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# Iraq 2003: The Economy

### Postwar Perspectives for Trade and Investment

◆ PA Knowledge Limited 2003

Prepared for:

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Iraq 2003: The Economy 3/20/03

07-F-2544



#### Saddam's Cabinet: The Council of Ministers (U)

Dep. Prime Min.—Ahmad al-Khudayir Dep. Prime Min.-Abd al-Tawab al-Huwaysh Min. of Agriculture-Abd al-Ilah al-Salih Min. of Awqaf & Religious Affairs-Abd al-Munim Salih Min. of Culture-Hamid Yusuf Hammadi Min. of Defense-Lt. Gen. Sultan Hashim al-Jabburi Tai Min. of Education-Fahd Shaqrah Min. of Finance-Hikmat al-Azzawi Min. of Foreign Affairs-Naji Sabri al-Hadithi Min. of Health-Umid Mubarak Min. of Higher Education & Scientific Research-Dr. Humam Abd al-Ghafur Min. of Housing & Reconstruction-Maan Abdallah al-Sarsam Min. of Industry & Minerals-Muyassar Raja Shalah Min. of Information-Muhammad al-Sahhaf Min. of Interior-Mahmud al-Ahmad Min. of Irrigation-Rasul al-Swadi Min. of Justice-Mundhir Ibrahim al-Shawi Min. of Labor & Social Affairs-Mundhir Mudhafar al-Naqshabandi Min. of Military Industrialization-Abd al-Tawab al-Huwaysh Min. of Oil Amir al-Ubaydo Sant Aldah Al Nam. Min. of Planning—Hasan Abd al-Munim al-Khatab Min. of Trade-Muhammad Mahdi al-Salih Min. of Transport & Communication-Dr. Ahmad Khalil Min. of State-Abd al-Wahhab al-Atrush Min. of State-Arshad al-Zibari Min. of State for Military Affairs-Staff Gen. Abd al-Jabbar Shanshal Adviser to the Pres. - Dr. Safa Habubi Adviser to the Pres .- Nizar al-Qasir Adviser to the Pres .- Barzan al-Tikriti Adviser to the Pres .- Watban al-Tikriti Adviser to the Pres. for Military Affairs-Sadi al-Jabburi Governor, Central Bank-Isam al-Huwaysh Head of Interests Section in the US-Akram al-Duri

Permanent Representative to the UN, New York-

Muhammad al-Duri

#### Ministers (U)

President & Prime Minister—Saddam Husayn Vice President—Taha Maruf Vice President—Taha Yasin Ramadan Dep. Prime Min.—Tariq Aziz Dep. Prime Min.—Hikmat al-Azzawi

# 17 Working Groups



- · Transitional Justice
- Public Finance
- Public Outreach Development
- Democratic Principles
- Water, Agriculture & the Environment
- Public Health & Humanitarian Needs
- Defense Policy
- Local Government

- Economy & Infrastructure
- Civil Society Capacity-Building
- Transparency & Anti-Corruption
- Education
- Return of Refugees
- Building a Free Media
- Foreign Policy
- Oil & Energy
- Preserving Cultural Heritage

#### CONTACTS LIST

#### AGRICULTURE

- · Prof. Kassim Al-Khatib
- · Prof. Sorkel Kadir
- · Prof. Mahdi M. Al-Kaisi

#### Possible:

- · Mohammed Sait Ketene
- · Shimon Khamo
- · Dr. Akram Aljaff
- Dr. Hussein al-Atiyyah

#### AWQAF & RELIGIOUS AFFAIRS

- No one announced or contacted until after Liberation -- at a minimum -- will need more from each major religious group:
- · Ayatollah Sistani.
- Seyed Mohammed Bahr Al-Oloum. Member of 65-person Followup and Coordinating Committee.
- Seyed Abdul Majid al-Khoe'i, Secretary General, Al-Khoe'i Foundation, London. Member of 65-person Followup and Coordinating Committee.

#### CULTURE

- Shameem Rassam
- · Ghaleb Shahbander
- [Awaiting Preserving Iraq's Cultural Heritage WG.]

#### EDUCATION and HIGHER EDUCATION & SCIENTIFIC RESEARCH

- Hind Rassam
- Raya Barzanji
- · Edward Odisho
- Mahmoud Darwish

#### For Science:

• Emmanuel Kamber

#### FINANCE

- Dr. Salah al-Shaikhly
- Dr. Sinan al-Shabibi
- Sabri Zire Al-Saadi

#### Special role:

· Carole al-Basri, anti-corruption expert.

#### FOREIGN AFFAIRS

- · [Awaiting results of Foreign Policy WG.]
- · Rend Rahim Francke
- · Qubad Talabani
- Sami Abdul Rahman

#### HEALTH (to be renamed HEALTH AND ENVIRONMENT)

- Dr. Maha Hussain
- Dr. Ali Al-Attar
- Dr. Mahmoud Thamer
- · Dr. Mohammed S. Ogaily
- Dr. Nabil F. Al-Baldawi
- Dr. Ghida Al-Juburi
- · Dr. Amer Al Juburi
- Dr. Ayser Chalabi
- Dr. Lena Al-Sarraf
- Mazin Enwiya
- Ramsey Jiddou
- · Dr. Saud Amer
- Dr. Farhan Bakir

- Dr. Majid Alousi
- Dr Hamid Muntheri
- · Dr. Hazim Safi
- · Dr. Hussain Tuma
- · Dr. Mohammed Al-Ibrahim
- Dr. Adil Al-Humadi
- Dr. Mona Hanna
- · Dr. Hatem Mukhlis
- Dr. Moiyed Al-Husseini
- Ms. Tara Aziz
- Dr. Ilham Heather Al Sarraf

#### Possible:

- Dr. Salih Al-Wakil
- · Dr. Heewa Faraj
- · Dr. Ayman Rayes
- · Dr. Roseteres Warda
- · Dr. Adil Shamoo
- · Dr. Rizkar Amin
- · Dr. Imad Y. Al-Manseer
- Dr. Haval Saaslla
- · Dr. Ali Sindi
- Dr. Mazin Sabri
- · Dr. Emile Totonchi
- · Dr. Hasam Falih

#### HIGHER EDUCATION & SCIENTIFIC RESEARCH

• [See Education.]

#### HOUSING AND RECONSTRUCTION

 [Awaiting Refugees & IDP's WG. Reconstruction responsibilities may be transferred to Trade Ministry.]

#### INDUSTRY AND MINERALS -- see TRADE

#### INFORMATION

- [Awaiting Free Media WG. The Ministry of Information in its present form will be shut down. During stabilization, media will be controlled by US/Coalition, which will utilize contractors to provide content. During transition, operation of individual TV, radio and print outlets will be decentralized. TV stations could go to university journalism schools. Will need program managers/managing editors.]
- [An Iraqi Government press office will be needed for transitional period, but spokespeople will depend on Iraqis. Eventually, government ministries will have own press offices.]
- · Ghassan al-Atiyyah

#### INTERIOR

- Dr. Talib al-Hamdani
- Seyed Abdul Majid al-Khoe'i
- Laith Kubba
- Ibrahim Jamalaldeen
- Mohammed Abdul Jabbar
- Suhair al-Mousally
- · Abdul 'Al Shalaiba
- Farouk Ridha
- Habib Hurmuzlu
- Hussein al-Rakkabi
- · Ammar Shahbandar

#### IRRIGATION

Dr. Azzam Alwash

- · Jawad Alwash
- · Dr. Hedeff Essaid

#### Possible:

- · Yousif Kharaka
- · Dr. Ali Hanoosh

#### JUSTICE

#### Judicial Council:

- The Justice Ministry, the courts and the legal profession would be overseen by a Judicial Council that would include 5-10 Iraqis from outside Iraq or the north, and 3-5 Iraqis from central and southern Iraq. <u>Free Iraqi members</u> of the Judicial Council:
- · Feisal Istrabadi
- · Judge Tareq al-Salih
- · Judge Reyadh Abdul Majid al-Kabban
- · Sermid al-Sarraf
- · Judge Fuad Redah
- Judge Zuhair Abboud
- Mohnem al-Khatib
- Noury Lutayef
- [KDP choice.]
- [PUK choice.]
- [Six others from inside Iraq.]

#### Other Names:

- Mohammed Al-Jabari
- Louay Bahry

#### LABOR AND SOCIAL AFFAIRS

- Suzan Ali
- Bakhtiar Amin

#### CONSTRUCT DATE INICIAL ACCUPANT

- 6 -

- Safia Souhail al-Timimi
- Rakiyah al-Kayssi
- Ghanem Jawad
- · [For Labor, see people listed under Trade, below.]

#### OIL

- Dr. Ibrahim Bahr Alolom
- Sherzad Nazhat
- Sahib Mahdi Al-Hussaini
- · Dr. Fadhil J. Chalabi
- · Belal G. Atiyyah
- Dunia Chalabi
- · Mohammed Ali Zainy
- · Mufit Akkoyunlu
- · Nawzad Omar Dizai

Possible:

- Ghassan Rassam
- Thamir Al-Uqaili

#### PLANNING

 [See individuals listed under Finance, above, and Trade, below.]

TRADE (to be renamed DEVELOPMENT AND TRADE), INDUSTRY AND MINERALS, and MILITARY INDUSTRIALIZATION MINISTRY

- Nasreen Sadeek
- · Aiham Alsammarae
- · Muhanned Eshaiker
- · Hassan Al-Khatib
- · Emad Dhia
- Baha Al-Shabib

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**APPENDIX B: Reports and Articles** 

PA

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Iraq is a nation of 24 million, and importantly, 41% are under 14 years old. The population growth rate is 2.82%. The nation had a GDP, in purchasing power parity, of \$ 59 billion in 2001. The real growth rate in that year was 5.7%, and inflation reported to be between 50%-60% (down from 100% five years ago). Imports are at approximately \$ 11 billion, mainly comprised of food, medicine, and manufactured goods. Leading import partners are France, Australia, China, and Russia. Exports are at \$ 15.8 billion, mainly in the crude oil and oil products sectors. Nearly half of all exports (46.2%) go to the United States, far less (12%) to Italy, then France and Spain. (CIA, The World Factbook, 2002)

The economy of Iraq is dominated by the oil sector. In the 1980s, problems stemming from massive expenditures in the eight-year war with Iran led Iraq to austerity measures, then rescheduling of foreign debt payments currently estimated at \$ 140 billion (including debts to Gulf states and Russia). After that war ended in 1988, a war in which Iraq lost about \$ 100 billion, oil exports gradually increased until 1990, when Saddam Hussein decided that Kuwait was "stealing" oil and invaded that country in August. The Gulf War was highly destructive to the Iraqi economy and despite growing trade in recent years, Iraq's people have depended on the United Nations' Oil for Food program (which essentially was halted in mid-March, although billions of dollars in contracts are outstanding) for medicine, food, and some infrastructure spare parts.

In the recent past, Iraq has been attempting to create economic ties with various Arab (and non-Arab) countries. In January 2001, Iraq signed free-trade deals with Egypt and Syria. Egypt became Iraq's fifth largest trade partner with over \$ 2 billion in trade. In March 2002, at an Arab summit in Beirut, Iraq pledged "non-interference" in Kuwait's internal affairs and recognition of Kuwait's borders.

In all, Iraq has ten free trade agreements (which can have varying provisions and actual implementation) with Arab states: Algeria, Egypt, Lebanon, Qatar, Oman, Sudan, the United Arab Emirates, Syria, Tunisia, and Yemen. Generally these are agreements to phase out customs duties and ease the flow of goods. These agreements often were outside the oil-for-food program and therefore, began well-used structures for evading sanctions.

Unfortunately, information on a diversity of sectors, other than oil, gas, and agriculture, is scant and unreliable. In that the oil and gas sectors will have numerous waiting suitors after the War, it is the technology, food, medical, and other industries that will have the greatest need for creative programs for development.

#### The Oil Industry

Iraq is estimated to have 112 billion barrels of proven oil reserves, the second largest in the world, but this may be a low estimate due to years of sanctions, war, and an unreliable and corrupt resource policy. Iraq's oil production costs are among the lowest in the world, making it highly attractive as an investment prospect.

The oil industry has not had access to the state-of-the-art oil industry technology, spare parts, and investment in general. Many believe that Iraq has been utilizing questionable engineering techniques (over pumping, flooding) and outdated technology. This has probably caused

damage to some oil reservoirs over time. In early 2002, Iraq's Oil Minister stated that only 24 of 73 oil fields were producing.

Proven oil reserves are not distributed evenly throughout the country. Before Iraq's invasion of Kuwait in 1990, about two-thirds of Iraq's production was coming out of the southern fields, home to Shi'ite Muslims who compose the majority of Iraq's population but have little power (Hussein is a Sunni Muslim from Tikrit).

As of October 2002, Iraq had signed several multi-billion dollar deals with foreign oil companies generally from China, France, and Russia. The Deutsche Bank estimates these contracts represented about \$ 38 billion for new or "greenfield" development. Iraq has become increasingly frustrated at the failure of these projects to begin. In recent months, Iraq has signed a flurry of deals with companies from Italy (Eni), Spain (Repsol YPF), Russia (Tafneft), France (TotalFinaElf), China, India, and Turkey. The Economist estimates that Iraq has signed over 30 deals offering up to 20% rates of return.

France's oil giant, TotalFinaElf, has much to lose in the current war, Iraq Freedom. For 30 years, French businesses have been up close with Iraq, when several French state-owned companies went to Iraq (in the early 1970s) and there are a web of French-Iraqi trade associations. Beyond oil, these relationships can be seen in Baghdad with a French phone system, French cars, and numerous French oil officials. "The fact that in postwar Kuwait, U.S. companies got most contracts, doesn't bode well for the presence of French companies in Iraq." stated Pierre Girard Hautbout, an adviser at OFDIC, a French "liaison" company.

France takes the design of the reconstruction very seriously, seeing a threat that its special relationship may end. "We're the chips in a poker game," one French corporate official was quoted in a recent investment newswire.

#### The Natural Gas Industry

Iraq has approximately 110 trillion cubic feet of proven natural gas reserves. About 70% of the gas reserves are produced in conjunction with oil. Development of these two sectors will be closely associated. Natural gas is both produced with oil and is also used for re-injection for enhanced oil recovery efforts. Currently, Iraq has awarded gas and oil concessions to companies from countries supporting the easing or lifting of U.N. sanctions (France, China, Russia are examples).

#### The Agriculture Sector

Iraq has historically had a burgeoning agricultural sector with rich soil, rain fed forests, and extensive pastures. Before the 1970s, close to one third of the population was in the agricultural sector. Before sanctions were imposed in 1990, Iraq spent \$ 600 million annually on the sector, which has steadily declined to under \$ 200 million.

When the oil boom erupted in the 1970s, the diverse Iraqi economy became an oil dependency. Through war in the 1980s, agriculture declined greatly. Today, it is estimated that less than half of Iraq's arable land is being farmed. Mechanization and technology in agriculture are behind and there has been a massive migration from farms to cities.



The Government of Iraq has taken the oil-purchases-all attitude over the past two decades, investing little in the agriculture sector and instead, increasingly purchasing agricultural products.

So that although the population has grown 2.8 percent, food crops have moved in the opposition direction. Further push has been given under the oil-for-food program in that the Iraqi government and the United Nations have provided inexpensive foreign grains at prices that Iraqi farmers can not compete with.

#### **Industry and Manufacturing**

The construction industry has remained active throughout the sanctions regime, rebuilding the civil and military infrastructure. In July 1999, Iraq announced plans to produce spare parts for the oil industry and a national manufacturing department is supposedly producing parts for pipelines and reservoirs. Iraq is known to have approached Airbus about restarting its own national airline, but Iraq did reopen its international airport and flights from Russia have gone into Baghdad.



#### 2. THINKIING ABOUT TRADE AND INVESTMENT DEVELOPMENT

As stated above, initial thinking about rebuilding industries, developing business partnerships, and the development of a commercial infrastructure should begin with a plan. This would be an initiative for trade and investment and would begin with a Strategic Plan. The Plan would document an economic recovery plan, plans for changing regulatory and legal frameworks, existing industries and business associations, and steps for revitalizing trade and investment. The following are initial thoughts about such a plan, which can be expanded at any time.

Certainly, the first considerations in developing economic stability will be domestic, feeding and housing those Iraqi people who have these critical needs. However, this is a nation with a long and deep history of commerce and trade, an existing albeit inadequate trade infrastructure, both private and public, and a proud tradition of entrepreneurship.

Critical to establishing the foundation for trade will be an overall economic reform and recovery package. User-friendly policies and practices must prevail. Often in the Middle East and North Africa, trade laws and policies are ambiguous, protectionist, ambivalent, and ever changing. With the opportunity to establish some new structures, one must ensure that adequate technical support is provided for a strong and transparent regulatory and legal system, fair and accessible trade policies and laws, pro-active investment authorities and bureaus, an agile, knowledgeable international commercial service, and utilization of current assets, in the Iraqi business community as well as in communities throughout the region.

Once such programs are established, there must be an educational/ training component. The people of Iraq have had a patchwork of peculiar and dictator-centered policies, and introduction of open market policies must happen with knowledge and at a reasonable speed.

As a goal, Iraq can be organized to join the World Trade Organization. This would involve a balanced budget, far lower inflation, and reasonable tariffs. Activating bilateral and regional trade agreements that are currently in place would be an important step for the Iraqi economy.

Privatization efforts in other countries, if done correctly, demonstrate that infrastructure, oil, and oil service companies generate greater efficiency, production, and higher revenues. This is true in numerous privatized industries. In Iraq, particularly in the oil and gas sector, privatization mechanisms should be developed; oil sales taxed, and proceeds well distributed.



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#### JUDITH BARNETT

Judith Barnett is a Managing Consultant for the PA Consulting Group (PA), joining PA after an acquisition of her original firm, Georgetown Global Investments Corporation in 2000. Ms. Barnett continues in PA to provide a onestop shop for U.S. companies interested in creating or expanding trade and investment, particularly in the Middle East/ North Africa (MENA) and in China. Before consulting, Ms. Barnett served in the Clinton Administration, practiced as a corporate lawyer and litigator, was a law professor, a public affairs specialist, and a writer.

At PA, Ms. Barnett has developed a practice, traveling between Washington, the MENA, and China, which includes a wide and varied caseload of trade activities. Most recent client work has included:

- Representing the third largest city in China to conduct investment and trade promotional activities in order to increase bilateral partnerships between U.S. and Chinese entities;
- · Representing international firms that seek market entry into China;
- Speaking before the China Textile Association, the China International Clothing and Accessories trade conference (March 2002), and the Womens' Enterprise Conference (March 2002) to discuss access to the U.S. market and bilateral partnerships.
- Creating a major initiative to increase trade and investment for a large country which involves a dynamic trade website, reinventing the worldwide commercial service, training commercial officers, and a series of national briefings;
- Working with a multinational food company in five countries to thwart trade barriers, build an in-country public affairs network, and to increase market share:
- Providing a 0-5 year strategic plan for an international telecommunications company, including an analysis of the telecomm industry in the Middle East/ North Africa and a focus on eight priority markets;
- Negotiating a joint venture agreement for a large international high tech fund and a U.S. telecomm company; and
- Becoming a contractor for the Trade and Development Agency and winning a contract to conduct an Aviation Conference in China and to introduce Egyptian telecomm officials to U.S. technologies.

Ms. Barnett came to the firm from the Clinton Administration in December 1998 where she served as the Deputy Assistant Secretary (DAS) for Africa and the Near East, U.S. Department of Commerce. As the DAS, she was responsible for activities and programs in 68 countries, including bilateral trade matters, regional projects and programs, and project advocacy for US companies. Ms. Barnett implemented and cooperated on numerous multinational conferences in the Middle East, the United States, and Europe including the 70 country MENA Economic Summits in Morocco, Jordan, Egypt, and Qatar.

At the Department of Commerce, Ms. Barnett assisted numerous US companies in fostering trade and investment throughout the world. She joined the Department as Principal Deputy Assistant Secretary for Trade Development, International Trade Association in October 1993, and was responsible for the management of an Office of 400 persons, and a budget of \$ 49 million. During her tenure at Trade Development, she oversaw the only US government agency that represents industry sectors, managed 22 private sector advisory committees, and established the Advocacy Center which has tracked and advocated for billions of dollars of successful tenders for US companies throughout the world.

In 1996, Ms. Barnett became the Deputy Assistant Secretary and championed programs to develop open and competitive markets throughout the Middle East, North Africa, and Sub-Sahara Africa. She was responsible for numerous programs including the Gore-Mbeki and Gore-Mubarak Partnerships for Economic Growth and Development, the Taba Trade Ministers program (trade ministers of the Middle East), the Middle East North Africa Economic Summits with the World Economic Forum, and the Administration's Africa Initiative.

In law practice, Ms. Barnett worked in various aspects of corporate law and litigation. She developed corporate specialties in the areas of high tech joint ventures and automotive law, as well as trial work in intellectual property rights and contract law. Ms. Barnett served for seven years as an adjunct professor of law at Georgetown University Law Center, teaching in the areas of legislative advocacy and legal ethics.

Before entering the law profession, Ms. Barnett served in the Carter and Reagan Administrations in public affairs and speechwriting at the Federal Trade Commission and the US Department of Education. She has written articles for Vogue magazine, the Washington Post, and other publications. Ms. Barnett lives in Washington and has one daughter, a former White House staffer and now practicing law in Los Angeles.

#### ATTACHMENT B: REPORTS AND ARTICLES



# IRAQ

Fact Sheet

#### General information:

Capital: Surface area: Baghdad

438.32 thousand sq km

Official language: Population:

Arabic

23.6 million (2001)

Exchange rate:

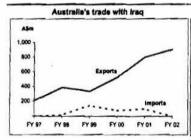
A\$1 = 0.1771 Dinars (Jun 2002)

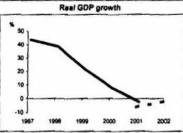
#### Head of State and Head of Government:

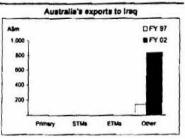
H.E. President Mr Saddam Hussein

Recent economic indicators:

	1997	1998	1999	2000	2001(a)	2002(b)
GDP (US\$bn):	15.4	18.1	23.7	31.8	27.9	25.5
GDP per capita (US\$):	725	832	1,062	1,385	1,184	1,054
Real GDP growth (% change YOY):	40.0	35.0	18.0	4.0	-6.0	-2.0
Current account balance (US\$m):	819	1,168	2,018	3,269	1,031	2,203
Current account balance (% GDP):	5.3	6.5	8.5	10.3	3.7	8.6
Goods & services exports (% GDP):	33.1	41.0	53.7	64.8	57.0	49.8
Inflation (% change YOY):	100.0	90.0	80.0	70.0	60.0	70.0
Unemployment rate (%):	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.







#### Australia's trade relationship with Iraq:

#### Major Australian exports, 2001-2002 (A\$m):

#### Major Australian imports, 2001-2002 (A\$m):

Confidential items of A\$839m, estimated to be wheat.

No import trade was recorded.

	Total share:	Rank:	Growth (yoy):
840	0.7%	25th	14.6%
0	0.0%	n.m.	n.m.
840	0.3%	34th	1.3%
840			
	Total share:		
n.a.	n.a.		
n.a.	n.a.		
n.a.			
	0 840 840 n.a. n.a.	840 0.7% 0 0.0% 840 0.3% 840  Total share: n.a. n.a. n.a.	840 0.7% 25th 0 0.0% n.m. 840 0.3% 34th 840  Total share: n.a. n.a. n.a. n.a.

#### Iraq's global trade relationships:

Iraq's principal export destinations, 2001:			Iraq's principal import sources, 2001:		
1	United States	60.6%	1	France	19.4%
2	France	8.5%	2	Australia	14.4%
3	Netherlands	7.4%	3	Italy	10.7%
4	Italy	5.8%	4	Germany	9.9%
5	Canada	5.5%	5	China	6.4%
23	Australia	0.0%			

Compiled by the Market information and Analysis Section, DFAT, using the latest data from the ABS, the IMF and various international sources.

<sup>(</sup>a): all recent data subject to revision; (b): EIU forecast.

n.s. Data not available.

Go



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## Iraq

Iraq holds more than 112 billion barrels of oil - the world's second largest proven reserves. Iraq also contains 110 trillion cubic feet of natural gas, and is a focal point for regional security issues.

Note: The information contained in this report is the best available as of October 2002 and can change. Also, please click here for a complete chronology of events pertaining to Iraq from 1980 through mid-October 2002.



#### GENERAL BACKGROUND

During the 1980s and 1990s, Iraq experienced two major wars (Iran-Iraq and the Kuwait war), plus more than a decade of economic sanctions. As a result, the country's economy, infrastructure, and society have deteriorated significantly. Iraq's gross domestic product (GDP) has fallen sharply since before the Iraqi invasion of Kuwait, with per-capita income and living standards far below pre-war levels. On the other hand, increased oil production since 1996 and higher oil prices since 1998 resulted in estimated Iraqi real GDP growth (accurate statistics are hard to come by) of 12% in 1999 and 11% in 2000. For 2001, with net oil exports relatively flat and oil prices down from 2000, Irag's real GDP growth was estimated to have fallen to only 3.2%. For 2002, with

higher oil prices but sharply lower oil exports, Iraq's real GDP growth is expected to grow by only 1.5%. Iraqi inflation currently is estimated at around 25% (down slightly from 28% in 2001), with unemployment (and underemployment) high as well. Iraq's merchandise trade surplus is about \$4.8 billion, although much of this is under United Nations (U.N.) control. Iraq has a heavy debt burden, possibly as high as \$140 billion if debts to Gulf states and Russia are included. Iraq also has no meaningful taxation system, plus erratic fiscal and monetary policies.

On May 14, 2002, the U.N. Security Council approved an overhaul of the "Oil-for-Food" program for Iraq that makes use of an extensive list of "dual-use" goods (goods that could have a military as well as civilian use). Under the modification, Iraq is able to use its oil revenues, which go into a U.N. escrow account out of which suppliers exporting products to Baghdad are paid, in order to purchase items not on the list. The resolution renews the U.N. program until

November 25, 2002.

Over the past few years, Iraq has been attempting to improve relations with various Arab (and non-Arab) countries. In March 2002, for instance, at an Arab summit meeting in Beirut, Iraq pledged"non-interference" in Kuwait's internal affairs and recognition of Kuwait's borders. Iraqi Foreign Minister Naji Sabri stated, "We are for the prosperity and independence of the state of Kuwait and also for the normalization of ties, diplomatic, economic, political." In January 2001, Iraq signed free-trade deals with Egypt and Syria, and in August 2001, Syria's Prime Minister visited Baghdad. In April 2001, Iraqi Vice President Taha Hussein Ramadan met Russian President Vladimir Putin, the highest-level Iraqi-Russian contact in several years.

In June 2001, however, in an apparent blow to Iraqi-Saudi relations, Saudi Arabia announced that it had seized ownership of the 1.6-million-barrel-per-day IPSA pipeline that had carried Iraqi crude oil to the Saudi Red Sea port of Yanbu (Mu'jiz) prior to Iraq's invasion of Kuwait. The seizure included pumping stations, storage tanks, and the maritime terminal. Saudi Arabia claimed that the pipeline was confiscated as a result of aggressive Iraqi actions. Iraq insisted that it still owned the pipeline, and in May 2002, stated that the line was "ready for export."

Since the end of the Gulf War in 1991, the United States and the United Kingdom have maintained "no-fly zones" over Iraq, and also have carried out occasional bombing of various targets, primarily in reaction to perceived threats to allied aircraft. U.N. weapons inspectors left Iraq in December 1998, and the United States responded at the time with a several-day bombing campaign of Iraq, called "Operation Desert Fox." On October 16, President Bush signed a resolution by the U.S. Congress authorizing him to use force against Iraq if necessary.

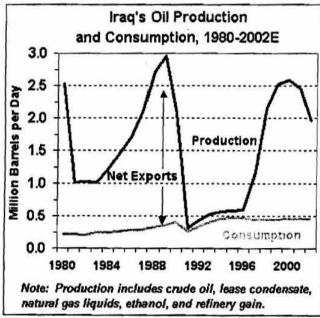
#### $\mathbf{OIL}$

Iraq contains 112 billion barrels of proven oil reserves, the second largest in the world (behind Saudi Arabia) along with roughly 220 billion barrels of probable and possible resources. Iraq's true resource potential may be far greater than this, however, as the country is relatively unexplored due to years of war and sanctions. Deep oil-bearing formations located mainly in the vast Western Desert region, for instance, could yield large additional oil resources (possibly another 100 billion barrels), but have not been explored. Iraq's oil production costs are amongst the lowest in the world, making it a highly attractive oil prospect.

It is important to note that Iraq generally has not had access to the latest, state-of-the-art oil industry technology (i.e., 3D seismic), sufficient spare parts, and investment in general throughout most of the 1990s, but has instead reportedly been utilizing questionable engineering techniques (i.e., overpumping, water injection/"flooding") and old technology to maintain production. There is also some evidence that Iraq may have damaged its oil reservoirs through use of such techniques and through lack of sufficient investment over a lengthy period of time. Iraq's Oil Minister, Amir Rashid, indicated in early 2002 that only 24 of 73 Iraqi oil fields were producing. Recently, oil consulting firm Saybolt International pointed out the risk of a 5%-15% annual decline in production capacity at (possibly) damaged Iraqi oil fields.

Iraqi oil reserves vary widely in quality, with API gravities in the 24° to 42° range. Iraq's main export crudes come from the country's two largest active fields: Rumaila and Kirkuk. The southern Rumaila field produces three streams: Basra Regular (normally 34° API, 2.1% sulfur, but apparently deteriorating); Basra Medium (30° API, 2.6% sulfur); and Basra Heavy (22°-24° API, 3.4% sulfur). The northern Kirkuk field, first discovered in 1927, normally produces 37° API, 2% sulfur crude, although the API gravity reportedly has fallen in recent years. An additional export crude, known as "Fao Blend," is heavier and more sour, with a 27° API and 2.9% sulfur.

Iraq's proven oil reserves are not distributed evenly throughout the country. In fact, prior to Iraq's invasion of Kuwait in 1990, about two-thirds of Iraq's production was coming out of the southern fields of Rumaila, Zubair, and Nahr Umr. Other potentially huge fields such as Majnoon and West Qurna (see below for more details) are also located in the southern part of the country. Notably, southern Iraq is populated overwhelmingly by Shi'ite Muslims, who make up the majority of Iraq's population but have little power -- Saddam Hussein is a Sunni Muslim from the central Iraqi town of Tikrit -- and who rebelled against Saddam Hussein following the 1991 Gulf War. Although much of Iraq's southern oil infrastructure -- fields, refineries, storage facilities, transportation infrastructure -- was damaged during the Gulf war, the oil potential of this region alone is huge.



In September 1999, more than 50 foreign companies attended an oil and natural gas technology exhibition in Baghdad, the first such gathering in 10 years. Most of the firms were from Canada, France, Italy, and the United Kingdom. No U.S. firms attended, although a high-level Iraqi oil official has stated that Iraq is ready to deal with U.S. oil companies. To help attract foreign investment to the country's energy sector, Irag's oil ministry has introduced amendments to existing development and production contracts (DPCs). Among other things, the duration of DPCs has been reduced from 23 to 12 years. In addition, Iraq has added a clause referring to "an explicit commitment

to achieve target production within a set period."

#### Production

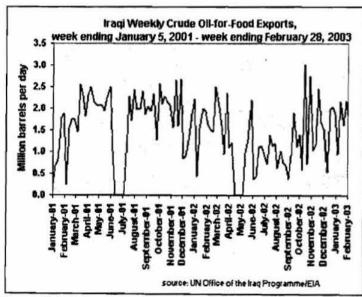
Following Iraq's invasion of Kuwait and the embargo on Iraqi oil exports, Iraqi oil production fell to around 300,000 barrels per day (bbl/d) (from 3.5 million bbl/d in July 1990). For 2001, Iraqi crude oil production averaged 2.45 million bbl/d, down from about 2.59 million bbl/d in 2000, with large weekly and monthly fluctuations. Iraqi oil output was lowest in June 2001, at 1.13 million bbl/d, and highest in April 2001, at 2.95 million bbl/d. Iraqi officials had hoped to increase the country's oil production capacity to 3.5 million bbl/d by the end of 2000, but did not accomplish this given technical problems with Iraqi oil fields, pipelines, and other oil infrastructure. Iraq also claims that oil production capacity expansion has been constrained by refusal of the United Nations to provide Iraq with all the oil industry equipment it has requested.

Oil industry experts generally assess Iraq's sustainable production capacity at no higher than 2.8-3.0 million bbl/d, with net export potential of around 2.3-2.5 million bbl/d (including smuggled oil). In July 2002, Iraqi Oil Minister Amer Rashid said that Iraq's current sustainable capacity was 3.2-3.3 million bbl/d, and that the country hoped to increase that to 3.5 million bbl/d -- even without help from foreign oil companies.-- by the end of 2003 (Iraq last produced 3.5 million bbl/d in July 1990. According to the Middle East Economic Survey, Iraq also aims to limit crude oil exports under the U.N. "Oil-for-Food" program to around 2.2 million bbl/d, with the remaining 800,000-900,000 bbl/d going for domestic consumption, exports to neighboring Jordan (at preferential rates), and smuggling (to Syria, Turkey, etc.).

Among other challenges in maintaining, let alone increasing, oil production capacity, is Iraq's battle with "water cut" (damaging intrusion of water into oil reservoirs) especially in the south. Saybolt International has reported that Iraq has been able to increase its oil production through use of short-term techniques not generally considered acceptable in the oil industry (i.e., "water flooding," injection of refined oil products into crude reservoirs). A U.N. report in June 2001 said that Iraqi oil production capacity would fall sharply unless technical and infrastructure problems were addressed. The report estimated, for instance, that production in the Kirkuk region could fall by 50% over 12 months, to 500,000 bbl/d, and that output at South Rumaila also could be reduced sharply unless immediate actions were taken. Iraq hopes to counter this by a large-scale program to drill new wells (417 are planned, most of which are to be carried out by Russian, Chinese, Iraqi, and Romanian companies).

**Exports** 

U.N. Resolution 986 (April 1995) allows Iraq to sell specified dollar amounts of crude oil over six-month periods, in part for the purchase of humanitarian supplies ("Oil-for-Food") for distribution in Iraq under U.N. supervision. In December 1999, with Iraq steadily increasing its oil export revenues, the Security Council voted to remove any limits on the amount of oil Iraq could export. The current phase (Phase XII) began May 30, 2002 and is scheduled to end on November 25. Under the Phase XII renewal, the U.N. Security Council makes use of an extensive list of "dual-use" items (goods that could have military as well as civilian use). Iraq is allowed to make use of "Oil-for-Food" revenues to purchase items not on the list. Overall, about three-fourths of the proceeds from "Oil-for-Food" sales are used to purchase humanitarian goods for Iraq, while 25% are earmarked for reparations to Gulf War victims, pipeline transit fees for Turkey (which claims that the embargo on Iraq has cost Turkey more than \$35 billion since 1990), and funding for U.N. weapons monitoring activities. On September 26, 2002, the head of the U.N. Iraq Program, Benon Sevan, reported to the U.N. Security Council that the "Oil-for-Food" program was running a large shortfall (around \$10 billion total, including \$2 billion in the current phase), making it "impossible to implement the humanitarian program effectively." According to Sevan, over 1,200 contracts worth more than \$2 billion that had been approved by the U.N. could not be carried out due to a lack of funds.



During 2001, Iraq averaged official (i.e., U.N. monitored) net oil exports of around 2 million bbl/d, although this number fluctuated greatly through the year, and fell sharply during 2002 (to only 1.5 million bbl/d during the first 7 months of the year, and even further during August and September) (see graph). The reduced volume of Iraqi exports in 2002 appears to have been a result of at least two main factors: 1) Iraq's unilateral one-month embargo of oil exports in April 2002 ostensibly in support of the Palestinians; and 2) pressure

by the United States and other countries to clamp down on Iraq's practice of charging an illegal "surcharge" on their U.N. -authorized oil exports (see below for more on this subject). As a result, Iraq's exports dropped sharply in the second and third quarters of 2002 before increasing sharply in recent weeks (to over 2 million bbl/d in the week ending September 20, for instance).

Besides the 90,000 bbl/d or so going to Jordan legally (i.e., with tacit U.N. permission, and under a protocol between Iraq and Jordan), and the 460,000 bbl/d or so consumed domestically, the rest (not counting illegally smuggled oil and oil products) was exported either through the Iraq-Turkey pipeline or the Persian Gulf port of Mina al-Bakr. Although U.N. Resolution 986 mandates that at least half of the "Oil-for-Food" exports must transit through Turkey, it appears that in recent months more Iraqi oil (close to three-quarters) has been exported via Mina al-Bakr rather than via Ceyhan, in part due to a shift in oil exports away from Europe and the United States and towards Asia due in part to the U.N. 's "retroactive pricing" plan (see below for more details). In general, Mina al-Bakr is used for Iraqi oil exports to Asia, while Ceyhan is used for Europe.

An estimated 30% of Iraqi oil is sold initially to Russian firms (i.e., Emerkom, Kalymneftegas, Machinoimport, Rosnefteimpex, Sidanco, Slavneft, Soyuzneftegaz, Tatneft, and Zarubzhneft). The remaining 70% of Iraq's oil is first purchased by companies from many countries, including Cyprus, Sudan, Pakistan, China, Vietnam, Egypt, Italy, Ukraine, and others. Iraqi oil is normally then resold to a variety of oil companies and middlemen before being purchased by end users. During 2001, for instance, nearly 80% of Basra Light liftings, and over 30% of Kirkuk oil, went to the United States, with large importers including ExxonMobil, Chevron, Citgo, BP, Marathon, Coastal, Valero, Koch, and Premcor. During the first seven months of 2002, the United States imported an average of 566,000 bbl/d from Iraq.

In addition to U.N.-sanctioned oil exports to Jordan, which are currently carried by truck (plans for a 150,000-bbl/d, \$250-\$350 million, 120-mile pipeline to Jordan's Zarqa oil refinery were approved by Jordan's cabinet in December 2001, and Jordan reportedly has received more than 30 offers from firms interested in building the line -- with possible completion in late 2004), there have been persistent reports that Iraq has smuggled 200,000-400,000 bbl/d of crude oil and products via a number of routes. These include: 1) to Turkey (as high as 100,000-150,000 bbl/d, mainly of fuel oil) by truck through the Habur border point (reportedly, this smuggling was stopped from September 18, 2001 through January 7, 2002); 2) to Jordan (possibly 10,000-30,000 bbl/d above domestic needs) by truck; 3) to Syria (150,000-200,000 bbl/d or more; see below for details), mainly via the Kirkuk-Banias pipeline, with smaller volumes possibly moving via a railway line from Mosul to Aleppo; 4) to Iran along the Gulf coast and via Qais Island; and 5) to Dubai with the use of small tankers sailing from Umm Qasr. Press reports have estimated that these illegal shipments may be providing Iraq with as much as \$600 million-\$2 billion per year in illegal revenues, while a U.S. General Accounting Office study released in May 2002 estimated that Iraq had earned \$6.6 billion from oil smuggling and illegal surcharges from 1997 through 2001.

In November 2000, numerous press reports indicated that Syria and Iraq had reopened the 552-mile-long, Kirkuk-Banias pipeline, with the Middle East Economic Digest (MEED) reporting initial deliveries of Iraqi crude oil through the line (and also possibly by rail) at around 140,000-150,000 bbl/d (capacity prior to 1982 was 300,000 bbl/d). The oil, most likely Basra Light, reportedly is being used in Syrian domestic refineries, thus freeing up more Syrian oil for export to world markets, earning Syria extra hard currency oil export revenues (and also earning Saddam Hussein significant revenues outside the U.N. "Oil-for-Food" program). Since Iraqi oil exports are allowed only via approved export routes, use of the Kirkuk-Banias line would represent a potentially serious breach of U.N. sanctions against Iraq. On January 23, 2001, the Bush administration offered to allow Iraqi oil exports through Syria as long as they were regulated by the U.N. "Oil-for-Food" program. In January 2002, the United Kingdom directly accused Syria of violating U.N. sanctions on Iraq by shipping over 100,000 bbl/d of Iraqi oil to Syria without U.N. permission. An estimated \$100 million or so per month of Iraq's illegal oil export revenues are estimated to be coming from the Syria pipeline alone, with oil sold to Syria at a significant price discount off of Kirkuk published prices.

In April 2000, the U.S. Navy stopped a Russian tanker, the Akademik Pustovoit, which it suspected might be smuggling Iraqi oil. The United Nations later determined that around 20% of the vessel's gasoil cargo (which Shell said it owned) was of Iraqi origin. In April 2001, an Iraqiowned vessel — the Zainab — sunk off the Dubai coast, leaking over 1,000 tons of smuggled diesel oil and polluting Gulf waters and UAE beaches. At least two other ships smuggling Iraqioil sunk during 2001 — one off the Kuwaiti coast in October, and one in November. During 2001, Iraqi oil smuggling through Iranian waters reportedly was reduced significantly (possibly 50%), as Iran increased its efforts at stopping suspect vessels. In October 2001, the United Nations discovered that two oil shipments on the "Essex" had been "topped off" after U.N. inspectors had signed off, adding some 500,000 barrels of crude oil to the ship. The Essex was chartered by trader Trafigura, run by former employees of Marc Rich.

In late October 2001, the U.N. Sanctions Committee began imposing a so-called "retroactive pricing" mechanism (proposed by the UK and supported by the United States) to alter the way in which Iraqi oil prices are set. The United States and the UK were concerned that Iraq was using oil price fluctuations to impose a de facto surcharge on oil purchasers, and that this money was going directly to the Iraqi government outside of U.N. control. This was also part of a continuing effort by the United States, the UK, and others to stop Iraq from forcing buyers to pay a \$0.30-\$0.60 per barrel surcharge, paid directly to the Iraqi government. Under "retroactive pricing," Iraqi oil exports to the United States and Europe (but not Asia) are priced based on oil market developments through the end of the period covered by a particular oil delivery contract. Thus, "official selling prices" for Iraqi crudes (Kirkuk and Basrah Light) are not known until after the oil has been loaded and sold. At this point, prices are set at a level high enough to assure that lifters have no room to pay Iraq the illegal surcharge and still make a profit. By many accounts, this effort appears to have been at least partly successful in reducing illegal surcharges, and may also have had the side effect of reducing overall Iraqi oil exports as 2002 has gone on. Iraqi oil (Kirkuk and Basra Blend) bound for the United States is priced off West Texas Intermediate, while for Europe, Iraqi oil is priced off of dated Brent.

On October 31, 2000, the U.N. Sanctions Committee approved an Iraqi request to be paid in Euros, rather than U.S. dollars, for oil exported under the "oil for food" program. On November 16, Iraq's State Oil Marketing Organization (SOMO) demanded that companies lifting cargoes of Iraqi crude oil begin paying a fifty cent per barrel surcharge directly to the Iraqi government (in violation of U.N. sanctions) starting on December 1, 2000.

#### Oil Field Development, War, and Current Status

Iraq's southern oil industry was decimated in the Gulf War, with production capacity falling to 75,000 bbl/d in mid-1991. The largest producing oil field in this region is Rumaila. The war resulted in destruction of gathering centers and compression/degassing stations at Rumaila, storage facilities, the 1.6-million bbl/d (pre-war capacity) Mina al-Bakr export terminal, and pumping stations along the 1.4-million bbl/d (pre-war capacity) Iraqi Strategic (North-South) Pipeline. Seven other sizable fields remain damaged or partially mothballed. These include Zubair, Luhais, Suba, Buzurgan, Abu Ghirab, and Fauqi. Generally speaking, oilfield development plans have been on hold since Iraq's invasion of Kuwait, with Iraqi efforts focused on maintaining production at existing fields.

The Kirkuk field, with over 10 billion barrels in remaining proven oil reserves, forms the basis for northern Iraqi oil production. Bai Hassan, Jambur, Khabbaz, Saddam, and Ain Zalah-Butmah-Safaia are the other currently-producing oil fields in northern Iraq. An estimated 60% of Northern Oil Company's (NOC) facilities in northern and central Iraq were damaged during the Gulf War. In 2001, output from all northern fields (Kirkuk, Bai Hassan, Jambar, Khabbaz, Saddam, Safiya, and 'Ain Zalah/Butnah) was around 1 million bbl/d. In December 2001, the Turkish Petroleum International Corporation won a U.N.-approved contract to drill for oil in northern Iraq, specifically at the Khurmala field near Kirkuk. Two Russian companies -- Tatneft

and Zarubezhneft -- have won U.N. -approved upstream contracts at the Bai Hassan, Kirkuk, and Saddam fields. Tatneft is to drill 78 new wells in Iraq, marking the largest foreign company oil involvement in Iraq since 1990. In early December 1999, Russian energy company Zarubezhneft said that it was drilling multiple wells at Kirkuk, and that this did not violate U.N. sanctions (Russian officials have denied that any work was being done). Zarubezhneft hopes to boost Kirkuk production capacity from its current 900,000 bbl/d to around 1.1 million bbl/d.

Iraq's southern fields -- mainly North and South Rumaila, plus al-Zubair, the Missan fields, West Qurna, Luhais, and Bin Umar -- produced around 1.5 million bbl/d in 2001. Zarubezhneft also has a contract to drill approximately 100 wells in the North Rumaila field. In January 2002, Tunisia signed a deal with Iraq to develop an oilfield near the southern province of Najaf.

Another major Iraqi oil field is the 11-billion barrel East Baghdad field, which came online in April 1989. This centrally-located field currently produces 50,000 bbl/d of heavy, 23° API oil as well as 30 million cubic feet per day (Mmcf/d) of associated natural gas.

In March 2000, U.N. Security Council agreed to double the spending cap for oil sector spare parts and equipment (under Resolution 1175 of June 20, 1998), allowing Iraq to spend up to \$600 million every 6 months repairing oil facilities. U.N. Secretary General Kofi Annan had warned of a possible "major breakdown" in Iraq's oil industry if spare parts and equipment were not forthcoming. In August 2000, a senior Iraqi oil official stated that delays by the United Nations in approving contracts to upgrade Iraq's oil sector were threatening production levels. The United States has said that the \$300 million should be used only for short-term improvements to the Iraqi oil industry, and not to make long-term repairs. Iraq's oil sector distribution plan for the "Oil-for-Food" program's 12th phase reportedly includes \$350 million for upstream contracts, including development work on the Hamrin, Suba, and West Qurna fields.

As of early January 2002, the head of the U.N. Iraq Program, Benon Sevan, expressed "grave concern" at the volume of "holds" put on contracts for oilfield equipment, and stated that the entire program was threatened with paralysis. According to Sevan, these holds amounted to nearly 2,000 contracts worth about \$5 billion, about 80% of which reportedly were "held" by the United States. Overall, Iraq has imported about \$1.2 billion worth of equipment to upgrade oil facilities over the past three years under the "Oil-for-Food" program. Sevan also said that retroactive pricing was resulting in lower Iraqi oil exports, and therefore revenues, under the "Oil-for-Food" program.

#### Post-U.N. Sanctions Development Plans

As of October 2002, Iraq reportedly had signed several multi-billion dollar deals with foreign oil companies mainly from China, France, and Russia. Deutsche Bank estimates \$38 billion total on new fields -- "greenfield" development -- with potential production capacity of 4.7 million bbl/d if all the deals come to fruition (which Deutsche Bank believes is highly unlikely). Iraq reportedly has become increasingly frustrated at the failure of these companies actually to begin work on the ground, and has threatened to no longer sign deals unless firms agreed to do so without delay. Iraqi upstream oil contracts generally require that companies start work immediately, but U.N. sanctions overwhelmingly have dissuaded companies from doing so. Following the lifting of U.N. sanctions, Iraq hopes to increase its oil production capacity to over 6 million bbl/d or higher.

In recent weeks and months, Iraq reportedly has signed a flurry of deals with companies from Italy (Eni), Spain (Repsol YPF), Russia (Tatneft), France (TotalFinaElf), China, India, Turkey, and others. According to a report in *The Economist*, Iraq has signed over 30 deals with various oil companies, offering generous rates of return ("on the order of 20%") as part of its "Development and Production Contract" (DPC) model. Iraq introduced the DPC in 2000 to

replace the previous "Production Sharing Contract" (PSC) arrangement.

Russia, which is owed several billions of dollars by Iraq for past arms deliveries, has a strong interest in Iraqi oil development, including a \$3.5-billion, 23-year deal to rehabilitate Iraqi oilfields, particularly the 11-15 billion barrel West Quma field (located west of Basra near the Rumaila field). Since the agreement was signed in March 1997, Russia's Lukoil (the operator, with a 68% share, heading a Russian consortium plus an Iraqi company to be selected by the Iraqi government) has prepared a plan to install equipment with capacity to produce 100,000 bbl/d from West Qurna's Mishrif formation. Meanwhile, in August 2000, Iraqi engineers reportedly completed work on two degassing stations at West Qurna, with two more planned, potentially raising production at the field (one of the world's largest) significantly, from around 140,000 bbl/d currently. West Qurna is believed to have potential production capacity of up to 1 million bbl/d. In October 1999, Russian officials reportedly said that Iraq had accepted a Russian request to delay work on West Qurna given the continuation of U.N. sanctions. This followed an Iraqi warning that Lukoil could lose its contract (and possibly be replaced by another Russian company) at West Qurna if it did not begin work immediately (Lukoil has been restrained from doing so by U.N. sanctions). As of October 2002, however, Lukoil had not begun work on West Qurna. In October 2002, Lukoil's Chief Executive (Vagit Alekperov) said his belief that the West Ourna contract would "be upheld no matter what happens" in Iraq, and that he had received "guarantees" on this matter from Russian President Vladimir Putin.

In October 2000, the Iraqi Oil Ministry expressed frustration with the slow pace of progress by Russian and Chinese firms, and in January 2001, Shell announced that it had held talks with the Iraqi Oil Ministry regarding "potential opportunities" at the 1-billion-barrel Ratawi oilfield. In March 2001, the Deputy Oil Minister announced that Iraq might terminate contracts with the Chinese and Russian companies.

In October 2001, a joint Russian-Belarus oil company, Slavneft, signed a \$52 million service contract with Iraq on the 2-billion-barrel, Suba-Luhais field in southern Iraq, and expecting to sign a service contract to begin drilling later this year. Full development of Suba-Luhais could result in production of 100,000 bbl/d at a cost of \$300 million over three years. As of March 2002, Slavneft reportedly was awaiting approval from the United Nations to drill 25 wells as Luhais.

The Saddam field contains 3 billion barrels of oil and 5 trillion cubic feet (Tcf) of associated gas. Iraq is seeking foreign assistance for a second-phase Saddam development, which would raise oil production capacity to 50,000 bbl/d, as well as 300 Mmcf/d of gas. In early April 2001, Russia's Tatneft and Zarubezhneft reportedly received U.N. approval to drill 45 wells in the Saddam field, plus Kirkuk and Bai Hassan, as part of an effort to reduce water incursion into the fields. As of October 2002, however, work on these fields had yet to begin.

The largest of Iraq's oilfields slated for post-sanctions development is Majnoon, with reserves of 12-20 billion barrels of 28°-35° API oil, and located 30 miles north of Basra on the Iranian border. French company TotalFinaElf reportedly has signed a deal with Iraq on development rights for Majnoon. Majnoon was reportedly brought onstream (under a "national effort" program begun in 1999) in May 2002 at 50,000 bbl/d, with output possibly reaching 100,000 bbl/d by the end of 2002 (according to Oil Minister Rashid). Future development on Majnoon ultimately could lead to production of up to 600,000 bbl/d at an estimated (according to Deutsche Bank) cost of \$4 billion. In July 2001, angered by France's perceived support for the U.S. "smart sanctions" plan, Iraq announced that it would no longer give French companies priority in awarding oil contracts, and would reconsider existing contracts as well. Iraq also announced that it was inclined to favor Russia, which has been supporting Iraq at the U.N. Security Council, on awarding rights to Majnoon and another large southern oil field, Nahr Umar.

TotalFinaElf apparently has all but agreed with Iraq on development of the Nahr Umar field. Initial output from Nahr Umar is expected to be around 440,000 bbl/d of 42° API crude, but may reach 500,000 bbl/d with more extensive development. The 2.5-4.6 billion-barrel Halfaya project is the final large field development in southern Iraq. Several companies (BHP, CNPC, Agip) reportedly have shown interest in the field, which ultimately could yield 200,000-300,000 bbl/d in output at a possible cost of \$2 billion.

Smaller fields with under 2 billion barrels in reserves also are receiving interest from foreign oil companies. These fields include Nasiriya (Eni, Repsol), Tuba (ONGC, Sonatrach, Pertamina), Ratawi (Shell, Petronas, CanOxy), Gharaf (Japex, TPAO), Amara (PetroVietnam), Noor (Syria), and more. Italy's Eni and Spain's Repsol appear to be strong possibilities to develop Nassiriya.

In addition to the 25 new field projects, Iraq plans to offer foreign oil companies service contracts to apply technology to eight already-producing fields. Meanwhile, Iraq has authorized "risk contracts" to promote exploration in the nine remote Western Desert blocs. Iraq has identified at least 110 prospects from previous seismic work in this region near the Jordanian and Saudi borders. In late 2000, India's ONGC was awarded Block 8 in the Western Desert region, and in April 2002, Indonesia's Pertamina signed an exploration contract for Block 3. Other companies reportedly interested in the Western Desert region include: Repsol, Lundin, Sonatrach, MOL, Petronas, Ranger, and TPAO.

In total, Deutsche Bank estimates that international oil companies in Iraq may have signed deals on new or old fields amounting to nearly 50 billion barrels of reserves, 4 million bbl/d of potential production, and investment potential of more than \$20 billion. Development of southern fields may be complicated by infrastructure damage, the presence of land mines (from the Iran-Iraq war), and marshy conditions. Major companies with deals in Iraq include TotalFinaElf (with estimated reserves of 12.5-27 billion barrels, according to the Wall Street Journal), several Russian companies (Lukoil, Zarubezneft, Mashinoimport, with combined reserves of 7.5-15 billion barrels), China's National Petroleum Company (CNPC -- 2 billion barrels or so); and Eni (under 2 billion barrels).

#### Oil Export Pipelines/Terminals

Iraq's oil export infrastructure (pipelines, ports, pumping stations, etc.) were damaged in both the Iran-Iraq War as well as Operation Desert Storm (1991). Currently, the 600-mile, 40-inch Kirkuk-Ceyhan pipeline is Iraq's largest operable crude export pipeline. This Iraq-Turkey link consists has a fully-operational capacity of 1.1 million bbl/d, but reportedly can handle only around 900,000 bbl/d. A second, parallel, 46-inch line has an optimal capacity of 500,000 bbl/d and was designed to carry Basra Regular exports, but at last report was inoperable. Combined, the two parallel lines have an optimal capacity of 1.5-1.6 million bbl/d. Expanding capacity to this level, however, will depend on Iraq's ability to rehabilitate the IT-1 and IT-1A pumping stations, as well as the Zakho metering station near the Iraq-Turkey border and other ongoing pipeline repairs (including so-called "intelligent pigging") on the 46-inch line. This work appears to be well behind schedule, and reportedly will not be completed anytime soon (although there was at least one report in late May 2002 that the line would be fixed by July). The 40-inch line has additional pumping stations and fewer bottlenecks than the 46-inch line, which allows for greater throughput than that of the larger line. Currently, Iraq is bypassing the crucial but damaged IT-2 pumping station, located about 93 miles south of the Turkish border, making it more difficult to reach the 1.6 million bbl/d dual-line capacity. To make IT-2 operational, Iraqi officials have said that they need controls and associated valves costing around \$50 million. The IT-1 pumping station near Kirkuk received lighter damage and is presently functional.

On August 20, 1998, Iraq and Syria (which reopened their border in June 1997 -- after a 17-year closure -- for trade and official visits) signed a memorandum of understanding for the possible

reopening of the 50-year-old, rusting Banias oil pipeline from Iraq's northern Kirkuk oil fields to Syria's Mediterranean port of Banias (and Tripoli, Lebanon). As of October 2002, the pipeline reportedly was being used (see above), and there also was talk of building a new, parallel pipeline as a replacement.

In order to optimize export capabilities (i.e., to allow oil shipments to the north or south), Iraq constructed a reversible, 1.4-million bbl/d "Strategic Pipeline" in 1975. This pipeline consists of two parallel 700,000-bbl/d lines. The North-South system allows for export of northern Kirkuk crude from the Persian Gulf and for southern Rumaila crudes to be shipped through Turkey. During the Gulf War, the Strategic Pipeline was disabled after the K-3 pumping station at Haditha as well as four additional southern pumping stations were destroyed. In early 2001, Iraqi oil ministry officials claimed that the pipeline had been rehabilitated, providing Iraq with increased export flexibility. However, a U.N. assessment team which visited Iraq in March 2001 concluded that the country's downstream sector "had declined seriously in many respects" over the past 18 months, including increased leakage from pipelines, particularly the North-South "Strategic" line.

In the Persian Gulf, Iraq has three tanker terminals: at Mina al-Bakr, Khor al-Amaya, and Khor al-Zubair (which mainly handles dry goods and minimal oil volumes). Iraq also has additional dry goods ports at Basra and at Umm Qasr, which is being outfitted to accommodate crude tankers. Mina al-Bakr is Iraq's largest oil terminal, with four 400,000-bbl/d capacity berths capable of handling very large crude carriers (VLCCs). Gulf War damage to Mina al-Bakr appears to have been repaired in large part and the terminal currently can handle up to 1.2-1.3 million bbl/d. A full return to Mina al-Bakr's nameplate capacity apparently would require extensive infrastructure repairs. Mina al-Bakr also is constrained by a shortage of storage and oil processing facilities, most of which were destroyed in the Gulf War.

Iraq's Khor al-Amaya terminal was heavily damaged during the Iran-Iraq War (and completely destroyed during Operation Desert Storm in 1991) and has been out of commission since then. As of March 2001, reports indicated that Iraq had largely completed repairing two berths at Khor al-Amaya. According to the Iraqi Oil Ministry, the terminal, with export capacity of 500,000-700,000 bbl/d, would "soon be ready to receive oil tankers." Upon full completion of repairs, Iraq projects Khor al-Amaya's capacity will rise to 1.2 million bbl/d, and will help prevent delays at Mina al-Bakr while repairs are conducted there. In March 2002, Platt's Oilgram News reported that a Russian company was "awaiting the green light from the U.N.....to help restore Iraq's Mina al-Bakr and Khor al-Amaya crude loading platforms." Iraq will need U.N. Security Council approval to export from Khor al-Amaya, since it is not part of the approved export outlet of Mina al-Bakr.

#### Refining

Iraq's refining capacity as of January 2002 was believed to be over 400,000 bbl/d (although the Iraqis claim 700,000 bbl/d), compared to a pre-Gulf War, nameplate capacity of 700,000 bbl/d. Iraq has 10 refineries and topping units. The largest are the 150,000-bbl/d Baiji North, 140,000-bbl/d (or higher) Basra, and 100,000-bbl/d Daura plants. During the Gulf War, both Baiji in northern Iraq as well as the refineries at Basra, Daura, and Nasiriyah were severely damaged. Today, a lack of light-end products, low quality gasoline, and rising pollution levels because of a lack of water treatment facilities are some problems faced by Iraq's refining sector. Post-sanction plans include attracting foreign investment to perform refinery upgrades (Iraq has identified dozens of such projects) and to build a new \$1-billion, 290,000-bbl/d "Central" refinery near Babylon.

#### NATURAL GAS

Iraq contains 110 trillion cubic feet (Tcf) of proven natural gas reserves, along with roughly 150 Tcf in probable reserves. About 70% of Iraq's natural gas reserves are associated (i.e., natural

gas produced in conjunction with oil), with the rest made up of non-associated gas (20%) and dome gas (10%). Until 1990, all of Iraq's natural gas production was from associated fields. In 2000, Iraq produced 111 billion cubic feet (Bcf) of natural gas, down drastically from peak output levels of 700 Bcf in 1979. Within two years after the lifting of U.N. sanctions, Iraq hopes to produce 550 Bcf., and within a decade, Iraq aims to be producing about 4.2 Tcf of natural gas annually. 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. Natural gas is both produced with oil and also used for reinjection for enhanced oil recovery efforts. Generally, Iraq's policy is to award gas and oil concessions to companies from countries supporting the easing or lifting of U.N. sanctions (i.e., France, China, Russia). Russian companies reportedly are hoping to develop a number of natural gas production and processing facilities in Iraq, including a group of fields in the Misan region of southern Iraq.

Main sources of associated natural gas are the Kirkuk, Ain Zalah, Butma, and Bai Hassan oil fields in northern Iraq, as well as the North and South Rumaila and Zubair fields in the south. The Southern Area Gas Project was completed in 1985, but was not brought online until February 1990. It has nine gathering stations and a larger processing capacity of 1.5 billion cubic feet per day. Natural gas gathered from the North and South Rumaila and Zubair fields is carried via pipeline to a 575-Mmcf/d natural gas liquids (NGL) fractionation plant in Zubair and a 100-Mmcf/d processing plant in Basra. At Khor al-Zubair, a 17.5-million-cubic-foot LPG storage tank farm and loading terminals were added to the southern gas system in 1990.

Iraq's only non-associated natural gas production is from the al-Anfal field (200 Mmcf/d of output) in northern Iraq. Al-Anfal production is piped to the Jambur gas processing station near the Kirkuk field, which is 20 miles away. Al-Anfal's gas resources are estimated at 4.5 Tcf, of which 1.8 Tcf is proven. In December 2001, Russia's Gazprom reportedly was negotiating possible development of al-Anfal. In November 2001, a large non-associated natural gas field reportedly was discovered in the Akas region of western Iraq, near the border with Syria, and containing an estimated 2.1 Tcf of natural gas reserves. It is not clear whether or not the field is associated or non-associated.

In August 2001, Iraqi oil minister Rashid announced that Iraq had reached an agreement with Turkey to build a \$2.5 billion gas pipeline to Turkey, and possibly on to Europe. Iraq aims to increase its natural gas exports to Europe, and Turkey could be a key transit center. Iraq also would like to export natural gas to Syria, Lebanon, and Jordan.

#### **ELECTRIC POWER**

Around 85%-90% of Iraq's national power grid (and 20 power stations) was damaged or destroyed in the Gulf War. Existing generating capacity of 9,000 megawatts (MW) in December 1990 was reduced to only 340 MW by March 1991. In early 1991, transmission and distribution infrastructure also was destroyed, including the 10 substations serving Baghdad and about 30% of the country's 400-kilovolt (kV) transmission network. In early 1992, Iraq stated that it had restarted 75% of the national grid, including the 1,320-MW Baiji and Mosul thermal plants as well as the Saddam Dam. In 1998, Iraq's maximum available electric generation capacity was estimated (by Iraq) at around 4,000 MW, with a report in November 1999 indicating that this figure may have increased even further, to 6,000 MW. Despite this increase, power continues to be rationed throughout the country.

