as by third parties, particularly for impact evaluations.

C. Sustainability

29. The Government is committed to extending services to all citizens, particularly at this critical juncture, as evidenced by the draft SFD Law that was approved on October 31, 2017, by the Council of Ministers. The SFD is being designed with adaptive features that ensure sustainability of investments, through: (i) encouraging community participation, engagement and ownership, (ii) supporting local government and improving its ability to operate and deliver; (iii) providing substantial capacity building for planning and execution at the local level. In addition, the SFD is now identified as a key component within the Iraq PRS, and the SFD Law, as approved by the Council of Ministers, will ensure its sustainability in the coming years as it would institutionalize the SFD legally and financially. Furthermore, the SFD is being designed as a program, based on a unified Project Operations Manual, that would be utilized by other donors and partners to finance subprojects and/or support thematic areas under the SFD (i.e.,



gender and youth).

D. Role of Partners

30. The SFD project is designed in such a way that it can utilize funding from multiple sources to finance sub-projects at the community level. It is anticipated that international and national donors may contribute in financing sub-projects and providing capacity building for the PMO/PMT, NGOs, MFIs, and community groups.

V. KEY RISKS

A. Overall Risk Rating and Explanation of Key Risks

31. The overall risk rating is **High** given the overall country context and associated political and security challenges. A discussion of the key risks that are rated high or substantial and prospective mitigation measures are presented in the following paragraphs.

32. **Political and Governance:** This is rated as **High**. There is a strong likelihood that political and governance factors could significantly impact the achievement of the PDO. Iraq is emerging from a difficult fiscal crisis, caused by falling prices and the impact of the conflict. These risks will likely continue to be high in the foreseeable future. This relates not only to the complex social fabric and political landscape in Iraq, including highly entrenched vested interests in public and private sectors, but also to the impact of regional geopolitics on internal dynamics and performance. One major upcoming event that may impact the current situation is the May 2018 national elections which may result in changes to government policies and strategies. The World Bank Group will continue relying on its comparative advantages, including technical knowledge and expertise, lessons learned from other similar operations in the FCV context that are relevant for Iraq and the World Bank's role as a trusted convener and interlocutor with the public sector, private sector, and citizens.

33. **Macroeconomic:** The macroeconomic risk is **Substantial**. The risk of emerging or continuing external and/or domestic imbalances is substantial, and consequent macroeconomic effects could potentially undermine the achievement of the PDO if they materialize. Public finances are likely to be strained due to high levels of expenditure on security and stabilization efforts. Iraq is now benefiting from substantial budget support through the series of Iraq Development Policy Financing operations as well as the International Monetary Fund (IMF) Second Stand-by Agreement. The implementation of this project aims to address this risk by developing a social fund "platform" that would attract fiscal resources from other partners to support local level initiatives, aimed towards poverty alleviation and enhancing basic services.

34. **Institutional Capacity for Implementation and Sustainability and Technical Design risks are rated as Substantial.** Managing an SFD-like structure is new to MOP. While MOP, and specifically the Directorate General for Poverty Reduction Strategy, has previously managed several World Bank financed projects, this community-driven development approach presents a challenge particularly given the decentralized nature of the activities, and the potential role the SFD could eventually play in microfinance.



The SFD will hire qualified staff at all levels (managerial, technical and support), based on clear Terms of Reference (TORs) drafted with the support of the World Bank for each position. The project will provide significant institutional support and capacity building for SFD staff. This will strengthen the capacity of the institution at both central and local levels. Furthermore, the project will closely support MOP staff to manage the fund until the SFD is established and fully operational.

35. At the operational level, key risks identified relate to the effective management of SFD sub-projects, partnering with local NGOs and financial intermediaries, and handling grievances while improving citizen engagement and accountability. The project will provide significant institutional support and capacity building for the teams working on SFD, and for local NGOs and intermediaries. This will strengthen the institutional capacity of MOP both at the central and local levels, and eventually the capacity of the SFD institution, and will ensure sustainability. Additionally, the project will develop an extensive communications strategy to reach out to beneficiaries and disseminate clear information on the project's objectives, targets and operations, and will help MOP develop and implement an effective Grievance Redress Mechanism.

36. **Technical Design.** In terms of technical design, the project's design benefited from international expertise and lessons learned in Community-Driven Development (CDD) and international MFI initiatives; nonetheless, the project will be establishing a new institution in a fragile context. This risk has been mitigated by global knowledge and experience that have been contextualized to the local environment and conditions through an extensive and inclusive process engaging key stakeholders representing the government, civil society, and the private sector. Examples and lessons were derived from the Yemen Social Fund for Development, Bosnia and Herzegovina Local Initiative Project, and Egypt Social Fund for Development, among others. Project design also benefited from the experience of the Consultative Services Delivery Project, implemented in the Kurdistan Region of Iraq in 2010-2011 (financed by the Iraq Trust Fund), which provided in-country examples of a similar (though on a smaller scale) project.

37. **Fiduciary:** The fiduciary risk is **High**, given the security and political situation, perception of widespread corruption, low capacity, and weak control environment. A number of fiduciary arrangements detailed in Annex 2 will be put in place to mitigate the associated risks. Such mitigation measures focus on a more systematic approach of institutional capacity building, based on ministry and agency-specific institutional assessments and action plans; the presence of a field-based fiduciary team, third-party monitoring financed by the Bank; and ongoing support by the World Bank to the GOI to improve PFM and procurement.

38. **Environment and Social Risks:** The combined risk for environment and social is rated **Substantial** due to the project's social risk. The project will support a variety of small scale development sub-projects which will include simple infrastructure-related civil works which may have minor negative environmental impacts. The anticipated risks are mainly related to lack of technical environmental expertise and qualified human resources to manage the minor environmental impacts which would be associated with the project activities particularly under Component 1. Given the scale and nature of the expected project interventions, the environmental risks are considered **Moderate**. The project is therefore classified as Category "B" according to the Bank Operational Policy OP4.01 on Environmental Assessment.

39. MOP will designate a qualified Environmental Officer to be responsible for screening projects



which will be proposed for financing by the project. The designated officer must possess sufficient technical capacity and knowledge about Iraqi environmental laws and requirements. In addition, the environmental officer will require extensive training and capacity development to be familiar and competent in applying the World Bank's safeguard policies.

40. The project's social risk rating is **Substantial**. The project will finance economic and essential services that represent priority investments identified by the community. These will include civil works which may result in possible minor temporary or permanent involuntary taking of land during project implementation causing: (i) relocation of encroachers/squatters; (ii) loss of income or means of livelihood; and/or (iii) loss of assets or access to assets. The social risks may include community conflicts, lack of compensation for project affected people (PAPs) and the perception of unfair distribution of services among communities. Other social risks may include the potential for child/forced labor or issues relating to labor influx. To mitigate the potential social risks during implementation, the PMO will appoint a Social Officer who will be responsible for monitoring and supervision of social issues. The Social Officer will receive training on Involuntary Resettlement OP 4.12 requirements to comply with World Bank safeguard policies as well as on social management including community outreach/stakeholder engagement, conflict analysis and management, grievance redress, etc.

VI. APPRAISAL SUMMARY

A. Economic and Financial (if applicable) Analysis

41. The following section presents the expected benefits of basic services subprojects, and the potential risks to their successful implementation.

Component 1: Financing Community Subprojects

Development impact

42. International experience demonstrates that community-driven development programs have the potential to foster the participation of the poor and marginalized citizens in the decision-making process at the community level, improve local development outcomes, channel benefits towards the poor, provide short-term job opportunities, and build social cohesion and trust. However, there is wide heterogeneity in outcomes: participatory programs induce collective action while the project lasts, but in some cases, dissipates with the end of the project, unless the project links communities to markets. In addition, the projects, on balance, improve local resource sustainability and infrastructure quality but the incidence of the benefits can be unequal. One of the main lessons that emerges from available evidence is that context is crucial. Outcomes from even seemingly similar interventions differ markedly from one community to another and from one country to another, depending on social, political, economic, geographical, historical, and other factors. The initiatives that succeed do so on the foundations of a robust monitoring and evaluation system, and on a project design, tailored to the local context and readily adaptable.

43. Under this component, communities will choose the projects in which to spend allocated resources. This decentralized approach will allow communities to build infrastructure that they find most



useful and productive. Many of the subprojects will be labor intensive works which will include, but not be limited to, rehabilitation and maintenance of irrigation canals, local roads, schools, health centers, and other essential services.

44. Investments in agricultural infrastructure will boost agricultural productivity of local farms. Improvement in the transportation network will increase market accessibility of farm products, generating higher income for farmers. Improvements in road connectivity will also lead to a higher volume of goods and services traded between the project communities and the outside economy, leading to an overall rise in job opportunities and welfare levels.

45. Rehabilitation and repair of schools will facilitate enrolment of school-aged children in schools. More importantly, by making schools in their own communities accessible and attractive, it will provide an avenue for children who have dropped out of school, or have missed school years due to violence and displacement to re-enter the school system. Rehabilitation or improvements of health facilities will contribute to efforts to reduce out-of-pocket health expenses by offering preventative care in local health facilities.

46. Restoration of essential public services will also have a second-order impact to the extent that it facilitates the return of the displaced households to the communities, revitalizing the local economy and multiplying the returns on investment, and in some cases, reintegrating demobilized armed forces back into their communities.

47. Community subprojects are expected to have a positive social impact on the residents of the participating communities through increased social cohesion, empowerment, and voice and agency. In target communities, the subprojects will be chosen after discussions among community members to identify priority areas. This participatory method to identify the needs will build a sense of ownership of assets and will bring residents of diverse economic, social, political, and religious backgrounds together to solve a common problem in their community. This will help foster a sense of solidarity and common cause among groups of people that otherwise might not have come together to collaborate on an activity with mutual benefits.

48. Involvement of communities in the planning and implementation of development activities will empower them to demand accountability in all areas of local governance. Citizen engagement will increase demand for impact of subprojects, transparency in financial management, and openness in decision-making. This higher demand for transparency and accountability will lead to improvement in the allocation of local resources.

49. Most notably, the subprojects will contribute to improving the trust between citizens and the state in parts of the country where the trust has frayed. Rapid mobilization of resources in these areas with a decentralized decision making on how these funds will be utilized, will help restore the trust between beneficiaries and the state, and in renewing the social contract. There are large spillover effects of improved trust between citizens and the state as trust is instrumental in facilitating trade and economic transactions.

50. There are, nonetheless, risks to the realization of the benefits. The mechanism to select the



subprojects to be financed relies on robust and broad-based participation of all community members in the deliberation process. It may be difficult to induce participation if citizens do not have trust in the participatory process, or if they do not want to be seen disagreeing with other community members in public. To overcome this challenge, citizens must be provided with the tools and orientation to voice their preferences with the goal of achieving a mutually beneficial outcome.

51. There is a possibility that those who participate in community groups formed under the SFD come only from upper socioeconomic strata, i.e., individuals who are more educated, wealthier, and more politically connected. Lack of representation of the disadvantaged subgroups in the community groups may lead to investment choices that do not adequately reflect the preferences of the underprivileged subpopulations. The role of NGOs and CSOs will be paramount in mobilizing community members and ensuring balanced representation of all segments of the community. Similarly, it will be important to ensure that there is space and opportunity for the local preferences to emerge without being captured or distorted by the preference of sub-district or district level authorities.

52. Ultimately, the expected benefits of the subprojects will only materialize if the subprojects are executed on time and with high quality. This will require supporting the local community in areas such as financial management, procurement of goods and services, and monitoring and evaluation, to ensure the quality of these subprojects.

Sustainability

53. The government is committed to the long-term sustainability of the SFD. The SFD law, as approved by the Council of Ministers, makes provision for the SFD to be financed through an annual grant approved by the Government in the Federal budget, among other sources of finance such as aid, grants, and loans. The Poverty Reduction Strategy Paper 2018–2022 (PRSP II) also articulates SFD to be one of the key instruments for national poverty reduction.

Rationale for public sector involvement

54. Public sector engagement is important for the proposed activities because there is an urgent need to address the deficit in local infrastructure on the one hand, and trust and social capital on the other hand in Iraq. The country has faced intermittent conflict and violence for many years which has caused widespread damage to physical infrastructure, disrupted the delivery of services, and strained the trust of citizens towards each other and the state. These are public goods that must be supplied by the public sector to create an enabling environment for private sector investment and economic growth. There is a need for the government to be seen as responsible for restoring infrastructure, delivering services, and creating jobs particularly after the liberation of lands from ISIS to foster national reconciliation and ensure peace and security in the long-term.

World Bank's value-added

55. Social Fund-type programs are unique in that they combine basic essential services' reinstatement and jobs creation with citizen participation in local decision-making. These features make it an appropriate instrument in the current Iraqi context. The World Bank also has experience in designing social fund-type



programs in many countries in the region and beyond, including in fragile and conflict-affected and post-conflict countries. The World Bank's support will focus on transfer of knowledge by supporting the establishment of the institutional structure and the associated systems over the project duration.

56. The proposed project is aligned with the country priorities and areas of the World Bank's support outlined in the forthcoming Country Partnership Framework (CPF) 2018-2023. The CPF recognizes the immediate need that Iraq faces to stabilize and grow the economy while providing jobs, basic services, and security to its population. As such, the overall objective of the CPF is to "support the Government to reinstate trust between the state and its citizens through economic growth, job creation and the provision of basic services across Iraq." More concretely, this project will contribute to the second focal areas of the CPF of supporting "inclusive recovery and reconstruction and the provision of equitable access to basic services with a priority focus on the poor and vulnerable."

