

APPENDIX F: DONOR FUNDS

This appendix provides an update on international financial support pledged to Iraq. The funds described in this section include:

- donor funds
- humanitarian aid
- bilateral aid
- International Reconstruction Fund Facility for Iraq (IRFFI)
- World Bank, International Monetary Fund (IMF), and Loan Programs
- Iraqi debt relief

In response to the relief and reconstruction requirements in Iraq, many countries and several international organizations have donated aid. At the Madrid Donor Conference in October 2003, non-U.S. donor nations and international organizations pledged \$13.5 billion for the medium-term reconstruction of Iraq (2004-2007). Since then, periodic donor meetings have been held to coordinate international activities and implementation of the Madrid pledges. Donors met in Abu Dhabi, Doha, Tokyo, and last summer at the Dead Sea, Jordan.

Table F-1 provides a comprehensive list of the Madrid pledges. Individual donor nations pledged approximately \$8.4 billion for reconstruction aid, supplementing their previous humanitarian aid. The World Bank and IMF pledged the balance in aid through loans.

At the most recent donor conference in Jordan, donors reiterated their support for the reconstruction program and welcomed the introduction of an Iraqi-led donor coordination mechanism. At the next, meeting to take

place early this year, position papers will be circulated to donor nations by the Minister of Planning, the World Bank, and the United Nations (UN). The papers will outline the donors' potential role in support of a new constitutional government in Iraq.

Humanitarian Aid

In the immediate aftermath of Operation Iraqi Freedom, various countries and UN organizations provided \$849 million in humanitarian aid through December 2003 (excluding U.S. and Oil-for-Food assistance). This aid was not counted as part of the Madrid Donor Conference reconstruction pledge amounts.

Bilateral Aid

Bilateral project aid is provided directly from a donor country to Iraq. As of December 2005, the Department of State (DoS) estimates that approximately \$1.5 billion in bilateral project assistance has been donated to Iraq. This does not include about \$1.3 billion in contributions by these donors to the multilateral trust fund for Iraq. In addition, the IMF has also disbursed \$436 million for a total of \$3.2 billion in bilateral project aid. Much of the bilateral aid has been donated by Japan, the largest non-U.S. donor. Highlights of individual donor country activities are included in the DoS *Section 2207 Report* of October, 2005. The time period applicable for Madrid Donor Conference pledges is 2004-2007. The change of Iraqi governance authority on June 28, 2004, led several Persian Gulf nations to initiate discussions with Iraqi authorities about fulfilling their

PLEDGES OF RECONSTRUCTION AID TO IRAQ BY COUNTRY, AS OF DECEMBER 31, 2005

DONOR	UPDATED PLEDGES
Australia	\$45,590,000
Austria	5,480,000
Belgium	5,890,000
Bulgaria	640,000
Canada	187,470,000
China	25,000,000
Cyprus	120,000
Czech Republic	14,660,000
Denmark	26,950,000
Estonia	80,000
Finland	5,890,000
Greece	3,530,000
Hungary	1,240,000
Iceland	2,500,000
India	10,000,000
Iran	10,000,000
Ireland	3,530,000
Italy	235,620,000
Japan	4,914,000,000
Korea	200,000,000
Kuwait ²	565,000,000
Lithuania	30,000
Luxembourg	2,360,000
Malta	27,000
Netherlands	9,420,000
New Zealand	3,350,000
Norway	12,870,000
Oman	3,000,000
Pakistan	2,500,000
Qatar	100,000,000
Saudi Arabia	500,000,000
Slovenia	420,000
Spain	220,000,000
Sri Lanka	75,500
Sweden	33,000,000
Turkey	50,000,000
United Arab Emirates	215,000,000
United Kingdom	452,330,000
Vietnam	700,000
<i>Subtotal</i>	<i>7,868,272,500</i>
European Commission ¹	518,119,988
<i>Subtotal</i>	<i>8,386,392,488</i>
International Financial Institutions	
IMF (low range)	2,550,000,000
World Bank (low range)	3,000,000,000
<i>Subtotal</i>	<i>5,550,000,000</i>
Total (without the United States)	\$13,936,392,488

¹ Includes additional January 2005 pledge of 200 million Euros (approximately \$260 million), not yet formally committed to UNDG or World Bank Iraqi Trust Fund.

