



THE NATIONAL DEVELOPMENT STRATEGY (2007-2010)

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Executive Summary

Iraq's National Development Strategy (NDS) takes as its starting point the fact the country's economy has been grossly mismanaged for 40 years, and its people urgently need an alternative strategy to supplant the failed policies of the previous dictatorial regime. Iraq, once self sufficient in agriculture, with tremendous oil wealth, a vibrant private sector and an educated and skilled population has gone from being one of the most advanced nations in the Middle East to a country with some of the lowest human development indicators in the region.

The democratically elected government of Iraq has articulated a clear vision for the country.

The Vision is to:

“Transform Iraq into a peaceful, unified federal democracy and a prosperous, market oriented regional economic powerhouse that is fully integrated into the global economy”

This ambitious Vision can only be achieved by a market-oriented economy. One that is open to the world, driven by the ingenuity and creativity of private enterprise, founded on the rule of law, and led by a federal, democratic, transparent and accountable government.

The manifold and complex nature of the problems that confront us have dictated that we undertake to formulate a multi-faceted strategy to overcome the challenges. A few basic guidelines, helpful as they may be, are not sufficient. And macroeconomic policy alone, though it is fundamental, cannot deal with the multitude of sectoral issues that cry out for resolution. Macroeconomic policy sets the overall framework, but policy also has sectoral content, and it must not be forgotten that the economy responds at the micro level. For these reasons, the content of the NDS is very specific, extending to recommendations for reforms in the existing legislative framework and new legislation that would be needed to facilitate the implementation of the policies.

The aim in developing this National Development Strategy has been to weave together macroeconomic and sectoral analyses and proposals into a consistent policy fabric that will bring substantial benefits to all regions in Iraqi society. The orientation is fundamentally pragmatic. It is one of solving problems, everywhere identifying concerns and developing solidly-based remedial courses of action that are sustainable. While no document achieves all its aims, we believe this NDS is unique in its scope and depth, and its policies are strong and sure enough to accelerate reconstruction and make our citizens measurably better off, whilst assuring that our priceless heritage of natural resources has proper stewardship.

The National Development Strategy is intended to serve as the overarching framework for government reconstruction and development policy, as a

reference by which civil society can hold government accountable, and as a basis for Donor coordination and harmonization.

It recognizes that a core element for achieving sustainable development is active participation of the population in production activities and creation of wealth, and that this requires securing the involvement of all of Iraq's regions in the implementation of the NDS and in the development process.

Effective involvement of the regions will be secured through:

- 1- Abandoning the centralized system of economic management that was the hallmark of the previous regime;
- 2- Using regional governments to contribute to the formulation, prioritization and implementation of development projects;
- 3- Distributing investment funds equitably between the regions; based primarily on population size but with consideration of addressing inequities; and
- 4- Urging donors to adhere to the regional distribution of foreign resources as determined by the national budget.

Regional Development Authorities (RDA's) will be established to spur reconstruction and development at the regional level. The role of the RDA's will be to:

- 1- Utilize central government departments in the regions for implementing the regional perspective of the NDS;
- 2- Allocation of investment funds from the central government and donors proportionate to the respective share of the region in the national investment budget;
- 3- Establish direct relations with donors and international companies in conducting their development activities under the NDS;
- 4- Become involved in mobilizing internal and external funds to supplement their development effort in their respective region.

The National Development Strategy is established on four major pillars that will govern strategic public actions for reconstruction and development.

- 1- Strengthening the foundations of economic growth.
- 2- Revitalizing the private sector.
- 3- Improving the quality of life.
- 4- Strengthening good governance and security.

Pillar One: Strengthening the Foundations of Economic Growth

This pillar has three elements;

First, a strong foundation for economic growth and rising prosperity requires maintaining a stable macroeconomic environment. This will require:

- 1- Maintaining low inflation within the context of sound monetary policy, and expanded monetary policy tools.
- 2- Maintaining fiscally sound budgets and transparent controls for budget formulation and execution Meeting fiscal targets will be assisted by subsidy adjustments.
- 3- Strengthening financial management and public expenditure tracking and control.
- 4- Developing and implementing mechanisms to ensure transparent and full accountability of oil revenues within the national budget process.
- 5- Concluding debt relief agreements with both Paris Club and non-Paris Club creditors.
- 6- Implementing all macroeconomic and structural reforms under the International Monetary Fund's (IMF) Emergency Post Conflict Assistance (EPCA) agreement, including implementing a timely and accurate monetary survey and establishing a single treasury account.
- 7- Improving the quality, timeliness, and range of financial and economic data produced by government offices for economic planning.
- 8- Implementing fiscal decentralization and devolution of planning responsibilities to local and regional governments.
- 9- Increasing domestic resource mobilization by creating conditions conducive to private savings, by strengthening the deposit-taking commercial banking sector with a national payments system.

Second, Iraq has one of the world's largest oil reserves. The oil sector provides more than 60 percent of the country's gross domestic product (GDP) and 95 percent of its hard currency earnings. Given the dominance of oil in the Iraqi economy, it is clear that improving the performance of this sector is key to generating higher rates of economic growth. This will require:

- 1- Improving the legal and regulatory framework in the oil sector to enable restructuring of the industry.
- 2- Promoting strategic partnerships between Iraqi and foreign oil and gas companies so as to tap an important source of capital for the expansion and rehabilitation of the industry.
- 3- Establishing independent national oil and gas companies (both upstream and downstream).
- 4- Reducing fuel subsidies that distort incentives and encourage wasteful consumption of this precious non-renewable resource.

5- Investing in technical and managerial training to bolster capacity.

Third, a strong foundation for economic growth in an economy with a huge natural resource endowment (oil and gas) requires a diversified economy for the following three reasons. The first reason is that it will protect against the economic phenomenon called the “Dutch Disease”. This phenomenon occurs when exploitation of a natural resource, such as oil, deindustrializes a nation’s economy. This happens when oil exports cause the value of the local currency to appreciate, which makes manufacturing less competitive, and as a result imports increase and non-resource exports decline.

The second reason is that the oil industry is notoriously volatile. Frequent wide swings in prices make intertemporal planning difficult and can derail Iraq’s growth prospects. Transforming the structure of the Iraqi economy to allow for a greater role for agriculture, tourism and industry which experience different cycles from those in the oil sector can cushion the Iraqi economy from oil shocks.

The Tourism industry has huge potential in Iraq. The Holy cities in Iraq are a major destination for hundreds of thousands of pilgrims annually. The ancient ruins of Babylon, the Ziggat of Ur and other “wonders of the world” have tremendous appeal as a destination for tourists. The scenic locations of Bekhma, Sarsink and Doukan in the Kurdistan region have been traditional destinations for domestic tourists and can now be expanded to attract an international clientele.

The third reason for diversification is that unemployment is a major problem in Iraq. Yet the dominant sector of the economy (oil) is capital intensive. Developing the agriculture, industry and tourism sectors which are labor intensive will help create jobs directly through farming, fishing and the supply chain associated with delivering agricultural goods to market as well through jobs in agro-industries, hotels and transportation. This will require:

- 1- Eliminating subsidies that distort market prices and discourage farming.
- 2- Increasing the productivity of the agricultural sector through investment in new seed varieties, irrigation methods and strengthened market mechanisms.
- 3- Establishing agricultural demonstration sites throughout Iraq to reinvigorate crop and livestock production, and boost rural job creation.
- 4- Encouraging programs to revive Iraqi agriculture in areas such as date production, fish farming in the restored Iraqi marshlands, new crop varieties, and the expansion of extension services.
- 5- Developing the institutional structure to promote industrial sector competitiveness.
- 6- Promoting small and medium size enterprises through the creation of industrial clusters.

Pillar Two: Revitalizing the Private Sector

Empirical evidence from worldwide experience has shown that a vibrant private sector (and not the public sector) is the engine of growth and job creation. Creating a pro-business investment climate for both domestic and foreign business, for small and large enterprises, for agriculture as well as manufacturing and services is therefore a top priority. This will require:

- 1- Streamlining and simplifying procedures for doing business in Iraq by establishing an Investment Promotion Agency.
- 2- Implementing commercial and regulatory reforms to develop a transparent legal and institutional framework to encourage entrepreneurship.
- 3- Effectively utilizing agreements with the Overseas Private Investment Corporation (OPIC), Multilateral Investment Guarantee Agency (MIGA) and the International Center for Settlement of Disputes (ICSD).
- 4- Laying the groundwork for eventual privatization of State-owned-enterprises, according to orderly, fair, consistent, and transparent procedures.
- 5- Promoting private sector-led implementation of local community projects that are executed nationally.
- 6- Restructuring State-owned banks to encourage consolidation and privatization.
- 7- Expanding the availability of commercial capital through concessional financing for microfinance and small and medium enterprises.
- 8- Completing accession to the World Trade Organization (WTO) and revitalizing regional trading links.
- 9- Rehabilitating and expanding the air, railway and telecommunications network.
- 10- Increasing electricity generation and distribution to meet current and projected needs.

Pillar Three: Improving the Quality of Life

Healthy citizens tend to be productive citizens and will be able to take advantage of the opportunities provided in a market-oriented economy. Improving the quality of life of Iraqis is therefore a core pillar of the National Development Strategy. This will require:

- 1- Improving access to clean water and sanitation.
- 2- Improving quality and access to medical care.
- 3- Increasing affordable housing units through housing finance facilities.
- 4- Investing in human capital with a focus on adult literacy, vocational training and actions to reduce drop-out rates at the primary level.

- 5- Enacting a social safety net program for the poor and vulnerable, including reform and monetization of the PDS basket.
- 6- Accelerating demining actions.

Pillar 4: Strengthening Good Governance and Improving Security

One of the most pressing challenges facing Iraq is nurturing good governance. Corruption---the abuse of public office for private gain--- is arguably the most critical component of governance in a natural resource rich country like Iraq. Corruption has many forms. It extends from “petty” forms of administrative bribery to grander forms of corruption, such as the tendency of elites (individuals, political parties or private companies) to illegally and unethically shape the formulation of laws, policies and regulations. The grand type of corruption (known as state capture) requires broader external accountability measures---including asset declaration, transparency surveys, disclosure of parliamentary votes and investigative journalism and citizen oversight. Traditional anti-corruption methods that rely solely on internal bureaucratic structures and new public agencies have often failed because they do not take account of this invisible web of influence.

Other aspects of good governance are also critical for Iraq. Promoting respect for human rights and the rule of law and fostering participatory dialogue are critical in tackling terrorism and driving forward peace-building and nation-building. Access to justice, security and human rights is central to stability in a post-conflict situation. Lack of security has dampened economic activity, encouraged capital flight and caused untold misery and hardship. Strengthening good governance and security will require:

- 1- Establishing a Leadership Code of Conduct and Ethics requiring, inter alia, declaration of wealth by public officials.
- 2- Strengthening the Public Integrity Commission and decentralizing its activities to the regions to eradicate corruption.
- 3- Continuing strengthen the Board of Supreme Audit and decentralizing its activities to the regions to ensure transparency in public financial management.
- 4- Enhancing corporate ethics and transparency.
- 5- Implementing the new public procurement regulations for Ministries and public agencies for proper and effective use of State funds.
- 6- Establishing e-government to modernize governmental business processes.
- 7- Supporting the Electoral Commission, including voter registration and voter education.
- 8- Strengthening journalistic professionalism.
- 9- Supporting civic education initiatives that promote dialogue between communities.

- 10- Supporting objective public broadcasting (including an independent regulatory structure for license allocation).
- 11- Increasing representation of women and minorities in both the legislative and executive branches.
- 12- Training in respect for human rights for all security services, including the prisons.
- 13- Enhancing the administration of justice by training judges, lawyers and prosecutors, and providing modern management information systems and equipment.

We consider these four pillars the key drivers of economic performance and prosperity. It is important to note that these four pillars interact. For instance, although improving education is discussed under “quality of life”, it also has implications for all the other three pillars. The distinction between the pillars helps to focus attention on the actions which most directly affect reconstruction and economic development, but the interactions between the pillars need to be borne in mind.

The objectives identified in each of the four pillars are to be achieved by the development of detailed sector plans and investment programs by relevant Ministries. This will require sector-wide programming (where feasible) to translate the key objectives, into strategic actions, outputs and outcomes expected from sector expenditures, and the activities which the expenditures will fund in order to achieve the desired outputs and outcomes.

The National Development Strategy was prepared through an extensive series of consultations that started with the Iraqi Interim Government (IIG) and continued with the Iraqi Transitional Government (ITG). Consultations have drawn together sector experts from various Iraqi Ministries, the private sector and academia. An Inter-Ministerial Committee was established to prepare the first draft, with members from ten Ministries drawing from their official programs as well as from discussions held under the Committee’s auspices. An early draft was submitted to the World Bank (WB) and United Nations Development Group (UNDG) for comment, and was discussed with these two organizations over a series of meetings in Amman, Jordan in early September 2004 to incorporate their comments. Under the IIG, the interim NDS was approved by the Iraqi Strategic Review Board (ISRB) and by the Council of Ministers, as the basis for reconstruction and reform of the Iraqi economy during the next three years.

This consultative process has continued under the ITG. With the support of our development partners a team of economic and legal advisors was brought in to work closely with their counterparts in the Ministry of Finance and Ministry of Planning and Development Cooperation. Consultations were also held with Donors both in Baghdad and with their capitals. The revised strategy was endorsed by the High Economic Committee and the Cabinet. It will be discussed at the Iraqi Reconstruction Fund for Iraq (IRRFI) Donor’s Committee Meeting to be held at the Dead Sea, Jordan on July 18-19, 2005. The National

Development Strategy will be endorsed by the National Assembly, which represents the voice of the Iraqi people.

This document is organized according to the four pillars. After an introductory chapter the next four pillars review the state of affairs in each pillar and identifies key objectives. Chapter 6 discusses a new donor co-ordination mechanism and Chapter 7 concludes with an agenda for the way forward.

The Country Context

The Legacy of the Past

There has been an appalling downward trend in almost all human development indicators relative to a baseline of 1980. The recently published Iraqi Living Conditions Survey documents the severe deterioration in the quality of life of the Iraqi family relative to a baseline of 1980, when the previous regime began its tragic effort to gain regional hegemony.

- This is reflected in the unstable and unreliable supply of electricity with more than 3.2 million households experiencing interruptions for long hours during the single day.
- The high cost and low quality of water with more than 76% of all rural households having problems accessing drinking water.
- The alarming reduction in urban access to safe drinking water from 90% to 60% of the population.
- The decline in the quality of sanitation with more than 1.5 million people suffering from unimproved sewer systems and the high cost and low quality of housing with more than 45% of all households reporting dissatisfaction.

The survey also documents the perceptions collapse of the health system. This is reflected in the decline in primary health care centers from 1,800 in 1991 to 929 in 2001, of which more than 30% need rehabilitation. Maternal mortality remains above regional averages with more than half of deliveries taking place at home in rural areas. There is an extremely high incidence of reparatory infections in urban areas. Over 200,000 Iraqis have chronic illness due to the war serves to underscore the poor overall conditions of the population.

The survey shows there is widespread unemployment in Iraq, in particular among young men whose unemployment rate reaches an astonishing 37%. The employment situation is complicated by the fact that Iraq has an estimated 192 State- owned enterprises that together employ 500,000 people. Yet many of these state- owned enterprises are not commercially viable, many have been looted and destroyed during the war. Indeed, most of these enterprises are idle and will not be able to create job in the foreseeable future. Supporting these loss- making state- owned enterprises imposes a huge burden on state budget estimated (900 Million\$) and a burden on the economy and crowd out opportunities for new private – sector initiatives.

Under the previous regime poor governance practices were common, including widespread nepotism in public sector appointments and corruption among public servants. The lack of accountability and transparency in managing state

resources abetted corruption and increased its corrosive effect on economic progress.

The centrally planned economy, nationalization of the oil sector and the intrusion of the state into economic life distorted the pricing structure, so that prices did not reflect the real value of the products or services. Supply and demand were consequently distorted resulting in allocative inefficiency and waste.

Moreover, monetary policy was non-existent. There was total dependence on monetary expansion to finance the deficit in the budget which exceeded 50% of the total allocations, that led to average inflation of 50% during the 1990s eroding the purchasing power for those on fixed incomes, as a result of depreciation of the Iraqi Dinar from 0.3125 ID/\$ to 2000 ID/\$.

Iraq's decades long isolation has resulted in a widening of the digital divide, technological stagnation and the use of outmoded production methods in the oil sector in particular. Public institutions used manual outdated administrative systems with poor record keeping and little accountability. To compound these problems critical public sector institutions witnessed serious looting, theft and destruction in the aftermath of the 2003 war.

It is evident from the above grim statistics that the legacy of the previous regime, and regrettable the failure of the international community to ensure that the Oil – for – Food Program was immune from manipulation by the previous regime, has caused immense damage to Iraq.

However, despite the significant security challenges facing Iraq, much progress has been made in several economic, social and political areas since April 2003. The following represents some of the major achievements over this period.

1.2. Recent Achievements

1.2.1. Improved Economic Management

In the area of fiscal and monetary policy much has been done to restore the capacity and credibility of Iraq's financial institutions. Interest rates were liberalized. The capital of private banks was increased. Foreign banks were allowed to open branches and to enter into joint ventures with private Iraqi banks. The Central Bank of Iraq (CBI) was made independent. Monetization of government deficit was ceased. An internationally compliant Insurance Law was passed in March 2005 and became effective in June 2005.

Achieving Paris Club debt forgiveness agreement in Dec. 2004 has dramatically improved Iraq's fiscal stance and has introduced fiscal prudence

into budgetary processes with a view towards equity and accountability. An auction for Treasury bills was introduced and a more equitable distribution of resources throughout Iraq's governorates was achieved. Steps toward greater accountability in the use of public resources include improving the fiscal oversight powers and auditing capacity of the Board of Supreme Audit and ministerial inspector general offices, as well as establishing precedents for use of independent external auditors on government accounts. The Commission of Public Integrity has been established, along with Inspectors General in each Ministry, as part of a comprehensive approach to combat corruption.

In the area of market – oriented reforms, several important economic and commercial laws were put in place, including securities, foreign investment, public financial management, public procurement and central banking. Iraq has developed strategies for reducing government price controls and laid the groundwork for privatization. Salaries and pensions of government workers were increased three to ten- fold, from previous levels which were below subsistence level.

To deepen integration with the world economy, Iraq has maintained low custom fees. Signed an Emergency Post Conflict Assistance (EPCA) agreement with the International Monetary Fund (IMF), and in Dec. 2004 initiated World Trade Organization (WTO) accession talks.

1.2.2. Reconstruction

From a slow start in the first year (June 2003 – June 2004) when only 200 reconstruction projects were started, (Investment law was approved since Oct. this year) one year later in 2005, more than 2,500 projects valued at 5.7 \$ billion are underway. More than half of the 2,500 completed projects have a value of 1.3 \$ billion. Since June 2004 over 2,300 construction projects have started – employing more than 155,00 Iraqi workers.

Rehabilitation of the oil infrastructure initially led to an increase in the production capacity to 2.8 million bpd, of which 2.1 million was exported. However, oil production has dropped due to sabotage despite the fact that 16 oil projects have been completed. The oil sector has been restructured by combining the three national oil entities into a single national oil company to be run on a commercial basis.

Electrical generation initially increased from 3,500 to 5,400 MW, above pre-war levels but significantly below demand. There was a subsequent drop in generation but the average daily load of electricity is comparable to the level in

June 2004. since June 2004 a total of over 2,000 megawatts of power have been added to the grid which is enough to service 5.4 million homes. Over 1,440 electrical towers and 8,600 kilometers of transmission lines have been installed. Telecommunications has vastly improved since 2004 with landlines subscribers rising from 794,198 to 2.8 million in June 2005. Internet subscribers have been more than doubled. Cell phone subscribers have jumped from just 488,966 to almost 2.5 million in 2005. satellite television penetration extends to a majority of the population. Mobile telephone networks are new operating in major urban centers.

Health care spending is up more than 30 times its prewar levels. More than 3 million children have received life saving vaccinations. Over 140 health care facilities have been completed and one major hospital is under construction. About 750 nurses have been trained in maternal and child health services and 2,000 primary health care workers also have been trained.

Since June 2004, 3 thousand schools have been completed. Over 860 secondary school master trainers were trained and passed on to training 31,777 secondary school educators nationwide. More than 8.7 million revised math books have been printed.

1.2.3. The Democratic Process

A Transitional Administrative Law (TAL) was adopted to provide for effective government in Iraq until adoption of a Constitution and subsequent elections in Dec. 2005. on June 28, 2004 the Coalition Provisional Authority ceased to exist and the Iraqi Interim Government assumed full sovereignty in Iraq. Moreover this Government full represents the multi – ethnic, cultural, and religious character of Iraq, with broad participation of groups across the political spectrum.

Despite early assessments that it would be too dangerous, about 8.5 million Iraqis, 58% of those eligible, voted on January 30, 2005. A transitional Government has been formed, a permanent constitution approved on Sept. 2005 and later elections took place forming permanent government for four years.

The political process has taken hold as well, with more than 600 community associations in 16 governorates setting the stage for grassroots democracy. More than 19 million people can engage in local policy discourse through 78 district councils, 192 city or sub – district council and 393 neighborhood councils. Over 2,000 Non- Governmental Organizations (NGOs) have been established.

Gender equality has been firmly established in the law. Iraq has taken on a target of ensuring 25% participation of women in decision making structures –

including the National Assembly and the Council of Ministers. Freedom of speech and of the press has been established in the law. All media have been made independent of the state. More than 100 independent newspapers are published.

Several new Ministries have been established to reflect important new social groups and concerns: Human Rights, Displacement and Migration, Environment, Civil Affairs and Youth in addition, Ministers of State for Women's Issues and Provinces have been established. The Ministry of Culture, and in particular its State Board of Antiquities and Heritage, has been restructured and are fully functioning.

2. Recent Economic Growth

2.1. Economic Growth

Unemployment surveys for 2003, 2004, 2005 showed huge decrease in unemployment rates from 28.1% to 26.8% to 17.9% during the past three years as a result of reactivating the Iraqi economy when the total GDP in current prices doubled from 15\$ billion in 2003 to 34.5\$ billion in 2004, 41.1\$ billion in 2005 and expected to be 48.5\$ billion in 2006. It is expected the GDP growth continues to be increased over 20% annually for the period 2006- 2010 (Table 6) based on increase in oil revenues and production anticipations which allow increasing investment funds and develop the non oil GDP in current prices that leads to boost the relative importance of the oil sector from 37% in 2006 to 42.0% in 2010 and thus reflected in improving citizen's life and living standards in general.

The mentioned anticipations are based on the following assumptions; security situation improvement, achieving targeted crude oil quantities production which is considered as the key engine of economy growth at the current stage and at the perspective future, achieving targeted investment rates, continuing economic reform policy and restructuring.

Security improvement during 2007 with the expected increase in oil revenues will increase investment in infrastructure and services allover Iraq as well as increase the total demand which is the main incentive element of strengthening non- oil GDP.

Estimations are based on the expected domestic investments within the Iraqi economy savings capacity for the period 2007- 2010 depending on government and private sector investments amounting in total 78.51\$ billion of which 60.8\$ billion government investment and 17.71\$ billion private investment plus what remained of the grants by Madrid pledges. However; considering the Basic Needs assessment of the Iraqi economy amounting 187.7\$ billion, the extra amount required from external resources is 109.2\$ billion. In case achieving the required investments as indicated in Investment Expenditures Section, GDP rate growth will exceed 20% during the next four years depending on funding the next stage of Iraqi reconstruction program cooperating with the international community, and the expected flow of foreign investment flow after issuing the new investment law approved by the Council of representatives on Oct. 2006 (Table 7).

2.2. Inflation and Exchange Rate

In spite of the pressing price policies and the measures to stabilize the exchange rate that ranging between 1460 – 1498 ID : \$ during 2004 till Sept. 2006, and the huge direct and indirect government subsidies, but inflation rates kept moving up rapidly during the past three years and first half of 2006. In contrasts with previous expectations of inflation rate decline, the consumer prices index increased by 33.6% in 2003, 26.9% in 2004, 36.9% in 2005 and continued during the first half of 2006 reaching 52.5% in June in comparison with the same month of 2005 and 37.5% for the first half of the year 2005. (Table 2). The mentioned rates explain the pressure of inflation over individual income and consumptive spending, which erode cash income and reduce the real purchasing power.

Inflation is not only connected to exchange rate of ID : \$ but also caused by defects in Iraqi economy and production base weakness. Agriculture and industry are the main sectors in Iraq economy after oil sector suffer from obvious weakness because of old technology and low productivity. The problems even more complicated as a result of infrastructure looting and destruction, as well as; sudden sever competition with the foreign products after opening Iraqi market for import, canceling custom fees, reduce or phase out some direct and indirect subsidies also weakened the share of these sectors in GDP to less than 10% of which less than 2% for manufacturing industry and 7% of agriculture sector. Increase in demand was directed to imported products in stead of the domestic production.

Fuel subsidies reduction has shifted consumer price index. Fuel prices increase influenced all economic activities. Fuel and lighting expenditures became huge burden on families income especially poor and medium families as they were increased by 274/4% in June in comparison with the same month 2005 and affected directly transportation prices which have increased by 172.8% during the same period. Correcting fuel prices and government intent reconsidering electricity, water and sanitation prices will definitely increase inflation rates and decline purchasing power of individual income the matter that make a pressure on the government to reconsider wages and compensation, reducing national products competitiveness in case continuing open market policy away from proper regulations and rules under inappropriate circumstances in current stage.

COSIT data indicate that the consumer price index has increased by 132.3% during 2002- 2005 whereas per capita income in current prices by 48.6% from 800\$ per individual to 1189\$ per individual. Comparing both rates clearly indicate inflation pressure over Iraqi family spending and decline real income and living standard. However, Income redistribution specially oil revenues

more equally than before as well as salary increase of employees and pensioners (3.1 million individual), made them feel better off in general.

Inflation in Iraqi economy at this stage is partially related to violence increase and its impact on commodities and services flow and transportation fees as well as electricity and fuel sever shortage. These indirect factors in addition to prices reform and structural defects in the economy raised inflation rates to very high levels. Inflation might reach higher levels on the medium term in case the situation continued, with negative impact on reforms and economic growth. It is one of the challenges facing reform which require serious actions to solve fuel crises urgently to mitigate prices influence on economic factors causing it by using proper policies and procedures.

Iraqi Dinar exchange rate against Dollar remained stable during 2004- 2005 as 1460- 1479 ID:\$ and 1489 ID:\$ for the first half of 2006 (Table 1). Although exchange rates were moved up to be close to 1500 ID:\$ during Sept. 2006, it was expected to remain at this level through the whole year. CBI was committed to stabilize exchange rate by using fiscal tools, including interest rate and foreign currency reserve to face demand for Dollar. Iraqi Dinar appreciation will help reducing inflation accordingly, CBI has fixed the exchange rate to be 1260 I.D : \$ on January 1, 2007.

Table (1)
Some of the Main Iraqi Economic Indicators (2004- 2006)

	2004	2005	2006
GDP Growth (Change %)	46.5	3.7	4.0
Consumer Price (Change %) **	26.9	36.9	37.5
Commodities Exports (Except Oil) (Million Dollar)	425	589	679
Average Exchange Rate (I.D : \$)	1460	1479	1480

Source: * CBI , MOF , IMF

** MOPCD – COSIT , 2006 figure refers to price index of the first 6 month as compared with 2005.

Table (2)
Consumer Price index in Iraq
2002- 31/June/ 2006

100=1993

Years	Price index	Change %
2002	5196.6	-----
2003	6943.5	33.6
2004	8815.6	26.9
2005	12073.8	36.9
6 months average 2006	16606.6	37.5
June 2006 to June 2005	17153.6	52.5

Source: COSIT

2.3 External Sector

Net current account of Iraqi balance of payments was facing deficit during 2002- 2004 reached (2.4)\$ billion in 2004 whereas in 2005 surplus has been achieved (1.9)\$ billion as a result of balance of trade surplus (3.7)\$ billion. Total exports(fob) were(23.7)\$ billion against imports(fob) (20.0)\$ billion against (3.5)\$ billion deficit in this account in 2004. Trade surplus was due to crude oil exports increase (23.2)\$ billion against (17.8)\$ billion in 2004. In 2005, imports were amounting (20.0)\$ billion (fob) against (21.3)\$ billion in 2004 (Table 4).

Income account also achieved surplus amounting (726)\$ million in 2005 resulted basically from net compensation income account (175.1)\$ million and investment income (550.9)\$ million. Surplus in this account was amounting (50.8)\$ million in 2004.

In 2005, balance of services also showed a deficit (5.7)\$ billion against (0.8)\$ billion in 2004. Transportation and insurance formed 61% of services account debtor. Transfer account also witnessed surplus (3.2)\$ billion in 2005 against (1.9)\$ billion in 2004 resulted mainly from net capital transfer surplus (connected to fixed assets such as cash and in kind investment grants) (3.5)\$ billion.