B. Technical

57. The design of the proposed project considers the lessons learned from international experience. Prior experience from other countries indicates that a social fund type of program could be effective in delivering public services, managing common-pool resources, improving the quality of local infrastructure, and boosting community engagement in identifying and implementing development priorities to fit the local context. In an environment like Iraq that has experienced conflict for many years and the trust between citizens and the state has frayed, devolving the implementation authority to local communities can help restore the trust by resuming public services and creating temporary job opportunities, while empowering local communities to make decisions on matters that directly affect them.

58. The role of CSOs is central to the design of the SFD project. NGOs will be responsible for creating awareness at the local level of the objectives of the program and mobilizing community participation in the deliberation process. They will also support the communities in identifying needs and developing an action plan that prioritizes those needs. CSOs are envisioned to play a bridging role between local communities and governmental authorities in the SFD. This will contribute to strengthening the role of non-state actors in Iraq to build social cohesion and empower citizens.

C. Financial Management

59. Due to the emergency nature of this project and the need to respond quickly, the Financial Management (FM) approach was streamlined and based on more simplified ex-ante requirements, while relying more heavily on ex-post requirements as additional fiduciary controls and reviews.

60. The project will be implemented over two phases. As noted above, the first phase will entail the establishment of SFD, during which the Directorate General of PRS of MOP will manage overall project implementation. During the second phase of implementation, following the establishment and operationalization of SFD, all respective project implementation arrangements will be transferred to SFD, and expansion to all governorates in Iraq. The latter is subject to, *inter alia*, the SFD maintaining the necessary financial management systems. Component 3 will support the SFD in establishing those financial management systems focusing on FM policies and procedures and accounting information technology (IT) systems.



61. The PMO will include a financial management team consisting of at least one Financial Officer, one Accountant, and one Internal Auditor. At the governorate level, Project Management Teams (PMTs) will be established and will include a financial management team consisting of accountants and internal auditors. The financial management teams are MOP employees and will report to the PMO on a regular basis.

62. The World Bank carried out an assessment of the financial management systems of the MOP PRS Directorate which concluded that with the implementation of agreed-upon actions, the proposed financial management arrangements would satisfy the Bank's minimum requirements under the Bank Policy for Investment Project Financing. Annex 2 provides additional information on the financial management assessment and the recommended mitigation measures, while detailed financial management capacity assessment arrangements are available in the project files.

63. Considering the risk mitigation measures proposed, the residual overall financial management risk for this financing is assessed as "High". The main financial management and disbursement arrangements are designed around the risk mitigation measures and to suit the available capacity during implementation, including:

- a) A centralized FM function within the PMO (at the central level) and the PMTs (at the local level);
- b) Simplified accounting and reporting arrangements that provide timely information on project financial performance and status. Excel spread sheets will be used to record project financial transactions and generate simplified Interim Unaudited Financial Reports (IFRs);
- c) The FM chapter of the POM documents the project's implementation of internal control functions and processes, and describes the responsibilities of the PMO and each PMT staff with authorities and execution processes;
- d) IBRD financing set at 100 percent coverage to avoid delays that arise from counterpart financing;
- e) One Designated Account (DA) will be opened for MOP PMO, and operational accounts for the PMTs with sufficient advance payments. These advances should be limited to a maximum amount of USD 5,000;
- f) The development and adoption of a simple but effective "checklist" which clearly spells out ineligible subprojects;
- g) Hiring a Third-Party Monitoring Agency (TPMA), financed by the Bank, to regularly monitor the project's physical checks of works under Component 1; and
- h) Hiring an independent external auditor acceptable to the World Bank to provide an independent opinion on the project's financial statements.

D. Procurement

64. Procurement will be carried out in accordance with the 'World Bank Procurement Regulations for Borrowers under Investment Project Financing', dated July 1, 2016. In line with the requirement of the Procurement Regulations, a comprehensive Project Procurement Strategy for Development (PPSD) is being prepared with the support of the World Bank. The provisions of the Borrower's procurement plan for the project ("Procurement Plan") provided for under Section IV of the Procurement Regulations will apply, as the same may be updated from time to time in agreement with the World Bank. The Borrower



and the PMO shall ensure that the Project is carried out in accordance with the provisions of the “Guidelines on Preventing and Combating Fraud and Corruption in Projects Financed by IBRD Loans and IDA Credits and Grants”, dated October 15, 2006 and revised in January 2011 and as of July 1, 2016 (“Anti-Corruption Guidelines”).

65. **Project Procurement Development Objectives (PPDO):** The PPDO is to promote the economic and social development of the local community by promoting opportunity for local bidders, including MSEs, and fair treatment in procurement proceedings.

66. **Key procurement under the project:** The total project amount is US\$300 million, out of which the value of procurement of small value of works and supply contracts is approximately US\$260 million. Consulting Services, NGOs, and individual consultants amount to approximately US\$35 million. The Procurement Plan for the first 18 months has been prepared and included in Annex 2.

67. Procurement arrangements will consider the call for the participation of local communities or NGOs in works and delivery of non-consulting services. It is important to bring in local contractors and use intensive local workforce as well as increase the use of local knowledge, goods and materials. It is expected that the project will finance low valued contracts but in case of larger sized contracts, the possibility of joint ventures with local firms or subcontracting to local firms will be available and this could potentially contribute to quicker mobilization and use of local materials and labor.

68. The main procurement associated risks are inherent to the following: (i) limited local market at the community level with required experience resulting in less competition; (ii) delay in implementation from contractor’s side (time over-run and cost over-run); (iii) lack of experience in procurement planning, monitoring and contract management at the governorate level may cause delays in preparing bidding documents, evaluation and implementation; (iv) collusion among bidders due to large number of small valued contracts and limited competition; (v) perception of fraud and corruption in a high risk and weak control environment; (vi) high price bids due to security conditions in some parts of the country; (vii) restricted travel/mobility of World Bank staff in all areas of the country due to the security situation in Iraq. The associated procurement risks and mitigation measures are discussed in detail in Annex 2.

E. Social (including Safeguards)

69. The project will have broad social benefits as it will improve access to essential services and will provide support to establish a robust MFI sector to serve SFD objectives in the future. The project will finance small scale economic and social infrastructure that represents priority investments identified by the community. The project will aim to strengthen and build the capacity of local microfinance providers and promote entry into the market by encouraging new financial service providers. The Bank Policy on social safeguards - OP 4.12 - will be applied to Components 1, 2 and 3, even if no physical investments are expected under Components 2 and 3.

70. One of SFD’s tasks is to involve NGOs that can mobilize local communities to identify subprojects and setup priorities, and support implementation at the local level. The NGOs will engage communities and ensure active participation and ownership as well as identify challenges and expected risks associated with the limited capacity on the ground and propose training activities.



71. SFD will rely on communities to take the lead in identifying needs and priorities to ensure transparency and sustainability of subprojects and will enforce social accountability principles. SFD will introduce improvements in the database systems to support registration of subprojects, customer complaints systems, and monitoring systems to determine the quality of the service provided to communities and will include beneficiary satisfaction feedback systems. Improved efficiency, transparency and accountability of SFD operations will improve the credibility with the project's stakeholders and more generally its communities.

72. To address the differentiated needs of women during subproject planning, a female social consultant will carry out separate consultations to solicit their views and concerns into subproject design and evaluation. Mainstreaming gender issues in the subproject cycle provides opportunities to improve women's participation in decision-making.

73. Targeting will be based on a combination of poverty indicators, as well as other indicators related to vulnerability, conflict-affected areas, state of service delivery, and other similar factors. Communities are expected to be provided block grants, which they would then utilize based on a locally-consultative process, allowing community members to identify their development councils, and voting on priority projects for funding. NGOs would be recruited by the local SFD offices, where needed, to undertake social assessments, examining social and economic infrastructure gaps and opportunities, and presenting a "menu" of options to community development councils for review and subsequent voting. Local government and local sectoral ministries would be consulted to ensure overall local and national development plan consistency and sustainability.

74. The project will support overall participation by a wide range of stakeholders in project preparation and design, including local communities, political leaders, and government offices. By establishing community groups, promoting awareness on the importance of electing representatives that will serve the whole community, the SFD project will contribute to reviving the traditional systems of social capital and self-help. The use of participatory methodologies will create space for diverse interests to be identified and mediated from an early stage, and hence contribute to the reduction of conflict over resources among communities. The fact that elected representatives of the community will oversee the implementation of contracts is evidence that the SFD will treat communities as partners rather than recipients.

75. The project will ensure that the SFD will have an inclusive approach of working with poor women and men to promote women's roles and contributions, including creating awareness of gender concerns at the community level. The project will also support SFD coordination efforts with governorates and districts, depending on the capacity of local authorities, as well as strengthening the SFD's NGO/CSO partnerships to most effectively engage in policy dialogue concerning development impact and sustainability.

76. Since the location of individual subprojects are not known at this stage, a Resettlement Policy Framework (RPF) will be prepared and finalized three months after effectiveness, to cover the entire scope of potential investments under the project before relevant project activities commence. The RPF will provide the general principles and procedures for compensation and resettlement requirements and



guidelines for the preparation of Resettlement Action Plans (RAPs) or Abbreviated Resettlement Action Plan (ARAPs) if required.

77. As a general principle, all activities are planned to take place on existing footprints. Nevertheless, there is a slight possibility that reconstruction works may temporarily affect access to livelihoods or residences, or require temporary use of private land and/or relocation of encroachers/squatters. Hence OP4.12 is triggered as a precautionary measure. Since the location of individual subprojects is not known, an RPF will be prepared which will set out the general principles and procedures for compensation and resettlement requirements and the guidelines for the preparation of RAPs or ARAPs if required. Additionally, during the project life cycle, voluntary land donation (VLD) is envisioned as a contribution by the community with no pressure and will only be eligible if a consent form is signed and attached to the subproject. A screening checklist will be adopted and will exclude subprojects that require involuntary land acquisition.

78. Public consultation is a challenge in a Fragile, Conflict and Violence (FCV) context such as Iraq, and therefore, an alternative mechanism is to consider individual interviews and/or meetings by adopting limited questionnaires to be carried out in safe places. Separate interviews for women will be held by a female consultant. The key stakeholders are: (i) relevant technical and administrative teams from sector line ministries, (ii) administrations of the affected governorates, (iii) municipalities, (iv) Ministry of Health and Environment, and (v) project beneficiaries and people potentially affected by the project. Meetings/interviews with relevant stakeholders will be carried out during the preparation of the Environmental and Social Management Framework (ESMF), RPF within three months of effectiveness and site specific ESMPs and RAPS/ARAPs as needed.

79. The purpose of the meetings that will be carried out during the preparation of the ESMF and RPF is to present the overall objectives of project design; explain to participants its broader benefits at the national level and begin outlining some of the anticipated adverse environmental and social impacts that may result from any subproject activities. They would also enable the stakeholders to participate and provide feedback, as well as to ensure that their concerns are considered during all phases of the subproject, including at the planning phase. Another round of meetings/interviews will be conducted during the preparation of each site-specific subproject where the focus would be on impacts of that subproject.

80. The findings of the meetings/interviews of the ESMF, RPF and each subproject will be disclosed on the PMO website, relevant line ministries and governorates where the interventions will take place. All subproject affected people will be made aware of the project activities and will be able to provide feedback if needed, including through the project-specific GRM.

81. SFD will establish a grievance redress mechanism (GRM) to ensure that communities have a channel to submit complaints, and resolve problems. The PMO will include a Complaints Handling Unit which will be equipped with a computerized system with 4-5 dedicated officers who are responsible for ensuring that complaints and questions are being registered, tracked, investigated and promptly resolved. The unit will coordinate with local subproject field staff and local government officials to ensure prompt follow-up action in response to complaints. The electronic GRM will provide a system for reporting and addressing project-affected people's concerns regarding environmental and social impacts of subproject



activities. Complaints and/or questions about the project operations or process, would be directed to a subproject field engineer, community representative, local government official and/or to the PMO where complaints will be registered for investigation. Multiple access points (telephone, complaint box, website, email, text message, etc.) will be provided so that PAPs are aware of who to contact about their concerns. The contact information of the focal point will be posted at the local level and in the local language for subproject affected people to file complaints. In addition, copies of complaints will be recorded in the subproject file and the subproject progress report including the number and type of complaints and the outcomes of their resolution.

F. Environment (including Safeguards)

82. The project is categorized as environmental Category B, and triggers OP 4.01 on Environmental Assessment given the nature of the expected minor environmental impacts associated with some small scale civil works which will be implemented. Since no project interventions have been specifically identified, criteria for screening projects as well as templates for applicable safeguard instruments are included as part of the ESMF to be prepared by the PMO and were included in the POM. The Environmental Assessment Policy OP 4.01 will be applied to the project.

83. Iraq is rich in Physical Cultural Resources (PCR), and the destruction experienced during the conflict is likely to have affected historical buildings, religious sites such as mosques and shrines, and monuments. Destruction may have been random acts of war, but also targeted acts of sectarian violence. Dealing with PCR has been addressed in the safeguards action plan (SAP). OP 4.11 is thus triggered as a precautionary measure and mitigation measures/chance find procedures will be elaborated on in the ESMF.