² Includes \$65M in additional pledges from Kuwait.

Note: data not formally reviewed, audited, or verified

TABLE F-1

Madrid pledges. Furthermore, the recent election of the current Iraqi government provides an opportunity for the Gulf States to develop the personal relationships that may encourage action.

International Reconstruction Fund Facility for Iraq

In addition to the direct bilateral aid, much of the assistance pledged by individual nation states is being channeled through international organizations. The Madrid conference established IRFFI to give donor countries a multilateral channel for their assistance to Iraq.

IRFFI has two trust funds, one administered by the World Bank and the other by the United Nations Development Group (UNDG). These two trust funds are the primary delivery mechanisms for multilateral aid to Iraq. A Facility Coordination Committee coordinates the two trust funds. The committee, which meets monthly, includes members of the World Bank and UNDG. A member of the IMF participates as an observer.

As of December 2005, these are the current commitments to the two trust funds:

- \$457.9 million committed to the World Bank trust fund
- \$928.0 million committed to the UNDG

trust fund

These are the deposits to the funds:

- \$450.2 million deposited with the World Bank
- \$900.3 million deposited with the UNDG

A donor committee, with representatives from each government that has contributed at least \$10 million to IRFFI, meets semiannually to provide oversight and approve programs and priorities. The committee also may have one or two members—chosen by consensus from among donor nations—whose contributions are less than \$10 million.

The IRFFI UNDG trust fund developed a strategic planning framework, organized around seven functional area “clusters,” in which various UN-specialized agencies work together under a cluster lead agency. The current seven clusters reflect a streamlining of the UN’s original eleven clusters. Table F-2 shows the funding amount by cluster, combined with one Emergency Response Project.

Detailed project and program descriptions for the World Bank Iraq Trust Fund (WBIF) and UNDG can be found at the IRFFI website: <http://www.irffi.org>. The site also includes detailed donor conference information.

FUNDING OF UN IRAQ RECONSTRUCTION CLUSTERS, AS OF DECEMBER 31, 2005

UN CLUSTER	FUNDED AMOUNT
Agriculture, Food Security, Environment and Natural Resource Management	\$86,406,525
Education & Culture	116,763,153
Governance & Human Development	43,719,804
Health & Nutrition	85,996,174
Infrastructure Rehabilitation	228,896,302
Refugees, IDPs & Durable Solutions	17,857,515
Support to Electoral Process	174,771,470
Emergency Response Project	300,000
Total Approved Funding	\$754,710,943

Note: data not formally reviewed, audited, or verified

TABLE F-2

TOTAL IRRFI DONOR CONTRIBUTIONS AND WORLD BANK IRAQ TRUST FUND ALLOCATIONS

DONOR	COMMITMENTS		DEPOSITS	
	WORLD BANK	UNITED NATIONS	WORLD BANK	UNITED NATIONS
Australia	\$16,400,000	\$13,457,000	\$16,100,000	\$13,457,000
Australia (Dept. of Immigration)	N/A	3,292,000	N/A	3,292,000
Belgium	N/A	1,321,000	N/A	1,321,000
Canada	22,300,000	46,400,000	22,300,000	46,400,000
Denmark	N/A	10,046,000	N/A	4,526,000
European Commission	151,800,000	283,724,000	149,800,000	266,615,000
European Commission (RRM) ¹	N/A	25,142,000	N/A	23,573,000
European Commission (Human Rights) ¹	N/A	7,307,000	N/A	6,937,000
Finland	2,600,000	6,234,000	2,600,000	6,234,000
Greece ¹	N/A	3,901,000	N/A	764,000
Iceland	1,000,000	500,000	1,000,000	500,000
India ²	5,000,000	5,000,000	5,000,000	5,000,000
Ireland	N/A	1,226,000	N/A	1,226,000
Italy	N/A	29,782,000	N/A	29,782,000
Japan	130,000,000	360,951,000	130,000,000	360,951,000
Luxembourg	N/A	200,000	N/A	200,000
Luxembourg	N/A	1,037,000	N/A	1,037,000
Korea	3,000,000	11,000,000	3,000,000	11,000,000
Kuwait	5,000,000	5,000,000	5,000,000	5,000,000
The Netherlands	6,200,000	6,697,000	6,200,000	6,697,000
New Zealand	N/A	2,361,000	N/A	2,361,000
Norway	6,800,000	7,009,000	4,500,000	7,009,000
Qatar	5,000,000	5,000,000	2,500,000	5,000,000
Spain	20,000,000	20,000,000	20,000,000	20,000,000
Sweden	5,400,000	10,622,000	5,800,000	10,622,000
Turkey	1,000,000	200,000	0	200,000
United Kingdom	71,400,000	55,542,000	71,400,000	55,542,000
United States	5,000,000	5,000,000	5,000,000	5,000,000
Total^{3,4}	\$457,900,000	\$927,951,000	\$450,200,000	\$900,246,000

