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UN/WORLD BANK PRESENT IRAQ RECONSTRUCTION NEEDS TO CORE GROUP

MADRID, October 2, 2003 –The Core Group on Iraq -- the United Arab Emirates, the United States, the European Union and Japan-- in cooperation with the UN, World Bank and IMF has discussed a Joint Iraq Needs Assessment, which was initiated in Iraq soon after major combat ended. The Assessment was undertaken by the United Nations Development Group (UNDG) and the World Bank Group with assistance from the IMF.

The purpose of the assessment is to inform the Donor Conference in Madrid on October 23-24, 2003. This conference will seek funding from the donor community to address priority reconstruction and rehabilitation needs, focusing on both urgent and medium-term needs for supporting sustainable development.

The assessment covers fourteen priority sectors and three cross-cutting themes¹, as agreed among the international community at the Technical Reconstruction Meeting in New York on June 24, 2003. In addition to Iraqi expertise, the work benefited from significant inputs from the Coalition Provisional Authority (CPA), several NGOs and a number of experts from the European Union, the European Commission, Japan, and Australia.

The assessment is based on the best possible data available at the time. Overall security and travel constraints, the tragic events and subsequent repercussions of the bombing of the UN Headquarters in Baghdad, the lack of primary sources and significant time constraints all made systematic data collection extremely difficult. Ongoing and planned consultations with Iraqi officials and civil society groups that are critical for ensuring Iraqi ownership of the assessment's findings were also affected.

To adjust partially for this, Bank, IMF and UN staff held intensive discussions on the draft assessment, and in particular the investment and policy priorities it contains, with Iraqi representatives in

¹ The sectors include: education, health, employment creation, water and sanitation, transport and telecommunications, electricity, housing and land management, urban management, agriculture and livestock, water resources and water quality, finance, state-owned enterprises, investment climate, mine action and government institutions. Cross-cutting issues include human rights, gender and the environment.

Dubai during the Annual Meetings of the World Bank and IMF during the week of September 21, 2003. Those present included representatives of the Governing Council and other senior Iraqi officials along with several officials from the CPA. This report reflects the outcome of these consultations.

Reconstruction Needs Iraq's overall reconstruction needs today are vast and are a result of nearly 20 years of neglect and degradation of the country's infrastructure, environment and social services. Public resources were diverted to support the military and the ruling regime's power; poor economic and policy decisions took a toll; and conflict and international sanctions all combined to erode the standard of living for ordinary Iraqis. Development priorities must include (i) strengthening institutions of sovereign, transparent and good government; (ii) restoring critical infrastructure and core human services destroyed and degraded by years of misrule and conflict; and (iii) supporting an economic and social transition that provides both growth and social protection.

The assessment estimates the overall stock of reconstruction needs over the period 2004-2007 in the fourteen priority sectors, to be on the order of US\$36 billion. In addition, the CPA has separately estimated that there are some \$20 billion needed in critical sectors not covered by the World Bank/UN assessment, including security and oil. While the figures in the assessment reflect the best estimates of the likely needs for the immediate and medium-term, the actual disbursement – that is, the expenditure – of funds is much harder to predict, because it depends on the security situation, the capacity of Iraqi institutions to plan and implement projects, and the state of infrastructure and energy services. Experience by the Bank in other post-conflict countries shows that constraints to reconstruction are often not due to a lack of funds, but rather to difficulties in developing and implementing time-bound investment programs according to established international procedures. Given the massive size and scope of the reconstruction needs in Iraq, it can be expected that initial disbursement rates will be low while local capacity is built, but will increase rapidly over time as institutions are developed and experience is gained.

In addition, the assessment notes that not all of the identified needs may require external financing. Already in 2004, about \$1 billion of these needs are covered by ongoing contracts under the UN oil-for-food program. Beyond 2004, it is expected that more of the investments could be covered by Iraqi government oil and tax revenues or private sector financing, diminishing the need for external donor support. This is based on the assumption that, in a stable environment, oil productivity and output will increase with the investment that takes place, general economic recovery will result in increasing direct and indirect tax revenues, and an improved investment climate will result in significant financing from both domestic and international private investors.

Finally, the assessment notes that it is currently not possible to predict offsetting expenditures on principal and interest payments on Iraq's very sizeable external debt.

UN/World Bank Cumulative Iraq Reconstruction Needs by Sector on a Commitment Basis /1 2004, 2005-2007 (in US\$ millions)			
Sector	2004	2005- 2007	TOTAL
Local Administration, Rule of Law & Civil Society	101	212	313
Health, Education, Employment	1,880	5,310	7,190
Education: Primary, Secondary & Higher	1,005	3,800	4,805
Health	500	1,100	1,600
Employment	375	410	785
Infrastructure	5,836	18,368	24,204
Transport & Telecommunications	1,043	2,366	3,409
Water, Sanitation, Solid Waste	1,881	4,961	6,842
Electricity	2,377	9,745	12,122
Urban Management	110	303	413
Housing & Land Management	425	993	1,418
Agriculture and Water Resources	1,230	1,797	3,027
Investment in Agriculture	1,230	1,797	3,027
Private Sector Development	145	476	621
State-Owned Enterprises	30	170	200
Financial Sector	71	10	81
Investment Climate	44	296	340
Mine Action	80	154	234
Total	9,272	26,317	35,589

These figures represent the estimate by the CPA of needs in sectors outside of the UN/World Bank Assessment.

CPA Estimated Needs in Sectors Not Covered by the UN/WB Needs Assessment /2			
Security and Police	5,000	0	5,000
Oil	2,000	6,000	8,000
Culture /3	140	800	940
Environment	500	3,000	3,500
Human Rights	200	600	800
Foreign Affairs	100	100	200
Religious Affairs	100	200	300
Science & Technology	100	300	400
Youth & Sport	100	200	300
Total of CPA Estimates	8,240	11,200	19,440

Notes:

1/ The overall stock of needs, net of government expenditure commitments, has been identified, including possible areas for private sector participation and donor assistance. It is expected that over time some of these reconstruction needs could be covered by government revenues, thus diminishing the need for external financial support. This is based on the assumption that oil productivity and output will increase with investment, while the expected economic recovery should result in an increase of direct and indirect tax revenues.

2/ CPA estimates have been provided to the Assessment Team but have not been reviewed. Further detailed information should be obtained directly from the CPA.

3/ The estimate for the needs in Culture are based on a UNESCO Assessment.