

**NON PAPER
CHANNELLING DONOR SUPPORT FOR IRAQ'S RECONSTRUCTION
AND DEVELOPMENT**

September 5, 2003

A. Mandate

UN Security Council Resolution 1483 recognized the need for a multilateral effort to rebuild and develop Iraq. During its June 24 meeting in New York, the Liaison Committee, established by the UN, and representing about 52 countries, asked the UN and the World Bank to undertake (with the international community) a needs assessment, and for the UN and the World Bank (working with a Core Group of donors), to present issues and models for a Multi Donor Trust Fund (MDTF) as a means to channel donor funds.

B. Overall Assistance Aims

Post-conflict reconstruction and sustainable transition and development for Iraq are the overarching goals. This work is, first and foremost, an institutional challenge. The lesson learned elsewhere in the past decade of transition and post-conflict reconstruction was the imperative of assuring robust linkages between donor assistance and the rebuilding of viable local institutions. The immediate challenge is the balancing of urgent priorities with long-term institutional development. This paper is concerned with the specific issues of financing modalities and aid-management arrangements to achieve these goals.

C. Progress to Date

Technical representatives of the Core Group met at the World Bank on August 28 for an all-day meeting to review different trust fund models that the World Bank has been involved in, and to discuss a baseline model (as a starting point) to help identify issues and options. The meeting concluded that the operating environment, along with Iraqi, donor, UN, and World Bank considerations should serve as the criteria for alternative approaches to channelling donor funds for Iraq's reconstruction and development.

The purpose of this paper is not to recommend a single model or lay out all the details for an MDTF. Rather, based on technical level discussions held on August 28, this paper sets out the issues, questions, and options identified for consideration by the Core Group, and more broadly, the international donor community.

D. Particular Issues and Questions Raised in the Meeting

- The August 28 meeting noted that while a number of technical arrangements for MDTF structure, governance, and execution are possible, the overall final choices of an MDTF and the overall success of an international donor effort will turn on the resolution of certain key threshold issues which are:

1. A stable security environment;
 2. A transition timetable with benchmarks;
 3. The identification by the donor community of a means of interface between the donors (including an MDTF) and the CPA to insure: (i) donor endorsement of the overall policy framework which their contributions would support, and (ii) the flow of donor funds to the agreed priority programs;
 4. The identification and acceptance by the donor community of a national recipient for an MDTF;
- While all requirements need to be considered in MDTF design, it is not likely that the trust fund vehicle will be the sole means to fund all requirements. Specific conditions in the Iraqi operating environment raise a number of issues to be addressed in the MDTF structure, taking into account an integrated prioritisation and planning process:
 5. Urgent humanitarian, security, rehabilitation and reconstruction needs--the MDTF should provide a quick, effective, and accountable flow of funds;
 6. Longer term, massive basic infrastructure and social sector needs;
 7. The need to strengthen implementation capacity of Iraqi administration--the MDTF should include resources for technical assistance for project identification, design prioritisation, implementation, and maintenance;
 8. Advantages offered by UN experience and presence in Iraq;
 - Specific questions raised at the August 28 meeting for consideration by the donor community were:

COVERAGE

9. Do the donors intend to use an MDTF to fund all or some of the following: budget support, capital investment, technical assistance, special activities, humanitarian aid, security, de-mining, and social welfare;
10. Do the donors prefer the coverage to be channelled through one umbrella MDTF and/or through several specially dedicated MDTFs for particular activities, such as technical assistance, humanitarian aid, or security and de-mining? Or a combination? (The main advantages of an umbrella fund with different windows for most expenditures are the possibility of a closer linkage with the recipient country's budget, implementation capacity building, and hence, more robust dialogue on fiscal and development policy. Advantages of

special purpose MDTFs can be speed during transition emergencies, and diversity of grant recipients and executing agencies where there is little local capacity);

PROGRAM EXECUTION, BUDGETARY AND EXPENDITURE FRAMEWORK

11. Should the MDTF recipient and/or executing agency be the CPA or an Iraqi administration; or, should the MDTF recipient and/or executing agency be an international organization (UN) or NGO; or, should a combination be devised (the question of coverage and timing may be relevant to this question);
12. How to clearly delineate responsibilities for the use of funds that are under the control of the CPA (DFI and others) and the MDTF, while maintaining Iraqi budget and expenditure framework integrity;
13. How to avoid budgetary fragmentation and operate through a unified public expenditure framework;
14. How to use an MDTF for the Iraqi administration to establish a transparent, open, and competitive program execution (procurement, disbursement, supervision and reporting systems);
15. How to establish and monitor the broad expenditure categories;
16. How to establish a payment mechanism to function well, even if it must be initially subcontracted;