84. To date, the specific activities and exact locations of project interventions have not been determined. As the project is being prepared under Paragraph 12, Section III, of the Bank Policy for Investment Project Financing, a deferral of preparation of safeguard documents has been requested until the start of implementation. To that end, the World Bank has prepared a Safeguards Action Plan (SAP) which will serve as a roadmap for preparing subsequent safeguard instruments. In addition, a Project Operational Manual has also been developed by the Borrower. The Borrower will incorporate necessary screening checklists to determine the interventions which are ineligible for financing under the project. In addition, the Borrower will prepare an Environmental and Social Management Framework (ESMF) which will provide guidance on: (i) the approach to be taken during project implementation; (ii) appropriate safeguard instruments; and (iii) a framework for mitigating and monitoring impacts. The ESMF will be disclosed in-country and on the World Bank's external website in line with the relevant World Bank disclosure policy by April 2018.

G. Other Safeguard Policies (if applicable)

85. The project activities do not trigger any other safeguard policies.

H. World Bank Grievance Redress

86. Communities and individuals who believe that they are adversely affected by a World Bank



supported project may submit complaints to existing project-level grievance redress mechanisms or the World Bank's GRS. The GRS ensures that complaints received are promptly reviewed in order to address project-related concerns. Project affected communities and individuals may submit their complaint to the World Bank's independent Inspection Panel which determines whether harm occurred, or could occur, as a result of World Bank non-compliance with its policies and procedures. Complaints may be submitted at any time after concerns have been brought directly to the World Bank's attention, and World Bank Management has been given an opportunity to respond. Information on how to submit complaints to the World Bank's corporate GRS, can be found on <http://www.worldbank.org/en/projects-operations/products-and-services/grievance-redress-service>. Information on how to submit complaints to the World Bank Inspection Panel can be found on www.inspectionpanel.org.



VII. RESULTS FRAMEWORK AND MONITORING

Results Framework
COUNTRY : Iraq
Iraq Social Fund for Development

Project Development Objectives

The project development objective is to: (i) improve access to basic services and; (ii) to increase short-term employment opportunities, in targeted communities.

Project Development Objective Indicators

Indicator Name	Core	Unit of Measure	Baseline	End Target	Frequency	Data Source/Methodology	Responsibility for Data Collection
Name: Households benefitting from improved access to basic services		Number	0.00	1500000.00	Biannually	Targeting will be determined on the basis of Nahiya-level characteristics including: Poverty rates number of returnees number of IDPs access to basic services These data will be sourced	During the period of SFD establishment, and until the SFD law is enacted, responsibility for the collection and application of these data will rest with the Ministry of Planning (Central and Local



Indicator Name	Core	Unit of Measure	Baseline	End Target	Frequency	Data Source/Methodology	Responsibility for Data Collection
						from databases managed by the Central Office for Statistics and Information Technology and by the Kurdistan Region Statistics Office (KRSO) for activities undertaken in Kurdistan	offices). In the Kurdistan Regional Government the KRG Ministry of Planning will be responsible for the collection and validation of data
Households benefitting from improved access to basic services, of which female-headed households		Number	0.00	750000.00			
Description: To measure access to basic services for households targeted by the project							
Name: Beneficiaries of short term employment		Number	0.00	150000.00	Biannual	Ministry of Planning database	Ministry of Planning (Governorate and Central level offices)
Beneficiaries of short term employment, of which women		Number	0.00	50000.00			
Description: To measure the total number of beneficiaries of short term employment							



Intermediate Results Indicators

Indicator Name	Core	Unit of Measure	Baseline	End Target	Frequency	Data Source/Methodology	Responsibility for Data Collection
Name: Subprojects approved		Number	0.00	1700.00	Biannually	Aggregation of governorate level data	PMT
Description: To measure the total number of sub-projects approved							
Name: Subprojects implemented		Percentage	0.00	90.00	Biannually	Aggregation of governorate level data	PMT
Description: Percentage of subprojects that are implemented							
Name: Beneficiaries satisfied with the quality of sub-project investments		Percentage	0.00	75.00	Biannually	Aggregation of governorate level data	PMT
Description: Percentage of beneficiaries satisfied with the quality of sub-project investments							
Name: Targeted communities trained in participatory decision-making		Number	0.00	632.00	Biannually	Sub-project operational data	Data recorded by Ministry of Planning offices (governorate level); aggregated



Indicator Name	Core	Unit of Measure	Baseline	End Target	Frequency	Data Source/Methodology	Responsibility for Data Collection
							by the Ministry of Planning (central)
Description:							
Name: Targeted government staff trained in participatory decision-making		Number	0.00	1350.00	Biannually	Ministry of Planning data	Collected by Ministry of Planning (central and governorate levels); aggregated and presented by central PMT
Description: To measure the extent of training provided to relevant government staff in participatory planning							
Name: Share of women represented on CDGs		Percentage	0.00	30.00	Biannually	Ministry of Planning (governorate level) data	Ministry of Planning (governorate level) for the collection and submission of data; PMT for data aggregation and presentation.
Description: To measure the extent of female representation on CDGs							



Indicator Name	Core	Unit of Measure	Baseline	End Target	Frequency	Data Source/Methodology	Responsibility for Data Collection
Name: Share of grievances received that are resolved in accordance with service standards		Percentage	0.00	70.00	Biannually	Project database	PMT
Description: To measure the efficacy of the project grievance redress mechanism							
Name: Person days of short-term employment created by the project		Number	0.00	10000000.00	Biannually	Project database	PMT
Description: To measure short-term employment created by the project							



Target Values

Project Development Objective Indicators

Indicator Name	End Target
Households benefitting from improved access to basic services	1500000.00
Households benefitting from improved access to basic services, of which female-headed households	750000.00
Beneficiaries of short term employment	150000.00
Beneficiaries of short term employment, of which women	50000.00

Intermediate Results Indicators

Indicator Name	End Target
Subprojects approved	1700.00
Subprojects implemented	90.00
Beneficiaries satisfied with the quality of sub-project investments	75.00
Targeted communities trained in participatory decision-making	632.00
Targeted government staff trained in participatory decision-making	1350.00
Share of women represented on CDGs	30.00



Indicator Name	End Target
Share of grievances received that are resolved in accordance with service standards	70.00
Person days of short-term employment created by the project	10000000.00



ANNEX 1: DETAILED PROJECT DESCRIPTION

COUNTRY: Iraq Iraq Social Fund for Development

1. The Iraq SFD project is part of a long-term peace and stability agenda, and complements poverty reduction and social protection reform programs. It adopts a Community-Driven Development (CDD) approach, with bottom-up planning, where communities take the lead in identifying needs and priorities, employing social accountability and citizen engagement principles to ensure transparency and sustainability of subprojects. The SFD will support decentralization, local governance and social accountability. Flexibility and simplicity are key features in the design and procedures.
2. The project development objective is to: (i) improve access to basic services; and (ii) increase short term employment opportunities in targeted communities. The project aims to support participatory planning at the local community level to achieve this objective.
3. The SFD will scale-up across all of Iraq over a period of five years starting in February 2018, using a phased approach. The fund will begin with three governorates, and expand to seven by year two, and subsequently to all 18 governorates by year five. The program will support community-level social and economic infrastructure, utilizing labor intensive works, while strengthening the MFI sector to eventually support micro- and small-enterprise development under the SFD. Capacity building will be embedded in the project for the establishment and management of the SFD, and for local government, communities, micro-finance sector, and related NGOs. The project will have three components as follows:

Component 1 – Financing Community Sub-projects (US\$262 million)

4. The objective of this component is to improve access of communities to basic social services. It will finance subprojects at the local level that consist of small scale economic and social infrastructure that represents priority investments identified by the community. These will be based on an open menu that typically includes investments that improve access to basic public services, and investments that can be realized using labor-based techniques and maximizing the use of local materials. The work will start with Muthanna, Salahdiheen, and Dohuk governorates in the first year, and expand to Ninawa, Baghdad, Thiqr, and Qadisiya in the second year, and the remaining 11 starting the third year.
5. The first year of the project will cover the following three governorates which were selected based on various vulnerability attributes: (i) Muthanna is the governorate with the highest poverty rate; (ii) Salahideen is a recently conflict-liberated area with many returnees; and (iii) Dohuk is the governorate with many host communities significantly impacted by IDPs and Syrian refugees. For the second year of the SFD project, four additional governorates will be selected based on poverty rates which are expected to be updated by the upcoming Survey of Wellbeing via Instant and Frequent Tracking (SWIFT) that will be conducted by the Central Office for Statistics and Information Technology (COSIT) and the Kurdistan Region Statistics Office (KRSO). Resource allocation will make allowance for IDPs, with 10 percent of total resources divided between governorates proportional to the number of IDPs they are hosting.



6. Since resources are not sufficient to cover all communities in Iraq, Nahiyas will be selected based on several factors: (i) poverty rate; (ii) number of returnees; (iii) number of IDPs; and (iv) access to basic services. To allow for the targeting criteria to reflect local conditions and priorities, the local SFD office will choose the exact combination and weight for each factor, in consultation with the central SFD.

7. Targeting of communities within selected Nahiyas will consider the multidimensional nature of community needs and the number of potential beneficiaries. Communities will be chosen based on total population size and level of services accessed by community members. The objective of the targeting scheme is for SFD to reach out to the most deprived communities that hold a substantial number of people for the program to reap economies of scale. The candidate indicators for the level of service provision will include factors such as electrification rate, percent of households served by safe drinking water, school enrolment rate of school age children, percentage of households with access to health services, whether the community is connected to paved roads and irrigation networks, and availability of job opportunities in the area.

8. The governorate SFD office will choose a combination of factors and the precise definition of indicators that best capture the pertinent dimensions of deprivation in the governorate. COSIT recently completed a survey in Muthanna that collected community level information on similar variables and the data has been used to develop community multidimensional deprivation score. SFD will draw upon this experience and knowledge to define targeting criteria for each governorate. As the information base on communities expands with the implementation of the SFD, the selection criteria will be systematized to allow for the geographic expansion of the SFD.

9. Expected resource allocation is presented in Table 1 below, while the figures will be reviewed annually by the SFD Board of Trustees and adjusted based on changing requirements and conditions.

Table 1: Governorate Resource – Initial Estimates

	Year 1	Year 2	Year 3	Year 4	Year 5	Total (\$)
DUHOK	1,445,345	1,445,345	1,927,127	1,927,127	2,890,690	9,635,634
SALAH AL-DEEN	2,154,217	2,154,217	2,872,289	2,872,289	4,308,434	14,361,447
MUTHANNA	1,669,232	1,669,232	2,225,643	2,225,643	3,338,465	11,128,216
NAINAWA	0	5,004,772	5,004,772	11,677,801	11,677,801	33,365,147
BAGHDAD	0	3,682,296	3,682,296	8,592,025	8,592,025	24,548,643
QADISIYA	0	2,385,228	2,385,228	5,565,532	5,565,532	15,901,521
THI-QAR	0	3,361,805	3,361,805	7,844,211	7,844,211	22,412,031
SULAIMANIYA	0	0	1,888,927	2,833,390	4,722,317	9,444,634
KIRKUK	0	0	2,435,238	3,652,857	6,088,095	12,176,190
ERBIL	0	0	2,212,573	3,318,860	5,531,433	11,062,866
DIYALA	0	0	2,725,180	4,087,771	6,812,951	13,625,902
ANBAR	0	0	2,622,285	3,933,428	6,555,713	13,111,425
BABYLON	0	0	2,550,393	3,825,590	6,375,983	12,751,967
KARBELA	0	0	1,682,236	2,523,355	4,205,591	8,411,182
WASIT	0	0	2,493,160	3,739,740	6,232,900	12,465,800
NAJAF	0	0	1,941,245	2,911,868	4,853,113	9,706,227
MAYSAN	0	0	2,620,837	3,931,256	6,552,093	13,104,187
BASRAH	0	0	2,937,397	4,406,095	7,343,492	14,686,983
	5,268,795	19,702,896	47,568,633	79,868,837	109,490,839	261,900,000



Sub-project Selection

10. There are several criteria that determine sub-projects eligibility. First, subprojects must serve the targeted population, and must exhibit a firm commitment to the active participation and contribution of the beneficiaries equally, in implementation and maintenance/sustainability. Sub-projects must also be technically feasible, financially viable and socially justified. The work will begin in specific sectors, such as education, health, agriculture and irrigation, and access to roads. Priority will be given to:

- a) Subprojects that benefit the poorest segments of the population;
- b) Infrastructure subprojects that can be implemented using labor-based techniques and maximizing the use of local materials;
- c) Subprojects that create permanent employment;
- d) Subprojects that benefit special needs groups: the disabled, children in difficult circumstances (or at risk), women in difficult circumstances (or at risk), and the socially marginalized; and
- e) Subprojects that increase the organizational, technical or social capital of local communities and beneficiaries.

11. Sub-projects that will not be eligible for SFD funding will include:

- a) Religious activity (i.e. building of houses of worship);
- b) Investments with highly adverse negative environmental or social impacts which fall under Category A according to the World Bank safeguard policy OP4.01 on Environmental Assessment;
- c) Any projects which would require triggering new World Bank OPs other than those which are originally triggered and determined in this PAD;
- d) Beautification projects;
- e) Sub-projects that exclude poor or marginalized population groups;
- f) Purchase of private goods, livestock, etc.;
- g) Sub-projects that do not meet the required technical and quality specifications;
- h) Sub-projects that involve purchase or use of drugs, military equipment, tobacco/alcohol production or other potentially dangerous materials and equipment;
- i) Sub-projects that employ minors or children less than 18 years old.

