

A Strong Fiscal Framework for Iraq
By Robert M. Kimmitt

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U.N. Secretary General Ban Ki Moon and Iraqi Vice President Adel Abdul Mahdi will host a major international conference at the United Nations today to discuss "The International Compact With Iraq," an ambitious framework for transforming the Iraqi economy. This initiative is designed to help achieve within five years Iraq's vision of a stable and prosperous nation underpinned by a self-sustaining economy.

As President Bush's envoy to the international compact, I traveled to Baghdad last July for the launch of the initiative and later attended preparatory meetings in the United Arab Emirates and Kuwait. The compact to be presented today calls for Iraq to commit to specific economic benchmarks, including a series of reform efforts such as transparency in the hydrocarbon sector, private-sector development, investment promotion and a restructuring of the banking sector. In turn, donors will provide technical assistance, debt forgiveness and other financial support to help reintegrate Iraq into the international community and complete its reconstruction.

Iraq is committed to economic reform and has met the guidelines set out by the International Monetary Fund [IMF] since 2004 to encourage growth. The government has implemented tighter monetary policies to control inflation, liberalized official fuel prices and imports, limited government spending on employee wages, improved a fiscally unsustainable pension law and made important strides in developing an electronic payments system to reduce dependence on cash transactions. These changes have been possible because Iraqi leaders have worked diligently to put their country's financial house in order. They also demonstrate that Iraq will work to implement the agreements in the compact.

It is promising that the reforms enacted thus far have been successful. The IMF estimates the growth of Iraq's economy at 3 percent over the past year, with oil revenue totaling \$29.5 billion. The Iraqi cabinet's recent approval of a new hydrocarbons framework law is an important development in strengthening the economy. This legislation is critical because it shares oil revenue proportionally among all Iraqi citizens. It also sets the ground rules for managing oil production and sends a strong signal of economic liberalization to the world. When it is passed by the Iraqi legislature, this law will enable government leaders to negotiate with foreign companies to open up investment in the country's oil sector.

Another critical component to rebuilding Iraq's economy is ensuring that this revenue gets to the people. Now that Iraq's parliament has passed the budget for 2007, Iraqi officials have emphasized the importance of using the \$10 billion set aside for capital investment and reconstruction to bring tangible benefits to citizens. To encourage budget accountability, they have stipulated that ministries and provinces that fail to perform by midyear may have a portion of their funding transferred. Iraq held a conference earlier this month to outline these new budget procedures for approximately 200 officials from both the central government and the provinces, including cabinet ministers, ministerial officials, heads of anti-corruption bodies, provincial governors and council chairmen.

The United States is working to support these efforts through initiatives such as the recent appointment of Ambassador Tim Carney as coordinator for economic transition in Iraq. The U.S. government hosted a budget execution conference last week for coalition provincial reconstruction team members to familiarize coalition advisers with Iraq's new budget process.

President Bush has already announced an expansion of these teams, which work in the provinces to help Iraqis build their government. Bringing these efforts together will harmonize U.S. and coalition technical assistance with Iraq's budget objectives.

The challenges ahead are great, but today at the United Nations the government of Iraq will take an important step forward in cooperation with the international community. Iraqi officials have demonstrated their dedication to undertaking the hard work necessary to successfully carry out this initiative. This framework will enable Iraq to establish an economic foundation built upon good governance, the rule of law, a solid budgetary structure and strong, credible institutions.

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