DONORS' ROLE AND MANAGEMENT

17. What incentives can be introduced for individual donors to join an MDTF, including an MDTF design that gives them comfort that their aid will be directed to priority purposes they agree to, while precluding specific project earmarking of the aid;
18. Should the MDTF recognize preferences on a non-binding basis (earmarking funds for particular projects in an MDTF where funds are co-mingled precludes World Bank administration);
19. What consultative arrangements do the donors prefer, and what entry level contribution should there be;

20. Concerning Management Committee membership for any MDTF, for transparency and objectivity, should membership be limited to the UN, IFIs (IMF and World Bank), and a regional financial institution;¹

TIMING

21. What time constraints should be considered? And, should there be two time considerations and related MDTF design issues: one for transition (e.g., a time-bound program for fast disbursing emergency needs), and one thereafter for medium- and long-term needs;
22. How to frontload the MDTF, since the large resource shortfall is likely to be in 2004, with the gap becoming smaller as revenue rises (coverage is relevant as budget support moves quickly, while investment disbursements generally take longer);
23. If the MDTF focuses on activities that move quickly, how can the community ensure that the programs do not lock in policy choices that should not be locked in (e.g., large subsidies, dependence on non-national implementation)?

E. Channelling Donor Funds

The following are several options for channelling donor funds which are not mutually exclusive, but need to be agreed upon and coordinated:

Option 1 - Bilateral Funding (always available irrespective of whether there is an MDTF, but often used to complement an MDTF for reasons relating to coverage, timing, or preferences as to agency and procedures for program execution):

1. A donor could channel its funds through bilateral arrangements directly to UN agencies, the World Bank, or another organization to finance or co-finance agreed operations. (Each agency has its own policies and procedures for administration and program execution.);
2. A donor could fund bilaterally or co-finance with the CPA, possibly with transition provisions, to an Iraqi administration.

¹ The Management Committee (sometimes called a Secretariat) provides overall guidance for the program agreed to in the Administration Agreement and serves as the bridge between the recipient and the donors. Typically, the Management Committee would include the UN, the World Bank, and possibly one or more international organizations, such as the Islamic Development Bank.

A Management Committee typically engages the recipient in dialogue on the macroeconomic and policy framework, to be certain that the MDTF monies are coherently channelled. This donor/beneficiary dialogue should assure concurrence of the donors' intentions and the beneficiaries' priorities in a unified budget and expenditure framework.

Option 2 - A Single Umbrella Multi Donor Trust Fund:

1. An umbrella MDTF could have a number of windows for specific purposes;
2. A single umbrella MDTF could have one central Administrator (fiduciary), one or more parties in a Management Committee, and one or more recipients and executing agencies (generally the national government is the recipient and executing agency, but for special purposes and/or for a limited time, an international organization could be the recipient and/or executing agency);

For illustration, in one model, IDA was the Trust Fund Administrator and the government was the recipient. The Asian Development Bank managed the implementation of physical infrastructure and the World Bank managed implementation of the rest of the program. Each of the managers used their own implementation procedures. Another variant is the recent Greater Great Lakes MDTF which permits several recipients, such as an international organization, or the UN for special purposes, as well as the national government agencies. The developmental impact, efficiency, and effectiveness of complex arrangements varies.

Option 3 - Several Multi Donor Trust Funds:

MDTFs could be established for special purposes or a time. Each MDTF could have a particular recipient and executing agency. Such particular MDTFs could be suited to special or time-bound purposes, e.g., an umbrella MDTF (administered by the World Bank)² could be established in parallel with a UN-managed and executed MDTF dealing with security, de-mining, and certain agreed humanitarian and transition issues.

² World-Bank administered MDTFs fulfill both a fiduciary and an implementation function. The scope and terms of the MDTF administration are spelled out in an Administration Agreement with the donors, and a Grant Agreement reflecting those terms is entered into with a recipient. Generally, the recipient is the government, but it can be another organization, such as a UN agency. The Administrator performs an oversight and fiduciary function, including production of reports to donors.

The rules for implementation (procurement, disbursement, accounting, and reporting) concern the executing agency for the recipient. The “agency” is usually a part of the government, but it can be an NGO or an international organization (UN). The rules would typically be set out in the Administration Agreement and be enforced by the Administrator. When the World Bank is Administrator, tied aid and specific project earmarking are not possible, though expression of preferences (as in the Afghanistan Trust Fund) might be possible on non-binding terms. The Bank’s website provides details on the above.