Implementation and Subproject Cycle

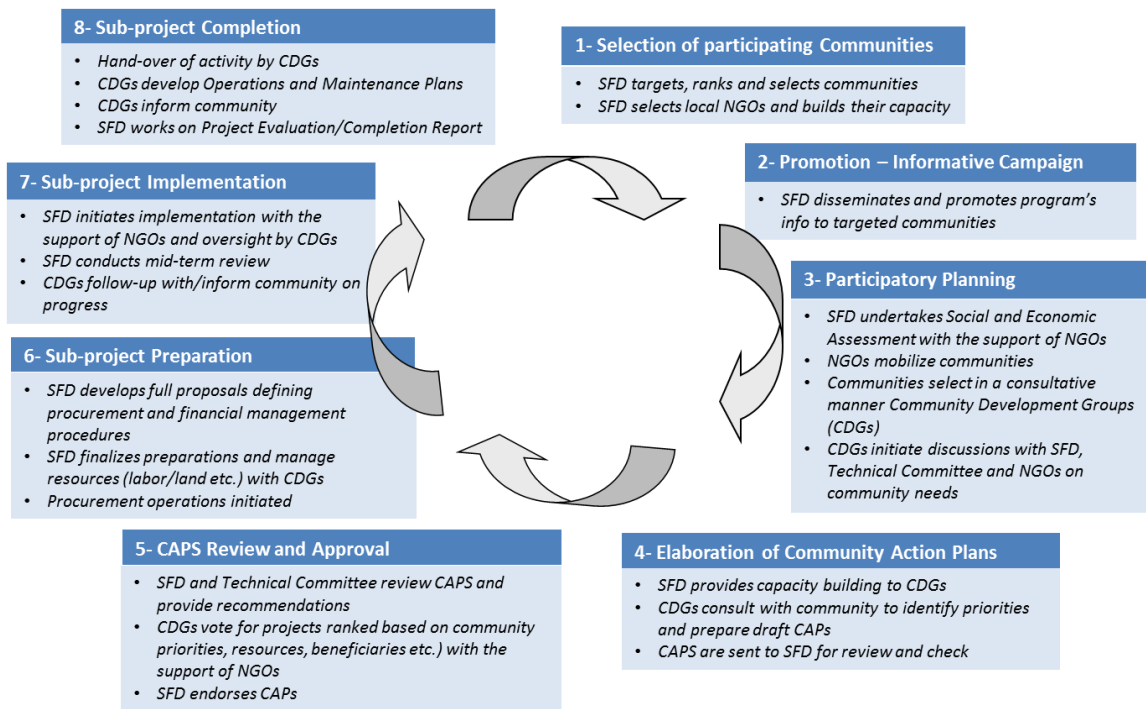
12. The subproject cycle (Figure 1) will be initiated at the community level, which, with the support of the SFD governorate local office and NGOs, will identify a Community Action Plan (CAP) that is based on a local-level social and economic assessment, which is also anchored within overall provincial and national socio-economic development plans. The CAP would be assembled and discussed by the CDG, which is selected through a transparent process by the local community, to represent the local community. The CAP is then sent forward to the SFD local governorate office, who would discuss the CAP with local government and the sectoral ministries, to ensure consistency with overall governorate development plans and national standards, and avoid any duplication. This would also ensure sustainability in terms of operations and maintenance requirements for subprojects. Once CAPs are approved, the community will vote on the priorities based on the allocation amount of funds to that community. Once voted and agreed upon, the SFD local governorate office would assume all



implementation related aspects, including procurement, financial management, and safeguards aspects, in close coordination with local government and sectoral ministries.

13. NGOs and CSOs will play an important role to enable the SFD to reach poor and vulnerable communities, enhance community participation, and contribute to subproject design and sustainability (through increased participation of communities or involvement in follow-up activities). While it is important that the government be the “face” of SFD and the link that brings services down to the local level, NGOs are expected to play a role in mobilizing local communities, supporting needs assessments, supporting identification of subprojects and priorities, and supporting implementation at the local level (augmenting the role of local government). Local communities, local government, and CSOs are expected to work closely as facilitators with local authorities to ensure sustainability and an inclusive capacity building process.

Figure 1: Sub-Project Cycle



Gender Aspects

14. Female labor force participation in Iraq, which is at 15 percent is low, compared to rates in the MENA region, which range between 20 to 25 percent, and is markedly low by global standards. Ninety percent of Iraqi women of working age are not in the labor force. Most of those who do work are employed in part-time jobs, and underemployment for women has increased over time. Very few women who are not employed and of working age report that they are looking for work². Female labor force participation rates vary greatly by education level and only approaches parity with men (as well as in

² World Bank, 2014: The Unfulfilled Promise of Oil and Growth: Poverty, Inclusion and Welfare in Iraq 2007-2012.



employment rates and pay) after they earn a university or college diploma³. For adult women with intermediate or lower levels of education, labor force participation is less than 10 percent, while for those with a secondary education, rates double to 24 percent and increase more than six-fold for those with a secondary and tertiary education, reaching 67 percent (compared to male participation rates of 70 to 75 percent). At the same time, however, there was an eight percent decline in employment among the most highly educated women between 2007 and 2012, and the most educated women also have the highest rates of unemployment of around five to six percent⁴.

15. Women with low levels of education and skills are often self-employed and concentrated in private sector activities. These are usually informal, low-paying jobs with almost no access to benefits such as health insurance, maternity leave, or pensions. Women working in the informal economy or private sector are generally excluded from the protections of the labor code as these do not apply to women “who are engaged in a family enterprise in which only family members work and which is under the authority and supervision of the woman's spouse, father, mother, or brother”⁵. In a 2013 study, only seven percent of sampled private sector firms reported that a woman was one of its principal owners compared to 34.9, 33.5, and 24.4 percent in Egypt, Lebanon, and Libya respectively⁶. The agriculture sector (along with public services, see below) has a particularly high share of women, whose participation in the sector increased from 30 to 50 percent between 1980 and 2010 (World Bank, 2016).

16. Women’s empowerment faces legal, structural, and social barriers, limiting women’s choices and agency, and negatively impacting their ability to participate in, and benefit from political and economic development. Current laws impose barriers and constraints on women’s ability to work, such as restrictions on women’s employment (night work or jobs considered harmful to the health of women). In addition, while the law requires employers to provide childcare services when they employ women, no decrees or instructions have been issued. Another legal constraint is the lack of prohibition of gender-based discriminatory practices by employers and lack of equal pay. Lack of enforcement mechanisms have slowed down the realization of the recent legal reforms. In addition to the institutional and social barriers, women face constraints at the individual level. Lack of leadership skills, political skills and self-esteem can discourage women from participating in leadership positions.

17. The SFD will introduce a number of interventions that will address issues related to gender, particularly as it relates to inclusion and labor force participation:

- (i) Voice and agency, through inclusion of women at community development groups (at least 30 percent) and at the Board of Trustees of SFD;
- (ii) NGOs will undertake gender-sensitive social and economic assessments for all communities covered by the SFD, and including gender-specific action plans for priority investment related to women;
- (iii) Increasing access for girls’ education under the education subprojects and improving access for maternal health care for health subprojects;
- (iv) Review of existing laws and regulations and undertaking revisions to minimize legal

³ UNDP Iraq (2012). Women’s Economic Empowerment: Integrating Women into the Iraqi Economy.

⁴ World Bank. (2014). The Unfulfilled Promise of Oil and Growth: Poverty, Inclusion and Welfare in Iraq 2007-2012.

⁵ UNDP Iraq (2012). Women’s Economic Empowerment: Integrating Women into the Iraqi Economy.

⁶ Rimmer, S. (2013). Gender and Private Sector Development in Iraq. MENA Knowledge and Learning Quick Notes Series.



- restriction on women participation in the labor market; and
- (v) Supporting child-care services and skills-training to encourage women to join the labor market.

Component 2 – Supporting Microfinance Systems Strengthening (US\$3 million)

18. The objective of this component is to support the establishment of the overall MSE microfinance program of SFD through technical assistance and capacity building activities, to prepare the MSE sector, within the objectives of the SFD, to contribute to SFDs overall objectives. Support will be provided to the Government of Iraq to: (i) enhance its ability to manage MFIs that will be engaged under the SFD at a future date; (ii) review the regulatory environment to allow MFIs to function without market distortions; (iii) develop a framework for structured financing that would allow for flow of funds from SFD to MFIs in a sustainable manner, while meeting SFD objectives. No capitalization of microfinance institutions will take place under the component, only technical assistance and capacity building. The component, once implemented, would allow for capitalization of the MFI sector based on good practices that would ensure (i) proper outreach; (ii) sustainability; and (iii) impact.

19. This component - and the decision to support the growth of the MFI market via the SFD – is based on considerations of priority and feasibility. Given the current state of development of the financial sector, actions needed to revive economic activity at the micro and small enterprise level are not easily taken up by the central bank, commercial banks or other non-banking financial institutions that are the more usual drivers of MFI development.



Background on the Iraqi Financial System

- Iraq's financial system remains underdeveloped with inefficient laws, supervisory and regulatory standards, credit infrastructure and skills. The Banking sector is dominated by weak state-owned Banks (two of the largest - Rashid and Rafidain, hold 71 percent of banking system deposits) with public sector companies crowding out private sector access to credit which accounts for less than 9.2% of GDP, the lowest in MENA.
- The recent IMF Article IV report notes that in order to stimulate credit growth, the Central Bank of Iraq (CBI) has put in place lines of credit to state-owned and private commercial banks for lending to small- and medium sized enterprises and agriculture and infrastructure projects, with state guarantee, but has allowed only minimal use of these facilities so far (ID 0.6 trillion out of 6 trillion ID, or 3 percent of GDP). The CBI plans to cap its disbursement at ID 1.3 trillion in 2017 and to assess the need for its continuation by year-end, considering the fiscal risks for the government.
- Financing for micro and small sized enterprises is not well developed as the state-owned banks cater mainly to state owned enterprises and the small private sector banks do not have the requisite credit systems, capital and human skills to undertake SME lending. It is estimated that fewer than 5 percent of SME's have received Bank loans, only 11% of adults have a bank account and only 4% have borrowed from a Bank, but 65% have borrowed from the informal sector (FINDEX survey 2014).
- Iraq has a modest track record of successfully operating Micro-Finance Institutions (MFI) which were serving 100,000 low-income customers prior to the conflict with ISIS, as MFIs within ISIS controlled territories have ceased operations effecting a large number of loans.
- The 2015 WB report on the Legal and Regulatory Framework for Microfinance in Iraq, reports that the microfinance sector falls under the regulatory jurisdiction of multiple laws and supervisors, each spanning varying degrees of control over the sector. MFIs are registered as non-profit NGO's with the NGO Directorate under the NGO Law of 2010, whereas a separate NGO Law was approved by the Iraqi Kurdistan Region's Parliament in 2011. There are also laws aimed at supporting small businesses in Iraq that impact microfinance development. In 2012, the Parliament passed the 'Support of Small Income-Generating Project Law', which provided a vehicle for the government to extend interest-free loans as well as tax exemptions to small businesses with no more than 10 employees. Similarly, the Central Bank of Iraq (CBI) issued the Small and Medium Enterprise (SME) Finance Company Ordinance of 2010 explicitly allowing commercial companies (SME Finance Companies) to engage in lending activities for SMEs, which can include micro-enterprises.

20. The features of the Iraqi financial system clearly demonstrate the need for capacity building support to MFI's currently operating in Iraq and to help expand the number of MFIs in the market providing sustainable financial services. The project will provide capacity building to the SFD to allow it to operate effectively as a key microfinance institution, managing the overall MFI sector in providing financing to SMEs in Iraq.

21. While the MSE sector is receiving limited support from the CBI through its credit guarantee scheme to the commercial banks, the microfinance and small business sector appears to be left out as the NGO Directorate is not yet equipped to provide appropriate support. Additionally, the operational model of the not for profit status of MFI's that were primarily funded by donor funds is also under threat in the face of reduced donor funding, leading MFI's to curtail an already meager supply of credit. This further points to the need to foster the growth and development of a commercially sustainable MFI market.



22. Technical assistance will support structure and setup an appropriate regulatory and supervisory framework regulating the microfinance institutions. This should be under the CBI (Microfinance department) in collaboration with the SFD. This approach would be in line with the CBI status as a financial institution and removing it from the oversight by the NGO directorate. Capacity building support would also be needed for the CBI/SFD to put in place appropriate risk management policies, IT infrastructure and human resources to enable it to effectively provide oversight of MFI's.

23. Support to be provided to (SFD/MOP/CBI) to rationalize and align the regulatory and supervisory framework governing the MFI's would need to be complemented by an evaluation of the options to transform the existing "non-profit" MFI model to for-profit MFI institutions, thereby attracting international investors/institutions to set up MFI's and increase coverage to the underserved microfinance sector and graduate over the longer term from its current level of dependence on donor funding.

24. In designing a robust MSE financing component under the program, three key criteria were taken into consideration: (i) outreach; (ii) sustainability; and (iii) impact. These criteria are applicable to both the design and operation of the MFIs, and the institution and capacity building to be carried out under Component 2 of the project.

(a) Outreach: SFD would be able to achieve greater beneficiary outreach operating a wholesale level providing funding to MFIs that would then take responsibility for providing commercially-based financial services to clients. There was also consensus, given the different nature of lending to micro and small sized businesses that the initial focus of the SFD program should be on the micro and small enterprise market with the poor being the priority target group.