According to a report by U.N. Secretary General Kofi Annan, Iraq's power deficit stood at 1,800 MW as of August 2000, with blackouts a common occurrence. Iraq reportedly has signed contracts for renovating two generation units at the Harithah power plant, and another to rebuild the Yusufiyah plant, which stopped operating in 1990. Iraq's Electricity Authority reportedly also has signed several other contracts with Chinese, Swiss, French, and Russian companies, to build 3,000 MW of additional power generating capacity. These contracts require U.N.

approval, and Iraq has claimed that the United States and Britain are blocking \$1.5 billion worth of electrical equipment it has requested. In December 2000, it was reported that a Chinese company had completed work on the Abdullah power plant north of Baghdad. In October 2001, it was reported that Russia's Mosenergomontazh was working to modernize Iraq's Southern Heat and Power Plant in Najibia, Basra province. The project aims to add 200 MW of generating capacity to Iraq's grid. In August 2002, the Najaf governate in southern Iraq announced that two new power plants, with a combined capacity of 20 MW, had come online.

Sources for this report include: Agence France Presse; Associated Press; BBC Summary of World Broadcasts; Business Week; Chicago Tribune; CIA World Factbook 2002; Deutsche Bank; Dow Jones; DRI/WEFA; The Economist; Economist Intelligence Unit; Energy Compass; Financial Times; Gulf News; Hart's Africa Oil and Gas; Interfax News Agency; Janet Matthews Information Services (Quest Economic Database); Los Angeles Times; Middle East Economic Survey; New York Times; Oil & Gas Journal; Oil Daily; Petroleum Economist; Petroleum Intelligence Weekly; Platt's Oilgram News; Reuters News Wire; Russian Oil and Gas Report; U.N. Office of the Iraq Programme; U.S. Energy Information Administration; U.S. Department of State; Wall Street Journal Europe; Washington Post; Weekly Petroleum Argus; World Markets Energy.

#### COUNTRY OVERVIEW

Head of Government: Saddam Hussein al-Takriti

Deputy Prime Minister: Tariq 'Aziz Independence: October 3, 1932 Population (7/01E): 23.3 million

Location/Size: Middle East/168,709 square miles, slightly more than twice the size of Idaho.

Major Cities: Baghdad (capital), Basra, Mosul, Karbala, Kirkuk

Languages: Arabic, Kurdish

Ethnic Groups: Arab 75-80%, Kurdish 15-20%, Turkmen, Assyrian, or other 5% Religions: 97% Muslim (Shi'a 60-65%, Sunni 32-37%), Christian or other (3%) Defense (2001E): Army (375,000); Air Force (30,000); Navy (2,000). Iraq is believed to have

2,200 main battle tanks and over 300 combat aircraft (of which as few as 100 may be serviceable); Paramilitary Forces (42,000-44,000, including Security Troops, Border Guards, and

"Saddam's Fedayeen")

#### ECONOMIC OVERVIEW

Currency: Iraqi Dinar (ID)

Unofficial Exchange Rate (9/02E): US\$1 = ID1,990 (note: the official rate is US\$1 = ID 0.3)

Gross Domestic Product (at market exchange rates) (2002E): \$28.6 billion

Gross Domestic Product (at purchasing power parity rates) (2002E): \$15.5 billion (around one-third of 1989's economic output)

Real GDP Growth Rate (2001E): 3.2% (2002E): (-3%)-1.5% (2003F): 1.9%-6% Inflation Rate (consumer prices) (2001E): 28.1% (2002E): 24.6% (2003F): 17.6%

Major Export Products (2002): Crude oil and oil products (regulated by the United Nations)

Major Import Products (2002): Food, medicine, consumer goods (regulated by the United

Nations)

Merchandise Exports (2001E): \$15.8 billion Merchandise Imports (2001E): \$11.0 billion Merchandise Trade Balance (2001E): \$4.8 billion Current Account Balance (2001E): \$0.9 billion

Oil Export Revenues (2002E): \$13.1 billion (includes \$3 billion or so in smuggling)

Oil Export Revenues/Total Export Revenues (2002E): 95% or more

Total External Debt (2001E): \$62.2 billion

#### **ENERGY OVERVIEW**

Minister of Oil: Amir Muhammad Rashid al-Ubaydi

Proven Oil Reserves (1/1/02E): 112.5 billion barrels (around 75 billion barrels of which has not yet been developed; potential reserves are as high as 200 billion barrels

Oil Production (January-July 2002E): 1.99 million barrels per day (bbl/d), of which 1.97 million bbl/d is crude oil (note: Iraqi oil production was 2.45 million bbl/d in 2001)

Oil Production Capacity, Maximum Sustainable (10/02E): 2.8-3.0 million bbl/d

Oil Export Routes: Kirkuk-Ceyhan pipeline; Mina al-Bakr port; to Jordan and Turkey via truck; reportedly to Syria via the Kirkuk-Banias pipeline; smuggling by boat along the Gulf

Oil Consumption (2002E): 460,000 barrels per day (bbl/d)

Net Oil Exports (January-July 2002E): 1.5 million bbl/d

U.S. Oil Imports from Iraq (January - July 2002E): 566,000 bbl/d (down from 795,000 bbl/d during 2001)

Crude Oil Refining Capacity (1/1/02E): 417,500 bbl/d (according to the Oil and Gas Journal)

Natural Gas Reserves (1/1/02E): 109.8 trillion cubic feet (Tcf)

Natural Gas Production/Consumption (2000E): 111 billion cubic feet (Bcf)

Electricity Generation Capacity (2000E): 9.5 gigawatts (90% thermal)

Electricity Production (2000E): 27.3 billion kilowatthours

#### ENVIRONMENTAL OVERVIEW

Total Energy Consumption (2000E): 1.09 quadrillion Btu\* (0.3% of world total energy consumption)

Energy-Related Carbon Emissions (2000E): 20.2 million metric tons of carbon (0.3% of world total carbon emissions)

Per Capita Energy Consumption (1999E): 51.7 million Btu (vs U.S. value of 355.8 million

Per Capita Carbon Emissions (2000E): 0.88 metric tons of carbon (vs U.S. value of 5.6 metric tons of carbon)

Energy Intensity (1999E): 14,895 Btu/\$1995 (vs U.S. value of 11,138 Btu/\$1995)\*\*

Carbon Intensity (1999E): 0.28 metric tons of carbon/thousand \$1995 (vs U.S. value of 0.18 metric tons/thousand \$1995)\*\*

Sectoral Share of Energy Consumption (1998E): Transportation (56.9%), Industrial (33.9%), Residential (9.2%), Commercial (0.0%)

Sectoral Share of Carbon Emissions (1998E): Transportation (61.1%), Industrial (28.9%), Residential (9.9%), Commercial (0.0%)

Fuel Share of Energy Consumption (2000E): Oil (88.6%), Natural Gas (10.6%)

Fuel Share of Carbon Emissions (2000E): Oil (90.4%), Natural Gas (10.6%)

Renewable Energy Consumption (1998E): 7 trillion Btu\* (0% increase from 1997)

Number of People per Motor Vehicle (1998): 17.8 (vs U.S. value of 1.3)

Status in Climate Change Negotiations: Iraq is not a signatory to the United Nations

Framework Convention on Climate Change or to the Kyoto Protocol.

Major Environmental Issues: Government water control projects have drained most of the inhabited marsh areas east of An Nasiriyah by drying up or diverting the feeder streams and rivers; a once sizable population of Shi'a Muslims, who have inhabited these areas for thousands of years, has been displaced; furthermore, the destruction of the natural habitat poses serious threats to the area's wildlife populations; inadequate supplies of potable water; development of Tigris-Euphrates Rivers system contingent upon agreements with upstream riparian Turkey; air and water pollution; soil degradation (salination) and erosion; desertification.

Major International Environmental Agreements: A party to the Law of the Sea and the Nuclear Test Ban. Has signed, but not ratified, Environmental Modification.

<sup>\*</sup> The total energy consumption statistic includes petroleum, dry natural gas, coal, net hydro. nuclear, geothermal, solar, wind, wood and waste electric power. The renewable energy consumption statistic is based on International Energy Agency (IEA) data and includes

hydropower, solar, wind, tide, geothermal, solid biomass and animal products, biomass gas and liquids, industrial and municipal wastes. Sectoral shares of energy consumption and carbon emissions are also based on IEA data.

\*\*GDP based on EIA International Energy Annual 2000

#### OIL AND GAS INDUSTRY

Major Companies: The Oil Ministry oversees the nationalized oil industry through the Iraq National Oil Company (INOC). Autonomous companies under INOC include the State Company for Oil Projects (SCOP) - design and engineering of upstream and downstream projects; Oil Exploration Company (OEC) - exploration; Northern Oil Company (NOC) and Southern Oil Company (SOC) - upstream activities in northern/central and southern Iraq, respectively; State Organization for Oil Marketing (SOMO) - crude oil sales and OPEC relations; Iraqi Oil Tankers Company (IOTC); and various departments within the Ministry of Oil which run Iraq's internal pipeline systems, distribute oil products, operate downstream natural gas/LPG projects and gas bottling plants. In August 2001, Iraqi oil minister Rashid announced that a new state oil company ("Oil Projects Company") would be created to oversee development of new Iraqi discoveries.

Major Oil Fields (proven reserves - billion barrels, 2001E): Majnoon (12.1-20.0), West Qurna (11.3-15.0), East Baghdad (11+), Kirkuk (10+), Rumaila (10+), Nahr bin Umar (6+), Rattawi (3.1), Halfaya (2.5-4.6), Nassiriya (2-2.6), Suba-Luhais (2.2), Tuba (1.5), Khurmala (1.0), Gharaf (1.0-1.1), Rafidain (0.7), Amara (0.5)

Oil Refineries (crude refining capacity bbl/d, 2001E): Baiji (150,000), Basra (140,000), Daura (100,000), Khanakin (12,000), Haditha (7,000), Muftiah (4,500), Qayarah (2,000) (Note: Iraq reportedly is constructing several 10,000-bbl/d mobil refineries).

Major Ports: Mina al-Bakr (1.2 million bbl/d current capacity), Khor al-Amaya, Khor al-Zubair, Umm Qasr

Major Pipelines (current capacity): Kirkuk-Ceyhan (Dortyol) Pipeline - 0.9 million bbl/d (optimal capacity on the two lines to Ceyhan is potentially around 1.5-1.6 million bbl/d); Iraq-Saudi Arabia Pipeline (IPSA1, 2) - possibly 1.65 million bbl/d (closed by Saudi Arabia in 1990); Banias/Tripoli Pipeline - possibly 0.3 million bbl/d (closed by Syria in 1982); Iraq Strategic Pipeline - less than 1.4 million bbl/d (reversible, internal transportation only)

#### LINKS

For more information on Iraq, see these other sources on the EIA web site: Iraq Chronology: 1980-2002
EIA - Country Information on Iraq

Links to other U.S. government sites:

2002 CIA World Factbook - Iraq

U.S. Office of Foreign Assests Control (for information on Iraqi Sanctions)

U.S. State Department's Consular Information Sheet - Iraq

Library of Congress -- Iraq Country Study

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UN Office of the Iraq Program U.N. Security Council Resolutions Relating to Iraq
Permanent Mission of Iraq to the United Nations
MENA Petroleum Bulletin
University of Texas at Austin -- Iraq Page

Harvard University -- Iraq Page University of Pennsylvania -- Middle East Center Planet Arabia.com AME Info Middle East Business Information

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# Backgroundation Executive Summary

No. 1633

March 5, 2003

# THE ROAD TO ECONOMIC PROSPERITY FOR A POST-SADDAM IRAQ

ARIEL COHEN, Ph.D., AND GERALD P. O'DRISCOLL, JR., Ph.D.

As the Bush Administration and Iraqi opposition groups plan the future of a post–Saddam Hussein Iraq without its weapons of mass destruction (WMD), economic issues loom large. Iraq's economy has been grossly mismanaged, and its people largely repressed, for 40 years.

Iraq desperately needs an alternative to the failed policies of its dictator. Sound economics are needed to help the Iraqi people rebuild their lives and their country after two decades of wars and four decades of repression under the current regime. The U.S. government, the oil industry, and international financial institutions should provide technical expertise to the future government of Iraq to divest, privatize, and modernize its national economy.

Saddam's Devastation of Iraq's Economy. Saddam's regime has succeeded in bankrupting the country even though Iraq boasts the world's second largest oil reserves after Saudi Arabia, estimated at 112 billion barrels of oil and potentially even higher. The oil sector provides more than 60 percent of the country's gross domestic product (GDP) and 95 percent of its hard currency earnings. Yet GDP for 2001, at the market exchange rate, is estimated to be only about one-third its level in 1989. Iraq also is hobbled by its \$140 billion foreign debt. This devastation was wrought by such policies as

the nationalization of the country's chief export commodity, oil; extensive central planning of industry and trade; the 1982–1988 war against

Iran; and the invasion of Kuwait, which precipitated the 1991 Gulf War.

According to the U.S. General Accounting Office, oil smuggling and illegal surcharges of 25 cents to 50 cents on a barrel of legal oil are providing the funds to bolster Saddam's regime. Saddam's unaccounted revenues are at least \$6.6 billion-money that he has been free to spend to develop WMD and support terrorism in spite of economic sanctions imposed by the United

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Nations after the Persian Gulf War to force him to give up his WMD. And Saddam still stubbornly refuses to meet the terms for lifting the economic sanctions that the United Nations has imposed on his regime.

The road to economic prosperity in Iraq will not be easy, but the Bush Administration can help the new government achieve fundamental structural reform with massive, orderly, and transparent privatization of various sectors of the economy, including the oil industry.

Building a Post-Saddam Iraq. The new government established by the people of Iraq should represent all the major sub-national groups—the Shitte Arabs, the Sunni Arabs, and the Kurds. The best model is a federal system that includes the various factions. Iraqi opposition leaders will need a commitment, from the United States and international financial institutions, that they will furnish necessary expertise and technical assistance. To gain that commitment, Iraq will need to abandon its statist policies and become fully committed to the principles of a market economy.

Promoting Privatization. Privatization efforts in other countries show that privately held infrastructure, oil, and oil service companies generate greater efficiencies, improved production, and higher revenues than do centrally planned and state-owned industries. The same can be achieved in Iraq, whose oil industry cannot thrive without access to global capital markets. The Administration should work with Iraq's future federal government to develop mechanisms for privatizing these industries, taxing oil sales, and sharing the proceeds equitably with the three major ethnic regions—the Shiite Arabs in the South, the Kurds in the North, and the Sunni Arabs in the central region.

As the end of Saddam's regime will mean the end of the U.N. sanctions, the rationale for the U.N.-administered oil-for-food program will be removed. Absent the threat of an Iraqi program to develop weapons of mass destruction, the Bush Administration should not support leaving the oil-for-food program in place, let alone expanding it. The temporary U.S. administration and the future government of Iraq should also remove Ba'ath cadres loyal to Saddam and his clan in the national oil ministry and the Iraqi National Oil Company.

During the 1990s, Saddam attempted to dismantle the U.N. Security Council sanctions or "encourage" permanent members to veto the use of force against Iraq by allocating lucrative contracts for the development of giant Iraqi oil fields to companies from Russia, France, and China. The power of Saddam's regime to allocate these contracts in view of their corrupt nature is questionable, and the circumstances surrounding the granting of these contracts need to be re-examined.

Needed: Comprehensive Economic Reform. The Bush Administration, its allies, and international organizations should prepare, encourage, and support the future leaders of a post-Saddam Iraqi government to develop a comprehensive economic reform package. Specifically, in addition to the reforms outlined above, a new federal Iraqi government must take steps to create a modern legal environment that recognizes property rights and is conducive to privatization; educate and prepare the people of Iraq for structural economic reform and privatization through a public information campaign; deregulate prices internally, including in the utilities and energy sector; prepare state assets, including industries, utilities, transportation, ports and airports, pipelines, and the energy sector, for privatization; keep the budget balanced and inflation, taxes, and tariffs low; and liberalize and expand trade, and launch an effort for Iraq to join the World Trade Organization.

Conclusion. Economic growth will be an important contribution to the stabilization of Iraq, allowing the United States and other forces stationed there to depart after assuring that Iraq's WMD threat and repressive regime have ended. Structural reform and comprehensive privatization is a winning strategy for the people of Iraq, its future government, the region, and the United States.

—Ariel Cohen, Ph.D., is Research Fellow in Russian and Eurasian Studies in the Kathryn and Shelby Cullom Davis Institute for International Studies, and Gerald P. O'Driscoll, Jr., Ph.D., is former Director of the Center for International Trade and Economics, at The Heritage Foundation. This paper is updated from Backgrounder No. 1594, published on September 24, 2002.



No. 1633

March 5, 2003

## THE ROAD TO ECONOMIC PROSPERITY FOR A POST-SADDAM IRAQ

ARIEL COHEN, Ph.D., AND GERALD P. O'DRISCOLL, JR., Ph.D.

As the Bush Administration and Iraqi opposition groups plan the future of a post-Saddam Hussein Iraq without its menacing arsenal of weapons of mass destruction (WMD), economic issues loom large. Iraq's economy has been grossly mismanaged for 40 years, and its people desperately need an alternative strategy to supplant the failed policies of its dictator. Sound economics are needed to help them rebuild their lives and their country after two decades of wars and four decades of repression under the current regime.

Saddam Hussein's regime has succeeded in bankrupting the country even though it boasts 112 billion barrels of oil in reserves—the world's second largest after Saudi Arabia's. 1 According to some experts, Iraqi reserves can be as large as 220 billion barrels-equal to those of Saudi Arabia.2 Gross domestic product (GDP) for 2001, at the market exchange rate, however, is estimated to be only about one-third the level in 1989.3 Iraq also is hobbled by its \$140 billion foreign debt.

This devastation was wrought by such policies as the nationalization of the country's chief export

commodity, oil; extensive central planning of industry and trade; the 1982-1988 war against Iran; and the invasion of Kuwait, which precipitated the 1991 Gulf War. And Saddam still stubbornly refuses to meet the terms for lifting the economic sanctions that the United Nations has imposed on his regime.

Saddam also has succeeded in diverting at least \$6.6 billion—primarily in revenues from smuggled oil and kickbacks-to his program to develop nuclear, chemical, and biological weapons and plat-

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- 1. Carola Hoyos, "Baghdad Re-entry to Market 'Could Have Big Impact'," Financial Times, February 21, 2003, p. 6.
- 2. John Donnelly, "Planning Is Underway to Manage Iraqi Oil," Boston Globe, January 26, 2003, quoting James A. Placke of Cambridge Energy Research Associates.
- 3. U.S. Department of Energy, Energy Information Administration, "Iraq. Country Overview," at http://www.eia.doe.gov/emeu/ cabs/iraq.html.
- 4. Ibid.

forms for their delivery. He continues to support terrorist organizations, such as Hamas and the Popular Front for the Liberation of Palestine (PFLP), which the U.S. Department of State includes on its list of state sponsors of terrorism. Presumably, a post-war U.S. military presence in Iraq and Iraq's future security forces will ensure that the new Iraqi government does not continue to develop WMD and support terrorism.

The future of Iraq depends not only on the ouster of the country's repressive regime, but also on the ability of the new Iraqi leaders to reverse the damage through policies that will spur real economic growth. The sooner the threat from Saddam's WMD programs ends and the Iraqi economy recovers, the sooner the United States and the other security forces will be able to depart.

A double strategy of ensuring security and enabling economic growth will need international support. The Bush Administration should help Iraqi opposition leaders to develop an economic reform package for their country. The new post-Saddam federal government should develop a modern legal system that recognizes property rights and is conducive to privatization; create a public information campaign that prepares the people for structural reforms and privatization; hire expatriates and Western-educated Arabic speakers with financial, legal, and business expertise for key economic positions; deregulate prices, including prices in the utility and energy sectors; prepare state assets in the utility, transportation, pipeline, energy, and other sectors for privatization; keep the budget balanced and inflation, taxes, and tariffs low; liberalize and expand trade; and launch an effort to join the World Trade Organization (WTO).

#### THE TOUGH ECONOMIC ROAD AHEAD

Iraq's Lifeblood: Oil. As Chart 1 and Chart 2 show, the Iraqi economy is dominated by the oil sector, which provides more than 60 percent of Iraq's GDP and 95 percent of its hard currency earnings. The economic sanctions imposed by the U.N. in the past decade in an effort to force Saddam to give up his weapons of mass destruction not only have not worked, but also have helped to depress foreign trade.

According to the U.S. General Accounting Office, however, oil smuggling and illegal surcharges of 25 cents to 50 cents a barrel on legal oil purchases under the U.N. oil-for-food program bolster Saddam's regime. These illegal activities from 1996—2002 have provided unaccounted revenues of at least \$6.6 billion, which Saddam has been free to spend to develop WMD and support terrorism.

How much Saddam is actually spending on his deadly arsenal is hard to tell. The lack of information is so pervasive that the international financial institutions (IFIs), foreign government agencies, and private businesses that provide country economic analysis and data do not publish any official economic statistics or estimates for Iraq.

This means that no recent data on Iraqi government consumption of GDP are available. In 1993, the most recent year for which data are available, government consumption amounted to 13.9 percent of GDP. According to the Economist Intelligence Unit,

Oil revenue has been the mainstay of government income since the 1950s. In 1968 the oil-based nature of the economy was reinforced by the introduction of a centralized socialist system, with the

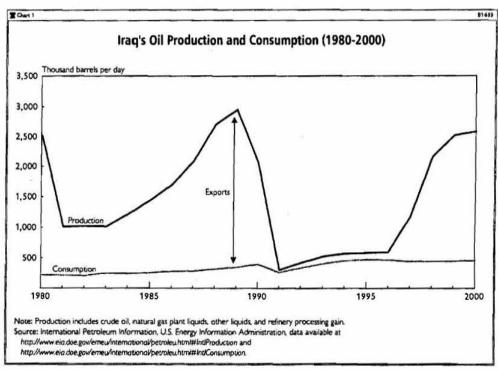
U.S. Department of State, Office of the Coordinator for Counterterrorism, "Appendix B: Background Information on Terrorist Groups," in Patterns of Global Terrorism—2000, April 30, 2001, at http://www.state.gov/s/ct/rls/pgtrpt/2000/2450.htm.

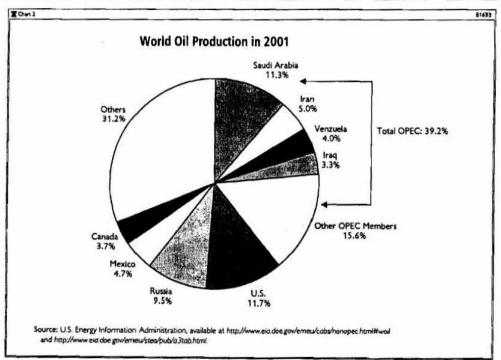
<sup>6.</sup> Energy Information Administration, "Iraq: Country Overview."

U.S. General Accounting Office, U.S. Confronts Significant Challenges in Implementing Sanctions Against Iraq, GAO-02-625, May 2002, at http://www.gao.gov/atext/d02625.txt.

<sup>8.</sup> Alix Freedman and Steve Stecklow, "Secret Pipeline: How Iraq Reaps Illegal Oil Profits," The Wall Street Journal, May 2, 2002.

Gerald P. O'Driscoll, Jr., Edwin J. Feulner, and Mary Anastasia O'Grady, "Iraq," in 2003 Index of Economic Freedom (Washington, D.C.: The Heritage Foundation and Dow Jones & Company, Inc., 2003).





government regulating all aspects of economic life other than peripheral agriculture, personal services and trade.... Meanwhile, the state's centrality to the economy has increased because the vast majority of imports and foreign exchange have been controlled by the government. 10

The socialist Ba'ath government has demonstrated gross mismanagement of the oil sector. During the 1960s, exploration stopped and the sector was nationalized, which bred corruption and mismanagement. Oil production has barely increased since 1980. In 2001, oil production stood at approximately 2.8 million barrels a day. Today, Saddam's regime controls oil exploration, extraction, refining, pipelines, ports, and all utilities, but oil export prices are set by the U.N. sanctions regime.

Taxing Imports, But Not Smugglers. The Economist Intelligence Unit notes that direct taxation has never been a preferred means of raising revenue in Iraq. 11 As the International Monetary Fund (IMF) reports, "imports are restricted by [U.N.] sanctions. All imports subject to import duty are also subject to a customs surcharge.... Imports of commodities are normally handled by the public sector." 12 Although the government of Iraq inspects and regulates all imports, a small private sector is involved in considerable smuggling and black market currency exchange activities.

Tough Investment Environment. Even though Iraq has permitted some foreign investment in its oil industry and private sector, mainly to help it rebuild from the damage of the Gulf War, it discourages most capital inflows. The legal system does not guarantee contracts. Inflation in Iraq remains high. From 1994 to 2001, Iraq's weighted average annual rate of inflation was 80.4 percent; for 2001–2002, the rate ranged from 60 percent to 70 percent. <sup>13</sup>

The government controls almost all prices, and rationing is the norm for items like food. The regime continues to distribute imported goods in what is essentially a highly centralized command economy structure, although it does retain the ability to skew the distribution of food and other items as a way to favor cronies.

There is no application of modern property rights protected by legislation and enforced through the courts. The Revolutionary Command Council (RCC) of Iraq holds all executive, legislative, and judicial authority. The RCC's chairman, Saddam Hussein, appoints a council of ministers who are theoretically vested with executive authority, but in fact they are able only to rubber-stamp the decisions of the RCC and its chairman. The judiciary is not independent; consequently, there is no check on Saddam's power to override any court decision.

# AFTER SADDAM: THE OUTLOOK FOR IRAQ AND WORLD ENERGY MARKETS

One thing is clear: Saddam's regime, obsessed with control and coercion, is destroying the wealth of the Iraqi people. After liberation from this regime, it will be important for the Iraqi people to rebuild their economy (especially the oil sector), increase GDP and improve the standard of living, attract foreign investment, and improve government services through privatization.

The Cost of Rebuilding. The cost of rebuilding the country will be high. If Operation Desert Storm reconstruction costs are used as the basis for estimation, the cost of rebuilding Iraq after Saddam's regime falls will be in the \$50 billion to \$100 billion range. 14 Together with repaying the Iraqi foreign debt (estimated at from \$60 billion-\$140 billion) and compensation costs to Kuwait and other countries (over \$20 billion), the more realistic figure is \$200 billion. 15 However, as long as structural economic reforms are undertaken, Iraq's vast oil reserves and rebuilt economy, including the

<sup>10.</sup> Ibid.

<sup>11.</sup> Economist Intelligence Unit, "Country Report, July 2002."

<sup>12.</sup> O'Driscoll et al., "Iraq," in 2003 Index of Economic Freedom.

<sup>13.</sup> Ibid.

Bill Gertz, "Tab to Rebuild Iraq, Kuwait Estimated at \$100 Billion," The Washington Times, March 4, 1991. More recent estimates confirm this range.

revamped oil sector, are likely to provide the funds needed to rebuild and boost economic growth.

Thus, the United States and the people of Iraq have the same interest at heart: maximize Iraq's economic performance. Without private ownership, however, oil will remain politicized and mismanaged. A group of Iraqi-born oil experts stated in December 2002, after a conference on the future of the Iraqi oil sector sponsored by the U.S. State Department, that

The aspiration of the group is a rehabilitated, globally connected oil and gas sector.... Oil will remain the primary source of revenue and will play a pivotal role in the country's economic reconstruction. The group recognized the need to establish a favorable investment climate and attract international and inward capital in the reconstruction and growth of the industry. It saw the importance of introducing modern technology, know-how and management skills. <sup>16</sup>

Thus, the exiles fell short of calling for post-Saddam privatization of the Iraqi economy.

Secretary of State Colin Powell has said that "The oil of Iraq belongs to the Iraqi people.... [I]t will be held for and used for the people of Iraq. It will not be exploited for the United States' own purpose...." But this does not preclude the United States from offering its guidance to the future government of Iraq on establishing sound economic and trade policies to stimulate growth and recovery. <sup>17</sup> It would be counterproductive to empower either U.N. bureaucrats or Iraqi officials loyal to the Ba'ath party and Saddam to run the Iraqi oil industry.

The Bush Administration, through its executive directors at such IFIs as the IMF and World Bank, as well as other international governmental and non-governmental organizations, should begin to advise the future leaders of Iraq's next government to establish policies that will lead to a thriving modern economy. These policies should be based on "best practices" developed around the world in the 1990s, when the largest government privatizations in history occurred.

During the Iran–Iraq War and the post–Gulf War sanctions period, Iraqi petroleum production declined significantly. Saudi Arabia filled the void, generating a net profit of \$100 billion. The funds it generated represent monies that should have benefited the Iraqi people. <sup>18</sup> (See Chart 3.)

Following the demise of Saddam Hussein, it is unlikely that the Saudi kingdom would transfer a fraction of its production quota under the Organization of Petroleum Exporting Countries (OPEC) regime to Iraq to compensate for those lost profits and facilitate its rebuilding. Iraq will need to ensure cash flow for reconstruction regardless of OPEC supply limitations. Combined with the potential privatization of the oil industry, such measures could provide incentives for Iraq to leave the OPEC cartel down the road, which would have long-term, positive implications for global oil supply.

Potential Benefits of Leaving the OPEC Regime. An Iraq outside of OPEC would find available from its oil trade an ample cash flow for the country's rehabilitation. Its reserves currently stand at 112 billion barrels, but according to the U.S. Energy Information Administration, it may have as much as 200 billion barrels in reserve. <sup>19</sup> Estimates by Iraqi oil officials are even higher: According to Oil Minister Amir Muhammad Rashad<sup>20</sup> and Senior Deputy Oil Minister Taha Hmud, the reserves could

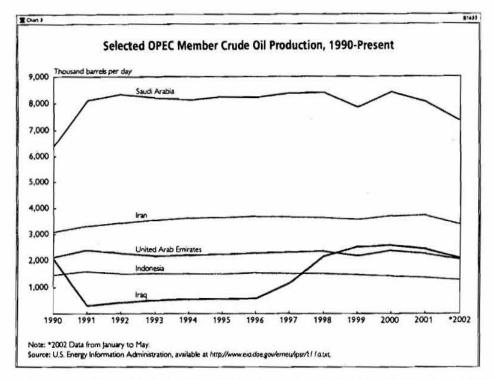
<sup>15.</sup> Julian Borger, "Post-Saddam Iraq Will Cost You, U.S. Warned," The Guardian, August 2, 2002, at http://www.guardian.co.uh/bush/story/0,7369,767755,00.html. Lawrence Lindsey, Director of the National Economic Council, is quoted as estimating a cost for the Iraq war of between \$100 billion and \$200 billion. It is unclear what is included in that figure. See Bob Davis, "Bush Economic Aide Says Cost of Iraq War May Top \$100 Billion," The Wall Street Journal, September 16, 2002, p. 1.

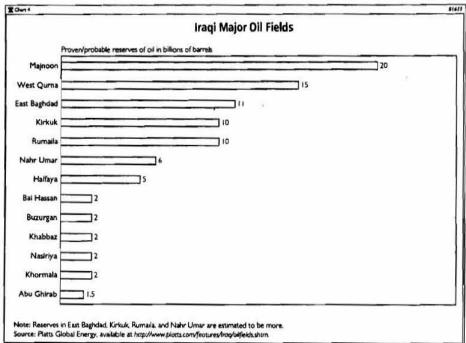
Vicki Silverman, "Iraqi Professionals Discuss the Future of Local Government and Oil," U.S. Department of State, Office of International Information Programs, December 31, 2002, at http://usinfo.state.gov/regional/nea/iraq/text/1231prof.htm.

Donnelly, "Planning Is Underway to Manage Iraqi Oil."

 <sup>&</sup>quot;Round Table on Declining Oil Prices and Its Political Consequences in the Middle East," Middle East Studies, Vol. 6, No. 1 (Spring 1999), pp. 5–36, at http://www.netiran.com/Htdocs/Clippings/Economy/990322XXFE01.html.

<sup>19.</sup> Energy Information Administration, "Iraq: Country Overview," p. 14.





be as high as 270 billion to 300 billion barrels, making them equal to Saudi Arabia's. 21

Iraq's 1990 output prior to the beginning of the Gulf War stood at 3.5 million barrels a day, while oil discovery rates on a few new projects in the 1990s were among the highest in the world: between 50 percent and 75 percent. Given Iraq's own output projections, it may be capable of pumping as much as 6 million barrels (by 2010) to 7 million barrels (by 2020) a day, more than doubling current production levels. <sup>22</sup> (See Chart 4.)

Such a surge in production may be opposed by OPEC countries, which would like to keep its quota around the current 2.8 million barrels per day, while historic market share is taken by the Kingdom of Saudi Arabia, which currently is pumping close to 8 million barrels per day. Depending on the dynamics of global economic growth and world oil output, Iraq's increase in oil production capacity could bring lower oil prices in the long term.

An unencumbered flow of Iraqi oil would be likely to provide a more constant supply of oil to the global market, which would dampen price fluctuations, ensuring stable oil prices in the world market in a price range lower than the current \$25 to \$30 a barrel. Eventually, this will be a win—win game: Iraq will emerge with a more viable oil industry, while the world will benefit from a more stable and abundant oil supply.

#### PRIVATIZATION: LEARNING FROM THE PAST

Boosting oil exports and oil industry privatization by itself still may not be sufficient for growth over the long haul. To rehabilitate and modernize its economy, a post-Saddam government will need to move simultaneously on a number of economic policy fronts, utilizing the experience of privatization campaigns and structural reforms in other countries to develop a comprehensive policy package.

Several lessons from other countries' privatization experiences are particularly relevant to Iraq's situation. Specifically:

#### LESSON #1: Privatization works everywhere.

Between 1988 and 1993, 2,700 state-owned businesses in 95 countries were sold to private investors. He is 1991 alone, \$48 billion in state assets were privatized worldwide. Privatizations led to higher productivity, faster growth, increased capacity, and cheaper services for consumers.

In one study, the World Bank reviewed 41 firms privatized by public offerings in 15 countries. This review demonstrates that privatization will increase the return on sales, assets, and equity. As privatized firms grow, they often increase their workforces. In another study, the World Bank reviewed 12 privatization efforts in four countries, and its findings again demonstrate why privatization is good for the economy as a whole, no matter where it is implemented. <sup>26</sup>

# LESSON #2: Privatization works best when it is part of a larger structural reform program.

Privatization needs to be accompanied by reforms to open markets, removal of price and exchange rate distortions, reductions in barriers to entry, and elimination of monopoly powers. In addition to these policies, governments should enact legislation that protects consumer

 <sup>&</sup>quot;Iraq's Oil Reserves Bigger than Saudi Arabia, Minister Says," BBC Monitoring, August 6, 2001, Al-Jumhuriyah Web site in Arabic, August 4, 2001.

<sup>21. &</sup>quot;Iraq's Oil Industry: An Overview," Platts, at http://www.platts.com/features/Iraq/oiloverview.shtml.

<sup>22. &</sup>quot;Iraq Building E&D Project List for Post-U.N. Sanctions Period," The Oil and Gas Journal, Vol. 95, No. 15 (April 14, 1997).

<sup>23.</sup> Hoyos, "Baghdad Re-entry to Market 'Could Have Big Impact'."

Energy Information Administration, "Privatization and the Globalization of Energy Markets," Energy Plug, at http://www.eia.gov/emeu/plugs/plpgem.html.

<sup>25.</sup> Madsen Pirie, "Privatization," Concise Encyclopedia of Economics, at http://www.econlib.org/library/encl/privatizaiton.html.

<sup>26.</sup> World Bank, "Privatization: Eight Lessons of Experience," Policy Views from the Country Economics Department, July 1992, at http://www.worldbank.org/html/prddr/outdeach/or3.htm. For the latest annual update on global privatizations, see Reason Public Policy Institute, "Privatization 2002: Putting the Pieces Together," at www.rppi.org/apr2002.pdf.

welfare. <sup>27</sup> Such successful structural reform and privatization programs were implemented in the 1990s in Poland, Hungary, the Czech Republic, and the three Baltic States, particularly Estonia.

- LESSON #3: Privatization of large enterprises requires preparation. Successful privatizations of large enterprises may necessitate such advance actions as breaking them into smaller competitive units, recruiting experienced private-sector managers, adopting Generally Accepted Accounting Principles (GAAPs), settling past liabilities, and shedding excess labor. 28
- are critical. Opaque privatization and allegations of corruption and cronyism provide political ammunition to the opponents of market-based policies. To eliminate these problems and be successful in its privatization efforts, the government must adopt competitive bidding procedures, objective criteria for selecting bids, and protocols for hiring independent privatization management firms, and establish a privatization authority with minimal bureaucracy to monitor the overall program. <sup>29</sup>
- LESSON #5: A minimal safety net is necessary to support laid-off workers and prevent social unrest. Buyouts of the state-owned enterprise's management and labor force, as well as distribution of some of the privatized firm's shares to its management and labor force, can go a long way toward alleviating social tensions that might undermine public support for

privatization.

LESSON #6: Privatization is taking place in the Middle East. Privatization is no longer limited to affluent or middle-income countries. From Margaret Thatcher's Great Britain, privatizations of state-owned assets and structural reform policies spread to many countries in Africa, Asia, and Latin America, including the Philippines, Malaysia, Jamaica, and Sri Lanka. An internal study of World Bank managers in the Middle East and North African department found that many were enthusiastic in supporting privatiza-tion efforts in their regions.<sup>30</sup> A number of Middle Eastern states, including Iraq's neighbors Turkey<sup>31</sup> and Kuwait,<sup>32</sup> are pursuing privatization of their telecommunications, transportation, utilities, and oil sectors and services, while others, such as Iran and Saudi Arabia, have declared their intentions to privatize assets and are in the policy discussion stage.33

# LESSONS FROM OIL AND GAS PRIVATIZATIONS

Oil privatization remains a politically painful issue in many countries. Economic nationalists claim oil is a "national patrimony," whereas socialists and radical Islamists call private and foreign ownership of natural resources "imperialist" and other such pejoratives. Such rhetoric has one goal: to keep a precious and profitable resource in the hands of the ruling elite, be it a communist party politburo, a dictator, or a group of mullahs.

In fact, oil is a commodity and should be managed according to the laws of economics and best business practices. Even a country as fiercely

- 27. World Bank, "Privatization: Eight Lessons of Experience."
- 28. Ibid.
- 29. Ibid.
- 30. Ibid.
- 31. See Republic of Turkey, Office of the Prime Minister, Ministry of Privatization Administration, at http://www.oib.gov.tr/.
- 32. Dr. Shafiq Ghabra, "The View from Kuwait," Middle East Forum, March 18, 2000. For more on Kuwait, see U.S. Department of Commerce, "Commercial Overview," at http://www.arabchamber.com/arab-coutnries/Kuwait/commercial\_overview.htm. See also International Monetary Fund, "IMF Concludes Article IV Consultation with Kuwait," Public Information Notice No. 00/27, April 4, 2000, at http://www.imf.org/external/np/sec/pn/2000/pn0027.htm.
- See Energy Information Administration, "Saudi Arabia," January 2002, at http://www.eia.doe.gov/emeu/cabs/saudi.html. On Iran, see "Round Table," Middle East Studies, at http://www.netiran.com/Htdocs/Clpppings/Feconomy/990322XXFE01.html.
- 34. Mary Jordan, "Drilling Stakes at Mexico's Heart," The Washington Post, January 25, 2002.

nationalist as Russia recognizes this and is undertaking the largest oil-sector privatization in history. The lessons from past experience in oil privatizations are also positive. Specifically:

ENERGY SECTOR LESSON #1: First "entitize," then privatize. The Conservative government of Margaret Thatcher successfully privatized some British oil assets in the 1980s. In the early 1990s, Russia carved up its state-run oil ministry into regional monopolies. It created joint stock companies, later selling stock to the Russians, first, and then to foreigners. The Ministry of Privatization distributed some stocks to managers and workers in order to smooth the path to privatization. Since privatization, many of these stocks, such as in LUKoil, Tyumen Oil Co. (TNK), and Yukos, have risen in price considerably.

The Russian government did not go all the way, however. For example, it did not privatize Transneft, a company that controls its pipeline infrastructure, or fully privatize some oil companies, such as Slavneft and Zarubezhneft and GAZ-PROM, the giant natural gas monopoly that boasts the world's largest natural gas reserves and controls a 90,000 km pipeline network. The partial privatization effort has led to friction between state-controlled entities and the privatized-publicly held companies over pipeline access.

ENERGY SECTOR LESSON #2: Oil privatization generates high economic efficiency and market capitalization. The results of Russian oil privatization are fascinating: While the privatized Russian oil companies significantly expanded their production and exports and significantly increased market capitalization, GAZ-PROM did not. The government-controlled pipeline operator also has had difficulty providing adequate pipeline capacity to the quickly developing oil sector.

Meanwhile, privatized Russian companies not only have attracted Western portfolio investment, but also have been more successful than GAZPROM in attracting capital for foreign direct investment. Several leading Russian publicly traded oil companies also transformed their antiquated, Soviet-era accounting practices to the GAAP standard, hired Western managers, and became centers for dissemination of Western management and accounting skills across Russia's industrial sectors.

Moreover, Russia's largest oil companies, such as LUKoil and Yukos, are fast becoming major global oil players. LUKoil recently purchased 1,300 Getty gas stations in the United States, and LUKoil and Yukos are selling American Depository Receipts (ADRs) on the New York Stock Exchange.

ENERGY SECTOR LESSON #3: Keep it clean, and keep it profitable. The major problem with the Russian oil privatization effort has been its relative opacity, especially in the early 1990s. Scandals included the oil-for-shares debacle in which Boris Yeltsin's government took loans from banks in exchange for shares of the oil companies. The government never repaid the loans, and the companies became the property of politically connected banks. 36 The insider dealing provoked a political row that discredited privatization in the public's eyes.

Other problems in Russia have been privatization through vouchers and the denial of access to foreigners in early privatization stages in order to assuage nationalists in the parliament. These policies resulted in much lower revenues (by as much as a factor of 10) than the government could have received for the privatized assets.

#### AN ECONOMIC REFORM PLAN FOR POST-SADDAM IRAQ

The Bush Administration should provide leadership and guidance for the future Iraqi government to undertake fundamental structural economic reform. This process should include a massive, orderly, and transparent privatization of stateowned enterprises, especially the restructuring and

<sup>35.</sup> The Russian government retained 38 percent of GAZPROM shares.

<sup>36.</sup> Energy Information Administration, "Russia," at http://www.eia.doe.gov/emeu/pgem/ch4a.html.

privatization of the oil sector. These steps would greatly enhance needed access to global capital markets.

U.S. political commitment will be needed to motivate international organizations to provide appropriate expertise and technical assistance. *Interalia*, these organizations could include IFIs such as the International Monetary Fund and the World Bank, and would likely encompass such diverse non-governmental organizations (NGOs) as the National Endowment for Democracy, the Center for International Private Enterprise, the American Bar Association, and the AFL—CIO.

In particular, the Bush Administration should convince the future federal government of Iraq to come to an agreement on how oil revenues are taxed and proceeds are distributed to the country's three distinct ethnic regions—the Shiite Arabs, the Kurds, and the Sunni Arabs. Successfully privatizing the country's oil fields, refining capacity, and pipeline infrastructure will mean higher efficiencies and higher tax revenues in the oil sector.

Absent massive post-war damage, it is likely that Iraq will increase its production capacity from the current 2.5 million–2.8 million barrels per day to 3.5 million–4 million barrels per day in one year and reach 5 million barrels per day by 2005. According to a Deutsche Bank story, Iraq may be able to double production given sufficient investment and technology.<sup>37</sup>

What a New Iraqi Government Must Do. The Administration, the IFIs, and other economic decision-makers should prepare and provide support for a future federal Iraqi government to:

Terminate within a reasonable period of time (no longer than six months) the U.N.-run oilfor-food program. The national oil ministry and the Iraqi National Oil company must be purged of political appointees loyal to the Ba'ath Party, to Saddam Hussein, and his Tikrit clan. The rationale for the U.N.-administered oil-forfood program was to deny Saddam a cash flow from his oil trade. The U.N. partially failed to accomplish that objective as Saddam demanded kickbacks from oil companies that traded in Iraqi oil. After the war is over, there will no longer be any need to administer the oil industry through an international bureaucracy. Moreover, when Saddam nationalized the Iraqi oil industry, he appointed numerous political loyalists and members of his clan to run the oil industry. With his regime gone, there will be no need for those individuals, who are likely to oppose the new democratic regime and lack professional qualities, to remain in positions of power.

- Re-examine contracts allocated to companies from the U.N. Security Council permanent members during the 1990s. During the period of U.N. sanctions, Saddam attempted to dismantle the U.N. Security Council sanctions regime, or "encourage" permanent members to use their veto against "punishment" of Iraq by the United States. He did this by allocating lucrative contracts for the development of giant Iraqi oil fields to companies from Russia, France and China, such as TotalFinaElf, LUKoil, and others.
- Develop a modern legal environment that recognizes property rights and is conducive to privatization. Protection and enforcement of property rights and access to successful alternative dispute resolution mechanisms are vital policies for fostering economic growth and foreign investment. Iraq also will need to build modern and well-functioning regulatory and supervisory frameworks and institutions in the oil and gas, banking, securities, and financial services areas. Such a legal and business environment should be equitable and non-discriminatory, and should not distinguish between Iraqi-Arab nationals and foreigners.

The U.S. government, its allies, and international organizations should be ready to provide technical assistance in the legal, economic policy, and public administration areas. Working cooperatively with the United States, the Euro-

<sup>37. &</sup>quot;Majors Eye Iraqi Oil and Gas Reserves as War Looms," Lloyd's List International, October 24, 2002.

<sup>38.</sup> Donnelly, "Planning Is Underway to Manage Iraqi Oil."

<sup>39. &</sup>quot;Post-War Iraq May Offer Unexpected Challenges for Oil Companies," The Oil Daily, October 16, 2002.

pean Union, and the IFIs, the post-Saddam government of Iraq will need to encourage the court system and the rule of law. It will need to provide legislation to allow the use of broad alternative dispute resolution mechanisms outside of Iraq, as the local laws may change too quickly (and the local court system too slowly) for local judges to be able to follow and apply new legislation. Education for judges about the latest legal developments in the economic area will also be important. The courts will have to improve the enforcement of court rulings independent of the executive branch. The central government will need to pay judges and court employees adequate salaries to keep corruption in check.

- Educate and prepare the Iraqi population for structural reform and privatization through a public information campaign. Only when the public, including key stakeholders, elites, and the population at large, understand the goals of economic reform will they become more receptive to change and less likely to succumb to the anti-Western demagoguery that undoubtedly will emanate from the remnants of the discredited Ba'ath establishment and Islamic fundamentalists. The new Iraqi government will need to use the media and the educational system to explain the benefits of privatization and the changes to come in order to ensure broad public support.
- Hire Iraqi expatriates, as well as other Western-educated Arabic speakers with financial, legal, and business backgrounds, for key positions in government. Examples of this approach in Eastern Europe demonstrate that Western-educated experts can implement economic reforms better than a former socialist bureaucracy can. Younger, well-educated technocrats have an advantage in their ability to communicate effectively with both locals and Westerners, including international providers of

- technical assistance. In implementing structural reform, the best results are achieved by teams of local and Western experts working together.
- Deregulate prices in Iraq, including prices in the utilities and energy sector. Quick price deregulation will be key to ensuring an adequate supply of goods for consumers and ending rationing. It will contribute to increased exports of oil and gas, which in turn will provide additional earnings and tax revenues for the central government to share among the regional and local governments.
- Prepare to privatize assets in the industrial, utility, telecommunications, banking, transportation, port and airport, and pipeline and energy sectors. The post-Saddam Iraqi government should prepare to privatize government assets by creating government-held companies instead of ministries, issuing stock for these companies, and implementing guidelines that allow for the introduction of modern management practices and GAAP standards. The central government should hire consulting firms to execute comprehensive assessments of companies it wishes to privatize in order to itemize inventory, to take stock of assets and liabilities, and possibly to settle some of their debts in preparation for privatization.

In particular, the Oil Ministry and regional oil companies should be restructured to transform them into attractive government-owned oil companies as an intermediary stage before initial public offering (IPO). For example, one company may focus its work in the southern portion of the country, another in the central region (around Baghdad) and the Western desert, and the third around Kirkuk in the North. Three more companies may be created: one to operate the pipelines, the second to operate the refineries, and the third to develop natural gas.

John C. Hulsman, Ph.D., and James Phillips, "Forging a Durable Post-War Political Settlement in Iraq," Heritage Foundation Backgrounder No. 1632, March 5, 2003.

The stages of preparation for privatization could include:

- 1. Taking inventory of assets and liabilities;
- Exercising necessary efficiency-improvement steps, such as retraining and layoffs (with compensation);
- Introducing GAAP and other modern financial and management practices;
- 4. Signing international conventions against nationalization of foreign investments, such as the Convention on the Settlement of Investment Disputes between States and Nationals of Other States (the Washington Convention), the World Bank's Convention on the Multilateral Investment Guarantee Agency (MIGA), and the New York Convention on Recognition and Enforcement of Foreign Arbitral Awards (1958);
- Issuing company stock;
- Running the companies under new, transparent, and efficient management for at least two years; and
- Taking companies on road shows and completing IPOs in major financial centers such as New York and London, and floating stock in international markets.

Given adequate implementation of each of these stages, the time frame for this privatization effort could be four to five years after the new government is installed by the people of Iraq. During this time, the U.S. government and the IFIs would have to ensure that the political will for privatization remains intact. Management and accounting consultants hired by the new Iraqi government would have to ascertain that the program is transparent and on track.

Moreover, after privatization, Iraq must demonstrate that it is not losing tax revenue and that the government's oil revenue is distributed among the regions equitably and efficiently, allocated to worthy causes, and not wasted,

looted, or abused, which could undermine the entire economic reform program.

- Keep the budget balanced and inflation, taxes, and tariffs low. International experience demonstrates that lower and flatter taxes (in the range of 20 percent or less), applied uniformly and in a non-discriminatory fashion, are an important investment magnet, especially for a country like Iraq that is rich in natural resources. Moreover, oil revenues will allow Iraq to keep the budget balanced and import tariffs low. Such a stable macroeconomic policy is likely to attract massive investment from a variety of sources, including the Middle East and Asia, not just the West, and boost income and employment.
- Liberalize and expand trade, and launch an effort to join the World Trade Organization. A study by the Council on Foreign Relations has demonstrated that a majority of Middle Eastern countries suffer from high import tariffs, red tape, and corruption—problems that depress GDP growth. Elimination of import taxes and tariffs and implementation of trade liberalization would provide an additional economic development engine for Iraq. The Bush Administration should provide technical assistance for trade liberalization and support Iraq's eventual membership in the WTO.

#### CONCLUSION

For the Iraqi people, structural economic reform and comprehensive privatization of government assets are necessary to stimulate recovery and provide stability after years of disastrous economic policies under Saddam Hussein. The winning strategy of structural reform and privatization also would benefit the industrial world, the United States and its allies, countries of the Middle East, and the developing world.

Iraq's return to global markets would allow for a more abundant and stable energy supply, a higher cash flow for the Iraqi people, and numerous business opportunities for the region and the world. Iraq's restructuring and privatization of its oil and gas sector could become a model for oil industry

Bernard Hoekman and Patrick Messerlin, "Harnessing Trade for Development and Growth in the Middle East," Council on Foreign Relations, 2002.

privatizations in other OPEC states as well, weakening the cartel's influence over global energy markets

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Bookstore	also expected to stop the moment the offensive starts," he added. Traders said however that Iraq	
	road to Jordan and through a pipeline to Syria, which are not supervised by the continuing.	le United Nations, w
	An oil expert said the United States would be the first to suffer from the halt in	

Iraqi Trade Minister Mohammad Mahdi Saleh said Monday that Baghdad has not yet decided to h production, although UN Secretary General Kofi Annan said the humanitarian program had to be  $\epsilon$ because the UN staff tasked to oversee it had to pull out of the country because of the looming US

The last UN staff left in Iraq were being pulled out yesterday.

Iraq currently has an output capacity of some 2.8 million barrels per day (bpd), of which some two can be exported. But Iraqi sales have been dwindling over the past few months with companies tu to war fears.

#### arab news

# Iraq Economy

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Iraq's economy is characterized by a heavy dependence on oil exports and emphasis on development through central planning. Prior to the outbreak of with Iran in September 1980, Iraq's economic prospects were bright. Oil p had reached a level of 3.5 million barrels per day, and oil revenues were \$\frac{3}{2}\$ in 1979 and \$27 billion in 1980. At the outbreak of the war, Iraq had amas estimated \$35 billion in foreign exchange reserves.

The Iran-Iraq War depleted Iraq's foreign exchange reserves, devastated it and left the country saddled with a foreign debt of more than \$40 billion. A hostilities ceased, oil exports gradually increased with the construction of pipelines and the restoration of damaged facilities.

Iraq's invasion of Kuwait in August 1990, subsequent international sanctic damage from military action by an international coalition beginning in Jan drastically reduced economic activity. Government policies of diverting in key supporters of the regime while sustaining a large military and internal force further impaired finances, leaving the average Iraqi citizen facing de hardships. Implementation of a UN oil-for-food program in December 195 improved conditions for the average Iraqi citizen. Since 1999, Iraq was au export unlimited quantities of oil to finance humanitarian needs including medicine, and infrastructure repair parts. Oil exports fluctuate as the regim alternately starts and stops exports, but, in general, oil exports have now re three-quarters of their pre-Gulf War levels. Per capita output and living staremain well below pre-Gulf War levels.

Economy - overview: Iraq's economy is dominated by the oil sector, which I traditionally provided about 95% of foreign exchange earnings. In the 1980s problems caused by massive expenditures in the eight-year war with Iran an oil export facilities by Iran led the government to implement austerity measu heavily, and later reschedule foreign debt payments; Iraq suffered economic the war of at least \$100 billion. After hostilities ended in 1988, oil exports g increased with the construction of new pipelines and restoration of damaged Iraq's seizure of Kuwait in August 1990, subsequent international economic and damage from military action by an international coalition beginning in J drastically reduced economic activity. Although government policies suppor military and internal security forces and allocating resources to key supporte regime have hurt the economy, implementation of the UN's oil-for-food pro-December 1996 has helped improve conditions for the average Iraqi citizen. six, six-month phases of the program, Iraq was allowed to export limited am exchange for food, medicine, and some infrastructure spare parts. In Decemi UN Security Council authorized Iraq to export under the program as much o to meet humanitarian needs. Oil exports are now more than three-quarters pr However, 28% of Iraq's export revenues under the program are deducted to:

Compensation Fund and UN administrative expenses. The drop in GDP in 2 largely the result of the global economic slowdown and lower oil prices. Per imports have increased significantly, while medical supplies and health care steadily improving. Per capita output and living standards are still well belowlevel, but any estimates have a wide range of error.

GDP: purchasing power parity - \$59 billion (2001 est.)

GDP - real growth rate: -5.7% (2001 est.)

GDP - per capita: purchasing power parity - \$2,500 (2001 est.)

GDP - composition by sector:

agriculture: 6% industry: 13%

services: 81% (1993 est.)

Population below poverty line: NA%

Household income or consumption by percentage share:

lowest 10%: NA% highest 10%: NA%

Inflation rate (consumer prices): 60% (2001 est.)

Labor force: 4.4 million (1989)

Labor force - by occupation: agriculture NA%, industry NA%, services NA'

Unemployment rate: NA% Budget: revenues: \$NA

Expenditures: \$NA, including capital expenditures of \$NA

Industries: petroleum, chemicals, textiles, construction materials, food proce

Industrial production growth rate: NA%

Electricity - production: 27.3 billion kWh (2000)

Electricity - production by source:

fossil fuel: 98.17% hydro: 1.83% other: 0% (2000) nuclear: 0%

Electricity - consumption: 25.389 billion kWh (2000)

Electricity - exports: 0 kWh (2000) Electricity - imports: 0 kWh (2000)

Agriculture - products: wheat, barley, rice, vegetables, dates, cotton; cattle, :

Exports: \$15.8 billion (f.o.b., 2001 est.) Exports - commodities: crude oil

Exports - partners: US 46.2%, Italy 12.2%, France 9.6%, Spain 8.6% (2000)

Imports: \$11 billion (f.o.b., 2001 est.)

Imports - commodities: food, medicine, manufactures

Imports - partners: France 22.5%, Australia 22%, China 5.8%, Russia 5.8%

Debt - external: \$62.2 billion (2001 est.)

Economic aid - recipient: \$327.5 million (1995)

Currency: Iraqi dinar (IQD)

Currency code: IQD

Exchange rates: Iraqi dinars per US dollar - 0.3109 (fixed official rate since market rate - Iraqi dinars per US dollar - 2,000 (December 2001), 1,910 (De 1999), 1,815 (December 1998), 1,530 (December 1997), 910 (December 1998)

subject to wide fluctuations Fiscal year: calendar year

Source: CIA The World Factbook 2002 & Department of State Background

## IRAQ GOVERNMENT



The Ba'ath Party rules Iraq through a nine-member RCC, which enacts leg decree. The RCC's president (chief of state and supreme commander or the forces) is elected by a two-thirds majority of the RCC. A Council of Minis appointed by the RCC, has administrative and some legislative responsibil

A 250-member National Assembly consisting of 220 elected by popular va a 4- year term, and 30 appointed by the president to represent the three not provinces, was last elected in March 2000. Iraq is divided into 18 province headed by a governor with extensive administrative powers.

Iraq's judicial system is based on the French model introduced during Otto has three types of lower courts--civil, religious, and special. Special courts defined national security cases. An appellate court system and the court of (court of last recourse) complete the judicial structure.

Country name: conventional long form: Republic of Iraq

Conventional short form: Iraq Local short form: Al Iraq

Local long form: Al Jumhuriyah al Iraqiyah

Government type: republic

Capital: Baghdad

Administrative divisions: 18 provinces (muhafazat, singular - muhafazah); Basrah, Al Muthanna, Al Qadisiyah, An Najaf, Arbil, As Sulaymaniyah, A Babil, Baghdad, Dahuk, Dhi Qar, Diyala, Karbala', Maysan, Ninawa, Salal Wasit

Independence: 3 October 1932 (from League of Nations mandate under Br administration)

National holiday: Revolution Day, 17 July (1968)

Constitution: 22 September 1968, effective 16 July 1970 (provisional consconstitution drafted in 1990 but not adopted

Legal system: based on Islamic law in special religious courts, civil law sy elsewhere; has not accepted compulsory ICJ jurisdiction

Suffrage: 18 years of age; universal

Executive branch: chief of state: President SADDAM Husayn (since 16 Ju Presidents Taha Muhyi al-Din MARUF (since 21 April 1974) and Taha Ya RAMADAN (since 23 March 1991)

Elections: president and vice presidents elected by a two-thirds majority of Revolutionary Command Council; election last held 17 October 1995 (nex NA 2002)

election results: SADDAM Husayn reelected president; percent of vote - 9 Muhyi al-Din MARUF and Taha Yasin RAMADAN elected vice presiden vote - NA%

cabinet: Council of Ministers; note - there is also a Revolutionary Comman RCC with eight members as of 2001 (Chairman SADDAM Husayn, Vice (

Izzat IBRAHIM al-Duri) which controls the ruling Ba'th Party; the RCC is executive and legislative body and the most powerful political entity in the RCC members must come from the Regional Command Leadership of the Head of government: Prime Minister SADDAM Husayn (since 29 May 19 Prime Ministers Tariq Mikhail AZIZ (since NA 1979), Hikmat Mizban Ibr AZZAWI (since 30 July 1999), Ahmad Husayn al-KHUDAYIR (since NA and Abd al-Tawab Mullah al-HUWAYSH (since NA July 2001)

Legislative branch: unicameral National Assembly or Majlis al-Watani (25 appointed by the president to represent the three northern provinces of Dah As Sulaymaniyah; 220 elected by popular vote; members serve four-year to elections: last held 27 March 2000 (next to be held NA March 2004) election results: percent of vote by party - NA%; seats by party - NA

Judicial branch: Court of Cassation

Political parties and leaders: Ba'th Party [SADDAM Husayn, central party Political pressure groups and leaders: any formal political activity must be the government; opposition to regime from Kurdish groups and southern S International organization participation: ABEDA, ACC, AFESD, AL, AM CCC, EAPC, ESCWA, FAO, G-19, G-77, IAEA, IBRD, ICAO, ICRM, ID IFAD, IFC, IFRCS, ILO, IMF, IMO, Interpol, IOC, ISO, ITU, NAM, OAF OPEC, PCA, UN, UNCTAD, UNESCO, UNIDO, UPU, WFTU, WHO, W WToO

Diplomatic representation in the US: none; note - Iraq has an Interest Secti Algerian Embassy headed by Akram AL DOURI; address: Iraqi Interests S Algerian Embassy, 1801 P Street NW, Washington, DC 20036; telephone: 483-7500; FAX: [1] (202) 462-5066

Diplomatic representation from the US: none; note - the US has an Interest the Polish Embassy in Baghdad; address: P. O. Box 2051 Hay Babel, Baghtelephone: [964] (1) 718-9267; FAX: [964] (1) 718-9297

Flag description: three equal horizontal bands of red (top), white, and blacl green five-pointed stars in a horizontal line centered in the white band; the ALLAHU AKBAR (God is Great) in green Arabic script - Allahu to the rip middle star and Akbar to the left of the middle star - was added in January the Persian Gulf crisis; similar to the flag of Syria which has two stars but the flag of Yemen which has a plain white band; also similar to the flag of has a symbolic eagle centered in the white band

Source: CIA The World Factbook 2002 & State Department Background N 12/01

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# Economy and Infrastructure/Public Finance Working Group Third Session

Briefing Book Revised II

Washington, DC January 24-25, 2003

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# Electricity

# **Future of Iraq Project**

#### **Economy and Infrastructure Development Workgroup**

#### Subcommittee on Electricity

Recommendations to the Post-Saddam transitional government of Iraq in preparation for a free society under a constitutional democracy

#### Prepared by

Ms. Nasreen Sideek
Mr. Baha Al-Shibib
Mr. Sadi Aburkaibeh
Mr. Rubar Sandi
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Mr. John Kanno
Faciliator: Dr. Aiham Alsammarae

DRAFT- Recommendations January 25, 2003

#### 1.0 Purpose

The purpose of this plan is to establish an outline of restoring the electricity supply to the Iraqi provinces to the normal capacity levels after the departure of Saddam's regime.

#### 2.0 Background

Around 85%-90% of Iraq's national power grid (and 20 power stations) was damaged or destroyed in the Gulf War. Existing generating capacity of 9,000 (or 9600) megawatts (MW) in December 1990 was reduced to only 340 MW by March 1991. In early 1991, transmission and distribution infrastructure also was destroyed, including the 10 substations serving Baghdad and about 30% of the country's 400-kilovolt (kV) transmission network. In early 1992, Iraq stated that it had restarted 75% of the national grid, including the 1,320-MW Baiji and Mosul thermal plants as well as the Saddam Dam. In 1998, Iraq's maximum available electric generation capacity was estimated (by Iraq) at around 4,000 MW, with a report in November 1999 indicating that this figure may have increased even further, to 6,000 MW. Despite this increase, power continues to be rationed throughout the country.