¹USD equivalent of commitments not yet deposited are estimates based on UN Operational Exchange rates.

²Agreement letter signed for U.S. \$2.5 million. Actual pledge is U.S. \$5.0 million.

³Figures deposited may vary from figures initially pledged due to fluctuation of the exchange rate between the dollar, the currency in which the pledge was made, and over the time from when the pledge was made until the date of deposit.

⁴Deposit figures reported by the World Bank as of 12/14/2005; UN as of 12/31/2005

Note: data not formally reviewed, audited or verified

TABLE F-3

Although current commitments to the IRFFI total about \$1.39 billion, donor nations pledged more than \$8 billion at the Madrid Donor Conference. Another approximately \$1.53 billion is the bilateral aid already disbursed by countries such as Japan, the United Kingdom, Spain, and Canada. Of the undisbursed amount, about half represents the

pledge by the government of Japan to extend \$3.5 billion in concessionary loans for Iraq reconstruction. The remaining \$1.7 billion, to be disbursed by 2007, comes mainly from eight of the top ten pledging countries (excluding Japan and the United Kingdom). As of December 31, 2005, about \$1.35 billion had been deposited into the IRFFI. Table F-3 sum-

marizes international trust fund commitments and deposits by country.

IRFFI project oversight remains outside the Project and Contracting Office (PCO) program, but efforts between PCO and IRFFI must be coordinated on all levels. The Iraq Strategic Review Board (ISRB) and the Iraqi government serve as central points of coordination to encourage direct communication between the organizations.

World Bank, International Monetary Fund, and Donor Loan Programs

In Madrid, the World Bank and IMF pledged potential assistance packages to Iraq worth between \$5.5 billion and \$9.25 billion. Aid to Iraq from Japan, the largest non-U.S. benefactor, is primarily in the form of a concessional loan (\$3.5 billion). The World Bank currently envisions an initial lending envelope of \$500 million from the International Development Association (IDA) and \$500 million from the International Bank for Reconstruction and Development (IBRD) during FY 2004 and FY 2005. During the second week of December 2004, the World Bank country director for Iraq received a written request for IDA funding. On December 16, 2004, Iraq cleared its arrears to the World Bank. As of September 2005, the World Bank and Iraq agreed in principle on the projects that would comprise the \$500 million IDA loan package.

The IMF pledged assistance to Iraq with an initial \$850 million in emergency post-conflict assistance and follow-up assistance loans of \$850 million to \$1.7 billion. On September 29, 2004, the executive board of the IMF approved a disbursement of approximately \$436.3 million, denominated in special drawing rights (SDR). This initial grant of emergency post-conflict assistance occurred after Iraq settled its arrears to the fund of SDR 55.3 million (approximately \$81 million U.S.) on September

22, 2004. In addition to settling its IMF arrears, Iraq has paid for an increase in its quota under the IMF's Eleventh General Review of Quotas. Iraq's quota has increased from SDR 504 million (\$740.1 million U.S.) to SDR 1.19 billion (\$1.75 billion U.S.). This quota increase was a combination of a payment of \$251 million in cash and a non-interest bearing promissory note for the balance (total payment of \$1.08 billion U.S.). Iraq can draw on its quota with the concurrence of IMF leadership.