According to International Monetary Fund (IMF) estimations, the expected increase in crude oil exports surplus resulted of oil prices and production increase in 2007 will be leading to increasing total exports value around (37.8)\$ billion of which (37.0)\$ billion is of crude oil exports. Imports will also to be increased to (33.5)\$ billion as a result of security improvement and investment spending increase which will lead to achieving balance of trade surplus to be higher than (4.2)\$ billion. Yet, the imports might not be achieved

completely taking into consideration Iraqi economy capacity and in this case the trade surplus may exceed the amount mentioned above.

It is expected that services account might face deficit reaches (3.9)\$ billion against surplus in 2005 because shipment and insurance costs are included in imports item instead of being included in services.

Net Transfer account will be witnessing large decline to (0.3)\$ billion against (3.2)\$ billion in 2005 because of the decline in grants pledged in Madrid conference in 2003, which is only small amount has remained un-disbursed. Income account is expected to face deficit too around (1.5)\$ billion. Indicators mentioned above influenced the status of the balance of payment current account which represents state performance through the state budget and private sector performance. It is expected to achieve surplus amounted (0.9)\$ billion in 2007 (Table 3) bellow:

Table (3)
Main Indicators of Iraqi Balance of Payment
2004, 2005, 2007
(Million Dollars)

Items	2004	2005	2007 (expectations)
Trade of Balance	- (3492.3)	- 3695.2	4247
Net Income Account	50.8	726.0	- (1457)
Net services Account	- (822.3)	- (5738.9)	- (3926)
Net Transfers	1859.2	3235.3	261
Current Account	(2404.6)	1917.8	875
Percentage of GDP	- (7.0 %)	4.6 %	1.3 %

Source: Balance of Payment Indicators 2004, 2005 / CBI
2007 Expectations/ first and second review of the Stand by agreement / IMF/ 17
July 2006 / table 4/ Page. 3

2.4 Oil Industry

Oil industry, which remains the bedrock of the economy, has began gradually to recover from the fall of years of underinvestment, war- related damage and past –war looting. However, attempts to boosts and sustain export have been held back by persistent and increasingly organized sabotage, targeted mainly at oil export infrastructure, as well as by lack of investment in new production.

Much of the infrastructure was in a serious of disrepair before 2003 conflict. Before the war, production averaged around 2-1 m bbl/d over the six years following the government's 1996 acceptance of the terms of the UN Oil-for-Food Program. This made possible the resumption of limited oil export, allowing some relief for donor's desperate humanitarian situation.

Table (4)
Economic Indicator 2004- 2005 and first half of 2006
(Million Dollars)

	2004	2005	1 st half 2006
Crude Oil Production (bpd)	2.0	2.0	2.0
Iraqi Oil Price (adjusted) \$ - Barrel	26.0	43.6	54.0
<u>External Trade</u>			
Imports (fob)	17.810	23.697	---
Exports (fob)	21.302	20.002	---
Balance of Payment	-(3.492)	3.696	---
<u>Exchange rate</u>			
ID: \$ (adjusted)	1454	1473	1484 *
ID: \$ end of the period	1460	1479	1480 (March)

Source: CBI

* 1st half of 2006

3. Medium Term Fiscal Framework

The 2005- 2007 national budget underscores the Government's commitment to a sound fiscal framework that support private sector development for robust economic growth and job creation. The budget priorities include rebuilding and expanding infrastructure, supporting private sector development and restoring national security.

The reconstruction of Iraq and restoration of public services at satisfactory levels requires a massive effort where all segments of society and public administrations at all levels are likely to be involved. In this setting, they government recognizes that decentralization of powers from the central to sub-national government must play a crucial role.

The main goal of decentralization of intergovernmental fiscal relations is to ensure an equitable regional distribution of the national budget based primarily on population size, but also taking into consideration the need to redress regional inequities. This will require decentralization of intergovernmental fiscal relations to locally elected governments as mentioned by the permanent constitution.

Donors will need to respond to reform of the intergovernmental fiscal framework by working closely with the central and regional governments within as integrated budget process to ensure that the national and regional priorities are respected. This is discussed in more detail in Chapter 9 on Donor Co-ordination Mechanism.

3.1 Government Revenues

Medium term of fiscal and economic framework is indicated in table 6. Government revenues for 2006 amounted (39.52) \$ billion including assistance amounted (8.29) \$ billion and is expected to be increased to (44.54) \$ billion in 2007, (50,73) \$ billion in 2008, (55.7) \$ billion in 2009 and (60.56) \$ billion in (2010) with annual growth rate around (11.3) %. Oil revenues represent 78% of these revenues as an average for the whole period, however; non oil revenues represent (15.6) % and assistances represent (6.8)%. The following assumptions have been taken in revenues estimations measurement:

3.1.1. Oil Revenues

Iraqi budget oil revenues are based on crude oil revenues and expected prices. Exports are expected to be increased from (1.5) mbpd export in 2006 to (1.81) mbpd in 2007, (2.1) mbpd in 2008, (2.47) mbpd, in 2009 and 2.74 mbpd in 2010 according to the following estimated prices; (51.55\$/b) in 2006, (50.38\$/b) in 2007, (51.25\$/b) in 2008 and (50.0\$/b) and (48.75\$/b) in 2009 and 2010 respectively.

Exported oil quantities were moving to decline during the first six months of 2006 from (1.543) mbpd on Jan. to (1.348) mbpd on June and expected to be increased during the second half to (1.5) mbpd; however, this decline was compensated by prices increase from an average of (49.7) \$/b in Jan. to stabilized at (60) \$/b during March and June. In general, 2006 state budget estimations of oil revenues came in accordance with expectations resulted from prices increase.

Over the past year and a half, oil pipelines facilities have encountered deliberate sabotage and vandalism which led to the suspension and / or decrease in the quantity of exports for days and sometimes for over a month. It is important to take this factor into consideration, as unexpected reductions in the exported oil quantities many offset the effect of higher prices.

3.1.2. Taxes, Import duties and Other Revenues

Taxes and non taxes revenues are expected to be increased from (3.57) \$ billion in 2006 to (5.86) \$ billion in 2007, (8.29) \$ billion in 2008, (9.89) \$ billion in 2009 and (11.74) \$ billion in 2010. Most of this increase is related to prices differences resulted from reducing fuel subsidies, which is expected to be increased from (0.9) \$ billion in 2006 to (6.5) \$ billion in 2010.

The (8.29) \$ billion which represent the major part of the remaining grants will be spent in 2006, then the funds will be reduced to (5.37) \$ billion in 2007 and (0.03) \$ billion in 2010, in addition non oil revenues will be increased from 9% in 2006 to around 19.4% in 2010 which is considered as a positive movement requires enhancement to reduce budget dependency on oil revenues. It is expected that the non oil revenues share of the total GDP is to be around 7.3% in 2006, 8.6 % in 2007, 10.4 % - 11.6 % in 2008- 2010.

3.2 Government Expenditures

3.2.1. Salaries and Wages

Employees wages and pension account for 31.6 % of total state budget expenditures in 2005, 24.6 % in 2006 and expected to be slightly reduced to 24.1% in 2007 and between 24.0 % to 23.5% until 2010.

3.2.2. Security and Defense

Security and defense expenditures are expected to be increased from (5.62) \$ billion in 2006 to (13.41) \$ billion in 2010 which is around (11.6% - 13.2%) of the GDP and 20% of operational expenditures in 2006 with continuous increase to 31.4 % in 2010. development of security and defense capacity should basically depend on improving security and military forces efficiency and quality more than increasing their numbers.

3.2.3. Subsidies

The oil sector is highly distorted by subsidies. Crude is sold to SOEs for 300 Dinars (roughly 0.20 \$/b). Despite such a low price the refineries and oil distributors experience great losses because of the very low prices of refined products set by the state: roughly 0.01 \$/ liter of regular gasoline and 0.025 \$/liter of improved gasoline.

As a result of the distorted and pricing scheme in the oil sector the government does not collect any revenues from the crude oil for refineries. This foregone revenue amounts to approximately 5.2\$ billion annually. Imports of gasoline resulting from the shortage of refinery capacity is projected to cost Iraq 2.4\$ billion in 2005. therefore, the total cost arising from limited refinery capacity is around 8\$ billion yearly, more than 30% of the state's total revenue. For this reason, liberalizing fuel prices as called for in the SBA will be crucial for establishing sound fiscal base. The government took the primary steps towards removing this distortion by increasing fuel prices on Jan 2005 and the second increase on July 2006 to be followed by other increases in the future until reaching the levels of similar Gulf countries (Table 5)

Approximately 47% of electricity production goes to households at subsidized prices. Implicit subsidies for the consumer in the electricity sector are estimated at 4\$ billion due to fuel prices charged to generators below opportunity costs, as well as depreciation of equipment which not taken into account in pricing. Water, on the other hand, is provided well below marginal cost. Adjustments need to be made in pricing of electricity and water

In 1996, under the UN's Oil- for Food Program, Iraq's food ration system was expanded to provide the population a basket of basic food items needed to sustain existence. These items included rice, flour, sugar, tea, cooking oil, pulses milk powder and iodized salt. In 2004 about \$5 billion was allocated to the Public Distribution System (PDS). In 2005 4\$ billion was allocated to the PDS then reduced to 3\$ billion in 2006.

Various proposals for reform of the PDS are under consideration. Monetization is one option (See Box 1). Another option is to identify and remove from the food ration system certain segments of the population who are not identified as food insecure. The Food Security Analysis Study along with the National Census, scheduled for Oct. 2007 and the planned creation of a social security number for each citizen thereafter may help provide the data necessary for wider application of this policy. It would then be able to better target food subsidies to the most vulnerable segments of society. This action might save up to 25% of the total costs of the food ration system over the next four years.

Reforms steps are based on the gradual transition from the PDS to developing comprehensive Social Safety Net (SSN) taking into consideration agriculture policies and their impact over other sectors.

Iraqi government realizes the necessity of PDS reform in order to improve equity and effectiveness of public resources distribution. Yet, the government is committed to support 25% of the Iraqi families depending largely on the PDS which will be substituted with several social services such as income increase; employment programs targeting people can not get a job opportunity. In this concern, the Iraqi government will be discussing with the IMF the possibility of distributing part of the oil revenues on Iraqi families within compensation program as part of phasing out subsidies.

In general, reform should be directed to phase out non- productive subsidies with lack of efficiency gradually and protecting the vulnerable through the following:

- Listing all kinds of government subsidies in the budget in a way reflects the total cost.
- Developing transition programs to move from comprehensive support to targeting efficient safety nets able to protect all vulnerable and poor people.
- Launch public education campaigns and consultations to ensure wide participation encouraging subsidies reforms.

Taken together, direct and indirect subsidies represent a major portion of government revenues. Direct subsidies amount to \$10.34 billion in 2005. This is

more than 37% of the public expenditures. The proportion of direct subsidies in public expenditures will drop to 31% in 2006 and 27% in 2007.

Subsidies reform will reduce the burden on the public budget and release resources to be used for productive investments in infrastructure and basic services. It is also planned to transform indirect subsidies which do not appear in the public budget and the budgets of some of the government enterprises into direct subsidies, in order to know the amount of these subsidies and their impact and who benefits from them.

The government was able, through reducing fuel subsidies, to liberalize part of the revenues to be used in developing modern Social Safety Net (SSN). During this year 333 \$ million was allocated to present assistance for one million poor Iraqi family. It is expected to increase the allocations to 0.73\$ billion in 2007 to expand the system to two million families (Box 4).

Currently, Direct and indirect government support is representing a great financial burden especially, the major part of it goes to black market dealers and smugglers as it is the case of fuel. From another hand, non- targeted subsidies are socially unjust to poor and vulnerable people. In addition, it assists wasting public funds and economic resources; as well as mitigates government ability fostering targeted groups; limit its abilities in providing sufficient resources for development and general basic services to people. Thus, non targeted subsidies weakening economy efficiency, reduce competition, create good environment for corruption and black market enrich marginal groups illegally

Table (5)

**Fuel Local Prices
Dinar/ liter**

Item	Before Adjustment	1 st Adjustment Dec. 2005	2 nd Adjustment July 2006	Targeted Price March 2007
Regular gasoline	20	150	250	*
Improved gasoline	50	250	350	450
Diesel	20	90	125	175
Kerosene	5	25	75	115
LPG (cylinder)	300	600	1000	1000

* Targeted price is 200 ID/Liter, but it was exceeded by the 2nd adjustment on July 2006 amounting 250 ID/liter.

3.2.4 Social Safety Net (SSN)

The importance of the Social Safety Net is increasing within government program mitigating the economic burdens over poor and vulnerable people, by allocating 3.50 \$ billion including the PDS within the Federal budget. It is expected to continue allocating funds for this program with continuous prices reform and subsidies phasing out reaching 5.28 \$ billion in 2008, 5.76 \$ billion in 2009 and 6.33 \$ billion in 2010. (Table 6)

Box 1: Iraq's Public Distribution System (PDS) – helps the poor but is costly

The Public Distribution System (PDS) is universal entitlement scheme under which all 27 million Iraqis receive a food basket each month. It is very effective in reaching the poor but it is very costly. The 2005 budget allocated \$ 4 billion to the PDS. This is equivalent to \$ 150 per Iraqi annually. The opportunity cost of the PDS is high. It consumes 21% of government revenues could be used to scale- up spending on other urgent priorities like infrastructure, health and education. Although the PDS is an effective safety net for the poorest it is inefficient, costing about 6.30 \$ to transfer worth of food to an individual. Furthermore, the PDS is wasteful because it is not targeted at the people who need it most – the poor. The PDS has perverse effects on agriculture because of its heavy reliance on imports and the artificially low – prices caused by large injections of food into the Iraqi market.

One solution being considered is to replace the PDS with cash payments (monetization) to all households in Iraq. Monetization is intended to increase the efficiency of the delivery of subsidies, reduce distortions in the economy that impede domestic production and improve transparency and accountability of the use of oil revenues. This policy is aligned with the government's strategic objective of building the market structures that promote private business, improve living standards and integrates Iraq into the world economy.

Monetization of the PDS is likely to yield considerable static and dynamic benefits to the Iraq economy compared to the current in- kind distribution system. However, monetization needs to be introduced with care. The complexity of implementing a nation – wide program pertains to the large numbers of recipients involved, setting the amount of Dinars to be given in lieu of the basket right and the political sensitivity of the change – over. Moreover, the monetized system must be a zero- defect system: every Iraqi needs to receive his or her money on time and must be able to use that money to purchase sufficient food on the market. If even small numbers of people do not receive their money, or the money received is considered inadequate, then the transition to the new system is likely to be highly damaging. Secondary, but important concerns include: preventing fraud and the theft of funds; ensuring that the change does not have negative nutritional effects empowering women; avoiding misuse of oil revenues; and ensuring that the changeover has positive effects on economic development, in particular on agriculture, retailing, wholesaling, transportation, and the financial services (banking sector).

3.2.5 Investment Expenditures

The NDS realizes the essential need for capital investment funds for reconstructions and developing infrastructure and different economic sectors which serve as economic growth engine. Infrastructure destruction and sever productivity lack clearly effected services level specially health, education, electricity, fuel, water, sanitary, municipality, transportation, housing in addition to old fixed assets in general which indicate the need for huge investment funds exceed Iraqi- self economic capabilities at present.

Oil production represents around (63.3%) of the GDP amounting to (41.1\$) billion in 2005 and 97% of the state budget revenues in the same year; yet, slightly reduced to 92% of 2006 budget. These figures reflect the real scope of Iraq economy openness on the world economy and their impact specially changes related to oil prices. Any prices swing will expose government fiscal position, and the Iraqi economy to huge risks the matter that requires serious production base expansion and diversification as well as reduce the large dependency on oil. This can not be achieved unless the private sector takes over the essential role in economic activities; creating appropriate environment for investment including the reconstruction of the infrastructure, enforce the new investment law in accordance with the modern international practices in this field to provide the required investment funds.

Operational expenditures represent (87.5%) of the total state budget expenditures in 2005, and (82.7%) in 2006, thus what is remained of public expenditures represents simple share allocated for government investment. On the macro level of the national economy, estimations¹ refer that the consumption expenditures represent (87.1%) of the GDP in 2006 moving to gradual reduction during the next four years, to be stabilized at (68%). Despite expectations of increase, what is remained of the GDP for investment still low and below the level of national economy actual needs because of the low level of the GDP. Iraq at the current stage is considered as the poorest country in the region regarding citizen's living standards with per capita income less than half of that of 1980 for reasons mentioned above as well as security instability.

According to current estimations, public budget revenues for the next four years 2007- 2010 including assistances amounting around (210.9\$) billion, public current expenditures around (156.1\$) billion (including emergency reserve) (table 7), public savings could be allocated for investment is around (60.8\$) billion, roughly (12.4%) of the GDP as an average for the next 4 years.

The main part of the external funding will be provided by the International compact with Iraq by establishing Reconstruction Fund consists of International community allocations enabling Iraq continuous reconstruction efforts started after Madrid conference in 2003.

¹ IMF – SBA, Dec. 2005/ Table (1)

3.3. Lessons learned

Arab and International countries and organizations commitments for reconstruction programs during 2004- 2007 amounted (35\$) billion of which (22.8\$) billion as grants and (12.1\$) as credits.

Although these grants are about to be consumed, results came very humble for many reasons of which;

- All spent amounts are grants presented by the Donors, no amounts spent from credits except (IMF) (450\$) million in the form of cash transfers assisting Iraq passing EPCA agreement conditions in addition to (700\$) million expected to be spent by Japanese credit amounting in total (3.5\$) billion for 2007.
- Amounts spent of these grants do not necessarily mean that they were spent on projects inside Iraq, but it probably means they were spent by the Donors. Huge parts of the grants still in the way to Iraq Reconstruction Fund related to UN and WB. There is still (880 \$) million deposited in Fund account outside Iraq or another part has been deposited in account related to entities supervising project implementation or deposited in accounts related to the main executive companies or subcontractors or NGOs.
- Most of projects were chosen by the Donors without considering NDS priorities and without taking the approval of MOPDC as the official entity concerned with setting the priorities of reconstruction projects. In addition many of the projects have been executed without transparency as the sectoral Ministries themselves didn't know about them because the grants used to be transferred directly from the Donor or supervising agency to the foreign companies or NGOs or local administrative authorities or local contractors without competitive offers or advertising procedures done by these entities or Iraqi entities.
- The major part of the expenditures includes the costs of security, protecting foreign experts and high administrative costs. Data shows that there are (200) employees working at UN and Donors offices in Amman, Cyprus, and Kuwait supervising Reconstruction in Iraq from distance. Their wages, living costs, and transportation are paid from the grants. Security expenditures consume 30%, administrative expenditures consume 20% and the rest in best cases don't exceed 50% spent on the project including expert's wages, traveling, shipment, commissions and other expenditures. That is why what is really spent on reconstruction in best cases is between 25% to 30% of total spent grants. This explains the continuous high levels of unemployment despite spending this huge amount of Donations.

- Most of Iraq reconstruction projects executed by the Donors didn't follow the national or local regulations and instructions, as well as no competition spirit. The matter that increased non justified costs. Foreign companies didn't execute projects directly; in stead they transferred implementation to local subcontractors without considering their technical capabilities or classification.

Reconstruction projects, during the past three years depended mainly on government resources because of the way these grants have been administrated. The IMF data estimating government investments expenditures indicate that the local government allocations for reconstruction amounted (8.4ID) trillion, roughly (5.6\$ billion) in 2004 and increased to (12.4ID) trillion, roughly (8.3\$) billion in 2005 which represent about 26.4% and 33.2% of GDP during the mentioned yeas. Both government resources and Donors spending for 2004-2005 is about 25.6\$ billion, roughly (55.7%) of GDP. In spite of spending these huge amounts, results came very humble and intangible in economic sectors except the oil sector which retained its productivity power used to be before the war. Other sectors still suffering from destruction and looting works during and after the war. We didn't witness any development indicators or improvement in citizen's basic needs in comparison with what was before the war, except individual income increase from (800\$) in 2002 to (1189\$) in 2005; however, inflation increase damaged the real purchasing power.

The passive performance of reconstruction process during the past three years, should be taken under consideration by establishing new mechanism for grant and credits which Iraq is trying to get in the next years within International Compact initiative launched by the Iraqi government on August and September this year with the support of UN to avoid failure that accompanying the current program. The COMPACT aims to; establishing partnership with the international community, achieving the national vision which includes establishing peace and continuing economic, social and political development during the next five years. This will help in accomplishing quality jump in Iraq economy, and merge it with other countries economies in the region and the world.

The gains of the COMPACT will be great with positive impact on Iraq future, as well as the economic, social and political development.

- Rapid reconstruction and infrastructure development process specially in key sectors.
- Revitalizing the private sector as the economy development key.
- Allow foreign investment to play essential role in achieving economic growth and developed technology.
- Iraq stabilization which lead to region stability in the future.

- Providing Iraq economy framework and merge it with International economy.
- Developing the National Development Strategy

Table (6)
Medium – Term Economic and Fiscal Framework Summary

\$ billion unless mentioned elsewhere	2006	2007	2008	2009	2010
Economic Growth and Prices					
Actual Gross Domestic Production (changed %)	3.0	15.4	12.9	12.9	9.8
Nominal Gross Domestic Production (\$ billion)	48.51	68.42	79.83	91.05	101.40
GDP to Capital (American dollar)	1.687	2.313	2.625	2.915	3.164
Oil Production (mbpd)	1.97	2.35	2.70	3.10	3.40
Oil Export (mbpd)	1.50	1.81	2.10	2.47	2.74
Iraqi oil exports prices (\$/b)	51.55	50.38	51.25	50.00	48.75
Revenues and Assistance of which:	39.52	44.54	50.73	55.07	60.56
Crude oil exports revenues	27.66	33.31	39.28	45.05	48.79
Assistance	8.29	5.37	3.16	0.13	0.03
Expenditures	33.85	48.91	52.60	57.49	62.64
Operational expenditures: of which	27.99	33.10	35.31	38.88	42.72
Salaries and pensions	8.32	11.79	12.86	13.83	14.75
Fuel imports	2.87	1.40	0.00	0.00	0.00
SSN (including PDS)	3.50	4.84	5.28	5.76	6.33
Interest rate	0.42	0.44	0.64	1.03	1.66
War reparation	1.38	1.67	1.96	2.25	2.44
Investment expenditures	5.16	14.61	16.05	17.28	18.50
Emergency	0.69	1.20	1.24	1.32	1.43
Account (including assistance)	5.66	- 4.37	- 1.87	- 2.41	- 2.08
Changes trust funds due [surplus]	3.65	0.00	0.00	0.00	0.00
Financing	- 2.01	4.37	1.87	2.41	2.08
The rest or financing gaps [+] / surplus[-]	0.00	0.00	0.00	0.00	0.00
Security expenditures	5.62	8.48	10.36	11.95	13.41

3.4 Required Investment Funds according to Needs Assessments

Estimated investment funds for 2007- 2010 amounting (187/7 \$) billion (table 7) will lead to an increase in GDP exceeding that increase based on expected local resources provided that they are wisely spent according to investment priorities indicated by the NDS.

Among these investments, foreign and national private investments will have important role in some key projects such as railways, metro, airlines, housing, hospitals, schools, and universities. Thus, it is important to develop the required

policies within each sector alongside the general policies to achieve the required goals.

According to the most recent basic needs estimates for different economic sectors, which represent the minimum required investment funds for reconstruction and providing citizen's basic needs (table 7), the estimations have been amounted as (187.7\$) billion, roughly 55% of the GDP for the same period, that is why it is necessary to find new external funding resources (private sector) to fill the gap amounting (126.9 \$) billion. Iraq is expected to be able to get this amount or part of it through grants, soft loans, direct foreign investments and national private sector. The new investment law approved by the Council of Representatives on Oct. 2006, security expected improvement, and government investment funds increase for reconstructing infrastructure are basic factors attracting foreign investments and encouraging national investment.

Table (7)
Estimations of Economic Sectors Investment Funds Needs
2007- 2010

(Billion Dollars)

Indicators	2006 ²	2007	2008	2009	2010	Total 07-2010
<u>Investment Expenditures</u>						
Oil Sector	3.4	8.4	8.7	9.3	9.6	36.0
Electricity		6.0	4.4	3.5	2.6	16.5
Water Resources		1.0	1.5	1.5	1.2	5.2
Agriculture		1.1	1.0	1.0	1.0	4.1
Industry		0.3	0.2	0.2	0.1	0.8
Transportation		7.5	7.5	7.5	7.5	30.0
Construction		1.5	1.5	1.5	1.5	6.0
Housing		10.0	12.0	15.0	15.0	52.0
Health		2.5	3.3	4.4	4.5	14.7
Education		0.6	0.6	0.6	0.6	2.4
Telecommunications		0.3	0.3	0.2	0.2	1.0
Water and Sanitary		1.4	1.9	2.5	2.7	8.0
Regions and governorates development		2.5	2.5	3.0	3.0	11.0
<u>Total Investment Expenditures</u>	14.9	43.1	45.4	49.7	49.5	187.7

Source: revised figures of investment needs prepared by MOPDC and other Ministries, Dec. 2002.

Investment funds indicated in table (7) are very huge that exceed Iraq's economic capabilities at current stage, the matter that requires finding external funding resources in the form of soft loans or grants and direct foreign investment to achieve the strategic goals.

Iraq economy savings capabilities in the present time are low and unable to provide the minimum individual basic needs or accomplishing the ambitious growth rates.

High growth rates could be resulted from achieving targeted investments in case being efficiently used. GDP is expected to be increased rapidly exceeding the expected rates mentioned in table (6). Oil sectors growth is also expected to be increased at around 13% while non oil sectors may 37% in grow by current prices which will change the share of non oil sector in GDP from 37% in 2006 to 40.6% in 2010 whereas oil sector share in GDP will be reduced from 63% to 59.4% the matter that diversify the sources of growth of the Iraq economy which remained depending on oil sector for decades.

Local investment is expected to reach (78.5\$) billion and the rest amounting (109.2\$) billion is supposed to be provided by external resources which represent around 58.2% of total required investment funds. (Table 8).

In order to provide this amount; it is important to continue Iraq cooperation with the International community by establishing suitable mechanism ensuring capital flow to Iraq economy with continuous implementation of economic reform programs, economy restructuring, public resource management improvement, building capacity, corruption control and social sector reform based on NDS goals which will be mentioned in section seven.

Table (8)
financing Resources – Revised Estimations
2007-2010

Funding Type	\$ billion	%
1. Local Financing	78.5	41.8
Government Savings ¹	60.8	32.4
Private Savings ²	17.7	9.4
2. External Financing		
grants, soft loans, Foreign direct investments	109.2	58.2
Total	187.7	100.0

¹Figures have been estimated based on table (6).

²SBA 1st and 2nd Review, 17 July 2006, Table (1)

4. Strengthening the Foundation of Economic Growth

4.1 A stable Macroeconomic Environment

Macroeconomic stability is essential to solid economic growth. A sound macroeconomic framework, good microeconomic policy setting and effective financial regulation and supervision policies is the foundation for fiscal, monetary and financial policy are based on the principles of transparency, responsibility and stability. In practice this means:

- The fiscal framework is designed to achieve sound public finances.
- The monetary policy aims to maintain low inflation over the medium term, while avoiding unnecessary instability in output, interest rates and the exchange rate.
- Financial stability requires a range of policies, including a sound macro- and microeconomic framework. It also requires a capacity for detecting and responding to possible sources of vulnerability.

4.1.1. Fiscal Policy

An economy's growth potential depends on adequate levels of investment, which in turn require sufficiently high flows of national savings. However, in Iraq private national savings have traditionally been extremely low. The low level of national savings can largely be attributed to the public sector. Excessive and wasteful public consumption and transfer payments (subsidies) have crowded out public investment, and growing public – sector deficits financed by printing money have crowded out private investment and raised inflation. Bringing public - sector finance into better balance is, therefore, a key element of a medium- term growth strategy.

While balancing the budget remains a priority, improving the composition of public expenditure is also critical for delivering durable and high – quality fiscal policy. Empirical evidence suggests that productivity of government expenditure is more important than its size in ensuring sustainable growth and development. It is essential to redirect government expenditures towards uses with the highest social return. Redirecting public expenditure toward growth – enhancing, cost – effective, investment in physical and human capital and knowledge is a priority in Iraq.

Public expenditure composition can also be improved by enhancing the performance of public enterprises. This not only produces fiscal savings, but also increases efficiency. Some of the largest losses, which are often hidden, occur in the energy sector. A ministerial – level Commission has been established to explore the options for reform of State- owned enterprises in Iraq.

While fiscal consolidations can, especially if well – designed, spur growth, they often result in some short- term output and social costs. So a well- designed strategy needs to incorporate targeted social programs to mitigate and adverse impact of economic reform on the poor and the vulnerable.