According to a report by U.N. Secretary General Kofi Annan, Iraq's power deficit stood at 1,800 MW as of August 2000, with blackouts a common occurrence. Iraq reportedly has signed contracts for renovating two generation units at the Harithah power plant, and another to rebuild the Yusufiyah plant, which stopped operating in 1990. Iraq's Electricity Authority reportedly also has signed several other contracts with Chinese, Swiss, French, and Russian companies, to build 3,000 MW of additional power generating capacity. These contracts require U.N. approval, and Iraq has claimed that the United States and Britain are blocking \$1.5 billion worth of electrical equipment it has requested. In December 2000, it was reported that a Chinese company had completed work on the Abdullah power plant north of Baghdad. In October 2001, it was reported that Russia's Mosenergomontazh was working to modernize Iraq's Southern Heat and Power Plant in Najibia, Basra province. The project aims to add 200 MW of generating capacity to Iraq's grid. In August 2002, the Najaf governate in southern Iraq announced that two new power plants, with a combined capacity of 20 MW, had come online.

The above data was obtained from US DOE. This data can be viewed at www.eia.doe.gov/emeu/cabs/iraq.html.

#### 3.0 Current Situation

Currently within the framework of Security Council Resolution 986 (1995), the United Nations Development Program (UNDP) through the UN Department of Economic and Social Affairs (UNDESA) is responsible for the observation in the 15 governorates in the Centre and South of Iraq, of electricity equipment, procured and installed by the Government of Iraq. UNDESA is also assisting in the implementation of the SCR 986 also known as the Oil-for-Food Program, part of which permits the Government of Iraq to rehabilitate the electricity systems in the central and southern regions of the country.

An estimated US\$10 billion is to be required for the repair of the electricity sector to restore it to pre-Gulf War level of generating 9,600 MW. However, only a total of US\$ 4.7 billion has been allocated for the electricity sector since the beginning of the Oil-for-Food

Program in 1996. Only US\$1.67 billion worth of material has arrived in Iraq, but only 60% has been implemented.

At the onset (Phase I-V), the allocation focused on meeting the emergency requirements of the power stations and distribution system. From Phase V onwards, equipments to rehabilitate the facilities were being procured.

The program is currently covering some 21 power plants and distribution sites in Centre/South Iraq, which have an available generating capacity of 3,700 MW.

Not all the details are available for the activities in all parts of the country. However, it was made possible to include details of activities in Iraqi Kurdistan courtesy draft report by Ms. Nasreen Sideek. For more details of the status of Iraqi Kurdistan electricity restructuring refer to Attachment 1 of this report.

In the three northern Kurdish governorates of Dohuk, Erbil and Sulaymaniyah, UNDP is directly implementing the Electricity Network Rehabilitation Program (ENRP) in cooperation with the Local Kurdish Electricity Authorities, which aims at rehabilitating the electricity network across the four main sectors of generation, transmission, substations, and distribution. Capacity building is addressed as across cutting theme.

As of 29 March 2002, electrical equipment valued at over US\$224 million (out of the US\$871 million budget) had arrived in the area, of which 82% had been distributed to installation sites.

In 1999, UNDP was requested to expand ENRP's mandate to address the generation shortfall in the region resulting from the onset of drought in late 1998 and to ensure a minimum humanitarian level of electricity to the population in Iraqi Kurdistan. The severity of the drought and its continuation for over three years has rendered the hydro generation resources in the north incapable of supplying the most basic electricity requirements of the population.

In response to the need arising from this shortfall and within the premises of its added mandate, UNDP in 1999 was able to procure 1,150 small diesel generators, which has a total installed capacity of over 100 MW, for installation across the three Kurdish governorates. These generators are supplying electricity to all major hospitals and health centres in Iraqi Kurdistan and has directly benefited a population of over 1 million (consumers have now continuous access to water and are receiving a limited supply of electricity for eight hours per day).

In 2001, UNDP was able to commission three 29 MW diesel power stations, which have improved the overall generating capacity for the Kurdish region. Water levels have increased during the past winter (2001-2002), which have contributed to the optimisation of the Dokan and Darbandikhan dams and hydro power stations in Sulaymaniyah. The dams will generate 200 MW from the previous 50 MW and will supply both Erbil and Sulaymaniyah. Dohuk is already connected to the national electricity grid.

Major rehabilitation work of the remaining networks and the distribution transformers and limited expansion are planned under several stages with the allocated funds from Phases X and XI. Due to the nature of the works, the distribution sector is very much dependent on the human resources of the Local Electricity Authorities. In this context, the project has been heavily involved in capacity building and training in addition to the planning and design works that the sector requires.

#### 4.0 Scope of this Plan

The scope of this plan is to meet the following objectives:

- To restore the availability of the electricity of Iraq to an acceptable level by rehabilitating and strengthening the generation, transmission system, substations, and distribution systems.
- To install sufficient additional generation capacity to address the normal, emergency, and industrial requirements in Iraq.
- To restore the capability of the local Electricity Authorities in the country to a sufficient level whereby they can sustain the operation and maintenance of the overall power system.

The specifics of the plan for the overall power system are outlined as follows.

#### Generation

To increase the generation capacity of the national grid by rehabilitating existing power stations and installing additional generation facilities. A feasibility study should be performed to evaluate the alternatives of generation types and investment involved. As a minimum it must address that the minimum emergency and humanitarian electricity requirements are met.

#### Substations

To provide safe, reliable and efficient 132/33/11kV and 33/11kV substation installations, to accommodate the rehabilitated transmission and distribution systems and to allow for future system expansion resulting from increased generation capacity. Other transmission line voltages may need to be reviewed to justify economics.

#### Transmission

To rehabilitate, re-establish and/or install new overhead lines (or underground lines) to restore the transmission network and if possible augment the reliability of the system.

#### Distribution

To rehabilitate, reinforce and develop the power distribution network in order to meet the consumer, emergency and industrial demands with acceptable efficiency and reliability.

#### Sustainability

To protect the integrity of the assets by operating and maintaining them in accordance to prudent working practices. This may require attracting experienced and trained resources from local and international market at the beginning stages of restoration. Local skills will have to be developed through on the job learning until confidence is established to operate efficiently and economically. An execution plan for this task will have to be in place during the transitional period.

#### 5.0 Execution Plan

Iraq's current state of Electricity requires a complete restructuring in terms of adding new generation capacity, adding new transmission line capacity, adding modern substations, and adding new communication system. While the addition of power capacity infrastructure is being planned, the existing infrastructure will have to be refurbished and reinstated to meet the immediate power demand. The strategy to optimize the investment in the new and refurbishment infrastructure needs be evaluated. A strategy plan will have to be in place before the structuring of investment plan is discussed.

The focus of this plan is limited to the scopes identified in Section 4.0. Therefore, a plan for the scopes identified in Section 4.0 is included in this section.

#### Generation Capacity

Meet the power demand of today. Our objective is to meet the additional capacity within the first two years of post Saddam regime.

In order to accomplish this scope, an assessment of the existing generation capacity is required. Based on information available, it is estimated that the current capacity (as of 2001) stands at 5375 MW (we need further verification of this data). According to Ms. Nasreen, the 1990 capacity was 8967 MW. Based on the USDOE report, if the 3000 MW new capacity contract is already in place, this brings the existing capacity to about the original capacity of 1990 (5375+3000+200+20=8595). This however does not include all the demand growth over the years as well as industrial load growth for the post Saddam economic plan. If it is estimated to have a load growth of 1.05% over a year (based on load growth of Sulaymanyah, published in the document sent by Nasreen), an additional capacity of approximately 13% should be added to the 1990 capacity. This results to an estimated 2002 capacity to approximately 10,170 MW. A deficit of approximately 1575 MW will still have to be addressed as new capacity to meet the demands of electricity of 2002. The actual number will have to be verified by a thorough survey of the existing capacity and ongoing project developments.

The challenge is to reach a capacity of over 10,000-10,200 MW (rounded from 10,170 MW). The additional capacity is a resultant of the survey that will be needed at a given point in the implementation phase. It is my estimate that the additional capacity building for the first two years may range from 2000-3000 MW if status of above data is true, whereas it may range 3000-4000 MW if the data shown above is inaccurate and the status of plants in operation are not in the best of their health to continue service for the next five years.

We need to verify the following information in order to successfully estimate the additional generation capacity needed to normalize the consumer demands for electricity:

- The actual data so that the new capacity to meet the 2002-2004 power demands can be assessed.
- The verification of the status of the power plants currently in operation. Their absolute health and life expectancy will help in assessing the real capacity available by 2004.
- Verify the status of the 3000 MW contracts as stated above. What are the
  deadline (operation date), cost, and technology.
- Review contracts and progress of UNDP projects for the Electricity Network Rehabilitation Program in Northern Iraq.
- Review contracts if necessary to expedite commissioning dates or revive contract currently under UNDP or entered by Saddam regime.

#### Substations

All of the substations will be reviewed to evaluate the situation to deliver power to the customers. The equipment conditions of the substations in operation will be evaluated.

Based on the conditions of equipment and its interface requirements, the upgrade will be recommended. Special effort will also be made to improve the reliability of the power delivery. To accommodate expansion of load demands as well of completely demolished substations, effort will be made to install state of the art substation technology. All investments for the substations will be reviewed to justify economics and reliability.

#### Transmission System

All of the transmission lines will be reviewed to evaluate the situation to deliver power to the load centers. The equipment conditions of the transmission lines in operation will be evaluated. Based on the conditions of equipment and its interface requirements, the upgrade will be recommended. Special effort will also be made to improve the reliability of the power delivery. To accommodate expansion of load demands as well of completely demolished transmission lines, effort will be made to re-evaluate the transmission voltage levels and efficiency of transmission. All investments for the transmission lines will be reviewed to justify economics and reliability.

#### Distribution System

The existing 11 kV and 0.4 kV network are generally consisted of overhead lines and are determined to be in worst condition due to numerous reasons (such as failures, damages, lack of spares, inadequate resources to repairs, etc.).

Distribution transformers are extensively over loaded and operated with inadequate protection. Extensive upgrade will be needed to improve electrical protection. The effort will be placed to replace overloaded transformers with higher ratings and also minimize loads by re-distributing the loads through other transformers. Also, plan to overhaul overstressed transformers will be needed to salvage old transformers.

#### Sustainability

Local skills will be developed through on the job learning until confidence is established to operate efficiently and economically. An execution plan for this task will developed to train all local resources within a period of 2-3 years. All investments for the training will be reviewed to justify economics.

#### 6.0 Investment Plan

The objective of this section is to recognize that a review of the overall system status will be needed to assess the state of the current power system grids and generation capacity and identify the future need until 2010 in the electricity sector in Iraq. Once these data are available, an effective and economic investment plan shall be recommended in a report at a later stage.

UNDP and Local Electricity Authorities are carrying out a program of various rehabilitation and maintenance activities to develop and enhance the electricity system in their respective areas. A survey report will be needed to identify the state of these activities in various parts of the country. Based on this survey recommendations will be made to address the problems.

This report does not identify or recommend the type of generation capacity whether thermal or gas will be installed for new generation capacity. Every indication of the physical limits and the popularity, it seems highly likely that the Gas Turbines will be the candidate for the newly installed generation capacity. Also, combined cycle generation will also be a candidate for capacity expansion for the thermal generating units. It seems that hydro generation will not be a practical option for the initial new capacity installations.

Investment plans for the electricity sector shall be driven by funds from the state and will be regulated. Future planning should include privatization of the electricity sector. In this respect, our planning for investment should include the capacity building that restores the demand for 2004. We should also establish plan for meeting energy demand requirements of year 2010. It is expected to see a rapid rise in demands once industrial growth begins to shape up after the Saddam regime.

This report is not projecting any figures for investment since all data and resources are not available at this time. With further developments and involvements we should be able to gather overall national data and estimate a budgeted figure for the total investment. These will be developed through active involvement of local authorities and experts at a given point in time in the near future.

#### 7.0 Conclusion and Recommendations

The restoration of capacity and infrastructure should be accomplished within two years of post Saddam regime. This restoration of capacity will include the new lost capacity that would result from the widely anticipated and inevitable war in the immediate future. It also expected to restore all emergency load demand in the least amount of time. The emergency load demands may be addressed based on priority scheduling.

The ongoing projects and other list of projects that were generated by the local authorities will be used to establish the projects necessary to restore the electricity infrastructure. Additional survey and independent evaluations will be performed to finalize the scope and investment of the projects. Emphasis to technical and economical justification will be given to all short-term (less than two years) and long-term (over 5 years) project planning.

Investment plans for the electricity sector shall be driven by funds from the state and will be regulated. However, future planning should include privatization of the electricity sector. In this respect, our planning for investment should include the capacity building that restores the demand for 2004 with limited projections to the load growth that are expected to increase due to rapid expansions in the industrial sectors (such as Oil, irrigations, processes, etc). It is expected to see a rapid rise in demands once industrial growth begins to shape up after the Saddam regime. The planning should also focus on the additional energy rebuilding that would result from the inevitable war in the immediate future. It is estimated that an additional rebuilding may range from 20 to 30 percent of the total capacity as a result of the anticipated war. We should also establish plan for meeting energy demand requirements of the year 2010.

The developments in the electricity sector of Iraqi Kurdistan are detailed in the draft report by Ms. Nasreen Sideek. This draft report is made part of this report as Attachment 1.

**ATTACHMENT 1** 

(Ms. Nasreen's Draft)

#### DRAFAT

### **Investment Plan**

# Rehabilitation of Electricity sector in Iraq Case Study Iraqi Kurdistan

#### CONTENT

- Situation report
  - Electricity in Iraq Today
  - The electricity network rehabilitation program (ENRP) in Iraqi Kurdistan
- Program Objectives
- Case Study Iraqi Kurdistan
  - Executive Summary
  - Problems to be addressed
  - Planned activities
  - Implementation Methods
- Detailed Investment Plan for Iraqi Kurdistan
  - Introduction
  - Current situation
  - Options for additional generation capacity
  - Short term plan for expansion
  - Medium and long term plan for expansion

#### SITUATION REPORT

#### **ELECTRICTY IN IRAQ TODAY**

Today and within the framework of Security Council Resolution 986 (1995), the United Nations Development Program (UNDP) through the UN Department of Economic and Social Affairs (UNDESA) is responsible for the observation in the 15 governorates in the Centre and South of Iraq, of electricity equipment, procured and installed by the Government of Iraq. UNDESA is also assisting in the implementation of the SCR 986 also known as the Oil-for-Food Program, part of which permits the Government of Iraq to rehabilitate the electricity systems in the central and souther regions of the country.

An estimated **US\$ 10 billion** is required for the repair of the electricity sector to restore it to pre-Gulf War level of generating **9,600 MW**. However, only a total of US\$ 4.7 billion has been allocated for the electricity sector since the beginning of the Oil-for-Food Program in 1996. Thus far, half of this has been available and utilized. To date, US\$4.7 billion worth of applications has been received, out of which US\$2.5 billion has been approved. US\$1.67 billion has arrived in Iraq, but only 60% of that has been implemented.

At the onset (Phase I-V), the allocation focused on meeting the emergency requirements of the power stations and distribution system. From Phase V onwards, equipments to rehabilitate the facilities were being procured.

The program is currently covering some 21 power plants and distribution sites in Centre/South Iraq, which have an available generating capacity of 3,700 MW.

In the three northem Kurdish governorates of Dohuk, Erbil and Sulaymaniyah, UNDP is directly implementing the Electricity Network Rehabilitation Program (ENRP) in cooperation with the Local Kurdish Electricity Authorities, which aims at rehabilitating the electricity network across the four main sectors of **generation**, **transmission**, **substations**, **and distribution**. Capacity building is addressed as across cutting theme.

As of 29 March 2002, electrical equipment valued at over US\$224 million (out of the US\$871 million budget) had arrived in the area, of which 82% had been distributed to installation sites.

In 1999, UNDP was requested to expand ENRP's mandate to address the generation shortfall in the region resulting from the onset of drought in late 1998 and to ensure a minimum humanitarian level of electricity to the population in Iraqi Kurdistan. The severity of the drought and its continuation for over three years has rendered the hydro generation resources in the north incapable of supplying the most basic electricity requirements of the population.

In response to the need arising from this shortfall and within the premises of its added mandate, UNDP in 1999 was able to procure 1,150 small diesel generators, which has a total installed capacity of over 100 MW, for installation across the three Kurdish governorates. When operated, these generators supply a daily average of 18MW or 14,000kW hrs of electricity. These generators are supplying electricity to all major hospitals and health centres in Iraqi Kurdistan and has directly benefited a population of over 1 million (consumers have now continuous access to water and are receiving a limited supply of electricity for eight hours per day).

In 2001, UNDP was able to commission three 29 MW diesel power stations, which have improved the overall generating capacity for the Kurdish region. Water levels have increased during the past winter (2001-2002), which have contributed to the optimisation of the Dokan and Darbandikhan dams and hydro power stations in Sulaymaniyah. The dams will generate 200 MW from the previous 50 MW and will supply both Erbil and Sulaymaniyah. Dohuk is already connected to the national electricity grid.

Major rehabilitation work of the remaining networks and the distribution transformers and limited expansion are planned under several stages with the allocated funds from Phases X and XI. Due to the nature of the works, the distribution sector is very much dependent on the human resources of the Local Electricity Authorities. In this context, the project has been heavily involved in capacity building and training in addition to the planning and design works that the sector requires.

#### PROGRAM OBJECTIVES

- To bring the levels of reliability and availability of the electricity network in Iraq to acceptable international levels by rehabilitating and strengthening the generation, transmission lines, substations and distribution systems.
- To install sufficient additional generation capacity to address the emergency humanitarian requirements in Iraq.
- To develop the capacity of the local Electricity Authorities in the country to a sufficient level whereby they can sustain the operation and maintenance requirements of the electricity network.

#### Program Support Objective 1 (Generation)

To increase the generation capacity of the network by rehabilitating existing hydro power stations and installing additional generation facilities (of a permanent or temporary basis) as required and ensuring that the minimum emergency and humanitarian electricity requirements are met.

#### Program Support Objective 2 (Substitutions)

To provide safe, reliable and efficient 132/33/11kV and 33/11kV substation installations, to accommodate the rehabilitated transmission and distribution systems and to allow for future system expansion, with increased generation capacity.

#### Program Support Objective 3 (Transmission)

To rehabilitate, re-establish and/or install new overhead lines as required to restore the network to a safe operational level, by taking into account emergency and humanitarian as well as future requirements.

#### Program Support Objective 4 (Distribution)

To rehabilitate, reinforce and develop the electricity distribution network in order to make it capable of meeting the electricity demand of public utilities, domestic consumers and other consumers in a safe, reliable and efficient manner while at the same time ensuring sustainable development.

# Program Support Objective 5 (Sustainability of the program) Through good stewardship of the assets and capacity building

To protect the integrity of the assets by operating and maintaining them as required in accordance with prudent international practice, until such time as they can be handed over. Also to enhance the capacity of local electricity authorities to a level whereby they can sustain the operation and maintenance requirements of the network. Emphasis would be on: (a) skills improvement, and (b) management.

#### CASE STUDY - IRAQI KURDISTAN

#### 1. THE ELECTRICITY SITUATION IN IRAQI KURDISTAN

Prior to the imposition of sanctions on Iraq, the three northern Kurdish governorates of Dohuk, Erbil and Sulaymaniyah were supplied with electricity from the Iraq national grid. Two hydropower stations were constructed in the Sulaymaniyah Governorate to serve as peaking stations during periods of high demand; the Dokan dam was built in 1975 and the Darbandikhan dam in 1987. The maximum combined total generation capacity of these two power stations is 649 MW.

The three northern Kurdish governorates were supplied with power from several high voltage 132 kV transmission lines from the governorates of Mosul and Kirkuk. These lines fed into 132-33 kV transmission substations from where the energy was then distributed.

As the electricity system of IK was part of the Iraq national grid, technical support was centralized and provided from Baghdad. Teams located at either Mosul or Kirkuk provided maintenance of the system in the north and the northern staff carried out system operation and fault repair.

In 1991, the electricity supply system in IK suffered severe damage. Several distribution and transmission lines were put out of commission, many substations were destroyed, and the control panels at the Darbandikhan power station were ruined by explosives.

By early 1998, the electricity generation, substations and transmission and distribution systems became very weak and power cuts of up to five hours were a regular practice. In certain areas, supply was limited to three to five hours daily, further reduced to one hour per day or no supply in some areas.

The governorates of Erbil and Sulaymaniyah had been cut off from the national grid and had to rely on the hydropower stations of Dokan and Darbandikhan for their power supply. The generation capacity of these dams, however, was insufficient to meet the demand. The governorate of Dohuk was still linked to the national grid but received very little supply. The result was a combined shortfall in electricity supply for the three northern governorates of about 350 MW.

The impact of the shortfall in supply in the north was further exacerbated by heavy losses of electricity resulting from the state of the transmission and distribution networks: smashed towers, kilometers of cables and conductors stolen, shattered insulators, several substations vandalized while others totally or partially destroyed and burnt out distribution transformers.

To add to the fragility of the system the drought that affected the region from 1998 to 2001 had severely affected water levels in the reservoirs serving the two-hydropower stations Dokan and Darbandikhan. With increased rainfall in late 2001 and beginning of 2002, inflows to the two dams have increased considerably, allowing for electricity generation. However, the system is not ready to absorb the increased supply. As a result, although there is more electricity available it may not necessarily reach the consumers.

#### 2. PROBLEMS TO BE ADDRESSED

#### a) Dam and Hydro Power Stations

Following the disconnection from the Iraqi national grid, the governorates of Erbil and Sulaymaniyah were solely supplied by the two-hydropower stations of the Dokan and Darbandikhan dams. The structural integrity of these two dams was the first priority to be addressed under the ENRP. Both dams and associated power stations sustained considerable damage and suffer from lack of spare parts and funds to ensure proper maintenance. They are in need of major and urgent rehabilitation.

#### b) Transmission network

The electricity supply system is configured to receive supply through 132 kV and 33 kV overhead lines. After the disconnection from the national grid, to access the power generated at the Dokan and Darbandikhan hydro power stations, the Local Electricity Authorities had to construct major new line circuits out of salvaged material. Unfortunately these works were affected with minimal regard to engineering design. The emergency nature of this construction had two important consequences- (i) some outlying areas were left without supply, and (ii) the quality of power supply is well below acceptable norms.

In their present state, these 132 kV and 33 kV networks constitute a hazard to the public and electricity workers, and place severe operating conditions on all electrical plants and equipment. The system may collapse at any time and is presently only just operable due to limited generation outputs. Therefore, a comprehensive program of rehabilitation needs to be implemented to upgrade the condition of the 132 kV and the 33 kV systems, and to build new 132 kV and 33 kV lines. These are required to feed new substations already in progress and to enable the return of power supply to those regions that had electricity before the hostilities.

#### c) Substation

The power injection to the medium voltage network is provided from a large number of substations, originally planned and designed geographically to cover most of the load centers in the area. Many substations were badly vandalized and in some cases totally looted or destroyed during and after the disturbances. This had a direct impact on the network design and stability.

Some of the substations are in general good condition and only need partial refurbishment. However, most will have to be rebuilt in either their present location or on sites which are more suitably located to the load centers.

#### d) Distribution

The main problem facing the distribution network is the deteriorated state of its existing infrastructures. Lack of investment in improving the network, considerable load growth and poor maintenance work during the last 10 years have resulted in overloading of the system and increasing the frequency of failures and outage duration. The present power system operates with comparatively high system losses of about 23%. It is estimated that about 17% of these are in the distribution system. As a result, the excessive system voltage drops are keeping the efficiency of the operation of consumer appliances very low.

Another important issue facing the distribution network is the need to build new 11 kV and 33 kV lines in order to restore proper connections to existing substations (transmission and distribution lines using their design voltage levels) as well as to connect newly built substations to the network.

The distribution network needs to be expanded to include: households located close to the existing distributions networks, but not connected to the networks so far due to either limited capacity of the existing plant or due to shortage of materials to implement the electrification schemes. Another challenge is to connect the households located in areas, which had electricity before, but lost it when the distribution facilities were destroyed during the hostilities; and, households located in remote areas that are not electrified so far.

#### e) Generation

Over and above the needs of the network and its infrastructures, the most obvious problem of the electricity system in the northem Kurdish governorates is the lack of sufficient generation. The estimated base load requirement above the combined realistic sustainable output of the existing power plants is 350 MW. At an estimated \$800,000 per MW, this would entail an expenditure of about \$280 million, although the options actually available could reach beyond this figure.

#### 3. PLANNED ACTIVITIES (subject to fund availability)

To address the above-mentioned problems, the following activities need to be undertaken:

- a) Build 1,675 km of 132 kV and 33 kV transmission lines.
- Rehabilitate 1,179 km of 132 kV and 33 kV transmission lines, and restore 140 km of 132 kV lines to their original design voltage.
- c) Rehabilitate and build 70 substations (the ENRP intends to commission a first tranche of 8 substations by October 2002, 19 additional substations by February 2003, 18 additional ones by June 2003 and the remaining 25 substations by June 2004).
- d) Rehabilitate 16,095km of distribution lines (33kV, 11kV, Dist Trans and LV).
- e) Build 1,720 km of new distribution lines (33kV and 11kV).
- Rehabilitate two dams and their hydro power stations.
- g) Install diesel power plants (3x29 MW for each of two stages).
- h) Install 256 diesel generators (38 MW) for water pumping, 172 (17 MW) for health utilities, and around (8-10 MW) for domestic consumption.
- Establish one system control center and one network communication system
- j) Procure large quantities of parts and spares
- bevelop the capacities of the local electricity authorities in the region to sustain the
  efficiency being visualized under the rehabilitation and strengthening projects by skills
  development to install, operate and maintain the systems scientifically.

#### 4. IMPLMENTATION METHODS

Currently, as per the Memorandum of Understanding between the United Nations and the GOI that codifies the practical arrangements for the implementation of the Oil-for-Food Program, UNDP is responsible for the entire procurement, installation and commissioning of electrical equipment, along with storage of spare parts, necessary for the rehabilitation of the electricity network in the three Kurdish northern governorates.

There are currently twenty seven ongoing projects with several international large-scale tenders to be issued this year. A large number of these projects are/will be implemented through turnkey contracts with international engineering companies. Other smaller projects are/will be implemented directly by the ENRP in cooperation with the Local Electricity Authorities.

For the future IDRC should oversee the operations of the New Government Departments.

#### a) Procurement procedures

Procurement of Goods, Works and Services will be carried out by IDRC through International Competitive Bidding modalities as applicable under International Financial Regulations and Rules, FIDIC is what is used in Iraq.

The firs step in the procurement process in normally represented by the publication on the either a invitation for Expressions of Interest (EOI), for services, or an invitation to apply for prequalification (Request for Pre-qualification) in the case of provision of goods, works and supply & installation services.

Short-listed or pre-qualified companies/suppliers are then invited to submit a formal bid for the supply of goods, works and supply & installation services, as applicable.

Formal solicitations to submit bids/proposals are normally issued to pre-qualified/short-listed firms as:

- Request for Proposal (RFP), for the provision of services and/or works, including supply & installation of equipment; and
- Invitation to Bid (ITB), for the supply of goods, works, materials and/or plant.

#### b) Contract execution

Briefly, the main modalities followed in Iraq for contracts execution are the following:

- Turnkey contracts for the engineering design, supply and installation of electromechanical equipment and/or plant;
- Supply contracts for equipment, materials, plant and vehicles;
- Supply and Installation contracts for electromechanical equipment and plant;
- Consultants' Services contracts for employment of consultants' firms; and
- Special Service Agreements for appointment of freelance specialists or Reimbursable Loan Agreement with companies for appointment of their professionals.

#### DETAILED INVESTMENT PLAN FOR IRAQI KURDISTAN

#### 1. INTRODUCTION

The objective of this report is to review and summarize the state of the various sectors of the current electrical network, and identify weaknesses with the view of proposing necessary plans to meet current and future need until 2010 in the electricity sector in Iraqi Kurdistan.

UNDP and Local Electricity Authority are carrying out a program of various rehabilitation and maintenance activities to develop and enhance the electricity system in the area. For the future, projects planned under current cooperation program between the UN and KRG should continue.

Most information at this report is based on a study conducted by the Australian Consultant Company (SMEC). In 1998, SMEC completed a major survey of the network in the three Kurdish Governorates. The survey aims at identifying the state of the various sectors of the electrical network, and make recommendation to address the problem, the recommendation of this study were shared with the Local Electricity Authorities and are currently used as a general guideline for the planning of future activities.

#### 2. CURRENT SETUATION

#### RELIABILITY:

The reliability of plants and equipment in the traqi Kurdistan is weak due to the following:

- Shortage and lack in power generation.
- Lack of protection.
- Excessive over load
- Lack of maintenance & spare parts
- Communication problems
- Shortage of tools and vehicles
- Shortage of transmitions lines and transforming capacities

#### LOAD:

As a result of natural load growth of 1.05% per year the load on Sulaymaniyah–Erbil was estimated to rise from 480 MW (in year 1998) to about 500 MW in 2003 and 530 MW in year 2008 these figures should be increased by about 400 MW for load shedding to gibe an unsuppressed (no load shedding) maximum demand requirement at generation level of 940MW.

The maximum demand on the Dohuk system was 90MW (in year 1998), if Dohuk load are included then the unsuppressed maximum demand requirement at generation level in the long term became, 1140 MW.

#### TARIFFS:

The low price of electricity has resulted in extravagant usage of electricity in northem Governorates, the amount and reliability of electricity supply available to people will reduce substantially until new generation becomes available.

#### 3. GENERATION & SOURSES

Electricity power resources in Iraqi Kurdistan currently are limited to:

- There are two hydro station located in Sulaymaniyah Governorate, Dokan (5X80MW) and Darbandikhan (3X83MW), the maximum power supplied by these two stations (with full storage) is 566 MW and due to deteriorated state of the power station the available power becomes less than 480 MW.
- Three station of 29 MW diesel generation plant (one station for each Governorate).

The availability of power from the National grid via Mosul is supplied only to Dohuk Governorate and the availability of power is politically controlled, however there is regular load shedding in Dohuk.

The only options for increasing the power generation in Iraqi Kurdistan are:

- Hydro Generation plant provided.
- Thermal Generation plant provided.
- Re-connection with the National grid.

For reconnecting Sulaymaniyah-Erbil 132 kV network with the National grid, studies have been made concerning the over all cost of the items and supplies needed to this reconnection as a turn-key project implemented by foreign companies, and the preliminary estimates as follows:

#### Reconnection through two line as a first step at a total cost of \$ 15 million as follows:

- Taamem Governorate-Taslujah, at a cost of \$ 8 million
- Dibs-Erbil, at a cost of \$ 7 million

Reconnection through three lines at a total cost of \$ 23.5 million that is to say the Taameri— Taslujah and Dibis-Erbil Lines at the same cost as above, with the addition of a Qaraqush-Erbil line at a further cost of \$8.5 million.

#### 4. TRANSMISSION LINES

In any electricity supply program the transmission network is the key to the transmission of electrical energy from the generating source to the load centers and they are designed for high reliability.

Generally there are few numbers of 132 kV & 33kV transmission lines, in the area, some of 33 kV even 11kV feeders are supported on the 132 kV towers until these towers are required for the 132 kV system. Some section of the 132 kV and 33 kV transmission system have been extensively damaged, the forms of damages are:

- Steel towers destroyed or damaged
- Steel work missing on towers.
- Conductors and earth wire missing.
- 4. Insulators broken

Because of a shortage of materials and equipment, temporary repair have been made which are substandard and which leave the system in an unreliable state.

Bellow is review of details regarding the existing 132kV& 33kV transmission lines

Governorate	132 kV	T.L	33 kV T.	
Governorate	No.	Length (km)	No.	Length (km)
Erbil	7	434	20	233
Sulaymaniyah	13	577	22	303
Dohuk	6	315	9	265
Total	26	1326	51	801

#### 5. SUBSTATIONS

Substations form the power injection point to the distribution network. All the substations in the area are in deteriorated condition requiring immediate rehabilitation and in many cases, augmentation too; loads in most of them have exceeded the firm capacity. Some of them are mobile substations.

The existing 33 kV and 11 kV circuit breakers are in poor condition and require replacement as a matter of urgency, these equipment were purchased in 1970 and has exceeded its normal life cycle, most are operated manually and they are severely at risk due to the inability to isolate faults.

The 132 kV circuit breakers at north Erbil S/S and old Dohuk S/S are very old and the company has now been taken over several times and it is extremely unlikely that a supplier will be able to provide the necessary spare parts.

Following are the details regarding the existing 132 & 33 kV substations:

Governorate	No of 132 kV S/S	No. of 33kV S/S
Erbil	4	14
Sulaymaniyah	9	22
Dohuk	3	13
Total	16	59

#### 6. DISTRIBUTION

The L.V network is the most important part of the distribution system it is important that it is designed to meet the potential customer load and the quality and standard of supply is adequate as regards reliability and voltage limits.

Generally the existing 11 kV & 0.4 kV network in the area are overhead lines and they are in bad condition due to past damage and lock of materials necessary for appropriate repairs or preventative maintenance.

Distribution transformers are extensively over loaded and most of them with out protection, they urgently need an upgrade of their electrical protection. Poor voltage levels below the allowable limits affect various section of the distribution network.

This has caused poor supply voltages to consumers in these areas, causing various problems in the use of electrical equipment.

#### 7. COMMUNICATION

Communication is poor, in many cases reliant on the sub-standard local phone network, power line carries (PLC) &(VHF) systems covers sub-station but only few are working, parts are missing on most equipment and an urgent survey is required to determine the parts that are needed to restore the system to operation.

Remote control is impossible and there is no control system for transmission or distribution although the scheduling of generation and load shedding is carried out from Dokan hydro power station.

Generally, Communication is poor – needs new equipment and specialist review & a control dispatch center would help reduce system outage time.

### In Iraqi Kurdistan

#### INTRODUCTION

This report gives immediate generation options whilst including a great deal of information on the medium and long term options for additions to generation capacity.

In this study, Immediate Term means completion in less than 2 years from now, Medium term means completion within in 2-4 years, and Long Term means completion in more than 4 years from now.

#### CONCLUSIONS AND RECOMMENDATIONS

#### 1. LOAD

The 1999 total maximum demand and energy requirement for the Sulaymaniyah, Erbil and the Dohuk systems at generation level to be about 580 MW and 1900GW/h/year respectively.

Given a resumption of normal hydro catchments inflows and a gradual increase in generation to supply loads shed prior to the drought, previously unelectrified villages and collective villages, the total maximum demand and energy requirement for the Sulaymaniyah, Erbil and the Dohuk systems at generation level has been estimated to rise to about 600MW and 2000GWh/year in 2001(the short term), 630MW and 2100GWh/year in year 2003 (the medium term) and 1140MW and 3700GWh/year in year 2010 (the long term)

The above figures assume that the maximum demand on the Dohuk system in year 1999 is about 100MW (Summer) and 170MW(Winter) and the energy requirement 380GWh/yaer.

#### 2. GENERATION

It is unlikely that the maximum-recorded generation out put for Sulaymaniyah hydro (480MW) will be exceeded prior to rehabilitation. The only options for increasing the power generation in Iraqi Kurdistan are:

- Thermal generation, if the plant is provided under SCR 986 or another program and if the authorities are able to arrange and cover the cost of the necessary fuel.
- Hydro generation if the plant was provided under SCR 986 or another program.
- 3. Re-connection with the Iraqi grid.
- 4. Re-connection with the Turkey grid.

Implementation of any option will require allocation of funds from National Budget, since consumer tariffs do not generate sufficient funds to cover fuel and operation and maintenance (O&M) expenses.

#### 3. THERMAL GENERATION RESOURCES

In assessing thermal resources it is assumed that all resources will have to be contained in the three Kurdish Governorates. The constrain on development of thermal generation in Iraqi Kurdistan is the size of the exploitable thermal resources that exists in each of the Governorates namely Sulaymaniyah, Erbil and Dohuk.

The resources will have to be quantified to allow correct generation planning to be completed .The resources would have to be classified as proven reserves before commitment to a project is made. The definition of proven reserves being that there is a 90% probability of exploiting the reserve to the extent estimated.

Since no official records of reserves were available, then it must be assumed that the following activities would have to precede the commencement of thermal plant design and would be carried out in series i.e. the total time would be 2 years.

Exploration 1 year
 Production drilling oil wells 1 year

Following successful production drilling three types of plant could be considered. The times shown are from start of implementation planning to commission:

Large diesel genets up to 2 years
 Gas turbines 2.5 years
 Steam turbines (oil/gas fired) 3 years

#### 4. HYDRO GENERATION RESOURCES

Hydro recourses also need some thorough investigation to achieve an acceptable degree of certainly. Typically the period from planning to commission is not less than 5years, however there are two schemes in Iraqi Kurdistan for which a lesser time may be allowed.

These are the Bekhma (1500MW) and the Bakurman schemes. Only the Bakurman would qualify for a medium term because of the size and political and contractual problems likely with Bekhma. Some mini-hydro schemes may also qualify as medium term.

Typical implementation times for hydro are:

Site identification
 Site investigation and survey
 Detailed design
 Financing
 Tendering
 Construction
 Site investigation and survey
 years
 months
 months
 months
 Construction
 years
 Commissioning
 months (large station)

The hydro potential of a site depends basically on two things; the flow of water and the available head. The head can be measured in a short time with almost any survey equipment.

The water availability can only be determined by careful measurements over a prolonged period Survey and geotechnical data is needed to improve the estimation of project costs and viability.

#### HYDRO POWER OPTIONS

Hydropower is the best renewable generation sources available in Iraqi Kurdistan. There are a number of large rivers and an abundance of narrow gorges suitable for the construction of dams and power stations.

Typical cost of hydro power station is 1000-3000 US\$ /KW.

A number of potential dams can be contracted in the future including the following:

 Bekhma A 230m high multipurpose rock fill dam under construction on the Greater Zab River, designed to provide flood control, as well as peaking hydro power for the Iraqi grid, The 1500MW power station would have produced an average of 4776GWh/a

While Bekhma dam has already been designed and partially constructed the power station itself is too large for the northern governorates grid. Without interconnection with the southern Iraqi grid.

It is technically possible to construct a 90m high reinforced concrete cavity (RCC) dam in place of the proposed integrated cofferdam giving a lake level of EL 450m. This could supply water to temporary low head power station of about 150MW Capacity connected to the low level out let tunnel; it will produce an average of 960 GWh/a. This project would set up relatively quickly because the dam high is less than the level of 476 for sediment storage for the main dam.

- Lower Bekhma, a 25m high dam with 100MW power station down stream from Bekhma capable of re-regulating the peak power releases into less damaging constant discharges with an annual 343GWh of energy.
- Bakurman, a 100m high concrete arch dam associated with a 66MW hydropower project on the Khzir River estimated 70 GWh of energy. This site has been investigated and studied and the data should be available from Baghdad for design and early construction.
- Qaladza was proposed as an 85m.high dam upstream from Dokan on the lesser Zab. The flows are about three quarters of the Dokan flows. In principle this project should be about 180MW
- Taq Taq has been proposed, as a dam down stream from Dokan This River is wide at this
  location and is expected to require a significant dam structure founded on alluvium, it will
  produce about 70MW based on the release from Dokan and the available head.
- Similarly, a dam at Buanur is expected to produce 90MW from the 45m high dam based on the daily releases from Darbandikhan.
- . Deralok, on the Greater Zab clear of the maximum flood of the Bekhma Dam
- Buanur dam has been proposed as a re-regulating dam for Darbandikhan mini-hydro power option.

#### WIND POWER OPTIONS

Records for Dokan and Darbandikhan show that the average wined speeds at these locations are quite low; they are only of the order of 2-3 m/s.

A wind generator of worth while proportion for a village, say 600Kw (about 1000 customers at 4A per customer), would deliver about 219MWh/a to the village . The corresponding capacity factor is only 4% Although this is the equivalent the of about one hour per day in fact the customers would not want to share usage according to the current wind speed. Hence battery back up would be required plus probably a diesel-driven generator. If diesel driven generator back up is required and fuel is cheap and available, it would be financially advantageous to install only the diesel-driven generator.

Small diesel generator cost about 100-200 US\$ per KW and wind generators about ten times this unit cost.

#### SHORT TERM EXPANSION

The immediate term plan to be commissioned within two years is as follows:

1. Presently, three 29MWdiesel power stations are installed in the three northern governorates, also there are about 1150 small diesel generators with a total installed capacity of 106 MVA across the area, To ensure continuity operation for these units, supply of fuel, oil & necessary spare parts should be secure, the estimated amount of fuel and costs of spare parts is as shown bellow:

#### For three 29 MW diesel stations

Fuel amount for one-year operation-173 million liter

\$4.5 million

#### For 1150 small diesel generators

Fuel amount for one-year operation-40 million liter (9 H per DAY)

\$1.5 million

Spare parts for one year

\$2 million

Installation of additional generation supply by installing 12 units of Gas Turbine of 20MVA
capacity each with its necessary equipments & components for connection with the grid (33 KV side),
These units should be distributed as follows:

Sulaymaniyah	2X20MVA
Erbil	4X20MVA
Soran	2X20MVA
Dohuk	3X20MVA
Agra	1X20MVA

The estimated costs of these units and amount of fuel for operation are as follows:

12X20 MVA gas turbine unit complete with necessary connecting equipments is

Amount of fuel for operation per year 360 million liters

\$190 million

 Re- inter connection with the Iraqi grid, however there should be indication that GOI would guarantee the amount of transfer power. The inter connection of Sulaymaniyah/Erbil grid with Iraqi grid would be via two 132Kv circuit, (Dibes- Azade) are (Kirkuk – Taslujah). The estimated cost is about

\$ 25 million

4. The interconnection has already been made prior to 1990 and network components are in place. Connect Dohuk grid with Sulaymaniyah-Erbil grid after improving source of generation, it is concluded that the inter connection via new Harrir , Aqra & Bakurman and Sarsink is technically satisfactory. The estimated costs for this connection is about \$20 million

#### Notes

- Current UNDP-ENRP activities Regarding maintenance of existing generation plants, Transmission lines, Substations, Communications & Distribution network, should be continued according to the applying plan. But by the Kurdish Local Electricity Authorities
- Transmission Lines and substations plan are shown in the attached tables which shows details of work to be done and the required funds
- Funds required for communication and SCADA system is about \$55 million, fund need to be secured.
- For distribution sector, \$216 million have been allocated to rehabilitate 4430 kM and construct 550kM of new networks in IK via ENRP activities, but distribution sector still needs to allocate additional funds of \$60 million to the sector for the short term to under take new activities

#### **MEDIUM &LONG TERM EXPANSION**

Tables No. 1 & 2 shows the most important options & plans that should be taken under implementation for medium and long term consideration for increasing the power generation in northern lraq and improving reliability for electricity system in the region.

# Oil for Food Reform

# **Future of Iraq Project**

### **Economy and Infrastructure Working Group**

Subcommittee on The Future of the Oil For Food Program (Security Council Resolution 986)

Recommendations to the Post-Saddam transitional government of Iraq

Prepared by

Ms. Nasreen M. Sideek
Dr. Sinan AL-Shabibi
Mr. Emad Dhia
Facilitator: Ms. Nasreen M. Sideek

Executive summary and a draft document December 12, 2002

From:	(b)(6)	-
Sent:	Tuesday, November 05, 2002 6:34 PM	No.
To:	(b)(6)	
Cc:	(b)(6)	

Subject: Oil For Food Transition, subgroup

Dear Colleagues,

I am coordinating the above mentioned subgroup and would like to start some brainstorming here. My idea of dealing with the Oil-For-Food program issue will basically cover the following:

 Provide some basic information and background of the resolution, current status. And for that I have attached some basic data information. We can expand more, I could reflect on IK experience which I am directly involved with.

2. Analysis

- OPPORTUNITIES (positive aspects of the resolution what could be enhanced, enforced and considered for continuation in the future), and
- RISKS (the negative aspects of the resolution in its current form, and highlighting issues for change and development for the future).
- 3. Proposal for Transitional period, how long and what form. There were some thoughts expressed during the discussions about a proposal for a joint management system.
- 4 Kak Salah expressed the idea of considering drafting a new resolution. Should we in this subgroup work on a new draft?

For the sake of meeting deadlines, and since we are small subgroup, may be we only need fewer number of drafts to work on. 1 and 2 draft before a final draft, could be enough. If you agree, then let's circulate the first draft by 15 November, and the 2nd draft by 25 November. I will have then until the end of the month to work on a final draft.

To start the process of brainstorming, I am sending below some initial thoughts, kindly read and react so we move the thinking forward, also you can make use of the attached files and the following link Click here: Office of the Iraq Programme Oil for Food

#### Future of Oil-For-Food

The UN-mandated Iraq oil-for-food program is the largest humanitarian program in the world. December 2002 will mark six years of program implementation. This is a massive, complex program with both positive and negative features. It is time to review these features and examine performance with a view toward determining what the expenence offers toward guiding us in the future.

Very briefly: The main feature of the program centers on substantial funds being generated from Iraq's oil wealth that are dedicated/restricted solely to humanitarian purposes. As currently structured, the program allows for major reform/overhaul of Iraq's health, education, water & sanitation, housing, telecommunication, road, and electricity sectors. However, this is not happening to the extent funds allow because political factors have been used to obstruct implementation.

We Iraqis are strong, excellent implementers. But we are weak in analysis and planning that would result in more effective and efficient application of the country's resources. Part of this is explained by the fact that in the past planning has been solely top-down, extremely centralized - forced, with power and funds thrown at whatever the

power-that-be deigned to have done.

Since the program began nearly six years ago, \$58 billion has been earned with \$40 billion made available for humanitarian goods/services throughout the country. In most any country in the world, this is a substantial amount. In addition, we must add the value of the hundreds of thousands of civil service personnel, and operations & maintenance costs, covered, however inadequately, by both the GOI for the center-south (CS), and by the KRG for the Kurdistan region of northern Iraq - Iraqi Kurdistan (IK). In total, the amount available for health, education water and sanitation etc. averages more than \$7 billion per annum. In addition, \$1.3 billion has been provided to the UN, repeat UN, to cover their program management costs.

During these six years, neither the UN nor the GOI (nor the KRG) has produced a comprehensive strategic plan for spending \$40 billion based on professional, detailed analysis. In effect, program planning amounts to little more than coming up with shopping lists" of items for procurement. Regrettably, program objectives with measurable indicators focusing on impact are not a regular feature. Obviously, this is a negative feature that needs to be corrected.

Keeping in mind that all essential public services in Iraq have been provided solely by government, we must go through a transition period where the oil-for-food program will continue to direct resources toward humanitarian needs. Whatever the replacement governing structure may be, given past experience the "new" structure will have to prove itself in terms of responsibility and responsiveness.

It would seem that a phased transfer of resources from the current oil-for-food type program with some degree of external involvement, to one in which internal involvement is increased over time, would be preferred. Currently, the oil-for-food program is implemented in 6-month phases, each phase authorized by a Security Council resolution. Perhaps percentages could shift from to less external control every six months based on predetermined measurable criteria.

Under the program, humanitarian needs/services receive 72.2% of the sale proceeds of legally exported oil, supposedly a much higher percentage than before the events of 1990-1991. The funds actually available will increase as more oil is exported, though we have to keep in mind that oil prices could very well fall. Incidentally, during the past six years Baghdad has reached daily export levels nearly as high as the levels reached before 1990. This has occurred under conditions of supposed devastation and deterioration of the oil industry.

Attached are 5 files of introductory information on the oil-for-food program. Later, I will offer more information based on our first-hand, specific experience with the UN and GOI in administering the 13% account with funds allocated for Iraqi Kurdistan.

Best regards.

Nasreen M Sideek	
Minister of Reconstruction and Development	
Aurdistan Regional Government - Erbil	
Northern Iraq	_
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Fax (b)(6)	
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# Conversion of Military Industry Ministry

Briefing paper still to be submitted.

# Communication Infrastructure

#### **Executive Summary**

Under the "Future of Iraq" project sponsored by the US State Department an advisory subcommittee on Information and Telecommunication Infrastructure under the Economy and Infrastructure working group was formed to

- Assess the current state of Information and Telecommunication Infrastructure in Iraq.
- Identify Infrastructure initiatives needed, the day after Saddam, to maintain and support essential services; distribution of food and drinking water, medical services, sanitation, transportation and security.
- Recommend Infrastructure goals to meet in the first 180 days and within the first two years following the liberation of Iraq and beyond.
- Specify, at a high level, the requirements to meet these Infrastructure goals.
- Initiate the process for setting guidelines for a Freedom of Information Act for Iraq

To conduct its business, the subcommittee divided the Segments of Information and Telecommunication Infrastructure into the following:

- Terminal Appliances, such as radio sets, television sets, computers, telephones and mobile phones.
- Distribution Networks, such as telephone network, radio spectrum including satellite, and Internet and data networks, and
- Content Production Facilities, such as radio stations, television stations, newspaper and magazine publishers, book publishers and Iraq's portion of the world wide web

The subcommittee collected information on Iraq's economy and compared it to some selected neighboring countries. Iraq's per capita GDP in 1991 was \$3,483. In 2002, it is \$2,500. The following is a table of economic statistics by country for 2000<sup>2</sup>.

Iran	\$6,300
Jordan	\$3,500
Lebanon	\$5,000
Turkey	\$6,800
USA	\$36,200

Definitions: Gross domestic product (GDP): The value of all goods and services produced domestically. Purchasing power parity (PPP): The PPP method involves the use of standardized international dollar price weights, which are applied to the GDP produced in a given economy.

http://www.infoplease.com/ipa/A0874911.html

The subcommittee reviewed the state of Information and Telecommunication Infrastructure in Iraq based on publicly available records. According to the May 2002 UN Oil for Food program report:

The telecommunications infrastructure in Iraq is extremely poor, which has resulted into negative consequences on the efficient procurement and distribution of humanitarian supplies, poor communications between warehouses and hospitals, and hindered the timely passing on, of accurate information on requirements.

An ITU mission in 1998 concluded that the rehabilitation and modernization of the telecommunication network in Iraq would require an investment of over \$1 billion and its implementation could take between 7 and 10 years.

The number of telephones per 100 people in Iraq was 5.6 in 1985, which deteriorated to 3.1 in 1998 and today it is below 3 per 100. The world average is 10.

The telephone infrastructure in Iraq is mainly analog and requires massive upgrade to a digital infrastructure. It consists of two analog networks (Coaxial and Microwave) making a figure 8 shape covering Iraq from Mosul to Basrah intersecting in Baghdad. International connections are through 3 old satellite stations, and Coaxial cable and microwave radio relays to Jordan, Syria, Turkey and Kuwait.

Internet and data networks are almost non-existent. The estimated number of users is 12,500 (2001) outside Kurdistan and 10,000 in Kurdistan. There is no civilian backbone data network, but it is speculated that a military one exists.

Some interesting reference statistics include 6.7 percent of world population has access to the Internet. Turkey has around 1.5 million users. United Arab Emirates has around 500,000 users.

The current state of content production facilities in Iraq excluding Kurdistan is is summarized in the following. There were 19 AM (5 are inactive), 51 FM, 4 shortwave radio broadcast stations as of 1998. There were 13 television broadcast station as of 1997. In 1996, there were 20 daily newspapers. In 2000, there was one Internet Service Provider, with no web sites other than a few government web sites. In Iraqi Kurdistan there are 15 TV broadcast stations, 20 radio broadcast stations, which broadcast in SW and FM, 167 daily, weekly, bi-weekly and monthly newspapers and magazines and 2 Kurdish satellite TV broadcasts.

The following table present statistics on Iraq vs. other countries of similar economies, plus the US as a reference:

Newspapers, Radio, Television, Telephones, and Computers by Country<sup>3</sup> (per 1,000 inhabitants)

Country	Daily newspaper circulation 1996	Telephone main lines 2000	subscribers	Personal computers	A CONTRACTOR OF SHAPE OF THE STATE OF THE ST
Iran .	26	149:	15 4	56•	6,300
Iraq	20	30		na.	2,500
Lebanon	141	201	194	46	5000
Turkey	110	280	246	38	6,800
USA	212	673	400	585	36,200

Sources: Except as noted, newspapers, radio, and television—United Nations Educational, Scientific, and Cultural Organization, Paris, France, Statistical Yearbook (copyright); telephones, cellular phones, and personal computers—International Telecommunications Union, Geneva, Switzerland, World Telecommunication Indicators (copyright).

The subcommittee identified the following major challenges facing Iraq during the post Saddam transition period:

- Gathering facts in a timely manner about current infrastructure
- Introducing new infrastructure into major population areas
- · Shortage of skilled labor as well as training local labor
- Establishing a regulatory framework to enable contributions from private sector.
- Introducing free press and free media in an orderly fashion, which we
  propose to be introduce under a comprehensive Freedom of Information
  Act for Iraq

The subcommittee established the following guidelines for setting up its recommendations, i.e initiatives should take into consideration the following:

- Geographic distribution of population around Iraq.
- The infrastructure in neighboring countries and countries with similar per capita GDP.
- First, Fix what is there, then build new infrastructure.
- Leverage existing military and security infrastructure such as the coaxial cable network to the western desert.
- o The infrastructure developed in Iraqi-Kurdistan over the past decade

<sup>3</sup> http://www.infoplease.com/ipa/A0883396.html

- Telecommunications Ministry replaced Analog exchanges in Dohuk, Erbil and Suliemaniyah with new Digital exchanges.
- More than 100,000 new lines were made available for the public.
   Telephone density in IK is now 2.8 telephones per 100 inhabitants
- Private companies using the V-SAT system introduced 20,000 mobile phones to the market.
- There are 10,000 Internet users in Kurdistan through WEB-SAT, a low cost-high speed – two way Internet via satellite
- There is no political censorship in Iraqi Kurdistan.
- Media outlets belong to political parties. No outlets are commercial!

#### Subcommittee Recommendations

We recommend three stages of recovery and development after the liberation of Iraq

- Recovery Stage, which deals with the restoration or establishment of essential communication services.
- Basic Services Stage, which deals with the introduction of information and telecommunication infrastructure services that meet basic daily needs of the society
- Advance Services Stage, which deals with the introduction of services that enable Iraq to grow unhindered and match countries of similar per capita GDP that have advanced services.

#### Recovery Stage - First 180 days

The transition government should create taskforces

- To gather accurate information on the state of the infrastructure and complete it within the first 90 days.
- To identify and specify communication infrastructure needed to maintain and support essential services, and
- c. To identify the skills required by the workforce responsible for building, maintaining and operating the telecommunication infrastructure in Iraq.

During the recovery stage the existing recommendations made by the UN Oil for Food Program should be implemented immediately. These are:

- Replace the analog Baghdad Junction Network (BJN) with a digital network at a cost of about \$15 million. It is estimated that the replacement of the transmission lines could be made operational within six to eight months.
- Replace the international communication facilities (Earth station, international exchange and the analogue microwave link between them).

- 3. Replace four old crossbar exchanges (Karbala, Diwaniya, Nasiriyah and Basrah) and of the obsolete analogue microwave link between Baghdad and Basrah with a digital link and extend it to the port of Um Qasr, the entry point of the main portion of humanitarian commodities. This microwave link will pass seven governorates whose total population is more than (7) million and considered as the most populated region in Iraq.
- Replace three exchanges in Baghdad that were completely damaged during the Gulf war.

#### The cost of the above projects is estimated at \$130 million

- We also recommend the introduction of a small mobile telecommunication network for (25000) subscribers in Baghdad, and a (2000) subscribers network in the center each of the governorates in Iraq at an estimated cost of about \$30 million.
- 6. We also recommend the introduction of mobile telephony in an aggressive way into Iraq by allowing several vendors to compete in entering the Iraqi market on condition that they bear the cost of initial deployment of infrastructure and subsidize heavily handsets and monthly charges.

The cost of infrastructure for 1 cell phone per 100 people in Iraq is estimated at about \$125 million. To give each family one cell-phone, assuming an average family consists of 5 members, will cost up to \$25 billion for infrastructure.

#### **Basic Services Stage**

In the first two years, we recommend:

- Introduction of data network to allow connection of computers in all warehouses and Ministries and other parties involved in the humanitarian distribution programs.
- Enable the private sector to be involved in providing some of the communication services in the country such as ISPs and mobile telephony.
- Utilize the military network built by the Saddam regime for civilian use.
- Develop a standard and simple "government bid proposal" to encourage small businesses and entrepreneurs to import required hardware and software and establish information and communication services

Collaborate with neighboring countries that have modern infrastructure such as Iran, Turkey, UAE, and Kuwait to benefit from their experiences, cost allocation, time and resources required, management risks and preparations.

We recommend the following target level of services in two years (per 100)

Daily Year newspaper	Telephone main lines	Cellular phone subscribers	Personal computers
Now 20	30		
2004 60	10	10	4

Total cost is estimated at

- \$2 billion for telephony
- o \$1.2 billion for cellular telephony
- \$1 billion for computers

#### **Advanced Services Stage**

Beyond first two years, we recommend to match or exceed the highest service levels of countries with similar per capita GDP and similar economies, particularly oil producing countries.

- 1. Introduce a modern digital infrastructure for telephony
- Introduce a high-speed IP-based infrastructure to support voice and data services and cover major population areas in Iraq. This backbone should consist of
  - a. An optical backbone and metropolitan area networks
  - A distribution (last-mile network) that consists of a hybrid infrastructure of wire-line and wireless (including satellite)

The subcommittee established the following guidelines for goal setting in the Advance Services Stage

- Service levels should be proportional to the country's per capita GDP of countries with similar economies.
- Regulate the airwaves and information distribution channels to enable the private sector to contribute to the building of infrastructure
- Coordinate activities by a government agency (or IDRC) to oversee projects and treat them as public works projects and for job creation at the same time.
- Establish strong enforcement body to prevent abuse and maintain transparency in all projects.
- Establish publishing houses and encourage the writing of books

> Establish centers for translating works produced in other countries of the world.

We recommend the following target level of services in 5 years (per 100):

Year			Cellular phone subscribers	
Now	20	3.		
2007	200	25	40 +	10

Total cost is estimated at

- o \$3.75 billion for telephony
- o \$3.6 billion for cellular telephony
- o \$1.5 billion for computers

# **Future of Iraq Project**

## **Economy and Infrastructure Workgroup**

Subcommittee on Information and Telecommunication Infrastructure<sup>1</sup>

Recommendations to the post-Saddam transition government of Iraq in preparation for a free society under a constitutional democracy

Prepared by

Mohamed Alhakim, D.Sc. Francis Dinha Mudhar Shawkat, Ph.D. Nasreen Sideeq Facilitator: Hasan S. Alkhatib, Ph.D.

IATI Recommendations - v2.0

November 28, 2002

Disclaimers: The Information and Telecommunication Infrastructure subcommittee is a non-political, non-governmental group of Iraqi technocrats gathered under the auspices of the US State Department "Future of Iraq" project.

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Draft 12/2/2002

#### Notes to members of the Telecommunication Infrastructure Subcommittee

I decided to leave material that was submitted by Dr. Mohamed Alhakim (in red) and material that was submitted by Ms. Nasreen Sideeq (in blue). I did integrate the input from all members in this draft. This includes both Mohamed and Nasreen input. This will allow us to maintain the original intended text as a basis for discussion to generate the final draft of our report.

#### Preface

Iraq, the cradle of civilization, the people that introduced the first law and civil society in history is at last preparing to join the free world, after over 30 years of draconian oppression and tyrannical rule. Saddam's mafia-style government has caused massive damage to Iraq's infrastructure during the past 20 years since the first Gulf War, as a result of gross miscalculations and self-centered adventures. Repairs of the infrastructure will take billions of dollars and tens of years let alone bringing it to 21st century standards modern societies.

lronically, the same tyrant himself has created the necessary environment for his own demise. The free world, led by the United States of America, has reached the conclusion that without removing this dictator from power, the whole region will continue to be in turmoil and the new phenomenon of extremism that has led to unthinkable terrorism against innocent civilians will continue unabated. At last, the people of Iraq can hope to restore their lost freedoms with the help of the free world.

#### Acknowledgement

- 1- The Communication subcommittee acknowledges that this draft consists of input from members of the communication subcommittee and in agreement that the draft document will only become a final document after ALL members have read it and made their comments
- 2- The Communication subcommittee is a non-political government organization devoted to the development and reconstruction of all communications and telecommunication infrastructure in Iraq. Its advisory role may extend to advise the transitional government on communication media development and establishment, telecommunication recommendations, and the insurrection of a

Draft 12/2/2002

new Iraqi freedom Act that govern all types of media such as Televisions, Radio, Newspapers, magazines, Internet access, Internet content, and others. This subcommittee will advise the office of the prime minister and relevant cabinet members on issues of national interest such as regulations, and de-regulations, technology import/export, education and training, communication policies, and identification of new telecommunication projects.

- 3- The Communication subcommittee's decisions and its board members must be independent from any political conflicts that may occur between government political parties, senior government officials, part line ideologies or ethnic interests as part of the normal democratic process.
- 4- The Communication subcommittee is composed of undetermined number of expert board members.
- 5- The content of this communication document with all of its definitions, recommendations, and organizational structure is considered a <u>"non-biding"</u> document to the new Iraqi collation government.

#### Introduction

The Future of Iraq Project, its workgroup on Economy and Infrastructure, and this subcommittee on Information and Telecommunication Infrastructure aim at preparing a set of recommendations for post-Saddam Iraq, both short term, i.e. urgent, and long term, i.e. strategic. The Information and Telecommunication Infrastructure subcommittee is chartered to:

- Assess the current state of Information and Telecommunication Infrastructure in Iraq.
- b. Identify the Information and Telecommunications Infrastructure initiatives needed, the day after Saddam, to maintain and support essential services; distribution of food and drinking water, medical services, sanitation, transportation and security.
- c. Recommend and prioritize Information and Telecommunication Infrastructure goals to meet in the first 180 days and within the first five years following the liberation of Iraq.

Draft 12/2/2002

 Specify, at a high level, the requirements to meet these Information and Telecommunication Infrastructure goals.

- e. Initiate the process of drafting a new Iraqi Information Act that dictate how and in what form information is to be disseminated to the Iraqi people:
  - a. Freely
  - b. Regulated
  - Semi-Regulated
  - d. Controlled

#### Elements of Information and Telecommunications Infrastructure

During the final two decades of the 20th century, the world embarked on a new information and telecommunication revolution. Information and telecommunication infrastructure has become the backbone of the modern societies. In this section, we identify all the elements of this infrastructure to establish a scope for our investigation and recommendations.