(b) Sustainability: MFI best practice and lessons learned worldwide - including in countries with high poverty levels such as Bangladesh and India - have all recorded the best MFI portfolio performance and sustainable outreach when the MFI is allowed to follow market prices and develop credit expertise needed to ensure commercial sustainability with a target beneficiary group (e.g. microfinance and group lending to cooperatives) that would otherwise not be bankable. This will require the MFI to determine pricing, tenor, and payment schedules of its loans in accordance with market conditions. Effective management of lending will be a key set of criteria (as well as governance, management, and credit practices etc.). SFD should also avoid potential conflicts of interest that may arise if it provides feasibility assessment services to support an MFI investment. If the SFD is to provide start-up capital to the MFI in the future, it should then allow the MFI to make independent project assessment decisions on individual borrowers, drawing on internal or contracted BDS services. If this independence is not in place, the MFI can justifiably claim that poor portfolio performance cannot be attributed to the MFI due to SFD interference in these operational aspects. SFD would therefore need to play the critical role of market-maker and performance evaluator, and not that of market operator.

(c) Impact: As noted above, to ensure sustained and effective outreach, the preponderance of experience and lessons learned indicate that an MFI must operate commercially and foster the financial accountability of the borrower to meet market-determined credit obligations. This



market discipline ensures development impact at two levels: it fosters productivity and welfare among the borrowers; and it ensures the longevity in the provision of MFI services.

25. Expected resource allocation under Component 2 is presented in Table 2 below.

Table 2: Component 2 – Supporting Microfinance Systems Strengthening

Sub-component	Total Cost (5 Years) in US\$ million
Policy and Regulatory Support Technical Assistance	1.50
Capacity Building for MOP/SFD to Managed MFI Operations	0.75
MIS Systems for MFI Management and Oversight	0.75
Total	3.00

Component 3 – Capacity Building and Institutional Development (US\$30 million)

26. This component will provide technical assistance and capacity building in a number of areas, which will support: (i) managing the SFD over the five year life of the project; and (ii) building sustainable systems for longer-term implementation of SFD in Iraq after project closure.

(a) Support MOP to manage SFD during the establishment phase

27. The project will assist MOP to establish the SFD Project Management Teams (PMTs) at the central level and in the governorates, and will provide the needed capacity building and training in general and technical areas (including project management for the different sectors, procurement and financial management), as well as monitoring and evaluation activities. The project will also provide technical assistance and implementation support to the teams to contract with NGOs and carry out the SFD operations while the SFD institution is being established.

(b) SFD Organizational Development

28. The project will support technical assistance for SFD organizational development based on the draft SFD law, including development of a robust communications function and introduction of management information systems.

(c) SFD Support to Local Government

29. This sub-component will provide capacity building for: (i) local government on community engagement; (ii) setting up grievance redress mechanisms (GRM); and (iii) fiduciary and safeguards aspects. This will include local and regional training and technical assistance, as well as workshops, seminars, study tours, and field visits.

(d) Support to NGOs

30. This sub-component will support NGOs who will provide overall support to the implementation



of SFD. This will include support to GOI in: (i) management of the NGO sector; (ii) social accountability and citizen engagement; and (iii) proposal development. This sub-component will also finance contracts for NGOs to conduct local-level social and economic assessments and community mobilization.

31. The cost breakdown for Component 3 is shown in the Table 3 below.

Table 3: Estimated Resource Allocation – Component 3

Sub-component	Total Cost (5 Years) in US\$ million
Project Management (including operating costs)	14.1
SFD Organizational Development	6.2
Support to Local Government	1.2
Support to NGOs	8.5
Total	30.0



ANNEX 2: IMPLEMENTATION ARRANGEMENTS

COUNTRY: Iraq Iraq Social Fund for Development

Project Institutional and Implementation Arrangements

1. The project will be implemented over five years starting in February 2018, over two phases. During the first or establishment phase, MOP will carry out the functions of the SFD at the central and local level, under the General Directorate of Poverty Reduction Strategy. The second phase will begin once the draft SFD law is passed, and the SFD as an autonomous institution is established - implementation will then be managed by the new SFD institution established by law. The human and technical resources built during the first phase will transfer to the SFD in the second phase, to allow for a smooth transition and hand-over. The project structure will create clear governance and accountability mechanisms through: (i) establishing a clear and well-articulated set of community accepted rules; (ii) effective social mobilization and information dissemination to ensure that rules are well understood; and (iii) a robust and transparent system to identify and target project beneficiaries. This will be created with the participation of community members; hence this process will be adaptive in nature, and will increase the sense of ownership over the project and reinforce a culture of compliance and accountability.

Project Management Team at MOP

2. During the establishment phase, a Project Management Office (PMO) will be formed within the Directorate General of the Poverty Reduction Strategy of MOP to oversee implementation of the SFD at the central level. Project Management Teams (PMT) will be formed in governorates (within the MOP local offices) to manage SFD activities at the local level. The PMO will be headed by a Project Manager, and will include a Social Development Specialist, Procurement Specialist, Financial Officer, Monitoring and Evaluation (M&E) Specialist, Communications Specialist, Environmental Specialist, Social Development Specialist and an Administrative Assistant. The PMT will be managed by a Project Manager, and will include a Procurement Specialist, a Community Development Specialist, a M&E Specialist and an Administrative Assistant, in addition to engineers assigned from local government and sectoral ministries based on local community subprojects. PMO and PMT staff would eventually be expected to be transferred to the SFD institution once it is fully established. The PMO and PMTs will also rely on consultancy services to complement the existing capacities at the local level.

3. All implementation aspects are detailed in the POM. The POM outlines the roles of stakeholders, the fund's operations and administrative arrangements, monitoring, as well as the framework for procurement, financial management and safeguards.

SFD Autonomous Institution

4. The SFD will be created by law as an autonomous institution, reporting to a Board of Trustees chaired by the Prime Minister. The SFD will have governorate-level offices and a regional office in KRG (KRG SFD Office) with strong human and technical resources to manage SFD at the governorate/local level.



SFD Board of Trustees

5. The SFD will be governed by a Board of Trustees headed by the Prime Minister, with minister level representation from key sector ministers, KRG representative, the High Commission for Coordination between Provinces, private sector, NGOs, and nationally-recognized experts who are nominated, in addition to the SFD Executive Secretary. The SFD Central Secretariat will be the secretariat of the Board. The Chairman of the Board and the Executive Secretary of the SFD may issue regulations and instructions for the strategic and day-to-day operations of the SFD, as allowed by the law.

SFD Governorate Offices

6. The SFD will have Governorate Offices to manage the SFD at the local level. The Governorate Office will be headed by a Project Manager. The Governorate Office will manage local-level implementation, supported by a Local Technical Team. It will be responsible for communicating SFD information to local communities, building the capacity of NGOs and community groups, communicating with the SFD Central Secretariat on policy issues, supervising field work, and managing funds.

Local Technical Team

7. The Local Technical Team will be responsible for ensuring consistency of SFD operations at the local level with local development plans and sustainability of operations and maintenance. It will be composed of the local SFD Project Manager and representatives from local government and local sectoral ministries (education, health, municipalities etc.). The Local Technical Team will provide guidance to community groups on all technical-related aspects of sub-projects, and will ensure that these sub-projects are consistent with and complement the government plans in each sector.

Community Development Groups

8. With the support of local NGOs and CSOs, SFD will mobilize local communities to elect CDGs representing the different constituents of the community. CDGs will be the intermediary between the local community and the SFD Governorate Office. They will be responsible for consulting with their communities to identify needs, vote for priorities and prepare CAPs for SFD financing. CDGs will support sub-project implementation, ensuring that community contributions are in place as initially agreed. They will also be responsible for informing the local community on the work progress and outcomes, and on the Operations and Maintenance Plans after each sub-project. CDGs will communicate on/work with the community on the resolution of any bottlenecks that emerge during implementation.

NGOs

9. The SFD Governorate Offices will select NGOs with capacity to act as facilitators with community groups. It will provide orientation and capacity building to these NGOs who are expected to play a key role in community mobilization (i.e. election of CDGs). NGOs will support the SFD in undertaking social and economic assessments and will support the local community in identifying top priorities and sub-projects based on the needs assessment. It will also play a role in monitoring implementation.



Financial Management

10. During the first phase of implementation, the General Directorate of PRS of MOP will manage overall project implementation. During the second phase, upon the establishment and operationalization of SFD, the implementation of components 1 and 2 will be transferred under the SFD subject to, *inter alia*, SFD maintaining the necessary financial management systems. Component 3 of the project will support SFD in establishing those financial management systems, focusing on FM policies and procedures and accounting IT systems. The PMO will include a financial management team consisting of at least a Financial Officer, an Accountant, and an Internal Auditor. At the governorate level, the PMTs will be established and will include financial management teams consisting of accountants and internal auditors.

11. **Project FM Risk.** Based on the results of the preliminary assessment, the overall FM risk is “High”, mainly due to:

- a) Limited capacity at the MOP and Governorates to meet the project’s FM requirements;
- b) Security conditions hinder World Bank site visits;
- c) Overall weaknesses and shortcomings in the control environment;
- d) Limited accounting and reporting systems in providing timely and comprehensive information;
- e) Multiple local administration layers with difficulty of managing technically and geographically wide-scope components and maintaining proper communication and coordination with different stakeholders;
- f) The absence of eligibility standards and vetting procedures for screening sub-projects that meet project requirements; and
- g) Delays in making payments due to the shortfalls in the Iraqi banking sector.

12. The following measures are proposed to mitigate FM-related risks:

- a) A centralized FM function within the PMO and the PMTs;
- b) Simplified accounting and reporting arrangements to provide timely information on project financial performance and status. Excel spread sheets will be used to record project financial transactions and generate simplified Interim Unaudited Financial Reports (IFRs);
- c) The FM chapter of the POM documents the project’s implementation of internal control functions and processes, and describes the responsibilities of the PMO and each PMT staff with authorities and execution processes;
- d) IBRD financing of 100 percent of activities to avoid delays that arise from counterpart financing;
- e) One Designated Account (DA) will be opened for the MOP PMO, and operational advances for the PMTs at Muthanna, Salahdiien, and Dohuk with sufficient advance payments up to US\$5,000 for operating costs;
- f) The development and adoption of a simple but effective “checklist” which clearly describes excluded ineligible sub-projects;
- g) Hiring a TPMA to regularly monitor the project’s physical checks; and
- h) Hiring an independent external auditor acceptable to the World Bank to provide an independent opinion on the fairness of the project’s financial statements.



13. **Budgeting and Flow of Funds.** The PMO will maintain a detailed disbursement plan per quarter. This plan will be developed based on the initial procurement plan, or based on the schedule of outputs as defined in the implementation schedule and estimated payments cycles, and revised as needed. It will be used as a monitoring tool to analyze budget variances and manage cash, and will feed into the quarterly Interim Unaudited Financial Reports (IFRs).
14. To ensure that funds are readily available for project implementation, one Designated Account (DA) will be opened for the MOP PMO. For each PMT at the Governorate level, an operational account will be opened at an acceptable bank. These accounts will be provided with advances with a ceiling up to US\$5,000 for incremental operating costs. These operational accounts will be replenished by the MOP in Baghdad, subject to verification of all supporting documents by the PMTs.
15. **Accounting and Financial Reporting.** The project will follow cash basis accounting and key accounting policies and procedures documented in the financial procedure manual. The MOP in Baghdad uses basic accounting software to capture its daily financial transactions. This locally developed software is not capable of generating project quarterly IFRs in accordance with World Bank FM guidance and record commitments. During the first phase, simplified accounting and reporting arrangements will be used by the MOP in Baghdad and the PMTs to provide timely information on the project's financial performance and status. A fully automated Enterprise System will be developed for SFD, which will integrate, among others a developed financial management and accounting module. Manual accounting and excel spread sheets will be used to record project financial transactions and generate quarterly IFRs.
16. **Internal controls.** The project will be implemented through a centralized management and disbursement function within the PMO and the PMTs' authority with specific controls and procedures documented in the financial management manual. The financial management manual documents the project's implementation of internal control functions and processes and describes the responsibilities of each PMO and PMT staff which are summarized in terms of authorization and execution processes. The expenditure cycle will specify the following steps: (i) technical approvals for sub-project civil and consultancy work/deliverables; (ii) administrative approvals by Project Officers/PMT Project Manager; (iii) issuance of payments will be made upon receipt of support documentation and written requests signed by authorized officials; and (iv) verification by the Financial Officer of the accuracy and compliance of the payment requests with the Loan Agreement. The FM manual includes a detailed chapter on sub-project expenditure policies and procedures.
17. The PMT will reconcile its operational account of the project account bank statement with the account book balance on a monthly basis, while the PMO will do the same for the project DA. Reconciliations should be prepared by the PMT accountants and verified by the PMO Financial Officer. All reconciling items (if any) should be listed, explained and followed up on. Copies of the reconciliation together with the account bank statement should be kept in the project files and attached to the IFRs.
18. **Financial Audit.** The project's financial statements will be audited annually by an independent auditor acceptable to the World Bank, in accordance with internationally accepted auditing standards and terms of reference cleared by the Bank. The PMO will be responsible for preparing the TORs for the auditor and will submit them to the World Bank for clearance. The audit report will be submitted to the Bank no later than six months following the end of the project's fiscal year. The report shall include an opinion on



the project's financial statement. The auditor will also be requested to provide an opinion on the project's effectiveness of internal control systems and on IFRs along with a reconciliation statement of IFRs with eligible expenditures per the Project Financial Statements. Finally, a management letter identifying any deficiencies in the control system the auditor finds pertinent shall accompany the audit report including recommendations for their improvement.