However, without well- functioning fiscal institutions, even the best designed policy measures may fail. Good fiscal institutions, such as sound, transparent, and efficient budget systems, fiscal responsibility frameworks, and effective revenue administrations, can greatly facilitate adjustment. Fiscal transparency enforces accountability and helps promote board public support for fiscal reforms. Effective implementation of fiscal policy is as important as the design of the policies themselves, and tax policies are no exception. No matter how good in theory, they cannot be successfully implemented without a solid tax administration. On the expenditure side, policy measures need to be supported by an effective budget management system. Such a system is essential for ensuring effective spending control, improving financial management, and achieving cost- effectiveness in service delivery.

Fiscal policy success and achieving economic growth requires better public fiscal management in accordance with International practices in this field. The government will go on in taking the necessary steps to financial management reform including;

- Apply unified treasury account.
- Increasing budget transparency as well as enhancing the Council of representatives monitoring process.
- Improving monitoring of international assistances and support by listing them international transfers within the budget even if they were not listed through governmental offices
- Developing the budget through real financial framework in the medium-term.
- Utilizing practical procedures regarding reporting and information reveal to develop policy design, pave the way for accountability and public participation.
- Carrying out government financial accounting auditing according to international accounting standards in addition to be published regularly.
- Working on removing administrative obstacles in order to improve capabilities related to bidding, capital projects contracts, investing in large projects financially stable during the medium- term according to the financial framework for medium – term and the future.
- Taking the best international practices in budget execution and public contracts.
- Harmonizing budget execution procedures all over Iraq.

- Achieving balance between efficiency and best international practices in budget execution and public contracts implementation procedures all over Iraq – as the whole country- and regionally – as governorates- by using comprehensive law and regulations for public contracts.
- Implementing and operating Financial Management Information System (FMIS) in all ministries and governorates including contracts management, public salaries statements, budget planning and finding ways for improving these mentioned fields.
- Establishing unified financial system in all governorate offices (federal finance) based on clear revenues and expenditures allocations at all governorate levels assisting local governments to enhance their abilities in service delivery and applying wise administrative practices.
- Reviewing tax and customs policy and related procedures to provide stable way for increasing Iraqi government resources, boost growth level and develop the private sector.
- Building capacity in all fields related to government and private public funds management.

Oil resources have special importance in this concern, as they represent around 95% of public budget revenues in 2007, thus all Iraqi people should get the maximum benefit by establishing a system for oil revenues management characterized with effectiveness, transparency and accountability, because these resources will be supporting the national unity and diversified sustainable development.

For the purpose of achieving this goal, oil account will be subjected to disciplinarian monitoring and auditing including annual accounting review through international independent auditing company, publish related information regularly, statement settlement for production, exporting, payments and revenues. Mechanisms for auditing and monitoring will be established such as forming independent council for auditing, monitoring, supervising this account and publishing all related information.

A mechanism for oil revenues management will be established to ensure equal and transparent oil revenues sharing among all Iraqis. A unified account will be opened for receiving revenues of all gas and crude oil sells.

4.1.2 Monetary Policy and Banking

A stable macroeconomic environment requires sound monetary policy. That is often defined as a policy based on a price stability goal, a transparent process for setting the instrument of policy and a flexible exchange rate conducted by an independent central bank. Price stability is critical for growth because it means that entrepreneurs, managers and workers will all receive undistorted price

signals from the markets. Decisions are adversely affected when related price signals are confused by inflation. Investment and saving decisions in particular become distorted, damaging the growth of production and national wealth over the long term. Sound public finances will also contribute to price stability to avoiding undue weight having to be placed on monetary policy as the primary instrument for curtailing inflation.

Banks are at the core of the financial system in Iraq and are intricately linked to monetary policy. Stable macroeconomic conditions are important for a robust banking and financial system. It is not possible to establish and maintain bank soundness unless prices and other nominal variables in the economy are evolving in a relatively stable fashion and economic activity is expanding at a reasonable pace.

The soundness and resiliency of the banking system depend on how effectively banks perform their lending decisions, and on how well they recognize and manage changing risk profiles as the economic circumstances of their borrowers evolve. But banks also perform other important financial functions, such as operating the clearing and payments system and the foreign actions to market. As a result, the banking sector is the main vehicle for transmitting monetary policy actions to market interest rates, the stock of liquidity, and, ultimately, overall economic activity and prices. Because of these diverse functions, a sound banking sector is the single most essential element of a healthy financial system.

How effectively banks perform these functions depends, in turn, on competition in the banking system and the state of the macroeconomy. One major reason why the banking sector in Iraq is not competitive is because of extensive government intervention over the past 40 years.

Strengthening private ownership and competition in Iraq's banking system to address this vulnerability is a high priority. Responsibility for the internal governance of banks and other financial institutions rests, first and foremost, with their owners, managers, and directors. Owners with their capital at risk have a strong incentive to appoint competent directors and managers and to closely oversee their business. This is why privatization is traditionally seen as a crucial element of banking sector reform in many developing and transition countries. Liberalizing the conditions of entry to make the banking industry "contestable" is another way to increase both private ownership and competition in the banking sector.

It could be necessary to deepen Islamic banks experience practiced in many countries through discussing this proposal as a part of economic openness. CBI will carry out the following issues urgently;

1. Implementing RTGS and ACH.
2. Rehabilitating ICBS related to accounting contacts.
3. Using SWIFRT for paying ICB external drafts.
4. Installing DMFAS.
5. Connecting ICB with all banks main HQs by internet links through cooperation with Ministry of Communications (MOC) and International Community (WB).

4.2. Oil and Gas Sector

Iraq is estimated to hold 115 billion barrels of proven oil reserves—one of the largest in the world—and possibly much more undiscovered oil in unexplored areas of the country. Iraq is also estimated to contain at least 110 trillion cubic feet of natural gas.

The cost of production is among the lowest in the world because the fields are onshore, very large, and have a relatively simple geological structure. The Ministry of Oil has prepared medium and long term plans to increase the country's oil production capacity to reach or surpass 6 million bpd. The target for the year 2011 is 3.5 million bpd. Estimated costs to maintain and increase production are in the range of \$4 billion. Iraq's oil sector plan also targets an increase in gas production and invites foreign companies to participate in developing the oil and gas field in shared production contracts.

Historically, Iraqi production peaked in Dec. 1979 at 3.7 million bpd and then in July 1990, just prior to invasion of Kuwait, at 3.246 million bpd. As of May 2005, Iraqi production had reached 1.9 million bpd. Increasing oil production to pre-war levels is critical if Iraq is to sustain high rates of economic growth. Throughout the 1990s, Iraq did not have access to the latest industry technology, sufficient spare parts and investment. In the long – run adoption of these new technologies could result in Iraq's oil output increasing by several million barrels per day.

Under optimal conditions, and including routes through both Syria and Saudi Arabia that are now closed or being utilized for other purposes, Iraq's oil exports infrastructure could handle more than 6 million bpd (2.8 via the Gulf, 1.65 via Saudi Arabia, 1.6 via Turkey and 0.3 Jordan and Syria). However Iraq's exports facilities were seriously disrupted by the Iran- Iraq war 1980- 1988 and the 1990/91 Gulf war, the most recent war in March / April 2003 and periodic looting and sabotage since then.

As of May 2005, about 30 companies has signed MOUs (memorandum of Understanding) with Iraq. They generally cover the training of Iraqi staff, consulting work and reservoir studies. In Dec. 2004, Iraq's State Company for

Oil Prospects (SCOP) awarded a 4150 million contract- the first post- Saddam era upstream deal – to Turkey's Avrasya Technology Engineering for development of Khurmala dome. It is expected to increase production at Khurmala dome from 35,000 bpd to 100,000 bpd. Another large oil field slated for development is Majnoon, discovered in 1976 and containing reserves of 11-30 billion barrels. Future development of Majnoon field ultimately could lead to production of 450,000 bpd within two years at a cost of \$4 billion.

In January 2005, a consortium of Shell, BHP, Billiton and Tigris Petroleum signed a deal with Iraq's Oil Ministry to increase output from the 4.5 billion barrel Halfaya field in southern Iraq. Smaller fields with under 2 billion barrels in reserves have also received interest from foreign oil companies. These fields include Nasiriya (ENI, Repsol), Tuba (ONGC, Sonatrach, Pertamina), Ratawi (Shell, Petronas, CanOxy), Gharraf (Mashinimport, Rosneftgasexport), Amara (Petr Vietnam) and Noor (Syria).

Restructuring the oil sector and merging the national oil companies into one conglomerate is already under way. The Ministry of Oil plans to establish open, transparent, and fair policies, practices, and treatments to attract foreign investors. Prompting strategic partnerships between Iraqi and foreign oil and gas companies so as to tap an important source of capital for the expansion and rehabilitation of the industry will be critical. To do this effectively, a strong legal and regulatory framework is needed. However, for the foreseeable future the Government intends to continue to play an active role in this sector through the established national oil company. Limiting private firms, foreign or domestic, to rehabilitation or production.

Another impediment to the sector is the fact that oil products are heavily subsidized. Crude oil is supplied to refineries at a price of 300 ID per barrel (about 21 cents) compared to current spot market benchmark price of more than \$40 per barrel. The quantity supplied to those refineries ranges from 500,000 to 550,000 bpd. According to the price per barrel assumed in the 2005 budget projections, \$26 per barrel, foregone revenues range between \$4.7 and \$5.2 billion. Added to this must be the cost of imports (\$2.4 billion) which are sold to the consumer at the price of 20 ID per liter (about 1 cent) while the government imports at market price. Total subsidies are in the range of \$7.1 billion to \$7.6 billion yearly. This is not only a drain on government revenues but also a disincentive to downstream investment. Under the EPCA agreement with the IMF the Government committed to increase domestic prices of refined oil products by January 1, 2005. While this has been delayed due to unavoidable circumstances, the Government remains committed to a gradual increase in domestic prices of oil products as per capita income increases. Prices were increased twice at the end of 2005 and July 2006.

The plan for refinery modernization appears to be to first upgrade the existing refineries by, among other measures, adding more conversion capacity, and then to expand overall capacity. One estimate for this program is \$1 billion for upgrading the three existing refineries and \$2.75 billion for new refinery

construction. Alternatively, Iraq and foreign private sector investment would be expected to create new refining capacity.

4.3. Natural gas

Iraq contains 110 trillion cubic feet (Tcf) of proven natural gas reserves. About 70 % of Iraq's natural gas reserves is associated (i.e. Natural gas produced in conjunction with oil) with the rest made up of non- associated gas (20%) and dome gas (10%), in 2002, Iraq produced 486 billion cubic feet (Bcf) of natural gas, down sharply from 545 (Bcf) in 1989. since most of Iraq's natural gas is associated with oil, progress on increasing the country's oil output will directly affect the gas sector as well. To date, most associated gas is simply flared off. Significant volumes of gas are used for power generation and reinjection for enhanced oil recovery efforts. One avenue worth exploring would be investing in capture of natural gas, which is currently flared.

The main sources of Iraq natural gas are the Kirkuk, Ain Zalah, Butma and Bay Hassan oil fields in northern Iraq, as well as the North and South Rumaila and Zubair fields in the South. The Northern Rumaila gas plant was scheduled to start up in Dec. 2003 and to boost gas utilization by around 500 MMcf/d but has been delayed. In addition, Iraq is considering plans for increasing associated natural gas processing capabilities in Zubair and West Qurna and to reduce gas flaring which is wasteful and dangerous.

Iraq plans to increase its natural gas outputs in order to reduce dependence on oil consumption, to use for petrochemicals production and possibly to export. In Dec. 2003, Iraq, renewed a natural gas supply agreement with Kuwait that dates back to the 1980s, under which Iraq was to supply natural gas to Kuwait via an overland pipeline. In Sept. 2004, Iraq agreed to join the Arab Gas Pipelines Project linking Egypt, Jordan, Syria and Lebanon.

The key objectives in the medium- term for the oil and gas sectors include:

1. Improving the legal and regulatory framework in the oil and gas sectors to enable restructuring of the industry.
2. Promoting strategic partnerships between Iraqi and foreign oil and gas companies, so as to tap an important source of capital for the expansion and rehabilitation of the industry.
3. Establishing independent national oil and gas companies (both upstream and downstream).
4. Reducing fuel subsidies that distort incentives and encourage wasteful consumption of these precious non- renewable natural resources.
5. Investing in technical and managerial training to bolster capacity.
6. Establishing harmonized transparent and predictable hydrocarbon financial system.
7. Improving monitor and control process including installing meter in all stages.

8. Using precautions for environment protection including the best oil field use, reducing harmful gas and control it.

For this purpose, the government will develop central plan for the power sector based on power balance as the following;

- Estimating the needs of oil, gas and electricity ad- hoc sectors as interrelated power production components.
- Identifying national investment priorities according to the power sector experts' views.
- Developing effective plan to increase power sector efficiency.
- Identifying the required funding as well as identifying public and private resources including local and foreign investments.
- Developing supporting policies and legislations for managing power demand including power efficiency improvement.

Public Private Investments Strategies in the Oil Sector

Upon these strategies, the following issues are prioritized as;

- Increasing crude oil production to 3.5 million bpd at the end of 2011.
- Increasing fuel production to 700 thousand bpd at the end of 2011.
- Satisfying demand on fuel with international prices at the end of 2011.
- Developing natural gas to satisfying electricity demand.

Investment Costs

According to needs assessment report, oil sector investment requirements are around 36.0\$ billion within the next four years as indicated bellow;

Oil Sector Investment Costs 2007- 2010

(\$ billion)

Project	Years			
	2007	2008	2009	2010
Oil extract	4.70	4.80	5.20	5.30
Developing gas fields	0.45	0.50	0.55	0.50
Gas treatment and fill	0.50	0.50	0.50	0.50
Oil refinery	1.25	1.35	1.40	1.50
Pipelines projects	0.70	0.70	0.80	0.8
Maintain production in current fields	0.50	0.50	0.50	0.50
Maintaining production in manufacturing sector	0.20	0.25	0.25	0.30
Oil explore	0.10	0.10	0.10	0.10
Total	8.40	8.70	9.30	9.60

5. Structural Transformation of the Economy

5.1 The Rationale for Diversification

A strong foundation for economic growth in an economy with a huge natural resources endowment (oil and gas) requires a diversified economy for the following three reasons.

The first reason is that it will protect against the economic phenomenon called the "Dutch Disease". This phenomenon occurs when exploitation of a natural resources such as oil deindustrializes a nation's economy. This happens when oil exports cause the value of the local currency to appreciate, which makes manufacturing less competitive. As a result imports increase and non- resources exports decline.

The second reason is that the oil industry is notoriously volatile. Frequent wide swings in prices makes planning difficult and can derail Iraq's growth prospects. Transforming the structure of the Iraqi economy to allow for a great role for agriculture which experiences different cyclical from those in the oil sector can cushion the Iraq economy from oil shocks.

The third reason is that unemployment is a major problem in Iraq. Yet the dominant sector of the economy which is oil is capital intensive. Developing the agriculture and manufacturing sectors which in many instances are labor intensive can help create jobs directly through farming, fishing and the supply chain associated with delivering agricultural goods to market as well through jobs in agro- industries.

The high growth rates achieved during the 1960s and 1970s under import substitution policies were mainly due to the vast oil revenues which enabled the country to sustain this model of development for many years. But the short fall and fluctuations of oil revenues during the following years, and the complete stop of export during the first half of the 1990s, showed the failure of this strategy which became unable to support the increase in labor force and income averages, consequently, the Iraqi economic had faced serious changes due to the high rate of population growth deterioration of economy growth and the failure of protected economic activities in public sector to neither offset the decrease in oil revenues nor to promote growth factors. Thus, the development efforts which were achieved during the first stage had almost disappeared following the short fall in oil revenues.

This demonstrates how dangerous it is for an economy to be dependent on a singly economic resource. Therefore, there is a consensus that Iraq requires

structural transformation of its economy, to diversify its sources of growth. This will require strategies and economic reforms to:

- Move away from dependence on oil sector.
- Move towards a private sector led, market- oriented economy.
- Move towards an export promotion strategy.

Realization of these movements requires introducing economic reforms, mainly liberalization of foreign trade and encouraging domestic and foreign investment. These two factors can play an essential role in diversifying growth sources, which also requires the development and the linearization of basic services such as transportations, communications, financial and infrastructure services and tourism which is considered as one of the main fields of developing trade. Introducing incentives for private investment, institutional changes and restructuring are also required as important factors in update and activating the economic capabilities, in both medium and long term periods.

5.2 Agriculture

Iraq's agricultural sector represents a small, but vital component of Iraq's economy. However, rapid population growth during the past three decades, coupled with limited arable land and a general stagnation in agricultural productivity, has steadily increased dependence on imports to meet domestic food needs has made Iraq major importer of agricultural products. By 1980s Iraq was importing half of its food supply. By 2002, between 90-100% of many basic staples—wheat, rice, sugar, vegetable oil, and protein meals—were imported.

Since the 2003 war the country's agricultural sector remains beset by the legacy of past mismanagement and the lingering effects of a severe drought during 1999-2001. Clearly, Iraq will be dependent on imports to fully meet domestic food demand for several years to come. In the near term, food aid shipments will play a major role in determining the share of Iraq's agricultural imports, and many influence the evolution of the future commercial imports.

Iraq has a total surface area of 43.7 million hectares of which 34.0 million (78%) is not viable for agricultural use under current conditions. Less than 4.0 % is in forest and woodlands situated along the extreme northern border with Turkey and Iran. The remaining 22% (about 9.5 million hectares) are involved in agricultural activities, although almost half of this is very marginal and used only for seasonal grazing of Iraq's livestock population of predominantly goats and sheep. An estimated 340,000 hectares are in three crops (mostly dates, but also some figs, grapes and olives).

Area cultivated annually to field crops such as cereals, pluses, fruit and vegetables varies with weather and market conditions, but generally averages

3.5 to 4 million hectares. Between 75- 85% of crop area is generally planted to grains (mostly wheat and barely).

Iraq is divided into a rain- fed northern winter grain producing zone and a center south irrigated zone that produces vegetables and fruit, as well as cereal crops. According to Food and Agriculture Organization (FAO) data, irrigated zone in 1989 was 2.55 million hectares.

From 1979- 1990 the former regime attempted to foster private sector control and investment in Iraq's agriculture. Surging oil revenues were used to acquire Western technology and to lavish extensive government subsidies on the sector. Area and production expanded through the 1980s for cereals, vegetables and fruit. Cereal yields stagnated due to poor production practices and limited varietals development. In addition, the Iran- Iraq War diverted labor and other resources away from agriculture. Population growth continued to outpace agricultural production, increasing the importance of trade. Despite governmental efforts at stimulating agricultural production, cereal and poultry imports as a share of domestic consumption nearly doubled to 69 and 48%, respectively, during the 1980s. By 1989, Iraq was importing over 2.5\$ billion in agricultural commodities annually, including 78% of its cereals and nearly 100% of its vegetable oils and sugar.

Following the Gulf war, the country was effectively partitioned into two distinct entities – three northern governorates (Erbil, Duhuk and Sulaimanyah) and the remaining fifteen governorates in central and southern Iraq. As a result of the partition, the previous regimes control over agricultural policy was limited to the 15 southern governorates. Following the implementation of U.N. economic sanctions, that government took several steps to increase both production and control of domestic food within its zone of control. These changes included government monopoly control over most grain production and the introduction of a State- managed system of rationing of basic foodstuffs.

Government incentives coupled with rising internal food prices encouraged Iraqi framers to expand crop area by planting on marginal pastureland fragile hillsides. Record cropped area was attained in 1992 and again in 1993. However, agricultural productivity suffered for lack of fertilizers, agricultural machinery and the means of spraying planted areas with pesticides. Iraq's irrigation infrastructure fell into disrepair and senility has spread across much of the irrigated field of central and southern Iraq. Iraq's poultry and livestock populations were devastated by the loss of rangeland to grain crops and the cut off of imports of feed grains and veterinary medicines needed for control of parasites and diseases.

A return for the normal internal security is critical for domestic cereal production in Iraq. Political stability, improved internal security will also be needed before Iraq's agricultural sector witnesses significant investment and growth. Restoration of the irrigated infrastructure (including a long – term desalinization programs), as well as the grain marketing infrastructure for handling, storing, and distributing agricultural inputs and outputs will be vital. In addition, the development of a viable agricultural research and extension service to develop and disseminate improved varieties and successful production practices are needed to restore agricultural productivity.

Clearly, Iraq will be dependent on imports for fully meeting domestic food demand for several years to come. In the long term, after the economy has regained its viability and vibrancy, market forces and international competition will be the driving forces behind Iraq's agricultural trade patterns. Iraq's historical trade and food consumption patterns suggest that food grains such as wheat and rice, feedstuffs including corn, barely and protein meals, vegetables oil, sugar, meat and diary products are all likely to be important imports into Iraq.

Agriculture in Iraq will be facing difficult times in satisfying foodstuffs demand especially during the perspective future. Three years of dry weather and decades of inappropriate governmental policies harmed farmers ignored environment and destroyed agricultural research system.

At present, Iraq will be largely depending on the International food program. Estimations refer that Iraq needs to import more than 2 million tons of food during the next 6 month costing 1.7 \$ billion, which represent the larger quantity in program history within 40 years. Upon these estimations, about 16 million Iraqis (more than two third of population) will be totally depending on food assistance.

The place to start rebuilding Iraq's agricultural sector is with the country's seed supply. Iraqi farmers will need thousands of tons of high quality seed next year, mainly wheat, rice, and barley, as well as vegetable seed, root crops, and seeds for replanting degraded pastures.

Iraqi cereal production dropped sharply over the past decade in large part because of inadequate seed production and distribution systems, which led to a degradation of seed quality and productivity. Lack of high yielding seed has greatly reduced farm efficiency and forced thousands of farmers to abandon their fields.

Until the end of 1970s, Iraq was largely self – satisfied of main cereal production. However, in current years, Iraq importing the needed foodstuff.

Iraq's needs will be increased as a result of population growth around 3% annually, roughly double population growth of some countries such as India and China.

A key challenge will be to cope with salinity problems. Roughly, 75% of the nation's irrigated land suffers from salinity caused by inappropriate water management practices. Iraq desperately needs to restructure its irrigation management schemes and introduce more salt-tolerant crop varieties from international breeding programs and gene banks.

Iraq lies at the eastern end of the Fertile Crescent, an area of "mega-diversity" of important food crop and pasture species that account for nearly 40% of the food crop consumed worldwide. Maintaining that diversity is important not only to Iraq, but to crop improvement programs around the world. Prior to the 2003 War, the Abu Ghraib National Gene Bank contained some 1,400 accessions of different crops. Virtually all of the country's agricultural research centers have been destroyed or severely damaged. Large quantities of genetic materials for crops and livestock animals are feared lost. Even if the Abu Ghraib gene bank survived, it is likely that its holdings were destroyed or looted. Fortunately, ICARDA scientists collected more than 1,000 accessions of Iraq's most important crop varieties and wild species during the 1980s and 90s and have held them in the Center's gene bank for safekeeping. Those materials will play an important role in any future effort to rehabilitate Iraqi agriculture.

Agriculture history in Iraq dates back to more than 5,000 years, but the damage done over the past two decades will not be easily treated. What is needed now is information to bring modern agricultural research tools to bear to redeveloping Iraqi agriculture in response to market forces, and begin the job of rehabilitating its land and water resources. A first step would be to recognize the nation's agricultural institutions into a centralized body that can provide realistic planning and budgeting, and also link up to international agricultural research organization and the private sector.

There is need for major investments to re-establish a national seed production system and rebuild Iraq's gene bank, agricultural research library and its major research laboratories. Without high quality seed farmers cannot grow food, and without basic facilities agricultural scientists cannot provide the technical support that farmers need to contend things like climate change and water scarcity. A major effort is needed to educate a new generation of researchers and extension workers. The usefulness of agricultural technology varies from location to location and must be adapted to meet local needs.

At present, Iraqi government has taken the first steps towards freeing the prices of fertilizers, insecticide, wheat, barely, and rice. It has also directed the Ministry of Trade to purchase food basket especially wheat and rice from local

farmers at international prices. This is expected to increase agricultural production. The government also began to develop agricultural policies and institutional reform that will provide the basis for food security in the medium-term, including capacity building of the private sector, phasing out subsidies and reshaping water resource management and rehabilitation of agro- industry.

The following are the main problems of the agricultural sector;

1. Previous agricultural policies of subsidizing agricultural requirements including inputs, seeds, fertilizers, machines and others from a hand and neglect supporting the project I its final stage, the matter that negatively effected production quality an quantity.
2. Government interfere in all agricultural activities caused marginalizing the role of the private sector in development process.
3. The government was not able to execute easy agricultural credit system.
4. Land resources exceeded water size because of excessive use of water from the resource countries well as there are no agreements dividing water shares while water in continuous reduction.
5. Different maintenance capabilities don't go along with irrigation and drainage networks which affected the performance and direct water drainage to the main rivers because of lack in outfalls networks in addition to other non treated water damaged the quality of water in (Tigris, Euphrates, and Dyala) and influenced the production negatively.
6. Not using modern field irrigation systems caused water lost, waste and inefficiency.
7. Lack of complement irrigation in semi- rain fed zones (350- 450 mm./year), depending on rains only, which impact production passively sometimes there is no production during dry years.
8. Deterioration of forests and pasturage lands because of destruction and wrong agricultural policies.
9. Agriculture production decline because of salinity, inefficient land reclamation process, no species resisting dryness and salinity, no technical complete band and no agricultural courses.
10. Using old and primitive methods in breeding livestock, neglecting scientific sides such as artificial fertilization, no modern breeding ways as well as not creating data base for development purposes.
11. Deterioration in fish production in lakes, for the use of tyrant tradition methods.
12. Weakness in guidance and veterinary services, using old agricultural researches.
13. Most agricultural lands decline and increasing deserts.
14. Incomplete planed dams system affected water resources control level.
15. Old irrigation pumps that require rehabilitation to operate the irrigation system well.

16. Neglecting rural woman, undeveloped agriculture field using old methods.
17. Increase agricultural lands and water resources pollution.

5.2.1 Future Plans

For the purpose of developing agricultural sector, achieving our country's agricultural needs satisfaction (whether agricultural and livestock animal), preparing essential pillar for economic development by providing other economic sectors requirements, limiting foreign currency outflow outside the country, depending on imported stuffs could be locally produced; it is necessary to reconsider the structure of this sector and how suitable for rural and environment reality which this sector depends on.

Bellow the future plan for 2007- 2015:

1. Support production and stop agricultural inputs subsidies in different periods according to their kinds and impact over development process.
2. Encouraging private sector investment in agriculture and agro- industry fields by creating secured investment environment.
3. Reactivating credit system through Agriculture Development Fund by paying for the list of requirements instead of paying the credit amount which was the mechanism in the past.
4. Encouraging establishing specialized agricultural associations.
5. Trying hard to reach fair dividing for water shares in quality and quantity with concerned countries.
6. Completing irrigation and drainage systems for irrigated projects using comprehensive reclamation system and rehabilitate existing ones as well as implementing main outfalls.
7. Adding new lands especially those could be cultivated by establishing irrigation projects in rain fed zones such as AL- Jazeera, KRG and Kirkuk projects.
8. Using supplementary irrigation in semi rain zones.
9. Using modern irrigation technologies specially closed irrigation systems to reduce water wastes which could result creating new lands.
10. Reusing heavy and salinity water after treatment and planting corps resisting salts.
11. Using renewable underground water in all agricultural and livestock breeding fields without being consumed through digging wells in promising areas.
12. Completing large and small dam's projects systems achieving (water security); increasing water resources to add electrical power to the network.
13. Maintaining existing irrigation projects, pump stations, irrigation and drainage network, main rivers cleaning.

14. Increase vegetal production (Including vegetal and orchards) through vertical expansion (production increase) and horizontal expansion (adding new lands) according to irrigation project plan and water shares.
15. Derive and input high productivity species resisting dryness and salinity.
16. Reviewing seeds legislations and regulations.
17. Revitalizing and developing Iraqi Marches according to development comprehensive programs within provided water resources.
18. Develop appropriate agricultural courses for farmers in each region and using bean fodder.
19. Looking after livestock breeding and artificial fertilization transferring genes according to development breeding programs.
20. Treating severe lack in fodder supply by planting them and developing green spots and forests, natural protectorate and reconstruct the damages.
21. Investing water sites for fishing breeding, activate sea fishing and develop poultry sector.
22. Develop guidance and veterinary services as well as supporting agricultural research in this field.
23. Develop infrastructure and building capacity upon world practices.
24. Providing guidance and educating the new generation and rural woman training her to participate in developing this sector.
25. Expanding the use of comprehensive control (IPM), expanding natural fertilizers and move to Bio- agriculture production.
26. Developing environment in all agricultural projects and staying a way from negative practices on it.
27. Utilizing renewable natural power such as wind and sun energy and other in developing remote areas and agricultural lands.
28. Completing the program of agro- environment dividing maps for guiding farmers.
29. Enhancing agricultural trade by increasing production and quality improvement as well as creating competition to face consequence effects on current international economic changes.
30. Review agriculture and environment legislations related to lands ownership and rent.
31. Follow up Iraq accession to International and regional agreements related to agriculture, environment and water resources.