We shall classify infrastructure into; first: Terminals (i.e. access devices), second: Networks (i.e. networks that facilitate access), and third: Content (i.e. infrastructure to deliver and provide access to information content), hence the following classification:

#### Elements of Information and Telecommunications Infrastructure:

#### **Terminals**

- a. Radio sets
- b. Television sets
- Computers and Personal Digital Assistants
- d. Telephones
- e. Fax machines
- Mobile phones

#### Networks

- a. Analog telephone network
- Radio spectrum including satellite and HF/ UHF
- c. Internet and data networks

#### Content

- a. Radio stations
- b. Television stations
- Newspaper and magazine publishers
- d. Book publishers
- e. Iraq's portion of world wide web

#### Facts About Iraq<sup>2</sup>

The following are facts about Iraq for reference:

#### General Information

Total Land Area:	437,370 km <sup>2</sup>
Land boundaries:	3,631 km
Coastline:	58 km
Capital:	Baghdad, population: 4,850,000 (estimated 2002)
Other large cities	Mosul: 664,221; Irbil: 485,968; Karkuk: 418,624; Basra: 406,296 Karbala: 400,000 estimated Najaf: 400,000 estimated

#### Location and Geography

Iraq is in Asia at the north-east of the Arabian Peninsula. It has borders with Turkey in the north, Iran in the east, Kuwait in the south, Saudi Arabia and Jordan in the south-west, and Syria in the north-west. The Arabian Gulf lies in the south of the country. The terrain is made up mostly of broad plains and reedy marshes in the south-eastern parts of the country. About one fifth of the land is arable and there are a few permanent crops. The climate is mostly desert with mild to cool winters and dry, hot, cloudless summers. The northernmost regions along the mountainous Iranian and Turkish borders experience cold winters with heavy snow.

#### Demography

	1999	2002 <sup>3</sup> (estimated)
Population:	22.99 million	24.00 million
Crude Birth Rate:	32/1000	34.2/1000
Crude Death Rate:	10/1000	6.02/10004
Infant Morality Rate:	101/1000	57.6/1000

<sup>&</sup>lt;sup>2</sup> The entire section (except where indicated otherwise) is based on information posted on the web site for the Statistical, Economic and Social Resource and Training Center for Islamic Countries: <a href="https://www.sesrtcic.org">www.sesrtcic.org</a>

<sup>3</sup> www.infoplease.com

<sup>4</sup> Source: CIA web page on Iraq: www.cia.gov/cia/publications/actbook

Life Expectancy:	Male: 58 years, Female: 60 years	
Urban Population: 76.0 percent		
Adult Literacy:	58.00 percent (1998)	60.00 percent (1991)

#### **Economy**

Iraq has remarkable resources of oil, natural gas, phosphates and sulfur with an economy heavily dependent on exports of crude oil and petrochemicals. It has the second largest oil reserves and had become the second largest exporter of hydrocarbons in the world prior to the Gulf War. Manufacturing plays a relatively smaller role in the economy. All large-scale industry is currently publicly owned and includes iron, steel, cement, pharmaceutical, and fertilizer productions. Small private industrial companies are engaged in food processing and textiles. Iraq has a skilled work force. Most of the fertile irrigated land is available for agricultural purposes and 30 percent of the work force is employed in agriculture.

	1991	20025		
GDP at Current Market Prices:	64,116 million US\$ (1991)	57 billion US\$		
Per Capita GDP:	3,483 US\$ (1991)	2,500 US\$		
Share of Sectors in GDP:	6.0% Agriculture, 13.0% Industry, 81.0% Services, (1998)			
Total Exports:	8,738 million US\$ (1999)	21.8 billion US\$ (2000 est.)		
Total Imports:	1,513 million US\$ (1999)	13.8 billion US\$ (2000 est.)		

<sup>&</sup>lt;sup>5</sup> Source: CIA web page on Iraq: www.cia.gov/cia/publications/actbook

Economic Statistics by Country, 20006

Country	GDP/PPP in billions	GDP/PPP per capita	Real-growth rate (%)	Inflation (%)
Algeria	171	5,500	₹ <b>5.0</b>	2.0
Egypt :	247	3,600	5.0	3.0
Iran	413	6,300	3.0	16.0
Iraq	57	2,500	15.0	100.0
Israel	110.2	18,900	5.9	0.1
Jordan	17.3	3,500	2.0	0.7
Lebanon	18.2	5;000	1.0	0.0
Libya	rt 745:4	8,900	7 - 6.5	18.5
Morocco	105	3,500	. 0.8	2.0
Saudi Arabia	232	10,500	4.0	0.5
Spain	720.8	18,000	4.0	3.4
Syria	50.9	3,100	3.5	1.5
Turkey	444	6,800	6.0	39.0
UAE .	54	22,800	4.0	4.5
U.S	9,963	36,200	5.0	3.4

Definitions: Gross domestic product (GDP): The value of all goods and services produced domestically. Purchasing power parity (PPP): The PPP method involves the use of standardized international dollar price weights, which are applied to the GDP produced in a given economy. The data derived from the 1998 method provide a better comparison of economic well-being between countries than conversions at official currency exchange rates. n.a. = not available.

Source: U.S. Census Bureau, International Database and The World Factbook, 2001.

<sup>6</sup> http://www.infoplease.com/ipa/A0874911.html

## Current State of Information and Telecommunication Infrastructure in Iraq

We will describe the state of the infrastructure based on the classification presented in the section 1. We shall also draw references from comparable nations in the region. The information presented in this section come from data obtained from United Nations and US government web sites that are generally available statistics. Some of this information is outdated, since the infrastructure has been under a continuous state of deterioration. Furthermore, the liberation of Iraq may result into additional damage to the infrastructure.

This group certainly hopes that the rules of engagement given to the liberation forces would include sparing infrastructure from any unnecessary additional destruction.

#### Recommendation:

"The transition government should create a taskforce to gather accurate information on the state of the infrastructure and complete it within the first 90 days."

According to the UN Oil for Food program report (May 2002)7: "The present state of telecommunication system throughout Iraq is extremely poor. Apart from the wider social considerations, there are negative consequences for the efficient procurement and distribution of humanitarian supplies." Furthermore, "In the health sector, poor communications between warehouses and hospitals have contributed to delays in the collection of supplies by health facilities. The absence of adequate data links has also hindered the timely passing on of accurate information on requirements."

The report continues: "At present, the transfer of computer files (data transfer) is almost impossible via the public telephone network and affects directly UN observation activities and reporting. The mission, further, concluded that the rehabilitation and modernization of the telecommunication network is a huge development project. It would require an investment of US\$ 1 billion or more and its implementation could take between 7 and 10 years."

http://www.un.org/Depts/oip/dp/dp11/execsummary.pdf

#### Information and Telecommunication Infrastructure: Terminals

The following table summarizes the number of terminal units per 100 for each respective year.

	85	86	87	88	89	90	91	92	93	94	95	96	97	98	_	02
Radio													229			
TV	5.7	6.1	-	6.8	6.8	6.9	7.2	7.3	7.5	7.5	8.0	8.2	8.3	8.3	_	-
Telephone	5.6		4.1	4.0	3.9	3.7	3.6	3.5	3.4	3.4	3.3	3.3	3.2	3.1		-
Computer																
Mobile phone																
Fax machines																

Note: Today, the world average number of phone sets per 100 persons is 10.

#### Information and Telecommunication Infrastructure: Networks

The distribution and communication infrastructure suffered severe destruction during the Gulf war and the embargo during the past ten years.

The following data is based on information published on the CIA web site on Iraq.

Telephones - main lines in use: 675,000 (1997)

Telephones - mobile cellular:

NA; service available in northern Iraq (2001)

Telephone system:

domestic: coaxial cables and microwave radio relay

links

international: satellite earth stations -

2 Intelsat (1 Atlantic Ocean and 1 Indian Ocean), 1 Intersputnik (Atlantic Ocean region), and

1 Arabsat (inoperative); plus

coaxial cable and microwave radio relay to Jordan,

Kuwait, Syria, and Turkey;

Kuwait line is probably nonoperational

Radio Spectrum

Highly regulated

Satellite earth stations

2 Intelsat (1 Atlantic Ocean and 1 Indian Ocean),

1 Intersputnik (Atlantic Ocean region), and

1 Arabsat (inoperative)

Internet

Backbone

12,500 (2001) Unknown

Source: Statistical, Economic and Social Research and Training Center for Islamic Countries web site: www.sesrtcic.org

Source: www.infoplease.com

#### The Internet in Iraq

In most of Middle Eastern countries, governments control the communication and information media and freedom of press has never been guaranteed. In most of these countries the main role of the local media is transmitting official government statements. They are not allowed to criticize government actions.

People realize that the local press cannot be relied upon in delivering information on important issues and hence they usually turn to foreign media. With the spread of the Internet in the region, people have access to media information of almost every foreign country.

Internet connectivity in Iraq is very low; in fact it is one of the least connected regions in the world. There are a number of reasons for this among them the lack of the current government will to introduce Internet for fear of losing control over information, poor communication infrastructure and affordability of people. Despite this, there is limited Internet access in Iraq.

In Iraq, the Ministry of Information has Internet access along with a few other selected locations controlled and monitored by the ministry. Considering that even satellite dishes are prohibited in the country, it is not surprising that there is very little Internet access in Iraq.

It is very difficult to find an accurate estimate for the number of users of the Internet in Iraq. In fact it is a near-impossible task given the problems involved. First, the Internet, as a network, is expanding all the time in most regions. Second, in many cases a single Internet account is used by multiple users.

The number of Internet users worldwide was around 410 million as of 2001, which is 6.7 percent of world population. Of this, the Middle East accounts for a share of only 4.5 million users. The top three countries of the Middle East in terms of Internet users are respectively, Turkey with around 1.5 million users, Israel with just over one million users, and United Arab Emirates with around 500,000 users.

#### Information and Telecommunication Infrastructure: Content

Radio broadcast stations:

AM 19 (5 are inactive), FM 51, shortwave 4 (1998)

Television broadcast stations:

13 (1997)

Newspapers (daily)

20 (1996)

**Publishers** 

Unknown

Internet Service Providers:

1 (2000)

Web sites

Limited to government institutions

#### Iraq vs. Other Countries in Region

Newspapers, Radio, Television, Telephones, and Computers by Country<sup>10</sup>

(rates per 1,000 persons)

Daily newspaper circulation. Country 1996  Algeria 38		Radio receivers, 1997	Television receivers, 1997	Telephone main lines, 2000	Cellular phone subscribers, 2000	Personal computers, 2000	
		242	105	52	- 2s		
Egypt	38	317	119	81	.20	.5 12-	
lran	26	263	71	149	15	56	
Iraq	20	229	83	30-	14年17年	n.a.	
Israel	288	524	.288	463	702	254	
Lebanon	141	907	375	201•	194	46	
Morocco	27	1247	2.115	50	83	11	
Saudi Arabia	± 259	321	262	1291	1540 1	19457. IV	
Some S	1 99	108	409	421	609	143:14	
Syria	20	278	770	104	2	14	
Tunkey	110	178	330	280	246	38	
USA 4	212	2,116	806	673	400	585	

Sources: Except as noted, newspapers, radio, and television—United Nations Educational, Scientific, and Cultural Organization, Paris, France, Statistical Yearbook (copyright); telephones, cellular phones, and personal computers—International Telecommunications Union, Geneva, Switzerland, World Telecommunication Indicators (copyright).

<sup>10</sup> http://www.infoplease.com/ipa/A0883396.html

### Geographic Distribution of Telecommunications Infrastructure

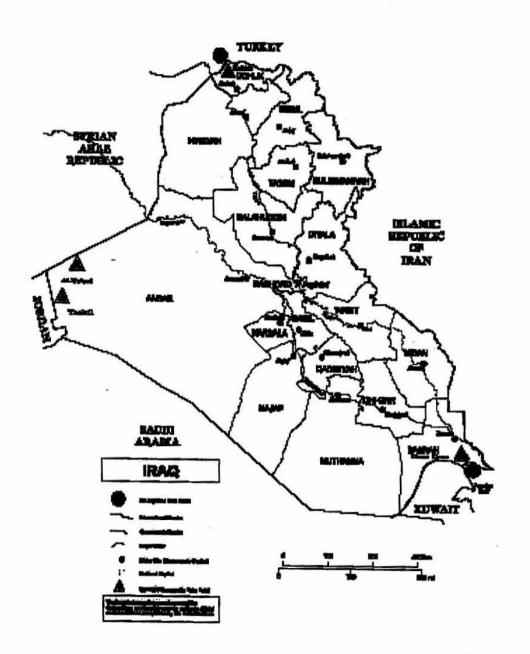
#### Governorate Population

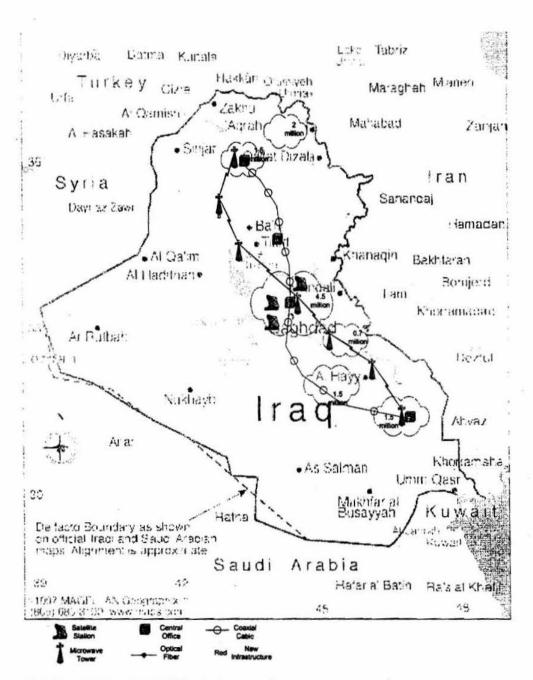
Ninevah	2486466		
Tameem	869246		
Baghdad	6408160		
Salah Al-Din	961577		
Diala	1254391		
Anbar	1254241		
Babylon	1390695		
Kerbala	733121		
Najaf	940966		
Qadisiya	904455		
Muthana	549259		
Basrah	1954698		
Maysan	836639		
Thi-Qar	1519490		
Wasit	927166		
Dahuk	807005		
Erbil	1316162		
Sulaymaniyah	1584683		

Total

26698420

The following two maps outline the demographic distribution as well as the layout of existing telecommunication infrastructure relative to the demographic distribution.





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# Challenges and Target Focus

The potential benefits of developing a sound technology strategy for Iraq are immense. Success in executing even a small "planned" steps have an immediate impact not only on productivity and profits for the Iraqi people, but also generate new jobs, employment and livelihoods. Although conditions and costs for entry can be controlled but obstacles still exist. This section will focus on some of the challenges and constraints.

# Build a quick Awareness & Focus

There is currently a lack of awareness and knowledge in inside Iraq (Iraqi people and businesses) about the new technological age, the vast capabilities of the Internet and even the ways and benefits of conducting business on the Internet (i.e. e-commerce)

This lack of awareness is spread among the government and private sector in particular. However, Iraqis who lived and worked in industrial countries such as Western Europe, USA, Australia, and even in the Gulf region have different awareness, experiences and knowledge. It is also important to note that a large number of Iraqis in exile have certain expertise in computer and technology that can be utilized to generate immediate results.

# Investigate Infrastructure and Access

One of the major bottlenecks we will face in developing a computerized society after Saddam is the lack of telecommunications and Internet connectivity and access to the necessary hardware and software. Indeed, the gap between Iraq (excluding Kurdistan) and the industrialized, some Asian and Arab Gulf nations in terms of infrastructure and access is huge and growing. The reach and geographic coverage of telephone services, its available bandwidth and capacity, its associated cost, the current regime strict national policies governing the telecommunications usage and the number of computers in use are major determining factors to what extent Iraqi private sectors, its educational institutions, and the people in general can take part in participating the current technology revolution in the immediate future.

Our goal in the short term is to utilize the impending satellite revolution that may facilitate and provide a cost effective access and connectivity although it is not yet clear whether the pricing structure for these satellite links will be affordable to the Iraqi businesses and people unless a special "deal" is struck with some of the US telecommunication providers as part of re-building Iraq and its society program.

# Resolve the human capacity and skills

"The shortage of skilled people is one of the biggest problems developing countries face in joining the digital revolution," said Bruce McConnell, president of McConnell International LLC

The new Iraqi technology initiative requires a different mix of capacities and skills, which is another major constraint in Iraq today. It should become one of the priorities for the new Iraqi coalition government (after Saddam) to promote computer literacy and Internet-related skills among the workforce at large from the government sector, small businesses, schools and universities, and most educated Iraqis.

The new Iraqi technology task force should present at the start a simple program to train and retain skilled professionals inside Iraq and encourage experienced professionals who live outside Iraq to actively contribute to this program. The Education committee task force combined with the technical task force should drive a new just-in-time skill based training programs. (TBD)

# Simplify legal and regulatory framework

A new and proper telecommunication legal and regulatory framework must be established very quickly even if it is in rough draft. Existing laws and regulations may need to be reversed to encourage a quick jump-start for people and businesses. For example, India changed its telecommunication constrained operating environment by granting licenses to private Internet service providers.

# Case-study from Iraqi Kurdistan (IK)

# Background

Under the Oil-For-Food program, Iraq has allocated more than \$2.5 billion for the telecommunication sector. Out of which only \$873 million has arrived the country. The Security Council has approved contracts with value \$1.7 million. Still contracts values \$450 million are still on hold. Details of supplies and equipment to be procured under this program can be found in the annexes of the program distribution plans from phase 1 to 12. This is a fact that we need to consider when planning for the future.

All activities by 986 programs in Iraqi Kurdistan are compatible with the national telecommunications network. However the region has done a lot by itself using its own funding.

Under 986-telecommunication program, some international companies are contracted to implement projects. For IK SIEMINES company (Germany) is contracted for implementation. And for the center and south, ALCATEL company (French) is contracted for implementation. Both companies have representative office in Iraq and Kurdistan.

#### Telecommunication in Kurdistan since 1991

Since 1991, the telecommunication network was disconnected from the Iraqi national network. Which forced the local authorities in IK to find ways of making use of the structure, which already existed, and attempts were made to maintain and extend the old systems.

Most telecommunication systems were installed in IK during the 1970s and 1980s. It not possible and, often not economical to maintain or extend those old systems to accommodate the current needs in the region. KRG decided to replace it with a new Digital system.

Due to the Sanctions Regime, options were limited to those available in the Turkish and Iranian markets. Local Telecommunications Ministry and Departments worked on replacing the old Analog exchanges in Dohuk, Erbil and Suliemaniyah with new Digital type. More than 100,000 lines made available for the public. Telephone density in IK is 2.8 telephones per 100 inhabitants. Which means 2.8% of the population has telephone lines. There are more than 500,000 families live in Iraqi Kurdistan today. The goal of the local telecommunication authorities is to make available 500,000 lines, for every family to have a telephone line. The above-mentioned extension was funded by the Kurdistan regional government. However, more work is being planned under 986 program (details below).

Currently new fixed home phone line could be installed upon request. A Base installation fee of 5,000 old Iraqi dinar (\$400) is charged, with monthly fee based on use. (Rate ????? ID per minute)

International calls, can not be made directly from home lines, but can be made using private communication centers using V-SAT systems with a fee of 30cents a minute.

Mobile phones were introduced to the market by private companies using the V-SAT system. A cellular phone with a line can be purchased for \$400. Charges later based on usage, 30 cents per minute. There are more than 20,000 cell phone holder in IK. You can make and receive international calls with those phones.

International calls can be received by dialing the following number: For Erbil: 0044 702 860 1000 (followed by the home phone number) For Duhok: 0044 702 860 1000 062 (followed by the home phone number)

# Summary of telecommunication investment plan from Oil-For-Food program

Funding sources	986 phases	Project description	Dohuk (\$M)	Erbil (\$M)	Suliem. (\$M)	Total (\$M)
Allocated and contracts are underway	5, 6, 7	Replacement of switching centers in the three main cities	3.70	5.20	5.30	14.20
		Microwave links connecting the three main cities	3.30	3.70	4.60	11.60
Allocated but not yet implemented	8, 9, 10	Outside Plant Network	13.50	19.00	21.50	54.00
		Expansion of outside plant	2.15	2.60	3.25	8.00
		GSM Mobile Network	2.10	10.40	11.50	27.00
		District Network	3.50	5.00	8.50	17.00
Allocated but not yet implemented	11, 12	District telecommunication, group II and III	4.20	5.70	7.60	17.50
		Outside plant network for districts, group II and III	4.70	6.50	8.50	19.70
TOTAL Funds available from 986 program			40.15	58.10	70.75	169.00
Additional Funds needed to meet all the rest of needs			25.00	35.00	40.00	100.00

#### Internet Access in Iraqi-Kurdistan

In Kurdistan Region there is Internet connectivity, thanks to pro-Internet people within governments, business, academic and research communities, who understood the advantages of Internet connectivity for their public. This is despite the fact that the state of telecommunication infrastructure has been very poor in the region, although it is being rehabilitated slowly. Most KRG ministries in Erbil and most of the colleges of Salahaddin and Duhok universities have

Internet access; students and staff use the service to obtain latest information on scientific developments in their disciplines. Plans are underway to further expand Internet connectivity into all university colleges and technical institutes. There are probably around 10,000 Internet users in Kurdistan Region. To learn more about the system being used in Iraqi Kurdistan region look into the following link: <a href="https://www.web-sat.com">www.web-sat.com</a> . WEB-SAT is a low cost-high speed – two ways Internet via satellite



The above pictures show the Transmit card, 84cm Dish with electronics and a typical receive card. Both cards are fitted into your PC or Server

The Web-Sat service is independent of telephone lines or any local ISP connection. It is a low-cost, high-tech solution to Internet access in areas where local telecommunications are not up to today's high-speed requirements. The system comprises of two interface cards (2 PCI cards which fit in your PC/Server) with an 84cm Receive/Transmit dish and installation software CD. Most KRG Ministries, universities, Internet cafes are using the WEB-SAT system.

Other private and business usage via telephone dial-up is also available through KURDISTAN-NET ISP. The company offers unlimited or by-the-hour Internet access. (See this link: http://www.kurdistan-net.com).

- Registration fee: \$50 or its equivalent in local currency to be paid once.
- Monthly subscription fees:
  - 1. Unlimited subscription: \$50 or its equivalent in local currency
  - 2. Limited subscription by hours: is according to

15 hours a month	125 dinar
30 hours a month	250 dinar
45 hours a month	375 dinar + 2 free hours
60 hours a month	500 dinar + 5 free hours

# Other Media in Iraqi-Kurdistan

After 1991 upraising, and the establishment of the Kurdistan Regional Government on 1992, the Iraqi Kurdistan National Assembly issued many laws and drafted new legislations allowing parties and associations to be formed, allowing free press and publication of newspapers and magazines, and permitting radio and TV broadcasting. There is no political sensorship in Iraqi Kurdistan.

More than 15 TV stations were established in the three Kurdish governorates, in addition to more than 20 radio stations, which broadcast at SW and FM. Today in IK, there are more than 167 daily, weekly, bi-weekly and monthly newspapers and magazines being published. On 1999 Kurdistan satellite channel start broadcasting from Erbil, and later KURDSAT Satellite channel broadcasted from Suliemaniyah.

There are more than 35 different political parties that are active in IK. They follow different ideologies (nationalistic, democratic, conservative, communist, and Islamic) and follow different national affiliation (Kurdish, turkman, Caledonian, Assyrian).

The number of media channels available in IK today reflects the ethnic, religious diversity that exist in IK today. However, most those channels are either mouthpieces of political parties or are sponsored by political parties. And normally have their own political agendas.

In addition to the political parties' media channels, the Regional Government has its own radio, TV and publications. Moreover, different government ministries, unions, and the different cultural associations publish different publications.

Because of the political instability prevailing on IK, free, private and independent media movement could not materialize. Even the existing civil society institutions that function in the region, are still maturing and have affiliations to some political parties, or are shadows to government institutions.

So we can say that there are free media opportunities, but the media itself did not develop to be free and independent. Lack of private interest on the media sector is also one reason it could not be free in a western sense and to become a profitable sector.

Overall, there is clear cultural movement advancement in Kurdistan, and relative free expression. Criticism and reveling facts and corruption are being experienced. It could advance more but the owner of those establishments

decline from doing it fearing upsetting the political power. They don't do it because it is against the law. It is their decision not to practice free and independent thinking. No one will stop them or hurt them if they did it.

There are only two widely read daily newspapers in IK, Birayeti in Erbil and Kurdistane Newi in Suliemaniyah. Lately, Birayeti tried to fill the gap of the absence of private free newspaper, by allowing the public to address their complains against the government institutions and practices. It also made pages available for free discussions and exchanges of views. Many other publications and media channels are following this path also.

This process was accepted in the society and had a positive influence in preparing all relevant parties (the media people, the readers, and the people in positions of power) for the rules and principles of democratic society and the role that the media plays in the democratic process.

# Prospects for the Future

We can consider the Kurdish experience, as a successful example to be contemplated for the period after Saddam. During more than 10 years, all sectors and affiliations were given the chance and opportunity to express themselves. However the special circumstances which IK live under has delayed the process of establishment of private media foundations or associations (media channels that does not fall under the influence of political parties).

# Action Plan for First 180 Days

The replacement of damaged or obsolete equipment and introduction of some new equipment that will improve communications in areas of activities of the humanitarian program in major metropolitan areas is of utmost priority. This will directly have positive impact on the improvement of the procurement and distribution system of humanitarian supplies.

We propose adopting the recommendations of the UN Oil for Food program report for the urgent restoration of the communications infrastructure to enable basic services for the distribution of food and drinking water, for the support of medical services, for supporting sanitation services and for the facilitation of basic governance.

#### Short-term Goals for the Telecommunication Sector

- Providing the necessary spare parts and other hardware needed to repair and maintain certain existing telecommunication systems.
- Replacement of damaged equipment in order to restore services to the areas that have severely limited telecommunication services.

c. A mobile and wireless telephone systems to fulfill the urgent needs of the health and other humanitarian services, and to act as a stop gap measure in some areas that have a very poor and severely damaged paper insulated copper subscriber networks or no networks at all.

# Recommendations for Action:

First, replacement of the analog Baghdad Junction Network (BJN) with digital network. The BJN is an inter-exchange transmission link (both cable & microwave) which was seriously damaged during the war. This damage resulted in the reduction of 68% of operational channels between exchanges, making those remaining connections insufficient to maintain the minimum proper performance. BJN connects the 22 switching centers in Baghdad through old transmission systems. These systems are the main causes of bad quality services in Baghdad. By replacing all analogue transmission lines by digital ones, one would guarantee an immediate improvement in the quality of services for all sectors benefiting from telecommunications. This would not be particularly expensive and would be in the range of \$15 million. It is estimated that the replacement of the transmission lines could be made operational within six to eight months.

Second, replacement of the international communication facilities (Earth station, international exchange and the analogue microwave link between them). Due to unreliable international communications, Iraq will continue to experience difficulties in establishing and maintaining external contacts with potential producers and suppliers of humanitarian goods.

Third, replacement of four old crossbar exchanges (Karbala, Diwaniya, Nasiriyah and Basrah) and of the obsolete analogue microwave link between Baghdad and Basrah with a digital link and extend it to the port of Um Qasr, the entry point of the main portion of humanitarian commodities. This microwave link will pass seven governorates whose total population is more than (7) million and considered as the most populated region in Iraq. Reliable and easy communications between Baghdad and the concerned governorates and Um Qasr is extremely important for efficient coordination and management in the process of the supply and distribution of food and medicine.

Fourth, replacement of three exchanges in Baghdad that were completely damaged during the war. One of these exchanges, Bab Al Muadham, is a key exchange for the implementation of the necessary humanitarian programs because it is an exchange through which the Ministry of Health communicate with the rest of the country. Medical items are distributed from the main warehouses in Baghdad to warehouses in the governorates, and thereafter

supplied to the 132 Hospitals, 1500 primary Health Care Centers, 52 Private Hospitals and all the pharmacies.

Fifth, Introduction of small mobile telecommunication network for (25000) subscribers in Baghdad, and a (2000) subscribers network in the center each of the government in Iraq. The aim for such networks is to provide quick and reliable telecommunication services throughout the city of Baghdad, large cities and nearby areas along the main roads. Such project will largely bypass the saturation encountered in most exchanges and the lack or very poor network conditions in many areas of Baghdad and other cities. The project will solve the communication problem faced by every essential and important location related to humanitarian distribution services in Iraq.

Sixth, Introduction of data network to allow connection of computers in all warehouses and Ministries and other parties involved in the humanitarian distribution programs. Then expanding these networks in the future to connect all government and service sectors.

Seventh, Introduction of five sets of 25 mobiles UHF units with a capability to relay communication to a central unit either by satellite or HF. These unites can be used by security personal to accompany officials in traveling to remote areas of the country.

Eighth, As a strategic project for the next five years transform the networks in five above to be cellular network technology that covers the main cities and highways

Ninth, Encourage the private sector to be involved in providing some of the communication services in the country such as ISPs and mobile telephony.

Tenth: Utilize the "latest stat of the art military network" built by the Saddam regime to be used for commercial business – such as the Internet expansion phase

Eleventh: Develop a standard and simple "government bid proposal" to encourage small businesses and entrepreneurs to import required hardware and software from the US local computer and telecommunication companies

Twelfth: Study and analyze carefully some the "development" nations experiences in modernizing and computerizing their societies such as Jordan, UAE, Qatar, Kuwait, and other to benefit from their experiences, cost allocation, time and resources required, management risks and preparations. For example in UAE today there is a very advanced Internet networks and applications built in the past 3 years under the development of "Dubai Internet City DTC". Also seek

advise from experts from Asian nations such as the Gulf region, Iran, India, Pakistan, Singapore, Japan, and Malaysia

Thirteenth: Allocate a small percentage from the annual Iraqi budget (only for the first 2 years) to develop this project as part of Iraq Telecommunication Act

Fourteenth: Identify "a quick hit" projects that bring fast benefits and shows tangible results; such as the utilization of the wireless and advance telecommunication infrastructure (voice and data) already in place with a large access capacity in Kuwait, Iran and UAE

Fifteenth: Design and implement a high-speed IP-based infrastructure voice and data telecommunication network to cover initially 80% of Iraqi population. This backbone can be:

- A Optical network that may includes several smaller backbone regional networks, tied into several Network Operation Centered (NOC) managed by experts from the regions
- 2. A hybrid infrastructure of wirelan and wireless (satellite) based for voice and data
- A full wireless satellite IP- based infrastructure to start with and gradually migrate to a wirelan optical based IP-networks as the infrastructure is built region by region.

#### Freedom of Information Act

As we all know, there are no genuine Civil Society Institutions (CSI) in Iraq. Those who existed have been overtaken by the regime. Even today in IK, CSI affiliated with the political parties are the strongest and most influential. We can't ignore this fact, at the transitional period when we put a new plan for the media. We should consider this fact and prepare for reducing the influence of the political parties on the media and encourage private and independent establishments to lead the media sector.

Encourage the transformation of party's media establishment into private ones, and calling upon the political parties to fund and promote such changes. Political parties can keep some form of bulletin publication and privatize all the radio/TV stations and newspapers. So we can use the same skilled people who worked on those establishments.

We should be careful when we try to fund establishing free and independent media without prior analysis. As we mentioned earlier, most skills in the media sector are now concentrated and available only on the current party's' establishment. We should try to attract staffs from the establishment that exist now instead of funding new comers or new people with no or less experience.

# Regulating The Airwaves

Drafting new administrative laws and regulations for the operation of TV stations, provided that there would be no restriction imposed on free expression and independent thinking. Those regulation should focus on the technical aspect like the use of transmission waves, how far will the broadcast reach, the percentage of locally produced materials (what percentage of external broadcasting is integrated to the local broadcasting), honesty and objectivity when dealing with the political issues, preventing using the media for political purposes or to promote fundamental and restrictive thinking, or to promote hatred or terror.

Conducting professional training for leading staff at the media establishment. and supporting with equipment and programs. This entire capacity building program should be conducted with clear vision on moving toward free and private media.

Encourage local initiatives on translating and spreading democratic thinking, as there is a need to increase the sources and documentation of such thoughts in local languages.

# Let's make our goals and objectives clear:

- There should not be any radio/TV stations and publications that belong to the government or political parties or non-civil organization.
- Issuing laws and establishing the process that will insure transparency and accountability in the work of government.
- c. THE CITIZENS HAVE THE RIGHT TO KNOW

# **Enforcement of Regulation**

With freedoms comes responsibility. To prevent the deterioration of the media outlets into forums to initiate personal attacks on political opponents, strict enforcement of slander laws needs to be in place. An independent commission, representing a coalition of political parties should oversee the enforcement of such regulation enforcement.

## Action Plan for the Next Five Years

Iraq is a vibrant country with a people that is industrious and entrepreneurial. A key strategy to accelerate the introduction of change and progress to this vital sector is to enable the private sector to contribute as much as possible through the institution of free market economy. Nonetheless, it is important to recognize that the bulk of telecommunication infrastructure will require a public-works

commitment from the government. A large part though can be left to the private sector.

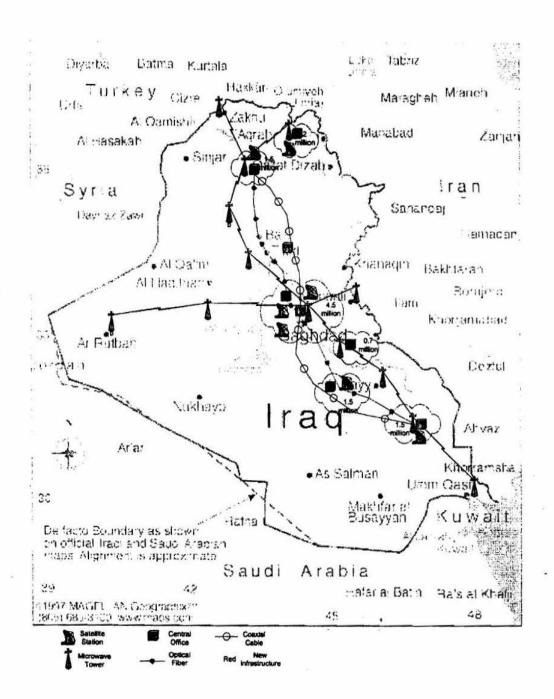
# **Guidelines for Goal Setting**

A good rule of thumb that is valid in most parts of the world is to establish information and telecommunication service levels that is proportional to the country's per capita GDP. It is important to get Iraq to match other countries in the region and the world that have similar per capita GDP in all areas of information and telecommunication services. The following table sets a partial set of goals based on this guideline.

Year	Daily newspaper circulation	The street of the second street, and a	THE PROPERTY OF THE PARTY OF TH	Telephone main lines Per 1000	Cellular phone: subscribers, per 1000	Personal computers Per 1000
Now	20	229	83	30	Car de de	三字200
2003	50	250	100	50	50	20
2004	70	300	150	100	100	50
2005	120	350	200	150	200	100
2006	160	430	250	200	350	150
2007	200	500	300	250	500	200

# **Network Infrastructure Recommendations**

The following map identifies areas where new digital infrastructure is needed to cover major population areas and extend basic telephone services beyond the capitol Baghdad.



#### Conclusions

The installation of telecommunication projects requires high level of expertise. Before 1991, the local staff of ITPC used to carry out all the installation of telecomm equipment with minor supervision from the suppliers. The same staff was able to put the majority of the remaining systems immediately after the war into operation. We recommend the use of local resources for the installation and commissioning of the projects, to minimize expenditures.

It goes without saying that the new equipment to be purchased is of new technical generation. This will require training in the manufacturer premises.

\$126 million will be required to meet the necessary urgent needs and requirements. Out of this total \$18.7 million should be allocated for the three northern governorates.

# Job Creation and Training, Opportunities for Women

Any new war or military confrontation in Iraq could cause further damage to the Iraqi infrastructure and existing weak economy. Furthermore, this would exasperate the high unemployment rates already existing in Iraq. The post Saddam government has to immediately consider economic initiatives to create new jobs through labor intensive projects to serve as an economic stimulus and address the low employment rate. This will be extremely important in that many of the unemployed want to experience an immediate improved difference in their financial status shortly after the collapse of Saddam's regime. Many of the currently unemployed are completely dependent on the food rations granted to them on a monthly basis by the government. Besides these food rations, every Iraqi seeks new job opportunities that will enable them to provide their households' with incomes and provide more food, better clothing, and improved health care for their families.

It is rather unfortunate that no accurate statistics are available about the labor force in Iraq or the unemployment rate amongst Iraqi men and women who are able to work. The United Nations Development Program's latest estimates claim that "at least 50% of the able-bodied labor force in Iraq is unemployed or underemployed." The Iraqi Ministry of Labor and Social Affairs estimates the unemployment rate to be approximately between 30-40%. In addition to this, the number of the disabled in Iraq increased substantially after the two wars that Iraq has been through during the last twenty years. The UNDP estimates

<sup>&</sup>lt;sup>1</sup>Helping them Help themselves, UNDP Program Story, www.iq.undp.org/Programme/undpprogrammePro%201Story.htm

that the number of handicapped and disabled ranges from between one to two million, while unofficial estimates show that figure to be substantially higher. The present government contributes the low employment rate on the current sanctions imposed on Iraq in the aftermath of the Gulf War. Other factors contributing to Iraq's weak economy and high unemployment rate include:

- 1- Most of the privately owned manufacturing facilities are closed due to lack of raw material and spare parts. It is estimated that eighty percent of private businesses closed down following the Gulf War.<sup>2</sup>
- 2- Large government industries that employed thousand of people have been damaged during the Iranian and Gulf Wars. Examples include: the petrol chemical complex, the phosphates and fertilizer industry, the sulfur industry, mechanical, electrical and some of the construction industry.
- 3- The drastic reduction in government spending on services to the public.
- 4- Government spending on construction has been reduced to a minimum and the only exemption is Saddam's personal projects and some repair work to roads and bridges.

The issue of finding jobs for the disabled people was addressed by the UNDP and the Ministry of Labor and Social Affairs in Iraq, and in cooperation with the International Labor Organization. This was accomplished by establishing a community based rehabilitation program funded by the United Nations. This project offered the disabled the technical advice and the training to enable them to start their own private businesses such as tailoring, shoe repair, food processing, and offering computer services. These businesses were funded

<sup>&</sup>lt;sup>2</sup> Statistics provided by UNDP

through interest free loans averaging \$300-\$600. Though this program was rather limited, it is considered a great success. This program's work could be used as a foundation or model by any post Saddam administration in order to create immediate jobs for the disabled and the unemployed in general.

# Job Opportunities within Iraq

Due to the wars and lack of infrastructure investment, there are many labor intensive projects that may be undertaken in order to greatly improve upon and make Iraq a modern day twenty first century country.

# River Cleaning

A major priority from an environmental and safety perspective is the cleaning and clearing of the Iraqi rivers. The rivers have become extremely polluted and pose a great health risk to the Iraqi people. This pollution is due to the lack of a functioning sewage system. The sewage systems were crippled and shut down during the Gulf War. They were never repaired due to a lack of materials. Therefore, raw sewage was simple let out into the Iraqi rivers. The clearing of the rivers will involve various tasks. Besides clearing physical objects that are obstructing the rivers, an effective sewage system must be established. This can be done by repairing the sewage facilities that have been shut down or have been running at minimal usage over the past years, and by also building new facilities so that there are sewage treatment facilities available throughout the country. The clearing of the rivers will provide greater opportunities in Iraq. Cleaner major rivers will greatly increase the rivers' palatable water, which is badly needed in all Iraqi cities. Furthermore, clean unobstructed rivers will increase capacity to transport goods up and down the rivers and increase business, particularly between Baghdad and Basra. In addition, clearing the small rivers will help bring irrigation to the valuable agricultural grounds throughout the country.

# Construction

There will be tremendous amount of construction work needed in the post-Saddam era. This work will provide an abundance of work in Iraq immediately following the regime change. It will provide a great opportunity for men and women to begin earning a decent living and providing for their families. This will be essential in illustrating to Iraqis a fundamental shift immediately following the regime change which will strengthen support for any new government. If the Gulf War provided any indication as to the magnitude of damage that will be caused in Iraq during an attack to remove Saddam, then immediate work will be needed on a majority of the roads and bridges. Many roads and bridges will be destroyed during allied bombing and will need to be repaired or replaced in order to get the Iraq's infrastructure in place. In addition to repairing the roads and bridges, the railways will need to be repaired in order to aid transportation throughout the country. The railways need new parts and the soil needs to be stabilized in numerous locations in order to have an efficient rail system. Low-income housing will also need to be constructed throughout the country. There will be a large influx of refugees returning to Iraq and there will have to be affordable housing for them. Also, many people had housing confiscated during Saddam's regime. They will be looking to the new government to either return their homes to them or provide them with alternate housing.

# Hospitals and Schools

"Iraqis, like us [Americans], do not want to live on welfare. They are a country rich in Intellectual resources, yet many must find employment driving taxis"

<sup>&</sup>lt;sup>3</sup> Facing the Tragedy in Iraq, Campaign of Conscience, http://www.afsc.org/conscience/news/severns.htm

Many of these resources can be put to great use in Iraq's hospitals and schools. However, the hospitals and schools have been neglected over the past years. Many schools are in a horrid state with shattered windows and stolen doors. They must be repaired and modernized before they can begin running on a full scale basis. Modernizing the schools, such as computer labs, will provide Iraq's youth the new opportunities and show them a change in the country's direction. School repairs will provide many job opportunities in that every aspect of the schools need to be renovated. The work will utilize bricklayers, painters, carpenters, electricians, plumbers, landscapers, etc. Hospital modernization and restructuring will also affort new employment opportunities to Iraqi's. Firstly, it will provide jobs during the reconstruction of hospitals and then employ new doctors and hospital staff to run these now functional medical facilities. These initiatives will result in generating new employment opportunities and the average Iraqi will benefit from an improved healthcare system, something that was greatly lacking under Saddam's rule.

# **Electricity and Water Treatment**

Excluding Baghdad and a few other major cities, electricity has been a major problem. The typical household barely receives ten hours of electricity a day outside of the major cities. The whole electrical grid will need to be redone or replaced, as it is already in poor condition and will probably suffer more damage during an attack on Iraq. Effective water treatment is also needed everywhere throughout Iraq. People still boil water in many places and in some locations there is not running water. In major cities such as Basra, the port city in Southern Iraq, the water treatment facilities have been ruined and bombarded several times over past ten years. This left the raw sewage running throughout the streets, and treated water became such an expensive commodity that most families cannot afford with their meager salaries.

<sup>&</sup>lt;sup>4</sup>Campaign of Conscience

# **General Appliances Manufacturing**

Saddam poured billions of dollars into the production of military equipment. This involved the construction of numerous facilities to build the equipment. A cost efficient way to manufacture general appliances for the Iraqi public and create many jobs would be to convert a number of these pre-existing facilities into manufacturing plants for the appliances, such as refrigerators, microwaves, dishwashers, washers, dryers, etc. This will boost Iraq's economy and employ many people. It will also provide appliances that are affordable for a majority of the public.

# Opportunities for Women

Iraq has historically had one of the highest female literacy and high school graduation rates in the Middle East. There is a large base of highly skilled and educated female labor force that can be crucial to Iraq's restructuring efforts. Today, most female College and High School Graduates are employed by the government and to a certain extent the private businesses. Any new government should seriously consider creating programs promoting financing and grants for women owned businesses to promote the entrepreneurial expansion of this sector.

- Professional business expansion in fields such as Medicine, Law, Engineering, and Computer Science.
- Service Industry: Private Education, childcare, Catering, Travel, and Consulting.

In addition, to create a fundamental shift of the position of women from the Saddam regime to a democratic post-Saddam regime, new, high position opportunities must be created for women within the new government. This will serve as both a utilization of a highly skilled sector of the population that has been both ignored and under utilized and well as role model for new role of women in the future Iraq.

# Infrastructure projects

The need for investment for the infrastructure projects on order to provide new work opportunities is apparent. Therefore, Labor-intensive criterion should be considered in identifying these projects at least for the first two years.

# **Family Farming**

The new government must immediately encourage the development of family farming and a diversified agricultural sector. By encouraging people to emigrate from the cities back to the countryside, through long term, low interest loans and proper training on the introduction of modern agricultural technology. This will definitely increase Iraq food production and make it less dependent on food import that will require scarce hard currency. The emigration from the cities to the farm land will reduce the severity of the housing problems and congested services a phenomenon shard by all major Iraqi cities.

# Credit Guarantee For Entrepreneurs

Create a credit guarantee fund or agency to guarantee about 75% of new loans banks make to expand their markets dramatically by financing new ventures of previously discouraged entrepreneurs and talented minorities excluded from the economic mainstream under the guidance of mentortechnicians with financial incentives to motivate and guide them in preparing workable business plans and adopting optimal technologies and business practices.

# New Services

The emergence of new type of services into the Iraqi communities such as internet service providers, content providers for software or programming in local languages, Educational services-distance learning and others.

The abilities to introduce new product in the new free open Iraqi market will expand the demand for goods and services and those generate new employment opportunities to many people and businesses.

# Foreign Workers

The government must act urgently to impose restrictions on foreign workers. This would create new job opportunities for Iraqis as well as to reduce the demand (consumption of foodstuffs and other goods and services) pressure.

In order to implement the above-mentioned tasks, new government departments must be established with the help of Iraqi experts now residing outside Iraq. This would be in addition to the local expertise available. To finance these projects the new Iraqi administration should be assisted in getting immediate loans from the International Monetary Fund, and other institutions and friendly governments.

# Analysis of Employment situation in Iraqi Kurdistan

In the absence of comprehensive estimates of employment, a survey in Erbil Governorate found that the Government departments, agricultural and transportation sectors continue to provide most of the employment in the north. Total employment in the entire economy of the Governorate showed 240,013 persons in 1999 and 259,985 in 2000, representing 89.64 percent and 92.38 percent of the labor force, respectively. The unemployment rate was estimated to be 10.36 percent in 1999 and 7.62 percent in 2000. Such figures are being distorted by the fact that a large number of employees work with more than one employer. Furthermore, a sizable number of others have been attracted by the U.N. agencies at more than going market wage rate. Besides, a great number of people have left the country. This situation has created an "apparently" tight labor market.

Table 1

EMPLOYMENT IN ERBIL FOR THE YEARS 1999-2000

EMPLOYMENT IN ERBIL				
Number Effectively Employ	red in Erbil	for 1999 and		
MAJOR ECONOMIC SECTORS	1999	2000	1999 : percent of each category to total	2000 : percent of each category to total
AGRICULTURE	54370	57373	22.6 5	22.07
INDUSTRIAL	13178	13561	5.49	5.22
SERVICES	44487	45791	18.5 4	17.61
TRANSPORTATION	51161	61847	21.3 2	23.79
CONSTRUCTION	1869	1995	0.78	0.77
FUELS	844	869	0.35	0.33
GOVERNMENT	73563	77858	30.6 5	29.95
PHYSICIANS, HEALTH-RELATED EMPLOYEES AND LAWYERS	541	691	0.23	0.27
TOTAL EMPLOYMENT*	240013	259985	100	100.00
NET LABOR FORCE = TOTAL LF - PERSONS ON TRANSFER PAYMENT	267740	281441	-	-
percent OF EMPLOYED TO TOTAL LABOR FORCE**	89.64406	92.37637729	_	
UNEMPLOYMENT RATE	10.35594	7.623622713		

This figure is being distorted by the fact that a large number of employees work with more than one employer, a sizeable number of others have been enticed by United Nations agencies at more than going market wage rates, besides a great number of people have left the country. This situation has created an apparently light labor market.

The four major sectors that employ most of the labor force are the following: Government, by far the largest with 73,563 and 77,858 persons employed in 1999 and 2000 representing about 30 percent. This sector is followed by Agriculture with total employment in this sector 54,370 and 57,373 persons employed – representing 22 percent of total labor force employed. Then followed by the transport sector, with 51,161 and 61,847 persons employed in 1999 and 2000 representing 21 percent and 23.8 percent of total number of persons employed in the economy. This is reflected in the disproportional number of taxis and buses operating in major cities and towns.

This has a negative implication and represents a false image of the real employment figures and has thus distorted unemployment, in addition to creating excessive demand on petrol. The Services sector constituted 18.5 and 17.6 percent of employment with 44,487 and 45,791 employees in 1999 and 2000. Looking into the figures in the Industrial sector, they are pathetic with about just 5 percent of total employment; 13,178 and 13,561 persons for 1999 and 2000, respectively.

Wages paid to the local UN staff have exerted an upward pressure on wages in the rest of the economy. This is the case in the three main cities more than the rural areas. UN staff wages, where the minimum wage for the lowest category of workers is almost four to five times higher than that of the local authorities per month, have contributed to the distortions in the labor market, and have made it difficult for local authorities to retain local staff, given the huge wage differentials. In an internal survey conducted by the ministry of reconstruction and development in Erbil revealed that about 25 percent of the staff earn about 251-300 OIDs per month (base plus allowance); another 30 percent of the staff earned less than that level. When this is compared to how much has been spent on the food basket for a family of five, (793 OIDs), in each month, it shows how the food policies have continued to exacerbate the social conditions of the vulnerable groups. This issue will require special attention, especially as we consider making changes to the existing oil for food program.

# Supporting Iraqi Women

Even from ancient times, Iraq has been a leader in the field of women's rights. King Hammurabi, ruler of Babylon from 1792-50 B.C., created the world's oldest known set of laws, and his code endeavours to provide justice for all people, including women. Today, Iraq is still considered to be at the forefront of women's rights in the region, with legislation and regulations that promote the status of women and the principle of equality and equity between the sexes.

However, as is often the case in times of crisis, women are bearing the brunt of years of war and sanctions in Iraq. The past decade had seen a decline in educational opportunities for women, a jump in female illiteracy and rising poverty. Despite these difficulties, Iraqi women are using their powers of creativity to face the challenges confronting their country. They are assuming additional responsibilities at work and at home in order to provide and care for their families. UNDP is an active and committed partner in the advancement of Iraqi women as they take on new and diverse roles in national development, in areas such as politics, the economy, the legal system and the health sector. UNDP is working with Iraqi women to overcome obstacles to their full empowerment, and build on gains already made.

#### **Key Statistics:**

- The labour force participation rate in formal economic activities is 10.3 percent for women and 43.4 percent for men.
- Women hold eight percent of seats in the National Assembly.
- Female adult illiteracy is 56.2 percent (36.1% for males).
- . More than 50 percent of pregnant women are anemic.
- Women make up 34.4 percent of university and polytechnic students.
- · Thirty-eight percent of doctors are women.

Current UNDP Projects in the Field of Gender

#### The National Committee for the Advancement of Iragi Women

UNDP is building the capacity of the NCAIW to achieve its goal of mainstreaming gender-related issues into the socio-political life of Iraq. The \$70,000 project includes training in gender analysis and gender sensitive policies, as well as the creation of a strategy to incorporate gender indicators in data collection.

#### Improvement of Nursing Services

This project provides training for 100 percent of nurses working in coronary, respiratory and intensive care units at general hospitals and cardiac surgery centers. The \$50,000 project also includes the "training of trainers" in these critical fields.

#### Rehabilitation of Cancer Care and Control Services

UNDP is working to reduce cancer related deaths in Iraq, particularly from breast and cervical cancer. With funding of \$268,000, UNDP is providing educational and advocacy materials, diagnostic equipment and training for health care professionals.

#### Support for Disadvantaged Women

This \$561,000 project is providing disadvantaged women with vocational training in sewing, knitting, needlework and computing skills. UNDP also offers micro-credit loans for women to set up their own small businesses. So far 54 women have taken out two-year loans of about \$400. The pilot project in Baghdad, Basrah and Diyala governorates includes the rehabilitation of training and production centers of the General Federation of Iraqi Women, so that this important partner can continue to support and empower disadvantaged women.

#### Vocational Training and Micro-Credit for Women Prisoners

This \$164,000 project includes the renovation of a work area, equipment and training for inmates at the Iraqi Women's Prison in Baghdad. Participants earn between 40-150,000 (\$22-83) Iraqi dinars per month from the sale of their products. UNDP also renovated the health center and a crèche for children living with their mothers at the jail. UNDP provides small interest free loans for freed inmates to set up their own businesses. The women are given help to create a sound business plan and counseling to ensure they reintegrate into the community with dignity.

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# Iraqi Development & Reconstruction Council

# Tull Confidence

# **Future of Iraq Project**

# **Economy and Infrastructure Development Workgroup**

Subcommittee on Iraq Development and Reconstruction Council IDRC

Recommendations to the
Post-Saddam transitional government of Iraq in preparation for a free society under a constitutional democracy

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IDRC Recommendations – v3.0 December 11, 2002



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#### Introduction

The work of the Iraq Development and Reconstruction Council (IDRC) has spanned a period of turbulent changes in the circumstances surrounding the existence of Saddam's regime in the past thirty-four years. The Iraq Economy and Infrastructure Development working group dated October 26, 2002 commissioned this study.

The IDRC council was asked to examine all aspects of the Iraqi national economic development, infrastructure, reconstruction, important political conditions such as stability, political and social freedom, revitalization of private sector, and individual's economic freedom as part of free market economy.

The IDRC council has addressed the most important economic development and reconstruction problems considering the future of Iraq after a regime change. We expect most of the anticipated changes are required, rapid, and challenging. Moreover, our conclusions and recommendations must fit into a future of Iraq that will continue to change in directions to benefit all of the Iraqi people.

The IDRC council is mandated to identify and recommend development and reconstruction projects that are very specific and appropriate for the immediate circumstances for Iraq after Saddam and during the transitional period to meet future development needs that are politically feasible both domestically and internationally.

# **IDRC Principal Purpose**

The IDRC is an independent council, its principal purpose is to set the development of sound public policies and promote public understanding of issues of national and international importance to the Iraqi people and to the transitional government to drive policies, programs, and structure. The IDRC must engage actively in the process of the development and supervision of the economic, social, and environmental infrastructure projects and determine specifically the types, resources and total cost of these projects.

# **IDRC Mission**

The various advanced scenarios for the liberation of Iraq and the outcome, whatever the course of this transformation, will leave a Government power vacuum at all levels, financial and economic uncertainties, and general concern about stabilization and the organization of a new transitional regime to replace the old. A coordinating independent council, the Iraq Development and Reconstruction Council (IDRC), operating through specialized subcommittees, is proposed as the

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focal point for resolving many of economical and social problems that must be dealt with coherently during the transitional period which is estimated to last between 24 and 36 months. The IDRC is to initiate the vision and set the framework for economic development and reconstruction of new Iraq, its governance, and its economic and cultural renaissance. The Council would operate through subcommittees dedicated to resolve serious and controversial economic and social issues and concerns and may inherit an implicit political role during the transitional period.

Considering the wealth of Iraq in economic and human resources, its potential and importance to the stability of the gulf area, the middle east region, and the economic and social damages inflicted during two wars and by Saddam's oppressive regime, a radical and aggressive measures must be planned and ready to be executed from day one to guide the transitional Government. During the transitional period, it is essential to establish the following:

- 1- The IDRC should derive its power from the highest authority established in Iraq after a regime change.
- 2- The IDRC decisions must be fully transparent.
- 3- The IDRC operates as an independent decision-making council with specialized subcommittees that have the power to influence major decisions on economic development and reconstruction projects.
- 4- The IDRC, in the short-term, should consider its mandate temporary; it should work to devolve its authority and functions to a more permanent structure in a new constitutional arrangement. The democratically elected government and parliament will modify the IDRC responsibilities and authorities.
- 5- The IDRC responsibilities so as to focus on investment for developing the economic, social, and environmental infrastructure projects.

# **IDRC Goals & Objectives**

The IDRC must deal with the various short and long term needs for coherent problem solving and provide coordination for the new Iraqi transitional Government, Arab and international agencies. It is clear that one of the IDRC functions is to deal, identify and anticipate infrastructure and economical problems as they arise. It will serve as an important interim coordinating body during the time when political and Government structures in Iraq undergo the process of regime change. Oil policy is an essential part of the economic policy and oil revenue plays a strategic role in the future development of Iraq. Any attempt to have sound and effective economic and development



policies should assume that oil policy in terms of production, investment, and trade is an integrated part of the economic policies.

The IDRC must take the lead on working with the appropriate Government ministries and agencies in the preparation of a two-year transitional development plan. Expert IDRC members and other consultants should produce seven main inputs into the development plan:

- 1- Conduct a base-line assessment with full analysis of the current Government structure and report on gaps and duplications
- 2- Identify the most depressed regions of Iraq that require immediate development quantitatively and qualitatively
- 3- Identify the depressed sectors per-region that requires immediate development and attention. Hence health services (including vaccination), food, education, electricity, clean water, irrigation & agriculture, relocation of families to their original towns and cities will have a high priority for all regions of Iraq and will require immediate attention.
- 4- Identify and prioritize infrastructure and reconstruction development projects, assess needs, identify internal and external resources, and estimate time and cost required
- 5- Conduct a full analysis of the competitive position of the Iraqi private sector and of Iraq's regional social needs, and identify priority areas for growth
- 6- Identify priority sectors for Government actions to encourage the country's competitive position regionally and stimulate investment and growth
- 7- Identify major environmental and pollution clean up projects through out Iraq

#### **IDRC Structure**

Iraq is endowed with abundant economic and human resources. However, in the last three decades, Iraq experienced extraordinary economic deterioration resulted in acute political, economic, financial, social and environmental problems. Specifically, Iraqi economic, social, and environmental infrastructure heavily damaged after 1990. In addition to the political conflicts, bad government economic management at different levels has been major contributors to the current economic crisis. Therefore a strong and effective Iraqi Development and Reconstruction Council structure must be established with a clear defined mandate and responsibilities to start work immediately after a regime change.

The IDRC must be composed of qualified Iraqi experts from inside and outside Iraq, many of whom may now be in exile or outside of the current regime, and must be assisted by experienced technocrats whom may or may not be Iraqis. It is urgent that the Council should organize its structures, subcommittees and responsibilities to be ready to deal effectively with the

circumstances of the regime change.

The Council should elect its officers, establishes a small secretariat to coordinate its work, and empowers subcommittees that are composed of specialists to identify specific infrastructure projects and provide a road map with action plan for each sector and region. The Council's work should be inclusive of all elements of the Iraqi society and impart a sense of "ownership" to those already familiar with the problems and likely to develop workable solutions. The Council, through its subcommittees should interface with international organizations and humanitarian NGO's to coordinate, utilize and focus the contributions of these entities on Iraq's development projects.

Several subcommittees have been established as part of the economy and infrastructure development of the future of Iraq and as part of the internal structure of the IDRC, and they are:

- 1- Oil for food subcommittee
- 2- Electricity subcommittee
- 3- Media Communication & Telecommunication Subcommittee
- 4- Economic Policy subcommittee
- 5- Military Resource Recovery and Staff Conversion subcommittee
- 6- Oil Revenue Strategy subcommittee
- 7- Infrastructure subcommittee
- 8- Oil Policy and Program subcommittee
- 9- Investment and Privatization subcommittee
- 10- Local Currency subcommittee
- 11- Banking Reform subcommittee
- 12- Taxation subcommittee
- 13- Iraqi Debt Resolution subcommittee
- 14- Environmental and Pollution Control
- 15- Development of Tourism industry

#### IDRC Structural Diagram

Below is a draft diagram shows the proposed internal structure of the IDRC. To the left and the middle it shows the "operational" aspects of the IDRC structure, which includes the 15 subcommittees and the appropriate Government ministries and agencies that will interface with (the diagram shows some but not all of the ministries and subcommittees). To the right of the diagram, it shows number of specialized departments that will assist the Council and the subcommittees in the "decision-making" process.

Office of the **Transitional** Government **IDRC** Ministry of Industrial Financial Department development Oil for food subcommittee **Technical Department** Ministry of Finance Oil Revenue subcommittee Ministry of Studies and Research Transportation Department Communication Central Bank **Economic Department** subcommittee Evaluation and Ministry of Tourism Infrastructure Monitoring Department subcommittee Policy and Institution Department **Public Relations** Department Ministry of Water & Development of Media Communication Tourism Natural resources Department subcommittee



#### IDRC Duration

The IDRC should accept its independent strategic role and perform its functions through out the specific subcommittees during the transitional period of transforming Iraq to a democratic country and reintegrating it into the community of nations.

The IDRC must be in a position to perform its planning, operating and decision-making role flexibly and pragmatically.

The anticipated duration of the IDRC is as follows:

- 1- The IDRC will operate in a "transitional" role as a council for a period of 24 months after a regime change to allow for a proper political transitional period to elect leaders
- 2- The IDRC will continue to operate for unspecified period after to ensure proper execution of the development and reconstruction projects started during the first 24 months and will transform into a "permanent" IDRC with defined functions and roles due to parliamentary law.

#### **IDRC** Activities

The IDRC commission should immediately engage in developing a long range plans for the future economy of Iraq by identifying several major projects. The IDRC should carefully review the availability of resources, current Government structures and organizations, oil revenues, and the longevity of infrastructure development projects that are focused on improving the life of the Iraqi people long after the transition to a new elected Government.

The IDRC through its subcommittees will focus on several important projects that have a high priority and require immediate actions. For example projects in the health services (including vaccination), food supply and continuation, education, electricity, oil for food, clean water, irrigation & agriculture, relocation of families to their original towns and cities. Other, economic infrastructure projects and investment and privatization activities should receive special attention to encourage economic development, private initiatives, investment, and similarly broadly based employment and ownership programs.

The IDRC will direct the transitional Government to organize its finances to promote local initiatives and encourage the entrepreneurial spirit specifically in the geographically neglected regions of Iraq during Saddam's regime.

A strong and focused IDRC council can provide a viable blueprint for the future of Iraq.

The IDRC identified activities require immediate execution plans:



#### 1- Initiate a Policy & Strategy study

The IDRC must drive an immediate plan to seek experts to conduct studies of the social and economic situation in the country. These urgent studies must be short and limited to three months at most with the following objectives:

- a. A base-line analysis of the social and economic situation in Iraq
- A need analysis based on supply and demand for the basic social and economic services in Iraq with foreseeable trends
- c. An assessment and analysis of the current Government institutions
- d. Analysis for development and relocation of existing services, creation of new ones, either through existing government structures or through promotion of other stakeholder initiatives
- e. The Identifications of depressed regions and public and private sectors

These analyses should assist IDRC and its subcommittees in targeting major "Development Projects" toward improving the socio-economic opportunities in selected areas of Iraq.

#### 2- Identification and selection of public infrastructure projects

Although the Government of Iraq has failed to maintain economic growth and social development, the available technical capacities and accumulated feasibility studies are invaluable in the process of identification of investment opportunities in general, and public projects in particular. However, since rational economic selection of public projects have to be made independent of the current conflicting interests of the Iraqi political parties or social group, the role of IDRC is essential to undertake this task.

Infrastructure projects may be classified into three main categories:

- 1- The first is economic (physical) projects such roads, dams, communications, electricity, and water for drinking.
- 2- The second is the social infrastructure projects such as public schools and hospitals.
- 3- The third category is the environmental public projects such as sewage, sanitary, combating pollution of WMD, reviving the marshes of the south, clearing minefields in the North and the eastern border of the country.

The role of IDRC is to identify and prioritize these projects and determine the best technologically advanced and Iraqi-friendly vendors, institutions, and companies that are suited to execute large and complex projects.



Investment decisions in infrastructure development projects are one of the most important functions of the IDRC. The technical department of the IDRC should compile a list of highly specialized Iraqi-friendly vendors and companies with long history of successfully managing and executing large-scale projects and make the list available to the IDRC council and its subcommittees.