The World Bank provides valuable analytical and administrative support for the reconstruction of Iraq, including participation in the joint needs assessment with the UN in October 2003 and administration of WBITF. The World Bank uses WBITF resources for finance projects and internally budgeted resources for economic and sector work, as well as policy advice. The bulk of the initial round of World Bank projects has focused on emergency needs, primarily in water supply and sanitation, health care, and education.

By 2009, the World Bank expects to lend an additional \$2-4 billion beyond its initial set of loans, but subsequent lending is "predicated on an optimistic scenario of improvements in political stability and security, rapid economic recovery (including the oil sector), and generous debt relief," according to the Interim Strategy Note of the World Bank Group for Iraq, January 14, 2004. This document outlined three objectives for the interim period (the first six to nine months of 2004):

- prepare and implement emergency operations to address urgent needs
- build Iraqi institutional capacity
- lay the groundwork for Iraq's medium-term program (2005-2007)

IMF shares the same concerns and may not provide the full amount pledged in Madrid if a sound macroeconomic framework and

government commitment to key structural reforms are not place.

Another objective of the WBIF is to build Iraqi institutional capacity. The first project (\$3.6 million), completed in August 2004, trained 581 Iraqi civil servants from 19 ministries to define and prioritize international programs of support. The project focused on:

- managing the project cycle
- sector-specific training for Iraqi ministries
- private sector capacity enhancement

In FY 2005, the second Iraqi institutional capacity building project, funded at \$7 million, trains senior Iraqi policy-makers and technical specialists in economic reform and transition, public sector management, and management of the project cycle. The first private sector development project (\$55 million) is currently under implementation. This project finances part of the Iraqi telecommunications infrastructure and an electronic payment system to promote direct investment and trade with Iraq, as well as to support private sector opportunities.

The third objective, laying the groundwork for Iraq's medium-term program (2005-2007), is addressed by internal World Bank resources. The economic and sector work program is grouped in three clusters:

- economic reform and transition
- poverty alleviation, safety nets, and social development
- public sector management

The World Bank, in collaboration with counterpart Iraqi ministries, is finalizing policy notes on key issues, which include reforms to investment climate, state-owned enterprises, trade, telecommunication sector, financial sector, the oil and gas sector, as well as social protection and social safety net structures. Working versions of the following policy notes are currently available: Investment Climate,

Reform of State-Owned Enterprises, Food Grain Market Reform, and World Trade Organization Accession.

Iraqi Debt Relief

External debt relief is vital to Iraq's reconstruction and long-term economic health. The November 21, 2004 agreement between Iraq and the members of the Paris Club to reduce Iraq's \$38.9 billion Paris Club debt by 80% was a crucial first step. More specific terms of the agreement were outlined in the Special Inspector General for Iraq Reconstruction (SIGIR) January 2005 Report. Iraq has committed to seek comparable treatment from its other external creditors. The vast majority of those other creditors are official bilateral creditors (primarily Gulf States) estimated by the IMF to hold \$67.4 billion in debt. In addition to official bilateral debt, Iraq owes approximately \$15-20 billion to commercial creditors. The Iraqi Transitional Government is implementing the initial phase of its commercial debt restructuring, and continues efforts at reaching bilateral agreements. Agreements were recently signed with the United States, Canada, Romania, Malta, and Italy. The United States and Malta canceled 100% of their Iraqi claims, and the others canceled 80% (standard Paris Club terms under the November 2004 agreement).

On December 23, 2005, the IMF also approved the first-ever Stand-By Arrangement for Iraq, designed to support the country's economic program over the next 15 months. This includes \$685 million in financing to assist the country with improved governance and movement toward a market economy.

More details on Iraqi debt relief are available at these Web sites:

- <http://www.imf.org/external/pubs/ft/scr/2006/cr0615.pdf>
- <http://www.iraquconomy.org/home/macro/debt>