19. **Supervision and Independent Verification.** For effective interaction and response to clients' FM inquiries and requests, project supervision will be supported by the World Bank. Supervision activities will also be supported by a TPMA who, given the project risk, will be hired by the Bank, to support the World Bank office in Baghdad and to carry out periodic field inspections and reporting to the World Bank.

20. **Designated Account (DA).** One Designated Account (DA) will be opened for the MOP PMO. Operational accounts will be opened for the PMTs with sufficient advance payments up to US\$5,000 for incremental operating costs. The proceeds of the Loan will be disbursed in accordance with the World Bank's disbursement guidelines that will be outlined in the Disbursement and Financial Information Letter and in accordance with World Bank Disbursement Guidelines for Projects. Transaction-based disbursement will be used under this project. Accordingly, requests for payments from the Loan will be initiated using Withdrawal Applications (WA's) either for direct payments, reimbursements, or replenishment to the DAs. WA's will include appropriate supporting documentation including detailed a Statement of Expenditures (SOE) for reimbursements and replenishments to the DA. The category of Eligible Expenditures that may be financed out of the proceeds of the Loan and the percentage of expenditures to be financed for Eligible Expenditures will be spelled out in the Loan Agreement.

21. **E-Disbursement.** The World Bank has introduced e-disbursement for all projects in Iraq. Under e-Disbursement, all transactions will be conducted, and associated supporting documents scanned and transmitted online through the Bank's Client Connection system. The use of e-Disbursement functionality will streamline online payment processing to: (i) avoid common errors in filling out WAs, (ii) reduce the time and the cost of sending WAs to the Bank, and (iii) expedite Bank processing of disbursement requests.



Table 1: Categories of Eligible Expenditures and Percentage of Expenditures to be financed by Loan

Category	Amount of the Loan Allocated (expressed in USD)	Percentage of Expenditures to be financed (inclusive of Taxes)
(1) Subprojects under Part 1 of the Project and Goods, Consulting Services, Non-consulting Services, Training and Operating Costs under Parts 2 and 3 of the Project	295,000,000	100%
(2) Unallocated	4,250,000	
(3) Front-end Fee	750,000	Amount payable pursuant to Section 2.03 of this Agreement in accordance with Section 3.01 (b) of the General Conditions
(4) Interest Rate Cap or Interest Rate Collar premium	0	Amount due pursuant to Section 4.05 (c) of the General Conditions
TOTAL AMOUNT	300,000,000	

22. **Operating Costs:** Operating costs are the reasonable costs incurred by the PMO/PMTs on account of project implementation including costs for communication; translation and interpretation; printing; advertising; office supplies; banking charges; project related travel (including per diems, accommodation and transportation); vehicle rental and fuel; postal fees; and other miscellaneous costs directly associated with project implementation subject to approval by the World Bank, but excluding salaries and allowances of the Borrower’s civil servants or other regular government staff.

Procurement

23. Procurement will be carried out in accordance with the ‘World Bank Procurement Regulations for Borrowers under Investment Project Financing’, dated July 1, 2016. As per requirement of the Procurement Regulations, a comprehensive Project Procurement Strategy for Development (PPSD) is being prepared with the support of the World Bank. The PSD will be finalized before project effectiveness.

24. Procurement arrangements will consider the call for the participation of local communities or NGOs in works and delivery of non-consulting services. It is important to bring in local contractors and use intensive local workforce as well as increase the use of local knowledge, goods and materials. It is expected that the project will finance small and low valued contracts but in case of larger sized contracts, the possibility of joint ventures with local firms or subcontracting to local firms will be available and this could potentially contribute to quicker mobilization and use of local materials and labor.



25. To avoid delays in project implementation, advance procurement for selection of consultants and NGOs is crucial to the success of the project. Terms of Reference (TORs) and Request for Expressions of Interest (REOIs) were prepared during the preparation of the project and a procurement notice will be published prior to project effectiveness.

26. There are several consultancy services and NGOs under Component 3 that are intended to improve institutional knowledge and preparedness on all aspects of SFD establishment, management and other technical assistance activities to improve the capacity of SFD staff in implementing the projects.

27. Procurement of Works and Goods and Non-Consultancy Services will benefit from simplified procedures as follows:

- a) *Request for Quotations approaching local market* in accordance with paragraph 6.7 of the Procurement Regulations would be an appropriate method for procuring readily available off-the-shelf goods valued at US\$200,000, or simple civil works of values less than US\$500,000. In exceptional cases, when Requests for Quotations need to be followed for contracts estimated to cost more than these values, the Bank will need to review and provide its no objection on each case. The Procurement Plan will determine the cost estimate of each contract, and the aggregate total amount. The PMTs should solicit at least three price quotations for the purchase of goods, materials, small works, or services (other than consulting services), to formulate a cost comparison report.
- b) Request for Bids approaching the local market vs. Request for Quotations (Simplified National Open Competitive procurement vs. Request for Quotations Procedures): simplified procedures and documentation can be used where quotations from three local suppliers are difficult to obtain or when National Open Competitive procedures are inappropriate or too complex for small value of contracts.
- c) *Request for Bids approaching limited competition*: approach to market is by invitation only, without advertisement. This may be an appropriate method of selection where there are only a limited number of firms or there are other justified reasons.
- d) *Direct Selection*. Direct contracting for the procurement of civil works and goods is being allowed to extend an existing contract or award new contracts in response to the emergency situation. The direct contracting may be from the private sector, UN agencies/projects (for goods), or contractors or NGOs that are already mobilized and working in remote or unsecured areas.
- e) *Framework Agreements*: a flexible contracting arrangement for recurrent procurement that is particularly suited for emergency procurement since it saves time and enables quick delivery of supplies as and when needed; may also be particularly useful for procurement of commodities, for which simplified procedures are appropriate (including short bid validity periods, waiver of bid security requirements, or standing bid security covering multiple bids).
- f) *Force Account*: in some areas where private sector firms are unlikely to bid at reasonable prices due to the location of and risks associated with the project, Force Account for repair/reconstruction using the borrower's own personnel and equipment or a government-owned construction unit may be the only practical method (see paragraph 6.54 and 6.55 of the World Bank's Procurement Regulations), provided that the borrower reports to the World Bank on expenditures. In this case, the use of Force Account would be the appropriate method in areas where work by contractors



tendered competitively is unrealistic.

- g) *Waiving Bid and Performance Security Requirements.* For small contracts for goods or works, the preparation of bids by MSE suppliers or contractors can be accelerated by following the option, set out in paragraph 5.35 of the Procurement Regulations, of not requiring a bid security. Similarly, in the case of small contracts for works or supply of goods, the borrower may decide not to require a performance security. However, in works contracts, retention money may be required during the liability period, and for goods contracts, manufacture warranties will be requested.
- h) *Advance Payment.* Where it is not easy for contractors and suppliers to obtain lines of credit from banks, the PMTs may consider increasing the amount of advance payment under works and supply contracts to up to 20-30 percent of the contract value, provided that the contractor/supplier provides a bank guarantee for the same amount and the World Bank clears this increased value of advance payment.
- i) *Use Prequalified Suppliers and Contractors:* Using lists of prequalified suppliers and contractors to whom periodic invitations are allowed to help accelerate the procurement process. Prequalification documents may use a simplified format. Suppliers and contractors can be requested to provide quotations for simple unit prices, as for commodities. Contracts should be awarded on a competitive basis and may be preferably packaged in small contracts for short durations at fixed prices.

28. Project implementation during the first phase will be the responsibility of the MOP in Baghdad. In Baghdad, a PMO will be established to be responsible for overall project coordination and reporting, including monitoring compliance with safeguards, fiduciary, legal and other covenants. It is envisaged that the PMO will take the lead on the institutional strengthening and capacity building of staff at the governorate level. The PMO staff and procurement personnel at the governorates have limited experience in handling small value contracts scattered geographically or contracts that are spread over time. The World Bank's Procurement Regulations would also be new to the PMO. All staff involved in the project will be trained on specific features of the Procurement Regulations related to their project. The field level procurement and contract management officers managing contracts need comprehensive procurement and contract management training.

29. Regulation 1 for 2014 of "Executing Public Contracting" establishes the right of the bidder to raise a complaint to a centralized committee at each procuring entity. However, bidders do not have adequate access to independent administrative review and appeal processes. Although civil courts have jurisdiction over civil and commercial matters, access to them is perceived as inadequate by participating bidders, and the administrative review and court systems are not operating adequately under the current circumstances. It is evident that the complaint procedure in Iraq does not meet the criteria of independence from officials that are involved in the actions. The POM will include a section on how to handle complaints during the procurement process and any disputes arising during contract implementation. In the absence of a formal independent complaint mechanism, the procedures for administration and handling of procurement-related complaints stated in the World Bank's procurement regulations will be followed for contracts where the World Bank's Standard Procurement Documents are used.

30. Although the MOP has an adequate number of contractors registered, due to the security situation and instability in certain parts of the country, as well as the lack or limited access of private sector companies at the level of communities, there is a likelihood that strong competition could be



limited. Therefore, communicating/consulting with potential bidders will be necessary to ensure competition from the local communities or at the level of governorates.

31. The PPSD indicated that only few of the local NGOs have worked on projects financed by the World Bank or any other international organizations. Therefore, there is a risk of not receiving any responsive proposals as the identified potential NGOs may not be familiar with the procurement process of the Bank. There are a few international/regional NGOs or consultants who are familiar with World Bank systems and who could potentially take advantage of the situation and submit high proposals adding to the cost of security. To encourage the maximum number of NGOs/consultants, and to avoid these potential risks, an awareness program will be carried out for interested applicants from within and outside the country.

32. Key procurement risks and proposed mitigation measures are presented in Table 2 below:

Table 2: Procurement Risks and Mitigation Measures

Risks	Mitigation measures
Limited local market at the community level with required experience may result in less competition.	<ul style="list-style-type: none"> • Hold awareness meetings for the private sector at the governorate or community level before issuing bids to ensure stronger competition which could ensure reasonable price. • Appropriate packaging and qualification requirements to be set based on market analysis. • Introduce flexibility in the qualification criteria, waiver of bid security and performance guarantee.
Delay in implementation from contractor’s side (time over-run and cost over-run).	<ul style="list-style-type: none"> • Introduce performance-based penalty on set milestones for contract management. • Link payment to performance and/or delivery of outputs. • Use Project Management tools (like Microsoft Project) to closely monitor critical paths. • Engage civil society in monitoring implementation.
Lack of experience in procurement planning, monitoring and contract management at the governorate level may cause delay in preparation of bidding documents, evaluation and implementation.	<ul style="list-style-type: none"> • Provide comprehensive procurement and contract management training to PMO and PMTs. • Hire an experienced procurement officer at the level of PMO to oversee and mentor all the procurement officers at the governorates level.
Collusion among bidders due to large number of small valued contracts and limited competition.	<ul style="list-style-type: none"> • Advertise procurement plan, procurement notices and contracts awards even for small value of contracts. • Hold awareness meetings for the private sector at the community level. • Ensure public bid opening at the community level.
Perception of fraud and corruption in high risk and weak control environment.	<ul style="list-style-type: none"> • Introduce signing of Integrity Pact whereby both parties will sign the pact during the bidding period. • Ensure solid record keeping practices are in place. • Hire local TMPA to ensure fiduciary compliance.



	<ul style="list-style-type: none">• Advertise procurement plan, procurement notices and contracts awards even for small valued contracts and ensure public bid opening and participation of local communities in the procurement proceedings.
High price bids due to security conditions in some parts of the country.	<ul style="list-style-type: none">• Bidders to take extra insurances.• Additional cost for security.
Travel/mobility of WBG staff in all areas of the country are subject to restrictions due to the security situation in Iraq.	<ul style="list-style-type: none">• Hire local TMPA or local consultants to conduct site visits and physical inspection.• Use of technology of Geotagging when feasible

33. The Procurement Plan below will set forth the contracts for the first 18 months in which most of the contracts will be subject to Post Review by the World Bank due to the small size and low value of contracts.