#### 3- Preparation of public investment guidelines

Initial proposals of public investment should be emanating from the concerned ministries and government departments. IDRC should initiate directives to the ministries for assessment of the existing infrastructure and the required investment for upgrading and new ones.

The IDRC should issue clear guidelines to assist the Government ministries in preparing their lists of proposed projects. (Guidelines should be in accordance with the IDRC authorities- details have to be given later)

#### 4- Mobilization and allocation of financial and human resources

The development and reconstruction of Iraq after a regime change will require the mobilization and allocation of financial and human resources. Such resources as:

- 1- Oil revenues, the main source of public finance and foreign currency, should be allocated mostly to finance major identified infrastructure projects during the transitional period.
- 2- The private sector should actively contribute to the financial requirements or invest in certain projects.
- 3- The IDRC should identify ways and means for more financial and investment contribution from Arab, regional, international financial institutions.
- 4- The IDRC should have the capacity to negotiate with and arrange for the participation of private sector, domestic, and foreign institutions.

#### 5- The IDRC must:

- a. Identify methods for manpower development and benefit form the experiences of countries such the United States of America, Britain, Japan, Germany, Ireland and Korea.
- Identify manpower planning and investment in education and training programs that are essential to increase productivity
- c. Identify programs that will immediately impacted by such training, like public health, nutrition programs, vaccinations, family planning, agricultural development such as reconstruction of irrigation, and development of labor rights for men and women.

#### 5- Preparation of indicative plans

For Iraq, it is essential to implement a well-define economic and social development strategy. The IDRC must direct the new Iraqi transitional Government to the core of such strategy of diversify its economy and lessens its dependence on crude oil exports in the medium and long- run. Such strategy needs to be explicitly translated into sector wise development policies as well as the identification of investment opportunities and implementation of projects in different sectors. The Economic subcommittee is tasked with publishing such guideline

#### 6- Implementation of certain economic structural reform programs

The IDRC council working with the transitional Government ministries should be responsible for the implementing of the Government policies including the targeted economic reform programs, such as privatization program, where the IDRC will provide the essential independent, non-biased political power with impartial views and interests as well as the capacity of technical competence. The Investment and Privatization subcommittee within the IDRC is tasked with preparing the contents of the investment and privatization reform program and its aggressive pace of implementation.

#### Resources

It is a well-known fact that the Iraqi oil revenue is the main source of finance of almost all of Iraq major projects. The following are some of the resources that IDRC council and its subcommittees plan to utilize and recommend to the transitional Government after a regime change:

- The IDRC must relay on some early estimates of oil revenues to determine the number and total cost of the proposed infrastructure projects in Iraq for the first 24 months after a regime change.
- The IDRC will invite foreign capital to invest in the required Iraqi Infrastructure projects and will explore all Arab and international financial support.
- 3. The IDRC will direct the transitional Government economic policies to reactivate "free market economy" and encourage private sector to increase economic growth and employment. Iraqi, Arab, and International (specifically American and British) private sector investors and financial institutions should be invited to participate in financing, investing, and executing these projects.
- The IDRC must prepare clear guidelines in accordance with the Iraqi transitional government economic policy to conduct the required loans and joint ventures.



#### Decision making process

The independent IDRC Council is an essential and strong part of the new transitional government institutions.

The IDRC must participate in the development and reconstruction decision-making process with the following:

- 1- The IDRC should determine the financial resources and capacity for the investment program
- 2- The IDRC should initiate tentative estimates for the required investment and suggest sources of finance
- 3- The IDRC direct the transitional Government on the type and total cost of the proposed infrastructure projects
- 4- The IDRC through its expert subcommittees will submit a prioritize list of infrastructure projects taken into consideration the Iraqi financial limitations in the first 24 months
- 5- The IDRC will be responsible for the implementation of immediate economic reform programs such as the privatization program
- 6- The IDRC should have complete authorization to carry out these tasks and present its results and findings to the new Iraqi transitional Government.
- 7- The IDRC will be accountable to the transitional Government for its decisions
- 8- The elected Government by the Iraqi people after the transitional period may necessitates certain changes on the nature and timing of implementing the reform programs. Therefore, the IDRC should act accordingly.

#### Short Term Plans

The following is a list of the first and highest priority actions that will be taken by the IDRC in the first 180 days after a regime change:

- 1- Identify, organize and assign responsibilities of the IDRC council board members
- 2- Identify and organize the 15 major subcommittees identified
- 3- Determine the IDRC major roles and responsibilities to the transitional Government
- 4- The IDRC must conduct a full review of the Iraqi current "state of the country" status to include:
  - a. Identify and prioritize major infrastructure projects that require "immediate" execution. The specialized IDRC subcommittees have identified several specific infrastructure projects. A detailed reports were produced from the following subcommittees: Electricity, Media Communications and Telecommunication, Oil

for food, Economic policy, Oil Revenues, Military Resources Conversion and others.

 Select members from the IDRC and the appropriate subcommittees to oversee and supervise each major project and assign a time-table to provide solutions and recommendations

#### Conclusions

The Iraq Development and Reconstruction Council (IDRC) is an independent Council comprises of experts from inside and outside Iraq and initiated as part of the future of Iraq project.

The IDRC envisions the appointment of a specialized board and subcommittees to identify major infrastructure projects, and develop recommendations.

A shadow IDRC board and members of the 15 subcommittees listed above in this report have been working together for the past six months to speed up the process, conduct initial studies, discuss and draft reports in advance of the anticipated regime change in Iraq and as part of the future of Iraq project.

Existing Iraqi government structures, other qualified Iraqi experts from inside and outside Iraq must be included in the IDRC and its subcommittees to utilize their expertise. However, the selection of these individuals, as potential candidates for the Council and its subcommittees, must be determined well in advance of the regime's change to ensure the success of the IDRC operation.

The IDRC should be the creation of the Iraqi's and the appointments perceived as originating from the new Iraqi transitional Government. The work of the various subcommittees, as general guidance, can be prepared in advance by qualified individuals, academics, technocrats, and politicians, both Iraqis and non Iraqis so as to accelerate their organization and effectiveness – post liberation from the current regime.

The IDRC can operate immediately, in a shadow mode, to make key decisions, in advance of any regime change, so as to fulfill, immediately, the critical components of their mission.

Existing Iraqi government structures should be preserved and reformed, pending such restructuring as may be required by the transitional government and the new constitution.

The IDRC should organize its structure and subcommittees to deal effectively with the circumstances of the regime change. It should consider its mandate temporary and work to devolve its authority and functions to more permanent structures in a new, popularly elected Government operating under new constitutional arrangements.

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The IDRC Council should elect its officers, establish a small secretariat to coordinate its work, and empower its specialized subcommittees to deal with specific infrastructure development projects and other problems and concerns that require immediate solutions.

#### Formal Proposal

#### Summary

#### THE IRAQI DEVELOPMENT AND RECONSTRUCTION COUNCIL'

#### Objectives:

- 1. Identification of investment opportunities in the public infrastructure.
- 2. Preparing guidelines and investment criteria for public project's evaluation.
- 3. Selection of public investment projects.
- 4. Mobilization and allocation of financial resources.
- 5. Preparation of indicative development plans.
- 6. Implementation of certain structural reform programmes.
- 7. Initiate Iraqi thinking on future vision for Iraq.

#### Activities:

- 1. Invitation for feasibility studies of public infrastructure projects
- 2. Conducting investment promotion conferences and negotiations.
- 3. Conducting investment capacity building programme
- 4. Follow-up the implementation of the public investment programme.
- Submitting annual progress assessments report to the government.

#### Resources:

- 1. Public oil revenues.
- 2. Public sector.
- 3. International, regional, and Arab economic and financial institutions
- 4. Iraqi private sector
- 5. Foreign financial institutions and investors.

#### Organization:

- Decision making board
- 2. Technical secretariat
- 3. Financial Directorate
- 4. Administration department

#### Abbreviations:

- IDRC: Iraqi Development and Reconstruction Council
- TS: Technical Secretariat
- FD: Financial Directorate.
- AD: Administration Department.
- IP: Investment Programme
- WMD: Weapon of Mass Destruction

<sup>&</sup>quot;Assumptions and practical considerations behind the given proposal are related to the author's views expressed in his paper entitled." The Economic Project for Change in Iraq. Three prior assumptions are necessary to mention. First, while the government macro economic policies and the required economic restructure reform programmes should not be compromised; the preparation and the execution of public investment in the infrastructure projects should be the sole responsibility of the IDRC. Secondly, war reparation and non-commercial debt should be politically settled and must not be considered as input into IDRC investment policy and criteria. Thirdly, careful and positive considerations should be given to the salient economic, social and political features of the country

#### Formal Proposal

#### THE IRAQI DEVELOPMENT AND RECONSTRUCTION COUNCIL

#### Why we need IDRC?

Iraq is endowed with abundant economic and human resources. However, in the last three decades, Iraq experienced extraordinary economic deterioration resulted in acute economic, financial, social and environmental problems. Specifically, Iraqi economic, social, and environmental infrastructure heavily damaged especially after 1990. In addition to the political conflicts, bad government economic management at different levels and widespread market imperfections has been major contributors to the current economic crisis.

Until 1980, Iraq has developed good experience in the field of identification and implementation of public development projects. However, since then the government failed to maintain the benefits of past experience for their narrow political purposes. Rational and institutional public investment decisions have been gradually diminished. As a matter of fact, Iraqi governments failed, with different degrees, to establish constitutional and institutional apparatus for its economic and public investment policies.

In (new) Iraq, the challenge is how to utilize public oil revenues for promoting economic and social development as well as advancing democratic practices in a free market economy. Since Iraq is in urgent need to erect and develop its infrastructure as well as to revive the economy, public investment constitutes the main engine for economic growth and social development. The vehicle of such essential endeavor is IDRC.

#### **Objectives**

#### 1: Identification of public infrastructure projects

Although the governments of Iraq have failed to maintain economic growth and social development, the available technical capacities and accumulated feasibility studies are invaluable in the process of identification of investment opportunities in general, and public projects in particular. However, since rational economic selection of public projects have to be made independent of the current conflicting interests of the Iraqi political parties or social group, the role of IDRC is essential to undertake this task. Infrastructure projects may be classified into three main categories. The economic (physical) projects such roads, dams, communications, electricity, and water for drinking. The second is the social infrastructure projects such as public schools and hospitals. The third category is the environmental public projects such as sewage, sanitary, combating pollution of WMD, reviving the marshes of the south, clearing mine fields in the North and the eastern border of the country. The role of IDRC is to identify these projects and determine its priorities.

#### 2: Preparation of public investment guidelines

Initial proposals of public investment should be emanating from the concerned ministries and government departments. IDRC should also initiate directives to the ministries for assessment of the existing infrastructure and the required investment for upgrading and new ones.

This should be followed by clear guidelines to assist the ministries in preparing their lists of proposed projects.

(Guidelines should be in accordance with the IDRC authorities- details have to be given later)

#### 3: Selection of public infrastructure projects

Investment decisions are the most crucial tasks of the IDRC. Although, IDRC would invite highly qualified consultancy firms to prepare the feasibility studies of the

suggested projects in addition to the government departments. Prior identification of investment criteria should be prepared and circulated by the TS-IDRC to both government departments and private consultancy firms. The intended criteria have to be derived from the government economic and development policy.

Also, IDRC should arrange overall priority list as well as sector wise projects priorities to highlight the allocation patterns of the projects. All have to be included in the IP's framework. IP should also include general assessment of the likely impact of the investment programme on the economy.

#### 4: Mobilization and allocation of financial resources

It is generally accepted that reconstruction of Iraq needs huge amount of investment in the public infrastructure of the country. Oil revenues, the main source of public finance and foreign currency, should be allocated mostly to finance the infrastructure projects. However, since market economy would be the base for the government economic policy, private sector may actively contribute to the financial requirements or even to invest in certain projects. Therefore, IDRC should find the ways and means for more financial or investment contribution to the IP. In this respect, IDRC should approach the international, regional, and Arab economic and financial institutions for more financial and investment input to the IP. Except full observation of the government economic policy guidelines, IDRC should have the capacity to negotiate with and arrange for the participation of private sector, domestic and foreign, and foreign institutions in the IP. However, no financial decision or commitment with foregin concerns up certain limits could be made without prior approval of the PM.

#### 5: Preparation of indicative plans

For Iraq, it is essential to implement a well-define economic and social development strategy. The core of such strategy is that Iraq should diversify its economy and lessen its dependence on crude oil exports in the medium and long- run. Such strategy needs to be explicitly translated into sector wise development policies as well as the identification of investment opportunities and implementation of projects in different sectors. A medium-term indicative development plan would also serve the purpose. It is also necessary for the government to reduce the development disparities in terms of GDP among regions and governorates. This can be tackled by preparing a regional development plan associated with the overall medium-term development plan.

#### 6: Implementation of certain economic structural reform programmes.

In principle, the concerned ministries should be responsible for the implementing of the government policies including the targeted economic reform programmes. In some cases, like the privatization programme, it is essential to have non-biased political power with no partial views and interests as well as the capacity of technical competence. The contents of the privatization reform programme and its pace of implementation may necessates the involvement of IDRC.

#### 7: Initiation of the future vision of Iraq

Iraqi experience showed that long-term economic and social development planning was in the interest of Iraqi people. For the future of Iraq, the diversity of political, economic, social, ethnic, and sectarian interests need to be harmonised by developing consensus among Iraqis on the most important public objectives. Such endeavour can only initiated by independent body with the government support. IDRC is the most suitable agency for taking the initiative and develop the concept of Iraqi Long -Term Future Vision.

#### Activities

In order to achieve its objectives, IDRC should rigorously peruse many activities. Most importantly those related to the preparation of the IP. As usual, IDRC should invite the government departments and private consultancy firms to submit their proposals. Direct dialogue with the concern parties would be preferable work practice. The aim is to prepare a number of economic and technical feasibility studies for a

wide range of proposed infrastructure projects. Such target needs to conduct series of investment promotion conferences for domestic and foreign investors.

It is also necessary, IDRC should undertake a programme for capacity building for the government departments in the fields of investment policies, identification of investment opportunities, and preparation of feasibility studies.

IDRC should also follow-up the implementation of the financially sponsored projects. It is essential to have certain mechanism and rules for such a task in order to avoid delaying problems.

An annual report should also be prepared by IDRC and be submitted to the government through the PM in order to reflect on the progress made in the IP as well as the likely impact on the economy in general. The report should include detail accounts of the financial costs, obligations, plan and actual expenditures on of the IP. Also, IDRC should submit its annual expenditures and budget for running the planned activities.

#### Resources

It is a well-known fact that oil revenues would be the main source of finance of the IP. As experience showed, early estimates of oil revenues would be useful to determine the number and total cost of the proposed infrastructure projects. However, allocation of the total oil revenues to finance IP may be necessary but such proposition in the short-run is not realistic in view of the current economic and financial problems. Hence, the need for international, regional, and Arab financial support.

Since the ultimate aim of the government economic policy is to reactivate market economy and encourage private sector to increase economic growth and employment. The Iraqi private sector should be invited to participate in financing or investing in the projects of IP. Foreign financial institutions and investors should also be invited to contribute to the IP. IDRC must have prior guidelines in accordance with the government economic policy to conduct the required loans and joint ventures.

#### Organization

The structural organization of IDRC consists of three main department and the decision making board on the top. IDRC board members consist of the head of the IDRC, government members, government and independent advisors. The head of IDRC should chair the meetings of the board and with the government representatives they have voting power. Government and independent advisor as well as private sector representatives may participate in the meetings and contribute if asked by the chairman and members of the IDRC.

The FD would be responsible for all financial matters related to the investment programmes. All revenues and expenditures are to be controlled by FD in accordance with the given institutional regulations.

The functions of the TS are to carry out the technical aspects and provision of requirements for implementing the IDRC tasks. The perminant employees are only experts with high qualifications and practical experience in their fields. TS may have the support of advisors on short-term contract basis.

Employees of the AD should be highly qualified and equipped with up to date administration technology and facilities.

#### Decision making process:

IDRC is an essential part of the government institution. However, IDRC has no political power to exercise against the government economic policy. It is assumed that the government in view of its economic policy should determine the financial resources and capacity for the investment programme.

Therefore, while the IDRC should initiate tentative estimates for the required investment and suggest sources of finance, the government must direct IDRC on the total cost of the projects included and the financial limits to be considered.

IDRC will send in due time the proposed list of the infrastructure projects and the financial requirements to the Prime Minister Office for its approval. The PM would present the proposed IP to the ministerial cabinet for discussing the financial aspects of it. Identifications of the proposed projects and the applied investment criteria assumed to be discussed within the IDRC board.

(Details have to be given later)

As for the implementation of some of the economic reform programmes such as the privatization programme, IDRC should be authorized to carry out these tasks – clearly defined by the government – without feedback of proposals. However, IDRC should present a periodical report on the progress made and suggestions for improvement to the government to be considered in view of its economic policy. If the new government policy necessitate certain changes on the nature and timing of implementation of the reform programmes, IDRC should act accordingly. (Details have to be given later)

Institutional arrangement:

The establishment of IDRC doctrine should be made by the State legal department and approved by the government legislative body in the form of a government law. All necessary details have to be mentioned clearly in the anticipated law.

# Organizing a new Iraq: Role and Functions of an Iraqi Development and Reconstruction Council

#### Purpose

The various scenarios advanced for the liberation of Iraq from control by Saddam Hussein's regime differ in the likely realization. The outcome, whatever the course of this transformation, will leave a government power vacuum at all levels, civil unrest, financial and economic uncertainties, and general concern about stabilization and the organization of a new regime to replace the old. A coordinating entity, the Iraq Development and Reconstruction Council, operating through specialized commissions, is proposed as the focal point for debating and resolving the myriad of issues and problems that must be dealt with coherently during the confusion which will dominate this interregnum. Through the IDRC, planning can be provided for a transition and provide a vision and framework for a new Iraq, its governance, and its economic and cultural renaissance. The Council would operate through commissions and committees dedicated to each of the major political, economic and social issues and concerns that the new interim regime must address, and dissolve once a new, popularly elected, permanent, constitutionally empowered, regime has taken power.

#### Mission and Structures

The IDRC will deal with the various short and long terms needs for coherent problem solving and provide a coordinating forum, for both Iraqi and international concerns. Its functions and mission should be broadly defined to deal with anticipated problems and others as they arise. It will serve as an interim coordinating body during the time when political and government structures in Iraq will be undergoing the process of regime change. The Council should derive it powers and authority from both the international community concerned with transforming Iraq and eliminated the threat of its weapons of mass destruction and support of destabilizing and destructive terrorism, as well as key officials of the new, interim Iraqi regime. It needs to be composed of a mix of qualified lraqis, many of who may now be in exile or outside of the current regime, and assisted by experienced technocrats who may or may not be Iraqis. All elements of Iraqi economic life and ethnic regional concerns should be represented. The Council should organize its structures, committees and responsibilities to deal effectively with the circumstances of the regime change, be they benign or drastic. Its functions should be directed to problem solving and planning which the interim government arrangements or other traditional institutions and entities cannot perform given their operational responsibilities. It should consider its mandate temporary and work to devolve its authority and functions to more permanent structures in a new, popularly elected government operating under new constitutional arrangements. Oil revenues previously diverted to Saddam Hussein and his family should provide funding. The Council should elect its officers, establish a small secretariat to coordinate its work, and empower committees and commissions, composed of knowledgeable Iraqis to deal with specific problems and concerns. Working committees/ commissions could be asked to address

such immediate problems as removal of weapons of mass destruction, food distribution and transportation, oil refining and revenues, infrastructure repair, judicial reorganization, employment, banking, industrial growth, constitutional reform, etc., Existing structures; forums, or government entities who are capable of dealing with current problems should be coordinated by the Council work and made a part of its commissions. The Council's work should be inclusive of all elements of Iraqi society and impart a sense of "ownership" to those already familiar with the problems and likely to develop workable solutions that will be widely accepted. The Council, through its committees should interface with international organizations and humanitarian NGO's to coordinate, utilize and focus the contributions of these entities on Iraq's problems, whenever existing Iraqi entities are unable to deal effectively with the problems created by regime change. The Council should seek to reinforce or develop Iraqi structures that can be effective in such matters over the course of time and under a new regime.

#### Duration

The IDRC should accept its ad hoc functions as facilitating the transition between regimes, the transformation of Iraq to a federal state with elected leaders, and the re-integration Iraq into the community of nations. It must perform the planning and operating roles inherent in this assignment, flexibly and pragmatically. It must augment and build on the Iraqi experience over the past twenty years, rely on the work performed by all, within Iraq, who have been concerned and involved in such problems and projects. It must focus its work initially on the dislocations, disruptions, and inefficiencies specifically caused by the change of regime After stabilization, the IDRC must also deal with the consequences of a transformed Iraq and the involvement of the Iraqi people in determining the own destiny, government and economic system. Like a good doctor, the IDRC should commit itself to "do no harm".

#### Scenario's for change and resulting conditions

Some observers and planners have assumed a war scenario, involving massive destruction, loss of life, dislocation of food distribution, water and all the necessities of life, as the predicate for regime change. An IDRC could play a role to alleviate such conditions, were they to occur, but a different, less destructive scenario for Iraq's liberation may transpire. It would be a mistake to develop the IDRC as bureaucratic machinery for an occupied Iraq, following a destructive, deadly war. The most likely scenario will be the removal of Saddam Hussein, his family and immediate supporters from power. A U.S. led, multinational force, will allow military and civilian elements the protections necessary to initiate their own liberation from the grip of Saddam and his followers –probably no more than 300-500 individuals. The Iraqi government institutions will be intact and available to their inheritors. The Council should gain control of all these agencies of government and direct their functions, in concert with such external forces as may be deployed.

#### Weapons of Mass Destruction

Thoroughly suppressed and terrorized by Saddam Hussein's regime, the Iraqi people's past attempts to free themselves from this repressive gang have been futile and deadly. Given an umbrella of protection by international efforts to seize the weapons of mass destruction assembled by the regime, it is likely that Saddam will be successfully overthrown. The effort to find and destroy these weapons should become an Iraqi led effort in concert with the United Nations personnel. An IDRC commission on weapons should be immediately formed to assist the UN and identify all weapons, assist in their removal or destruction, and identify individuals whose participation in these programs may warrant prosecution. This commission will give authority and recognition to the Council and the role it will play in the transition between regimes.

#### **Immediate Concerns and Reactions**

The IDRC, its Council and commission must be organized and available to serve, together with existing ministries, as the de facto, new interim government to immediately assist in the economic stabilization and continuity of government processes and agencies. It is a fallacy to assume that Iraqi public and private sectors are inept or inefficient. During the last 11 years of sanctions both have become adept at dealing with critical problems and problem solving with difficult circumstances and shortages. Those who now make these functions work, be they in government or in the private sector, are by necessity skilled administrators, politically astute, and place a high value on the personal survival. Some elements of the current regime's larger, economic development and governmental infrastructure projects can be addressed, in advance, by the IDRC to provide continuity and certainty for ongoing projects The government has extensive public works programs, apart from extensive military projects, currently underway, with numerous Iraqi and foreign contractors involved. These infrastructure projects must be continued and are key to regional employment opportunities and vital to economic life for many. Civil engineering projects, long delayed, in the North and South, must be reviewed and recommenced as quickly as possible on an accelerated schedule. The planning for most of these is largely complete within the existing government ministries. The professional administrators, responsible for these functions in the Iraqi government, must be empowered and assisted in the implementation and realization of the plans for these projects.

The private sector has developed a sophisticated distribution system to deal with shortages and the inevitable strains imposed by the capricious, irrational and venal realities of Saddam's regime. Successful revitalization of this sector in the transition between regimes will involve an acceptance of the status quo and pragmatic actions that facilitate and enhance the flow of goods and services. What is unappreciated by those outside Iraq is the entrepreneurial nature of the black market. The general population has learned to survive, and in some cases thrive, in the hardships imposed by the regime.

This entrepreneurial education should be productively used to encourage economic activities. Regulations and impediments to the conversion of black market experience to legitimate business activities should be avoided. A uniform flat tax system should be introduced to legitimize activities, discourage racketeers and the corruption of government officials. The flat tax experience in Russia should be used to guide the conversion and nurturing of these entrepreneurial survivors of Saddam's era.

#### Justice

The dissolution of a corrupt regime of such longevity will give rise to many disputes, between and among Iraqi's, their previous government, those who have fled, as well as commercial and property ownership disputes within Iraq and foreign concerns. No existing judicial mechanisms will be adequate to deal with the claims and disputes. The IDRC should immediately arrange for some special structures to deal with these disputes, on an accelerated basis, and so avoid the rancor and bloodshed that will result from long held grudges and frustration. Adequate funds for reparations, from diverted oil revenues, should be available to make restitution and resolve disputes. This program concept should also be extended to ethnic groups who were deliberated targeted by the Saddam regime and funds made available to address their claims. Key will be the provision of cash compensation directly to deserving families, rather than channeling "relief" through NGO's. Respect should be given to the individuals and families disadvantaged by a despotic regime. No overt ethnic or religious identifications should be use for making restitution for human right violations, etc., all should be compensated as Saddam's victims, without regard to his regimes motivations of genocide or religious pogroms. This immediate and individual restitution program should be accompanied by the extension of insured banking facilities and micro lending programs in even the most primitive of villages. Credit education programs and micro economic development projects should accompany the distribution of these funds. Key will be the delivery of these funds into private hands. The IDRC should encourage distribution of consumer goods that may be in short supply, along with medical supplies etc

#### Prosecutions

The IDRC should also organize the effective coordination of persecution of Iraqi individuals for crimes against Iraqi citizens conducted under the auspices of the previous regime. This work should be undertaken by a commission in concert with the International Criminal Court and seek to organize the adjudication of such matters in a well-publicized and accelerated manner.

#### **Asset Recovery**

The IDRC should also take the lead in the recovery of Iraqi assets and revenues diverted to personal control by Saddam Hussein, his family, and other members of his regime. Immediately, a commission should be assigned to recover funds from foreign banks and expedite, through international agreements, bank cooperation, and the return of these funds to be used for restitution and reconstruction. These actions should be swift, effective and widely publicized to give the populace confidence that justice is being served.

#### Monetary policy and economic stabilization

The IDRC should have a commission to deal with the Iraq Central Bank and act as interface with the international monetary fund and relevant international banking concerns. The Central Bank may require international expertise to coordinate settlements, deal with inflationary pressures and otherwise regulate the monetary supply, consistent with the scope of the conditions post regime change. The Dinar may well be under such pressure that the use of the Euro or Dollar as interim measure of stability may be warranted. This commission could continue its work to coordinate the monetary effects of restitution payments, micro lending and other economic development projects that will change the flow s of currency. Attention must be give to strengthening existing banking structure, providing reforms, and giving the general population confidence in the banking structures and their management. A great deal of Iraqi controlled capital is now outside Iraq and special attention should be given to making conditions attractive for the repatriation of these funds.

#### Constitutional and Government reform

The IDRC could take a leading role in developing a structure for debates and plebiscites for a new federal constitution for Iraq. A constitutional commission could organize local, regional discussions leading to a national conference on the nature and structure for an elected regime. Discussions could center on an individual bill of rights, an economic bill or rights and the legal structures for a new Iraq. This national debate, conducted both locally and regionally, supported by plebiscites, would give all Iraqi as sense of participation in the development of their newly liberated country. Media organs should be developed at the local level to allow all to give voice to their frustration with the past and their aspirations for the future. The plebiscites will allow the formation of local political parties, grass root activities, focused on economic and political ideals, separate from individual personalities. The election of politicians would thus await the development of the structures to which they may be candidates for election—avoiding the premature development of strongmen with personal followers who lack coherent visions for the structures through which they might govern. These debates on the structure of a

new Iraq should be orchestrated and conducted on an accelerated basis, following a common pattern set by a commission of the IDRC.

#### Media/Free Press and the Internet.

The IDRC should review the public information situation with a view to encouraging a free press, multiple information channels, and the dissemination of a full picture of the problems of the past twenty years. A commission to facilitate the expansion of a free press and electronic media should be committed to bringing new sources of information and education throughout Iraq. Internet capabilities and resources should be planned for a new regime and become a vital link for providing government services.

#### National Security and international agreements

An IDRC commission should be charged with developing a new international agreement to safeguard Iraqi borders. The same commission should deal with international debts of the Saddam regime and undertake to develop settlement agreements with creditors. Continuity of obligations, with appropriate modifications to settlement agreements to conform to current conditions, should be negotiated and formally ratified.

#### Military and Security concerns

A great deal of the Iraqi GNP has been devoted to military projects and the maintenance of an inordinately large number of military personnel, as well as internal security police forces. An IDRC commission should deal with the structural problems posed by these maintenance costs and develop plans for a gradual planned restructuring. All personnel affected should be given assurance that their compensation will be continued and that a formal structure for their separation from military or police service will put in place. These individuals have the most at stake in a regime change, and while they may be quick to renounce Saddam and all his works, they must be compensated, and believe they will be fairly treated, or they will become a very destabilizing element in a transitional Iraq. Military engineers should be encourage to develop civilian projects, road building, housing, etc., and funded for these projects which can occupy troops in construction work while awaiting the development of a functioning economy which can absorb them over the next several years. Border security will remain a concern and plans for a new security force should be developed. To provide these functions, using reassigned and reorganized elements loyal to their new commanders. Existing units and loyalties should be carefully dispersed to prevent their continuance as a threat to the new The security police should be immediately screened for criminals and government. those unsuitable to police work. A new national police structure should be designed to utilize trained police personnel; those untainted by repressive activities, preferably in new geographic regions. Compensation arrangements for such personnel should be guaranteed and continued so as not to create an organized and disgruntled community who could pose a threat to the new Iraqi government. Both these important elements of Saddam's power must be assured that they will be compensated, dealt with fairly by the judicial structures and enjoy the possibility of a new life in a new lraq. These elements are victims of Saddam, who must see opportunities beyond his demise.

#### **Future Economic Development**

The IDRC should empower a commission to develop long range plans for the future economy of Iraq. The commission should carefully review the availability of oil revenues, the longevity of infrastructure development and focus on life in Iraq long after the transition to a new regime and its first five years are history. Tourism and commercial activities should receive special attention to encourage economic development, private initiatives, investment, and similarly broadly based employment and ownership programs. Government finances should be organized to limit the amount of GNP controlled by government spending to promote local regional initiatives and avoid military spending and employment in the future. Careful consideration of regional economic development with neighboring states should be used to design enduring economic development plans. Garment manufacturing and other low cost labor manufacturing should be avoided along with other temporary fixes. investments should be a priority and subsidized by government initiatives. Iraqi's can enjoy an exceptionally high standard of living, given the oil revenue available for the next 30 years, but employment opportunities must be developed to utilize the intellect and energies of the population. The new government should encourage the entrepreneurial spirit, which have allowed Iragi's to survive under Saddam. The socialist trappings of the early Saddam years should be abandoned and free market initiatives encourages. An IDRC commission could provide a viable blueprint for the future of Iraq.

#### Secularism and Ethnic Autonomy

The IRDC should create a commission to focus attention on the diversity of religious and ethnic identities in Iraq. In addition to making constitutional changes, through plebiscites, to allow regional political autonomy in some federal state, the new Iraq must give attention to once again becoming a secular state. A commission can help draw up the protections required for the free expression of religion, prevention of negative discrimination for all religious elements. Similarly special protections should be provided for languages and cultures. Media attention, throughout Iraq, portraying these cultural differences positively, should be an immediate action to counter the history of the Saddam years. Education efforts should allow Iraqis to identify a positive national spirit, along with pride in their diverse cultural and ethnic heritage. The aggressive nationalism of Saddam's era must be considered, particularly in the light of the massive death tolls from his foreign wars, and turned positively towards the future of the newly liberated nation. Government appointments should be made with a view to promoting individuals without regard to regional or religious background and prove, through example, the collaborative nature of the new, federal Iraq

#### Current Actions and Conclusions

Inherent in the foregoing narrative is a program of work to be coordinated by the Council of the IDRC. It envisions the appointment of ad hoc commissions and committees to develop solutions to the problems delineated. The list is not exhaustive, nor are the conditions that the Council will have to address post Saddam. Flexible responses to conditions as they occur, with the Council as a focal point, and source of funding, are contemplated. Existing government structures, qualified Iraqi officials and experts must be incorporated in all the IDRC work and included in the work of its commissions. Selection of these individuals, as potential candidates for the Council and or the commissions, well in advance of the regime's change, will be key to the success of The IDRC should be the creation of the Iraqi's and the appointments perceived as originating from an interim government. The work of the various commissions, as general guidance, can be prepared in advance by qualified individuals, academics, technocrats, and politicians, both Iraqi and non Iraqi so as to accelerate their organization and effectiveness -post liberation from Saddam. The IDRC, Iraqi led, commission on Weapons of Mass Destruction should be selected and ready to operate in concert with the UN activities. The Council can operate immediately, in a shadow mode, to make key personnel decisions, in advance of any regime change, so as to fulfill, immediately, the critical components of their mission post Saddam. All concerned should agree, now, on the general concept for the next Iraq: as an independent, secular nation, secure in its borders, operating under a federal system with regional autonomy, with an economy based on free market principles and a minimum of central, regulatory control. All should agree on an early plebiscite on the structure of the new constitution and government, with popular elections to follow immediately. Existing Iraqi government structures should be preserved and reformed, pending such restructuring as may be required by the new constitution. An immediate public education campaign, explaining this vision and schedule should be undertaken immediately. All must agree that Iraqis should liberate themselves and plan the future of Iraq. Neighboring states and the UN should endorse these concepts and be willing to assist in the realization of a new Iraq, without Saddam.

#### Iraqi Develoment and Reconstruction Council

Thank you Sadi for this very worthy effort.

The summary outline and formal proposal that Sabri suggested is very interesting and has helps to know and understand some of the factors to be considered in restructuring the process of reconstruction and development in Iraq.

#### I have some remarks to make:

 One thing, I would like to see at some point, before an IDRC goes into operation, a social and economic analysis of Iraq today and Iraq tomorrow with measurable indicators. Where do we want to go?

We could adopt global goals on many issues and use the indicators used there. Like mortality and morbidity rate in a society and life expectancy on health sector visioning, literacy rate and boys and girls enrollment to school at primary and higher education level on education visioning, liters of water per person per day for safe water delivery policy, income and GDP for economic prosperity.

 For us to accelerate reconstruction and development we need urgent professional analysis to help estimate the social and economic benefits, the winners and losers, and returns on investment of public projects. With anticipated outstanding high debt, we need to spend available resources much more carefully than in the past.

To illustrate, I recall being informed that before the events of 1990-1991 Iraq imported enough medical supplies that indicated it had a population of 40 million people. Obviously, such wasteful overspending needs to be avoided.

 We will need to modernize/upgrade/enhance/revise Iraqi public service institutions, I would strongly suggest the IDRC include top public service advisory qualifications and expertise from nongovernment and noncommercial institutions.

I must betray my bias here because I do believe we need the latest thinking and expertise I was exposed to at Harvard's Kennedy School of Government. I am sure there are other institutions in the world that could be very helpful and supportive in this regard.

4. Iraq is not a third world country. We can become one of the most dynamic, if not THE most dynamic country in our part of the world, living in security and stability with ourselves and everyone with whom we come in contact. But we will need some degree of outside professional support to take off and get up to cruising altitude.

I would prefer to have institutional involvement because we could develop legally binding terms of reference that are more likely to result in the professional service we would appreciate and value.

- IDRC need to:
  - identify and select infrastructure projects (including education),
  - ii) channel resources,
  - iii) plan and implement activities.

But before that, I believe we need:

- a professional comprehensive analysis of where we are at,
- ii) with recommendations of where we want to get to.
- Once discussed and approved, with broad participation, the analysis
  and policy basis will be helpful to guide evaluation and approval of the
  projects to be supported and the amount of resources to be allocated
  to them by the IDRC.
- 7. And, it is necessary to evaluate the performance of the IDRC itself.

I hope these comments and suggestions are helpful and contribute to our dialogue to generate effective mechanisms that will change the course of Iraqi history. We need it, deserve it, and it's long overdue.

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# 1-BASIC VISIONS OF IDRC FOR THE REQUIREMENTS NEEDED TO REHABILITATE & MODERNISE NEW IRAQ

Considering the wealth of Iraq, its potential, its importance for the stability of the M. East and the Gulf Area, the damages inflicted during the two wars and finally what the original LRP (long rang plan) were to aim at; the following requirements are radical:

- -New political and economical atmospheres.
- -Detailed new SRP, MRP & LRP plans for all sectors.
- -Finding a solution for the external debts.
- -Funds.
- -Advanced technology.
- -Efficient management.

The following principles are proposed, as guidelines for any consulting study will be adopted by IDRC in the future concerning the Rehabilitation Process:

#### Politics and Economics

Post war events in Iraq, the Middle East and the reactions of the Great Powers; has shown very clearly that the rehabilitation of Iraq cannot be achieved without major political and economic changes. Democracy must prevail, leading to election of the right government and restoration of civil rights and the constitution. Election of a true parliament should follow and changes in the constitution must be maid. The political change and resolving the major problems of are not objectives but means to facilitate achieving prosperity and well being of the nation.

Economic development should start with expanding the agriculture and industry sector to increase export alternatives Oil revenues, we will find out, will probably be committed to paying off debts and provide some income for major infra structure activities. In, agriculture, measures should be taken to modernize all the activities to increase products quantity and improve quality. Such measures should take into consideration the decreasing water available for irrigation. In industry, there are genuine needs to establish numerous modern light and heavy local industries.

#### Planning

Planning in Iraq has been a central government function, especially since the early seventies. The whole plan including SRP and RLP was considered strictly confidential and releasing information regarding figures, especially capacities and costs, was considered a national crime. Locked away from the nation were the annual national budget, the annual account report, foreign trade figures, and balance of payment, work manpower, salaries & wages.

This has been a very serious problem and was totally biased government thinking. The process must be open and publicly discussed to allow all views to be taken into consideration. TRANSPERANCY WAS TOTALLY MISSING, which meant absence of accountability for failures to mishandle public money and government expenditure.

#### Privatization

A basic necessity for effective economic development is for the government of any country to compliment the private sector and not to act against it. An adoption of Market Friendly Approach is very important. Government interference is necessary only when

things go wrong. Government priorities should be part of the infrastructure, health and protection of environment. The government, as witnessed in the free world, should not handle industries and services where the private sector does better than the government.

Man power development

The experience of USA, Japan and Korea in manpower planning has shown how important investing into educational and training programs is essential for productivity. IDRC will direct the Government involvements and investments to be effective in the following areas:

- i- Overall education and technical training
- ii- Public health
- iii- Providing complimentary services
- iv- Nutrition programs
- v- Vaccination
- vi- Family planning.
- vii- Equal civil rights for men and women.

The results of the two Gulf Wars were most devastating on the human beings than any thing else in Iraq. Most of the generation responsible for building a modern Iraq before the war is not there any more. The majority migrated to other countries while those who stayed behind are mostly worried, desperate and degraded. A lot of rehabilitation for the new generation is needed.

#### · Market environments

Without the right environment, not much can be achieved. Law and economic reforms are essential but a free market is a must. In this respect a lot from the <u>US experience</u> from the application of the famous Marshal Plan may be learnt.

#### · Foreign trade

The import substitution plans do not work unless we have <u>free market</u>, which stimulates competition. To be open to the international markets is the best way to succeed in competition. Government interference must be maintained minimum.

Unless Iraq exports, it cannot import. The export must be diversified and not limited to minerals only, which is the criteria in the undeveloped countries.

#### Local financial policies

No complete <u>political independence</u> without <u>stable economics</u> and no stable economics without <u>correct financial policies</u>. Uncontrolled government spending, inferior taxation, price escalation and bad allocation of financial resources can be worse than colonialism. The history of many developing countries with good oil income is the best proof.

#### · Type of country rule

A disturbed family is a product of a bad family head. Any thing is justifiable by the head if he is the only one in control.

#### External debts

The biggest hurdle to the development of the new Iraq will be the huge size of the external debts. These are of five classes:

- i- Debts due to purchase of civil goods
- ii- Debts due to military purchases
- iii- Debts to the Arab countries
- iv- Debts/ compensations to Kuwait
- v- Debts/ compensations to Iran

Iraq needs the <u>understanding</u> of the world to resolve this problem. The expectation is that political and economics changes in new Iraq will ensure better understanding and possibly <u>waving out noticeable part of the debts.</u> Class (i) is probably a must to pay, but the case may be rather different with the rest. Those who competed to sell the military equipment to Iraq had <u>ethical responsibility</u> towards what happened in the region. Mutual interests of the concerned countries of the Middle East especially Kuwait and Iran should be taken into considerations. There must be <u>a price for stable Iraq.</u> As a possible outcome to this principle, classes (ii) to (v) become negotiable. However, regardless of the outcome a lot will be left to pay off. The obvious source of funds will be the oil export.

#### 2-SPECIAL OBJECTIVES FOR IDRC

Some important objectives IDRC have to focus on especially in the interim phase are the development of agriculture, reconstruction of irrigation, and rehabilitation of Educational sectors, these three sector has to be adopted fully and for long term by the IDRC considering them the most loveable babies which needs intensive care. Developed and healthy agro-irrigation system in new Iraq will represent second finacial resources after oil, and fair, modernized education system will represent the most transparent human resources.

IDRC according to its structure and special position inside the new Iraq body will be the best organ to approach and attract the relevant international and regional organizations (Financially, technologies, researches, programes) needed and interested in investing and developing the above sectors, American companies will be a big player in such game.

#### Irrigation & Agriculture Sector

#### - Irrigation

Irrigation projects in Iraq have always been a priority, especially now. The amount of water coming to Iraq from Turkey and Syria has been greatly reduced due to the increasing activities in those two countries. Turkey has been active in construction of dams during the last 15 years. Iraq has recently started conserving irrigation water by using spraying and sprinkling techniques. Center pivot irrigation equipment, and other kinds, has been introduced to Iraq. Future plans are expected to include:

- Rehabilitation of ground water resources by drilling wells and practicing effective water management.
- Rehabilitation of pumping stations
- Maintenance of irrigation projects
- Expansion of drainage water projects

- Surveying and monitoring of water storage projects
- Surveys of water 6 soil analyses

#### - Agriculture

Agriculture has been the biggest failure throughout the life of the regime from the start in 1968. Despite the vast amount of money spent in this sector, the two wars proved the intensity of that failure. Iraq would not have suffered that much had the agriculture sector was capable of solving the food requirements of the country. The sector is in real need of revolutionary plans, to go hand in hand with the right irrigation policy. The plan should include the following:

- Expansion and diversification of domestic crops & vegetable production
- Enhancement of vegetable and fruit production
- Enhancement & diversification of domestic animal production
- · Enhancement & diversification of poultry production
- · Enhancement of fish production
- Establishment of Agro- based industry
- · Enhancement of Agro- meteorological research and monitoring
- Expansion & Modernization of farm mechanization
- · Enhancement of forestry & plant protection

#### - Education Sector

The education sector is in desperate need for expansion and modernization in schools, colleges and universities. This includes laboratories, libraries, and considerable use of computers.

#### 3-WHO DERSERVE TO CONRIBUTE IN BUILDING NEW IRAQ?

I suggest adding the following statement "especially the American comp. Or organization or institutes" after every statement contains "international comp.etc"mentiond in our joint draft to show our appreciation for the main role of the big brother to the new Iraq. Practically speaking we can tackle such subject by reminding the reader that many international potential companies and venders contributed in building the main sectors in Iraq for the last 4 decades and IDRC strongly believes that the American companeis, institutions, and Vendors will be the best bet for such mission in the new Iraq era compared to other competitors. And the following are the main competitors as showed in each sector:

- Engineering and procurement of refineries and petrochemical complexes: Canada, Britain, Germany, Korea and Japan.
- Engineering and procurement for the crude oil industry:, Canada, Britain,
- Germany, France, Italy, Japan, Russia, China and Korea.
- Exploration and developments of crude oil fields:, France, Japan, South Korea, Britain, and Italy.
- Electricity: Britain, Austria, Germany, Korea, Japan and partly China and South East Asia.
- Communications and telecommunications: Germany, Japan and Korea
- Car industry: Germany, France, Italy and Japan

- Steel industry: Germany, Britain, Russia, Japan, Korea and China
- Irrigation and agriculture: Canada, Australia, Spain, India
- Medical: Canada, Britain and Germany
- Housing: Spain, Turkey, and selected countries from S. E. Asia.
- Water and sanitation's: Canada, Britain and Spain
- Food industries: Canada, Britain, Germany, Italy, Spain
- Education: Britain, France, Japan, Germany, Italy and Spain.

IDRC through its deferent departments will help the Americans to have the leading role in the rehabilitation and reconstruction of new Iraq, as a steering general contractor/consulting firm/ co-coordinator, and/or to make them capable of giving some of the works to other international companies as a subcontractor especially to these companies whose their countries had good political stands toward the creation of the new Iraq. (Detailed plan can be done upon request)

Sadi Aburkaibeh Virginia, Nov 26 2002

# Other Infrastructure

### Railways

The Iraqi Railways plays a great part in the transportation of food and agriculture products, beginning with the first stage of farming by providing fertilizers, seeds, etc. This kind of transportation from most of the cities in Iraq to different parts of the country requires special wagons and rolling stock.

Most of the transportation of food that arrive at Um-Qasr port under 986, especially grains and rice, are carried by railways to most cities of Iraq. The Iraqi Railways cannot fulfill its obligations to distribute the required quantities of food due to the lack of spare parts for locomotives and wagons, which are needed for this huge transportation task.

The number of operating locomotives has been reduced to 65, and the operating number of wagons reduced from 11000 to 1000, representing different kinds of wagons, because of this shortage of spare parts needed for major maintenance.

The Iraqi Railways need 365 locomotives per day to be in a position to assure a minimum standard of transportation service. Moreover, the condition of the present railway track system, totaling about 2500 KM, is not in a state of repair which permits the acceptance of this number of locomotives and wagons, because of the non availability of spare parts and materials for maintenance of the tracks, including spare parts for track-maintenance machines.

This situation affects the capacity and the safety of the rail transport system, and will only deteriorate further unless urgent measures are taken to halt the decline.

#### **Ports**

- The port of Um-Qasr is now the only port in Iraq authorized to receive commodities imported to Iraq under 986. Since 1991 the port facilities have not been maintained and consequently they have now degraded to an extent, which is severely limiting the ability to handle humanitarian supplies. To prevent further degradation in the situation it is necessary to dredge the entry channels and repair the port facilities.
- 2. Dredging. Prior to 1991, the channel and wharf could accept vessels with a draught of 10.5 meters. Today that draught has been reduced to 8.5 9 meters, and as result larger vessels discharge in Jordan, (Aqaba), and goods are transported by road to Iraq a distance of 1350 KM. This adds 4 to 5 days to the transit time and increase transport cost by \$38-40 per metric tons. Dredging the channels and port will increase in the capacity of Um-Qasr will lead to an increase in the capacity and result in more vessels using the port. This will increase the rate of delivery of Humanitarian Supplies into Iraq and reduce the landed cost of goods by \$38 \$ 40 per metric tons.

3. Port Facilities. The state of port facilities has similarly degenerated. Mechanical handling equipment is old and inefficient; safety equipment, including fire fighting equipment, is obsolete and unreliable; auxiliary power, essential to provide 24 hours operation and for safety and security, is non-existent. The availability of tugs and pilot vessels imposes delays on berthing and accordingly on the speed of discharging humanitarian supplies. The speed of discharging has a direct effect on the receipt and ultimate distribution of humanitarian supplies, as well as the total cost of commodities. Any improvement in this area will have a positive effect on the humanitarian Programme.

## **Land Transport**

To carry commodities from Umm Qasr and Trebil, different trucks (flat semi trailer, refrigerants, open trailers lorries of different kinds and capacities are required for this purpose. More than 10000 (ten thousand) trucks are required per year.

## **Public Transport**

To overcome congestion in carrying public throughout the country (towns and rural areas), different kinds of busses are required (city and inter city mini busses, coasters, etc.). Since, trains could not meet the demand.

In IK there are more than 5,000 old buses that need to be replaced, and more also need to be procured. Or private companies should be encouraged to run a service of offering transport.

# **Economic Policies and Priorities**

# The Iraqi economy Restoring stability and resuming growth Some thoughts on the required Actions

Iraq is the only country in the Middle East combining human and natural resources in almost an optimal way. The fact that growth has been retarded lies basically with development strategies, economic policies and regime's adventures.

In the seventies and despite the development of infrastructure and the attainment of reasonable growth rates, militarisation of the economy was a high priority for the regime for internal and external reasons. Iraq built a very sophisticated military industry but remained one of the highest arms importers in the world. The oil sector financed both military industrialization and military imports. It also financed most industrial inputs and most food needs. Therefore, Iraq ended the decade of the seventies with higher dependence on oil than in the beginning of the decade. But also ended the decade with huge financial reserves thanks to the successive increases in oil prices and the limited capacity to invest in the civilian sector

Iraq started to develop a debt problem with the beginning of the war with Iran and the need to finance this war. This together with increase in military imports put pressure on the dinar under which case inflationary pressures were increased. Also with the diversion of resources to the war, the regime, in the middle of the Eighties, allowed the private sector to use its assets abroad to import civilian goods. But those assets were not actually used, instead, the Iraqi dinar was smuggled to neighboring

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countries to be exchanged with foreign currency. This had further adverse effects on the value of the dinar amplifying the inflationary pressures.

The war with Iran left Iraq with a serious need for financial resources. To get out of this situation, Iraq needed an increase in oil prices, additional external finance and debt relief. This provided the economic reason for the invasion of Kuwait in 1990

But the invasion and the subsequent war resulted in the imposition by the UN of a comprehensive embargo barring Iraq from exporting oil. The war also resulted in the imposition of a huge bill of war reparations.

Those events caused an economic crisis characterized above all by a serious shortage of financial resources. The embargo reduced the purchasing power of the economy, leading to a shortage in the supply of goods and services.

The introduction of rationing went some way towards meeting the need for food. But the provision of services - in particular those relating to health and education - has been severely undermined.

The loss of oil revenues led, inevitably, to the weakening of the currency. Increasing the supply of money - money printing - makes matters worse. With a foreign exchange shortage, the currency collapses.

This is what happened in Iraq, showing that money printing was not a correct response to the problem. The effect was soaring inflation, with severe social and economic consequences.

Therefore the inflation in the country was the result of the embargo and the way the embargo was dealt with, especially the practice of money printing at least until the end of 1996, the date when the implementation of the oil-for-food started.

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Inflation forced people to liquidate their assets in order to survive, thus creating enormous disparities in income and wealth between the rich and poor in Iraq, and causing the middle classes to virtually disappear.

At the same time, it is becoming obvious that the continuing deterioration of basic services will have a detrimental long-term effect on health and education in Iraq. The country's isolation from the outside world has also meant that Iraqis' access to modern technology has been blocked - another factor likely to cause long-term problems.

Another facet of the long-term effect of sanctions and its inflationary consequences is the development among the population a sense of dependency and reliance, which had a severe effect on productivity. This dependence is seen in three ways. Dependence on the state through the ration, on relatives abroad and on the liquidation of assets.

The introduction of the UN Oil-for-Food program helped in the supply of basic necessities and lessened the need for money printing. This stabilized the rate of exchange of the dinar and subsequently inflation.

Any future government in Iraq will have to address the problems emanating from sanctions, inflation, debt and reparations, as well as putting the country back on the path of development. Moreover, a host of social problems emanating from displacement, wars and sanctions will have to be tackled.

There is a need, therefore, to find immediate solutions to ensure economic stability and reverse the deterioration of social conditions - with all the implications of its threat to political stability. But while these are the immediate priorities, longer-term macroeconomic policies and a development strategy need to be devised to allow the resumption of growth.

# A programme for stabilization and growth

The current situation is therefore characterized by high degree of economic instability, which could continue to afflict the Iraqi economy for years to come if it is not addressed and remedied. This instability is manifested in the high inflation and the resource deficit and the deteriorating social conditions. The instability will continue to adversely affect the economy because of payments of debt and reparation if those payments are not restructured. Therefore for Iraq to resume growth it must first restore economic stability and creates the conditions to sustain it.

# 1. Restoring Economic Stability

Top priority must be given to raising the external value of the dinar<sup>1</sup> and controlling high inflation, because of the adverse economic, social and political consequences of this. In other words, the immediate priority is to restore macroeconomic stability.

With high inflation basically engendered by the collapse of the currency, it is almost impossible to implement macroeconomic and development policies effectively. The private non-oil sector will see the resources that it wants to use for imports continuously declining in real terms thereby ruining development prospects. With high inflation, it is always difficult to maintain a budget surplus (something important in the first stages) because government expenditure is determined by the high rate of increase in the price level, while revenues keep losing their real value.

In Kurdistan, the value of the Iraqi dinar is very much higher (The Dollar equals 11 dinars wheras in the rest of Iraq it is almost 2000 dinars). While the fact that the true Iraqi dinar is used in Kurdistan has something to do with this difference in the value, it is also related to the fact that the authorities do not print money (the quantity in circulation does not change) and also the region was receiving financial flows from UN agencies since 1991.

High inflation also cripples, to a greater or lesser extent, some important tools of monetary policy because the cost of capital is high. This is detrimental to investment in the private sector, which finds the purchasing power of its cash flow being continuously eroded by inflation. High inflation will also make it difficult to establish guidelines for wages because of the indexation problem. Wage levels will contribute to the high cost of production. Needless to say, inflation hurts the poor and fixed-income earners. The high inflation in Iraq at present is causing enormous social problems, such as increased crime and is creating a new social situation under which savings and real assets are being liquidated to meet immediate needs. There is also a widening gap between rich and poor in the distribution of both income and wealth.

If inflation is not reduced, it is likely that political protests will take place. Repressive measures must not be used to quell those protests. A resolute effort to address the question of inflation, as explained below, should help stabilize the situation.

It should be noted that once a political change takes place there would be a sudden favourable effect on the value of the dinar since the market will expect that sanctions will be lifted. However, it is the behaviour of some additional market fundamentals that will also determine whether that favourable change will be maintained.

So, what are these fundamentals and what are the actions needed to lift the dinar and reduce inflation?

I) The mobilization of substantial volume of financial resources. This mobilization has two dimensions: international and regional, and domestic.

It is of course very difficult to ascertain the level of reserves and the budgetary situation of the country due to the lack of data. Such information is important for estimating the financial assistance needed. However and irrespective of this the following steps are urgently needed.

# a) On the international and regional level:

- i) The release of Iraqi assets abroad. Available data indicate that those assets amount to USD 2 billion in the US and USD 1.8 in Arab countries. As part for the relief efforts for the Iraqi people the settlements of any claims on those assets must be dealt with later
- ii) The immediate approval by the Security Council of the contracts approved by the sanction committee as part of the oil-for-food programme. Moreover, all the contracts put on hold should be expedited. In addition all the unspent balances in the escrow account of the UN must be made available to the new Iraqi authorities.
- iii) Iraq should be allowed to reach or approach its maximum oil export capacity. Its re-entry into the oil market should be accommodated without adversely affecting the oil price level. This will require maximum cooperation by OPEC members, even though many of them are suffering from budget deficits. These countries are certainly aware of the suffering Iraqis have gone through, and should also be aware that the economic and political stability of Iraq will have favorable repercussions on regional security. Agreement on a new oil production level in Iraq should be a process of dialogue and negotiation with other OPEC members, a process by which Iraq can reintegrate into the region and the international community.

In any case the entry of the Iraqi oil will not affect OPEC or the share of Saudi Arabia in OPEC at least in the short run. In the medium and the long run it is expected that demand of petroleum will increase especially from developing countries. There will therefore be more flexibility in production sharing decisions.

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- iv) Standstill<sup>2</sup> should be granted to Iraq on the payment of debt and reparations. If this is not done then Iraq may remain in deficit. (While sanctions used to cause the resource deficit, payments of debt and reparations may later become its principal cause even if sanctions are lifted). Experience shows that high debt service payments engender economic instability and fuel inflationary pressures.
- v) The regional and international community should extend financial assistance to Iraq. This assistance, which should be on concessional terms or preferably in the form of grants, would assume particular importance in the event that the re-entry of Iraq into the oil market was only partially accommodated.

Aid donors (bilateral and multilateral) prefer to work in a coordinated manner. The new Iraqi authorities should organize an international conference to be attended by Iraq's creditors and potential donors (bilateral and multilateral). In that conference an estimate of the aid required and the relief needed is presented. But the conference should listen to Iraqi policy makers outlining their vision about the future development strategy and its orientation. The conference should also hear the various financial institutions giving an idea about their possible contribution to the implementation of the development strategy in Iraq.

These measures, if undertaken, would indicate goodwill on the part of the international community towards Iraq and would contribute, in an important way, to its stability. Success in the mobilization of resources

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A standstill is an agreement between the debtor and its creditors to temporarily defer payment of long-term debt and freeze short-term debt. The agreement normally stipulates that the external payments position does not worsen during negotiation. A moratorium may take the form of unilateral action. In its attempt to reintegrate into the international community, Iraq should opt for a standstill.

depends on Iraq's creditors in the region and/or outside the region, the UN and other oil exporting countries.

b) On the domestic level, Iraq should complement the actions of the international community by refraining from money printing to finance its expenditures, since it does not have at this stage (the short run) the productive capacity to back this additional money supply. Money printing can, however, be tolerated if foreign exchange flows into the country, but it should be carefully synchronized with the growth in domestic production and foreign exchange.

Government expenditure should be tightly controlled, but support for agriculture and other essential services will remain important during this period. Agriculture, for example, is a labor-intensive sector and employment will be a serious problem facing Iraq, especially when a large part of the army is demobilized.

These actions by Iraq, regional states and the international community should be undertaken rapidly in order to arrest any sources of economic or political instability.<sup>3</sup>

At this stage it is not advisable to manipulate with the nominal exchange rate in an administrative way. Doing this will exacerbate instability. The best way is to help create the fundamentals that will affect the exchange rate. This means that the Iraqi authorities with the help of the international community must try their hardest to mobilize the necessary resources especially those emanating from increasing oil exports and the suspension of payments of obligations. An administrative decision about

<sup>&</sup>lt;sup>3</sup> Some experts, while analyzing the potential factors for political instability in Iraq after a political change has taken place, assert that "the political stability of any post-Saddam government will be determined by the economy...and if the United States, Kuwait and others do not show goodwill towards this government, through generous and immediate economic assistance and relief, we could face a revanchist Iraq" see Parasiliti, Andrew, "Political Risk in Iraq", Middle East Economic Survey, 24 May 1999.

the exchange rate that ignores the market fundamentals will help create a black market exchange rate. There might be some political temptation by the new Iraqi authorities to adopt a new exchange rate, which, in all likelihood, will not reflect the market fundamentals. This should be resisted. That does not mean however that if the market value of the rate starts to improve then a new exchange rate is not adopted. The decision of the monetary authorities should be to a large extent market driven.

# c) The resources thus accumulated should be used immediately:

- For imports, especially of consumer goods and food as a matter of priority. This is not inconsistent with the aforementioned policy of supporting agriculture. The latent demand for agricultural products and food in Iraq is almost certainly so huge that supply from imports and domestic production will be needed during the short term.
- For the provision of social services, especially in the fields of health and education. UN reports stress the poor state of hospitals, and the shortages of medicine and medical equipment, and school materials.
- For reconstruction and rehabilitation, especially of power and water plants, sanitation, sewage facilities and telecommunications.
- For a new program of human development and technological rehabilitation so that Iraq can bridge the technological gap as far as access to information technology is concerned. This gap has been caused by sanctions and government policies, which prevents access to information in general. Information technology will be an essential prerequisite for growth in the next decade.

Those policies and measures, especially the import of essential goods, should help stabilize the economic, social and political situation,

and put the country back on the path of development and growth through the implementation of macroeconomic policies and development strategies.

It is therefore clear that our main concern is to regain stability through economic measures, which are to be implemented as quickly as possible. The package suggested above can indeed be initiated rapidly because it does not depend on production or trade. In correcting their external payments position, many countries resort first to external financing, which provides a breathing space to start adjustment policies.

# 2. Maintaining Economic Stability

When the country succeeds in mobilizing the resources to finance the deficit and the situation now is relatively stable, Iraq should exert every effort to control the deficit and maintain this stability. It is therefore essential that it does not slide back into a situation of large deficit in resources. If the deficit recurs, it will again lead to a lower value of the dinar and inflationary pressures. Maintaining stability will depend more on domestic effort and macroeconomic policies and less on the infusion of financial resources, as in the period of restoring stability. The macroeconomic policies, however, do not need to be excessively restrictive since they can be complemented by infusion of resources from the crude oil sector, which, it is hoped, will regain the level that Iraq is able to produce. Here again the importance, once more, of Iraq's regional and international environment should be emphasized. In other words, for the smooth working of the policies to maintain macroeconomic stability, Iraq needs to avoid external shocks (such as an oil-price collapse), and the purchasing power of its exports must be maintained.

Therefore a friendly and favorable regional and international environment for lrag remains essential. In this regard the following are important:

i- Iraq should cooperate with other oil producers to bring about a price level that guarantees it the required level of revenues, but at the same time, does not unfavorably affect the economic prospects of oil-importing countries, developed or developing, whose demand for oil Iraq, like other oil exporters, has every interest in maintaining. The most important point in this respect is that for Iraq to secure to the maximum extent possible some sort of stability and predictability in the oil price behaviour. This however is not easy since oil price increasingly depends more on market forces and less on actions of OPEC members. Dialogue between oil producers and consumers is thus essential to ensure security of the supply of oil and the demand for it and to reduce the fluctuations in oil prices. Stability and predictability of oil prices is essential for the implementation of development objectives.

ii- Having agreed with its creditors and the UN on a temporary standstill on the payment of its obligations, Iraq should propose their renegotiation. Without going into details, many initiatives have been put forward to restructure the external debt of developing countries. These range from forgiveness to mere rescheduling. It is, however, not easy to suggest any specific solution or initiative without having a clear idea about the structure of the debt. What is certain, though, is the need for debt relief to ensure that high debt service payments do not restore instability and impede the growth prospects<sup>4</sup>.

External debt management aims at resolving the debt problem without adversely affecting the growth prospects of the economy or worsening the social situation. This management requires, as a starting

Iraqi debt is mostly bilateral. It is owed to Governments or guaranteed by Governments. In general bilateral debt is more easily restructured than multilateral debt.

point, defining a debt strategy with a view to closing an external financing gap supposed to have been caused by, among other things, debt payments. Formulating such a strategy requires building a centralized debt database (This database does not exist in Iraq at present). This database will record all loans, terms, sectors and balances. The debt strategy is composed of two components, debt restructuring and new financing. It is difficult to know before hand whether debt restructuring as such is enough to close the gap or the country may also need new financing. Therefore the first action is to negotiate for restructuring the debt since new financing may incur new debt on the country. The restructuring is normally effected through various operations like rescheduling debt flows or stocks, debt swaps (for equity or new debt), and forgiveness. All of these operations will contribute to narrowing or closing the financing gap mentioned above. However, the debt negotiator will opt for a certain operation taking into account the specific characteristics of the economy and the contribution of the operation to the closure of the gap.