Box (2): Decentralization – A key Element of the National Development Strategy

Prior to 2003 Iraq was a high centralized unitary state. After the first Gulf war, the three governorates in Kurdistan began to function autonomously from Baghdad. The Kurdistan region is represented by a Parliament and has elected governors and local council. There are over 60% municipalities in the Kurdish region each with elected officials. The Kurdistan region has developed partial controls over local services, although all public employees, including teachers and doctors are appointed by the regional government but paid through the central government.

With the advent of democracy in Iraq, the momentum towards decentralization has picked up around the country. Decentralization is popular because it entails the transfer of legal authority for economic development, service delivery and another public functions from the central government to sub national governments. While there is likely to be some costs in terms of possible efficiency losses due to poor local capacity in the regions, decentralization holds the promise of providing better and more responsive service delivery, greater transparency in the use of public resources and greater resource mobilization than a centralized system.

Currently the 15 governorates outside the Kurdistan region and their associate 251 municipalities operate as "deconcentrated" organs of the central government. Deconcentration is the shifting of power to local branches of the State such as regional administrators or local technical line Ministry agents. Deconcentration is a weak form of decentralization because the "bottom to top" accountability mechanisms from which many benefits are expected are not well established as in democratic forms of decentralization.

Under the current form of decentralization, municipalities are responsible for some urban functions, such as park services and waste collection, but the major public functions are carried out by local branches of central government line Ministries. Local officials have little influence over these activities.

The design of a decentralized system requires assigning public – sector responsibilities among different types of governments. The design entails four key components: expenditure assignment; revenue assignment; intergovernmental transfers; and sub national borrowing.

On the expenditure side, apart from purely local services such as street paving and feeder roads, virtually all expenditure assignments are controlled from Baghdad, On the revenues side, while there are some local fees, all tax bases (oil revenue, income tax and property rental tax) and collection are centrally determined. Even after the allocation of some revenue raising capacity to governorates they will be unable to finance all their responsibilities. Grants from the central government will continue to be the main mechanism by which sub national governments are funded. Borrowing by regions is currently not practiced, but in a decentralized system must be consistent with national budget.

The principles of the Permanent Constitution on which decentralization is to operate, including rights and responsibilities of all levels of government, the description and role of key institutions at central and local levels and the basis on which detailed rules may be established or changed. Several reforms need to be initiated in preparation for decentralization. These include:

- Strengthening the capacity of sub national governments in financial administration, budget execution and project preparation.
- Tax reforms, including preparations for both central and sub national.
- Enhancement of tax administration.
- Strengthening of budget classification and reporting arrangements.

The following are the main prioritized actions to be taken in this sector:

- a. Reform of subsidy regime to eliminate price distortions in agricultural markets.
- b. Restoration of irrigation infrastructure (including a long – term de-salinization program), as well as the grain marketing infrastructure for handling, storing, and distributing agricultural inputs and outputs.
- c. Development of a viable agricultural research and extension service to develop and disseminate improved varieties and successful production practices are needed to restore agricultural productivity.
- d. Increasing production and productivity through providing improved seeds, fertilizer and their scientific exploitation.
- e. Participating effectively in the national plan to revive marches through the development of animal assets, especially raising buffalo and the development of fish fortune.
- f. Rehabilitating irrigation, drainage and soil maintenance projects as a base for production increase in one hectare.
- g. Solve the problem of salinity and desert as well as looking after pasturages, forests and water sits to activate livestock production, fishing wealth and others.
- h. Establishing clear policy of guidance to direct farmers to use modern agriculture and concentrate on applied researches especially those related to developing seeds species with high productivity in addition to educating them on preventive methods of diseases and efficient marketing.
- i. Organizing irrigation projects in a way securing agriculture requirements and achieving sound irrigation system.

5.2.2. Agricultural Sector Investment Needs 2007- 2010

For the purposes of developing the agricultural sector and achieving designed goals during 2007-2010, huge investments are required according to the basic needs report amounting 9300 million \$ within four years of which 4100 \$ million for agricultural projects and 5200\$ million for water resources projects as indicated in the tables below;

Ministry of Agriculture: Project Proposals for 2007-2010

Million Dollars

	Project	2007	2008	2009	2010
1	Ministry HQ	352.0	320.0	320.0	320.0
2	Date- Palms State Board	110.0	100.0	100.0	100.0
3	Agricultural Researches State Board	132.0	120.0	120.0	120.0
4	Orchards and Forests State Company	99.0	90.0	90.0	90.0
5	Seeds Testing and Proven State Board	11.0	10.0	10.0	10.0
6	Plants Preventive State Board	77.0	70.0	70.0	70.0
7	Fishing Developing State Board	22.0	20.0	20.0	20.0
8	Livestock Services State Company	99.0	90.0	90.0	90.0
9	Guidance, agricultural cooperation State Board	55.0	50.0	50.0	50.0
10	Veterinary State Company	46.2	42.0	42.0	42.0
11	Desertation Control & Investing West Desert state board	58.3	53.0	53.0	53.0
12	Industrial Crops State Company	38.5	35.0	35.0	35.0
	Total	1100.0	1000.0	1000.0	1000.0

Ministry of Water Resources: Project Proposals for 2007-2010

Million Dollars

	Project	2007	2008	2009	2010
1	Directorate General of Implementing irrigation and reclamation projects	343.0	514.5	514.5	411.6
2	Directorate General of Irrigation Projects Operating and Maintenance	170.0	255.0	255.0	204.0
3	Directorate General of Implementing Projects Maintains Works	50.0	75.0	75.0	60.0
4	Directorate General of Dams and reservoirs	270.0	405.0	405.0	324.0
5	Directorate General of surveying	5.0	7.5	7.5	6.0
6	Directorate General of Rivers dredging	40.0	60.0	60.0	48.0
7	Directorate General of Well Digging	70.0	105.0	105.0	84.0
8	Directorate General for Engineering Designs	20.0	30.0	30.0	24.0
9	Marches Revitalization Center	30.0	45.0	45.0	36.0
10	Directorate General for Water Resources Management	2.0	3.0	3.0	2,4
	Total	1000.0	1500.0	1500.0	1200.00

5.3 Tourism

It is now recognized that tourism has great potential to create and indirectly support job creation in several segments of the economy: airlines; hotels; restaurants; transportation; travel agencies; and telecommunications. Private sector led development of the tourist industry is an important source of foreign exchange revenues in many countries in the Middle East.

The tourism industry has also played important transformational role as a vocal constituency for improvements to airports, immigration and visa procedures, security, road, rail and telecommunication network.

As the cradle of civilization, Iraq has great potential as a tourist destination. Its Holy cities (Karbala, Najaf, Samawa and Kadumia) are major destinations for hundreds of thousands of pilgrims annually. The ancient ruins of Babylon, the marches, the Ziggat of Ur and other "wonders of the world" have tremendous appeal as tourist destinations. The scenic locations of Bekhma, Sarang and Doukan in the North have been traditional destinations for domestic tourists and can now be expanded to attract an international clientele.

The strategy for the tourism sector entails the following:

- Establishing active tourist promotion offices in key international capital.
- Streamlining and simplifying visa and immigration procedures.
- Encouraging entry by the international hospitality industry (hotels, car rental agencies, foreign exchange bureaus etc.) into Iraq market.
- Developing marches and lakes to an appropriate tourism level to attract tourists and visitors.
- Developing in infrastructure of religious cities and maintaining the Holy shrines.
- Developing tourism education institutes, and developing tourism institutions, building the capacities of people working in the tourism field through specialized training programs, and making use of the experiences of other countries.

It is necessary to develop sustainable environmental tourism which includes foresight tourism activity enjoying natural sites as well as locations connected with traditions. In addition to enhancing local people support economically, socially and culturally reducing passive impacts of tourism on natural and cultural resources including protecting, fostering and increasing protectorate.

6. Revitalizing the Private Sector

The government is committed to ensuring that the private sector plays a critical role in Iraq's reconstruction and development. For the private sector to flourish security must be established, the rule of law strengthened, and an efficient payments system and a diversified financial sector developed. All quantitative and restrictions and sanctions which hinder geographical movement among different economic sectors must be removed.

An enabling environment for the private sector requires well – functioning and efficiently- priced infrastructure. An enabling environment for investment is about partnership between governments and the private sector, sharing risks between them to be managed by those best placed to do so. Such a partnership demands good governance, sound policies and capable institutions. Government should implement credible policies and do everything possible to lower business risks and keep it low. Most of all an enabling environment requires public investment in physical and human capital.

6.1. Banking and Financing

Banking is a critical component of any financial system. Other than the sale of government debt instruments, capital markets are virtually non- existent. The Stock Exchange began operations in July 2004 and has a very small capitalization. State – owned and private insurance companies are very weak.

Iraq's banking system has very rudimental credit facilities and a weak payments system. There are 24 licensed banks, including 6 public and 18 private commercial and investment banks. In aggregate, the banking sector has only 2\$ billion in assets; the banks are marginal in the economy as providers of liquidity. They Central Bank of Iraq supervises the banking sector. However , overall supervision is weak and needs significant improvement in capacity building, organization, technology, and in providing operational manuals, regulations and a modern legal framework.

During the past year, an independent Central Bank Law, a new Security Law and a new Banking Law were adopted. Significant change in the structure of the financial and banking sector is expected to occur during the period covered by the NDS. Foreign banks are now allowed to open branches and to enter into joint ventures with private Iraqi banks. Interest rates have been completely liberalized, new currency notes have been issued and the exchange rate has been stabilized through frequent foreign exchange auctions by the Central Bank. The immediate and medium- term priorities can be identified as the following:

- Restructuring the State- owned banks, including updating technology and providing technical assistance, and capacity building.

- Creating an effective operating structure for the Central Bank to provide services and supervision of the banking system.
- Upgrading and modernizing the non- cash payments system, including inter-bank clearing and settlement services.
- Establishing up to date electronic settlement facilities at the Central Bank and its regional branches.
- Addressing the status of State – owned banks and insurance companies to encourage the process of consolidation and privatization.
- Provide appropriate circumstances for financial system enhancement in Iraq and increase insurance services accessibility by commercial companies and individuals.
- Provide appropriate competitive environment for private sector business growth as well as restructuring, changing and developing private banks role in banking industry in general.
- Facilitate private sector participation in presenting services for the government as as employees and pensioners payroll.

6.2. Electricity

Since the beginning of 1990s, Electricity sector in Iraq has been facing severe lack in generating power, transfer and distribution performance decline. In 1005, power demand was (8700MW) while power generation average was (4600MW). Power projected demand in 2006 will be in July and August (9600MW) while, generation average is (5000MW) including imported power from neighbor countries around (300MW). The gab between demand and generation is expected to be increased, the matter that effect interruption hours unless the government takes immediate and exceptional necessities for rehabilitating existing generation units and building new generation one. Required generation capacities (steam, gas and hydro-electricity units) are about (21000MW) till 2015 in addition to the need for rehabilitating and expanding Transfer network systems 400 KV and 132 KV, improve, replace and build standard distribution network system with installing the required control centers enough for the generation capacity as well as providing the required fuel (gas or liquid fuel) by Ministry of Oil

The shortage of electric generating power in Iraq has been caused by numerous problems, including sabotage, looting, and lack of security for workers, disruptions in fuel supplies, difficulty in procuring replacement parts at the aging station, lack of training for workers and obsolete technology.

Diagram (1) indicates generating capacity, peak loads and interruption hours from 1980 to 2010. the curves show clearly power shortage and its effect on interruption in Baghdad and governorates. The diagram also shows huge shortage in generating capacity in 2006 – 2008 which requires immediately implementing the signed contracts regarding electricity generation station working on gas and diesel such as (Al- Misayab, South Baghdad, Najaf, new

Dibis, Simawa, Haditha, Samuraa, North Baghdad and Hurya). It is also necessary to complete Eusifya Thermo station to start working in 2007 at least in addition to rehabilitate existing stations, provide the required allocations for new generation of gas and complex gas stations to solve the huge shortage in power and compensate lost power attributed to water release of the Tigris and Euphrates, in addition to exploiting gas fields cooperating directly with Ministry of Oil especially associated gas which is flared and providing allocations for competing strategic steamy stations in different places according to the plan.

This plan was developed to wisely solve this important issue in citizen's life and industry. Not satisfying the requirements of this plan will be affecting passively the future of industry in Iraq as the national industry and services largely depend on electricity.

Estimated required investments in this sector is around 23.2\$ billion until 2015 to reach generating capacity not less than (21000 MW) as well as the need for expanding and rehabilitating Transfer network systems replacing and building standard distribution networks with control centers.

The required medium- term objective, 2007- 2010 is adding new generation power to (11441MW). Required investment for this period is around 16.5\$ billion. The following measures are planned to support this goal

- Reconstruct the electric power network to increase power generation to the levels that guarantee continuous supply to satisfy consumer demand with minimum interruptions.
- Update the electric power distribution networks to meet the objective above.
- Develop a timetable on short – and long term bases to qualify and train executives and supervisory staff for the sector to upgrade its efficiency.
- A combination of more rational pricing, significant investment, and improved efficiency should eliminate the existing gab between electrical supply and demand. The private sector should be the main source of new investment.

Iraq intends to allow independent power projects to reform on Build – Own – transfer (BOT) and Build- Own- operate (BOO) basis. Iraq also intends to reform the electricity tariff system. Traditionally, electricity prices have been kept extremely low. Electricity tariff were fixed at a level to cover operational costs.

The following tables explain the plan of Electricity Sector and the required investment funds during 2007- 2015.

Despite demand distribution program among governorates; inequity interruptions and consumers are attributed to:

- No distribution control centers in the governorates.
- No control on districts around Baghdad.

- Problems related to high pressure over the network influence load distribution.
- Bad security situations made the National Control Center unable to be committed to the decided shares according to the generation power.
- Pressure from external entities on distribution offices made them exceed the decided share and eventually inequity interruptions.

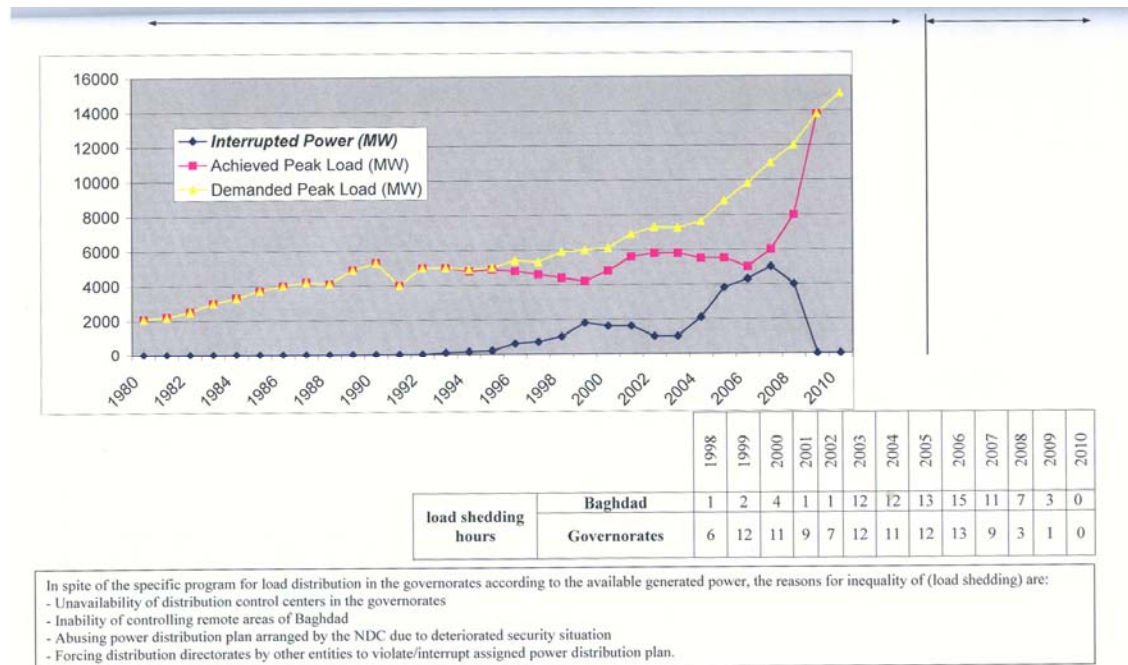


Table (9)
Electricity Sector Requirements for Additional Generating Capacity, Transmission Networks, Control Centers and Communications

Activity		2007- 2010	2011- 2015
Additional Generating Capacity (Steamy, gas, Hydro- electricity)		11441 MW	6300MW
Transition networks (Sub Stations)	400 KV	18 Stations	11 Stations
	132 KV	121 Stations	71 Stations
Transition Lines	400 KV	2000 km	1200 km
	132 KV	3500 km	2000 km
Distribution Networks	33/11 Stations	220 Stations	136 Stations
	Lines and cables 33/11 other activities	13500 km	7900 km
Total required costs (million \$)		16497	6840

Table (10)
Projects and Investment Costs Distribution for Electricity Sector 2007-
2015

Million \$

	2007	2008	2009	2010	2011	2012	2013	2014	2015	Total
The new generating steamy and gas stations,	3705	2865	2190	1695	940	940	1000	1000	1000	15335
Rehabilitate existing generating stations	545	315	315	150	---	---	---	---	---	1325
New transfer and distribution networks	1482	1146	876	678	376	384	400	400	400	6142
Rehabilitate existing Transfer networks	235	120	120	60	---	1324	---	---	---	535
Total	5967	4446	3501	2538	1316		1400	1400	1400	23337

Table (11)
Comparison between Individual Electricity Consumption in Iraq and Arab Countries

Country	Year	Consumption Averages (KW/H)
Iraq	1987	1350
	2000- 2005	1300
Jordan	2003	1768
Syria	2003	1754
Egypt	2003	1350
Tunisia	2003	961

The aim is to increase the consumption level of Iraqi individual to reach 3700 KW/H in 2009 because electricity sector is shrinking this year. Regarding distributing consumptive power (MW/H) is indicated in the following Table.

Table (12)
Consumed Power (MW/H)

Category	Percentage 2002	Percentage 2005
household	50 %	53 %
Commercial	6 %	6 %
Industrial	29 %	22 %
Governmental	11 %	16 %
Agricultural	4 %	4 %
total	100.00 %	100.00 %

6.3 Transport and Telecommunications

Iraq's transport system comprises 40,690 km. of roads, two international and three major domestic airports, six cargo ports, two oil terminals, and 2,456 km. of rail line. Roads accommodate about 70% of all traffic in Iraq. Existing facilities of telecommunications, post offices, and internet infrastructure are very underdeveloped. The transportation and communication networks in all governorates of Iraq must be expanded and internal, regional and international connections enhanced. The sector needs significant resources and policy changes in order to rise to regional standards. Iraq can "leapfrog" over rivals in this sector by adopting the latest technology and adopting a favorable business environment by establishing proper policy and regulatory frameworks. The following actions are planned:

6.3.1. Telecommunications:

- a. Rebuilding and expanding the existing switching and local access networks and undertake civil works in order to reach fixed line telephone service tele-density of 3.3 million customers by 2007.
- b. Establishing a modern and integrated national long distance backbone network with international connectivity.
- c. Reconstructing the postal system including rehabilitation of post facilities and the existing buildings to bring Iraq in line with other countries in the region.

6.3.2. Transport

- d. Continue ongoing dredging activities in and around Umm Qasr Port.
- e. Remove wrecks in Shatt- al- Arab and Umm Qasr Ports in the most environmentally sound manner possible.

- f. Develop a master plan to increase efficiency and optimize the institutional arrangement for ports and internal waterways.
- g. Explore the potential for developing a bus rapid transit system and dedicated bus lines.
- h. Rehabilitation of key railway stations and refurbishing rolling stock and maintenance equipment.
- i. Modernize railway training centers in order to maintain the skills of railways staff.
- j. Prepare a railway strategy to assess the merits of restructuring the present system to permit greater private sector participation in the delivery of services.
- k. Develop airports and civil aviation strategy couples with a master plan, which should include plans for rationalization of facilities and future institutional arrangements, with the possibility of outsourcing airport management to private operators.
- l. Develop programs for the privatization of some activities in the sector, particularly in the field of communications, and land, sea, and air transportation.
- m. Retrain supervisory and operational staff, particularly in the area of previously suspended activities such as aviation and maritime.

6.3.3. Investment Costs

Investment Costs of the Transport and Telecommunication Sector is estimated around 37 \$ billion distributed on the main activities as explained bellow:

Transport and Telecommunication Sector Required Investment Funds for Transport and telecommunication 2007-2010

1. Transport

Million \$

Project Name	years			
	2007	2008	2009	2010
Waterways Transport	195.0	195.0	195.0	195.0
Railways	3975.0	3975.0	3975.0	3975.0
Civil Aviation	1365.0	1365.0	1365.0	1365.0
General Directorate for Ports	1815.0	1815.0	1815.0	1815.0
Al- dhilal State Company	42.8	42.8	42.8	42.8
Internal Airlines	40.5	40.5	40.5	40.5
Passengers Transportation State Company	26.3	26.3	26.3	26.3
Land Transport State Company	13.5	13.5	13.5	13.5
Weather Forecasting State Board	31.5	31.5	31.5	31.5
Total	7500.0	7500.0	7500.0	7500.0

2. Telecommunications

Million \$

Project Name	years			
	2007	2008	2009	2010
Supply and install operators (1200) number	73.0	73.0	49.0	49.0
Supply cables and their accessories, organize networks (1600 line)	124.5	124.5	83.0	83.0
Mobile service with (15000 beneficiary)	98.0	98.0	66.0	66.0
Supply (4000) public land phone	1.0	1.0	1.0	1.0
National satellite communication system	2.0	2.0	1.2	1.2
Supply Fao city with TV. And radio	0.6	0.6	0.4	0.4
Connect private and other bureaus.	0.3	0.3	0.2	0.2
Total	300.0	300.0	200.0	200.0

3. Reconstruction (Roads and Bridges)

Million \$

Project Name	years			
	2007	2008	2009	2010
Complete 2 nd side highway Diwanya-Nasrya	182.0	182.0	182.0	182.0
Highway (2)	166.5	166.5	166.5	166.5
Main and boarder roads	124.5	124.5	124.5	124.5
Supporting ways for main paved ways	311.0	311.0	311.0	311.0
Roads exits outside cities centers	72.0	72.0	72.0	72.0
Treat intersections with railways	15.0	15.0	15.0	15.0
Rural areas roads	50.0	50.0	50.0	50.0
Rehabilitate paved roads	80.0	80.0	80.0	80.0
Complete current bridges	12.0	12.0	12.0	12.0
Replace floating bridges with fixed ones	41.0	41.0	41.0	41.0
Build new bridges	145.0	145.0	145.0	145.0
Amanat Baghdad projects	302.0	302.0	302.0	302.0
Total	1500.0	1500.0	1500.0	1500.0

Privatization and Restructuring State- owned Enterprises

There are an estimated 192 State- owned Enterprises (SOEs) that employ a combined 500,000 Iraqis. This workforce supports a significant portion of the population. Following the end of the War in April 2003, many of these firms suffered severe looting and destruction. Most of the SOEs are currently idle. They can be classified into three categories:

Category I: Companies that are a financial burden on the State. These firms should be liquidated or merged into integrates, economically – viable entities.

Category II: Companies for which additional information is needed to determine whether to liquidate or privatize them.

Category III: Industrial companies dependent on local raw materials and increasing demand for their products, such as fertilizers, cement, and petrochemicals. Their privatization can be achieved through a new authority linked directly to the Council of Ministers, to which the ownership of such companies will be transferred. The authority should be embowered to pre-qualify, liquidate, sell or enter into partnerships with strategic partners under a comprehensive, transparent reform program over a specific time frame, announced in advance.

The government has established a Commission under the Council of Ministers to review options for the reform and privatization of SOEs. It is understood that SOE reform must be synchronized with the national reconstruction program, which will draw down the level of unemployment.

For the purpose of achieving the targeted economic goal taking under consideration current circumstances, Privatization Commission has been replaced with SOEs Committee transiting them to shareholding companies. Ministry of Industry and Mining started through joint committee to study the real situation of the SOEs to transfer them to shareholding companies. In addition, the Council of Ministers adopted forming a commission for drafting privatization law and developing special structure for all privatized companies

An important area for privatization is the manufacturing sector. After a period of rapid expansion in the manufacturing industry sector up to 1980, a long period of stagnation and technological obsolescence started due to protracted wars and sanctions. The result is a small and weak manufacturing sector that contributes no more than 10% to GDP, but employs no more than 4% of the labor force.

6.5. Manufacturing Sector

The sector depends exclusively on exports of oil sector to secure its imported technology as well as other required inputs. The sector has suffered from excessive dependence on State investment, inward – looking industrial strategies, and active discouragement of foreign participation. Based on the relatively large and expanding local markets, the country's rich hydrocarbon resources, as well as a variety of other suitable industrial inputs, could be

utilized to create a rapid, private sector – led, (and export- oriented) industrial expansion.

To facilitate this process the following measures are planned:

- a. Achieving a significant increase in the annual production of industrial enterprise in comparison with 2002.
- b. Closing down SOEs whose physical plant has been damaged where there is no economic advantage from keeping them in operation and facilitating the redistribution of assets to more productive uses elsewhere.
- c. Expanding the activities of geological surveys in north areas and starting metal exploration activities.
- d. Establishment of industrial zones and complexes for the purpose of industrial integration and the encouragement of joint ventures.
- e. Strengthening standardization and quality assurance services.
- f. Encouraging the establishment of Small and Medium Scale Enterprises (SME) projects and developing appropriate financing mechanism for such projects.
- g. Encouraging the establishment of technical resource networks for women entrepreneurs.
- h. Restructuring companies with economically viable.

6.5.1. Investment Costs

Estimated Investment funds for extracting and manufacturing Industry within 2007- 2010 around \$800 million distributed on industrial activates

\$ Million

Project Name	years			
	2007	2008	2009	2010
Extracting Industry	1.8	1.2	1.2	0.6
Food, drinks and tobacco industry	12.3	8.2	8.2	4.1
Spinning, weaving, clothing, leather industry	14.4	9.6	9.6	4.8
Paper and wood industry	0.9	0.6	0.6	0.3
Chemical industry	84.3	56.2	56.2	28.1
Medicine and medical requirements	11.4	7.6	7.6	3.8
Construction Industry	67.5	45.0	45.0	22.5
metallic Industry	50.4	33.6	33.6	16.8
Mechanical and electric engineering industry	55.2	36.8	36.8	18.4
Special investment costs	1.8	1.2	1.2	0.6
Total	300.0	200.0	200.0	100.0

6.5.2. Foreign Direct Investment

Iraq has a basically sound legal framework for the formation and registration of foreign- Iraqi, and jointly – owned companies under the Foreign Investment law of 19 Sept. 2003. Foreign, legal, and natural persons have the right to be an investor or partner in, or a founder of, companies in Iraq by virtue of Company Law Number 21 of 1997, as amended in 2004. further objectives in the area of foreign investment include:

- Continue to remove all kinds of restrictions on foreign investor and to encourage the flow of foreign direct investment in all sectors (except strategic) in a manner that ensure the flow of foreign capital, modern technology and management expertise.
- Encourage partnership between foreign and Iraqi investors.
- Simplify procedures for foreign investors through a one- stop approach for all procedures related to foreign investors that would flow together all Iraqi government officials concerned in one place.
- Create a specialized authority to provide facilities to investors and offer investment opportunities in the country.
- Conclude bilateral and multilateral investment agreements, ratify investment guaranty agreements with the Multilateral Investment Guarantee Agency (MIGA) and effectively utilize the overseas Private Investment Corporation (OPIC) to catalyze foreign investment.

Investment Promotion Commission for foreign investment has been established in July 2005 upon "one stop approach" which will prove its benefit in simplifying investment procedures and reducing primary costs for accommodation and residency in Iraq. The government is also committed to streamline licenses issuance for the new projects.

Lately, Investment Law has been drafted in accordance with International standards and it was approved by the Council of Representatives since Oct. 2006.