Table 3: Procurement Plan for First 18 Months

Description	Reference No.	Procurement Category	Procurement Method	Market Approach	Estimated Amount	Bank Financed %	Review Type	Planned Start Date
Duhok Governorate								
NGO for Duhok	NGO.DUH.01	CS	CQS	National	100,000	100	Post	2/1/2018
Works at Mankesh - Center	DUH.01	WO	RfQ	Local	90,000	100	Post	5/1/2018
Works at Baardi - Center	DUH.02	WO	RfQ	Local	90,000	100	Post	5/1/2018
Works at Yaziden	DUH.03	WO	RfQ	Local	90,000	100	Post	5/1/2018
Works at Sheik Hasan	DUH.04	WO	RfQ	Local	90,000	100	Post	5/1/2018
Works at Dirky	DUH.05	WO	RfQ	Local	90,000	100	Post	5/1/2018
Works at Sarsank - Center	DUH.06	WO	RfQ	Local	90,000	100	Post	5/1/2018
Works at Qadash	DUH.07	WO	RfQ	Local	90,000	100	Post	5/1/2018
Works at Sikrin	DUH.08	WO	RfQ	Local	90,000	100	Post	5/1/2018
Works at Botiya	DUH.09	WO	RfQ	Local	90,000	100	Post	5/1/2018
Works at Siartika	DUH.10	WO	RfQ	Local	90,000	100	Post	5/1/2018
Salah Deen Governorate								
NGO for Salah Deen	NGO.SAL.01	CS	CQS	National	100,000	100	Post	2/1/2018
Works at Al-Ahbab	SAL.01	WO	RfQ	Local	90,000	100	Post	5/1/2018
Works at Al-Mzareh	SAL.02	WO	RfQ	Local	90,000	100	Post	5/1/2018
Works at Albo Jili	SAL.03	WO	RfQ	Local	90,000	100	Post	5/1/2018
Works at Albo Hishma	SAL.04	WO	RfQ	Local	90,000	100	Post	5/1/2018
Works at Dor - Residential complex	SAL.05	WO	RfQ	Local	90,000	100	Post	5/1/2018
Works at Himreen	SAL.06	WO	RfQ	Local	90,000	100	Post	5/1/2018
Works at Abi Dalaf	SAL.07	WO	RfQ	Local	90,000	100	Post	5/1/2018
Works at Al-Misehli	SAL.08	WO	RfQ	Local	90,000	100	Post	5/1/2018
Works at Al-Khanoka	SAL.09	WO	RfQ	Local	90,000	100	Post	5/1/2018
Works at Al-Jiznaf	SAL.10	WO	RfQ	Local	90,000	100	Post	5/1/2018
Works at Biaja	SAL.11	WO	RfQ	Local	90,000	100	Post	5/1/2018
Muthana Governorate								
NGO for Muthana	NGO.MUT.01	CS	CQS	National	100,000	100	Post	2/1/2018
Works at Al Dhwaiher	MUT.01	WO	RfQ	Local	90,000	100	Post	5/1/2018
Works at Al-Twawra	MUT.02	WO	RfQ	Local	90,000	100	Post	5/1/2018
Works at Al-Khadre	MUT.03	WO	RfQ	Local	90,000	100	Post	5/1/2018
Works at Said Swadi Al Abed	MUT.04	WO	RfQ	Local	90,000	100	Post	5/1/2018
Works at Karim Dinef	MUT.05	WO	RfQ	Local	90,000	100	Post	5/1/2018
Works at Al-Bado	MUT.06	WO	RfQ	Local	90,000	100	Post	5/1/2018
Works at Al- Dafan	MUT.07	WO	RfQ	Local	90,000	100	Post	5/1/2018
Works at Al-Dibes	MUT.08	WO	RfQ	Local	90,000	100	Post	5/1/2018
Works at Nile	MUT.09	WO	RfQ	Local	90,000	100	Post	5/1/2018
Project Management								
External auditor	PMT.CS.02	CS	LCS	International	120,000	100	Post	9/1/2018
PMO/SFD: Office equipment and Furniture	PMT.GO.06	GO	RFQ	National	100,000	100	Post	3/1/2018
PMTs: Office equipment and Furniture - several packages	PMT.GO.07	GO	RFQ	National	300,000	100	Post	5/1/2018
Support to PMO/SFD - Several individual consultants	PMT.CS.01	CS	CVs	National	250,000	100	Post	3/1/2018



Table 4: Prior Review Thresholds

Type of Procurement	Prior Review High Risk (in US\$ million)
Works (including turnkey, supply & installation of plant and equipment, and PPP)	5.00
Goods, information technology and non-consulting services	1.5
Consultants: Firms	0.5
Consultants: Individuals	0.2

Table 5: Thresholds for Procurement Approaches and Methods

Thresholds for Procurement Approaches and Methods (US\$ thousands)							
Works			Goods, IT, and non-consulting Services			Shortlist of national Consultants	
Open international >=	Open national <	RfQ <=	Open international >=	Open national <	RfQ <=	Consulting services <	Engineering and Construction Supervision <=
10,000	5,000	500	2,000	1,000	200	300	N/A

Environmental (including Safeguards)

34. The project is a Safeguards Category B, triggering the safeguards policies Environmental Assessment OP4.01, Physical Cultural Resources OP4.11 and Involuntary Resettlement OP4.12. The project is prepared under the provision of Paragraph 12, Section III, of the Bank Policy: Investment Project Financing (Projects in Situations of Urgent Need of Assistance or Capacity Constraints), and the preparation of safeguards instruments has been requested for deferral until the start of implementation, with the preparation of a SAP (see Annex 4). The ESMF, once prepared, will be the primary safeguards instrument of the project. The ESMF will cover the entire scope of the project and will identify subprojects, classify them into typologies along environmental and social criteria and impacts, and for each typology define the required specific instruments and processes. The ESMF and sample ESMPs covering most project typologies will be available for consultation and disclosure by April 2018 due to the accelerated processing under Paragraph 12, Section III of the Bank Policy: Investment Project Financing.

35. For the expected scope of freestanding subprojects under Component 1, comprehensive ESMPs will not be required, as all structures and installations are preexisting, and the project would only be financing their repair, reconstruction, small expansions of educational buildings or reinstatement. The expected typologies (e.g. repair/ reconstruction or minor physical expansion of education or health facilities, maintenance of small local access roads, repair or minor localized expansion of small scale municipal infrastructure), as well as the restoration of public services will mostly require either an ESMP or a checklist-type ESMP that would become part of the works contracts, set the environmental and social standards and compliance mechanisms, and serve as a contractual basis for supervision and enforcement



of good environmental and social practice during the works.

36. Upon clearance by the World Bank, the environmental and social safeguards documents will be disclosed in-country and on the World Bank's external website in English and Arabic.

37. Linked to the ESMF (though under management and control of the Iraqi Ministry of Defense and Ministry of Interior) is the risk of Explosive War Remnants (EWR), including Unexploded Ordnance (UXO), abandoned explosive ordnance (AXO) and purpose-setup munitions in some project areas. As the project will be implemented in areas recently liberated from ISIS control, and as the liberation often took place with considerable combat activities, the presence of EWR is high. Thus, all project areas will have undergone or undergo a screening (technical survey) for EWR and must be declared safe by the Ministries of Defense and Interior prior to any works, be it relating to rubble removal, reconstruction of damaged structures, or any works below ground level.

38. The details of the planned safeguards approach are detailed in the SAP in Annex 4 of this document.

Role of Partners

39. The SFD will be established as a program that can utilize funding from multiple sources to finance projects at the community level. International and national donors are expected to contribute in financing the sub-projects and providing capacity building for the PMT, NGOs and community groups. All implementation parameters are recorded in the Project Operations Manual (POM) and can thus be sustainably utilized for donor funding of sub-projects.



ANNEX 3: IMPLEMENTATION SUPPORT PLAN

COUNTRY: Iraq
Iraq Social Fund for Development

Strategy and Approach for Implementation Support

1. The SFD project will adopt a demand-driven approach, where the government will be delivering assistance to disadvantaged and conflict-affected communities to help rebuild basic social and economic infrastructure. The project will position communities at the center of the planning and delivery processes, and will thus enhance collective action and social accountability leading to trust in the state. The SFD will also support a bottom-up decentralization process through building social capital and empowering local governments. It will use the 'building back smarter' approach to reconstruction and recovery, while also supporting the renewal of the social contract in Iraq.
2. The SFD project will mark a significant shift which would require regular coordination between all stakeholders to achieve a concerted and coordinated impact on reducing vulnerability. As such, the Government will benefit from increased interaction with the World Bank which will enable a constructive dialogue to address emerging issues as the program is rolled-out.
3. The World Bank will also carry out implementation support missions to Baghdad on a regular basis to ensure continuous support, and will deploy a strong local team to follow-up on project implementation on a regular basis. The World Bank will also conduct a Mid-Term Review (MTR) before the end of the third year of the project, or once the project has disbursed 50 percent of the resources, to assess progress and address high-level implementation challenges. Implementation support missions and internal reviews will be complemented by external reviews that will include the following areas: financial management, procurement, monitoring and evaluation, and technical audits.



Implementation Support Plan and Resource Requirements

Time	Focus	Skills Needed	Resource Estimate	Partner Role
First twelve months	<ul style="list-style-type: none"> Implementation support to MOP to manage SFD activities in the first three governorates Training for local NGOs on community needs assessment Capacity building for local government on planning, identification and execution of community sub-projects Support to initiating the work on the SFD institutional structure 	<ul style="list-style-type: none"> Community development specialists Social Protection Specialists Poverty Economist Governance Specialist Procurement Specialist Financial Management Specialist Safeguards Specialist Communications Specialist Monitoring and Evaluation Specialist Institutional Development Specialist Technical experts (engineers, etc.) 	USD 300,000	Implementation Support
12-48 months	<ul style="list-style-type: none"> Implementation support to MOP to manage SFD activities in the first three governorates and expanding to the other four governorates Ongoing capacity building for local government, 	<ul style="list-style-type: none"> Community development specialists Social Protection Specialists Poverty Economist Governance Specialist Procurement Specialist Financial 	USD 250,000	Implementation Support



	<ul style="list-style-type: none"> NGOs and community groups • Articulation of the SFD draft institutional and organizational structure • Support to MSE function 	<ul style="list-style-type: none"> Management Specialist • Safeguards Specialist • Monitoring and Evaluation Specialist • Institutional Development Specialist • Technical experts (engineers, etc.) • Finance Specialist 		
48-60 months	<ul style="list-style-type: none"> • Implementation support to MOP to manage SFD activities in the seven governorates • Ongoing capacity building for local government, NGOs and community groups • Finalization of the SFD institutional and organizational structure • Initiation of micro-finance activities 	<ul style="list-style-type: none"> • Community development specialists • Social Protection Specialists • Poverty Economist • Governance Specialist • Procurement Specialist • Financial Management Specialist • Safeguards Specialist • Monitoring and Evaluation Specialist • Institutional Development Specialist • Technical experts (engineers, etc.) • Finance Specialist 	USD 250,000	Implementation Support



Skills Needed	Number of Staff Weeks	Number of Trips	Comments
Social Protection			Region-based
Social Development			Region-based
Procurement			Region-based
Financial Management			Region-based
Safeguards			Region-based
Monitoring and Evaluation			Region-based
Private sector development			International
Institutional Development			International
Governance			International

Partners

Name	Institution/Country	Role



ANNEX 4: SAFEGUARDS ACTION PLAN

COUNTRY: Iraq

Iraq Emergency Social Fund for Development

I. Objectives

1. The Safeguards Action Plan (SAP) provides a time-bound planning framework for the environmental and social safeguards instruments, the preparation of which has been deferred to the project implementation period under Paragraph 12, Section III, of the Bank Policy: Investment Project Financing, which allows for condensed procedures and deferral of safeguards instruments in situations of urgent need of assistance. This SAP provides general policies, guidelines, codes of practice and procedures to be integrated into the implementation of the Bank supported Iraq Social Fund for Development Project.

2. The objective of the SAP is to ensure that the planned project activities and related Environment and Social (E&S) assessment and management instruments and processes are in compliance with the national legislation of Iraq as well as the World Bank's operational safeguards policies, and are duly and diligently implemented in a logical sequence with the environmentally and socially relevant project activities. As a general principle, E&S assessments and instruments should be completed, disclosed and consulted on before: project-funded activities with relevant E&S footprints may commence.

3. This SAP was prepared by the World Bank under Paragraph 12, Section III, of the Bank Policy: Investment Project Financing, and complies with the triggered World Bank safeguards policies, specifically - Environmental Assessment OP 4.01, Physical Cultural Resources OP 4.11, and Involuntary Resettlement OP 4.12, and is subject to public disclosure as part of the Project Appraisal Document (PAD). In addition, it will be disclosed both in-country (in the appropriate communication channels, concerned sector ministries, and other public places of project intervention areas) as well as at the World Bank external website.

II. Project Scope and Context

4. The project will support the establishment of the Iraq Social Fund for Development and provide support to targeted communities to improve access to basic services and employment opportunities. The project will have three components:

Component 1 – Financing Community Sub-projects (US\$262 million)

5. The objective of this component is to improve access of communities to basic social services. It will finance one cycle of subprojects during the two years of implementation, which is the establishment phase of the SFD. Sub-projects consist of medium and small scale economic and social infrastructure that represent priority investments identified by the community, based on an open menu that typically includes investments that improve access to basic public services, and investments that can be realized using labor-based techniques and maximizing the use of local materials. The establishment phase will start effectively in January 2018, encompassing seven governorates, starting with Muthanna, Salahdiyen, and Dohuk in the first year, and expanding to Ninawa, Baghdad, Thiqr, and Qadisiya in the second year.



Component 2 – Supporting Microfinance Systems Strengthening (US\$3 million)

6. The objective of this component is to support the establishment of the overall MSE program of SFD through technical assistance and capacity building activities, to prepare the MSE sector, within the objectives of the SFD, to contribute to SFDs overall objectives. No capitalization of microfinance institutions will take place under the component, only technical assistance and capacity building. Support will be provided on: (i) enhancing the ability to manage MFIs that will be engaged under the SFD in the future; and (ii) review regulatory environment to allow MFI to function without market distortions. No capitalization of microfinance institutions will take place under the component, only technical assistance and capacity building. The component, once implemented would allow for capitalization of the MFI sector based on good practices that would ensure proper outreach, sustainability and impact. These activities may be incorporated into the project after a possible restructuring 12-24 months after effectiveness.

Component 3 – Capacity Building and Institutional Development (US\$30 million)

7. This component will provide overall implementation and project management support to the establishment and operation of SFD. Specifically, the component will: (i) support MOP in managing the SFD during the establishment phase and for project management activities; (ii) provide institutional development for the eventual SFD autonomous institution; and (ii) build the capacity of local government, community groups and NGOs.