The negotiations of these operations may need to go through the Paris Club for debt rescheduling and restructuring. This requires a reform programme supported by the IMF<sup>5</sup>. Iraq therefore needs to build capacities to enter into negotiations (with the IMF and the Paris Club) since experience is lacking in this regard. It is possible that through the UN or the Bretton Woods institutions, Iraq can obtain the relevant expertise.

There are also historical precedents as far as the war reparations are concerned. Lessons can be drawn from the German experience after the First World War. Also, the claims on Iraq submitted to the United Nations Compensation Commission amount to more than \$300bn but the vast

<sup>&</sup>lt;sup>5</sup> Debt strategies are not only the ones that are mentioned in the text. In a paper published by the Middle East institute (Prospects of Iraq's Economy, Facing the New Reality" in Future of Iraq, Calbrese J. (Ed.), Middle East Institute, Washington D.C., 1997) I suggested that one of the scenarios should be that Iraq pays neither debt nor reparation if it does not attain trade surplus. This assumes that imports have priority on payments of debt and reparation.

majority of those claims are those of governments and corporations. According to UN Security Council resolution 687, the payment of reparations should take into account the needs of the Iraqi economy. Germany, after WWI, received financial assistance enabling it to reduce the burden of war reparations.

The last thing Iraqis want to see is the return of a resource deficit. While the deficit has resulted from sanctions, when sanctions are lifted it could also result from payment of debt service and reparations. And it should be clear that Iraq's economic problems such as inflation and shortages are directly related to the deficit. In the final analysis, it is the adverse effect on the importing capacity of the country that needs to be addressed. This import capacity can be negatively affected by a shortfall in, or collapse of, export earnings or by claims on those export earnings through payment of debt and reparations.

If a situation of resource deficit returns, then inflation will also return together with macroeconomic instability. History provides many examples of deficits accompanied by inflation. Many Latin American countries experienced hyperinflation because of debt crises in the 1980s. Germany's hyperinflation period in the 1920s was partly the result of it having to lower exchange rates to generate a huge trade surplus to meet reparations payments.

The above shows that a solution to the problem of external obligations of Iraq must be found. It can come through negotiations and agreements with the international community and the UN. It is not in the interest of Iraq to take unilateral action.

Despite the negotiations efforts, appropriate policies must be followed. Those policies should help in the control of deficit and perhaps eliminating it. If Iraq succeeds in increasing its oil production and exports and have its external claims negotiated, then with a prudent fiscal policy

the deficit can be controlled and a surplus possibly generated. The fiscal policy should concentrate on the expenditure side at this stage. Military expenditures should be greatly reduced. Expansionary fiscal policy should however remain necessary especially for essential services and for the agricultural sector.

Although the immediate objective in the short run is to restore and maintain economic stability, this is not the only goal. A lot of work needs to be done to design policies for implementation at a later period. There should also be an initiative to draft a new constitution and laws to ensure democratic rule, including electoral and press-freedom legislation. Also, work should be done to prepare programs to ensure the resumption of economic growth and provide solutions to the huge social problems caused by wars, sanctions, displacement and re-allocation of the military workforce to the civilian economy. While these programs must be vigorously implemented once economic stability is regained and maintained, this does not preclude the provision, at this stage, of financial resources to agriculture and the social sector, because of their obvious contribution to stability. However, the real, and the most efficient solution to the displaced population and the released military workforce lies in achieving high growth in the civilian economy, since this will determine its capacity to absorb additional labor.

In the short run, therefore, while stability is a priority, designing policies and programs and paving the ground for building institutions is also important.

# 3. Resumption of Growth

When the economy attains economic stability, is able to maintain it, and gets reintegrated into the world economy and community, Iraq can proceed to implement an orderly development strategy that ensures faster growth. At this stage one can only outline the overall policy prescriptions and the orientation of future development strategy. The recent experience of the Iraqi economy is one of mismanagement, wars and comprehensive economic sanctions<sup>6</sup>. Therefore the development strategy should be based on a new orientation.

Development policy in Iraq has always stressed the importance of diversifying the economy by lessening the dependence on oil. The achievements in this regard are far from impressive, but this objective now assumes greater relevance and importance. This is due to the fact that there is now doubt that the external sector, especially if relief from external obligations does not come about, will still be able to finance the domestic sector. There is a pressing need to increase the efficiency of the non-oil sector so that its contribution to overall output and growth is increased. Based on this, the emphasis of the new orientation should be:

- On the intensive use of economic policies to mobilize resources for development, not merely to attain and maintain economic stability and
- On redefining the sectoral priorities both in terms of production structure and of ownership.

The use of macroeconomic policies in economic management of the non-oil sector will involve a different relationship between the state and the private sector. In the past state intervention in Iraq was driven by ideological motivations, giving the public sector the leading role in the development process. This led the state to establish many enterprises in the productive sector and to become involved in small operations in the distribution sector. But the state ended up financing those enterprises because they operated inefficiently and at a loss. The state, therefore,

<sup>&</sup>lt;sup>6</sup> See al-Shabibi, Sinan "Prospects of Iraq's Economy, Facing the New Reality" in Future of Iraq, Calbrese J. (Ed.), Middle East Institute, Washington D.C., 1997.

intervened through microeconomic as much as macroeconomic management. Moreover, because of the ideological nature of the intervention, the state's relationship with the private sector has often been confrontational. Finally, the state was unable to realize the advantages that could be reaped through combining ample resources with good macroeconomic policies. The potential contribution of the availability of financial resources to effective and development-friendly macroeconomic policies was not realized.

# Direction Of Macroeconomic Policies

The objective of fiscal policy is, in the long run, to diversify the structure of government revenues in order to reduce the dependence on the oil sector. On the revenue side the government will have to establish an efficient tax system. Without going into detail, government expenditure will have to be rationalized and the ratio of military to total expenditure substantially reduced. The development dimension of fiscal policy involves, inter alia, granting incentives to support development in the non-oil sector, especially of the private sector, including policies for regional development. It is, of course, impossible to have a budget surplus or even a balanced budget excluding oil revenues. But the budget deficit must be minimized. This is because the financing ability of the oil sector will, from now on, be weaker, since it will also have to finance debt service and reparations claims. Under these conditions the government will have to resort to deficit financing, thus reducing the latitude for monetary policy.

Monetary policy needs the right infrastructure, in particular reform of the financial and banking system and, more importantly, independence for the Central Bank. Otherwise, the Central Bank will end up financing the budget deficit. But the independence of the Central Bank does not imply a

neutral stance vis-à-vis the development process. The Bank's policy should be to ease credit to the non-oil productive sector, especially the private sector. Resources for this purpose can be generated from the reduction of military expenditure and the relief from external obligations, should this materialize. The channeling of resources to society will be through the specialized development banks, which means that these should be assisted for a period by the government.

Exchange-rate policy was never adopted in Iraq before. The exchange rate was historically determined by the surplus created by the oil sector. However, the real economy in Iraq is the non-oil sector, and an oildominated, overvalued exchange rate might be detrimental to its prospects. It is very difficult to form an opinion on this issue at this stage, but a realistic exchange rate for the non-oil tradable sector may improve its competitiveness, given that the diversification of sources of foreign exchange will, from now on, assume a high priority. The realistic exchange rate will not affect oil exports because these are dollar-denominated. As a result, the government's import capacity will not be affected by a change in the exchange-rate policy, as long as imports are paid directly or indirectly through oil revenues. However, the government should use its oil revenues to mitigate the harmful effect of a more realistic exchange rate on the import capacity of the private sector.

#### Sectoral Priorities

Sectoral policies have two dimensions, ownership and productive structure:

As far as ownership is concerned, the private sector should play a leading role in the development process. This is one way of developing the non-oil sector. The state should play an important role in the provision of an enabling environment for the private sector so that it can assume a development role through its macroeconomic policies. Apart from efficiency considerations, emphasis on the private sector will be a matter of necessity. The government has limited choices in this respect, since it will be burdened by the payments of debt (which is public in Iraq's case) and of reparations, if relief did not materialize. Privatization is one way of encouraging and developing the private sector. However, privatization schemes undertaken in Iraq in the second half of the 1980s were driven by the need to finance the war with Iran, and efficiency considerations were secondary. In addition, many of the state enterprises were sold at book value to the government-linked private sector. The strategy governing the reliance on the private sector will have to be reconsidered and reevaluated with a view to putting efficiency considerations first.

With respect to the productive structure, the priority should be on human development and agriculture, especially after the economy regains stability. The economy suffered, as mentioned earlier, from isolation because of ideological reasons and international sanctions. It was therefore unable to reap the benefits of new technology, especially in the communication and information sectors. Thus, at present, Iraq is not well placed to reap the benefits of globalization and meet its challenges without serious efforts to enhance its technological base in these areas. Another productive sector that should receive considerable attention is agriculture. Its development should save the country substantial amounts of foreign exchange, a precious resource in a future Iraq. Through agriculture, Iraq can generate foreign exchange through export earning and/or import saving. In addition, reviving this sector does not require substantial foreign exchange in the first place. In the industrial sector, light industry, especially food processing, should receive priority because of existing

domestic demand and its export potential. Development of other sectors should be based on careful market studies that take into account domestic and foreign demand conditions and existing supply capacities in the region. The development of these sectors and any other sectors, which can generate in a short time the required foreign exchange, can also be financed by foreign direct investment (FDI) by Arab and multinational corporations because domestic resources may not be sufficient for consumption and development purposes. FDI, which can be undertaken within the development strategy of the country, is a source of finance and technology. Another source of finance is Iraqis resident abroad.

The development prospects of the Iraqi economy will depend to a great extent on its integration into the world economy and the global trading and financial systems.

The objective of this integration is to enhance the growth prospects of the economy especially its non-oil segment. As far as trade is concerned it is important that Iraq diversifies its export structure through maximizing exports from the non-oil sector. While this requires that policies be designed to achieve this objective, on the international multilateral level, market access is very important. The rules for such access are negotiated in the World Trade Organization. When accession by Iraq is contemplated it will have to take the development dimension into account. Iraq will have every interest, together with other developing countries, to enhance the concept of the special and differential treatments so that the rules of the WTO accommodate the concerns of developing countries including Iraq.

Iraq will also need to integrate in a development fashion into the international financial system. This will involve renewing dialogue and negotiations with the Bretton Woods Institutions. When the magnitude and the structure of external debt becomes known Iraq will need to deal with

the debt problem through, inter alia, the Paris Club given that Iraqi debt is a government one. But this entails dealing with the IMF to construct a reform program. Iraqi economists will have to equip themselves for the negotiations with the IMF so that the reform program does not adversely affect the development prospects of the economy. The financing of the World Bank will also be needed especially for reconstruction, education and poverty reduction.

While the integration into the international financial system will give priority to the providing a solution to Iraq's debt problem, it should also result in the attraction of FDI. Financial deepening will be important through the establishment of capital markets although this requires developing the domestic financial infrastructure and reforming the financial system.

Iraq will also need to strengthen its relations with the network of Arab financial institutions basically as a source of finance.

While the integration of the Iraqi economy into the world economy requires restructuring Iraq's external economic relations this should include reviewing Iraq's bilateral economic relations with a view to reorienting those relations to serve the growth prospects of the Iraqi economy.

From the practical point of view, the integration of Iraq into the world economy can be effected through:

 The participation of the relevant Iraqi officials in the various capacity building prgrammes such as training sessions, international seminars and workshops and the active participations in the meetings and sessions of the international organizations.

- Exchange of experiences with other countries on problems of reconstruction and debt management
- Technical Assistance from international agencies such as UNDP, UNCTAD, WTO, IMF and the World Bank in the field of trade, debt, finance and development.

### Conclusion

Based on the above agenda and strategy some projects needs to be implemented. One can now define the broad areas around which the projects will revolve leaving the actual design when more data and information become available. The areas suggested are as follows.

- 1- A project on the current state and prospects of the external sector in lraq. The objective is to identify the factors that could constrain stability and growth.
- 2- Inflation and how to combat it
- 3- Economic policies under a federal state with emphasis on the fiscal dimension.
- 4- Absorbing the labour force from the military sector.
- 5- Development of the non-oil sector with emphasis on productivity and competitiveness
- 6- The reorientation of the development priorities. The potential of the private sector.
- 7- The preparation for accession to WTO:
  - Understanding of the various agreements and how the WTO works
  - The development implications of accession with emphasis on negotiations on special and differential treatments. The

project should identify the areas that need specially treatment while joining the WTO.

- c. The membership of Iraq in regional trade arrangements and the WTO
- The implications of accession for Iraq as an oil exporting country.

# 8- The management and the sequencing of capital flows to Iraq

- e. Ways and means to encourage FDI and its relation to the development orientation in the country.
- A project to evaluate the contribution of portfolio capital to the Iraqi economy.
- g. A project on the determination of exchange rate taking into account the dependence of the country on oil and the need to enhance competitiveness.

The above proposals indicate that for Iraq to get out of its economic problems, the international community should help, in the provision of financial assistance and relief from external obligations. On the domestic side, Iraq economic prospects will depend on the correct economic policies and the relevant sectoral priorities where the private sector is expected to play an important role.

But the implementation of the above package requires the existence of a stable political environment both inside the country and a stable and friendly relationship with its neighbours If Iraq wants its citizens and the private sector to generate the necessary resources and shoulder the reconstruction and development efforts, then the rule of law must prevail Sinan Al-Shabibi, 24.10.02, Draft

under which case the economic rights of that sector are protected and its duties are defined. The government, while allocating its expenditure, must also be accountable to legislative bodies.

# An Economic Agenda For A Future Iraq

by Sinan al-Shabibi

The following is the text of a lecture delivered by Dr. Sinan al-Shabibi at a conference sponsored by the Middle East Institute in Washington, D.C.: Dr.: Shabibi worked in the Iraqi Ministries of Planning and Oil, and is currently an economist with "the UNCTAD secretariat."

# The Current Situation

'In the nine years' kince the imposition of United Nations' sanctions on Iraq, a range of factors have combined, causing an economic crisis characterized above all by a serious shortage of financial resources. Sanctions reduced the purchasing power of the economy, leading to a shortage in the supply of goods and services.

The introduction of rationing went some way towards meeting the need for food. But the provision of services - in particular those relating to health and education - has been severely undermined.

In any situation, widespread shortages lead, inevitably, to the weakening of the currency. Increasing the supply of money - money printing - makes matters worse. With a foreign exchange shortage, the currency collapses.

This is what happened in Iraq, showing that money printing was not a correct response to the problem. The effect was soaring inflation, with severe social and economic consequences. People were forced to liquidate their assets in order to survive, thus creating enormous disparities in income and wealth between the rich and poor in Iraq, and causing the middle classes to virtually disappear.

At the same time, it is becoming obvious that the continuing deterioration of basic services will have a detrimental long-term effect on health and education in Iraq. The country's isolation from the outside world has also meant that Iraqis' access to modern technology has been blocked – another factor likely to cause long-term problems.

It is true that the introduction of the UN Oil-for-Food program helped the supply of basic necessities and lessened the need for money printing. But the improvement was marginal, because even before the imposition of sanctions, Iraq suffered from inflationary pressures and carried a large external debt.

Any future government in Iraq will have to address the problems emanating from sanctions, inflation, debt and reparations, as well as putting the country back on the path of development. Moreover, a host of social problems emanating from displacement, wars and sanctions will have to be tackled.

There is a need, therefore, to find immediate solutions to ensure economic stability and reverse the deterioration of social conditions – with all the implications of its threat to political stability. But while these are the immediate priorities, longer-term macroeconomic policies and a development strategy need to be devised to allow the resumption of growth.<sup>(1)</sup>

#### The Agenda Ahead

For Iraq to resume growth it must first restore economic stability and create the conditions to sustain it.

## 1) Restoring Economic Stability

Top priority must be given to raising the external value of the dinar and controlling high inflation, because of the adverse economic, social and political consequences of this. In other words, the immediate priority is to restore macroeconomic stability.

<sup>\*</sup> The views expressed in this article are those of the author and do not necessarily reflect the opinions of UNCTAD.

<sup>(1)</sup> In the "The World in 1999" of the Economist Intelligence Unit, Iraq, GDP is estimated to be \$5.7bn, which means that the per capita GDP is \$247, almost equal to the average per capita GDP of the Least Developed Countries.

With high inflation basically engendered by the collapse of the currency, it is almost impossible to implement macroeconomic and development policies effectively. The private non-oil sector will see the resources that it wants to the imports continuously declining in real terms thereby ruining development prospects. With high inflation, it was difficult to maintain a budget surplus (something important in the first stages) because government expenditure is determined by the high rate of increase in the price level, while revenues keep losing their real value.

High inflation also cripples, to a greater or lesser extent, some important tools of monetary policy because the cost of capital is high. This is detrimental to investment in the private sector, which finds the purchasing power of its cash flow being continuously eroded by inflation. High inflation will also make it difficult to establish guidelines for wages because of the indexation problem. Wage levels will contribute to the high cost of production. Needless to say, inflation hunts the poor and fixed-income earners. The high inflation in Iraq at present is causing enormous social problems, such as increased crime and is creating a new social situation under which savings and real assets are being liquidated to meet immediate needs. There is also a widening gap between rich and poor in the distribution of both income and wealth.

If inflation is not reduced, it is likely that political protests will take place. Repressive measures must not be used to quell those protests. A resolute effort to address the question of inflation, as explained below, should help stabilize the squareon

So, what are the actions needed to reduce inflation?

The mobilization of a substantial volume of financial resources. This mobilization has two dimensions: international and regional, and domestic.

- a) On the international and regional level:
- After the lifting of the sanctions, Iraq should be allowed to reach or approach its maximum oil export cap its re-entry into the oil market should be accommodated without adversely affecting the oil price level. This will require maximum cooperation by OPEC members, even though many of them are suffering from budget deficits. These countries are certainly aware of the suffering Iraqis have gone through, and should also be aware that the economic and political stability of Iraq will have favorable repercussions on regional security. Agreement on a new oil production level in Iraq should be a process of dialogue and negotiation with other OPEC members, a process by which Iraq can reintegrate into the region and the international community.
- A standstill<sup>®</sup> should be granted to Iraq on the payment of debt and reparations. If this is not done then Iraq may
  remain in deficit. (While sanctions are currently causing the resource deficit, payments of debt and reparations
  may later become its principal cause). Experience shows that high debt service payments engender economic instability and fuel inflationary pressures.
- The regional and international community should extend substantial financial assistance to Iraq. This assistance, which should be on concessional terms or preferably in the form of grants, would assume particular importance in the event that the re-entry of Iraq into the oil market was only partially accommodated.

These measures, if undertaken, would indicate goodwill on the part of the international community towards Iraq and would contribute, in an important way, to its stability. Success in the mobilization of resources depends on Iraq's creditors in the region and/or outside the region, the UN and other oil exporting countries.

b) On the domestic level, Iraq should complement the actions of the international community by refraining from money printing to finance its expenditures, since it does not have at this stage (the short run) the productive capacity

A standstill is an agreement between the debtor and its creditors to temporarily defer payment of long-term debt and freeze short-term debt. The agreement normally stipulates that the external payments position does not worsen during negotiative moratonum may take the form of unilateral action. In its attempt to reintegrate into the international community, lead should opt for a standstill.

has back this additional money, supply differer pointing can however, be tolerated at foreign exchange, tions into the country, but it should be carefully synchronized with the growth in domestic production, and spraigh raphanes in the country, but it should be carefully synchronized with the growth in domestic production, and spraigh raphanes into the

o While government expenditure, should be usefuly controlled, support for serioulture, and other essential services will remain upportant during this period and remain will be a serious problem being long employment will be a serious problem being long, especially when a large part of the sumy is demobilized.

These actions by Iraq, regional states and the international community should be jundertaken rapidly in order to arrest any sources of economic or bolincal instability by

- c) 9 he resources, thus accumulated should be used immediately, 20, 2
- For imports, especially of consumer goods and food as a matter, of priority. This is, not inconsistent with the aforementioned policy of supporting agriculture. The latent demand for agricultural products and food in larg is almost certainly so hage that supply from imports and domestic production will be needed during the short team. : : :
- For the provision of social services, especially in the fields of health and education and school materials.
- communications.,.... For reconstruction and rehabilitation, especially of power was water plants, sanitation, sewage facilities and tele-, nj. fe
- For a new program of human development and technological rehabilitation so that iraq can bridge the technological gap as far as access to information technology is concerned. This gap has been caused by sanctions and government policies, which prevents access to information in general. Information technology will be an essenhal prerequisite for growth in the next decade ...

Those policies and measures, especially the import of essential goods, should help stabilize the economic, social and political situation, and put the country back on the path of development and growth through the implementation of macroeconomic policies and development strategies.

mented as quickly as possible. The package suggested above can indeed be initiated capidly because it does not de-pend on production or trade. In correcting their external payments position, many countries resort first to external It is therefore clear that our main concern is to regain stability through economic measures, which are to be implefinancing, which provides a breathing space to start adjustment policies.

# 2) Maintaining Repporte Stability

Once the situation is relatively stable, and should exert every effort to maintain this stability. It is therefore essential that it does not slide, back into a situation of large deficit in resources If the deficit recurs; it will againstead to solower value of the dinar and inflationary pressures. Maintaining stability will depend more ontidinestic effort and macro-economic policies, than on financial resources, as in the period of restoring stability. The macroeconomic policies, crude oil sector. Here again the importance, once more, of Iraq's regional and international environment should be emphasized. In other words, for the smooth working of the policies to maintain macroeconomic stability, Iraq needs to avoid external shocks (such as an oil-price collapse), and the purchasing power of its exports must be maintained however, do not need to be excessively restrictive since they can be complemented by infusion of resources from the

<sup>(9)</sup> Some experts, while analyzing the potential factors for political instability in Iraq after a political change has taken place, assert that "the political stability of any post-Saddam government will be determined by the economy, and if the United States, Kuwait and others do not show goodwill towards this government, through generous and immediate economic assistance and relief, we could face a revanchist Iraq" see Parasiliti, Andrew, "Political Risk in Iraq", Middle East Hannonic Servey, 24 May 1999.

Therefore a friendly and favorable regional and international environment for Iraq remains essential. In this repthe following are important:

- Iraq should cooperate with other oil producers to bring about a price level that guarantees it the required level of
  revenues, but at the same time, does not unfavorably affect the economic prospects of oil-importing countries,
  developed or developing, whose demand for oil Iraq, like other oil exporters, has every interest in maintaining.
- Having agreed with its creditors and the UN on a temporary standstill on the payment of its obligations, Iraq should propose their renegotiation. Without going into details, many initiatives have been put forward to restructure the external debt of developing countries. These range from forgiveness to mere rescheduling. It is, however, not easy to suggest any specific solution or initiative without having a clear idea about the structure of the debt. What is certain, though, is the need for debt relief, to ensure that high debt service payments do not restore instability and impede the growth prospects.<sup>(6)</sup>
- There are also historical precedents as far as the war reparations are concerned. Lessons can be drawn from the German experience after the First World War. Also, the claims on Iraq submitted to the United Nations Compensation Commission amount to more than \$300bn but the vast majority of those claims are those of governments and corporations. According to UN Security Council resolution 687, the payment of reparations should take into account the needs of the Iraqi economy. Germany, after WWI, received financial assistance enabling it to reduce the burden of war reparations.

The last thing Iraqis want to see is the return of a resource deficit. While the deficit at present is the result of sanctions, when sanctions are lifted it could also result from payment of debt service and reparations. And it should be clear that Iraq's economic problems such as inflation and shortages are directly related to the deficit. In the final analysis, it is the adverse effect on the importing capacity of the country that needs to be addressed. This import copacity can be negatively affected by a shortfall in, or collapse of, export earnings or by claims on those export earnings through payment of debt and reparations.

If a situation of resource deficit returns, then inflation will also return together with macroeconomic instability. History provides many examples of deficits accompanied by inflation. Many Latin American countries experienced hyperinflation because of debt crises in the 1980s. Germany's hyperinflation period in the 1920s was partly the result of it having to lower exchange rates to generate a huge trade surplus to meet reparations payments.

The above shows that a solution to the problem of external obligations of Iraq must be found. It can come through negotiations and agreements with the international community and the UN. It is not in the interest of Iraq to take unilateral action.

Although the immediate objective in the short run is to restore and maintain economic stability, this is not the only goal. A lot of work needs to be done to design policies for implementation at a later period. There should also be an initiative to draft a new constitution and laws to ensure democratic rule, including electoral and press-freedom legislation. Also, work should be done to prepare programs to ensure the resumption of economic growth and provide solutions to the huge social problems caused by wars, sanctions, displacement and re-allocation of the military workforce to the civilian economy. While these programs must be vigorously implemented once economic stability is regained and maintained, this does not preclude the provision, at this stage, of financial resources to agriculture and the social sector, because of their obvious contribution to stability. However, the real, and the most efficient solution to the displaced population and the released military workforce lies in achieving high growth in the civilian economy, since this will determine its capacity to absorb additional labor.

In the short run, therefore, while stability is a priority, designing policies and programs and paving the ground for building institutions is also important.

<sup>(6)</sup> Iraqi debt is mostly bilateral. It is owed to Governments or guaranteed by Governments. In general bilateral debt is more easily restructured than multilateral debt.

3) Resumption of Growth

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## Conclusion

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Dear Sinan and all IDRC Members.

RE: Working Group on Economy and Infrastructure (Economic Policy Subgroup)

I have read the Working Group on Economy and Infrastructure (Economic Policy Subgroup), white paper; Sinan has taken a bird's view approach in his paper and has covered many valid aspects of the overall economy. I believe that we must narrow the focus of this paper in order to make it workable in a timely fashion. The underlying goal is to prepare ourselves with a program that is workable and relatively simple to implement. My approach will be to outline with comments and solutions in a bullet point format that will complement Sinan's paper. This will allow for full participation of all members of the working group as all members have experienced different working environments during their careers which will provide a great benefit to the potential solution of a New Iraq.

Government role is to create a Pro Business stable environment in which companies can operate efficiently. Sound macroeconomic policies including fiscal policy- the government budget and monetary policy- the exchange rate. The tax burden must be kept as light as possible. The government must rely less on direct taxes and more on indirect taxes. This will encourage people to strive & create wealth. It is the private sector that creates wealth; hence the strategy should be to develop a vibrant private sector.

Financing policies would be the first step; this would include grants from major world powers as any new debt would be a negative for the future. I agree oil is the key industry and there are plenty of willing participants to invest in the new infrastructure in order to receive some preferential treatment for oil development. The key point here would be to not let these potential investors gain majority control of any particular aspect of the oil fields. I believe there will be vast sums of new capital available for investments into the new lrag.

I will elaborate on some of the points that Sinan has made in his paper. The question we have to ask now is where will lraq be in 10 years and we should consider the following in order to adopt a sound economic policy:

- 1. Politics: Fundamental Challenges: Leadership, Legitimacy and Law (rule of)
- 2. Economy: Transition to market economy
- 3. Demographics and Health
- 4. Environment

# 1. Politics: Fundamental Challenges: Leadership, Legitimacy and Law (rule of)

The role and the structure of the new Iraqi leaders are to be ready to deal with the demands of more decentralized, market-influenced economy where flexibility, efficiency and encouragement of private sector and initiative are paramount.

The new government of Iraq must represent all Iraqis and must be stable, predictable, efficient and honest. Iraqis must have trust in their new government and the economic policies that the new government proposes.

-I will not elaborate on the politics more than this since we are focusing on the economic policy. However, we must consider the political environment of Iraq in order for the economic policies to be implemented successfully.

# 2. Economy: Transition to market economy

There are four types of economies that we need to look into and analyze to create an economic policy for the country all of which are interconnected.

- A. Defense Economy: This economy is strong politically, but contributes very little to the overall economy. If we look at it historically, in the 1900s, defense and manufacturing contributed 80% of the economy; today defense contributes less than 10% of the economy.
- B. Dual Use Economy: Heavy manufacturing (cars, trains, planes, steel), chemical, basic economy, etc.
  This economy can be easily converted to war time use.
- C. Peace Economy: This is extremely important economy since it is sensitive to consumer confidence. It reacts negatively to war and political uncertainty. This economy, today, is the major contributor to the economy, but politically is still week. This economy includes:
  - Telecommunications
  - Information Technology
  - Consumer Electronics
  - Financial Markets and Providers: Banking is not just for banks
    anymore. Banks these days vigorous competition from a wide array
    of non-bank suppliers that have found new ways to meet the needs of
    financial consumers. Traditional banking is shrinking and it will
    account for a smaller and smaller proportion of the financial assets of
    the economy. Economics, demographics and technology have
    teamed up to create a whole new genre of financial consumers. We
    should encourage financial companies, insurance companies,
    security firms and diversified firms to compete with the traditional

banking. In order to meet the demand of today's financial market, we need to modernize our financial structure. It is important to recognize the tremendous impact that technology and competition have had in the financial market.

- Insurance
- Tourism and Service: Biggest industry since it brings in hard currency which will finance better service and infrastructure for the country. Tourists usually demands stability and good infrastructure and services. Service is about 75% of the economy today.
- Travel: Brings in hard currency, demands stability, and advanced infrastructure.
- Food
- Entertainment
- Fashion & Retail
- D. Political Economy: Obviously, this concerns all economical sectors, but specifically to the state owned enterprises (SOE). We need to encourage and discipline political economy, basically educate the SOE workers and prepare them to become competitive in the market, especially when these SOE go through privatization.

Comments and suggestions on Sinan's paper:

Financial aid to developing countries: Sinan in his paper talks about financial aid, I think we should call it grants. Financial aids do not usually contribute much to the enhancement and productivity of the country. Therefore, the economic policies of Iraq should distribute the aid among many sectors of the economy to improve productivity.

Following three points should be taken under consideration when accepting financial aid:

- a. Growth and Saving: Since financial aid is a temporary solution, this will have little effect on the productivity.
- b. Technical Assistance: We should educate the agencies to meet the demands of that come along with financial aid.
- c. Absorptive Capacity: We should make sure that the country is ready to absorb such aid by distributing it to various sectors rather than one specific sector
- 2. IMF/Worldbank and FOREIGN DIRECT INVESTMENT (FDI): In this section I would like to discuss the Washington Consensus since IMF and Worldbank base most of their policies on this until recently. You will then find an analysis of the Consensus and the 12 Commandments of Foreign Direct Investment since I believe FDI is an important element of economic growth. The 12 points below apply to FDI.

Institutions like Worldbank and IMF have long followed the Washington Consensus when giving advice and funds to developing countries. Unfortunately, the Consensus has been unsuccessful in many countries where poverty was still a major problem that has not been solved by growth and development. This has led today these institutions to reevaluate the Consensus, which is reflected in Monterrey Consensus.

Although the Washington Consensus is based on free market and focuses on stabilizing the economy and structural adjustments, it fails because it disregards the institutional economics, which actually is the tool that supports stabilizing the economy and the structural adjustments.

The Washington Consensus will help to achieve the 12 Commandments of foreign direct investment to a certain extent which is analyzed as follows:

- Stable, predictable macroeconomic policy: This commandment is based on the
  rules of the game like the constitution which is not addressed in Washington
  Consensus. In the short-run, Washington Consensus may be able to provide a
  stable and predictable macroeconomic policy with its fiscal discipline, but in the
  long-run it will not because of the above reason.
- An effective and honest government: Washington Consensus does not address the norms of the country. In a country where trust is viewed differently than here in America, to have an effective and honest government will be difficult.
- A large and growing market: If the country does not institutional policies sooner
  or later its economy will sooner or later start to slow down and even collapse, and,
  Washington Consensus does not necessarily help with this commandment.
- 4. Freedom of activity in the market: Washington Consensus does encourage privatization and deregulation to attract more investment and trade policy that injects competition to the market, thus, give freedom of activity in the market
- Minimal government regulation: Deregulation point of Washington Consensus does take a step towards minimizing government regulation.
- Property rights and protection: Although Washington Consensus took the first step for the property rights and protection, this commandment requires a much a more institutional implementation.
- Reliable "infrastructure": Although Washington Consensus does try to provide a
  reliable infrastructure, it lacks since it does not cover the rules and regulations and
  governance aspects of it.
- Availability of high-quality factors of production: Washington Consensus disregards resource allocation; therefore, if the country does not have the workforce with the right skilled, foreign investors will shy away from that country.
- A strong local currency: In countries where Washington Consensus was tired to be implemented, it has been the case that the currency of that country has weakened even more because of inflation.
- 10. The ability to remit profits, dividends and interest: The Washington Consensus certainly did not help foreign investors in Argentina about this commandment – lack of institutional policies.

- 11. A favorable tax climate: The tax reforms of Washington Consensus can actually help create a favorable tax climate, but it fails in the sense that it does not cover the transaction cost such as customs taxes etc.
- 12. Freedom to operate between markets: Since the Washington Consensus have a trade policy that is so consumes with the domestic policy only, companies may find it difficult to export/import their goods across borders which obviously does not encourage foreign investment.

The fact that Washington Consensus is based on the neoclassical policies and not on the new institutional economics, it, therefore, does not take into account norms, rules of the game like the constitution, governance like the laws and regulations and resource allocation of the particular country rather assumes that institutions are market system and transaction are costless. Since the twelve commandments of foreign direct investment heavily depend on institutional policies as well as structural policies, the Washington Consensus will help these criteria only to the structural extent and fail at the institutional level which I believe therefore we see Washington Consensus being not so successful in many countries that IMF and Worldbank try to implement.

As you can see the economic policies should take into account political, economical and social components in order to be successful and attract FDI.

## 3. Iraqi Dinar:

In order to stabilize and adjust Iraqi dinar to a higher value, Iraqi dinar should be backed by oil, and have US, possibly other countries to be the guarantor as they did for European countries after the Second World War. At the same time, the printing of additional Iraqi dinar should be stopped immediately.

## Regional and International Response:

A very important for today's developing countries is that today's developing nations are a part of a highly integrated and complex international system. Therefore, external forces will have affect on the country's economy. Iraq should establish a good relationship with her neighbors and build a good communication and transportation system between Iraq and those countries. Careful consideration of regional economic development with neighboring state should be used to design enduring economic development plans.

## 5. Private Sectors:

Economic growth of any economy depends mainly on the private sector. The private sector should be one of the first priorities of new Iraq. To revitalize private sector we first must understand the informal economy that currently exist. The informal sector has developed a sophisticated distribution system to deal with shortages and the inevitable strains imposed by the capricious, irrational and venal realities of Saddam regime. Successful revitalization of this sector in the transition between regimes will involve an acceptance of the status quo and pragmatic actions that facilitate and enhance the flow of goods and services. Those who now make these functions work,

be they in government or in the private sector are by necessity skilled administrator, politically astute, and place a high value on the personal survival.

Economic policies that encourage small and medium businesses both structurally and institutionally will as a result promote competition and at the same time, initiate the transformation of informal sector into formal sector. Tax incentives should be introduced to legitimize activities, discourage racketeers and the corruption. Possibly, the flat tax experience could be used to guide the conversion and nurturing of these entrepreneurial survivors (informal market of Saddam's era).

Some of the policies that should be taken under consideration are as follows:

- Economic Bill of Right. This will guarantee all people to have access to credit facilities and government grants, specifically women and small businesses
- b. Tax incentives
- Create credit guarantee agency to provide guarantee to the banks in order for entrepreneurial to obtain loans
- d. Small business association
- e. Build strong corporate governance and anticorruption system
- f. Transparent shareholder registries
- g. Develop proper and legislation that protect investors and shareholders.
- h. Eliminate duplicative and superfluous laws.
- Implement and transparency International's government procurement code.
- j. Adhere to the Organization for Economic Cooperation and Development ( OECD) for both corporate governance and anti corruption
- k. Clarify laws on conflict of interest
- Micro lending policies

## 6. Privatization:

It is understood that privatization promotes greater efficiency and higher output, lower costs, broaden the base of ownership and participation in the economy. However, we should be aware of the risk of increasing the concentration of wealth with privatization where institutional arrangements are weak or vulnerable to insider pressure. There should be a system to monitor the distribution of capital more broadly to avoid monopoly and corruption. Since we are privatizing the state owned enterprises, most of the workers, including the decision makers are not educated and familiar with the privatization process. Therefore, education and training are vital, specifically, prior to privatizing an enterprise, otherwise, it will have a negative effect on the GDP. Proper policies and institutions must be in place to carry out the privatization as planned and in order to achieve the set goals without having a negative effect on the economy as well as the society. After all, privatization represents a potential revolution in the role of government in promoting economic growth and development.

# 7. Population Growth:

When we develop our economic policy, we need to take into account the Iraqi population growth.

## 8. Women in Business:

Our strategy should be to promote the inclusion of Iraqi women in the process of democratization and economic opportunities. We should form organizations that will deal specifically on the issues of strategic planning, communication techniques, advocacy, and role of women in the community development. It is essential to have special policies to encourage and integrate women into business community.

# 9. WTO and Integration of Iraq into World Economy:

In order for Iraq to integrate into world economy, Iraq should reform institutions and policies at the same time as these two go hand in hand. Below few points to be adopted under Iraqi economic policy:

- A. Financial flows
  - -Foreign Direct Investment (FDI) Please refer to the FDI section for details
  - -Portfolio Investment
  - -Debt Financing
- B. Transfer of know how and technology
- C. Intellectual property, copyright, licensing
- D. Trade liberalization
  - -Lower trade barriers
  - -Increase competition
- E. Labor force and population mobility
- F. Communications
  - -Media
  - -Internet
- G. Technological advances in
  - -Electronics
  - -Transportation
  - -Bioengineering
- H. Develop friendly rules and regulation
- 1. Reform both institutions and policies at the same time
- 10. Free-trade zone
- 11. JV Laws
- 12. Marshland and water policy:

A comprehensive water policy and restoration of marshland need to be included in the economic policy.

- 13. Education and human development
- 14. Macro and micro economy:

Macro economy alone is too comprehensive and does not address the daily needs of the people. Therefore, we need both macro and micro economic policies at the same time. We need to have policy that will create jobs at micro level and empower small entrepreneurial people, which is the bottom up approach.

## 15. Economic growth and economic development:

Our policy should be to pursue both economic growth and economic development at the same time to achieve a sustainable economy since economic growth deals with the total output of goods and service which focuses in quantitative measures. On the other hand economic development is economic growth plus improvement in materials, well being of the poor population, increase in the education and skills of the labor force, increase in the technical advance within the country, etc. So as you can see economic development focuses on qualitative measures. Therefore, the policy should adopt both economic growth and economic development to sustain the economy.

# 16. Build Operate Transfer (BOT):

This is a good policy to adopt as it will ease the burden of the financial debt on the country and will put the responsibility on the foreign investor.

## 17. Foreign industry establishment:

Encourage developed countries to establish some of their industries in Iraq such as textile, low tech jobs, but most important high tech industry. This will create export in goods and services, jobs and also educate people. Especially from the high tech industry, the Iraqi labor force can learn and be able to start developing some of their own technology. This is what Japan did for Korea in 1960s and this is how Korea learned and developed its industry.

Last but not least, whatever model we adopt whether it is the linear stage of growth model, neoclassical free market model, institutional economics or others, I believe we should adopt a policy that will be the mixture of various of economic models. It should be flexible and changeable to meet Iraq's needs, but regardless, we have to prepare Iraq to meet the demands of 21st century civil society. We cannot have Iraq adhere to rigid economic standard since Iraq is not only a developing country, but also a transforming country and lacks many of the following elements which we should work and develop a policy to enhance them:

- · Mobile and highly educated labor force
- · A high level of technical knowledge
- Small and medium enterprises
- Good governance
- Well established institutions
- Micro financing
- Reformed tax system
- Local ownership
- · Favorable climate for enterprises
- Transparency

- Well developed capital market
- · A large number of responsive entrepreneurial
- · Large number of export commodities
- Anti-corruption
- · High level of capital goods
- Managerial competence
- Ability to plan and administer a wide assortment of development projects
- Information
- Education and human development

I hope that this paper is most beneficial and productive in developing economic policy for new Iraq. The points that I tried to cover in this paper are for discussion and you may use them for IDRC if you find it fit. Please keep in mind that the paper has not been edited.

I look forward to hearing from you all. .

Best regards, Rubar

PS: I should have a full draft for the economic policy by Friday.

# ECONOMIC POLICY GUIDELINES FOR IRAO\*

#### Sabri Zire Al-Saadi

#### Why economic policy guidelines

For an elected (new) government of a democratic Iraq, there is no justification to impose or exert externally certain economic policies on its official agenda. However, in the current extraordinary circumstances, Iraq needs a transitional non-elected government immediately after the fall of Saddam regime. Hence, the necessity for clear policy guidelines that may reflect the common economic views and wide interests of the Iraqi people and their political parties. Such guidelines may facilitate the implementation of already identified partial remedies and piece-wise solutions by some Iraqi professionals for the outstanding problems.

It is the fast moving and serious events surrounding Iraqi crisis that created the need for economic policy guidelines as a yardstick to avoid any future misunderstanding among the concerned parties. Specifically, the idea for having economic policy guidelines was suggested to balance the "issue by issue" approach advocated among a group of Iraqi professionals for dealing pragmatically with the prevailing economic, political, and social problems facing (new) Iraq. In this respect, the urgent need for political stability that might require adhoc measures should not overlap the necessity for the government to identifying priorities within a framework of consistent and efficient economic policy.

#### Causes of the economic crisis

Since the establishment of modern Iraq in 1921, clear polices for economic development have not been practised by the governments. Instead, public expenditures and finance were major instrument to operate public services and influences the economy. Until 1953, oil revenues were limited and spent through the government annual budget on few public works and the then new army buildings. However, since 1953, oil revenues played a significant role in the economic and social development of Iraq. Also, oil revenues created political power for the governments. During the 1950's, the implementation of development programmes was necessary but not sufficient to establish the foundation for further economic, social, and political development. In the early 1960's, the centralised economic planning has begun without fundamental and positive change in development

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conditions and prospect. In the early 1970's, the role of the State and public sector in the economic, social, and political life of the country were dominant. Since 1974, the substantial increase of crude oil exports and revenues were behind the government's economic expansion policies. In terms of GDP growth rates, the economic achievement during the 1970's was impressive. However, the real engine of growth was oil's export revenues rather than the efficiency of government economic management. As a matter of fact, the government substantially restricted the economic freedom of the individuals in the property ownership of the means of production, trade, competition in the labour and commodity markets. As the long war with Iran begun (1980-1988), the economic recession and the huge exhaustion of the financial and human resources became apparent. Then, the economic situation rapidly and severely deteriorated immediately after the Kuwait crisis in August 1990 and the imposition of the UN sanctions. Restrictions on oil exports resulted in huge economic, social, and environmental problems for the Iraqis.

Analysis of Iraqi experience revealed that only oil revenues could not sustain economic and social development and the targeted economic growth and increasing employment could not be achieved through public finance. Oil revenues have been the major contributor to finance government expenditures, both current (consumption) and investment, as well as provide foreign currency for increasing imports. Public revenues generated by non- oil activities, contributed very little to the government budget. The only impact of oil revenues had on public finance been sustaining the government economic and political power to control the economy and individuals. It is because of a one party government that allocates oil revenues; Iraq lost individual economic, political, and social freedom and democracy.

# New economic policy guidelines

Iraq needs a well-defined economic policies and clear public investment criteria. During the last five decades, governments failed to have coherent, consistent, and efficient economic policies. This shortcoming facilitated the miss-use of public revenues and creates the appetite to ignore wide political participation in the economic decision-making process. Indeed, the absence of committed economic policies enhanced one party system and ultimately led to the existing individual dictatorial ruling regime.

As part of the Economic Project for Change in Iraq (EPCI), the suggested economic policies adequately compromise between public objectives and the interests. It comprises the policy alternative that would save the country from the consequences of the prevailing economic and financial crisis within a framework of balanced short-term urgent needs, as well as improving the public social services in the medium-term. At the same time, the proposed policies preludes the implementation of the targeted economic and social development strategy which is based on maximum utilisation of oil revenues and lessen the State's dependence on crude oil exports through undertaking economic structural changes in the long-run.

The suggested policy peruses effective and timely balanced application of an integrated package of macroeconomic, fiscal, and monetary policies in order to ensure economic stability and control inflation arisen from the existing economic and financial imbalances as well as to undertake structural economic reforms. These policies should be accompanied with the implementation of a huge government investment programme for the completion and upgrading of the public infrastructure projects.

The implementation of the macroeconomic policies will pave the way to execute a number of economic reform programmes, i.e. privatisation and ex-post evaluation of public enterprises, reform of the banking system, public health services, social security, and government administrative reform programme. Also, it will serve the identification of the sector-wise strategies, objectives, and development policies and investment opportunities. The suggested policy responds adequately to the prevailing political reality by dealing quickly and directly in a considerate way with the urgent problems such as the high prices of stable foodstuff and the cost of living. Also it considers the burden of foreign loans, the need to increase revenues of public finance and crude oil exports, increasing employment, and the reduction of grave disparity in income distribution and wealth accumulation. The suggested policy also responds to the economic reality by ensuring the effectiveness of the macroeconomic policies in correcting the price structure, especially the exchange rates, interest rates, and wages, as well as in reducing the deficit of the government budget, the trade balance, and the balance of payments.

Due to its expected effects, the application of the proposed policy would help to sustain the interrelationships between the economic interests of all regions as well as accelerating the development of Kurdistan and the south governerates through the use of oil revenues in financing the infrastructure projects.

# Political conditions and democracy

The successful implementation of EPCI is subject to suitable political environment. Given the political and security stability, the (new) regime should be constitutional and democratic that protects the personal liberties and basic civil and political rights for all citizens. The (new) regime should reflect the economic interests, social values, and the culture of all-social groups and individuals regardless of their religious, sectarian, tribal, ethnic and racial origin. The (new) regime should be institutional that allows the freedom of forming political parties and groups and the establishment of social organisations. It should also practise general election to choose the people's representatives (parliament) who would take care of the legislation process and monitor the government performance according to the constitution, law, and pre- determined procedures. It is also assumed that the government, a one majority's party or collation, and all other political active parties should present their political, economic, and social programmes for democratic public debate before assuming the responsibility in the government and participate as an execution partner. All political participants should accept the government and public rights in having full access to the information, data, and indicators relating to their programmes and economic policies. Also, the civil servants should perform their duties far from bias to the interests of the political parties even if their views are different from the government policies. It should also be emphasised that the political representation in the parliament is not enough to reflect the interests of various groups of the society. Such representation must be extended to the public institutions, military and civil, as well as the economic, culture, social, religious private institutions and organisations.

In line with the need for more decentralisation in the management of the governarates and local communities, the proposed policy assumes that the local governing bodies should be responsible for the identification and finance of their local small projects. These bodies are also responsible for dealing with the local economic and financial affairs of the governerates through their budgets. The governerate budgets should not, however, overlap with the government regional planning prepared as part of the national

development plans and the annual investment programmes. The latter would consider the reconstruction of Kurdistan in the north and the marshes area and other governances in the south.

# Economic policy and the Federal system

The political issue of Federal system proposed for Kurdistan of the north has two main economic implications. The first is related to the State's sovereignty as far as the ownership and utilisation of the country natural economic resources. These public resources such as crude oil and gas and minerals, water, land and the rent of using Iraq space and related public utilities shall be public and all its returns belong to the State. The exploitation of these resources by other parties should be arranged on the bases of a unified State's law and regulation to be applied in all parts of the country without prejudice based on geography, ethnic, sectarian or religious criteria. The second economic implication of the suggested Federal political system is related to the conditions for effective macroeconomic regulatory policies. These policies should be undertaken and implemented by the central government without geographic and economic bias except for reducing the disparity in public wealth's distribution and development indicators when necessary.

# Oil policy guidelines

The strategic importance of crude oil and gas resources with their abundant reserves require that oil policy should be part of Iraq sustainable development long- term strategy. One of the main objectives of this strategy is to lessen the existing high dependence on crude oil exports. This objective can be achieved by implementing two sets of integrated policies. The first is to maximize utilization of oil revenues in erecting and improving the economic, social, and environmental infrastructure of the country. The second is to encourage development of oil products industry and the use of gas as energy source and increase their forward and backward linkages with other sectors.

Oil industry has been damaged as a result of the war with Iran and the second gulf war. Also it is damaged because of the government bad management and over exploitation of the oil wells. Hence, the industry needs huge investment to retain the capacity for increasing oil exports to pre gulf war levels. However, it is essential for Iraq to increase oil revenues in order to meet the required financial and foreign currency resources for implementing the (new) public investment programme. Therefore, it is anticipated that during the first few years of embarking on the proposed economic policies, the government should pursue the policy of increasing oil production and exports as well as improving the investment agreements with the foreign concerned in the field of new discoveries and development.

Fortunately, the low production cost of Iraqi oil as compared with other producers. Iraq is also lucky to have huge oil reserves. Both low cost and high reserve capacities would maintain Iraqi export interest against the risk of price reduction due to competition and market factors fluctuations.

Significantly, call for privatization of the industry must be avoided in the coming few years. Also, it should not be justified and linked to the problem of foreign debts. The oil industry has a long -term strategic role in future economic and social development and can not be taken out and put under foreign companies' control. Hence, oil investment, production, industrial, and marketing polices should not be influenced by the current financial problems nor by the foreign and domestic political pressure. Until the new

regime is well established and regain the necessary economic and political bargaining power, proposition for privatization of the oil industry may acts against Iraqi interests. In principle, optimal oil production and exports should be determined by the absorptive capacity of Iraqi economy. However, it is essential for the government to coordinate its oil policy with the current economic, political, and technology developments in the world energy market. It should, however, maintain the flow of oil in the market in view of the supply and demand rules as well as its financial requirements.

#### Economic and financial reform

To deal with the prevailing difficulties, effective application of the macroeconomic policies should be undertaken alongside with indicative development plan. The programme of action has two stages. Each may last two years. In the first, a public investment programme for erecting and improving the required infrastructure projects should be implemented. At the same time, for maintaining overall economic equilibrium, the government should undertake active policies to regulate aggregate demand, especially government expenditures, to reduce public finance deficit and the deficit of foreign trade balance and the balance of payments.

In the second stage, public investment expenditures should continue. Also, price liberalization policies should continue. In this regard, taxes and improving the efficiency of public enterprises such as oil products industries and public services have to be used. In this stage the privatization programme should be completed. The government should give special consideration to link wages and salaries of the civil servants to the productivity and inflation criteria. It is expected that at the end of this programme favorable economic environment would be established. Such environment would greatly help to increase investment and production activities of the Iraqi private sector and would encourage foreign investment in Iraq. Big manufacturing industries, tourism, banking and financial services may attract foreign investment. While opportunities in construction sector, housing in particular, agriculture, banking and insurance, trade and services may be the focus of domestic private sector.

#### Economic tasks of the new government

For the implementation of the proposed economic policies and the programme of action, many institutional changes have to take place at the ministerial level and other government economic and financial departments. Also, it is necessary to lay down detailed administrative and legal measures for defining the new functions of all concerned institutions. The anticipated changes should be part of the overall execution, judiciary, and legal system of the new State. The quick pace of implementation will depend on the available information at the time. However, it is essential to initiate the required changes as government guidelines for the new administration, economic, financial, and development planning departments.

Prime Minister's Office	Announcement of the political project for change
	Announcement of the economic project for change
*	Task 1: end of UN sanctions, food for oil programme, and war reparation
	Task 2: abolition of all sectors planning councils and economic and financial commissions and institutions linked to the old MC. Their functions should be added to the ministries
	Task 3: establishment of Iraqi Development Council
9	Task 4: establishment of Ministry of Environment
	Task 5: change the functions of the Ministry of finance to be Ministry of

	Finance and Economy
	Task 6: change the functions of the Ministry of Trade to be Ministry of Trade
	and International Cooperation
	Task 7: all specialized agencies such as administration development, national
	planning, computer, Arab statistical institute should be re-linked to the
	universities or ministries in accordance with their functions
	Task 8: request all Ministries and government departments and agencies to
	present proposals for improving and developing their functions according to
	the new constitution and the political and economic projects for change
	Task 9: review all commercial, financial, and economic agreements signed
	between Iraq and foreign governments, organizations, and companies since
	1990
Munistry of Labour and	Task 1: abolition of all work permit visas given to foreign employees
3 211 × 512	Task 2: preparation and execution of rehabilitation of manpower programme
Social Affairs	
	Task 3: maintain food ration system and improve its mechanism and review
	of goods list during six months
8	Task 4: setting- up criteria and procedures required for minimum wage level
	in all sectors
	Task 5: execution of the Social Security Fund as part of SSWS
Munistry of Trade and	Task 1: abolition of all oil grants and preferential agreements
International Cooperation	Task 2: maintain food ration system and improve its mechanism and review
	of goods list during six months
	Task 3: review all commercial, financial, and economic agreements signed
	between Iraq and foreign governments, organizations, and companies since
	1990
	Task 4: preparation of follow-up reports for MC on the foreign trade and
	balance of payments situation
	Task 5: preparation of foreign trade forecast and prediction of economic
	relations development with foreign governments
	Task 5: execution of the economic project for change
Iraqi Development and	Task 1: identification of investment opportunities in infrastructure, suggestion
Reconstruction Council	of public investment criteria, projects selection, and insuring its finance
	Task 2: preparation of indicative economic and development plan on national
	and regional levels
	Task 3: execution of some economic structural reform programmes such as
	privatization
	Task 4: preparing future strategic vision project
Munistry of Health	Task 1: preparing future strategic vision project  Task 1: preparation of requirements for better public health management and
Munisay of Fleator	services
	Task 2: execution of Public Health Fund as part of SSWS
8	
	Task 3: maintain health standards to domestically produced medicine and to
	imported medicine and medical equipment
Ministry of Education	Task 1: preparation of requirements for basic education
	Task 2: execution of Basic education fund as part of SSWS
Ministry of Finance and	Task 1: execution of EPCI
Economy	Task 2: preparation of an Early Economic Warning System for MC
	Task 3: preparation of follow up economic, financial, and monetary indicators
	monthly report for MC
	Task 4: preparation of macroeconomic and financial forecasts for the
	Ministries, political parties, and private sector institutions
	Task 5: establishment of new Baghdad Financial Market
	Task 6: arrangement for foreign debts settlement with IMF, WB, Arab, and
	regional institutions
	Task 7: arrangement for settlement of Iraqi loans given to foreign
	1 British to Intelligi

<sup>&</sup>quot; A formal and detailed proposal for the IDRC was prepared for the IDRC sub-group.

	government, institutions, and companies
	Task 8: preparation and execution of tax reform programme
	Task 9: preparation measures for reducing the size of informal sector
	Task 10: improving tax collection procedure
	Task 11: preparation and execution of banking system reform
	Task 12: : preparation and execution of government financial reform
Ministry of Agriculture	Task 1: lifting restrictions on agriculture product trade except for health and
	environment conditions.
	Task 2: review and establish new strategy and policies for agriculture
	development
	Task 3: activating the role of agriculture development bank
Ministry of Foreign	
	concerned foreign parties
	Task 2: coordination efforts to reestablish Iraqi personnel and professional
	posts in Arab, Regional, and international organizations and institutions
Ministry of Justice	Task 1: arrangement for return of public and individual properties and assets
	taken by the previous regime leaders, ministers, and senior officials, party
	leaders and all concerned companies and personas
	Task 2: preparation of criteria for wealth and properties tax system
	Task 3: preparation and execution of rules for the cases of conflict of public
	interests with personal economic and financial interests of the politicians
Ministry of Construction	
and Housing	Task 2: execution of reform programme for rehabilitation and maintenance of
and Housing	the existing infrastructure
Ministry of Transport and	
Communications	communication network and public transportation system
CONTRADCTOR	Task 2: follow-up the implementation of infrastructure projects especially
	roads
	Task 3: preparation and execution of rehabilitation and maintenance
	programme for the existing infrastructure
Ministry of Oil and	
Ministry of Oil and	production capacity to increase to 6 mb/d
ividicia:	Task 2: preparation and execution of investment projects for gas production
	capacity increase
	Task 3: preparation and execution of gas liquidation project for domestic use.
	Task 4: revive and modernize sulfur, phosphate, and fertilizer production
	industries
	Task 5: operation of oil refineries and maintaining three months stock
	capacity
	Task 6: execute a programme for rehabilitation and maintenance of oil
	projects
Ministry of Environment	Task 1: preparation and execution of marshes revival project
randay of Environment	Task 2: preparation and execution of desertification project
	Task 3: preparation and execution of sewage and sanitary systems
	Task 4: preparation and execution of mines clearance project
	Task 5 preparation and execution a project for elimination of chemical.
	biological, and nuclear effects
The Governorates	Task 1: execution of town planning, distribution of land for housing as guided
The Governorates	by the IDC
	Task 2: preparation and execution of annual governorate budgets
Ministry of Industry	Task 1: preparation and execution of aintial governorate budgets
	and industrial use
	Task 2: preparation and execution of projects for drinking water and for
	industrial use
	Task 3: preparation and execution of project for utilizing military industry
	1 and 5. preparation and execution of project for utilizing muntary industry

	production capacities to civilian use  Task 4: licenses for new industries should be subjected to only health and environment conditions  Task 5: erect and develop industrial zones
The Central Bank	Task 1: control of money supply and give advice to the government on inflation and other economic and financial issues  Task 2: maintain stability and follow-up foreign exchange rates developments
	Task 3: maintain enough reserves of foreign currency and assets  Task 4: preparation of criteria for the settlement of old foreign financial obligations
l.	Task 5: preparation of an economic Early Warning System for MC Task 6: full consideration of the EPCI

# THE ECONOMIC PROJECT FOR CHANGE IN IRAQ ECONOMIC POLICIES AND A PROGRAMME OF ACTION FOR THE NEW DEMOCRATIC REGIME

This document is prepared for the Economy and Infrastructure Working Group meeting as part of the activities of the Future of Iraq project sponsored by the US-Department of State (Washington, 24th-26th October 2002)

London: 23th October 2002

# THE ECONOMIC PROJECT FOR CHANGE IN IRAQ<sup>1</sup> ECONOMIC POLICIES AND A PROGRAMME OF ACTION FOR THE NEW DEMOCRATIC REGIME

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#### EXECUTIVE SUMMARY

Iraqi political economy

The current interest in the economic prospects of Iraq is arisen by the likelihood of changing the ruling ruthless dictatorial regime. Indeed, a lot of foreign interests are focused on the present acute and chronic political and economic crises of Iraq for a number of different reasons. For the Iraqis, there are distinct and imperative needs to halt the rapid deterioration of living standards in terms of malnutrition, poor health conditions and education services, widespread unemployment and environment pollution. Hence, it is necessary to revive the economy by increasing production, investment, and consumption. While many political and economic indigenous factors have contributed for more than three decades to the present state of affairs, especially the war with Iran and the second Gulf war, the UN economic and trade sanctions imposed on Iraq since August 1990 have aggravated the situation. However, the country's abundance economic and human resources, which are likely to be mobilised, provide many promising opportunities for the Iraqis as well as foreign business concerns.

In dealing with the Iraqi crisis, the role of the USA is of special importance. As it is well known, it has great interest in the crude oil of the Gulf countries including Iraq. The present USA policy of regime change in Iraq and efforts of the opposition Iraqi political parties and groups associated with this policy are necessary but might not be sufficient to bring the targeted democratic changes in Iraq. It also needs the implementation of new

economic project for change.

Iraq is categorised among the group of the developing crude oil exporting countries. It is typical of the model marked by relative abundance of economic, natural and human resources as well as vast capabilities to benefit from crude oil & gas in achieving high rates of economic growth and acceleration of social development. Despite of the radical change of political circumstances over the last five decades, the essential requirements of economic growth, social, and political development remained without fundamental change. The country's economy still continues to depend substantially on oil revenues for financing current and investment public expenditures and provide the required foreign currency for imports. Therefore, the two primary conditions of economic growth have to be satisfied. The first is to increase non-oil exports. Secondly, for public finance it is essential to increase taxes generating from non-oil domestic activities.

Analysis of Iraq's past experience shows that oil, development, and democracy are the main elements of its political economy. Also, the experience reveals that since the establishment of modern Iraq in 1921, coherent or effective economic policies were missing. In the early 1950's, the substantial increase of oil revenues has resulted in a big but inefficient economic role for the government. For many interrelated political, social, and economic factors, the concept of government's unified economic policies never materialized. During the last five decades, public expenditures financed mainly by increasing oil revenues were the only instruments of the government to influence the economy and increasingly became the main engine of economic growth, employment, and controlling inflation. Significantly, since the early seventies, the allocation pattern of oil revenues through government expenditures coupled with wide political oppression practices of the ruling Baath party greatly contributed to the present acute political.

economic, social, and environmental crises. The role of the public sector substantially increased as a result of both oil revenues and the vague socialist ideology of the ruling regime. On the other hand, the activities of the private sector have been weakening and the prevailing market imperfections dominated the economy. As a result, Iraq experienced different degrees of the hidden economic crisis, i.e., high dependence on oil revenues for public finance and the receding importance of private sector activities. While the government dependence on oil revenues gradually increased, the economy and the Iraqis dependence on public expenditures also increased. Unfortunately, the dynamics of less reliance on taxes generated from domestic non-oil activities and more dependence on oil revenues led, in the final analysis, to the present tyrant dictatorial regime. With heavy dependence on oil exports and the absence of relevant economic policies, the economic growth and democracy have been crippled.

After August 1990 and the Gulf war 1991, the existing hidden economic crisis exploded as oil exports and all lraq's commercial, financial, and economic relations have been sanctioned by the United Nations. The role of government and the public sector as economic and political powers started to collapse. And despite of the implementation of the current ration food system, the economic and social hardships of the Iraqis have increased. Since 1990, the government lost huge amounts of oil revenues and its economic and political grip on power has been weakening. As time goes on, the economic crisis becomes deeper and wider and the Iraqis become poorer. To alleviate the crisis and deal with its grave consequences, there should be radical political change. The application of well-defined economic and structural reform as well as development policies is also necessary.

#### The economic project for change

The proposed Economic Project for Change in Iraq (EPCI) is based on the recognition of individual economic, social, and political freedom. Its immediate objective is to implement sets of integrated financial, economic, and administrative measures to deal urgently with the problems of poverty, unemployment, inflation, and provision of essential goods and services in the short-run. In the medium-term, EPCI aims to apply two sets of policies simultaneously. The first is a package of macroeconomic, fiscal, and monetary policies to maintain economic stability and control inflation. These policies should be coupled with institutional measures to facilitate the implementation of the required structural economic reform. The details of the financial, investment, consumption, foreign trade, and oil policies are formulated in consideration of the prevailing circumstances. The second set is to embark on a huge government investment programme including only the economic (physical), social, and environmental infrastructure projects. The aim is to expand production capacities for increasing economic growth, employment and sustain private consumption.

The social objectives of EPCI are to be met through the proposed investment programme that would expand basic education, public health services and improving the distribution of public wealth and revenues. Also, EPCI shall contribute to the proposed unified Social Security and Welfare System.

In (new) Iraq, sustainable economic growth demands more than liberalization and privatization. Realistically, it needs structural economic, social, and political changes as

well as expanding production capacities. Explicitly, EPCI aims to increase output, employment opportunities, and rehabilitation of manpower skill and capacities. Also, it maintains active role of the private sector, reappraisal of public enterprises as part of privatization programme, and identifying new investment opportunities. EPCI shall consider the need for modifying the publicly owned military industry for civil use, provision of electricity, drinking water, constructing sewage systems and sanitary facilities in the cities and main towns, building schools, hospitals and clinic centers.