6.6 Iraq's Obligations to International Organizations

The radical change Iraq passed through after April 2003, the transition to market economy and openness to International Economy required International community and International Organizations help through the financial and technical assistance enabling Iraq to implement reconstruction programs, economic reform and the new economic strategy developed since 2004. This cooperation led Iraq to ratify agreements with number of International

Organizations the matter that put obligations on Iraq's shoulders towards these Organizations. One of these main agreements is the Stand By Agreement (SBA) signed with the IMF on Dec. 2005 as well as Iraq's obligations related to completing accession conditions for WTO: bellow is Iraq's obligations to IMF and WTO:

6.6.1. Stand By Agreement (SBA)

With the end of Emergency Post Conflict Assistance Program (EPCA), Iraq submitted a request to be covered with the Stand By Agreement (SBA) for completing EPCA steps. The SBA covers the period (15 months) from Dec. 2005 to March 2007, according which IMF continues helping Iraq to manage its economy during validity period.

The SBA aims to achieve the financial and economic stability on the medium-term finding bases for continuous growth and completing required steps to move to market economy, thus it lies within the general framework of the NDS developed in 2004.

SBA is founded similarly like the EPCA in covering wide macroeconomic policies including:

- Reducing fuel subsidies and restructuring oil sector.
- The priority of allocations is forwarded to develop the oil sector which is Iraq's main resource.
- Reforming Social Safety Net (SSN), improving PDS management according to certain mechanism targeting the poor in the society.
- Developing open exchange and payment system as well as maintaining debt resettlement with Non- Paris Club countries with the same conditions of Paris Club Countries.
- Completing the Fiscal Reform System by applying Government Fiscal Classification (GFS)

According to the SBA, 50% of Iraq's debt to Paris Club countries will be phased out amounting (38.9\$) billion. The agreement with these countries on 21 Nov. 2004 includes phasing out 80% of Iraq's debt on 3 stages; 30%, at the time of signing the EPCA agreement, 30% at the time signing SBA and in case Iraq succeeded in implementing its obligations according to stage 1, Iraq will be qualified for stage 2 which will cover the period from April 2006 to Nov. 2007 and phasing out 20% of the debt. Thus the total reduction will be 80% equivalent to 31.2\$ billion.

30 % equivalent to (11.7\$) billion according to EPCA,
30% equivalent to (11.7\$) billion according to SBA stage 1,
20% equivalent to (7.8\$) billion according to SBA stage 2.

In addition Iraq is committed to settling dept of Non- Paris Club countries and the Private Sector amounting (40\$ billion) in total; (20\$ billion non- Paris Club and 20\$ billion the private sector) with the same conditions agreed with Paris Club countries. Iraq agreed to pay (10.25%) of the private sector debts which are less than 35\$ million each.

EPCA and SBA opened the door for settling Iraq's debts to Gulf countries amounting (40\$) billion. In this case, (100 \$) billion of Iraq's external debts will be removed. Removing this much of Iraq's debts will have great effect on Iraq's financial stability. IMF will provide new financial assistance around 40% in the Fund to face the crises during reform program.

SBA committed Iraq to follow financial and economic program during 3 years and in order Iraq can implement this agreement, 3 major steps has been taken.

- Fuel prices adjustment since Dec. 2005 according to the Cabinet decision on 5 Dec. 2005 to be followed with other increases reaching the level prices at Gulf countries.
- Amending Oil Interests Law allowing the private sector importing fuel and breaking government control.
- Annual accounts auditing process by the ICB according to the International standards.

SBA is based on the planned expansion of Iraq main financial resources which is the oil sector by increasing the financial allocations to boost crude oil production capacity. These allocations is forming around 59% of total capital allocations (Investment budget) in 2005 and around 57% of 2006 allocations to increase crude oil production from (2.0 m bpd) 2004- 2005 average production to (2.3 m bpd) in 2006 to (3.6 m bpd) in 2010 as well as increasing exports from (1.4 m bpd) in 2005 to (1.7 m bpd) in 2006 to (3.0 m bpd) in 2010.

SBA is including financial, economical and institutional obligations on Iraq for 3 years; In case implemented, Iraq economy will be on the continuous growth track. As for the macroeconomic field, the SBA aims to reduce inflation rates, adopt careful policies to limit public spending within oil revenues, taxes and external funding especially what is related to salaries and wages, using monetary policy for to achieve stability in prices and exchange rate through effective use of monetary policy tools and exchange rate intervention policy based on avoiding wide swings.

As for the financial policy it is required to solve distortion of fuel by increasing local fuel prices on stages till reaching the price levels of Gulf countries in order to stop fuel smuggling to neighbor countries and encouraging local wise consumption policy. With the beginning of 2007 the government will stop fuel

imports and allow the private sector to take this task to reduce the burden on the state budget. The agreement also aims to reduce state budget deficit from (11%) of the GDP in 2005 to (9%) in 2006, the rest will be funded by the remained resources in Iraq Development Fund.

As for revenues, new resources should be found through improving tax performance, increase unified customs fees from 5% (reconstruction fee) to 10%, issue new taxes including additional value tax. In order to mitigate prices increase impact on the poor categories in the society, the SBA includes SSN and PDS reform item by developing a mechanism of targeting the poor instead of covering all people without testing eligibility. (500ID) billion equivalent to (330\$) billion was allocated to Poverty Support Fund in 2006. Despite the subsidies and exchange rates stability, inflation is moving rapidly up during the first half of 2006 in comparison with the same period in 2005 exceeding 38% % because of fuel prices increase at the end of 2005 which is opposite to SBA goal of reducing inflation. Thus, it is important to study this phenomenon to control prices increase and their impact on cash income to reduce poverty in the society.

As for monetary policy, ICB is required to fix the Iraqi exchange rate to USA dollars by continuing daily auctions selling dollars and avoiding administration procedures managing the quantity of sold currency. ICB cash reserve is expected to increase around (1.7\$) billion to (10.6\$) billion at the end of 2006, which increase ICB capabilities to satisfy demand on Dollar and maintain stable exchange rate. ICB is also required to adopt flexible cash demand growth program studying economic growth, inflation and exchange rate size in dealings as well as carrying out adjustments during implementation period including using interest rate on deposits if required.

As for banking reform, the first steps have been taken in this concern such as connecting accounting systems of the Commercial Banks HQs with the ICB before Aug. 2006, establishing modern payment system to develop financial sector business level, apply payment clearance system among commercial banks HQs and the ICB through auto- clearing chamber before the end of Nov. 2006, establishing secondary market for treasury bonds as well as start imposing the requirements of maintaining cash reserve on all Commercial banks.

Within other steps taken to carry out banking reform plan, a strategy will be developed for reconstructing both large government banks- Al- Rasheed and Al- Rafdian banks- restructuring the Commercial banks, upgrade banking system, encouraging joint companies in Islamic banks sector.

For the purpose of completing macroeconomic and financial reforms, work will be continued to reform the accounting system to improve transparency in budget management by applying government fiscal statistics guide for 2001 developed by IMF which will help in creating state budget general classification according to economic expenditures started since 2005 by Ministry of Finance and

Ministry and Planning and Cooperative Development to be used in 2007 budget classification. SBA emphasized applying financial management law in preparing the Federal Budget and prepares monthly projections on cash liquidity size.

The necessary steps should be taken to reconstruct the oil sector, allowing the private sector importing fuel to be sold in local markets according to the commercial prices. The SBA also includes developing strategies for reconstructing SOEs, phasing out gradually the subsidies. The target is reconstructing 25% of the SOEs in 2006.

SBA is submitted to continuous reviews upon certain schedule and standards to measure program progress. SBA with what includes of wide economic, financial and institutional reforms, require active cooperation of related ministries, continuous follow up for the policies and its impact on Iraq economic

WTO Accession and Liberalizing External Trade

The liberalization of external trade aims to integrate the Iraqi economy into the global economy, remove distortions in prices of commodities and services, increase competitiveness, and enhance the efficiency of the Iraqi economy. This process was initiated immediately after the fall of the previous regime. Restrictions on trade were cancelled and imports were subject to a uniform custom tax 5%. Food and medicine were exempted.

A national committee already has been established to design a rules – based, transparent and stable foreign trade regime, and domestic regulations and policies which are WTO compatible. The process of joining the WTO and the international commitments arising from it will act as a "lock – in mechanism" and guide for domestic economic reforms. The Committee will also assess the social and economic impact of Iraq's WTO accession and determine remedial measures.

Upon the issues indicated above, Iraq's intention to access this organization works as a base for Iraq's openness and communication with the world. Thus, a National Ministerial Committee was formed to follow up the accession procedures as the committee submitted a request with general explanation for Iraq economy situation upon which Iraq is accepted as observing member in 2005.

Iraq should satisfy number of obligations and commitments in order to be a member in the WTO as explained bellow;

1. Maintaining low protection policies to facilitate openness process on international markets.
2. Removing all imports quantitative limitations and developing suitable custom tariff. This requires carrying out comprehensive review for all customs laws especially Customs Law No. 23 / 1983 and other technical laws related to technical specifications of imported commodities, general health, vegetal and animal health in accordance with item 20 of CAAT Agreement which allows countries protecting the general health without being under covered protection.
3. Removing all import subsidies.
4. Applying appropriate agricultural policy solving subsidies first and allowing agricultural stuff to enter local markets organizing how submitted to custom tariff second.
5. Liberalizing services sector and open it to the world, the international organization insists on applying non discrimination principle in this sector.
6. Iraq should issue and implement number of legislations in accordance with the minimum requirements for protecting intellectual rights according to Uruguay agreement.
7. Complete preventive procedures Draft Law.
8. Complete Anti Overloading Procedures Draft Law.
9. Implementing macroeconomic reforms allowing to free capital and foreign investment movement etc.

7. Improving The Quality Of Life

7.1. Human Development

Goal: Protect the citizens, improve their wellbeing and productivity and mobilize Iraq's human capital as the key ingredient for sustainable development. Human security and development are keys to achieving social peace, a cornerstone of national unity and economic development.

Policies required

- Design governmental policies to address basic needs, and direct annual public spending towards meeting the Millennium Development Goals as a key governmental priority in the coming years
- Ensure consistency of economic and social reforms and, to this end, the GOI will direct its efforts towards the following key areas: (i) Achieving Economic Growth; (ii) Human Resources Development; (iii) Improving Infrastructure; (iv) Expanding Social Protection Coverage by ensuring access to fundamental rights and freedoms for all
- Develop a comprehensive approach to address complex social problems to pave the way for stability and security. Priority areas in this regard include combating all of the following: poverty, food insecurity, unemployment particularly among youth and women, weak female participation in politics and decision making, school abandonment, lack of vocational opportunities, lack of basic services and the growing number of vulnerable groups including internally displaced people, orphans and the disabled.

Capacities required:

- Monitoring and evaluation system to assess the economic and social impact of governmental policies for evidence- based adjustment of supporting programs
- Modern, transparent public expenditure management to promote development while covering basic sectoral funding needs
- Fundamental management skills (supervision, team building, financial management, budgeting and costing, strategic planning, etc.), as well as those needed to implement new policies.
- Institutionalization of systems: standard operating procedures within the various governmental institutions
- Data gathering and analysis systems: decentralized monitoring, evaluation and reporting systems; information sharing and management and coordination with other governmental and international institutions

- Public career development policy and associated training programs to boost performance in public institutions and to achieve overall improvement of governance

Box (3) NDS Goals

NDS for 2005-2007 emphasized on improving quality of life by developing required policies based on current and future needs. Indicators taken from the Millennium Development Goals showed huge regression in many. Achieving definite aims till 2015 requires hard efforts and developed policies in all life aspects such as economic, social, environmental and educational. The NDS includes projected figures for the requirements of improving these aspects according to certain scenario for the targeted goals in 2007. However; reconstruction plans and basic services improvement disruption couldn't achieve these goals the matter that requires reviewing the mentioned scenario in 2007 as well as developing new scenario achieving the Millennium Development Goals on two stages; the first until 2010 and the second until 2015 (See Annex 1/ indicators)

Achieving these goals is mainly connected with many issues;

1. Provide investment funds identified by the NDS 2007- 2010.
2. Support issues mentioned in the NDS with the required attention, reviewing, updating, and activating its motivations.
3. Develop policies and procedures considering improving life quality priorities as reflected by the indicators of the Millennium Goals and other indicators connected to Iraq human development.
4. Establish statistics system for continuous capturing process to follow up policies implementation and draw attention to deviations that might happen in addition to adjusting procedures results.

Goal: (1) Mitigate Poverty and Hunger

Calories average for individual is severely declined from 3300 in 1990 to 1000 in 1997. However, the food basket boosts food level to 2000 calories individual per day. According to living standards surveys in 2004, 96% of Iraqis receiving limited shares of foodstuff which means in case the PDS is phased out, hunger will be wide spread. In addition, unemployment is strongly connected to poverty. 6.7 million citizen represent the labor force out of 16.4 million citizens who are economically active out of 27.1 million people. Thus, labor force participation in Iraq is 40% while the standard average established by European Cooperation Organization is 70%.

(Target) (1)

Reduce number of people living under poverty line by two third.

(Target) (2)

Reduce number of people suffering from hunger by two third.

(Target) (3) Increase labor force to 70% of people economically active.

Goal (2): Achieve primary education for all

Every one will have the opportunity for education and necessary skills to be able to enter world economy and have citizen rights and obligations. Educational levels are measured based on rates in the primary level and postgraduate level. According to living standards surveys, literacy is wide spread in Iraq; 39% in rural areas, 22% of adults didn't join the schools and 9% in secondary schools which is the highest educational level for them.

(Target) (4)

Completing all curriculums in primary and secondary education levels for all girls and boys.

Goal (3): Enhancing gender equity and strengthening women issues:

Woman educational level faced huge decline during the past 20 years after it was improved during 1970s. 47% of Iraqi women facing total or partial illiteracy. According to living standards survey,

gender gap is the highest in the north as education for woman is than man in 20% in addition to clear difference in woman education regionally. In Sulaimanya, 60% of women bellow 15 years old don't have the basic education in comparison with 32- to 38 % in Baghdad and Basra respectively.

(Target) (5)

Waiving off gender discrimination in all educational levels.

Target (4): reduce children deaths

Death among children bellow 5 years old was reduced between 1979- 1989 from 120 to 60 for each 1000 birth , but it was increased between 1990- 2001 to 133 (in comparison with 33 case in Jordan and 107 in Yamane). Death among infants is also increased from 40 for each 1000 birth to 107 (105 in African Desert)

(Target) (6):

Reduce deaths among children bellow 5 years old two third.

Goal (5): Reduce maternity deaths

According to living standards survey, maternity deaths is very high in Iraq around 193 for each 100,000 delivery (41 in Jordan and 25 in Kuwait)

(Target) (7):

Reduce maternity deaths two third

Goal (6): Full access to water and health services

According to living standards survey, 54% of households are provided with water and health services declined from 100% to 67% in 2004 (100% in Jordan, 97% in Syria and 100% in Gaza and West Bank).

(Target) (8): Full access to water and health services for all people

Goal (7): Decent housing for all

Possessing a house is one of the social security aspects. According to living standards survey, 76% of Iraq residences do not have accommodation especially in middle and south of the country; in Kurdistan and Baghdad most people rent their houses. Crowding and destroyed houses are common.

(Target) (9):

Increase number of families possessing their own houses to 90%.

(Target) (10):

Reduce number of families living in huts and crowded houses to two third.

Goal (8) Control Corruption:

Iraq has large history in corruption, as the previous regime bankrupted the country through stealing and defalcations used for building personal palaces and non sound consumption cut form citizens' spending.

(Target) (11):

Ratify and implement UN Anti- Corruption Agreement in 2006.

(Target) (12):

Canceling state control on economy and other social sectors in 2007.

(Target) (13):

Limiting authorities discrimination (Lack in clear administrative rules and regulation) in 2007

(Target) (14):

Increase accountability (Weak performance of human rights agencies and low NGOs and media) in 2007.

7.2 Eradicate Extreme Poverty and Undertake Area Based Development

Goals: Reduce the number of families living under US\$ 0.50/day/individual from 15.4% to 9.2%

Policies required

- Mobilize and target resources directed to the poor by reducing non- targeted social protection costs (phasing out non- targeted subsidies) and by reallocating funds for development
- Resource distribution for activities supporting job creation such as housing, labor intensive public works, and industrial clusters
- Develop local capacity for small and medium enterprises (SME) by ensuring access to information and by providing entrepreneurial training as part of encouraging private initiative for job creation and income generation
- Expand micro financing programs for income generating activities, targeted to extremely poor and to women
- Develop skills through vocational education programs and on the job training
- Support infrastructure in rural areas (roads, markets and production facilities) through community initiative – based projects, using social development funds
- Develop alternative economic sectors in rural areas with poor agricultural potential (dry areas where water supply is difficult to access) and in mono-industrial, undeveloped urban areas, to mitigate the impact of seasonality and adverse climate (climate hazard) and of job loss on household income
- Develop saving capacity through credit associations, credit unions or savings and credit cooperatives in rural areas, to mitigate risk and to ensure continuity of agriculture activity
- Support the issuance of the Human Development Report twice a year in Iraq
- Diversify social protection programs to increase effectiveness in addressing needy people at the local level, decentralize processes and involve NGOs in assisting poor with socio – medical services

Capacities required

- Monitor poverty and food insecurity and assess needs in order to adjust social safety nets to cover all the needy population and expand the active social protection tools to combat poverty and increase stability
- Support the development of the employment generating private sector through fiscal incentives, limited bureaucracy, and transparent and fair competition
- Reorganize the vocational education system to respond to labor market needs for skills and to encourage employment
- Establish **Regional Development Agencies under MOPDC** to coordinate and implement nationally and internationally- funded reconstruction projects for geographic areas and allocate funding based on needs assessment

- Develop and implement area development strategies in certain areas such as the marshes in the South and other areas in the Center and the North of the country
- Develop security- strengthening social plans with the social partners, police, business people, donors and MNFI to solve the problems of illegal weapons, armed groups, security, and critical reconstruction
- Encourage local civil society participation in developing comprehensive plans to treat all issues rationally, as well as providing job opportunities
- Establish public- private partnerships between governmental entities and the private sector to provide services

7.3. Employment

Goal: Build human capital necessary to sustain growth. Reduce unemployment from 18% to 9% (single digit unemployment rate). Increase labor force participation for women to 35%.

Policies required

- Promote continuous education, equal opportunities in the labor market and appropriate work safety.
- Support the integration of youth and women to underpin economic development and to reduce the costs of passive social protection.
- Enforce labor legislation to develop a flexible, competition-based labor market, assuring equal opportunities for all, regardless of gender, ethnicity, religious beliefs, political convictions, geographic location (Labor Code drafted under ILO/USAID assistance ready for submission)
- Expand vocational training and develop skills to meet the new labor market demand (vocational training programs to address business and contracting fields' needs)
- Expand micro credit programs with the participation of the State, micro financing banks and NGOs to support small business and income-generating activities for poverty reduction
- Promote an inclusive employment policy to absorb dismantled entities, thereby utilizing an expanded labor force to promote stability and social peace in Iraq
- Encourage inflow of employment- generating foreign investments and establish cooperation for **on the job training programs** to build skills matching new technology and management standards
- Reduce unemployment and underemployment by strengthening cooperation with social partners (making a high priority the budget allocation for labor intensive activities such as public works)
- Stimulate job creation by encouraging national and foreign investments which provide training and career development programs for employees

Capacities required

- Institutionalization of the social dialog with social partners (unions, employers' organizations) for employment policies adjusted to the labor market's needs (Social Dialog Committee set up under MOLSA coordination)
- Institutionalization of partnership with foreign investors in Iraq (through the Chamber of Commerce of Iraq) to identify training needs and to secure funding for skills development programs
- Small and Medium Enterprises development program and an institution devoted to encouraging job creation and on the job training
- Micro credit/grant pilot units to be operational in poor areas with the support and the participation of the civil society
- Local Councils' participation in employment generating programs through public works at the local level across Iraq

7.4. Targeting Vulnerable Groups

Goal: Protect the poor and vulnerable groups from the fallout of change and reintegrate them into society, community, and economy

7.4.1. Reforming Services and Benefits

Policies required

- Increase MOLSA capacity to identify and timely assist all families in need, based on solid analysis and eligibility testing through computerized business processes
- Adjust the means- tested Social Safety Net package to address the social and economic needs of vulnerable groups, preserving their purchasing power against inflation or removal of other social protection programs (food distribution, fuel subsidy etc)
- Activate the Antipoverty Committee in MOLSA, which includes Ministries of Planning and Cooperation Development, Health, Education, Housing, Environment, Finance to:
 - Collect data through household surveys and conduct analyses for continuous assessment of needs
 - Design and adjust evidence- based social strategies to reduce poverty and social exclusion by expanding active social protection
 - Monitor costs to preserve integrity of public budgets and limit passive social protection (conditional cash transfer)

- Assist local administration (governance) to expand its role in assisting the poor by mitigating the social impact of economic reforms on vulnerable communities and social groups
- Improve MOLSA capacity to use the Social Safety Net program as a mechanism of supporting macroeconomic and structural reforms such as liberalization of prices (through removal of (major) fuel and food subsidies), State sector restructuring and private sector development
- Transform the global, non- targeted PDS program into a primary school students feeding program to reduce school abandonment and to strengthen learning capacity of children

Capacities required

- Computerization of business processes, SSN Beneficiary Database development, making Management Information System operational in MOLSA and its local offices to preserve integrity of the SSN system, check and reject duplications, manage payments and produce reports to document and support specific decisions
- Continuous training programs to rehabilitate staff skills in using modern IT and new business processes
- Regular Beneficiaries assessment to monitor the impact of the SSN program
- Institutionalize the Social Worker in Iraq, providing training and develop a network of social workers to assist poor and vulnerable groups
- Set quality standards for social services and develop NGOs – MOLSA partnerships to expand social assistance for the benefit of needy persons
- Issue monthly reports on SSN coverage, including basic information regarding access and eligibility conditions, to increase public awareness

Box (4) Anti- Poverty and SSNs

COSIT estimations based on household expenditures survey in 2003 show that there are 11% of people living in extreme poverty and 43% of people suffering from obsolete poverty which means that more than the half of population are facing lack in the basic needs such as food, health care, education and appropriate housing. Despite these rates were much higher than the rates of 1993 where they stood at 21% and 73% respectively, yet they are still much higher than the rates of 1988 of 3.6 and 25% respectively.

This high rate of poverty in Iraq despite direct and indirect subsidies exceeded 16 \$ billion equivalent to 50% of budget revenues and around 40% of the GDP in 2005, indicates the inefficiency of current SSNs program with its high costs and impact on most economic activities to revise the policy and targeting support to needy categories instead of covering the whole society regardless the financial abilities. Poverty distribution according to family size in Oct. 2005 shows that there are 25.5% of families living below (1) dollar per individual/ day (without including food basket items). After including the items, poverty rate decreased to 20% which is still high rate representing 5.5 million people. Considering the large spending and future intention of phasing out subsidies will increase and reformulate poverty map in Iraq. That is why SSNs has great role in mitigating the passive impact of transition. Currently, there is a master plan to expand active SSNs measures in 2007 to reduce poverty through employment opportunities and generating income activities.

SSNs consists of employment services, cash benefits, micro grants and the food basket or corresponding value in cases phased out. Micro grants is one of the SSNs components aims to reduce depending on cash benefits and increase employment in poor rural and urban areas.

High employment rates, macroeconomic reforms, pricing reform, phasing out subsidies, real economic activity decline with no ability to create job opportunities, high inflation, low purchasing power of individual cash incomes, continuous non stable security situation are the main factors causing and expanding poverty in society. In order to mitigate prices increase impacts in Dec. 2005, 500 ID billion (330\$) million allocated in 2006 budget. Covering (1) million family with cash benefits and services according to modern mechanism and technical and financial assistant from the WB. The target in 2007 is creating (2) million families with SSN. Preliminary estimations for 2007 budget is allocating (1) \$ billion for this program.

Developing the SSN program should be along with reducing subsidies and protecting the purchasing power of poor categories incomes from inflation impact.

Having poverty factors require building modern developed SSN program to provide enough resources for the poor. Despite the importance of the program, but it is not a treatment for poverty on the long- term because the program deals with the effects not reasons of poverty. However, there is still some categories can not have descent life for a reason or another should be covered with the program.

Treating poverty requires macro and sectoral level policies. Structural adaptation implemented by some countries supporting poor people with resources and basic services, couldn't solve poverty because they didn't help the poor family increasing productivity, thus it didn't solve the cause. In addition to having this program in place other sectoral policies are required by directing some resources to sectors where the poor can work such as developing small businesses, supporting non organized sector in urban and rural areas, restructure rural sector by supporting it with technology, increase production, create job opportunities absorbing labor force in those areas, connecting non agriculture with agriculture economic activities. These policies might limit the migration of labor force from rural to urban areas and limit underemployment.

Underemployment means labors that get less than the minimum wage which make them among poor categories, thus this kind of unemployment is close to poverty in some countries. It also covers people working in non- organized urban sector and rural sector that work for long hours but get

insufficient income for taking their families out of poverty as well as poverty is also connected with redundant unemployment.

Despite strong connection between unemployment and poverty, but the concentration can not be directed to this aspect only in order not to take wrong policies such as increase employment in state offices regardless actual need or how suitable specializations are and the only reason for employment will be just to provide them with an income and raise them above poverty line. This also covers public works generating income which always fail in creating sustainable infrastructures. Treating unemployment could have positive impacts on reducing poverty if creating new job and increasing productivity of the labor force that matter that help them to get high wages.

Creating new jobs require achieving high economic growth rates; however, it is not enough to treat poverty as indicated in others countries experiences. Concentrating on development strategies to achieving economic growth lead to total income projections while growth pattern is identified by preliminary distribution of income in the society which reflected then in income level, impact and poverty level. Thus, development strategies with social content aiming to solve poverty problem is the best way for mitigating poverty. All other programs dealing with effects and treating certain objectives more than causes will fade away such as subsidizing food prices and some services for all without targeting process. That is why, GDP growth is not the ultimate goal or measurement for economic development because it is necessary to list the social indicators within development goals such as excessive employment, poverty treatment.

NDS, realizing the important of treating poverty in Iraqi society, calls for a package of policies treating poverty causes on the long – term and reduce its impact on the short – term through the following:

- Develop human capital of poor people through public health services, illiteracy and basic educational programs, enhancing their abilities for finding better jobs with higher salary. The main wealth the poor has is not the capital or land, but it is work, thus providing them with education and training will provide long – term solutions increasing their income and step away from poverty.
- Using policies for increasing production in small agriculture business the matter that transfer agriculture from an activity providing sufficient products to dynamic development engine and develop rural environment. This policy requires more support for public investments in social and economic infrastructures, using modern technology to increase production and building capacities in the rural areas which include high rate of poverty in comparison with urban areas.
- Using policies for developing small enterprises and non- organized sector in urban areas which include high rate of poor workers producing commodities and services as self employees but their activities are not formal and not organized. Organizing and developing this sector require developing workers' skills and helping them to accumulate the capital and reach the market the matter that transfer this sector to an organized economic sector gradually.
- Full access to production assets and job opportunities generating income and good salaries.
- In addition to the above policies and procedures there is still families or individuals who can not produce what is enough for living or can not find jobs generating income, thus they should be covered with SSNs targeting certain category in the society within certain system for reevaluating poverty in Iraq periodically.

Some of these policies are included within the sectoral policies as well as they require macroeconomic policies to provide financial enough resources to spend on infrastructures such as education, public health and building capacity and treating poverty in all levels the macro and sectoral levels on the long- term in addition to providing needy categories and the vulnerable with financial support.

7.5 Internally displaced people, refugees and returnees

Goal: Address the needs of IDPs, refugees and returnees while also enabling them to realize their potential as contributing members of the economic community.

Policies required:

- Vulnerability is determined by a number of factors, as indicated in the COSIT Unmet Basic Needs Matrix. While a number of these needs will be addressed under the Social Safety Net reforms (see Section XXX), additional policies aimed at protection of their rights while ensuring equitable access to economic opportunity, employment and services must be developed.
- The Ministry of Displacement and Migration is currently responsible for coordination of the assistance and monitoring of population movements in Iraq. However, as a State Ministry, it lacks the necessary resources and stature to fulfill its mandate in its entirety and with significant impact. Therefore, the first essential reform is to classify the Ministry as a line Ministry, with a regular budget and the necessary human and material resources to enable it to address the issues pressing the nation, given the 1.5 million IDPs and hundreds of thousands of refugees, returnees and other persons of concern.
- An overarching national policy framework is required that addresses the root causes of vulnerability, particularly those either leading to or created by displacement, such as:

7.5.1. Access to employment:

- Equal access to employment opportunities and job retention for all vulnerable men and women, taking into account that displacement implies dislocation from employment, with longer-term consequences for downstream pension and social security access.
- Income generation should promote self-reliance in displacement through support of existing coping mechanisms, including loans/grants and vocational training.
- Equal access to services beyond basic services, particularly in terms of education, is essential. Vocational training and secondary and tertiary education must be equally accessible to the displaced.
- At the same time, there must be protection from potential exploitation of unskilled labor and prevention of further brain drain from Iraq.
- Economic opportunity enhancement incorporates retraining; skills diversification, de-mining and environmental regeneration – and vulnerable populations should have priority inclusion in these development programs.