8. **Fragility and Conflict Context:** One important consideration is the context of Iraq's current country conditions, in terms of security, capacity constraints, as well as the environmental and social baseline. It is important to note that due to the prolonged state of fragility and the recent rekindling of conflict, state functions have been reduced to very basic levels of governance, technical expertise and state presence. Under this pretext, the design of complex and sophisticated safeguards processes and instruments will neither be possible, nor conducive to the project's E&S performance. It is thus proposed to develop E&S instruments that are as simple and robust as possible. Practical examples for this approach include the maximum use of detailed templates and checklist formats with preconfigured lists of the scope of activities, linked to the range of anticipated impacts, the related mitigation measures, and the M&E arrangements to ascertain adequate implementation. These can easily be completed by non-specialist personnel, attached to construction contracts, and are readable and accessible by the Contractor's site personnel.

III. Compliance with World Bank Safeguards Policies

9. Activities supported by the proposed operation are expected to have certain site-specific adverse environmental and social impacts. This SAP has been developed specifically for these proposed activities to ensure due diligence, to avoid causing harm, and to ensure consistent treatment of social and environmental issues by the Government of Iraq. The purpose of this plan is to also assist the Project Management Office (PMO) in screening all subprojects for their likely social and environmental impacts, identifying E&S management requirements and prioritizing investments. The World Bank's policies on Environmental Assessment (OP/BP 4.01), Physical Cultural Resources (OP4.11), and Involuntary Resettlement (OP/BP 4.12) are triggered under this Project.



10. **OP 4.01 Environmental Assessment.** The nature of the proposed project activities triggers OP 4.01 due to anticipated minor environmental and social impacts which will occur within close project boundaries on existing footprints, and be mostly of a temporary nature. The triggering of OP4.01 necessitates the preparation of general E&S management and “good housekeeping” instruments. Considering the limited scale and magnitude of rehabilitation and improvement works as well as the confinement of activities to existing footprints, the proposed operations is classified as category B.

11. **OP 4.11, Physical Cultural Resources (PCR):** The proposed operations are not expected to pose risks of damaging cultural property. However, Iraq is a country extremely rich in PCR, and the destruction experienced during combat activities is likely to have affected historical buildings, religious sites such as mosques and shrines, and monuments. Destruction may have been random acts of war, but may also have been targeted acts of sectarian violence. Dealing with PCR has been included in the ESMF and will be part of the planned TA component. This may identify and include assistance for the preservation of historic sites and/or re-building of damaged historical buildings. If this occurs, cultural property management plans would be prepared for these subprojects.

12. **OP 4.12, Involuntary Resettlement.** The need for involuntary resettlement or land acquisition in specific subproject areas will not be expected within the first two years of the SFD project. Therefore, subprojects will be screened for applicability of the resettlement policy and any subprojects involving involuntary resettlement or land acquisition will only be approved after preparation of a Resettlement Action Plan acceptable to the Bank. Several issues will increase the complexity of land acquisition. For example, the lack of reliable land record systems, and the inability of people losing land to either document ownership or be physically present to make their claims for eligibility. The RPF will therefore, include procedures for identifying eligible project-affected people, calculating and delivering compensation, and mechanisms for land dispute grievance redress. In the case of voluntary land donation (VLD), for some subprojects as a contribution by the community shall be accepted under no pressure and will only be eligible if a consent form is signed and attached to the subproject. A screening checklist will be adopted and will exclude subprojects that require involuntary land acquisition.

13. OP 4.12 covers those persons affected by involuntary land acquisition. The other social dimensions including poverty impacts, gender, and civic engagement, etc. will be covered by the ESMP of site specific subprojects. The site specific ESMPs will include measures to minimize and mitigate adverse social impacts, particularly on poor and vulnerable groups.

14. No meaningful alternatives to the current project design were identified, as the project contents, geographic scope and activities are predefined by: (i) pre-existing structures, infrastructure and assets; and (ii) the extent and distribution of damage related to combat activities. There is some scope for variation in identifying subprojects; the identification of the actual areas and physical assets to be included into the project will be based on extensive guidance by an ongoing needs assessment.

IV. Sequencing and Tentative Implementation Schedule for Safeguards Processing

15. As a general principle, the implementing agency will agree to apply the following minimum standards during implementation: (i) inclusion of standard Environmental Codes of Practice (ECOP) in the bid documents for rehabilitation, improvement and reconstruction activities for all subprojects; (ii) review



and oversight of any reconstruction works by specialists; (iii) implementation of environmentally and socially sound options for disposal of any hazardous waste (e.g. medical waste, debris or drain spoils, oil-contaminated soils or rubble); and (iv) provisions for adequate and satisfactory budget and institutional arrangements for monitoring effective implementation.

16. The following time-bound deployment of the above described safeguards instruments is anticipated to manage and mitigate the potential adverse impacts:

- a. **During project preparation**, the Bank will assist the project in drafting TORs for an ESMF and the counterpart will initiate the preparation of this safeguards instrument by April 2018.
- b. **Immediately after project effectiveness, during the first three months of implementation**: The borrower will prepare an ESMF and RPF, which will undergo a consultation process and be disclosed by April 2018. These will be the overarching safeguards documents governing approach, processes and specific instruments for sub-projects. TORs for preparing the ESMF and the RPF should be submitted to the World Bank for clearance by December February 15, 2018. The ESMF will cover the following topics: (i) scope of project activities; (ii) typologies of expected impacts, as well as magnitudes and durations; (iii) types of E&S assessment/management instruments including the range of mitigation measures tailored to the identified sub-project/impact typologies; (iv) methodology for sub-project E&S screening, classification and allocation of specific E&S instruments; (v) review of relevant institutions, key players, roles and responsibilities and administrative processes; (vi) capacity analysis and training requirements; (vii) update of cost estimates for E&S management measures. The RPF will cover the following topics: (i) a brief description of project activities; (ii) principles and objectives governing resettlement preparation and implementation; (iii) a description of the process for preparing and approving resettlement plans; (iv) eligibility criteria and estimated resettlement impacts; (v) arrangements to allocate funds for resettlement from the project budget; (vi) legal framework; (vii) methods of valuing affected assets; (viii) institutional arrangements of resettlement planning and implementation; (ix) grievance redress mechanism; (x) consultation; and (xi) arrangements for monitoring and evaluation.
- c. **Immediate commencement of minor works, prior to completion of ESMF**: To address the most urgent need for restoration of basic public services (transport, water/sewage, and electricity supply) the project will finance minor works, which will be allowed to proceed before the completion of the ESMF, if (i) a simplified ('checklist') ESMP had been prepared, (ii) found acceptable to the Bank and (iii) has been duly disclosed and consulted on.
- d. **During the implementation phase, from month 3 onwards**: Continuous development of E&S management instruments for the expected typologies (e.g. repair of small local roads, minor local municipal infrastructure, as well as the restoration of basic public services). For the expected scope of subprojects freestanding, comprehensive ESMPs will not be required, as all structures and installations will have existed before, and the project would only finance their repair, reconstruction or reinstatement. The expected typologies would mostly require simple, checklist-type ESMPs (E&S management plans) that would become part of the works contracts, set the E&S standards and compliance mechanisms, and serve as a contractual basis for supervision and enforcement of good E&S practice during the works.



- e. ***In parallel with the sub-project ESMPs:*** Linked to the ESMF is the risk of UXO and ERW in the project areas. As the project will be implemented in areas recently liberated from ISIS, and as the liberation often took place with considerable combat activities, the presence of UXO and ERW is a certainty. Thus, all project areas will undergo a screening (technical survey) for UXO/ERW prior to any works, be it relating to damaged buildings, rubble, or any works below natural ground level. This survey will collect and analyze data using appropriate technical interventions about the presence, type, distribution and surrounding environment of mine/ERW contamination in order to define better where mine/ERW contamination is present and where it is not as well as to support decision making processes through the provision of evidence. Depending on the screening results, EOD measures will be organized, as an integral part of the rubble removal contracts.

17. **Preparation time for safeguards instruments including Bank review, revisions, clearance, and approval steps.** The preparation of the ESMF and RPF is estimated to require a period of about 2 - 3 months, including Bank review and approval, consultations, finalization and disclosure. The preparation of checklist ESMPs as well as RAP/ARAP, if needed, will range from 1 to 2 months including Bank review and approval, consultations, finalization and disclosure.

18. **Consultations and Disclosure.** The ESMF and RPF will be disclosed in-country and at the Bank's external website after Bank review as final draft versions for a period no less than 30 days during which the project will organize consultations for the affected stakeholders. The consultation mechanism for the sub-project specific ESMPs as well RAP/ARAP (if needed) will be designed with appropriate depth and breadth depending on the specific situation's complexity and dimensions. Consultations will be for portfolios of multiple projects, based on large scale planning documents and generic E&S sample instruments.

19. **Implementation of safeguards instruments, if applicable, development of secondary instruments (e.g., subproject ESMPs or RAPs to be developed, by whom and by when).** After finalization of the ESMPs, no further safeguards instruments will be required. The checklist-format ESMPs/ARAPs will be customized to specific construction projects and become part of the tender and contract documents. No tender package will be issued without an attached ESMP and no contract signed without respective clauses obliging the contractor to the ESMPs use and implementation.

20. **Implementation Monitoring:** The monitoring of safeguards compliance during project implementation, especially during and after construction works, is challenged by the current security situation, severe access restrictions, and the longer-term perspective of high volatility. Thus, safeguards monitoring has been included in the TOR for a third-party monitoring consultant, who will also be responsible for technical quality, measurements, procurement and fiduciary compliance. The TOR specifies that the consultant will have strong field presence via local agents, and will cover all key areas and construction activities. The TOR further specifies a detailed methodology and approach for safeguards monitoring, recording and reporting, as well as measures for rectification in case of non-compliance.

V. Roles & Responsibilities, including Supervision Arrangements for Safeguards Preparation, Implementation & Monitoring



21. **The responsibility for implementation** of the above described safeguards instruments and processes will lie with the PMO which will be responsible for compliance with domestic environmental regulations, as well as the World Bank's E&S safeguards policies. The PMO will be staffed with qualified sustainable development specialists who will follow-up on the preparation and implementation of the safeguards instruments.

22. The Bank will be responsible for ensuring the timely commencement of the preparation of ESMF, RPF, ESMPs and the RAPs/ARAPs as needed and will ensure that no contracts for works that have a physical impact are signed or reconstruction, or rehabilitation of proposed activities start without the required safeguards instruments in place.

23. The Bank will also review ToRs (if required) as well as the ESMF, RPF, ESMPs and RAPs/ARAPs if needed, to ensure that their scope and quality are satisfactory to the Bank. The Bank will also review tender documents and construction contracts regarding due consideration of the safeguards instruments, and the inclusion of effective and enforceable contractual clauses. Finally, the Bank will monitor the implementation of the different prepared instruments through regular supervision missions (which will include an environmental and/or social specialist) during which document reviews and interviews with PMO specialists will be conducted. Depending on the circumstances (particularly the security situation), TPMA will also be used for supervision and monitoring and would thus complement the Bank's efforts.

VI. Estimated Costs for Safeguards Preparation and Implementation Process

24. The estimated cost of preparing the required safeguards instruments is estimated to be about US\$20,000 for the ESMF and RPF, and about US\$200,000 for the subsequent safeguards instruments (assuming ca. 100 checklist ESMPs at US\$2,000). ARAP preparation (as needed) will cost about US\$5,000 each.

25. The implementation of ESMPs is expected to cost only a small fraction of design and construction cost, as most mitigation measures will be very generic, off-the-shelf, and implementable without specialized skills, experience or equipment.

Attachment 1: List of Negative Subproject Attributes



Attachment 1: List of Negative Subproject Attributes

Subprojects with any of the attributes listed below will be ineligible for support under the proposed emergency infrastructure renewal project.

Attributes of Ineligible Subprojects
General Characteristics
<ul style="list-style-type: none"> Classified as Category A according to the World Bank classification criteria. Concerning significant conversion or degradation of critical natural habitats.
Damaging cultural property, including but not limited to, any activities that affect the following sites: <ul style="list-style-type: none"> Archaeological and historical sites; and Religious monuments, structures and cemeteries.
Requiring pesticides that fall in WHO classes IA, IB, or II.
Education
<ul style="list-style-type: none"> Construction of new schools Expansion of capacity of existing schools beyond 3 class rooms not to exceed IQD100m
Health
Construction or significant expansion of existing health facilities.
Water and Sanitation
<ul style="list-style-type: none"> New water or wastewater treatment plants New water or sanitation networks which serve more than 1,000 households.
Solid Waste
<ul style="list-style-type: none"> New disposal sites or significant expansion of an existing disposal site.
Irrigation
<ul style="list-style-type: none"> New irrigation and drainage schemes Rehabilitation of main, primary or secondary canals directly connected to rivers or their main tributaries.
Dams
<ul style="list-style-type: none"> Construction, rehabilitation or maintenance of dams.
Agriculture
<ul style="list-style-type: none"> Land reclamation or expansion of existing agriculture lands. Activities requiring use of pesticides.
Power
<ul style="list-style-type: none"> New power generation facilities. New or expansion of transmission lines.
Roads
<ul style="list-style-type: none"> Construction of new roads. Widening of existing roads entailing involuntary resettlement.
Income Generating Activities
<ul style="list-style-type: none"> Activities involving the use of fuelwood, including trees and bush. Activities involving the use of hazardous substances.