EPC1 applies realistic approach with practical means. Referring to the suggested execution timetable and mechanism can show this. E.g. Synchronized steps have to be taken to review the current food ration system, to reform the banking system, then to reform the financial market, then the implementation of privatization before liberalizing foreign trade and flow of capital.

Strategic priorities

EPCI considers decentralization of public economic decision processes at the governorates level as essential way to improving economic decisions and development conditions in the country as well as to support democracy practices. Specifically, EPCI anticipates the proposed Federal system for Kurdistan region that would maintain the State sovereignty over the natural economic resources. Oil and gas, land and water, the rights of utilizing the space and water and other sources can not be customized for partial geographical or population benefits. Thus, there is urgent need to allocate oil revenues only to infrastructure projects. Also in this respect, EPCI considers the formulation and implementation of the macroeconomic policies as the sole responsibility of the central government. It is by definition, the macroeconomic policies can not be disaggregated to fit partial needs.

Since EPCI ascertains the strategic role of oil sector both in providing the financial resources required for erecting and developing the infrastructure of the country and the foreign currencies for the anticipated high level of imports, EPCI fully appreciates the fact that oil is a strategic international commodity that need not be monopolized by the producers. The flow of Iraqi crude oil in the world market should be maintained.

Also, it is strategically important that Iraq pursues its economic growth on the basis of free market economy though it should maintain the function of the State in achieving public social development objectives.

In general, EPCI assumes those close economic relations between Iraq and Arab, regional, and foreign countries would greatly benefit all. In particular, the relations with the main oil consuming countries such as the USA are essential and very useful for the future of Iraq.

The challenge

While war reparation and non-commercial debt should be politically settled, some suggest only financial remedies to the prevailing economic problems. However, as history revealed, the government in manipulating non-economic foreign policy and influencing domestic power- game politics should not exploit oil wealth. Instead, public oil revenues must be allocated to finance public infrastructure projects. Alongside, a power- sharing political system should be established and the public decision—making

process must extend to include all political parties, governorates and local communities, and the (proposed) Kurdistan Federal region.

The challenge facing Iraq is how to utilize public oil revenues for promoting economic and social development as well as advancing democratic practices in a free market economy. Unlike the well-known economic and financial reform package of the IMF and WB in terms of scope, priorities, and social contents, EPCI provides comprehensive, consistent, and future visionary policies to respond to such challenge. EPCI policies will ensure positive dynamics of the main driving forces in Iraq, i.e. oil, development, and democracy.

# THE ECONOMIC PROJECT FOR CHANGE IN IRAQ ECONOMIC POLICIES AND A PROGRAMME OF ACTION FOR THE NEW DEMOCRATIC REGIME

Summary

The far-reaching objective of this document is to establish new foundations and policies for the management of the Iraqi economy based on economic, social, and political freedom in order to ensure higher standard of living and improving the quality of life in the country. For this purpose, it proposes an integrated sets of economic and public finance policies and institutional arrangements based on reactivating market mechanism, to be implemented by the new democratic government within the framework of the required economic reform, growth, and social development requirements in the short and medium-term. The role of the State is outlined to include the implementation of a welldefined investment programme consisting of a large number of physical, social, and environmental infrastructure projects. The investment programme is assumed to befinanced by public oil revenues. A social security and welfare system is also suggested for its importance in the medium and long- term remedy of Iraqi development problems. Significantly, in dealing with the Iraqi complex crises, it should be realized that oil, development, and democracy are the main interrelated elements of the political economy of Iraq and have to be considered together in formulating and implementing the policies of the new government. The given conclusions and propositions are derived, on one hand, from a unified and consistent analysis of the Iraqi experience over the last five decades. On the other hand, it is based on a future vision that Iraq should play a positive role in the Middle East region and in view of the international contemporary economic, technological, and political development

Iraq is endowed with abundant natural and human resources<sup>2</sup> as well as the desire for work and political will of the nation for radical change. Such endowment and

<sup>&</sup>lt;sup>2</sup> Cultivatable agriculture land in Iraq was estimated at 48 million Donem (Donem=0.25 Hectare=2500 sq. meters) and only 11.3 million Donem were used in 1960. The donem utilized area increased to about 15 million Donem in the early seventies. While no recent statistics are available, from our observations to the change of land reclamation policy during the seventies and eighties we may conclude that cultivatable land has not increased. In fact, Iraq follows a low productivity cultivation system called Nair and Nair where half of the land (23-26 million Donem) is cultivated while the rest will be used the second year in order to keep the land fertility. Until Turkey governments started their policy of self-use water resources of Tigris and Euphrates, total annual water resources was estimated at about 80 billion cubic meters. This was recently reduced to about 63.9 billion cubic meters of which the amount used is estimated at about 49.11 billion cubic meters. Source: The Unified Arab Economic Report, 1999. Water resources can be used to irrigate the available agricultural land subject to development, reorganization, and redistribution of water resources. Iraq has crude oil proven reserves estimated at about 112.5 billion barrel in 2000, i.e. 10.9% of the world total reserve. Iraq produced an average of 2.889million barrel/day in 2000. Source: The Unified Arab Economic Report, 2001. Significantly, Iraq has the capacity to increase its production to more than 6 million barrel/day if can finance the required investment in the oil industry as Iraqi advisors anticipates. Sources: . . Iraq is also has natural gas reserves estimated at about 3109.0 billion cubic meters. It produced only 4380.0 million cubic meters in 2000. Source: Iraq also endowed with commercial quantities of sulfur

determination qualify the country for high rates of economic growth and employment, and rapid social and environmental development.

Since the establishment of the Modern State of Iraq (1921-1932), the Iraqis have been active, working hard and experiencing many ways for the management of their politics, economy, and society. In the 1930's and 1940's no economic progress was made. As oil revenues increased in the early fifties, the hopes were high for economic and social development. Until the early seventies, there was no anticipation that the bright prospect of development would be set back continuously to reach the existing political dictatorship, widespread economic hardship and miseries, social suppression and fear, environment and security chaos<sup>3</sup>. Since then, the country wasted much of its resources and the Iraqi people lost their basic rights and their economic, social, and political liberties because of the backward and irrational policies, corruption and terrorism of the present dictatorial regime.

As a result of institutional deterioration and non-adherence to law, and because of the prevailing deep rooted and complex crisis, there seems to be no solution but the radical change of the present regime, as almost all Iraqis and many countries believe. In the economic sphere, there should be a package of effective new economic policies to overcome the crisis and maintain growth and social and environmental development.

and phosphates, which produced 1300 metric tons in 2000. These resources qualified Iraq to establish fertilizers industry since the late seventies.

Total population of Iraq was estimated at about 22.8 million in 2000. It was 15.580 million in 1985. Iraq may be considered densely populated country, as the population/area was 52 individual/sq. kilometers in 2000. Total land of Iraq is 438317 sq. kilometers

Assessing the economic crisis and the deterioration in the standard of living in terms of GDP growth and per capita/GDP indicators is not reliable and realistic. In fact, the government national accounts statistics are misleading.

The government statistics estimated the value of Gross Domestic Product (GDP) at current prices in 2000 at US\$ \$3544 million against US\$ 66130, 74933, and 67638 million in the years 1991, 1999, and 1989. However, our estimates adjusted by the real values of the Iraqi Dinar exchange rate in the free market (parallel market value) shows that the GDP value of 2000 is US\$ 6597 million only. For 1991, 1990, and 1989 the estimated (adjusted) values of GDP's are US\$ 1809, 12975, and 16975. This means that the real (adjusted) GDP per capita in 2000 is only US\$ 289. Its real value was US\$ 2142 and 718 in 1980 and 1990. However, reality in Iraq shows that the present monthly salary of a university graduate civil servant having more than fifteen years in service is only 6000 (six thousand) Iraqi Dinar (ID) which is equivalent to only 3 (three) US Dollar. This is far below the poverty line in Middle East countries or even in LDC of Africa and Asia. The minimum cost of essential food requirements for a family of four members is not less than fifty USS. Adding to it the cost of clothes, transport, and the accommodation rent, then total minimum cost of living at present prices is about 100 (one hundred) US\$. Comparing the present monthly salary i.e. US\$3.0 with the same salary level in the 1979 which was about US\$ 330 and in 1989 which was about US\$ 150. the gravity of economic crisis can be easily assessed and the deterioration in the standard of living can be judged. Also, the deterioration of the exchange rate of the ID reflects to a great extent the seriousness of the problem. Iraqi Dinar in 1979 was equal to US\$3.21 while at present the US\$ is equal to 2000 ID. Needless to mention the deterioration of public health, basic education services, and the environment pollution. Such well-known facts and obvious indicators assess the heavy economic and social burden of the Iraqis. In contrast, Saddam's government, his relatives and few thousands of beneficiaries, and high rank Ba'ath party members enjoy the privilege of consuming the high price luxury imported goods.

Hence, a (new) government in Iraq will face wide range of difficult challenges. In searching for urgent and practical remedies with implementation mechanism, it is necessary to consider the people's objectives as well as the historical experience of Iraq sustained by clear vision for economic and social development. The absence of such policies and vision for the management of the economy may partially explain the weakness of the Iraqi political parties due to their lack of experience and misplacement of their priorities. As the experience showed, any proposed policies should avoid the tendencies for over-generalisation and linguistic non-viable compromises between contradicting objectives on the discussion agenda.

Tackling the economic crisis in Iraq can not be limited to the relevant economic, fiscal, and monetary measures as usually debated during the government annual budget' discussion in politically stable circumstances. The dimensions of the prevailing crisis extend beyond the mere definition of the stabilisation macro policies and assessing its financial requirements. It basically needs to deal with the absence of economic, social, and political freedom as well as the urgent need for embarking on huge investment programme in the country's physical and social infrastructure.

In this document, however, issues related to the role of economic factors behind the political and social crises, democracy and the government economic mismanagement, and the implication of the existing market imperfections, shall not be addressed. Also, no formal discussion is given to the controversial implications of the widely known fiscal monetary oriented reform policies against the need for public investment, and the ripe conditions for the integration of the Iraqi economy with the world capitalist market.

The suggested Economic Policies and the Programme of Action (EPPA) are based on the individual economic freedom - freedom of property ownership, work, trade, and competition - and social freedom - freedom of speech, expression, culture and social values practices - and political freedom. EPPA is also based on the efficiency of the free market mechanism for mobilising and distributing the economic resources, the important role of the private sector for increasing economic growth and employment, and the State function in erection and financing the infrastructure projects as well as macroeconomic regulation. Alongside with the economic diversification strategy, EPPA aims at improving the living standard in terms of income, employment, and the provision of basic health and education public services and social security. EPPA also aims to improve the competitive capacity and gradual integration of the Iraqi economy in the world market. These objectives can be achieved by dealing with the current urgent economic and financial problems as well as maintaining the development requirements in the longer term. Such tasks require immediate and near future institutional changes in the Council of Ministers and the government economic and fiscal departments including public sector enterprises.

Strategically, the security and political stability in Iraq and the Middle East depends heavily on the success of the (new) regime in securing economic and social freedom and progress as well as maintaining the management of the economy within the democracy endeavours. Equally important, Iraq is a major crude oil exporting country in the region with significant oil proven reserves. Yet, Iraq is in dire need for oil exports revenue for financing its economic, social, environment, and technology requirements. The interests and the will of the Iraqi people are confined to the utilisation of their resources for the

erection and modernisation of the physical, social, and environmental infrastructure projects and improving the standard of living and the quality of life. Hence, for the international community in general, and the United States of America in particular, the flow of Iraqi oil exports into the energy world market can be guaranteed for a long time to come. In a wider context, Iraq should have full and positive political, economic, social, technological, scientific, and cultural relations with the developed countries. Such economic strategy based on the individual economic freedom is relevant to the existing challenges of the contemporary globalisation and the integration with world capitalism. For Iraq, it is extremely important to acquire and utilise modern knowledge, science, and advanced technologies for increasing production and productivity as well as to benefit from the varieties of culture and social value practices. This is a mutual benefit strategy for Iraq vis-a-vis the Arab, Regional, and international community, and the only option available for the success of the (new) political regime in Iraq.

Prospect of EPPA is in line with the international contemporary economic and political developments. It also reflects the political will and desire of the Iraqis for peaceful and constructive relations with its neighbours, Arab and foreign countries. Therefore, the suggested pragmatic measures in using oil revenues and / or foreign loans to deal with the current economic crisis, as defined only by the government budget deficit and the deficit of the balance of payment, are not sufficient and would not be suitable. They need

additional economic and social qualifications.

EPPA is different, in some aspects, from the widely advocated economic, fiscal, monetary and administrative stabilisation and reform policies in the developing countries due to the distinguished economic, social and political features of Iraq, In Iraq, there exists conservative Islamic values, - liking for social justice and solidarity, sympathy for the poor, strong family ties, the unstable and limited role of the political parties. Also prevalent are; widespread market imperfections and lack of infrastructure, a significant economic role of the State and public sector originating from public oil rent, a weak private sector and entrepreneurial, and abundance of natural economic and human resources. It is also essential to expand decentralisation of the decision making process and the influence of the governorates and the local communities in running their economic and financial affairs. These features make it difficult to assume effective impact of the macroeconomic policies without qualification. However, economic, social and political freedom and the availability of resources provide ample opportunities to coordinate between the conditions of economic growth in free market and competition and the functions of the State in utilising public resources. Also, the available abundant resources can achieve an acceptable degree of social justice in the distribution of benefits of public wealth among the citizens.

As for the significant political proposition for Federal system in Kurdistan of north Iraq, EPPA strategy and policies are in line with the principle of maintaining the State's sovereignty on the country natural economic resources and satisfying the conditions for effective macroeconomic policies. That is to say, to ensure the application of a unified

government economic policies.

Of special importance, the macroeconomic policies of the (new) government should consider the liberalisation of the economy from unnecessary State administrative regulations as well as considering the strategic role of oil revenues in financing the

infrastructure projects. More specifically, EPPA also targets the reduction of the State high dependence on oil sector in financing its expenditures and imports. The State should increase its reliance on taxes generating from the economic activities of the people. This is why it is important to link the future oil exports policy with the absorptive capacity of the economy. However, such emphasis should not be interpreted as refraining from acknowledging the implications of the crude oil world market conditions on the Iraqi oil policy. It is simply a matter of national development priorities.

The implementation of EPPA would facilitate the establishment of an economic and political system characterised by wide practice of decentralisation in the public decision making processes so as to improve the living standard especially in the less developed

governorates and ensuring the political stability.

Since EPPA is based on comprehensive analysis of the existing Iraqi crisis and past experience, and they are consistent and economically efficient, it is not advisable to generate many options out of them. Such claim, however, does not restrict the dialogue, if different, groups may come out with a version which serves and benefits all Iraqis. This is why it is not suitable to assign the responsibility for defining and formulating the economic and social policies, such as EPPA, to ad hoc joint political committees.

#### 1-1: The Economic and Political Conditions for Change

The suggested economic project for change is based on the prevailing characteristics of the Iraqi economy and the available resources. It considers the variant economic experiences of Iraq. In the 1930's and the 1940's, the economic development efforts were very limited. During the 1950's, the implementation of development programmes was significant but not sufficient. In the early 1960's the centralised development planning has begun. In the early 1970's, the role of the State and public sector in development planning were dominant. Since 1974, the substantial increase of crude oil exports and revenues were behind the government's economic expansion policies. In terms of GDP growth rates, the economic achievement during the 1970's was impressive. However, the real engine of growth was oil's export revenues rather than the efficiency of government economic management. As a matter of fact, the government substantially restricted the economic freedom of the individuals in the property ownership of the means of production, trade, competition in the labour and commodity markets. As the long war with Iran begun (1980-1988), the economic recession and the huge exhaustion of the financial and human resources became apparent. Then, the economic situation rapidly and severely deteriorated immediately after the Kuwait crisis in August 1990 and the imposition of the UN sanctions.

While we advocate the implementation of EPPA, it is necessary to ascertain that the differences among economic interests and social classes and groups should be reflected in the policies and manifestos of the political parties. The conflict of interests and competitions is not something strange and improper even in the current difficult circumstances which need more co-ordination and co-operation between the democratic political activities. It is the essence of the targeted political, economic, and social democratic process. By expressing the various interests we in fact establish and practise the long awaited democracy that maintain free expression, the majority rule, and the peaceful compromise among these interests. Such a step is also necessary to define

clearly the position of the political parties as far as their domestic interests and the Iraqi common interests against the objectives of the regional and international conflicts to obtain unfair economic and geo-political benefits. It is also necessary to ascertain the role of law in protecting the economic freedom.

Since EPPA reflects the interests of the majority and (may) gain the trust of the politicians, it will succeed in having the people's support. Needless to say, the absence of such policies in the manifestos of the political parties makes EPPA endeavour more viable. EPPA adequately compromises between the interests of the Iraqis. It comprises the policy alternative that would save the country from the consequences of the current economic and financial crisis within a framework of balanced short-term urgent needs, as well as performing the tasks for improving the public social services in the medium-term. At the same time, EPPA preludes the implementation of the targeted economic and social development strategy which is based on maximum utilisation of oil revenues and lessen the State's dependence on crude oil exports through undertaking economic structural changes in the long-run.

Technically, EPPA peruses effective and timely balanced application of an integrated package of macroeconomic, fiscal, and monetary policies in order to ensure economic stability and control inflation that arise from the existing economic and financial imbalances as well as to undertake structural economic reforms. These policies should be accompanied with the implementation of a huge government investment programme for the completion and upgrading of the public infrastructure projects.

The successful implementation of EPPA is subject to suitable political environment. Given the political and security stability, the (new) regime should be constitutional and democratic that protects the personal liberties and basic civil and political rights for all citizens. The (new) regime should reflect the economic interests, social values, and the culture of all-social groups and individuals regardless of their religious, sectarian, tribal, ethnic and racial origin. The (new) regime should be institutional that allows the freedom of forming political parties and groups and the establishment of social organisations. It should also practise general election to choose the people's representatives (parliament) who would take care of the legislation process and monitor the government performance according to the constitution, law, and pre-determined procedures. It is also assumed that the government, a one majority's party or collation, and all other political active parties should present their political, economic, and social programmes for democratic public discussion before assuming the responsibility in the government and participate as an execution partner. All political participants should accept the government and public rights in having full access to the information, data, and indicators relating to their programmes and economic policies. Also, the civil servants should perform their duties far from bias to the interests of the political parties even if their views are different from the government policies. It should also be emphasised that the political representation in the parliament is not enough to reflect the interests of various groups of the society. Such representation must be extended to the public institutions, military and civil, as well as the economic, culture, social, religious private institutions and organisations.

In line with the need for more decentralisation in the management of the governarates and local communities, EPPA assumes that the local governing bodies should be responsible for the identification and finance of their local small projects. These bodies are also

responsible for dealing with the local economic and financial affairs of the governerates through their budgets. The governerate budgets should not, however, overlap with the government regional planning prepared as part of the national development plans and the annual investment programmes. The latter would consider the reconstruction of Kurdistan in the north and the marshes area and other governartes in the south.

Specifically, the political issue of Federal system proposed for Kurdistan of the north has two main economic implications. The first is related to the State's sovereignty as far as the ownership and utilisation of the country natural economic resources. These public resources such as crude oil and gas and minerals, water, land and the rent of using Iraq space and related public utilities shall be public and all its returns belong to the State. The exploitation of these resources by other parties should be arranged on the bases of a unified State's law and regulation to be applied in all parts of the country without prejudice based on geography, economic, ethnic, sectarian or religious criteria. The second economic implication of the suggested Federal political system is related to the conditions for effective macroeconomic regulatory policies. These policies should be undertaken and implemented by the central Government without geographic and economic biase except for reducing the disparity in public wealth's distribution and development indicators when necessary.

The implementation of the macroeconomic policies will pave the way to execute a number of economic reform programmes, i.e. privatisation and ex-post evaluation of public enterprises, reform of the banking system, public health services, social security, and government administrative reform programme. Also, it will serve the identification of the sector-wise strategies, objectives, and development policies and investment opportunities. EPPA responds adequately to the prevailing political reality by dealing quickly and directly in a considerate way with the urgent problems such as the high prices of stable foodstuff and the cost of living. Also it considers the burden of foreign loans, the need to increase revenues of public finance and crude oil exports, increasing employment, and the reduction of grave disparity in income distribution and wealth accumulation. EPPA also responds to the economic reality by ensuring the effectiveness of the macroeconomic policies in correcting the price structure, especially the exchange rates, interest rates, and wages, as well as in reducing the deficit of the government budget, the trade balance, and the balance of payments.

Due to its expected effects, the application of EPPA would help to sustain the interrelationships of the economic interests of all regions as well as accelerating the development of Kurdistan and the south governerates through the use of oil revenues in financing the infrastructure projects.

Since the issue of how public oil wealth will be utilised in achieving economic, social, and environment development, is essential in dealing with the crisis, EPPA clearly determines the required ways of allocations and the responsibility of the government. In this respect, it is necessary to avoid any hasty strategic change in the public ownership of oil and gas industry until the (new) government succeeds in reducing the State dependence on oil revenues and the completion of the required structural economic changes. Therefore, oil wealth power and/or the permission for new concessions to foreign concerns and/or the Iraqi private companies, necessitates the State's monopoly of

oil sector. More clearly, the ownership of oil industry should stay public at least for the time being.

2-1: The Hidden and Apparent Economic Crisis of Iraq

The period following the implementation of the UN Food for Oil Programme in 1996, and the increasing revenues associated with it, witnessed a growing Arab, regional and international interests in the comprehensive crisis of Iraq. As in the stands taken in the wake of the Kuwait crisis and the economic and trade blockade imposed on Iraq in August 1990, the reasons for this concern were varied, reflecting trade, financial, economic, political and strategic interests of the various parties.

Domestically, the crisis is becoming more complicated. It takes the form of unbounded tyranny and terror against the personal and public rights of the people, social and cultural and intellectual persecution and the increasing heavy economic burden on the people. The crisis led to unprecedented deterioration in living standards and the quality of life,

humiliation and impairment of the dignity of the people.

In any event, and irrespective of the immediate and future interests of the neighbouring, Arab and foreign countries vis-à-vis Iraq and their political view of the present regime, the causes of the current grave crisis are still in place. It is the Iraqi people alone who suffer the dire consequences of it and it is they who shoulder the responsibility to bring the crisis and the prevailing state of decline to an end.

The formation of the modern Iraqi State in 1921 has been fraught with general problems that continued in conjunction with the inability of the first governments to improve the economic conditions of the people. Also apparent, their failure to secure political stability through co-operation with the political parties and forces to govern the country democratically. Evidently, the newness of the State and the need to create its institutions, coupled with other domestic reasons, were behind the continuation of the problems. The limited social and political awareness at the popular level, the low level of economic activity represented by few businesses, backward agriculture and primitive handicraft industry. Also, the limited financial resources of the State, the narrow parameters applied by governments in the formulations of their policies, have all sustained these problems before and after World War Two.

Since the beginning of the 1950s, the political, economic and social problems worsened to the point of crisis despite the huge increase in oil revenues and the launching of large-scale State investments as part of few development programmes. There has been rapid development of social and political consciousness on the one hand, and on the other, the heightened international clash against the background of conflicting oil interest, the cold war and the fear of nationalist and socialist liberalization ideas spreading in Iraq and the Arab countries. In those years, while the Governments' interest waned in expanding the participation of political parties in power and tended towards accommodating political pacts with allied countries. Rural development continued to be neglected, particularly their failure in addressing the deleterious social and economic conditions of the peasantry in the southern part of the country. The benefits of the State's investment and Government current expenditures, however, were limited to urban areas, foreign companies engaged in the construction of public projects and the activities of the commercial sector.

After the 14th July 1958 revolution, and despite the encouraging promises, the call for democracy receded. There was a political failure in forming broad coalitions and/or accepting the principle of political opposition by parties and social and economic groups to government policies. The results of the economic development plans, implemented thereafter by succeeding governments, were not more than the direct upshot of oil revenues which continued to be used in the construction of slow-return infrastructures and financing current expenditures.

Since then the negative consequences of the policy of relying heavily on oil revenues to increase economic activity and employment began to escalate. Such a policy was incapable of creating economic surpluses, i.e. increasing production and productivity and financial surpluses, i.e. increasing domestic saving for investment purposes, outside the oil sector. With the beginning of the 1970s and in spite of the nationalisation of the foreign oil companies, the nature of oil revenues did not change except increasing their volume, and improving the government's unintelligent capacity to hide their negative consequences by means of rapid large-scale public sector imports. Indeed, the grave consequences of the neglect, consciously or unconsciously, of the strategy of diversifying the sources of national income had increased and the policy of increasing dependence on oil revenues to finance consumption and imports, investment and employment by the state continued. During the same period, it became clear that the regime rejected the principle of circulation of power and/or sharing with the political parties the working out of economic development strategies, targets and policies.

In the case of Iraq, economic development presupposes maximum utilisation of oil revenues in financing State investment in the economic infrastructure (roads and dams), the social services (basic health and education) and the environment (development of natural resources and protection of public wealth) needed by the country. However, the State expenditures and the pattern of relation between public oil revenues and the political, economic and social development in the 1970's, and the 1980's reveals the grave role of the expansionist economic and fiscal policies pursued by the governments in the creation and complication of the present crisis.

In 1953 oil revenues contributed around ID 3.2 million to the ordinary annual budget of the state with allocations of approximately ID 37.5 million. That contribution increased in the years 1958, 1963, 1968, 1971, 1974 and 1980 to ID 26.1 million, 57.2, 91.6, 179.3, 1,123.4 and 5,556.2 respectively, to finance the annual ordinary state budget for which the following corresponding allocations were made: ID 75.6 million, 126.8, 220.6, 344.8, 1,400.3 and 6,261.5.

For the purposes of financing development projects under the Development Programme (1951-1959) ID 338.5 million was allocated out of oil revenues out of the total allocations of the programme amounting to ID 347.1 million. In contrast, the total oil revenues allocated in the state economic plans during the 1960s amounted to ID 661.3 million against ID 749.8 million being the total of allocations under these plans.

In the 1970s, the fund earmarked out of oil revenues for the financing of economic plans was ID 8,810.9 when the total plan allocation was ID 9,683.3 million.

The total oil revenue of Iraq from 1968 to 1979 was estimated at US\$ 145 billion (approximately ID 45 billion) out of which ID 7,631.6 was allocated to financing the

annual ordinary budgets and ID 8,978.5 to finance the annual state investment programmes.

The value of imports of foreign goods increased from ID 37.6 million in 1950 to ID 61.8 million in 1952; 121.8 million in 1957; 145.7 million in 1961; 247.9 million in 1971; 773.4 million in 1974; 1,426.9 million in 1975; 1,738.9 million in 1979. Against that the non-oil exports of Iraq were estimated at 20.1, 18.8, 12.9, 7.9, 36.0 and 84.0 in the corresponding years. These figures reflect partly the grave negative economic consequences of increasing dependence on oil revenues, and the failure to realise economic and financial surpluses out of these revenues as the deficit of the balance of trade and balance of payments show when the value of non-oil exports are excluded.

While it was possible in the 1970s to repress inflationary effects in the economy and hide the symptoms of the crisis, the exhaustion of public financial revenues, most of which were derived from oil, in the war with Iran, has publicised the economic crisis. In this context, it is worth noting that Iraq's foreign currency reserves in 1980 was estimated at US\$ 32 billion (approximately ID 10 billion).

Knowing that the total value of oil exports during the war years (1980-1988) was estimated at US\$ 223 billion, at a time when the State's ordinary budget expenditure and annual investment programmes were reduced, the politically legitimate and economically vital question of where and how this huge national wealth was disposed of becomes patently obvious.

On the plane of political economy, the relationship of the public sector with the increased oil revenues is quite significant. The percentage contribution of the public sector (or the 'socialist' sector) to the gross domestic product increased from 11.75% in 1953 to 14.28%, 18.59%, 21.93%, 23.47%, 25.38%, 34.69% and 80.94% in the years 1956,1960, 1964, 1966, 1971, 1972 and 1979 respectively. If the crude oil production sector publicly owned since 1975 and constitutes 61.9% of GDP, is excluded, the public sector's share in the manufacturing industry in the domestic product increased from 11.65% in 1953 to 32.22% in 1964, 47.67% in 1971 and 53.04% in 1979. This is in line with the oil revenue increase. In agriculture, it increased from a mere 0.26% during the 1960s to 4.52% in 1979. In wholesale and retail trading and hotel sector, it increased from 1.12% in 1953 to 11.89% in 1965, 25.82% in 1970 and 32.36% in 1979.

The ruling regime had failed in managing the economy yet it remained in power through organised terror against its people coupled with the excessive waste of oil revenues in its repeated attempts to overcome the rising economic, fiscal and social problems in the manner of trying to put out fire. The vast oil revenues, as the main source of public finance outside taxes on economic activities and exports, helped the regime to justify its political slogans and to stay in power. These revenues led the regime to entangle in huge useless armaments projects, launch war on Iran that lasted eight years (1980-1988) and the invasion of Kuwait in 1990 and its destructive consequences.

In the 1970s, State expenditure on consumption, investment, import finance and supply of a few basic consumer goods at affordable prices was sufficient to promote economic activity and achieve significant increases in employment and income of the poorer sections and improve their standard of living. These gains were made despite the frequent shortages in food supplies, consumer goods and inputs required in production. The period also witnessed the rising price of houses and public services; the crowding

and queuing in front of shops for vegetables and milk or in front of shops selling goods imported by the public sector; and the faltering of productive and investment processes. The widespread construction activity and the vogue of foreign trade activity superficially appeared as though Iraq was undergoing a gigantic development leap and actually achieving high rates of economic growth estimated at 11.5% in the 1970s decade. However, the increases in the domestic value of crude oil had always underpinned the increases in economic growth (GDP). It was the major constituent of income for the government's ordinary budget and the sole source of revenue for financing the annual investment programmes as well as the source of foreign currency needed for the huge imports. These facts refute the superficial impressions on the state of the economy and confirm the existence of a hidden economic crisis. Of equal importance is the economic fact that the percentage contribution of crude oil production to GDP had increased from 32% in 1968 to 44% in 1970 and 62% in 1979.

In the 1980s, the long war with Iran drained Iraq's human, financial and economic resources. Right from the first year of war, it was no longer possible to control the structural economic imbalance and the State's fiscal deficit nor was it possible to hide the symptoms of the explosive crisis despite resorting to oil revenues, financial reserves and foreign loans. With the faltering of oil exports at the beginning of the war, the symptoms of the hidden crisis, represented by falling production and productivity, steep rise of prices and unemployment for those who did not join the war, swiftly surfaced. The burden on the majority of the people of the increasing current expenditure by the state, to secure the demands of the war, and the fall in public investment and exports had become obvious.

Immediately after the war with Iran, the submerged economic crisis emerged to the glare of publicity. Yet, the search for radical solutions to the real economic and developmental problems did not occupy the attention of the regime. It was not only the high political costs and the difficulty of managing them that explains the lack of such solutions. In fact, the regime considered the manifestations of the State's fiscal prosperity and its political uses as evidence on the success of its policies and their approval by the people. However, as our experience revealed, the regime had no perspective and sufficient knowledge of the conditions necessary for economic growth and the requirements of social development.

As to the effects of the UN economic and trade sanctions, politically imposed since August 1990, they have contributed, with astonishing speed, to deepening the economic crisis and intensifying its damaging impact as it has always been expected whenever there is large-scale fall in oil exports.

The danger posed by the continuation of the sanctions then, simultaneously with their massive contribution to the deterioration of the basic social, economic and environmental structure, especially during the period preceding the implementation of the 'food for oil programme' under the supervision of the UN, coupled with the erosion of savings and wealth of the people and the State, have also exposed the false claims of the regime of its success in managing the economy and development before 1990. The survival of the regime then and now is hinged on the revenues generated by oil. Unfortunately, in reality, the continuation of sanctions and implementation of the food for oil programme have helped the regime in consolidating its political absolutism, controlling the lives of

the people and weakening the limited economic independence that they have enjoyed away from the State's direct influence.

On the financial level, and concurrently with the injustice meted out to the Iraqi people as a result of sanctions, and the organised plunder of their oil wealth on scandalous political and immoral grounds, as evidenced by the compensations paid to States and foreign nationals and meeting the expenses of the UN agencies engaged in Iraq, the lifting of the sanctions would not greatly reduce the suffering of the people nor would it change the prevailing miserable conditions.

The effects of lifting the sanctions are limited to the volume of revenue generated by crude oil exports, acquired and disposed of by the regime without national control.

Although sanctions bring benefits to some international, regional and Arab parties as well as the leading figures of the regime and their supporters, the political and financial implications of the sanction for the regime will remain irrespective of their lifting or continuation. Ultimately, these implications will be the most important and not their social and economic impact which, as far as ordinary people are concerned, shall remain. At present, and irrespective of the new forms of sanctions intended to prevent rearmament, the daily talk about trading oil under the trusteeship of the UN or smuggling it by the regime, and the nature of sale contracts with companies and trade agreements with States and individuals; there is obvious and urgent need for investing oil revenues to abate the existing economic and financial crisis, as it has always been, dependent on the proper way of managing the economy and practising democracy in the policy and decision making process. The mere accommodation of expected oil revenues to the financial needs of the country, a common solution, is not sufficient to deal with the crisis although it temporarily lightens the present suffering of the people. Equally, the planning of development by giving priority to the prevailing trading considerations in the international oil markets, and entrenching the dependence of people in their economic activity on the state, is insufficient to meet the imperatives of solutions in the long run.

As they have led to deepening the dependency of the regime on oil production and export sector, the sanctions have deepened the economic dependency of citizens on oil revenues. These economic and political consequences (dependency) also extend to the policies of the two Kurdish governments in Kurdistan and include the financing of their expenditure on administration, security and public services.

The danger inherent in these consequences is that the total lifting of sanctions or limiting them to stop rearmament would enhance the capacity of the (present or any military or non-democratic) central government to blackmail the people politically and economically. Unfortunately, such high dependence of the government on oil revenues will add to its own weakness, which would be reflected in acting more irresponsibly in its domestic and foreign policy, on the other hand.

Therefore, we believe that policies concerning the oil sector, the requirements of development and the conditions for democracy, individually and collectively, should be the axis for the programmes and policies of the new government. The political parties and groups should adopt such policies if their efforts are to succeed in the short run and be effective in transforming the country in the long run.

#### 2-2-1: Economic policies

Since the 1950's, the economic role of the State may be analysed within four main stages.

- a: Financing a number of economic (physical) infrastructure projects in the 1950's. This was necessary though not sufficient to undertake radical and wide economic and social changes.
- b: Partial control of industrial and economic activities through the public sector. In addition, financing a number of economic and social infrastructure projects in the 1960's.
- c: Complete monopoly of foreign trade and direct management of the economic and social infrastructure projects as well as of significant number of commodity production and services by public sector. Also, this period (late 1960's to the 1980's) witnessed the role of public sector in the construction activities. This is the stage of wide and decisive economic intervention
- d: Since August 1990, it is very difficult to assume the existence of economic policies or coherent measures. There were many detailed, scattered, partial, and arbitrary decisions. It designed to serve the narrow financial and political self-interests. The present period also witnesses the complete absence of the financial and economic institution in participating with the government in the decisions. Therefore, the present period may be called the chaotic and institutional and political deterioration era.

The main economic policy aspects of past experience need to be analysed and considered in the future as follows.

- a: The monetary policy was not effective since interest rate was low and almost stable as well as foreign exchange rates were fixed for a very long period despite of the value of the Iraqi currency deterioration since 1980. Money supply responded only to the increase of government expenditures and money liquidity of the public sector were high.
- b: The government fiscal policy had only government expenditures as the main variable to influence the economy. No important role was given to the government banks and the role of private banks and the financial market was absent.
- c: The government ability to control inflation through increasing the imports by the public sector under no financial or economic capacity constraint to weakening the private sector activities.
- d: No need of foreign capital helped to empower the government economically and politically. The role of the private sector receded further. The abundance of government financial resources relaxed the efforts to maximise the benefits from Iraq foreign economic and commercial relations.
- e: The over protection policy of private sector production and investment activities have led to weaking the entrepreneurial and quality deterioration of domestic products. At the same time, it adds more economic and political power to the government authorities.
- f: The government employment policy has diminished the role of free labour market in improving the allocation of manpower among different sectors. Also, the politically motivated imployment of Arab manpower without qualifications have weakened the economic and political bargaining power of the Iraqis.

g: The policy of leaving low direct and indirect taxes greatly helped the government to impose their policies. On the other hand, the policy led to lessening economic independence of the Iraqis and the role of private sector to influence government economic policies.

#### 3-1: Economic and Financial Problems and Remedies

#### 1-3-1: Financial Resources and Foreign Debt

The scarcity of financial and foreign currency resources became a binding constraint on economic activities. Oil revenues have sharply decreased and non-oil exports are almost non existent. Also, the real value of domestic public revenues such as taxes and custom excises and public services returns have substantially decreased as a result of the economic deterioration and the inefficiency of the government financial management. Even if the government ability for collecting domestic revenue restored, public revenues would not reach more than its 1989's level. Also, foreign sources including short-term loans and trade credit for financing imports have reached its maximum. Therefore, the financial and foreign currency resources will restrict the impact of the economic policies of the (new) government.

To estimate the required financial resources, the following needs have to be considered.

- a. Financing the reconstruction of public projects. Most important, oil projects for retaining oil exports capacities and maintaining oil reserve. Also important are economic infrastructure projects such as roads export seaports, communication facilities, water dams, drinking water, and electricity production and distribution projects. Also needed social infrastructure such as public health and basic education, and provision of minimum social care to the unemployed and elderly people. In addition, finance is required for complementary investments in the semi-idle public sector enterprises such as sulfur and phosphate mining, fertilizer industry, and water discharge sewage.
- Financing current government expenditures to carry on administration, health, education, and public services.
- c. Finance is necessary to acquire imported goods and commodities for investment and for production activities of the private sector.
- d. Financing foreign trade by foreign loans and credit facilities. Here, it is essential to apply new and clear cut strategy to be guided by fiscal and trade criteria to be determined by the economy performance and the required internal and external macro economic balance. In this respect, it is necessary to relatively reduce imports and increase non-oil exports. For foreign loan debts and long—term trade credit, it should be rescheduled and settled in the long—run in view of the future economic performance. It is very important to ascertain that it is wrong to consider the settlement of foreign loans and debts as part of a policy to promote inflow of foreign capital in the short- run. Such policy would not be useful if the economic and political bargaining power of the government is weak as we envisage at least until the complete success of EPPA implementation.
- e. For military armament's debts and the imposed UN's sanctions, the political will of the nation should work for its cancellation and co-operate with the concerned foreign parties on the basis of diminishing responsibility of the Iraqi people for its

causes. The (new) regime should use peaceful foreign policy and relations to achieve this aim.

2-2-1: Inflation, Deterioration and Fluctuation of Foreign Exchange rate

As the policy of unlimited expansion of government expenditures and low growth of output and productivity have led to sharp price increase despite the use of oil rent in depressing inflation; the economic, political, and social changes taking place since 1970's accompanied with significant international economic and technological developments. The latter were reflected in the change of prices and qualities of imported goods and commodities and the increase of productivity and incomes in the developed exporting countries. Both have led to overvalue of the Iraqi Dinar (ID). The exchange of the ID was constant till mid nineties by wrong political decisions, though it should have been devalued from the second half of the 1970's. However, instead of taking such a step, the government subsidies policy for imported goods and commodities and the accumulation of foreign currency and gold reserve have maintained the artificial value of the exchange rate in a way not related to the economy's performance. Keeping the exchange rate constant is nothing but government increasing subsidies to surpass inflation caused by low output growth and productivity deterioration. Although discussions of devaluation were prohibited during the 1980's because of its political implications and revealing the government inefficiency and the already deterioration of the living standards. The phenomenon also related to unjust pattern of income and wealth distribution resulting from both price change and government biased economic and fiscal policies. However, actual devaluation was apparent in the parallel market since the end of the 1970's. This was coupled with the continous price rise. In an attempt to avoid devaluation, the government invented an ad hoc import policy that need not transfer foreign currency through the Iraqi Central Bank. The short-lived policy led to further increase of prices in the medium -term. The carrot and stick government's policy also failed to combat the sumuggle of wealth abroad as result of the deterioration in the domestic political, economic, and social circumstances. Thus demand on the US \$ continuously increased. Against this, the dictatorial regime continued to monopolize and fully control all foreign currency resources. They have full freedom to utilize all government liquid assets in financing military and armament projects. After the Kuwait crisis, where exports were substantially reduced, the State foreign assets were frozen, and the government expenditures increased by higher rates, the exchange rate of ID rapidly and substantially deteriorated.

3-3-1: unemployment

During and after the war with Iran and the second gulf war, unemployment of the Iraqis with different skills and qualifications has increased substantially. The problem will be aggravated further after the anticipated big reduction of the military manpower and the return of the two millions or more Iraqi refugees from abroad. Such new state of affairs would greatly influence the new economic policies. Thus, the need for investment for the infrastructure projects in order to provide new work opportunities is apparent. Therefore, labour intensive criterion should be considered in identifying these projects. Also, it is necessary for the government to undertake a rehabilitation programme for manpower to

increase labour productivity and ensure better allocation of manpower among economic activities.

The government must act urgently to impose restrictions on foreign workers. This would create new job opportunities for Iraqis as well as to reduce the demand (consumption of foodstuffs and other goods and services) pressure.

Also, it is essential to maintain low wage policy for the government and public sector employees until liberalization of prices is completed.

#### 1-4: Economic Policies of the New Government

#### 1-4-1: Basic principles

The success of the government needs serious commitments to implement the economic policies with clear objectives and implementation timetable. This requires more than public announcement and/ or political document. It needs thorough discussion of the related issues and full involvement of the government departments, political parties, economic institutions and concerns, and all concerned parties. All should express their interests. The forward presentation of the implementation mechanism should also be initiated. Within this understanding, it is necessary to rebuild the economic, financial, and planning institutions with clear definition of their functions and tasks. Also it is necessary to maintain the private sector freedom in building its institutions for taking care of its interests.

The suggested economic policies and the programme of action depend on the following.

- a: The economic role of the State should be limited to the formulation and implementation of the macroeconomic, fiscal, and monetary policies. In addition, its development role should concentrate on the erection and maintainence of the economic, social, and environment infrastructure projects. As for the existing public sector, one of the new government tasks is to implement privatization programme. The strategic public enterprises should be excluded. The government tasks should extend to include technical assistance for identifying investment opportunities to the private sector. Reevaluation of public enterprises is a prior condition for privatization. In this respect, the government should adopt and integrate part of the public military industry output into civil industrial activities.
- b: To encourage private sector and provide favourable environment for increasing economic growth and employment, this requires the application of structural economic, fiscal and administration reform policies in the short and medium-term. Also it requires, the continuation of lessening dependence on crude oil exports in the long run.
- c: Improvement of living standards and employment should be considered as the outcome of free economic activities as well as part of oil revenue's utilization.
- d: In addition to the anticipated role of the private sector and the impact of liberal policies, the government annual investment programme and indicative medium-term development planning are necessary. It is one of the government tasks to pursue the public finance management and guide public institutions to perform their duties in different circumstances efficiently.

e: Consideration should be given to development of the world economy, especially in oil and energy, foreign trade, common markets, flow of foreign capital, and financial markets.

## 2-4-1: Investment policy

# 1-2-4-1: public investment

It is imperative to rebuild public utilities and infrastructure that were damaged or destroyed since 1980. Among the priorities of these projects are the extraction and export of crude oil. Also, in the priority list of the proposed projects should are oil refineries, petrochemical industries, sulfur and phosphate extraction, fertilizer industry, drinking water, and electricity. Also it is necessary to invest in the heavy and medium engineering industry. In this category, part of the military industry should be transferred to civilian use with the help of government investment.

In pursuing public policies, careful consideration should be given to investment criteria in order to improve its allocation among the governorates and regions. Public investment should be used to reduce the disparity of public wealth among people.

Public investment will remain an important economic variable to influence the economy and the standards of people living.

## 2-2-4-1: Investment of private sector

One of the main targets of EPPA is to let the private sector play an important role in increasing production, investment and employment. Free market economy need liberalization of the private sector's activities as well as the reduction of government intervention in order to maintain free competition and macroeconomic equilibrium. For this purpose the government must initiate and actively apply the economic structural reform programmes which include, tax reform, banking reform, financial market reform, privatization programme and reevaluation of public enterprises. To support the private sector, the government should create favorable environment through tax and monetary policies and easing the administrative restrictions or measures on investment, production, consumption, and trade activities. In addition, there is clear evidence that infrastructure in certain areas such as communications are in need of investment.

The public enterprises, such as specialized banks, can also technically assist the private sector in identifying investment opportunities.

The government should undertake rigorous administration and legal reform programme.

#### 3-4-1: Consumption Policy

#### 1-3-4-1: Government consumption expenditure

Government consumption (current) expenditure forms a significant portion of national consumption that in turn constitutes high percentage of total demand. Since it is necessary to maximize output (GDP) then investment (saving) ratio to GDP should be increased. That is to say, consumption ratio to GDP should be decreased. However, the minimum government expenditures will be determined by the minimum administration cost for rendering public services as estimated in the annual budget. Therefore it is essential for the government to take drastic measures to improve the given public services by strictly using the productivity criteria for the civil servant promotion and recruitment. More than this, public administration reform programme – including military manpower

and personnel- should result in reducing government current expenditures. Needless to mention that enough resources should be allocated to strengthening the internal security apparatus and enforcing the legal and judiciary system. On the other hand, the government should encourage the governorates and local communities to mobilize financial resources to cover the expenses of certain local activities such as kindergarten and public gardening. This would also serves the targeted expansion of decentralization of the decision-making processes and preparation of the governorates annual budgets.

2-3-4-1: Private consumption

As a result of inflation and the reduction of real value of salaries and wages of government and public sector employees, cost of living increased substantially. The pattern of income and wealth distribution has also contributed to high cost of living. This led to grave deterioration of living standards of the Iraqis. In terms of GDP per capita criterion, the Iraqis are living much worse than they were before 1968. Therefore, increasing private consumption is essential socially and politically. Theoretically, reducing consumption may raise saving for investment which is badly needed for economic growth. However, the big scale of living standard deterioration requires more private spending on consumer goods. It is anticipated that the government would maintain the provision of essential goods at lower prices for the low-income groups. The government must pursue the implementation of the SSWS. This policy will act as incentive to increase private sector expenditures even more than income levels. Higher private expenditures would sustain output activities and increase investment. To support this trend the government should activate tax policies to meet the purpose.

# 3-4-2: Foreign Trade 1-3-4-2: Imports

The need for increasing imports of goods, commodities, and services are essential to increase output, investment, and consumption. Imports of foodstuffs, such as grains, cooking oil, and sugar, medicine, raw materials and intermediate goods for agriculture and industrial production are urgent. Also, it is necessary to import machinery and instruments, transports means, and capital goods. Even services should be imported which the government and the private sector require. The value of imports, however, will be determined by the results of foreign trade balance and the balance of payments. The possibility of import substitution by domestic products would ease the problem of maintaining high level of imports till non- oil exports increase. In practice, the government should eliminate trade monopoly and ensure free competition among traders. No geopolitical restrictions on imports should be made. Partial restriction may be imposed as part of the temporary protection of certain domestic products.

As anticipated, measures have to be taken to rationally allocate the available public foreign currency earnings. However, the private sector should be free to import if it has resources in foreign currency.

#### 2-3-4-2: Exports

Increasing non-oil exports is the second essential condition for economic growth. Hence, one of the main tasks of economic policy is to provide the conditions to achieve this target. Iraq has good export opportunities even during the transitional period. It is possible to increase exports of oil products, petrochemical products, cement, fertilizers,

and sulfur. Also, Iraq would easily export agriculture products such as grains and dates. Tourism has good potential as well.

Obviously, increasing exports depends mainly on increasing production capacities and improving the quality of domestic products. The government may provide some incentives for exporting certain products.

#### 5-4-1: Correction and liberalization of Price structure

In addition to the inflation problem, the prevailing price structure of goods, commodities, and prime factors of production cause immense problem for any rational economic decision. Both the government and the private sector are not able to ensure efficient economic decisions based on the current prices. Even individuals can not ensure good economic decisions. Many factors have contributed to this price distortion situation. Government interventions, monopolies, lack of infrastructure, widespread informal economic activities are the obvious. However, liberalization of prices needs to be gradual and consistent with government macroeconomic policies. The process of price liberalization would result in important economic, social, and political consequences. Careful attention should be given to this serious problem and the government should consider the following.

- a: To maintain the provision of basic goods and commodities at low fixed prices for low- income groups and for a limited period. It should consider this as part of the existing ration system.
- b: To achieve certain economic and financial objectives through import duties and custom policy. This is part of the macroeconomic policy.
- c: To gradually unify foreign exchange rates in one system. This is a prior step for full liberalization of foreign exchange prices. It should be consistent with the macroeconomic, fiscal, and monetary policy.
- d: To reduce the existing wide disparity in income and wealth. This can be partially achieved by tax policy consistent with the macroeconomic policy.

Liberalization of prices will create favourable environment for increasing economic growth and investment. For social necessities, SSWS will act to counter the problems associated with the negative aspects of free market economy.

#### 6-4-1: Income Distribution and Wealth Accumulation

The problem of income and wealth disparities is grave and has significant importance in the deleterious political, economic, and social situation of Iraq. It would also be an important factor for the targeted overall remedies of the current crises. In fact, income and wealth disparities are part of the strong roots of Iraqi dilemma. Since the ruling regime seized political power and begun the allocation of oil revenues according to its political and economic criteria, income and wealth disparities became wide and acute. Indeed, it contributed to the rapid deterioration of the standard of living of the majority of people and the middle class in particular. Inflation, widespread of monopolies, disruption of goods and commodities flow in the market, price distortion, as well as taking advantage for gaining abnormal profit has also contributed to the problem.

To alleviate the impact of the problem and reduce the prevailing disparities, the government should consider the following guidelines.

- To put more emphasis on the social infrastructure projects, especially education and health, in utilizing oil revenues.
- b: To target low and medium income groups when allocating public expenditures among public services.
- c: Emphasis should be given to modify tax policies and tighten tax evasion.
- d: To link wages and salaries of the government and public sector employees to productivity criteria.
- e: To follow-up inflation indicators in order to maintain minimum cost of living for low-income groups.
- f: To follow-up unemployment indicators to maintain positive impact of the macroeconomic policies on investment and employment.
- g: To encourage private sector to increase activities and develop its institutions through free competition and the assistance to reduce the size of informal sector.

# 7-4-1: Fiscal and Monetary Policies

The government fiscal and monetary policies and measures have been characterized for a long time by ineffectiveness and inability to fit the changed circumstances. The fiscal policy failed to contribute to targeted domestic macroeconomic balance. Also it failed in reducing the government budget deficit through tax policies. It was ineffective in improving the disparities in income and wealth. The monetary policy failed to provide effective incentives for investments through interest rates and foreign exchange rates. In fact, real interest rates were negative and foreign exchange rates were fixed artificially for a long period. They were over valued since the 1970's.

It is, therefore, required to activate fiscal and monetary policies in order to maintain the balance between government expenditures and revenues gradually. Also, it is necessary to activate interest rates as an instrument for mobilizing saving for investment. Collection of taxes should be given enough attention to increase public revenues and reduce the size of informal sector in the economy. Money supply, especially commercial credits, should be determined as part of the policies aiming at inflation control.

To ensure effective fiscal and monetary policies, strict administration, legal, and judiciary measures have to be taken.

# 8-4-1: Oil Policy

The strategic importance of crude oil and gas resources with their abundant reserves require that oil policy should be part of Iraq sustainable development long-term strategy. One of the main objectives of this strategy is to lessen the existing high dependence on crude oil exports. This objective can be achieved by implementing two sets of integrated policies. The first is to maximize utilization of oil revenues in erecting and improving the economic, social, and environmental infrastructure of the country. The second is to encourage development of oil products industry and the use of gas as energy source and increase their forward and backward linkages with other sectors.

Oil industry has been damaged as a result of the war with Iran and the second gulf war. Also it is damaged because of bad management and over exploitation of the oil wells. Hence, the industry needs huge investment to retain the capacity for increasing oil exports to pre gulf war levels. However, it is essential for Iraq to increase oil revenues in

order to meet the required financial and foreign currency resources for implementing the (new) public investment programme. Therefore, it is anticipated that during the first few years of embarking on EPCI, the government should pursue the policy of increasing oil production and exports as well as improving the investment agreements with the foreign concerned in the field of new discoveries and development.

Fortunately, the low production cost of Iraqi oil compared with other producers. Iraq is also lucky to have huge oil reserves. Both low cost and high reserve capacities would maintain Iraqi export interest against the risk of price reduction due to competition and market factors fluctuations.

Significantly, call for privatization of the industry must be avoided in the coming few years. Also, it should not be justified and linked to the problem of foreign debts. The oil industry has a long -term strategic role in future economic and social development and can not be taken out and put under foreign companies' control. Hence, oil investment, production, industrial, and marketing polices should not be influenced by the current financial problems nor by the foreign and domestic political pressure. Until the new regime in Iraq is well established and regain the necessary economic and political bargaining power, proposition for privatization of oil industry acts against Iraqi interests. In principle, optimal oil production and exports should be determined by the absorptive capacity of Iraqi economy. However, it is essential for the government to coordinate its oil policy with the current economic, political, and technology developments in the world energy market. It should, however, maintain the flow of oil in the market in view of supply and demand rules as well as its financial requirements.

#### Part Two: Social Security and Welfare System

It is not possible to assume that all social security and public services to be in one policy. The reason being that all individuals and society welfare is linked to all economic, social, political, culture, and security activities of both the government and the private sector. As it is known, the final aim of the citizens and government institutions is to increase material and non- material resources for improving individual welfare and the quality of life. Therefore, welfare and social security should be given priority in government policy. Abstract economic theories may not support such an endeavor. But reality necessitates full consideration to establish new Social Security and Welfare System (SSWS) in Iraq.As the current crisis revealed, public health, basic education, and security against poverty trap is very essential. Past experience also revealed that a developed SSWS can be established by stages and efficiently operated in Iraq. In the early stages of operation, it is imperative that the government should initiate the preparation process and examine all its components against available resources. The existing education and public health infrastructure can be developed to fit the new system even the government pension scheme and public sector pension schemes can be adapted to the new SSWS. It is expected that the complete system would be in full operation in five years time. The government, the citizens, private sector institutions, will then bear the responsibility of running it. It should be emphasized that such a system would not restrict private sector to engage in health, education, and insurance activities. As experience of some developed countries shows, the competition between government and private sector in this field may be useful for both.

The proposed SSWS consists of three basic branches. Health services fund, basic education fund, and social security fund. These funds are independent in terms of functions, administration, and finance. Health services fund deals with the provision of wide range of medical and health services from free visit to the local doctors (GP) and to hospitals, free medicine, to the GP visit to the patients in their home in emergency cases. Ensurance of medical treatment should be maintained and regulated by the government. The education fund will provide basic education to all children's below 18 years age with the provision of school meals to those under 10 years. Also, the fund will financially support the parents for school clothing and other school requirements.

The social security fund assists financially unemployed people willing to work, income support for low- income groups, housing benefits for needed individuals and families. Also, the fund assists individuals in emergency cases, tax exemption, pension and financial support to the senior citizens.

## Part Three: Summary of the Programme of Action

# 1-3: Framework of the Economic and Financial Reform

To deal with the prevailing difficulties, effective application of the macroeconomic policies should be undertaken alongside with indicative development plan. The programme of action has two stages. Each may last two years. In the first, a public investment programme for erecting and improving the required infrastructure projects should be implemented. At the same time, for maintaining overall economic equilibrium, the government should undertake active policies to regulate aggregate demand, especially government expenditures, to reduce public finance deficit and the deficit of foreign trade balance and the balance of payments.

In the second stage, public investment expenditures should continue. Also, price liberalization policies should continue. In this regard, taxes and improving the efficiency of public enterprises such as oil products industries and public services have to be used. In this stage the privatization programme should be completed. The government should give special consideration to link wages and salaries of the civil servants to the productivity and inflation criteria. It is expected that at the end of this programme favorable economic environment would be established. Such environment would greatly belp to increase investment and production activities of the Iraqi private sector and would encourage foreign investment in Iraq. Big manufacturing industries, tourism, banking and financial services may attract foreign investment. While opportunities in construction sector, housing in particular, agriculture, banking and insurance, trade and services may be the focus of domestic private sector.

Specifically, the following are the main objectives of the first stage of the reform programme.

- a: To achieve radical change in public expenditure policies by minimizing government current expenditures and maximizing investment in public infrastructure projects.
- b: To mobilize financial resources through new tax policies, improving tax collection, encouraging informal sector to join the formal sector, increasing financial surplus of the public enterprises, and supporting commercial banks.
- c: Promoting consumption of domestic products.
- d: Gradual reduction of over protection of the private and public sector activities.

- e: Scheduled reduction of the current account and balance of payment deficit.
- f: To link wages and salaries of the civil servants and public sector employees to productivity and inflation criteria.
- g: To implement tax reform programme.
- h: To implement new banking system.
- i: To implement privatization programme.
- j: To activate monetary policy for inflation and price liberalization.

In the second stage, the programme pursues its policies to achieve the following.

- a: Maintain low level of public current expenditures. Foreign currency earning criterion should be considered in identifying public investment priorities.
- b: To continue the policy of financial mobilization.
- c: To continue export promotion and reduction of the balance of payment deficit (certain amount) and encouraging investment in export oriented activities.
- d: To terminate over protection policies designed for production and investment of the private and public sector. Strategic public enterprises abould be excluded.
- e: Completion of the privatization programme. Independent specialized professionals and institutes should regulate the remaining public enterprises.
- f: Liberalization of prices of-domestic products of the private sector. Foreign exchange rates should be liberalized in view of the Iraqi central bank policy.
- g: Completion of the institutional and legal requirements of the market economy and free competition.

# 2-3: A Programme of Action: Time Table for the Implementation of the Main Economic Tasks and Measures

For the implementation of the proposed economic policies and the programme of action, many institutional changes have to take place at the ministerial level and other government economic and financial departments. Also, it is necessary to lay down detailed administrative and legal measures for defining the new functions of all concerned institutions. The anticipated changes should be part of the overall execution, judiciary, and legal system of the new State. The quick pace of implementation will depend on the available information at the time. However, it is essential to initiate the required changes as government guidelines for the new administration, economic, financial, and development planning departments.

Prime Minister's Office	Announcement of the political project for change
	<ul> <li>Announcement of the economic project for change</li> </ul>
	Task 1: end of UN sanctions, food for oil programme, and war reparation
	Task 2: abolition of all sectors planning councils and economic and financial
	commissions and institutions linked to the old MC. Their functions should be added to the ministries
	Task 3: establishment of Iraqi Development Council
107	Task 4: establishment of Ministry of Environment
	Task 5: change the functions of the Ministry of finance to be Ministry of
	Finance and Economy
	Task 6: change the functions of the Ministry of Trade to be Ministry of Trade and International Cooperation

	Task 7: all specialized agencies such as administration development, national planning, computer, Arab statistical institute should be re-linked to the universities or ministries in accordance with their functions  Task 8: request all Ministries and government departments and agencies to present proposals for improving and developing their functions according to the new constitution and the political and economic projects for change  Task 9: review all commercial, financial, and economic agreements signed between Iraq and foreign governments, organizations, and companies since 1990
Ministry of Labour and Social Affairs	Task 1: abolition of all work permit visas given to foreign employees  Task 2: preparation and execution of rehabilitation of manpower programme  Task 3: maintain food ration system and improve its mechanism and review of goods list during six months  Task 4: setting- up criteria and procedures required for minimum wage level in all sectors  Task 5: execution of the Social Security Fund as part of SSWS
Ministry of Trade and International Cooperation	Task 1: abolition of all oil grants and preferential agreements  Task 2: maintain food ration system and improve its mechanism and review of goods list during six months  Task 3: review all commercial, financial, and economic agreements signed between Iraq and foreign governments, organizations, and companies since 1990  Task 4: preparation of follow-up reports for MC on the foreign trade and balance of payments situation  Task 5: preparation of foreign trade forecast and prediction of economic relations development with foreign governments  Task 5: execution of the economic project for change
Iraqi Development Council	Task 1: identification of investment opportunities in infrastructure, suggestion of public investment criteria, projects selection, and insuring its finance Task 2: preparation of indicative economic and development plan on national and regional levels Task 3: execution of some economic structural reform programmes such as privatization Task 4: preparing future strategic vision project
Ministry of Health	Task 1: preparation of requirements for better public health management and services  Task 2: execution of Public Health Fund as part of SSWS  Task 3: maintain health standards to domestically produced medicine and to imported medicine and medical equipment
Ministry of Education  Ministry of Finance and	Task 1: preparation of requirements for basic education Task 2: execution of Basic education fund as part of SSWS
Economy	Task 2: preparation of an Early Economic Warning System for MC Task 3: preparation of follow up economic, financial, and monetary indicators monthly report for MC Task 4: preparation of macroeconomic and financial forecasts for the Ministries, political parties, and private sector institutions Task 5: establishment of new Baghdad Financial Market Task 6: arrangement for foreign debts settlement with IMF, WB, Arab, and regional institutions Task 7: arrangement for settlement of Iraqi loans given to foreign government, institutions, and companies Task 8: preparation and execution of tax reform programme Task 9: preparation measures for reducing the size of informal sector

	Task 10: improving tax collection procedure
	Task 11: preparation and execution of banking system reform
	Task 12: : preparation and execution of government financial reform
Ministry of Agriculture	Task 1: lifting restrictions on agriculture product trade except for health and
	environment conditions.
	Task 2: review and establish new strategy and policies for agriculture
	development
· · · · · · · · · · · · · · · · · · ·	Task 3: activating the role of agriculture development bank
Manustry of Foreign	Task 1: arrangement for foreign debts and war reparation settlement with the
Affairs	concerned foreign parties
	Task 2: coordination efforts to reestablish Iraqi personnel and professional
	posts in Arab, Regional, and international organizations and institutions
Ministry of Justice	Task 1: arrangement for return of public and individual properties and assets
	taken by the previous regime leaders, ministers, and senior officials, party
	leaders and all concerned companies and personas
	Task 2: preparation of criteria for wealth and properties tax system
	Task 3: preparation and execution of rules for the cases of conflict of public
	interests with personal economic and financial interests of the politicians
Manustry of Construction	Task 1: follow-up of the implementation of the public infrastructure projects
and Housing	Task 2: execution of reform programme for rehabilitation and maintenance of
	the existing infrastructure
Ministry of Transport and	Task 1: preparation and implementation of a comprehensive and modern
Communications	communication network and public transportation system
	Task 2: follow-up the implementation of infrastructure projects especially
	roads
	Task 3: preparation and execution of rehabilitation and maintenance
	programme for the existing infrastructure
Ministry of Oil and	Task 1: preparation and execution of investment projects for crude oil
Mineral	production capacity to increase to 6 mb/d
	Task 2: preparation and execution of investment projects for gas production
	capacity increase
	Task 3: preparation and execution of gas liquidation project for domestic use.
	Task 4: revive and modernize sulfur, phosphate, and fertilizer production
	industries
	Task 5: operation of oil refineries and maintaining three months stock
	capacity
	Task 6: execute a programme for rehabilitation and maintenance of oil
	Task 6: execute a programme for rehabilitation and maintenance of oil projects
Ministry of Environment	Task 6: execute a programme for rehabilitation and maintenance of oil projects  Task 1: preparation and execution of marshes revival project
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Ministry of Environment  The Governorates	Task 6: execute a programme for rehabilitation and maintenance of oil projects  Task 1: preparation and execution of marshes revival project  Task 2: preparation and execution of desertification project  Task 3: preparation and execution of sewage and sanitary systems  Task 4: preparation and execution of mines clearance project  Task 5 preparation and execution a project for elimination of chemical, biological, and nuclear effects  Task 1: execution of town planning, distribution of land for housing as guided
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The Governorates	Task 6: execute a programme for rehabilitation and maintenance of oil projects  Task 1: preparation and execution of marshes revival project  Task 2: preparation and execution of desertification project  Task 3: preparation and execution of sewage and sanitary systems  Task 4: preparation and execution of mines clearance project  Task 5 preparation and execution a project for elimination of chemical, biological, and nuclear effects  Task 1: execution of town planning, distribution of land for housing as guided by the IDC  Task 2: preparation and execution of annual governorate budgets
	Task 6: execute a programme for rehabilitation and maintenance of oil projects  Task 1: preparation and execution of marshes revival project  Task 2: preparation and execution of desertification project  Task 3: preparation and execution of sewage and sanitary systems  Task 4: preparation and execution of mines clearance project  Task 5 preparation and execution a project for elimination of chemical, biological, and nuclear effects  Task 1: execution of town planning, distribution of land for housing as guided by the IDC  Task 2: preparation and execution of annual governorate budgets  Task 1: preparation and execution of projects for electricity increase for civil
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	environment conditions Task 5: erect and develop industrial zones
The Central Bank	Task 1: control of money supply and give advice to the government on inflation and other economic and financial issues  Task 2: maintain stability and follow-up foreign exchange rates developments  Task 3: maintain enough reserves of foreign currency and assets  Task 4: preparation of criteria for the settlement of old foreign financial obligations  Task 5: preparation of an economic Early Warning System for MC  Task 6: full consideration of the EPCI

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Dear all.