7.5.2 Access to Land and Housing:

- Lack of access to income-generating land inhibits employment and generation of alternate sources of income, and it reduces access to housing.
- Land tenure includes liquidity, legal title and access to financial resources, important considerations in governmental support of vulnerable persons in the acquisition or improvement of real property.
- Land access also implies access to the necessary attendant infrastructure.
- Policies on where displaced and other vulnerable populations can live in dignity, safety and with full social benefits as the rest of the population, are required.
- Compensation packages for damaged housing due to conflict as well as for families hosting vulnerable persons are required as part of the reduction of tensions caused by conflict, and they are a means for moving forward towards peace.

7.5.3. Emergency Coordination, Preparedness, and Response:

- A policy that clearly institutionalizes the planning, preparedness, coordination and response of the national power structures to emergencies, both natural and man-made, is critical for accelerating the delivery and restoration of basic services to affected communities. This includes annual budgetary allocations towards contingency plans, and the institutionalization of mechanisms for coordination and response that ensure rapid and relevant response. This policy must clearly delineate responsibilities, roles and actions for the various State and non-governmental actors, with direction situated within the highest possible institution, such as the Office of the Prime Minister.

7.5.4 Human Rights:

1.3.2 The fundamental rights of vulnerable populations do not differ from those of the rest of the population. However, in order to achieve self-reliance and economic growth, these rights must be attended to with greater focus, through equal integration of vulnerable populations into the achievement of the MDGs, which generally entails access to basic services and infrastructure, including equal focus on rural or remote areas.

Capacities Required:

The MoDM and other related institutions must gain the following capacities:

1. Policy development: drafting and analytical capability

2. Good legal/ analytical skills, particularly in comparative exercises that will ensure that the national policies and laws are in accordance with international laws and standards
3. Internal coordination structures as well as inter-ministerial coordination
4. Technical capacity regarding emergency preparedness, coordination, and response capacity, including good needs assessment capacity and specialized ability to address the particular needs of each vulnerable group.
5. Institutionalization of systems: standard operating procedures within the MoDM and other partner governmental institutions
6. Streamlining/ electronic maintenance of records and information systems
7. Enhancing field capacity/ establishment of branch offices at the governorate and district levels with an information network at the community/ linkages at Governorate level/ delineation of authority which enables local response and coordination

7.6. Water and Sanitation

Up to 1991 water and sanitation systems in Iraq were operating efficiently. Safe potable water was accessible to 95% of urban and 75% of rural inhabitants. 218 conventional water treatment plants operating in the country and 1,191 compact water treatment plants were also in operation. Sanitation services covered 75% of urban communities and 50% of rural ones.

After 1991 most services deteriorated as explained bellow;

- a. Safe potable water in urban areas 74%.
- b. Safe potable water in rural areas 48%.
- c. Sewage networks 9%
- d. Water filtrating plants 234
- e. Compact water filtrating plants more than (1400)
- f. Total maximum water production is 65% at present out of the supposed minimum.
- g. The coverage percent do not necessary means that people are receiving the required quality and quantity.

Recent studies show that many water and sewage treatment plants were provided at an "acceptable" level. Of the 177 water treatment plants only 34 were classified as "good". Sewage collection and treatment services in Baghdad is provided to only 80% of the population and only 9% of urban populations outside of Baghdad, while rural areas in the north of Iraq do not have piped sewage systems.

Sanitation is thus becoming a serious environmental and health problem. Deteriorating sewer pipes are contaminating the potable water network and underground water, further adding to the health and environmental problems. It is estimated that 50% of

wastewater generated in Iraq is being discharged into the rivers and waterways. Baghdad contributes as much as 75% of what discharge.

The government is committed to restoring the standards that existed before 2003 and expanding cases in a sustainable way. Emergency activities include water tinkering, especially to the southern cities. Water quality monitoring has been established throughout the country. Procurement for water treatment chemicals and garbage collection is being provided. Key objectives over the next three years are:

- a. Provide financial and technical support to water, sewage, and solid waste sectors to achieve pre – 2003 levels by the end of this year, including: increasing access to potable water by urban areas by 15% and that of rural areas by 20%; reducing water losses by 10%; raising sanitation coverage by 10% in urban areas; developing city master plans for water and sanitation service in the major cities; building capacity and enhancing management systems.
- b. Rebuild Al- Rasafa Plant for potable water in Baghdad and provide safe potable water to the city of Basrah. Provide sewage services to newly built areas in Baghdad and Basrah.
- c. Continue efforts to reconstruct and establish new sanitation plant in urban and rural areas to ensure full coverage of all regions of Iraq, and to reduce inequity between urban and rural areas.
- d. Improve water quality and upgrade the water distribution networks.
- e. Develop short- and long- term plans to train executives and supervisory staff for the water and sewerage projects, and to establish high level training centers for this purpose.
- f. Provide adequate crude water resources for all regions of Iraq.
- g. Maintain and improve the efficiency of existing pumps stations and sewerages networks.
- h. Maintain and rehabilitate the existing potable water projects for the purpose of having environment standards for processed water prior to pumping to drainage points for protecting environment.
- i. Improve and protect environment by observing air, water and soil pollution rates. Building capacity, providing special machines and staff for measuring the quality of air and water sewage, liquid and solid waste of individual and government location and private sector and control processing before.

7.6.1. Investment Costs

Estimated investment funds for water and sanitary sector for the next four years 2007-2010 is around (8.1 \$) billion distributed as (3.1 \$) billion for water projects and (5.0 \$) billion for sanitation as indicted bellow;

Investment costs for water and sanitation sector 2007- 2010

Million Dollars

Projects	2007	2008	2009	2010
Potable Water	512	1034	924	655
Sanitation	912	880	115	2080
Total	1424	1914	2039	2735

7.7. Education

The educational system in Iraq was widely regarded as among the best in the Middle East until 1980. since then lack of resources, politicization of the educational system, and emigration of doctors and teachers have made Iraq's health and educational systems below the standards of all Middle Eastern countries. Illiteracy is widespread with 39% of the rural population unable to read or write. Overall 22% of the adult population has never attended school. Only 9% have secondary school as highest complete education. Forty 7% of women in Iraq are illiterate or partly illiterate. The gender gap is highest in the northern region where the literacy rate is 20% lower for women than men. There is significant regional difference in women's education. In Sulamaniya, Dohouk and Al-Muthana more than 60% of women aged 15 years and over have less than an elementary education compared to 32 and 38 % in Baghdad and Basrah respectively.

To restore the high standards of the 1980s is at the heart of the Government's reconstruction efforts. The private sector will be encouraged to participate and play an important role in provision of education. Private primary and secondary schools may be established and private investment in building professional capacities and upgrading medical technology will be sought. Action is already underway this year to attain this objective. Among other measures, the following are priorities;

a. Physically rehabilitation and reconstruction of primary and secondary schools.

- Building 1000 new school, however, 2006 plan included 500 schools.

- Rehabilitate 3000 school, however, 2006 plan included 1000 school.

- Develop schools by adding new classes, libraries and labs.

- Open educational centers for illiberality in addition to schools.

b. Ensuring minimal quality standards of teaching and learning through strengthening basic teacher training.

- Teachers building capacity and skills for improving educational process to 60% in the medium – term (2008).

- Provide educational process requirements, needs and supplies such as equipments, furniture, libraries, labs and machines.

- Provide teachers with computer skills and educational process requirements. A master comprehensive training plan should be developed for teachers on stages before 2015 in addition to completing libraries and labs requirements.

c. Providing adequate supplies of material, equipment, and furniture to schools.

- d. Developing a new curriculum at all levels to prepare students for the twenty first century.
- e. Strengthening links between vocational training, technical education and labor markets.
- f. Encourage life- long professional development of educational staff.

In general, through educational field work, bellow are the most urgent problems and challenges facing this sector:

1. Problems limiting education expansion:

- Children joining schools deterioration and no balance in rural, urban and gender.
- Poverty
- Not joining compulsory education

2. Problems related to curriculums

- They are old and not suitable
- No efficient labs and libraries
- Low educational capacities

3. Problems related to the staff

- Low educational skills
- Non efficient teachers training institutes
- Low allowances

4. Problems related to teaching methods

- Not updating or developing curriculums
- Not using communication and IT tools

5. Problems related to vocational training

- The system does not response to labor market needs
- Lack in labs, workstations and educational methods

6. Problems related to inefficiency

- Strategic planning
- Management and education

In addition to problems related to buildings and low funding.

Investing in human resources is the priority for the Ministry as the best kind of investment on the long – term, achieving strategic balance in Iraq society, providing development requirements for labor force.

The Ministry realizes educational policy main lines and principles in order to make the necessary changes through the following;

1. Competitive in educational institutes' leadership and decentralization.

2. Sound and organized planning, working on creating efficient financial and administrative entities, establishing performance evaluation systems to eradicate corruption.
3. Develop educational institutes to be capable for effective response to process requirements.
4. Reform educational system and increase schools and educational institutes' capacity.
5. Develop educational techniques and using quality standards.
6. Improve and rehabilitate teacher skills through training pre and during service.

Investment funds for educational sector are around 2.4\$ billion for 4 years distributed as follows;

Educational Sector Investment Costs for 2007- 2010

Million Dollars

Projects	2007	2008	2009	2010
Kindergartens	14.0	14.0	14.0	14.0
Primary	310.0	310.0	310.0	310.0
Secondary	192.0	192.0	192.0	192.0
University	84.0	84.0	84.0	84.0
Total	600.0	600.0	600.0	600.0

Health

The health system in Iraq is under acute stress. Iraqi people's health and the Iraqi health system have deteriorated rapidly in the last decade. The health system was considered to be relatively good before the 1990/91 Gulf War – there was wide, equitable access of the population to health care, with secondary and tertiary care in reach of those in need. Since then it has been damaged as a result of wars, sanctions and bad governance. Alongside the deterioration of health services is a mounting burden of disease and malnutrition, made worse by the recent war's damage to an already battered infrastructure, the worsening of food insecurity and a lack of access to clean water, sanitation, power and shelter. The effects of weapons used during the war, including depleted uranium-tipped munitions and cluster-bombs, are further public health concerns.

The overarching objective of the health system in Iraq is to promote health and improve access to quality health care irrespective of ethnic, religious or geographic origin or socioeconomic status. It also aims to improve management of the health sector.

A clear vision is needed to translate the principle objective of the new health system into concrete policies and strategies. The Ministry of Health

established, for this purpose, ten working groups and a steering committee which operated from October 2003 to January 2004. The groups proposed a consolidated vision for the health system in Iraq.

The vision describes a system which is people-centered, giving citizens choice and making them responsible for their own health. Seven core elements are identified: population empowerment; community involvement; integrated health services with emphasis on primary health care; financial risk protection (equity); health provider management autonomy; quality improvement; and human resources development.

While the vision provides the basis for wider and more in-depth discussion on the future shape of the Iraqi health system and requires long-term planning, there is a pressing need to adopt concrete strategies to address the enormous challenges currently facing the health sector.

The following are the immediate needs and strategies:

Immediate and short-term strategies

They include five areas for action:

1. Meeting urgent needs and improving services
2. Strengthening results based management
3. Developing and implementing a 4 year plan for reconstruction
4. Training and capacity building
5. Mobilizing resources

Meeting urgent needs

These are urgent priorities requiring immediate action. In some of the areas mentioned below, action has already been initiated. It is hoped that these urgent needs will be met by the end of 2005.

- a- Addressing shortages in medicines and urgent supplies.
- b- Upgrading emergency services including obstetric care.
- c- Increasing immunization coverage.
- d- Upgrading blood transfusion services.
- e- Establishing a more efficient information system.
- f- Improving communications.
- g- Improving food safety measures.
- h- Re-organizing the pharmaceutical sector.
- i- Conducting an in-depth review of primary care.
- j- Strengthening disease surveillance system.
- k- Intensifying communicable disease control activities.

- l- Meeting most urgent rehabilitation needs.
- m- Developing a plan for human resources development and attending to urgent organizational and coordination issues .

Strengthening management

Reconstruction of the health system cannot be achieved without drastic changes in the management of the health sector. There is currently limited capacity in planning, budgeting, finance and management functions of the Ministry of Health. Management practices are often overly bureaucratic and generally outdated. Corruption and financial irregularities are widespread. Action should be initiated immediately in the following areas:

- a- Institutionalizing values such as transparency, accountability, openness, equal opportunity and participation
- b- Strengthening capacity for strategic planning, management, procurement; and modernizing budgeting and finance functions.
- c- Building capacity for managing decentralization and for leadership development.
- d- Changing to evidence-based decision-making, performance appraisal, monitoring and evaluation.
- e- Eradicating corruption.

Developing and implementing a four year plan of reconstruction of the health sector

The Joint United Nations-world Bank Needs Assessment outlines health sector needs and financial requirements. However, careful analysis of available data and experience gained over the last few months has demonstrated the need for a more reliable assessment of needs. The process has already begun and is currently providing a clearer vision of the physical infrastructure of the health sector. A four-year plan is being developed and action has already been initiated in some areas. The plan focuses on:

- Re-visiting reconstruction requirements and prioritizing.
- Developing standards for rehabilitation and new construction.
- Strengthening capacity in project management and implementation.
- Strengthening coordination with partners .

Training and capacity building

Training and capacity building of health professionals and management staff is a top priority. The four areas which require special emphasis are:

- Training and capacity building in management.

- Strengthening capacity in public health and related branches like health planning, economics, financing, and other areas.
- Training in clinical skills.
- Upgrading health professional education (basic, post-graduate, continuing).

Mobilizing resources

The regular budget of the Ministry of Health can only meet the cost of salaries, operating expenditures, and the medicines bill. There are no reconstruction funds available. Policy makers must recognize that investment in health is a strategic priority for Iraq. It is a prerequisite to long-term sustainable development. The current expenditure on health, as a proportion of GDP, is considerably lower than neighboring countries, like Jordan and Lebanon, and must therefore increase. At the same time, much of our funding requirement for rehabilitating the physical infrastructure of the health sector will depend on donor funding. Thus, our strategy should focus on effective action to mobilize funds at the national, regional, and international levels.

The following represent basic areas of action:

- Raising commitment to the health sector
- Improving information on current status and needs
- Intensifying work with the media
- Strengthening donor partnerships and coordination
- Encouraging partnerships with non-governmental organizations and communities.

While immediate and short-term interventions are vital to meet Iraq's emergency and humanitarian needs, they must not deflect from careful medium to long-term health systems planning.

Priorities for the Medium-Term

1. The development of a strong, coherent and integrated public health system

The rehabilitation of the health sector should be based on the goal of ensuring a strong, coherent and integrated public health system providing primary, secondary and tertiary care. Nevertheless, it is recognized that the State system has deteriorated over the past decade, and that Iraq has undergone a process of 'passive privatization', with a range of private health care providers

stepping in to fill the role of government institutions. Where these providers are undertaking competent and safe care, policy-makers should build upon and support this gap-filling operation.

2. Health financing

In light of the need to develop a coherent and equitable public health system for all, financing for Iraq's health system should be based on progressive taxation and government income that is pooled primarily at the national level. The implementation of formal charges at the point of delivery should not be necessary, especially for primary level services. The establishment of complex, fragmented and difficult-to-regulate social health insurance systems should be avoided.

3. Supporting and strengthening public sector administration

A strong public health system should not be equated with a centralized and inefficient state bureaucracy. Plans need to be established to strengthen public management, support the development of effective administration systems, and structure appropriate forms of deconcentration to allow more responsive and locally relevant health service delivery.

Reversing the effect of more than 30 years of brutal dictatorship and transforming civil servants and the bureaucratic machinery of government from a command-and-control culture to an open and participatory culture will take concerted efforts, time and resources.

Operational issues

Researchers examining health policy needs in the aftermath of a number of different conflicts have described a number of 'typical' operational responses from donors and have stressed the need for more appropriate interventions. These include the following:

Infrastructure Development

After a war, there are often attempts to re-construct whatever has been destroyed. However, a post-war situation provides an opportunity to review the functions and distribution of health facilities and to rationalize and make more equitable the distribution of the resources that are available. Emphasis should be placed on the rehabilitation of clinics and district hospitals, rather than on the more visible and high profile secondary or tertiary hospitals.

Specific disease problems

The development of vertical programs to tackle specific diseases is a common post-war response, when there is a need to produce rapid results around a set of narrow objectives. (It is also common when there is a lack of donor co-ordination.) While they are sometimes appropriate, vertical programs

can divert resources and attention from other equally important Primary Health Care (PHC) services and undermine the development of comprehensive, efficient and integrated PHC programs. A coherent organizational strategy to avoid this trap should be developed by the donor community in conjunction with the Iraqi health administration.

Training and human resources

Health personnel constitute the biggest single budget item of a health system. However, human resource development, (including ministry officials and managers) is often overlooked as a key strategic issue in the post-war situation. A comprehensive human resource strategic plan is a priority and must incorporate:

- The training and skills development of existing health personnel;
- Defining the right mix of health cadres, skills and competencies to address the main public health problems of the country;
- Ensuring equitable human resources distribution;
- Ensuring that health personnel are adequately remunerated and motivated; and
- Promoting the role of women within the public health system at all levels.

Medicines

Medicines are typically the second biggest recurrent budget item of a health system. The immediate development of an essential drugs program, which would include an essential drug list and standard treatment guidelines will be important. This will go a long way towards promoting cost-effective and rational treatment; avoiding a black-market in pharmaceuticals; and avoiding the development of antibiotic resistance.

Promotion of breastfeeding and appropriate food security

It is essential in the post-war reconstruction period that exclusive breastfeeding for the first six months of infant life and partial breastfeeding for a further six months is vigorously promoted and protected. The unscrupulous marketing and promotion of breast-milk substitutes must be monitored and prevented. Any reliance on external food supplies during a post-war situation must be counter-balanced by medium-term strategies to promote household food security, where possible through the consumption of locally available and culturally appropriate foods.

Investment Costs

Achieving health sector tasks, developing health services, providing basic needs requires around (14.7\$ billion) as investment funds for 4 years. There are large opportunities for the private sector to participate in health projects in Iraq with suitable incentives.

Health Sector Investment Costs for 2007- 2010

Million Dollars

Projects	2007	2008	2009	2010
Hospitals	1877	2690	3710	3923
Developed health centers	488	504	536	472
Ad- hoc health centers	122	126	134	118
Mobile clinics	13	12	10	15
Total	2500	3332	4390	4528

Housing and Urban Development

Iraq is facing a serious housing shortage which, unless addressed as a matter of urgency, could have a severe negative impact on the overall quality of life and urban development. A consensus has emerged that the solution to Iraq's housing shortage lies in a market-driven system founded on a strong housing finance system which can scale-up housing loans for moderate and low-income families. Creating a viable housing finance system requires new financial agencies such as a Mortgage Guarantee Company. These companies can help alleviate the shortfall in housing units by: generating a greater volume of mortgage lending; lowering down payment requirements; broadening the eligibility for mortgages; and extending mortgage repayment periods.

The governments integrated housing and urban development strategy aims to generate sustained investment in housing, promote entrepreneurship and create job opportunities. The strategy will require improvements to the policy, legal and regulatory framework including:

- Reviewing existing land use patterns, zoning regulations, building codes and standards and formulate forward looking land use and development policies for efficient and optimum utilization of land.
- Developing a new strategic Master Plan for Baghdad and all other municipalities utilizing modern technologies and latest city profile data.
- Reviewing existing laws with a view to amending or repealing or promulgating new laws so as to strengthen the legislative framework for housing and urban development.
- Establishing a transparent and fully automated property rights registration system.

- Creating an enabling environment for public and private housing finances institutions to take root.
- Enact a new Mortgage Law to enable all established banks, including the Real Estate Bank, to participate in financing housing projects.
- Evolve appropriate fiscal incentives for resource mobilization and to encourage house lending.
- Initiate the process of establishing an appropriate regulatory framework to facilitate public and private partnership.
- Develop legal means for cheaper and more stable construction finance such as allowing partly constructed buildings to have standing in law as assets so they may serve as collateral.

Investment Costs

Estimated investment funds for housing sector for the 4 coming years 2007- 2010 is around (52\$) billion. There is crucial need to build one million housing units during the 4 years by the government and the private sector with basic services.

Private investment plays important role in this field. The private investors can build housing units to high and medium income levels. Government role would be building housing units for low income and vulnerable groups. Generally, this sector is one of attracting sectors for the private investment upon suitable investment environment and required facilities mentioned above.

8. Regions and Governorates Development

The key factor for achieving sustainable development is represented by masses participation all over Iraq in strategy implementation. Governorates and regions are required to be involved in planning, prioritization, financial resources management for each governorate within available funds whether offered by the state budget or grants and credits allocated for reconstruction and development projects.

In accordance with state intention of decentralization, part of Ministries sectoral tasks related to planning and implementing development programs should be transferred to the governorates after identifying their needs of infrastructures directly connected to improving citizen's life such as; health, education, potable water, sanitation, paved roads, improving environment and other projects. Investment spending on these fields will definitely activate the economy, motivate the private sector, create new job opportunities, solve unemployment problems, mitigate poverty, create new opportunities for equal development all over Iraq, and fill up the gap in governorates' development level inherited from the previous regime.

Living standards survey in Iraq in 2003 showed clear differences in basic services satisfaction rates and different family economic situation throughout the country as indicated in table (15) bellow. 31.2% of total families receiving low level, 44.8% receiving medium level, 24.1% receiving high level of basic services. Six indicators have been chosen to measure satisfaction level: education, health, water, electricity, sanitation, housing, accommodation environment, family economic level.

These indicators showed differences in governorates development levels, and basic services satisfaction. Living standards survey showed noticeable differences in basic services, satisfaction level mentioned in (tables 16 and 17) above.

Not only population, but also differences should be taken into consideration when distributing resources among governorates. Governorates and regions development projects listed in 2006 state budget is considered as the start point with (1000\$ million) allocation. Funds distributing has been based on population because deprivation indicator was not yet completely measured by then.

2006 projects have been identified in cooperation with MOPCD and sectoral Ministries concentrating on providing the citizens with the basic services within the year, employing more labor force, and increasing citizen's living standards. Governors have been given the authority of specialized Ministers according to investment budget implementation instruction to facilitate and expedite project execution listed within the development program. Program implementation has been tripped during 2006 for financial and organizational reasons. In order to precisely examine obstacles facing implementation, MOPCD in cooperation with (UNDP) hold meeting with governorates representatives during July and August this year discussing problems and ways of

solution to pass over the passive performance accompanying current program as well as finding appropriate framework ensuring implementation efficiency.

8.1 Development Banks

For the purpose of enhancing regional development, three bank will be established with preliminary increasable capital (500\$ Million) will be paid by Ministry of Finance on 3 years from governorates and regional share. They could be funded in the future through issuance of local and international market bonds and credits in addition to obtaining credits from regions and governorates treasuries.

The reasons behind establishing these banks are to recruit available funds, support governorates and regions council in funding certain projects without returning to the state budget. These banks can perform on bases of joint participation among regions, governorates, private sector and foreign investor.

Establishing these banks and governorate development program implementation shall be a step forward to achieving enhanced regional development distributed equally among Iraq areas, and reduce differences in living standards too.

Table (13) Families distribution according to satisfaction degree – Iraq
Percentage %

Field	Satisfaction level				Average
	Low	Medium	High	Total	
Education	31.8	32.7	35.5	100.0	1.1
Health	20.7	24.2	55.1	100.0	1.3
Water, Electricity, Sanitation	58.3	25.5	16.3	100.0	0.9
Housing	20.1	27.1	52.7	100.0	1.3
Accommodation	40.4	30.2	29.4	100.0	1.1
Environment					
Family Economic Level	55.1	27.4	17.5	100.0	1.0
Living Standards Survey	31.2	44.8	24.1	100.0	1.1

Resource: Governorates development priorities study based on Living Standards Criteria- COSIT, Feb. 2006.

8.2 Annual allocations and distributions on governorates

Allocated amounts for governorates and regions development program for the next 4 years according to needs estimations report is around (11.0 \$) billion distributed as

(2.5\$) billion in 2007- 2008 and (30.0\$) billion in 2009 2010 (See Table 7). Around (2.4\$) billion has been allocated for this program in 2007 state budget.

Distributing these funds should be based on population and deprivation degree in each governorate; however deprivation degree, according to living standards survey in 2003, didn't reflect indicators current reality which the survey depended on. Four years passed since the survey occurred and many changes happened as a result of violence and military actions impact infrastructure and services level worse than what was before 2003 in many governorates whereas improved in other governorates. That is why, population rates will be the basic criteria upon which 2007 allocations are distributed. 2006 PDS population figures were taken for the time being until having 2007 census results and following surveys for distributing allocations in coming years.

Program success is not depending on financial allocation size only, but it requires taking organizational procedures by the governorates and regions for improving implementation efficiency, avoiding failure accompanied 2006 program; this requires the following:

- Regions and governorate should prepare their development strategies within the general framework of the NDS to be sent to MOPCD.
- Develop medium- term plans including:
 - Required quantity goals, living standards survey and human development indicators could be used in this concern.
 - Distributing funds according to identified priorities during plan years.
 - Identify basic implementation requirements to avoid obstacles might impact implementation efficiency and schedule.
 - Identify projects operation requirements after implementation specially preparing specialized and qualified staff with early coordination with the concerned sectoral ministries.
- Establishing institutional system deals with planning and development within governorate level as a base for decentralizing development management, will be explained later, in addition to identifying tasks and responsibilities in each organizational unit.
- Establishing Information database for the purpose of providing data and indicators feedback.
- Building and developing capacities.

The success of this program will be causing radical changes on governorates actual situation by improving basic services, living standards, creating job opportunities and reducing unemployment and poverty as well as decentralizing resources management and achieving comprehensive development.

Table (14)**Basic needs deprivation rates according to field and governorate (families %)**

Governorate	Education	Health	Infrastructures	Housing	Accommodation Environment	Economic Status	Non-satisfies basic needs
Duhuk	35.6	25.8	27.4	26.6	18.7	58.9	28.6
Ninawa	33.2	25.6	50.7	17.2	22	57.2	29
Sulaimanya	35.1	32.7	29.6	19.6	31.3	57.9	29.4
Ta'mim	29.4	27.6	41.9	10.5	22	42.8	20.4
Arbil	34.6	15.7	27	18.3	14.7	43.9	15.5
Dyala	39.8	27.3	67.4	33.6	66.8	47.1	47.4
Anbar	34.6	17.1	48.9	6.9	33.5	48.1	22.9
Baghdad	19.3	16.5	46.8	11.5	39.7	54.2	20.4
Babil	46.8	29.6	83.3	31.3	71.3	63.8	55.5
Karbala	44.4	19.4	75	27.7	60.8	58.1	45.6
Wasit	45.9	23.8	74.5	33	56.2	49.1	43.5
Salahuldin	39.8	17.6	74.9	11.7	22.7	49.5	28.5
Najaf	32.9	21.1	63.2	22.4	47.5	66.3	38.8
Qadsya	45.2	28.1	84.8	39.7	50.2	62.6	51.6
Muthena	55.9	31.7	79.2	34.4	42.2	80.4	56.4
Thi- Qar	35.8	21.8	71.8	27	68.1	62.7	49.7
Misan	38.5	12.4	74.7	19.3	41.2	54.9	33.1
Basra	23.3	7.6	93.1	27.9	36.9	54	28.2
Iraq	31.8	20.7	58.2	20.1	40.4	55.1	31.2

Resource: COSIT – Living standards survey in Iraq / 2004

Table (15)
Family Economic Status

Governorate	Income Based on Nutrition Survey 2005	Child labor	Unemployment rates 15 years and above 2004
Duhuk	---	4.3	---
Ninawa	321300	7.4	18.21
Sulaimanya	416340	7.0	--
Ta'mim	348615	6.3	17.91
Arbil	---	7.4	---
Dyala	220095	10.8	17.81
Anbar	441975	16.7	---
Baghdad	349350	10.4	16.8
Babil	397485	21.7	10.97
Karbala	364350	8.1	17.52
Wasit	389820	10.0	7.25
Salahudin	455070	18.1	20.14
Najaf	416325	13.4	23.73
Qadsya	326400	13.5	26.03
Muthena	369765	8.4	27.75
Thi- Qar	373680	9.7	33.24
Misan	403005	11.6	21.78
Basra	476055	5.1	7.9
Iraq	216300	10.7	17.97

Resource: COSIT – Living standards survey in Iraq / 2004

Table (16)**Financial Allocation Distribution for Regions and Governorates Development and Reconstruction Program 2007**

Governorate	Population ¹	Population %	Each governorate allocation share (million\$)
Baghdad	7022655	23.5	559.52
Ninawa	2848437	9.5	226.2
Kirkuk	1150404	3.8	90.48
Dyala	1364429	4.6	109.52
Anbar	1348956	4.5	107.14
Babil	1413375	4.7	111.9
Karbala	903692	3	71.43
Wasit	1057158	3.5	83.34
Salahudin	1159759	3.9	92.86
Najaf	1113147	3.7	88.1
Diwanya	820948	2.7	64.29
Muthena	651976	2.2	52.38
Thi- Qar	1744517	5.8	138.11
Misan	961362	3.2	76.19
Basra	2453756	8.2	195.24
Arbil	1438240	4.8	114.28
Sulaimanya	1597395	5.3	126.19
Duhuk	916174	3.1	73.81
Total	29966380	100	2381

¹ Population: Ministry of Trade/ Planning and PDS (Population according to PDS until 30/Oct./2006)

8.3 Development Management in Regions and Governorates

For the purpose of enabling governorates carrying out development tasks, it is required to form specialized organizational structures in planning and implementation within the administrative structure, building capacity, coordination mechanism between governorates and concerned ministries. Diagram (2) shows the organizational structure of planning and development entities in the governorate, diagram (3) shows the relation between governorate and central ministries.

The proposed structure is based on three local pillars in addition to the private sector; Development and Reconstruction Commission which is directly connected to MOPCD responsible for developing local development strategy, plans and programs for the governorate, Governorate Council which is responsible for studying and approving

proposal submitted by the Commission, Governor Office responsible for projects implementation through contractors and private sector companies.

Annex (2-1) explains preparation mechanism, plan implementation, and local programs.

Diagram (2) Governorates Development

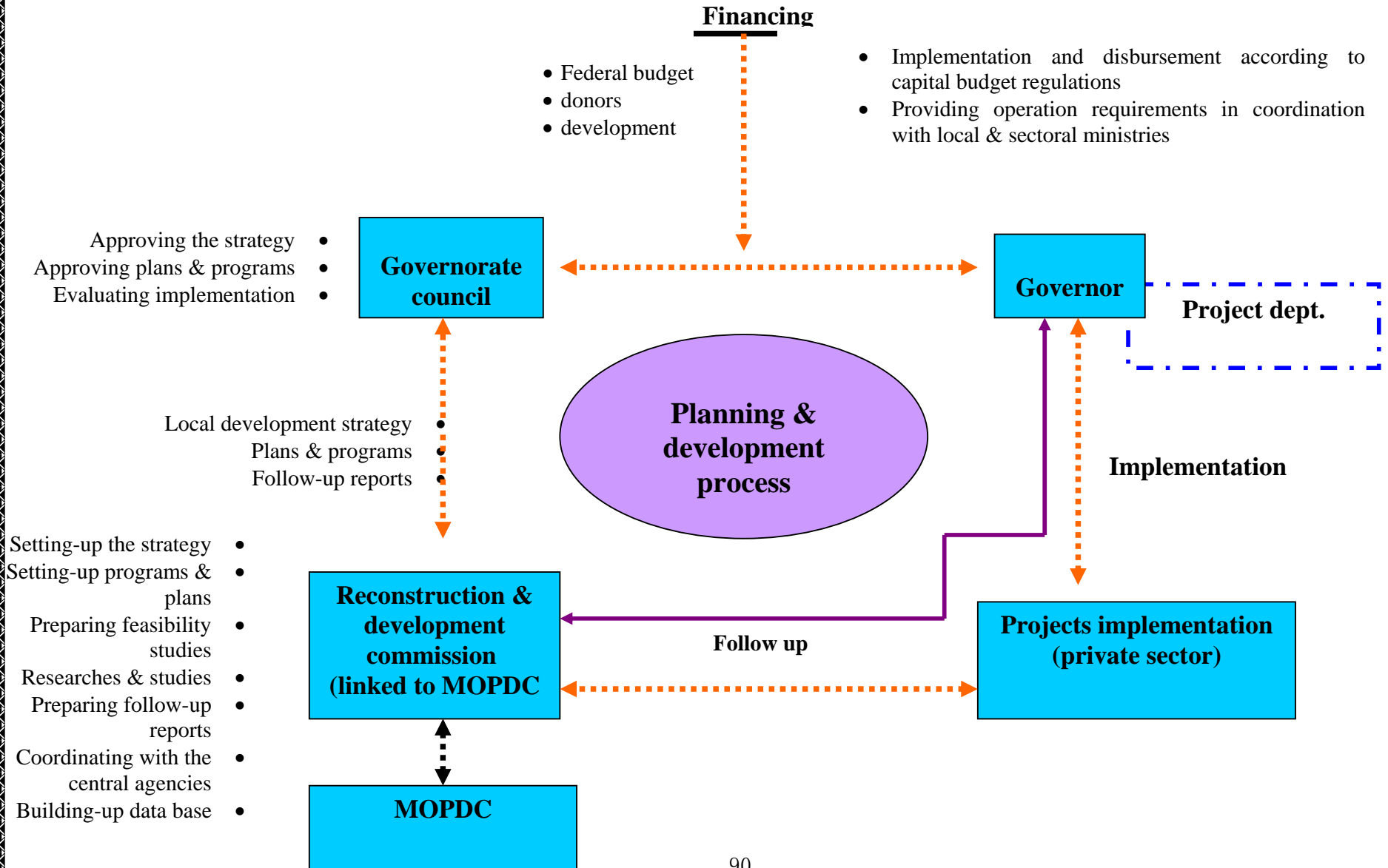
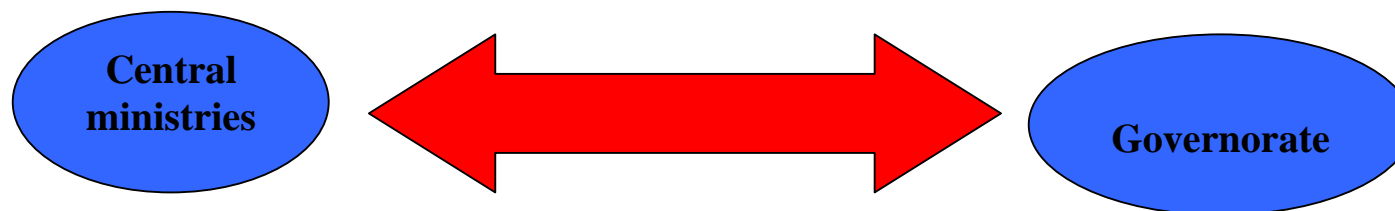


Diagram (3) the relation between governorates & central ministries



- Strategic and political directions •
- Coordination of plans & programs •
- Financing •
- Information & data •
- Laws & regulations •
- Capacity building •
- Technical support •
- Supervising implementation of some project •
- Coordination with donors •
- Providing operation staff (education, health, engineers...)

9. Strengthening Good Governance and Improving Security

One of the most pressing challenges facing Iraq is nurturing good governance. Corruption, which is the abuse of public office for private gain, is arguably the most important component of governance in a natural resource rich country like Iraq. Corruption has many forms. It extends from “petty” forms of administrative bribery to grander forms of corruption such as the tendency of elites (individuals, political parties or private companies) to illegally and unethically shape the formulation of state laws, policies and regulations. The grand type of corruption (known as state capture) requires broader external accountability measures---including asset declaration, transparency surveys, disclosure of parliamentary votes and investigative journalism and citizen oversight. Traditional anti-corruption methods that rely solely on internal bureaucratic structures and new public agencies have often failed because they do not take account of this invisible web of influence.

Democracy is a cornerstone of good governance. Iraq held its first democratic elections in January 2005 ushering in a new era of democratic freedoms based on respect for human rights and the rule of law. Democracy provides an enabling environment for Iraqi’s diverse people to interact in a participatory and transparent manner. Government policies actively promote freedom of speech and public dialogue. To safeguard our democratic freedoms the new Constitution will need to embrace the principles of non discrimination due to race, color, gender, language, religion, political opinion, national or social origin, or wealth.

To emphasize the importance that the Government attaches to the international covenants of human rights and the rule of law, a new Ministry of Human Rights has been established. The Ministry is mandated to develop policies, programs and interventions at the national and community levels in support of human rights.

The second cornerstone of good governance is adherence to the rule of law. The Government is strengthening the rule of law and public order. A high priority in this area is that Iraq must both defeat terrorism and develop a capacity for law enforcement, judicial, and correction systems to establish rule of law and create a secure and prosperous environment for public order.

Integrated policies and procedures within the entire scope of the criminal justice system, including high-level policy coordination and technological systems and procedures of coordination and communication, to maximize effective apprehension, investigation, prosecution, and confinement of offenders with respect for their human rights will be required.

9.1 The Political Context

Goal: A sovereign, unified, federal, democratic Iraq integrated into the region and world community

Iraq is making the transition to the promise of a sovereign, unified, democratic and federal state where all Iraqi citizens will live in dignity. Under extremely difficult circumstances, the Iraqi Government is pursuing this goal, along with the inherently complicated task of national reconstruction. Economic reform and international support for Iraq's efforts will represent an important factor in strengthening the security situation and restoring stability to Iraq.

The Government has launched the National Reconciliation Plan (NRP) to provide the protection and conditions necessary for stability. This Initiative was developed with the contributions of Iraq's political parties in the Political Council for National Security and among a wide range of political stakeholders. It has thus achieved the first steps toward success. The Government of Iraq will continue its efforts to expand the range of participation for groups interested in the initiative, regardless of their ideological or political orientation.

The following sections of the Compact will explain how the initiatives that the Iraqi Government has undertaken will provide for the secure and politically stable environment needed for the economic benchmarks of the Compact to be achieved. At the same time, these sections describe the political and security conditions that can only be achieved with meaningful international support for Iraq's economic reform through the Compact. International partners will be updated on the implementation of Government of Iraq programmes in the political and security areas and the legislative timetable and their further evolution as circumstances warrant.

Iraq's political and security needs are outlined in the Government Program and the National Reconciliation Plan. Accordingly the following are key requirements for the establishment of a stable state and coherent society, and reconciliation among different Iraqi groups:

- Rejection and Confrontation of terrorism
- Renunciation of violence against the state and between sects, ethnic and social groups within Iraq
- Respect for the rule of law, including civil liberties and human rights
- Establishment of a sovereign, unified, democratic and federal Iraq
- Institutionalization of democratic federalism through an agreed upon and consensus based process
- Fair and equitable sharing of resources
- Cooperation based on mutual benefit with its neighbours

To meet the above requirements the Government will need to undertake institutional reform aimed at establishing respect for the rule of law, including the consolidation, control and reform of all instruments of force including the judiciary; establishment and implementation of a balanced transitional justice program; development of policies for equitable and rational distribution of resources; and the organization of a civil service structure on a professional and non-sectarian basis to manage and administer the state at all levels. The establishment of the rule of law through these institutional reforms is fundamental for the successful implementation of the Compact. The prioritization of these reforms shall enable the:

- consolidation of state authority to implement policies, programs and projects, and collect taxes
- enforcement of the constitution and laws to ensure the security of citizens, protection of private and public property and the performance of contracts
- establishment of inclusive, legitimate and sustainable political institutions
- strengthening of the judiciary and the administration of justice
- stable and productive relations with neighbouring states and the international community

9.1.1. National dialogue and reconciliation

- The Government will continue to support the implementation of relevant UNSCRs to build upon and consolidate achievements of the political process
- As was recalled in UNSCRs 1546 and 1618, Iraq is committed to combating terrorism, which is not only a threat to Iraq but to the region and the world at large. Iraq needs the full backing of the international community and the neighbouring states if it is to be successful in this struggle.
- The National Reconciliation Program will be implemented in its entirety through a politically consultative and iterative process resulting in its continuous improvement and broadening its ownership by the people of Iraq. The National Reconciliation Committee and its sub-committees have been established and have begun work. The Government will progress the national reconciliation process through all means available as a matter of priority.
- The NRP amongst other issues calls for rejecting violence in all its forms and a commitment to resolve differences through political and constitutional means. An inclusive political process will be encouraged to build trust and reassure those who feel alienated from it.

-
- The Government will widen dialogue to promote unity and national reconciliation. Programs will be carried out to achieve genuine dialogue between parties in conflict aimed at lessening tensions in Baghdad and other strife torn parts of the country.
 - The Government shall support the protection of human rights and will prosecute those who violate them regardless of their affiliation. It will address the issue of militias and armed formations through political and economic means, and if necessary, security measures.
 - Developing a solution to the problems created by the internal displacement of Iraqis is necessary for creating a fully interactive national dialogue and is a pre-cursor to national unity. The government shall work to create the enabling legal and security conditions for the return of IDPs.
 - The development of state institutions at all levels on the basis of professionalism, transparency and accountability will form the basis for good governance. Combating corruption, nepotism, ethnic, sectarian and party political interference will receive early and strong attention in the work of the Government.
 - The Government will work towards a just and peaceful solution on the status of Kirkuk. It will take into account the views of all communities and act in accordance with the constitution to avoid any escalation of tension.
 - The Government recognizes the critical role to be played by civil society in fostering the national reconciliation process. It will adopt and implement legislation for the open and democratic functioning of civil society institutions and organizations in order to promote civil society's role in this regard.
 - The Iraqi Government will protect democracy through transparent and accountable systems which respect the rule of law and human rights.
 - The Government will create a legislative framework allowing a free and independent media, recognising its role in strengthening individual freedoms and an open society.

9.1.2 .Implementation of political/legislative timetable

- The Council of Representatives will endeavour to adopt all legislation noted in Annex III on a priority basis and begin immediate implementation of the same according to the timelines noted.
- The Iraqi Constitution requires a review by the Council of Representatives. Iraqi parties will pursue this process within the terms of the Constitution on a priority basis in the spirit of national reconciliation, and in a manner that will strengthen Iraqi unity. Public outreach campaigns will be used to ensure that the constitutional review process is inclusive.

-
- The Government will ensure enactment of all necessary legislation noted in the Constitution to enable its implementation. It will also establish all independent organizations required under the terms of the Constitution.
 - The Government will set a date for governorate and municipal elections for early to mid 2007 once all necessary prerequisites for a free and fair electoral process are in place.

9.2 Security Context

Goal: Providing safety and security to all Iraqi citizens, protecting Iraqi sovereignty and thereby contributing towards national and regional stability

9.2.1 Building up forces and security

- The effective enforcement of state authority will require de-politicized, impartial, accountable, transparent, and professional security forces, including the military and police. The Government recognizes the important and urgent need to translate these principles into practical programs in the organization and operations of its security forces. The Government will work with international partners to develop well trained, disciplined and capable Iraqi security forces that fully understand and respect human rights and the rule of law.
- The Government intends to implement its schedule for developing and sustaining Iraqi Security Forces to targeted and authorized strengths and capabilities with the aim of achieving self-sufficiency in this regard prior to the end of the Compact period. Broader international assistance will be required to ensure quality and sustainable security structures.
- The Government of Iraq will conduct outreach programs to ensure that all parties continue to support and implement the Baghdad and Basra Security plans.

Emergency Issues:

- a- Train, equip, and mentor ISF in technical skills and concepts of enforcement
- b- Build ISF capacity in Management, Fiscal Responsibility, Administration and

Leadership.

- c- Foster law enforcement Culture of “Protect and Serve”
- d- Develop centralized administrative and finance management systems
- e- Bolster ISF Station Infrastructure and Operations
- f- Establish policy, procedural and systemic integration and oversight with the

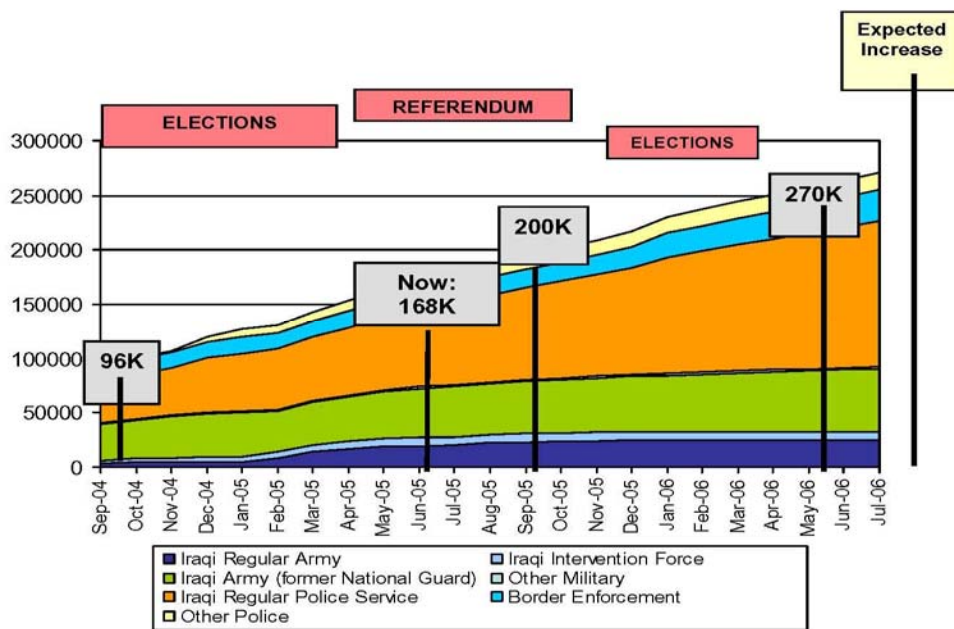
corrections system and the judiciary

- g- Develop investigative and forensic capability that respects the rights of those accused
- h- Strengthen control of borders including immigration and customs enforcement
- i- Develop sufficient communication capabilities to engender and enhance provincial public order.

Specific Immediate Requirements:

- a- Training and equipment for the ISF .
- b- Building senior Iraq law enforcement leadership and command capacities through technical assistance and mentoring in Iraq and internships.
- c- Development of mid-level and first-line supervisory skills through a combined program of Iraq-based training, technical assistance and mentoring.
- d- Implement personnel and payroll management system.
- e- Encourage necessity of close coordination between law enforcement and judicial investigators
- f- Build investigative and forensic capability through training and equipment
- g- Automate case management system

**Diagram (4)
Expanding Iraqi security forces**



9.2.2 Taking over responsibilities and working with friends and allies

- The Government is accordingly determined to develop the Iraqi military and the Iraqi police as national institutions with exclusive responsibility throughout Iraq to which all the people of Iraq can look for personal protection. The principles of ‘democratic civilian control’ and ‘one state, one army’ will govern the development of the Iraqi Security Forces.

8.2.3 Disarming, disbanding and re-integrating militias

- The constitution prohibits the unauthorized use of armed force. The Government of Iraq through the National Reconciliation Plan will seek all party support for a Disarmament, Demobilisation and Re-Integration (DDR) programme aimed at the dissolution and re-integration of militias.
- The creation of political and economic conditions conducive to the possible implementation of a DDR program will be a priority of the Government.
- The Government shall work to create political agreement and the legislative framework necessary for the disbanding of militias. This framework shall include the proposed law on militias, legislation to control the possession and proliferation of weapons and a series of confidence building measures including an amnesty program consistent with accepted norms of transitional justice and appropriate to the Iraqi context.
- The economic reforms outlined in the Compact will create the enabling conditions for the development of programs for the re-integration of militias and other armed groups. The Government of Iraq, with the help of the International Community and the UN will develop a credible, comprehensive and properly-costed DDR for militias drawing on international experience of other post-conflict situations.

9.3 Human Rights

Goal: Uphold and protect human rights, establish the rule of law, and overcome the legacy of the recent and distant past

9.3.1 Establish a comprehensive human rights regime country wide

- International human rights norms and standards will be adopted in the domestic legal system;
- The Government’s capacity to implement international human rights treaty obligations will be strengthened.

-
- Human rights awareness will be included in education curricula, and promoted also among legislators, judicial personnel and other state agencies and the public;
 - The National Human Rights Commission will be established and supported in the fulfillment of its objectives with regard to monitoring, investigation, protection and promotion of human rights
 - The Government's capacity to report on its international human rights treaty obligations will be strengthened; and the capacity of national, regional and local authorities to develop and maintain reliable and updated statistical data on human rights violations will be established and enhanced.
 - The role of civil society will be strengthened and a legal framework that conforms with international standards governing their organization and functioning will be implemented.
 - Legal and institutional protections consistent with international standards will be strengthened for especially vulnerable groups, such as minorities, internally displaced persons (IDP's), returnees, refugees, stateless persons, widows and disabled.

9.3.2 Establish and implement effective rule of law institutions and policies

- The legal framework as stipulated in the constitution will be put in place fully in line with national and international human rights obligations.
- A comprehensive assessment of current police, judicial and penal institutions will be carried out in order to identify linkages, gaps, organizational requirements and resources necessary to ensure effective enforcement of the rule of law
- Functioning institutions of justice will be fully operational, including the judicial and legal medical institutes.
- The administration of justice and the criminal justice system will be strengthened in line with international standards and with the support of the international community and the United Nations. The average time to resolve disputes will be reduced and the number of investigative judges will be increased.
- A review and reform of oversight procedures relating to detention and lack of due process will be carried out.
- Prisons will have sufficient and separate facilities for women and juveniles and those in pre-trial detention, and these will be in line with international standards

-
- Confidence building measures such as an amnesty program consistent with transitional justice norms, release of illegally held detainees and addressing the legacy of the previous regime on the basis of the rule of law and respect for human rights will be implemented.

9.3.3 Establish effective transitional justice mechanisms

- A comprehensive strategy for Transitional Justice, dealing with vetting, prosecution, truth telling and reparation mechanisms, will be implemented. This will also be supported by the work carried out by the Centre for the Missing and Disappeared Persons.
- The De-Baathification Committee will be restructured as a professional technical body divested of its political aspects. Compliance with the relevant rules of procedures, as established by law in accordance with the Constitution will be ensured.
- A draft Amnesty Law consistent with international standards which balances justice with forgiveness will be prepared and discussed widely for introduction to the Council of Representatives. Compensation for victims of the former regime will be provided.
- Similarly, criteria and appropriate packages will be developed for the compensation of victims of political violence and terrorism.
- Mechanisms to restore and/or retrain former Government employees now unemployed will be established within the parameters of accepted norms of transitional justice.

9.4 Strengthening institutions and improving governance

9.4.1 Engaging with Civil Society

Goal: Building consensus on economic reforms through dialogue and engagement with civil society. Mobilise Iraq's Social Capital in the process of development

- Introduce a policy framework that stimulates participation of civil society in the design, implementation and monitoring of reform and reconstruction programmes. Adopt legislation enabling and protecting NGOs and other civil society structures including.
 - Adopting a law on non-profit associations that guarantees their political and economic independence (including the freedom to cooperate, receive funding from and be affiliated to foreign partners), facilitates their establishment and minimizes bureaucratic obstacles.

- Ensuring an appropriate advisory and consultative role for civil society in legislative, administrative and policy making processes.
- Educating policy makers, administrative and law enforcement personnel as well as the public about the rights of civil society and the role it can play in promoting citizens' legitimate concerns, mitigating social conflict and monitoring the governments' actions
- Clarify mandates and responsibilities and ensuring engagement of all stakeholders in the context of economic and social transformations including economic liberalisation and devolution.
- Develop a comprehensive approach to transparency including freedom of information legislation and policies on public disclosure mandatory for public officials and institutions. Guarantee and protect the rights of media, watchdogs and other information sharing institutions

9.4.2 Good Governance and Anti Corruption

Goal: Develop a legal framework and build institutional capacity to deter corruption at all levels of government

- Strengthen the rule of law and the capacities of law-enforcement agencies;
- Develop anticorruption plans for institutions with substantial revenue and expenditure assignments;
- Fully implement the public income and asset disclosure law;
- Launch a public education campaign on anticorruption;
- Strengthen capacity for internal audit and the Supreme Board of Audit;
- Review the mandates and statutes of the Commission of Public Integrity and the Inspectors Generals to ensure their working as independent, professional, technical and non-political bodies.
- Develop a comprehensive system of internal and external controls within government, including conflict of interest policies, audit and evaluation
- Develop comprehensive and consistent policies and legislation along with responsible institutions to improve access to information and public disclosure;
- Ratify the UN Convention Against Corruption;
- Develop common, merit-based practices for employment in the public sector;
- Establish a unit to recover assets that are the proceeds of corrupt dealings;
- Introduce and implement legislation as necessary to authorize asset seizure and forfeiture.

9.4.3 Civil Service Reform

Goal: Establish a civil service corps on the principles of professionalism, integrity and non-partisanship

The Government will formulate a comprehensive civil service reform programme, including:

- Introducing a human resource policy aimed at creating a strong civil service corps;
- Introducing a payroll management system that minimizes/eliminates the abuse of public funds;
- Adopting a merit-based hiring and promotion practices and clearly delineate the functions of agencies supervising the public service and capacity building;
- Complete a census of government employees and develop and implement plans to rationalize the government workforce.

Reforms will need to be phased to limit hardship to large sections of the population which are currently dependent on civil service payroll. This process should be synchronised with social safety nets and private sector development in order to protect the vulnerable from the negative impact of civil service reforms.

9.5 Judiciary

An independent judiciary provides fair and equitable justice with respect for human rights. Brave and dedicated judges, prosecutors, and staff perform their duties on a daily basis in a challenging security environment. Today, a full-staffed judiciary is conducting both criminal and civil proceeding in all regions of Iraq.

9.5.1 Emergency Issues –

- a- Build infrastructure for Iraq's court facilities.
- b- Increase court administrative capacity for case management.
- c- Improve security for members of the judiciary and court facilities.
- d- Establish policy, procedural and systemic integration and oversight with the corrections system and the judiciary.

-
- e- Strengthen the legal profession in support of the judicial process that includes substantive and procedural knowledge, legal research, standards, licensing, higher legal education, and human rights training.

9.5.2 Specific Immediate Requirements –

Technical assistance and training for the Iraqi High Judicial Council (HJC) to design and implement new policies and procedures including:

- a- Merit-based, transparent procedure for nominating and promoting candidates to fill judicial and prosecutorial positions.
- b- Transparent procedures for investigating allegations of misconduct and incompetence in the judiciary.
- c- Annual budget based upon objectives and technical support.
- d- Mechanisms for interfacing with the executive and legislative branches to provide information on the role of the HJC in a reformed judiciary.
- e- Expanded training programs for judges, judicial investigators, and court staff.
- f- Support court house construction and renovation.
- g- Support and training for legislative drafting.
- h- Support for administrative judiciary training.
- i- Improved transparency and management of the office responsible for ensuring enforcement of judicial decisions.
- j- Improved security for members of the judiciary and court facilities.
- k- Modern computerized case management systems to schedule cases; coordinate attendance of prosecutors, complainants, witnesses, and police; and allow lay persons to view court schedules.
- l- New techniques and technologies in court administration, including docket management, case assignment, collection and analysis of statistics, and training judges and court administrators to use these new systems.
- m- Support for the Iraqi bar in training lawyers in court administration and case management.
- n- Support for an effective, transparent and equitable public defense system.
- o- Building and strengthening networks of defense attorneys and legal service providers to improve access to justice for the citizenry, especially the traditionally disenfranchised and the poor.

9.6 Corrections

The Iraqi Corrections System should provide safe, secure and humane treatment for the accused while awaiting trial and convicted felons. Iraq is currently building state-of-the-art prison facilities that will meet international standards for correctional confinement. Correction officers have been trained in modern methods to ensure that prisoner human rights are upheld.

9.6.1 Emergency Issues -

- a- Build capacity of MOJ and management and administration of Prisons with adherence to international standards
- b- Improve prison infrastructure and operations
- c- Train and mentor correction system personnel in relevant international standards and human rights accords
- d- Establish policy, procedural and systemic integration and oversight with law enforcement and the judiciary including
- e- Strengthen system for oversight, accountability, and enforcement of prison personnel and operations
- f- Implement rehabilitation programs to reform and train detainees

9.6.2 Specific Immediate Requirements –

- a- Training of Iraqi Correction System personnel including human rights and managerial subject matter
- b- Furnish and equip correctional facilities
- c- Training of MOJ personnel in administration and management
- d- Rehabilitation programs to return detainees to society

Iraq is now a democratic country. Law enforcement must adapt to this reality, by using modern policing methods which are human-rights consistent. An independent judiciary serves to guarantee such individual freedoms, while the individual is responsible for abiding by the law. The rule of law is more than obedience to the law. There is the need to reform the Iraqi judicial system by revising the criminal and commercial codes to meet modern standards and to ultimately integrate law enforcement, judiciary, and corrections system.

Further, the Government will not permit unlawful detention and abuses of detainees. The inhumane methods of the previous regime are not acceptable in the new Iraq. Those who violate human rights will be prosecuted for crimes against society.

We recognize our valuable partnership with Coalition Forces, but their role has now changed. It is time for the Iraqi Government to step forward and bear

the responsibility of this battle. One thing remains the same. The ISF have earned the respect of the Iraqi people and will do their best to maintain the honor that you have shown to our country and its people. It is the ISF mission is to protect all the Iraqi people, no matter their ethnic backgrounds or religious beliefs. The actions of the Government must always be lawful and acceptable to the general public, not just one tribe or political party.

Protecting the Iraqi people against internal and external threats, including terrorism and organized crime is primary commitment of the Iraqi Government. Effective policing and prosecution of criminal activity must follow a transparent rule of law-governed process.

10. Implementing the Strategy

10.1 Enhanced Donor Coordination Mechanism

Implementing the National Development Strategy effectively will require significant resource transfers from our development partners. Improving on donor coordination is essential for the effective use of foreign resources. In this Section we describe a new donor coordination mechanism that will promote international outreach to a wider range of donors; get donors to Baghdad (from capitals via regional hubs if necessary as an interim measure) and ensure continuity and stability during times of transition. The new mechanism is illustrated in figure 1.

The first step is to move towards a larger more inclusive “Consultative Group” type forum to supplement the more restrictive IRFFI donor coordination meetings. This new group is to be called the Iraq Reconstruction Forum (IRFO) and will meet semi-annually---preferably in conjunction with the semi- annual IRFFI donor coordination meetings. IRFFO will be chaired by the Minister of Planning and Development Cooperation (MOPDC) with the World Bank as the supporting donor. Membership in IRFO will be open to all reconstruction programming and interested donors.

The primary role of IRFO will be to provide an opportunity for high-level representatives from donor capitals to evaluate progress towards mutually agreed goals, directly with their Iraqi counterparts. The forum will also establish strategic priorities and one of the meetings will fit into the Iraq budget cycle to enable donors to make pledges to cover any financing gaps.

Below IRFO a new body, to be called the Baghdad Coordination Group (BCG), will be established. The purpose of the BCG is to enable Baghdad-based heads of aid agencies to interact with each other and the Minister of Planning and Development Cooperation on a regular basis. The BCG meetings will be linked to donors in Amman via video conference. It is envisaged that this interaction will enable the BCG to quickly translate strategic/ program goals into project deliverables, ensure consistency between sectoral and national priorities, and resolve delays in project implementation. The United nations will serve as the supporting donor and the Minister of Planning or his deputy will chair the monthly meetings. The membership of the BCG is open to all donors.

At the level below the BCG, we will establish Sector Working Groups (SWGs) composed of relevant line ministries, cross-cutting ministries, and donors. The SWG process will facilitate sector discussion between donors and government. Supporting donors will have a presence on the ground in Baghdad and be actively providing significant assistance in that sector. Sector discussions in Baghdad currently happen on an ad hoc basis, and vary

widely in form, attendance and contents. SWGs will be formed after the MOPDC, in consultation with other ministries and donors has identified priority areas. An illustrative example of SWGs in nine areas is provided in figure 1. These are

- Oil;
- Transport;
- Health;
- Water;
- Electricity;
- Rule of law;
- Education;
- Housing;
- Private sector development

The overall objectives of the SWGs is to increase the effectiveness and efficiency of aid coordination in support of attainment of national development and reconstruction objectives through implementation of the national budget. The SWGs provide the framework that enables donors to finalize their support to each sector in consultation with government, stakeholders and ensure consistency of with national development goals. SWGs can also play a role by targeting technical assistance to areas which will help accelerate implementation/ unblock bottlenecks. They can also play a monitoring and evaluating progress at a strategic level (ideally against indicators developed for the sector).

All Donors are welcome to participate in those SWGs which fall within their focus program areas. Each SWG will assist in policy management as well as monitoring implementation of activities as envisaged under the national budget. In particular, SWGs will assist in preparing their respective budgets for each coming fiscal year. The SWGs will provide a forum for general policy dialogue, monitor the overall implementation of the current budget, report regularly on

indicators of progress in the sector and elaborate detailed national programs. Each sector will be chaired by a lead Ministry (e.g. Ministry of Health in the health sector Working Group) and a supporting Donor(s). The supporting Donor(s) will be expected to provide

secretarial, analytical and logistic support to the members of the sector. The SWG will meet as often as every week if and when necessary.

To guide the activities of each SWG, Terms of Reference (TOR) will be prepared by the lead Ministry in consultation with the supporting donor and presented to SWGs for further discussion and agreement. The TOR will detail both general and specific responsibilities for SWG members as well as setting clear benchmarks for the preparation and implementation of projects and programs.

Because Donor capacity in Baghdad is currently limited we recognize that it might be not feasible to start all the sector groups at once. Therefore, three or four SWGs will be set up immediately in line with the Government's short term priorities. There are some cross-cutting areas/sectors in which better coordination is urgently needed between donors and ministries, in particular energy (including electricity and oil together), rule of law and housing. We believe that it is important to take a phased approach, demonstrate value added and success, and then replicate more widely as we gain experience and as more donors arrive in Baghdad.

We will retain the US-led "Core Group" telephone conference. It has been useful in facilitating the exchange of information between capitals and Baghdad. However, it is proposed that the Chair of the BCG (Minister of Planning and Development Cooperation) co-chair the Core Group with the USA. This could become a mechanism for the Iraqi Government to brief Donors, both in Baghdad and capitals, on the deliberations of the Baghdad Working Group and on the thinking of the Iraqi Government without having to arrange a large meeting.

10.2 Improving Iraq's Intra-Government Processes.

Much needs to be done on the Iraqi side to streamline internal government processes so as not to cause delays in project implementation. One important problem has been that the legal mechanism for UN and WB project approval is the Iraqi Strategic Review Board (ISRB), chaired by the Minister of Planning and Development Cooperation.

There has been some confusion whether bilateral Donors who are channeling their funds outside the UN and WB trust fund system need to obtain ISRB approval. As a result, some bilateral Donors have not entered into a legally binding MOU with the ISRB. This has resulted in great confusion with some Donors actually operating with no legal framework and implementing projects without the knowledge of MOPDC or the ISRB.

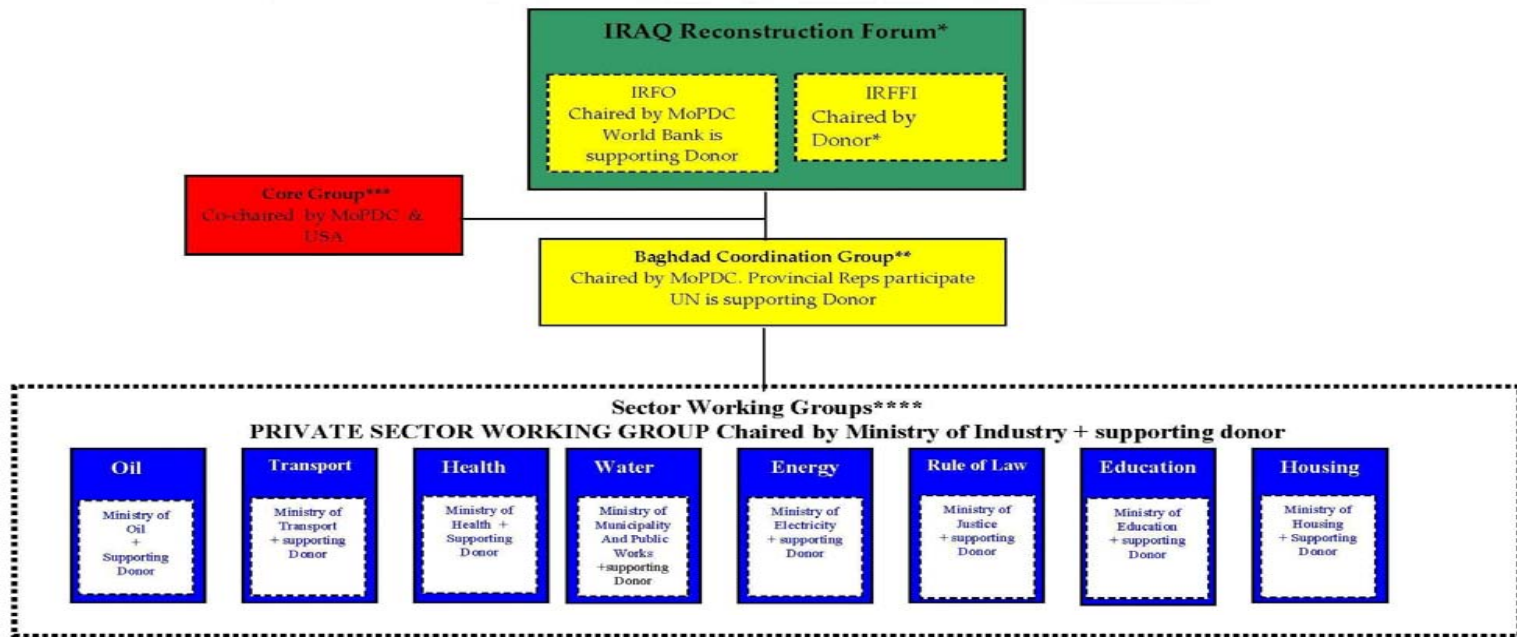
To resolve this legal issue and to facilitate the work-flow process we will retain the Iraqi Strategic Review Board (ISRB) with its current composition, but empower it with a mandate to enter into legally binding agreements with Donors. After approval of the project by the ISRB, each Donor will now need to sign a Memorandum of Understanding co-signed by MoPDC, the Minister

of Finance and the respective line Ministry and regional government where appropriate. The MOU will also require the donor to register with the Donor Assistance Database and provide data on a timely basis. The simplified work-flow process is described in Figure 4.

To provide further elaboration of the machinery of government it is useful to focus on the policy setting mechanism. Policy setting within the Iraqi

government for the concrete example of the National Development Strategy proceeds as follows, The National Development Strategy is prepared by the Ministry of Planning and Development Cooperation in consultation with line Ministries. The Ministry of Finance works closely with MOPDC because of its key role in determining the medium-term fiscal framework. The draft NDS is discussed by the economic team of the cabinet and presented to the High Economic Council where strategic priorities are discussed in detail and changes and revisions to the draft made. The NDS is then presented to the Council of Ministers. The NDS is an iterative or living document and will constantly be reviewed and updated as priorities shift over time or as new information emerges.

Diagram (5) Enhanced donor coordination mechanism



* Semi-annual meetings of high-level aid representatives from donor capitals and Iraqi Ministers at an international location.
 ** Monthly meetings of Baghdad-based heads of aid with Minister of Planning and Development Cooperation
 *** Monthly telephone conference with donor capitals, **** Weekly Meeting or as deemed necessary by the group.

Diagram (6) simplified project approval process

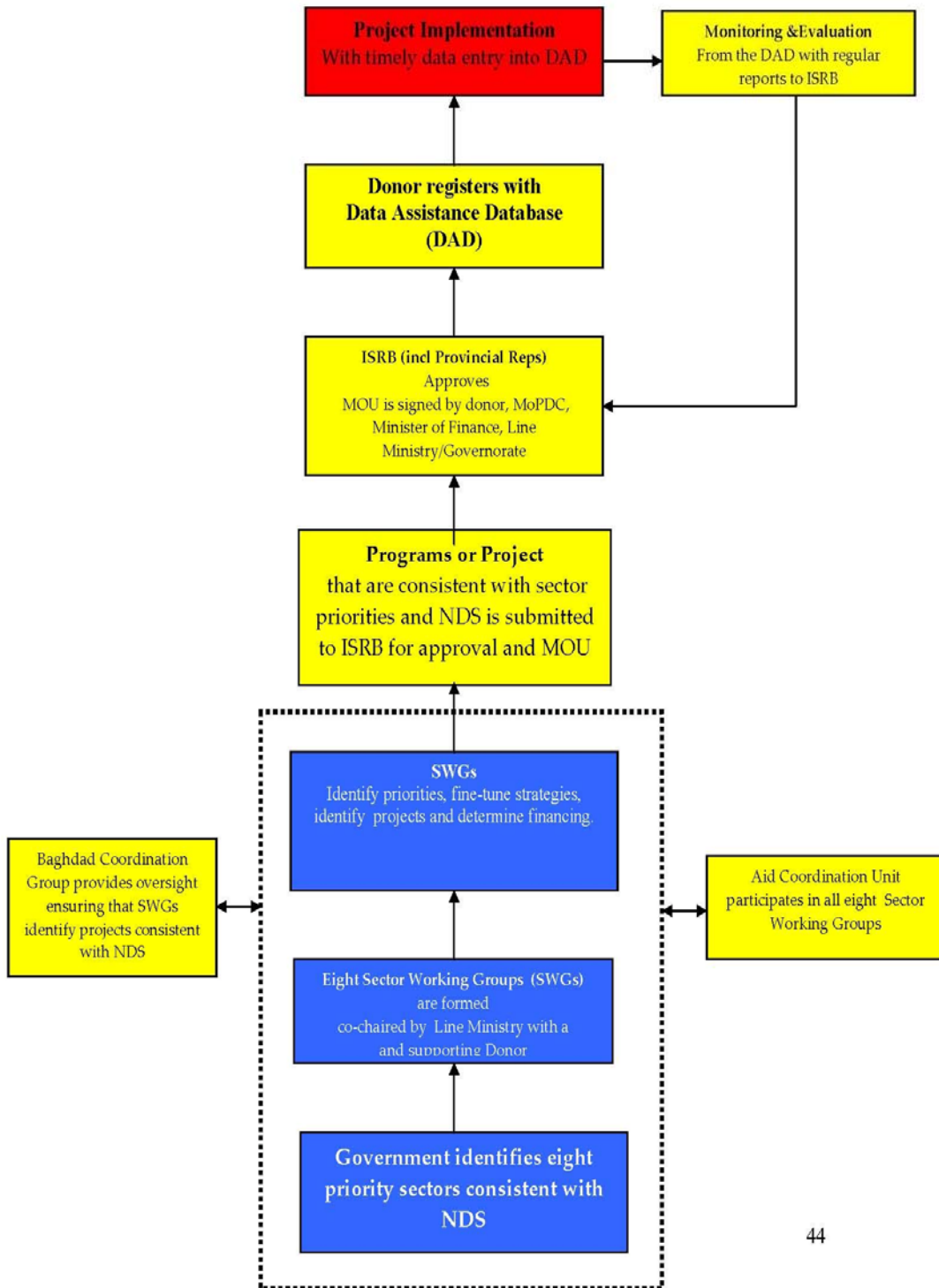


Diagram (7) sector group in the budget cycle

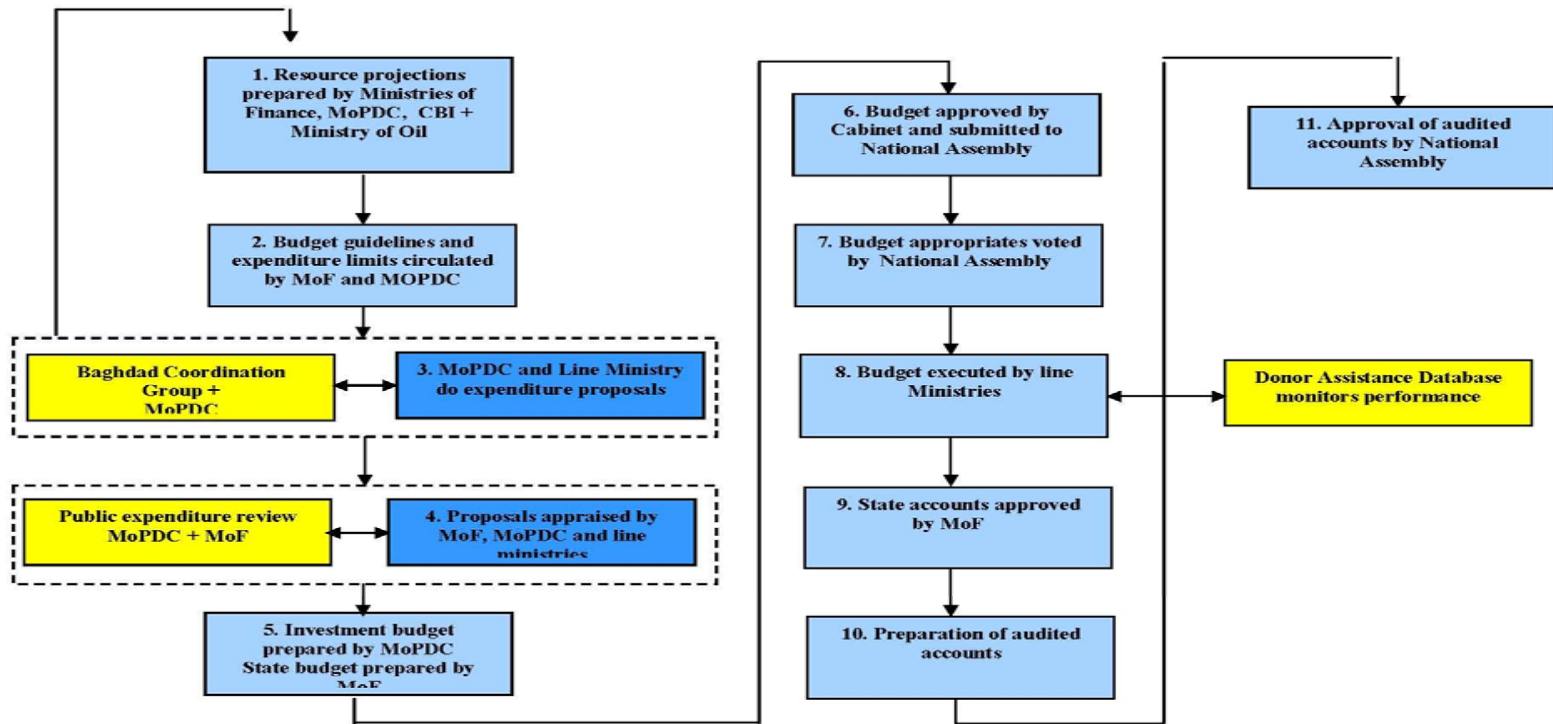


Table 19: Quick Guide to the Planning Process

The NDS:

The national planning framework on which to develop detailed sector strategies.

Sector Planning:

Technical specifications of sector priorities, disciplined by hard budget constraints. Prepared by Sector Working Groups.

Regional Planning:

Implementation plans for sector strategies based on Regional priorities /needs.

National Medium term Budgets

Annual, rolling 3 year expenditure planning, setting out the medium term expenditure priorities and hard budget constraints against which sector plans can be developed and refined.

Regional Medium term Budgets

Setting out the medium term expenditure priorities and hard budget constraints against which regional plans can be developed and refined.

Annual Budget & Regional Budgets:

Annual implementation of the 3 year planning framework

Donor; NGO; Private Sector:

Participating and sharing information / ideas in developing sector plans and budgets.

Participatory Processes:

Bottom-up participation of provinces in the planning and monitoring process, as well as providing participatory assessments, and essential feedback on progress towards national development goals.

10.2.1 Bringing Both Sides Together

Figure 3 (Sector Groups in the Budget Cycle) describes how the new Donor coordination mechanism (i.e., SWGs, BCG and IRFO) fits into the budget cycle. The budget cycle starts with the Ministry of Finance, MOPDC and Ministry of Oil preparing resource projections based on revenues (tax receipts, oil revenues, etc) for the coming year. The division of labor is such that the Ministry of Finance is responsible for the recurrent budget while the Ministry of Planning is responsible for the Capital Investment Budget. The Ministry of Finance and MOPDC then send budget guidelines to line Ministries who in the interim would have been working in their respective SWGs to determine their own priorities and cost them appropriately. During this period of major reconstruction it is expected that sector needs will exceed domestic resources. The role of BCG/IRFO would then be to assist in closing the financing gap after having determined sector priorities in close consultation with Iraqi counterparts. A consolidated budget would then be passed including domestic and foreign resources to meet priorities. The Donor Assistance Database will serve as a monitoring tool for Donor resources while the Financial Management Information System (FMIS) will serve as a monitoring tool for domestic resources. Eventually there will be a link between DAD and Government-wide FMIS to ensure full budget integration.

10.3 Intergovernmental Fiscal Framework and the Planning Process

There is need to reform the current planning framework because it is a legacy of the central planning system utilized by the previous regime with disastrous results. Decentralization is key to Iraq's vision of transforming itself into prosperous, federal democratic nation. The process of decentralization involves the transfer of responsibilities for identifying local priorities, budgeting, project formulation and implementation to provincial and municipal governments.

A decentralized planning framework would set out the relationship between the NDS and sector plans, between sector plans and province-level plans and between sector plans and the national budget. The link between the NDS, sector plans and the national budget is critical. The NDS provides the overall vision and sets the broad framework for sector plans. The national budget establishes the macroeconomic and fiscal policy framework and identifies the desired outputs and outcomes over the medium-term (typically 3 years). However, sector plans need to be "married" with the national fiscal framework so that they are consistent with resource envelopes. This requires a clear analysis of the link between inputs, outputs and outcomes, in a

framework which ensures consistency of sectoral expenditure levels with the overall resource constraint, in order to ensure macroeconomic stability and to maximize the efficiency of public expenditure in attaining predetermined outcomes.

Ultimately, these medium-term objectives need to be consistent with the longer-term objectives defined by the NDS; so the NDS will be used to guide reallocations of expenditures. The sectoral implications of the NDS objectives are reflected in the design of sectoral strategies which should in turn guide the expenditure allocations made each year under the medium-term fiscal framework.

The medium-term fiscal framework should guide all public expenditure including the use of resources committed by Donors. For this reason, a sector-wide approach is preferable wherever feasible. This is an approach under which Government and Donors contribute to a common pool of resources used to achieve the sectoral objectives. The flexibility which this arrangement allows is essential to the efficient use of public expenditures because only in a sector-wide approach can the overall implications of a national program within each sector be considered. Moreover, a sector-wide approach can reduce duplications of effort by different projects and divergences of cost structure between projects and other public activities.

Under such a new framework, sectoral working groups will need to draft sectoral budget framework papers, which then feed into the national budget framework paper which should be coordinated by the Ministry of Finance and Ministry of Planning and Development Cooperation.

These papers should give a wide range of input, output and outcome indicators for each sector.

11. The Way Forward

Much more needs to be done to streamline Iraq's intra-governmental processes to enable MOPDC and line Ministries to reflect best practices in development management and budget execution. Some elements of a future work agenda are described below.

11.1 Forecasting

It is well known that the medium-term fiscal framework prepared by the Ministry of Finance depends on precise (albeit constantly evolving) set of projections for the next three years, yet the overall design of policy by MOPDC needs to take a longer perspective. For this we will need long-term outcome targets, costings of the public expenditures required to achieve these targets, and long-term projections of resource availability. This will necessitate advanced skills in econometrics, statistics, computing and accounting.

11.2 Monitoring and Evaluation

For the MOPDC to perform its role effectively it will need to build the foundations of an effective monitoring and evaluation system. Monitoring is critical to the success of the development strategies and needs to be carefully designed for two main reasons. First, it is essential to monitor progress in order to continually inform key stakeholders involved in the process. Encouraging a two-way flow of information between beneficiaries, service providers and policy makers is an essential component of development. In this way, the design and implementation strategies can be continually modified to build on what works, and to avoid repeating mistakes. Second, monitoring helps build accountability. Where targets are set, the Government will expect to account for its successes or failures in achieving them, though it is understood these successes and failures sometimes depend on factors outside Government's control.

Effective monitoring will require several agencies to work closely together. These may include the Macroeconomic Analysis Unit in MOF, the Central Office for Statistics and Information Technology in MOPDC and the Aid Coordination Unit. Two aspects of an effective monitoring system are worth noting.

First, household surveys, labor force surveys, agricultural surveys and industrial censuses will need to be conducted on a timely basis so as to prepare high-quality estimates of trends in employment and human well being. Second, there is a need to develop performance indicators for all sectors. This should be done by sectoral ministries within their Sector Working Groups. Monitoring will be structured at three main levels. First,

the monitoring of NDS outcomes. This will focus on progress in reaching Iraq's Development goals including progress in creating jobs, reducing income poverty, improving health, raising educational achievement etc. Most of the information for such outcome monitoring will be drawn from household surveys.

Secondly, the strategy will entail monitoring actions or outputs intended to achieve these outcomes. The intermediate output indicators which have been defined for many sectors will need to be tracked on a regular basis. Data sources will include both sample surveys and data from management information systems.

Thirdly, there will be regular monitoring of the inputs required for actions for development. This is to consist mainly of the tracking of public expenditures on development. Such tracking will include periodic estimates of the benefit incidence of public spending, and of the effectiveness of the sectors in getting funds to institutions which actually deliver public services. In some instances, such monitoring will also involve information on key inputs needed in the sector to deliver its services effectively—teachers and books in education, or drugs supplies in health care facilities. It will also include continued monitoring, and public debate, about the composition of expendit

Annex 1: Indicators for Iraq's Development Goals

Indicators for Iraq's Development Goals & Expected Achievements for Target Years: 2010 (short- term) and 2015 (long – term)

	Indicators	Most Recent Data	Base Year	2010		Target by 2015
				Expected by 2010	According to present status	
1	Proportion of Population below \$ 1 (ppp) per day.	15.4	2005	7.3	9.2	5.5
2	Poverty gap ration (incidence x depth of poverty).	Urban / 87.7 Rural / 86.0	1993	51.3 50.3	51.3 50.3	43.9 43.0
3	Prevalence of Population underweight children under – five years of age (%).	15.7	2005	8.0	9.6	5.9
4	Proportion of Population below minimum of dietary energy consumption (%).	25	1997	15.2	15.2	12.5
5	Net enrolment ratio in primary education.	86.6	2005	89.8	93.1	100
6	Proportion of pupils starting grade 1 , who reach grade 5 .	86.8	2005	94.8	93.2	100
7	Literacy rate of (15-24) year old.	71	2004	85.6	85.6	100

	Indicators	Most Recent Data	Base Year	2010		Target by 2015
				Expected by 2010	According to present status	
8	Ratios of girls to boys in primary education	78.1	2005	93.1	88.4	100
9	Ratios of girls to boys in secondary and tertiary education.	65.2	2005	85.5	80.8	100
10	Ratios of girls to boys in university education.	62.5	2005	81.2	79.1	100
11	Ratios of girls to boys in high education.	57.4	2005	75.6	75.8	100
12	Ratio of literate females to males (15-24)) year - old.	91.4	2004	96.0	96.0	100
13	Share of woman in wage employment in the non – agricultural activities.	16	2004	23.0	23.0	32
14	Proportion of seats held women in national parliament.	25	2004	36.6	36.0	50
15	Under – five mortality rate, per (1000) live birth.	122	1999	57.0	57.0	44
16	Infant mortality rate, per (1000) live birth.	101	1999	48.0	48.0	36
17	Proportion of 1 year – old children immunized against measles.	75	2005	84.3	86.6	100
18	Maternal mortality ratio, per (1000) live birth.	193	2004	90.4	90.4	48
19	Proportion of births attended by skilled health personnel	82	2005	95.0	90.6	100
20	Condom use rate of the contraceptive prevalence rate.	44.87	2005	42.2	50.9	57.8

	Indicators	Most Recent Data	Base Year	2010		Target by 2015
				Expected by 2010	According to present status	
21	Proportion of population in malaria risk areas using effective malaria prevention and treatment measures.	Prevent / 18.3	2000	56.8	56.8	100
		Prevent / 7.4		42.0	42.0	100
22	Prevalence associated with malaria.	13	2004	4.0	4.0	0
23	Prevalence and death rates associated with tuberculosis per (100000) people.	13.6	2004	4.0	4.0	---
24	Proportion of tuberculosis cases detected and cured under directly observed treatment short course (COTS).	85	2004	90.2	92.9	100
25	Proportion of land area covered by forest.	4	2003	6.8	6.8	10.0
26	Carbon dioxide emissions (per capita) and consumption of ozone – depleting CFC,s (odp tons).	3.08/Ton	2000	1.9	1.9	1.5
		111.8/ cubic meter		70.4	70.4	55.9
27	Proportion of population using solid fuels.	8	2005	23.8	12.0	18.0
28	Proportion of population with sustainable access to an improved water source, urban and rural.	54 / SUM	2004	64.6	64.6	75.0
		60 /urban		70.2	70.2	80.0
		33 / rural		47.8	47.8	65.0

	Indicators	Most Recent Data	Base Year	2010		Target by 2015
				Expected by 2010	According to present status	
29	Proportion of urban population with access to improved sanitation.	47 / urban 3 / rural	2004	60.2 14.2	60.2 14.2	74.0 52.0
30	Proportion of households with access to secure tenure (owned or rented).	80.5 / owned 11.9 / rented	2005	82.3 31.1	84.3 26.0	88.0 57.0
31	Unemployment rate of (15-24) year – olds, by gender and total.	29.60 / SUM 31.6 / m 28.7 / f	2005	30.0 31.5 25.5	25.5 27.0 23.1	21.9 23.0 18.6
32	Telephone line and cellular subscribers per (100) population .	5.1	2005	7.4	7.2	10.2
33	Personal computer in use per (100) population.	3.6	2004	5.3	5.3	7.2
34	Satellite use per (100) population	32.0	2004	46.7	46.7	64

Source: Central Office of Statistics and Information Technology, Ministry of Planning and Development Cooperation.