The more I become involved with our group's tasks, while not having sufficient time in addition to my regular responsibilities, I am finding more and more relevant information on the Internet, much of it fresh. (Here in Iraqi Kurdistan, we have an ISP available only in the Erbil area. Throughout the rest of the region we are using satellite Internet access systems from the U.S. (Hughes Electronics), sort of like satellite television, but with a computer instead of a TV.)

- 1 When we think about development and reconstruction we probably, primarily, and naturally, first think of applying Irag's great oil wealth to all that we think needs to be done. I would like to refer you to the attached Deutsche Bank document, "Baghdad Bazaar, Big Oil in Iraq?" that has some very good data about the oil industry. The document also addresses what might happen during the day-after. The report speaks to oil reserves, infrastructure, production, post-sanctions energy industry, and how will post-sanctions lraq play out.
- 2 To develop income streams that supplement and offset the ups and downs of oil revenues we need investment from non-oil sources. Perhaps Iraqis outside the country will play an important role here. In-country production of consumer goods financed by external venture capitalists is another possible source. Others?
- 3 I prefer to see much much more emphasis placed on modernizing education, in its broadest form, from preschool all the way up through postgraduate university education. Iraqis are excellent students, disciplined and hardworking. But we need a lot of reform, particularly in educational activities that develop critical thinking. We are too imbalanced, our education system places inordinate emphasis on science and technology, and no where near enough emphasis on the social sciences. For example, I have not been unable to engage economists, sociologists, and applied anthropologists into my community reconstruction, resettlement, and development programs.
- 4 I would also like to see more emphasis on increasing family incomes. We are currently faced with the situation. that if the oil-for-food program were to stop 60% of the people in Iraqi would not be able to feed themselves. Since overwhelming investment is likely to come from government-owned oil wealth, we cannot assume the new government's application of oil revenues to public projects will automatically translate into increased family income for the greater population.
- 5. I have a feeling that with the substantial human and natural resources mentioned by Sinan, Iraq can leapfrog much of the gradual, slow development process that most other countries have to go through. Iraq has an educated, skilled, disciplined, and hardworking workforce ready to work. We have substantial resources. Many of us have already been there and know it well, but have slipped down due to the constricting situation we've lived under during the past decade. We can do much for ourselves with what we already have in-country.
- 6. Otherwise, the drafts I've received on the Iraqi economy contain substantial information and appear to treat the points that need to be addressed during the all days after. I would only add the need for an evaluation process to analyze development expenditures with respect to benefits, and the winners and losers.

I might add more specifics related to IK economy in the coming days.

Thank you for putting this together, and lookforward to seeing a first group draft.

Nasreen

# Sub-Group On Economic Policy

- Draft Report -

# Contents

- The need for economic policy guidelines
- · Policies in the short run or transitional period
- Development-oriented Long-Term Policies Economic and financial reform
- Strategies and direction of economic policies
   Sectoral dimension
   Ownership dimension
   Regional dimension
   The integration into the world economy
- Economic tasks of the new government

# The need for economic policy guidelines

Iraq will have a transitional government immediately after the fall of Saddam regime. Hence it is necessary to have in place a clear policy guidelines that may reflect the common economic views and wide interests of the Iraqi people and their political parties. Such guidelines may facilitate the implementation of the partial remedies already identified by some Iraqi professionals and help avoid future misunderstanding among the concerned parties and eventually balance the "issue by issue" approach advocated by a group of Iraqi professionals. In this respect, the urgent need for economic and political stability that might require ad hoc policy measures should not negate the necessity for the government to identify priorities within a framework of consistent and efficient economic policy.

But policy guidelines vary as time goes on and the problem confronting the decision maker is the choice of a certain policy at a particular time. It is therefore difficult to specify guidelines that fit all times. In this way we should think of policies to achieve immediate and short-term objectives and others that help accomplish long-term objectives.

Having said this, the use policy instruments necessitates the creation of preconditions namely legal, political and economic institutions. More specifically the country needs rule of law, accountability and transparency as well as diversified market economy, an up-to-date tax system, and sound banks.

#### Policies in the short run or transitional period

Iraq now lacks economic and social stability basically because of the resource deficit and high inflation, which caused serious social problems.

How do we deal with the deficit? In the "day after" policy options are few.

There are two ways? We either adjust to it i.e. increase production and revenues or reduce expenditures OR finance it.

Iraq in the day after has limited ability to produce or trade. Therefore it should immediately implement a plan of action based on an aggressive policy to mobilize the required finance.

The sources of financing:

- · The release of Iraqi assets abroad.
- The immediate approval by the Security Council of the contracts approved by the sanction committee as part of the oil-for-food programme.
- Iraq should be allowed to reach or approach its maximum oil export capacity.
   This will not affect OPEC at least in the short run.
- Suspending payments of debt and reparations. Debt is of course is not being paid.
   The suspension here means that interest arrears should not accumulate debt. For reparations, payments out oil revenues must be suspended.
- The regional and international community should extend financial assistance to Iraq. This assistance should preferably in the form of grants.
- All these inflows will back the dinar and will lift its value provided the new authorities do not resort to printing.

The design and implementation of the above policy measures does not negate the fact that an integrated package of macroeconomic policies is needed to enhance and maintain economic stability and control inflation as well as to undertake structural economic reforms. These policies, which are of development nature, should be accompanied with the implementation of a huge government investment programme to complete and upgrade the public infrastructure projects. This package of policies will eventually balance stability and development objectives.

#### **Development-oriented Long-Term Policies**

Policy priorities will be different when the situation has been stabilized. Here the priorities are more of development nature.

But to implement developmental policies that transform the economy into one capable of taking off, there are prerequisites including, inter alia, well established institutions, mobile and highly educated labor force, high level of technical knowledge, good governance, favorable climate for enterprises, transparency, managerial competence and education and human development.

- The policy here is to pursue both economic growth and economic development at the same time. The centerpiece of this could be an economic empowerment system (EES). This system is destined to increase simultaneously the supply of capital and entrepreneurship in economies that have serious deficiencies in both these factors of production. The system is based on the cooperative endeavour of four productive elements namely potential entrepreneurs, bankers, mentortechnicians, and a credit guarantee fund to mobilize finance and technology for development where the private sector assumes a leading role.
- The implementation of the macroeconomic policies will pave the way for
  executing a number of economic reform programmes, i.e. privatization and expost evaluation of public enterprises, reform of the banking system, public health
  services, social security, and government administrative reform programme. It
  will serve the identification of the sector-wise strategies, objectives, and
  development policies and investment opportunities.
- Also it should deal with the burden of foreign loans, the need to increase revenues
  of public finance and crude oil exports, increasing employment, and the reduction
  of grave disparity in income distribution and wealth accumulation.
- The suggested policy also responds to the economic reality by ensuring the
  effectiveness of the macroeconomic policies in correcting the price structure,
  especially the exchange rates, interest rates, and wages, as well as in reducing the
  deficit of the government budget, the trade balance, and the balance of payments.
- Due to its expected effects, the application of the proposed policy would help to sustain the interrelationships between the economic interests of all regions as well as accelerating the development of Kurdistan and the south governerates through the use of oil revenues in financing the infrastructure projects.
- Development-oriented macroeconomic policies entail that a solution to the external claims must be found. This is due to the fact that the implementation of

those policies requires substantial resources such as granting incentives to support development in the non-oil sector, especially of the private sector.

 It is therefore important to address the question of external claims. The debt burden is a serious impediment to growth as the experience of Latin America show in the eighties.

The policy makers must build a debt strategy. This strategy has two components, debt restructuring and new financing. Therefore the first policy action is to negotiate for restructuring the debt since new financing may incur new debt on the country. The negotiations of these operations may need to go through the Paris Club for debt rescheduling and restructuring. This requires a reform programme supported by the IMF. Iraq therefore needs to build capacities to enter into negotiations (with the IMF and the Paris Club) since experience is lacking in this regard. It is possible that through the UN or the Bretton Woods institutions, Iraq can obtain the relevant expertise.

- The payment of reparations will also impose a big burden on the economy if it is not relieved. The claims are more than \$300 billion and a 25% of oil revenues are deducted for a UN compensation fund. The volume of reparation will increase with the increase in oil exports. Therefore we should adopt a negotiation policy with the United Nations on these issues. It should be noted that while sanctions are the main cause of the resource deficit, when sanctions are lifted payments of debt and reparations could be the principal cause of the deficit. Since we do not want the deficit back, Iraq must be relieved from the external claims.
- A development-oriented monetary policy should ease credit for financing projects especially those belonging to the private sector. But the Central Bank, while adopting such a policy, should be independent from the government.

 The exchange rate policy should aim at increasing the competitiveness of the non-oil sector including the private sector. The increase in non-oil exports will eventually provide the basis for adopting a market-based exchange rate.

#### Economic and financial reform

 This reform entails the effective application of the macroeconomic policies together with the implementation of indicative development plans. The programme of action has two stages. Each may last two years. In the first, a public investment programme should be initiated to build the required infrastructure. At the same time, active policies to regulate aggregate demand should be executed to maintain overall economic equilibrium.

In the second stage, taxes and improving the efficiency of public enterprises such as oil products industries and public services have to be used. In this stage the privatization programme should be completed. The government should give special consideration to link wages and salaries of the civil servants to the productivity and inflation criteria.

# Strategies and direction of economic policies

- The new strategies and direction of economic policies have the following dimensions:
  - a. The sectoral dimension
  - b. The ownership dimension
  - c. The regional dimension
  - d. The integration into the world economy

#### Sectoral dimension

We will have to designate the leading sectors on which future development is to be based. The following sectors are to be emphasized but the list, needless to say, is not exhaustive.

- Agriculture has the potential of earning and saving foreign exchange, a precious source in future Iraq. Support for farmers needs to be extended and an appropriate pricing policy need to be followed.
- 2. Reliance on the oil sector will continue for the foreseeable future. This means that Iraq will need to increase its production and export capacity in order to meet the required financial and foreign currency resources for implementing the (new) public investment programme. Foreign investment is important here but there is a need in this respect for improving the investment agreements with the foreign companies concerned.

The ultimate objective of Iraq's economic policy is to lessen the dependence on the oil sector. This objective can be achieved by implementing two sets of integrated policies. The first is to maximize utilization of oil revenues in erecting and improving the economic, social, and environmental infrastructure of the country. The second is to encourage development of oil products industry and the use of gas as energy source and increase their forward and backward linkages with other sectors.

In principle, optimal oil production and exports should be determined by the absorptive capacity of Iraqi economy. However, it is essential for the government to coordinate its oil policy with the current economic, political, and technology developments in the world energy market. It should, however, maintain the flow of oil in the market in view of the supply and demand rules as well as its financial requirements.

Call for privatization of the oil industry must be avoided in the coming few years especially when it is linked to foreign debt. The oil industry has a long -term strategic role in future economic and social development and can not be taken out and put under foreign companies' control. Hence, oil investment, production, industrial, and marketing polices should not be influenced by the current financial problems nor by the foreign and domestic political pressure. Until the new regime is well established and regain the necessary economic and political bargaining power, proposition for privatization of the oil industry may acts against Iraqi interests.

- Iraq needs to bridge the technological gap. Therefore the telecommunication and information sectors must be emphasized.
- 4. Policies for the human development sector should be adopted. This includes basically health and education but also may involve enacting laws to ensure rule of law and freedom of expression and increasing participation by civil society.
- 5. In the wider social sector, urgent policies need to be designed to tackle the problems caused by wars and policies of the regime such as displacement and deportation, in addition to the problems of widowhood, orphanage and disablement.

#### Ownership dimension

The new orientation of the development policy and strategy should be to rely principally on the private sector to participate, with the government, in the design of development strategy and implementation. We should not be wary of market forces as long as we make sure that those forces work for development and not only for profits. The reliance on the private sector means, in addition to guaranteeing its rights that it has duties to undertake (paying taxes, adhere to performance criteria and implementing development projects etc.). Apart from efficiency considerations, emphasis on the private sector will be a matter of necessity. The government has limited choices in this respect, since it will be burdened by the payments of debt (which is public in Iraq's case) and of reparations, if relief did not materialize.

- Support the private sector to play a leading role in the development process is one
  way of developing the non-oil sector. The state should play, through its
  macroeconomic policies, an important role in the provision of an enabling
  environment for the private sector so that it can assume a developmental role.
- 2. Privatization is one way of encouraging and developing the private sector. However, privatization schemes undertaken in Iraq in the second half of the 1980s were driven by the need to finance the war with Iran, and efficiency considerations were secondary. In addition, many of the state enterprises were sold at book value to the government-linked private sector. The strategy

- governing the reliance on the private sector will have to be reconsidered and reevaluated with a view to putting efficiency considerations first.
- Private sector will be encouraged to assume any additional investment in the
  productive sector to the extent it is able to undertake it. The involvement of the
  private sector in the production and distribution of public and merit goods should
  be evaluated.
- 4. For the sake of the acquisition of technology and management techniques, joint ventures with Private foreign firms, to the extent that it implements projects within the development strategy, should be encouraged.
- 5. Big manufacturing industries, tourism, banking and financial services may attract foreign investment. While opportunities in construction sector, housing in particular, agriculture, banking and insurance, trade and services may be the focus of domestic private sector
- 6. To revitalize the private sector we should understand the informal economy that currently exist. The informal sector has developed a sophisticated distribution system to deal with shortages and the inevitable strains imposed by the capricious, irrational and venal realities of Saddam regime. Economic policies that encourage small and medium businesses both structurally and institutionally will as a result promote competition and at the same time, initiate the transformation of informal sector into formal sector. Tax incentives should be introduced to legitimize activities, discourage racketeers and corruption.
- 7. While privatization promotes greater efficiency and higher output, lower costs, broaden the base of ownership and participation in the economy, we should be aware of the risk of increasing the concentration of wealth where institutional arrangements are weak or vulnerable to insider pressure. There should be a system to monitor the distribution of capital more broadly to avoid monopoly and corruption. Since we are privatizing the state owned enterprises, most of the workers, including the decision makers are not educated and familiar with the privatization process. Therefore, education and training are vital, specifically, prior to privatizing an enterprise, otherwise, it will have a negative effect on the GDP. Proper policies and institutions must be in place to carry out the

privatization as planned and in order to achieve the set goals without having a negative effect on the economy as well as the society. In addition, proper privatization requires the existence of a stable macroeconomic environment and a functioning financial market.

8. Some of the policies that should be taken under consideration to develop a successful private sector include, inter alia, economic bill of right (to guarantee all people to have access to credit facilities and government grants), tax incentives, establishment of a credit guarantee agency, building strong corporate governance and anticorruption system and micro-lending policies.

#### Regional dimension-

Because of wars and destruction regions in south and Iraqi Kurdistan have undergone considerable damage. In the south especially in the Marshes a great deal of rehabilitation is needed particularly after the drainage carried out by the regime. This is basically a government responsibility because it is a reconstruction task. As far as development is concerned there should be an accommodating industrial and macroeconomic policies to support economic activity in the poorer regions

The federal system means that, in addition to the federal fiscal system, the different provinces of the federation will have their own fiscal system. The provinces will get their share of the national resources but will have to generate their own resources also.

The political issue of Federal system proposed for Kurdistan of the north has two main economic implications. The first is related to the State's sovereignty as far as the ownership and utilization of the country natural economic resources. These public resources such as crude oil and gas and minerals, water, land and the rent of using Iraq space and related public utilities shall be public and all its returns belong to the State. The exploitation of these resources by other parties should be arranged on the basis of a unified State's law and regulation to be applied in all parts of the country without prejudice based on geography, ethnic, sectarian or

religious criteria. The second economic implication of the suggested Federal political system is related to the conditions for effective macroeconomic regulatory policies. These policies should be undertaken and implemented by the central government without geographic and economic bias except for reducing the disparity in public wealth's distribution and development indicators when necessary.

#### The integration into the world economy

The development prospects of the Iraqi economy especially its non-oil segment will depend to a great extent on its integration into the world economy i.e. into the global trading and financial systems. Appropriate policies and positions need to be adopted here. As far as trade is concerned we will have to adopt a position on joining the multilateral trading system. If Iraq wants to diversify its export structure through maximizing exports from the non-oil sector then this requires that fiscal and monetary policies be designed to achieve this objective, and also requires a secured market access for products of the non-oil sector. Iraq should make sure that joining the WTO serves its development prospects.

Iraq will also need to embark on a development-oriented integration into the international financial system. This will involve renewing dialogue and negotiations with the Bretton Woods institutions. When the magnitude and the structure of external debt becomes known, Iraq will need to deal with the debt problem through, inter alia, the Paris Club given that Iraqi debt is a public one. But this entails dealing with the IMF to construct a reform program. Iraqi economists will have to equip themselves for the negotiations with the IMF so that the reform program does not adversely affect the development prospects of the economy. The financing of the World Bank will also be needed especially for reconstruction, education and poverty reduction.

It is clear that one positive result from the integration into the international financial system is the provision of a solution to Iraq's debt problem. However, policies need to be designed to manage this integration especially as far as the liberalization of the capital account of the balance of payments is concerned. Here we

should adopt a policy of sequencing. Iraq should start with foreign direct investment because this is mostly developmental and, if it is properly negotiated, should help in the development of domestic investment capacities.

Institutions like the World Bank and IMF have long followed the Washington Consensus when giving advice and funds to developing countries. Unfortunately, the Consensus has been unsuccessful in many countries where poverty is still a major problem that has not been solved by growth and development.

Although the Washington Consensus is based on free market and focuses on stabilizing the economy and structural adjustments, it fails because it disregards the institutional economics, which is actually the prerequisite for implementing stabilization and adjustment

Developing countries are, today, part of a highly integrated and complex international system. Therefore, external forces will affect on the country's economy. Iraq should establish a good relationship with her neighbors and build a good communication and transportation system between Iraq and those countries. Careful consideration of regional economic development with neighboring states should be used to design enduring economic development plans

In order for Iraq to integrate into world economy, it should reform institutions and policies at the same time as these two go hand in hand. Relevant issues include, among others, Sequencing of financial flows, Transfer of know-how and technology, Trade liberalization (This policy is part of the negotiation to join the WTO), Labor force and population mobility, Communications and pro development rules and regulations.

The integration into world economy implies adopting a trade policy that reorients economic activity to outward-looking export oriented industries and the encouraging

of dynamic growth by creating a favorable investment climate for foreign investors.

The foreign investment should complement domestic investment not crowd it out.

Financial deepening will be important through the establishment of capital markets and the inflows of portfolio capital although this requires a well-developed domestic financial infrastructure which Iraq yet to have.

Iraq will also need to strengthen its relations with the network of Arab financial institutions basically as a source of finance.

Iraqi assets abroad are an important source of investment for Iraq. Policies to bring this capital back should have the priority it deserves.

While the integration of the Iraqi economy into the world economy requires restructuring Iraq's external economic relations this should include reviewing Iraq's bilateral economic relations with a view to reorienting those relations to serve the growth prospects of the Iraqi economy.

# Economic tasks of the new government

For the implementation of the proposed economic policies and the programme of action, many institutional changes have to take place at the ministerial level and other government economic and financial departments. Also, it is necessary to lay down detailed administrative and legal measures for defining the new functions of all concerned institutions. The anticipated changes should be part of the overall executive, judiciary, and legal system of the new State. The quick pace of implementation will depend on the available information at the time. However, it is essential to initiate the required changes as government guidelines for the new administration, economic, financial, and development planning departments.

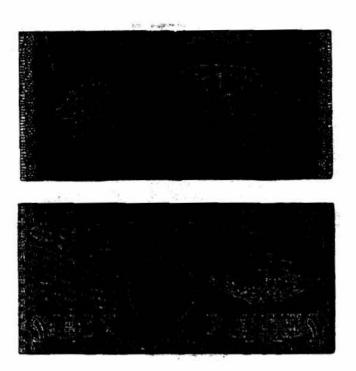
Prime M Office	Minister's	Announcement of the political project for change Announcement of the economic project for change
		Task 1: end of UN sanctions, food for oil programme, and war
	*	reparation  Task 2: abolition of all sectors planning councils and economic
		and financial commissions and institutions linked to the old MC.

	Their functions should be added to the ministries
	Task 3: establishment of Iraqi Development Council
	Task 4: establishment of Ministry of Environment
	Task 5: change the functions of the Ministry of finance to be
040	Ministry of Finance and Economy
	Task 6: change the functions of the Ministry of Trade to be Ministry of Trade and International Cooperation
	Task 7: all specialized agencies such as administration development, national planning, computer, Arab statistical
	institute should be re-linked to the universities or ministries in accordance with their functions
	Task 8: request all Ministries and government departments and agencies to present proposals for improving and developing their
	functions according to the new constitution and the political and economic projects for change
	Task 9: review all commercial, financial, and economic agreements signed between Iraq and foreign governments, organizations, and companies since 1990
Ministry of Labour	Task 1: abolition of all work permit visas given to foreign
and Social Affairs	employees
and Social Atlans	Task 2: preparation and execution of rehabilitation of manpower
	programme
	Task 3: maintain food ration system and improve its mechanism and review of goods list during six months
	Task 4: setting- up criteria and procedures required for minimum wage level in all sectors
	Task 5: execution of the Social Security Fund as part of SSWS
Ministry of Trade and	
International	Task 2: maintain food ration system and improve its mechanism
Cooperation	and review of goods list during six months
Cooperation	Task 3: review all commercial, financial, and economic
	agreements signed between Iraq and foreign governments,
	organizations, and companies since 1990
	Task 4: preparation of follow-up reports for MC on the foreign trade and balance of payments situation
121	Task 5: preparation of foreign trade forecast and prediction of
	economic relations development with foreign governments

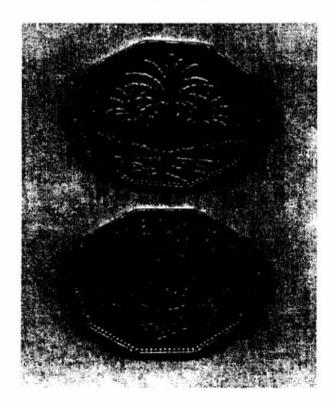
	Task 5: execution of the economic project for change
Iraqi Development and Reconstruction	Task 1: identification of investment opportunities in infrastructure, suggestion of public investment criteria, projects
Council**	selection, and insuring its finance
	Task 2: preparation of indicative economic and development
4	plan on national and regional levels
	Task 3: execution of some economic structural reform
	programmes such as privatization
	Task 4: preparing future strategic vision project
Ministry of Health	Task 1: preparation of requirements for better public health
	management and services
	Task 2: execution of Public Health Fund as part of SSWS
	Task 3: maintain health standards to domestically produced
	medicine and to imported medicine and medical equipment
Ministry of Education	Task 1: preparation of requirements for basic education
	Task 2: execution of Basic education fund as part of SSWS
Ministry of Finance	Task 1: execution of EPCI
and Economy	Task 2: preparation of an Early Economic Warning System for
•	MC
	Task 3: preparation of follow up economic, financial, and
	monetary indicators monthly report for MC
	Task 4: preparation of macroeconomic and financial forecasts
	for the Ministries, political parties, and private sector institutions
	Task 5: establishment of new Baghdad Financial Market
	Task 6: arrangement for foreign debts settlement with IMF, WB, Arab, and regional institutions
	Task 7: arrangement for settlement of Iraqi loans given to
	foreign government, institutions, and companies
	Task 8: preparation and execution of tax reform programme
	Task 9: preparation measures for reducing the size of informal
	sector
	Task 10: improving tax collection procedure
	Task 11: preparation and execution of banking system reform
	Task 12: : preparation and execution of government financial reform
Ministry of	
Ministry of Agriculture	Task 1: lifting restrictions on agriculture product trade except for health and environment conditions.
Agriculture	Task 2: review and establish new strategy and policies for
	agriculture development
	Task 3: activating the role of agriculture development bank
Ministry of Foreign	Task 1: arrangement for foreign debts and war reparation
Affairs	settlement with the concerned foreign parties
	Task 2: coordination efforts to reestablish Iraqi personnel and
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	professional posts in Arab, Regional, and international organizations and institutions	
Ministry of Justice	Task 1: arrangement for return of public and individual properties and assets taken by the previous regime leaders, ministers, and senior officials, party leaders and all concerned companies and personas  Task 2: preparation of criteria for wealth and properties tax system  Task 3: preparation and execution of rules for the cases of conflict of public interests with personal economic and financial	
Ministry of Construction and Housing	interests of the politicians  Task 1: follow-up of the implementation of the public infrastructure projects  Task 2: execution of reform programme for rehabilitation and	
Ministry of Transport and Communications	maintenance of the existing infrastructure  Task 1: preparation and implementation of a comprehensive and modern communication network and public transportation system  Task 2: follow-up the implementation of infrastructure projects especially roads  Task 3: preparation and execution of rehabilitation and	
Ministry of Oil and Mineral	maintenance programme for the existing infrastructure  Task 1: preparation and execution of investment projects for crude oil production capacity to increase to 6 mb/d  Task 2: preparation and execution of investment projects for gas production capacity increase  Task 3: preparation and execution of gas liquidation project for domestic use.  Task 4: revive and modernize sulfur, phosphate, and fertilizer production industries  Task 5: operation of oil refineries and maintaining three months stock capacity  Task 6: execute a programme for rehabilitation and maintenance of oil projects	
Ministry of Environment	Task 1: preparation and execution of marshes revival project Task 2: preparation and execution of desertification project Task 3: preparation and execution of sewage and sanitary systems Task 4: preparation and execution of mines clearance project Task 5 preparation and execution a project for elimination of chemical, biological, and nuclear effects	
The Governorates	Task 1: execution of town planning, distribution of land for housing as guided by the IDC Task 2: preparation and execution of annual governorate budgets	
Ministry of Industry	Task 1: preparation and execution of projects for electricity increase for civil and industrial use	

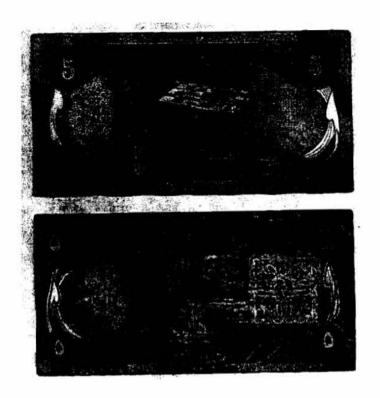
(3)	Task 2: preparation and execution of projects for drinking water and for industrial use  Task 3: preparation and execution of project for utilizing military industry production capacities to civilian use  Task 4: licenses for new industries should be subjected to only health and environment conditions  Task 5: erect and develop industrial zones
The Central Bank	Task 1: control of money supply and give advice to the government on inflation and other economic and financial issues Task 2: maintain stability and follow-up foreign exchange rates developments
	Task 3: maintain enough reserves of foreign currency and assets Task 4: preparation of criteria for the settlement of old foreign financial obligations
	Task 5: preparation of an economic Early Warning System for MC Task 6: full consideration of the EPCI



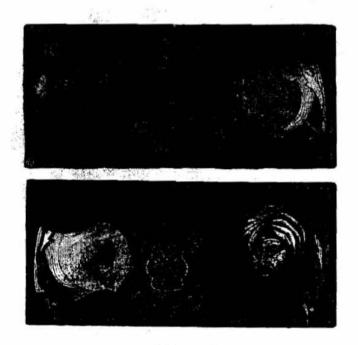
One Dinar note



One Dinar Coin



**Five Dinars Note** 



Ten Dinars note

# New Currency, Fiscal and Monetary Policies Guidelines for the Transitional Government of Iraq

New Currency: Why?

It was beyond the imagination of the Iraqis that the foreign exchange value of the Iraqi Dinar (ID) in the late seventies (was oneID = 3.3US\$) will one day deteriorate by almost 660000% to reach the current value (oneUS\$ = 2000ID). Such a striking symptom of the unpredicted, rapid, and shocking deterioration of the economic situation has created, among other things, a very bad image of the current currency. Adding to its low value the dominant ugly picture of the dictator on, make the Iraqis more anxious and looking forward to change their currency. They definitely want to replace it by New Iraqi Dinar (NID) as the piles of their current currency remind them with their work struggle and living standards misery. Some may dream of NID that regain the old value of ID and have a symbol of Sumer Fountain of the ancient Mesopotamia civilisation on one side and phrases referring to the values of Liberty, Progress, and Peace on the other.

As Iraqis are still waiting impatiently for the desired regime change, they may consider the introduction of a new currency as an important step to improve the purchasing value and the foreign exchange value of the ID. Such popular notion is psychologically significant in the aftermath of the fall of Saddam regime. Therefore, the introduction of a new currency is essential for gathering support for the new regime regardless of the real economic conditions for improving the value of the currency.

To sustain the likely positive impact of the new currency, it is essential to re-establish the base purchasing and foreign exchange value of the NID as it was in the 1970's. This means that the oneNID= 6000 ID = oneUS\$. The NID would be divided into 1000 Fils, 20 Dirham, and 10 Rial<sup>1</sup>.

In practice, putting the NID into circulation should be arranged in view of the available data and information regarding the amount of currency in circulation and the technical and printing requirements. The whole "new currency" task should be assigned to the Iraqi Central Bank (ICB) and must coordinate with the (new) Ministry of Finance and Economy (MoFE).

Economists may differ on the policy and measures that influence the purchasing value of the NID and the need for appreciating its foreign exchange value. Such task should be determined within the suggested macroeconomic, fiscal, and monetary policies. Therefore, apart from the art of designing the new currency to reflect the optimistic Iraqi ideals and culture, its value and its supply and demand are part of the monetary and fiscal policies of the transitional government. These policies are in turn part of the government macroeconomic policy and the economic structural reform programmes<sup>2</sup>.

The sensitivity of any anticipated or suggested value of the NID should be considered carefully and hence it is advisable that any suggestion in this regard must not be propagated.

<sup>&</sup>lt;sup>2</sup> The economic and infrastructure group has already adopted the Economic Policy Guidelines for the transitional government.

Needless to mention that a wide and intensive campaign for increasing public awareness of the new currency and the procedures, timetable for replacement should be initiated by the transitional government (ICB&MoFE) immediately after resuming its responsibilities.

Fiscal and Monetary Policies; Lessons from Experience

Given the Iraqi past experience<sup>3</sup> and the requirements for promoting a free market economy in Iraq, the following economic, fiscal, and monetary policies and measures have to be analysed and considered by the transitional government.

One: Monetary policy was not effective because the interest rate was low and almost stable. Money supply was mainly responding to the increase of government expenditures. Therefore, interest rates must be used as an effective instrument to stimulate investment and savings alike.

Two: Money liquidity of the public enterprises was high and frequently led to the waste of public financial resources. This requires a more effective regulation and accounts' control of public enterprises. The National Office of Auditing (Diwan AlRaqaba Almalia) should play an important role in this regard.

Three: The government fiscal policy had only government expenditures as the main variable to influence the economy. No role was given to the government banks and the role of private banks. The role of financial market was also absent. Since, oil revenues have been the main source of public finance; the fiscal policy was closely associated to the oil policy (revenue). Therefore, increasing non-oil revenues coupled with more rational government expenditures are to be considered by the transitional government.

Four: The government ability to control inflation through increasing imports by the public sector under no financial constraint or economic capacity limits led to weakening the private sector activities and acted as a disincentive for investment and saving. Thus, it is essential that the transitional government should avoid direct intervention in increasing imports except for the provision of stable foodstuffs and very essential commodities. The private sector should resume its role in the domestic

<sup>&</sup>lt;sup>3</sup> Since the 1950's, the economic role of the State may be analysed within four main distinguished stages. First, the State role extended to financing a number of economic (physical) infrastructure projects in the 1950's. Such role was necessary, though not sufficient to undertake radical and wide economic and social changes. Secondly, the State partially controlled important industrial and economic activities through the public sector. In addition, it was engaged in financing a number of economic and social infrastructure projects in the 1960's. Thirdly, the State monopolised foreign trade and was involved in the direct management of the public infrastructure projects as well as of significant number of commodity and services production through public sector enterprises. The period (1970's to the 1980's) also witnessed a role of public sector in the construction activities. This is the era where the State had wide and decisive economic intervention.

As for the period (August 1990 to present time), it is very difficult to assume that there exists clear economic policies or coherent measures. There were many detailed, scattered, partial, and arbitrary economic and financial government decisions. It was designed to serve the narrow financial and political self-interests. The present period also witnesses the complete absence of public institutions in participating with the government's decisions. Therefore, the present period may be called the chaotic, non-institutional, and a political deterioration era.

and foreign trade activities. Inflation control can not be dealt always by increasing imports financed by public oil revenues.

Five: The then prevailing situation of no financial constraint on government expenditures and no need for foreign capital for financing investment has helped to empower the government economically and politically while the role of the private sector receded further. It is therefore necessary to reduce the risk of using oil revenues as an effective economic and political power by the transitional government. In this respect, the policy of allocating most of oil revenues to finance investment in the infrastructure through the anticipated activities of IDRC is necessary.

Six: The over protection policy of private sector production and investment activities has led to weaking the entrepreneurial capacities and to the deterioration of the quality of domestic products. At the same time, it adds more economic and political power to the government authorities. This situation should be considered in the public finance (revenue side) policy.

Seven: The policies of maintaining low direct and indirect taxes greatly helped the government to impose their policies and peruse their political agenda<sup>4</sup>. On the other hand, this policy led to lessening economic independence of the Iraqis and the role of private sector to influence government economic policies. Therefore, it is essential that in public finance non-oil revenues should be increased.

Obviously, the task of formulating and implementing the fiscal polcy (the annual government budget) is the main responsibility of the MoFE. The monetary policy should be a joint responsibility of MoFE and the ICB<sup>5</sup>.

#### **Financial Problems and Remedies**

The scarcity of financial and foreign currency resources became a binding constraint on economic activities. Oil revenues have sharply decreased and non-oil exports are almost non existent. Also, the real value of domestic public revenues such as taxes and custom excises and public services returns have substantially decreased as a result of the economic deterioration and the inefficiency of the government financial management. Even if the government ability for collecting domestic revenue is restored, public revenues would not reach more than its 1989's level. Also, foreign sources including short- term loans and trade credit for financing imports have reached its maximum. Therefore, the financial and foreign currency resources will reduce the targeted effectiveness of the economic policies of the transitional government.

To estimate the required financial resources, the following needs have to be considered.

1. Financing the reconstruction of public projects. Most important, oil projects for retaining oil exports capacities and maintaining oil reserve. Also important are economic infrastructure projects such as roads, seaports, airports, communication facilities, water dams, drinking water, and electricity production and distribution projects. Also is needed social infrastructure such as expanding and improving public health and basic education, and the provision of minimum social care to the

<sup>&</sup>lt;sup>4</sup> Details on tax policy are given in the discution paper entitled " Tax policy: Guidelines for the Transitional Government of Iraq".

Explicit definition of the Ministry's tasks of the transitional government is given in the economic policy guidelines.

unemployed and elderly people. In addition, finance is required for complementary investments in the semi-idle public sector enterprises such as sulfur and phosphate mining, fertilizer industry, and water discharge sewage projects.

2. Financing current government expenditures to carry on administration, health,

education, and public services.

 Finance is necessary to acquire imported goods and commodities for investment and for production activities of the private sector.

- 4. Financing foreign trade by foreign loans and credit facilities. Here, it is essential to apply a new and clear cut strategy to be guided by fiscal and trade criteria to be determined by the economy performance and the required internal and external macro economic balance. In this respect, it is necessary to relatively reduce imports and increase non-oil exports. For foreign loan debts and long –term trade credit, it should be rescheduled and settled in the long –run in view of the future economic performance. It is very important to ascertain that it is wrong to consider the settlement of foreign loans and debts as part of a policy to promote inflow of foreign capital in the short- run. Such policy would not be useful if the economic and political bargaining power of the government is weak as we envisage at least until the complete success of EPPA implementation.
- 5. For military armament's debts and the imposed UN's sanctions, the political will of the nation should work for its cancellation and co-operate with the concerned foreign parties on the basis of diminishing responsibility of the Iraqi people for its causes.

#### Inflation, Foreign Exchange Rate; Causes and Remedies

Since early 1970's, the policy of increasing government expenditures that increased overall demand and the actual low growth of non- oil output and productivity have led to sharp increase in domestic prices despite the use of oil revenues in depressing inflation by increasing imports by the government. The rapid economic, political, and social changes that have taken place since 1970's accompanied with significant international economic and technological developments were also effecting the prices of imported goods and commodities. Both factors have led to overvalue of the official foreign exchange of the ID. As a matter of fact, the exchange rate of the ID was constant till mid nineties by wrong political decisions, though it should have been devalued from the second half of the 1970's. However, instead of taking such a devaluation step, the government subsidies policy for imported goods and commodities and the accumulation of foreign currency and gold reserve have maintained the artificial value of the exchange rate in a way not related to the real economy's performance. The experience showed that keeping the exchange rate constant is nothing but increasing the government subsidies to surpass inflation caused by low output growth and productivity deterioration. The discussions of devaluation were prohibited during the 1980's because of its political implications that revealed the government inefficiency and highlighted the deterioration of the living standards. The phenomenon also related to unfair pattern of income and wealth distribution resulting from both price changes and government biased economic and fiscal policies. However, actual devaluation was apparent in the parallel market since the end of the 1970's. This was coupled with the continuous price rise. In an attempt to avoid

devaluation, the government invented an adhoc import policy that need not transfer foreign currency through the Iraqi Central Bank. This short-lived policy led to further increase of prices in the medium –term. The carrot and stick government's policy also failed to combat the smuggle of wealth abroad as result of the deterioration in the domestic political, economic, and social circumstances. Thus, the experience showed that demand on the US\$ continuously increased. Against this, the dictatorial regime continued to monopolize and fully control all foreign currency resources. They have full freedom to utilize all government liquid assets in financing military and armament projects. After the Kuwait crisis, where exports were substantially reduced, the State foreign assets were frozen, and the government expenditures increased by higher rates, the exchange rate of ID rapidly and substantially deteriorated.

In summary, inflation and the deterioration and fluctuations of the foreign exchange rate can only be dealt with by rational macroeconomic, fiscal and monetary policies. The effectiveness of such policies are in the case of Iraq subject to undertaking radical economic structural reforms as well as implementing a huge public investment in infrastructure projects. It is anticipated that all Ministries and government departments of the transitional government should bear the responsibility of implementing the new economic project for change<sup>6</sup>.

#### Liberalization of the Price Structure

In addition to the inflation problem, the prevailing price structure of goods, commodities, and prime factors of production cause immense problem for any rational economic decision. Both the government and the private sector are not able to ensure efficient economic decisions based on the current prices. Even individuals can not ensure good economic decisions. Many factors have contributed to this price distortion situation. Government interventions, monopolies, lack of infrastructure, widespread informal economic activities are the obvious. However, liberalization of prices needs to be gradual and consistent with government macroeconomic policies. The process of price liberalization would result in important economic, social, and political consequences. Careful attention should be given to this serious problem and the government should consider the following.

- To maintain the provision of basic goods and commodities at low fixed prices for low- income groups and for a limited period. It should consider this as part of the existing ration system.
- To achieve certain economic and financial objectives through import duties and custom policy. This is part of the government fiscal policy.
- To gradually unify foreign exchange rates in one system. This is a prior step for full liberalization of foreign exchange prices. It should be consistent with the macroeconomic, fiscal, and monetary policy.
- 4. To reduce the existing wide disparity in income and wealth. This can be partially achieved by tax policy consistent with the macroeconomic policy.

<sup>&</sup>lt;sup>6</sup> Details on the economic tasks of the transitional government are given in the source cited in footnote no.4.

Liberalization of prices will create favourable environment for increasing economic growth and investment. For social necessities, SSWS will act to counter the problems associated with the negative aspects of free market economy.

### Public Investment: IDRC activity7

It is imperative to rebuild public utilities and infrastructure that were damaged or destroyed since 1980. Among the priorities of these projects are the extraction and export of crude oil. Also, in the priority list of the proposed projects are oil refineries, petrochemical industries, sulfur and phosphate extraction, fertilizer industry, drinking water, and electricity. Also it is necessary to invest in the heavy and medium engineering industry. In this category, part of the military industry should be transferred to civilian use with the help of government investment.

In pursuing public policies, careful consideration should be given to investment criteria in order to improve its allocation among the governorates and regions. Public investment should be used to reduce the disparity of public wealth among people.

Public investment will remain an important economic variable to influence the economy and the standards of living of people.

#### Government Current Expenditure (annual budget)

Government consumption (current) expenditure constitutes a significant portion of national consumption that in turn constitutes high percentage of total demand. Since it is necessary to maximize output (GDP) then investment (saving) ratio to GDP should be increased. That is to say, consumption ratio to GDP should be decreased. However, the minimum government expenditures will be determined by the minimum administration cost for rendering public services as estimated in the annual budget. Therefore, it is essential for the government to take drastic measures to improve the given public services by strictly using the productivity criteria for the civil servant promotion and recruitment. Moreover, public administration reform programme - including military manpower and personnel- should result in reducing government current expenditures. Needless to mention that enough resources should be allocated to strengthening the internal security apparatus and enforcing the legal and judiciary system. On the other hand, the government should encourage the governorates and local communities to mobilize financial resources to cover the expenses of certain local activities such as kindergarten and public parks. This would also serves the targeted expansion of decentralization of the decision- making processes and preparation of the governorates annual budgets.

As for the priority list of government expenditures of the annual government budget, we may follow the same criteria that determine the priorities of the social, economic, and environmental infrastructure projects.

In practice, the transitional government should consider that in addition to the allocation of enough financial resources to provide essential foodstuffs and medicine as well as for the priority of maintaining internal security and enforcing law and order. Expenditures on basic education (primary, secondary and high schools), public health services (health centers and general hospitals), improving environment services (sewage), rehabilitation

<sup>&</sup>lt;sup>7</sup> Details of the IDRC objectives, activities, and sources of finance are given in the documents and the final report of the IDRC group.

of unemployed people, and public transport should be given priority and high portion of total expenditures. Expenditures on the ministries responsible for running public sector enterprises would have less priority.

The criteria used for the allocation of public revenues (govrnment expenditure) should, in general, be determined on the basis of the kind and number of the beneficiaries. Low-income groups and young people have obvious priority.

Final remark; while the given guidelines would facilitate performing the huge tasks of the transitional government in the fields of issuing new currency and formulating the fiscal and monetary policies. It is our belief that the accumulated expertise of the Iraqi institutions and highly qualified individuals inside Iraq will undertake these tasks efficiently and disaggregate the policy guidelines into practical measures.

London: 22<sup>nd</sup> Dec.2002.

# Debt Relief in Iraq Some thoughts

#### Introduction

Reliable estimates on Iraq external debt are lacking or not comprehensive to say the least. The only official figure is the one supplied by the Iraqi representative to the UN in 1991 to justify a moratorium on the payment of war reparations. The figure mentioned was USD 42 billion. This figure excludes interest and if this is added taking an average of 5% per year the external debt amounts to about USD 75 billion in the year 2002. If the Gulf debt, which is equivalent to USD 40 billion, then total debt is equal USD 115 billon. Another estimate, not different from the one just mentioned, reported in the Economist Intelligence Unit. This estimate is about USD 62 billion excluding both the Gulf and the Russian debt which amount to about USD 50 billion bringing the total to USD 112 billion.

What is known about the structure of debt is that the Gulf one is interest free. About 55 per cent of the remainder is a public medium to long-term debt. The rest, which is trade related is a short-term trade owed to regional and international private corporations. However about half of the short term debt is interest in arrears.

Little known about the geographical structure of the creditors. Apart from the Gulf, France and Russia are among the most important creditors.

The debt is accumulated by the amount of interest, which is not being paid.

#### A negotiating stand

The burden of external debt is seen in the fact that it is almost four times the gross domestic product.

Iraq will have to seek the renegotiation of its debt. Iraq, in this case, will be no different from other debtor developing countries whose debt is restructured in various international forums most important of which is the Paris Club. Therefore the future Iraqi government will have to adopt a position on this issue. Technically speaking, the Iraqi negotiators will have to consider different scenarios reflecting the effect of debt payments on the import level and welfare of the people. Three scenarios are envisaged.

- (a) The debt is to be paid according to an amortization schedule adhering to the original contracts. Repayment of external debt therefore will be made irrespective of what effect the payment of reparations will have on the trade balance. This case is expected to produce the worst results for Iraqis as far as growth is concerned. Financial outflows will be large due to the fact that no condition is imposed on the payment of debt service. The position of Iraqis under this scenario is to try their best to at least reschedule these amortization schedules assuming that they do not get better deals than rescheduling (rescheduling is explained later).
- (b) Iraqis will have to link their debt service to the other major external constraint i.e. war reparation. Therefore, if the payment of reparations causes a trade deficit, then no debt is paid. Iraqis will present their case as a trade-off strategy. For the creditors to get their money back, the international community must reduce the reparation ratio, which means the higher the reparation ratio the country pays the lower the ratio of debt service. This case rests on the accounting basis of the balance of payments, because if the current account is turned into a deficit as a result of the payments of reparations, then the capital account must be in surplus.
- (c) The third scenario assumes that nothing is paid, neither reparations nor debt service, unless a trade surplus is attained. In other words, this case gives priority for imports over the payment of reparations and debt service. The experience of debtor countries points to the fact that having a trade surplus is important for debt service. Some debtor countries achieved such a surplus through import compression, others, especially within the middle-income developing countries, through export expansion

The adoption of this scenario indicates that the Iraqis will be awarded a relief but in the sense that debt is not going to paid before the need of the economy is satisfied. However specific relief measures need to be undertaken through debt restructuring or fresh financing (see later). The third scenario is the one Iraqis should negotiate for because to give priority for imports means providing the necessary inputs for growth and welfare purposes.

# Debt and the Financing Gap

Debt management comprises measures that aim at restructuring existing debt and obtaining additional financing. We need however to put the debt restructuring and the new financing in the right context. Why Iraq in the future will need debt restructuring or financing? The answer lies in the fact that debt service payment will cause a financing gap or reduce the surplus of the balance of payments. This will have important implications for the growth of the economy and the welfare needs of the people.

But how does this gap come about in the first?

When countries formulate a development plan or programme they estimate the financing requirements of that plan or programme especially its foreign exchange component.

These requirements are to be compared to the financing sources.

The financing requirements are determined by the:

- 1- Current Account Deficit.
- 2- Capital flows needed for repayment and reduction of arrears
- 3- Capital flows needed for foreign investment
- 4- Resources needed to increase the level of reserves

As to the financing sources or capital inflows they consist of projections on:

- 1- Inflows of Disbursements
- 2- Inflows of Foreign investment.
- 3- Any other capital inflows including the depletion of reserves

The financing gap is the difference between the financing sources and the financing needs.

The country will have to decide on a strategy to close this gap through adjustment (basically through the reduction of imports or increasing exports), debt restructuring or financing. It can also concentrate on non-debt means to close the gap.

The emphasis on adjustment to close the gap using through import compression is a deflationary option. Many developing countries especially in Latin America followed this route in the 1980's as a way to manage their debt crisis. The idea was to create a trade surplus through import compression. Needless to say this has not been a growth-oriented adjustment and that is why the decade of the 1980's was described as a lost decade in terms of growth for developing countries. In addition, while the trade balance, was, no doubt, affected by the compression of import volume, it may be enlarged by the adverse movements in the terms of trade where the price of oil in the Iraqi case plays an important role. Therefore to say that the reduction of imports is a non-debt creating instrument depends to a great extent on the movement of the terms of trade.

In addition, Iraq may choose to bridge the financing gap through exchange rate manipulation or by increasing exports if this possible.

If it is not possible for Iraq to embark on adjustment policies or if this proves to be harmful, as the situation is likely to be, then the country should opt for financing the gap. The approach here is determined by the extent to which the country desires to have debt and how onerous this debt is. But when the country seeks financing, it should follow a policy of sequencing. The country should first negotiate for grants (This depends on the size of the financing gap). Then it should investigate whether to opt for foreign investment, and within this the sequence should seek FDI first.

If the country, however, had no alternative but work on the debt side then the most important criterion is to avoid heavy or onerous debt. Working on the debt side will imply two measures: Debt restructuring and new borrowing which are the components of debt strategy. The sequence of the implementation of this strategy implies that the management of debt should start with restructuring of existing debt (before contracting new debt) because this might be sufficient to close the financing gap. Within this, there is also a sequence. The country should negotiate for stock of debt reduction (forgiveness) because this will imply reduction in debt service. If this proves to be not possible then the country must try to negotiate the forgiveness of all or part of the debt service flows.

Then the country should opt for debt swap since this may imply some sort of reduction if the deal is favourable. Rescheduling, in the sense of postponing debt payment should be last because it does not reduce the debt.

# **Debt Restructuring Operations**

Having said that, the **debt restructuring** component is effected through various operations. There are specific circumstances that necessitate the adoption of a particular operation. The general criterion however is that debt restructuring gives a breathing space for the country to put its house in order in order to avoid expanding the financing gap and new borrowing. The debt restructuring operations are:

#### a- Rescheduling interest payment or principal repayment

Iraq resorts to this operation if it views its debt problem to be a temporary phenomenon. This means that it only needs liquidity which can be obtained by extending the maturity. Rescheduling will turn restructuring into debt relief if the terms on which the repayment is rescheduled are easier. The saving that the country generates should be used to enhance export and growth prospects.

The financing gap will be reduced during the period when the operation is executed. Afterwards the financing gap will be bigger reflecting the original and the rescheduled stream of debt service payments. There will therefore be a need for a new borrowing to finance the subsequent gap. To avoid this new borrowing the country has, during the period when the rescheduling takes place, to mobilize enough non-debt creating resources for growth and debt servicing. The extent of the effect on debt and the financing gap will, no doubt, depend on the terms of rescheduling. Those terms relate to interest rate, grace period and maturity but also include the repayment profile negotiated.

# b- Rescheduling interest or principal arrears

Arrears do not appear in the financing gap because the latter consist only of flow variables. Therefore when arrears are rescheduled and paid, the debt service will increase. When the country agrees to rescheduling arrears it means that it has an access to finance it wants to use for debt servicing. This finance may come from an increase in export

earnings or new financing (grants or loans). It is always better for the country if it is confronted with rescheduling of arrears, to finance this rescheduling with grants or proceeds from exports rather than borrowing, otherwise the debt burden will increase both presently and in the future. The presence of arrears creates debt overhang and limits the access of the country to further credit, but by accumulation arrears the country avails itself with credit. The repayment of arrears, on the other hand, should increase the credit standing of the country.

#### d- Forgive debt flows or debt stock

This operation is resorted to if the country feels that whatever it earns in terms of foreign exchange will be used for debt service. There will be a disincentive for the country to implement a program that generates this foreign exchange. Thus debt cancellation will correct the situation. Countries also request forgiveness because their situation does not permit them to seek new debt. Thus this operation is resorted to basically to increase the credit-worthiness of the country.

This operation is the best for the debtor and the easiest for the operator but the most difficult to negotiate.

#### e- Debt buyback

The debtor country or an intermediary may, under this operation, buy its debt back in the secondary market at a discount. Recourse to such an operation is justified if the discount is very high, if the country has access to non-debt creating resources and that those resources are not immediately needed for development and social purposes. In any case the country will have to evaluate the alternative use of resources.

This operation may be resorted to when rescheduling is not doing much help and that the country may be pressurized to generate resources through the increase in money supply inducing inflationary pressures.

The extent to which this operation improves the debt situation and the financing requirements of the country depends on how the resources are generated and the opportunity cost of those resources. The actual debt will of course be reduced but a new debt may be created if the buyback is implemented through borrowing. The debt service

of the new debt will depend on the terms of that debt. If it is really meant to be a debt relief then the terms should be as concessional as possible. When the country finances the buyback from its financial reserves, debt will not be created but then the country will have to evaluate the loss in interest income and in potential imports. In addition, one line of defense of the exchange rate will be lost leading to depreciation in that rate under which case the effect of debt reduction will be nullified (Debt service cost will increase). The buyback could be financed as part of a debt reduction deal under which case the resources are obtained through grants from bilateral or multilateral sources.

The effect on the financing gap will be positive because as debt is reduced future debt service will also be reduced. The effect will be more positive if the buyback is financed by a grant because financing sources will be increased by the amount of the grant and there will be no debt to service.

#### f- Swaps

Debtors sometimes seek relief by resorting to debt swaps. Two kinds of swaps can be singled out, debt for debt and debt for equity. The former is a transaction whereby the existing debt or part of it is exchanged with a new debt or debt instrument with a discount applied to this instrument. The discount is determined in the secondary market. The transaction can affect the stocks of debt as well as the flows. With respect to the former a discount is applied to the nominal value of the new debt under which case the outstanding debt is reduced. If, on the other hand, the nominal value of the new debt is at par with the old debt then the only way to obtain the discount is for the new debt to have a lower interest payment. In this way the debt service stream, the flow variable, will be affected. The debt instrument can take the form of a bond (The debtor country issue the bond).

The effect on the outstanding debt of the swap depends whether it is done at par or at a discount. In fact there is a net increase in the volume of debt if the swap is done through a par bond since the country will add the value of the bond to its debt.

To sum up, the exchange of debt by a par bond means an interest rate relief but the exchange by a discount bond indicates a principal relief. It is possible to have a deal under which case you have a discount bond with a lower interest rate. Many elements will affect the financing gap. In the first instance the gap will be reduced through reduction in principal due to swap at a discount, secondly the gap will be reduced through a reduction in interest if the debt is swapped at a par value.

The other kind of swap is the debt for equity. This amounts to retiring part of the debt for equity. An investor (foreign or national) buys part of the country's debt at a discount in the secondary market. The discounted debt is converted into domestic currency to swap it for domestic equity. The attractiveness for the investor is that he will get the debt with less than its face value and probably in a favourable exchange rate. From the point of view of the debtor it will have its debt reduced but also it will increase its FDI provided that this investment is additional. Many debtors combine this operation with a privatization programme and the procedure amounts to a repatriation of capital if the investor is a national living abroad.

The financial burden on the country takes the form of dividend or profit remittances. It should be noted however that servicing profits is more compatible with abilities of the economy than servicing interest payments.

The financing gap will in general be reduced except in the year where the swap takes place. In this year there will be outflow of resources equivalent to the value of the debt to be swapped and an inflow from the additional FDI obtained.

One last question is that the equity to be swapped can be either public (Hence the privatisation option) or private. When the latter is the case the government has to acquire the private equity, which implies domestic resource mobilization by the Government.

#### g- Accumulate principal or interest arrears.

This action will have the effect of increasing the debt but reducing the financing gap because of the fact that debt is not serviced. The debtor resorts to this action when it ceases to have an access to the needed external finance. The accumulation of arrears however has negative effects on the credit standing of the country.

#### h- Payment of arrears

This will reduce the debt service arrears and if this reduction is equal to 100 percent the debt will be brought back to the initial level. But the financing gap will increase in the year when the payment takes place. The arrears may be paid through inflows of grants. Therefore their effect on the balance of payments is neutral. If payment is financed from reserves there will be inflow into the balance of payments

New borrowing in balance of payments is designed to finance the current account. In debt management it is used to finance the finance requirements. As mentioned, the criterion in closing the gap is that flows of debt-creating nature should, as far as possible, be avoided. To determine the need for new borrowing we also need to go through a sequence. First, the initial gap will have to be evaluated. In other words, we evaluate the gap without debt restructuring. The need for new borrowing will be determined then. However it is better for the country to negotiate for grants to narrow the financing gap. The new borrowing will increase the debt stock but will decrease the gap when disbursement is made and will increase it when repayment of the borrowing is made.

The country should have an idea from where to borrow and the currency mix of this borrowing. In fact some negotiation should be held before specifying the new borrowing.

#### Conclusions and Recommendations

Iraq will face formidable challenges after the regime change. In the first instance Iraq will have to regain economic stability and lift the value of the national currency. Needless to say the correct way to do this in a sustainable manner is through supply side measures where productivity is enhanced and export competitiveness increased. But these are long-term measures and beyond the urgent measures the transitional government will have to undertake. The immediate measures needed are financial in nature. As far as external debt is concerned, and before starting the negotiation process Iraq needs to agree with the creditors on freezing the payment of principal and interest (Iraq is not paying at the moment but interest arrears are accumulated) without the accumulation of arrears. Having attained economic stability, Iraq will have to initiate a process of negotiations of debt. It is important to build a database on debt transactions. This should start immediately i.e. while stability is being restored. Such a database will give a detailed

Picture on creditor and terms structure of all debt transaction, something essential for designating which segment of the debt to propose for negotiation.

It is very difficult to propose the operation Iraqis will advocate among the ones discussed above. Rescheduling is of course an option. The idea here is for Iraq to have a breathing space to accumulate the resources to start the payment later. But the accumulation of the resources in the Iraqi case will basically depend on the behaviour of the price of oil, which is uncertain. Also this option will merely postpone the problem and in many cases the debt might become more onerous in the future.

The new conditions of Iraq necessitate the forgiveness of the debt especially the official one. A great deal of this debt is was contracted to procure military equipment and to finance wars. In addition the forgiveness of the debt and the interest arrears will increase the import capacity and economic relations with trading partners. It is true that the debt servicing capacity of Iraq may be greater than most developing countries but this is only under normal conditions not when the country needs emergency assistance and needs to accumulate resources for reconstruction.

An interesting option for Iraq is to consider the operation of swapping debt for equity as explained above. However the negotiation should ensure that any investment that would replace debt should be additional and that it should take place in the non-oil sector. A definite proposal cannot be made here without knowledge of the details of the debt database, but the principle here is that the new Iraq is to encourage investment and one way to do that is through this swap.

Finally it is very important to hold in the first three months after the change an international conference on the problem of external debt in Iraq. The following agenda can be suggested.

- An overview of the Iraqi economy in the last thirty years especially the cost of destruction from wars and embargo and the resources needed for reconstruction.
- 2. The external constraints in the Iraqi economy, debt and war reparation.

- The genesis of the debt problem in Iraq and its effect on stability, reconstruction and growth
- The burden of external debt, the volume of debt, and the need for a centralized database.
- 5. Approaches to solve the debt and the reparation problems
- The need for Foreign Direct Investment and the relation of this to the resolution of the debt problem in Iraq.
- 7. Other matters

#### The institutions that would participate in this conference

- 1. United Nations Development Programme (UNDP)
- 2. The World Bank and the International Monetary Fund
- 3. The United Nations Conference on Trade and Development (UNCTAD).
- 4. Arab Financial institutions
- 5. Representatives from Paris Club and Creditor Government
- 6. Representatives from the International and Arab Private sector

## **Future of Iraq Project**

**Economy and Infrastructure Development Workgroup** 

## DRAFT

Investment Plan
For the
Water Supply and Sanitation Sector

In Iraq

January 2003

A paper prepared for the Economy and Infrastructure working group, by Nasreen Sideek based on reports published by Unicef and field surveys conducted by the Regional Ministry of Reconstruction and Development in Iraqi Kurdistan during 2002.

#### 1. INTRODUCTION

Iraq has had an advanced system of water treatment plants and supply system. In the Center and South, the system is composed of 210 water treatment plants (WTPs) serving urban populations and 1,200 compact WTPs to serve rural population areas. In sanitation, one third of the population (in urban areas) is served by piped sewage systems with treatment plants and the rest rely on septic tanks aided by fleets of sewage tankers.

However, since 1991 the overall efficiency of the entire system has dropped to 50% of nominal efficiency rates due to the absence of human and financial resources, lack of spare parts, equipment, proper maintenance and lack of sufficient electrical power. The per capita share of water has dropped by up to a half in urban and rural areas. Water quality has also deteriorated during this time.

The deterioration in the quantity and quality of water available has contributed to an increase in the incidence of water-bome diseases among infants and children under five years of age. It has also caused an increase in the prevalence of malnutrition among the under-fives.

Many water treatment plants are malfunctioning due to a lack of spare parts, low maintenance and a reduced number of qualified staff. Electricity shortages and the deteriorating distribution network are also contributing to the decline in water services.

For the Northern part, before 1991, Saddam's Iraqi government conducted a deliberated destruction against Kurdish settlement. More than 4,500 villages were destroyed, and families were relocated by force into a newly created Collective Towns (CT). There were poor WATSAN services in those CT. After 1991, many of the destroyed villages were reconstructed and thousands of families retuned back to their original places. But majority are still living in the CT.

During 1980 and 1990, some big projects were implemented to serve the big cities of Dohuk, Erbil and Suliemaniyah, like Chambarkat in Dohuk, Ifraz in Erbil, and Dokan in Suliemaniyah. However, after 20 years, these projects need rehabilitation and extension due to the increased number in the population and demand for water. Especially in rural areas were massive resettlement process is taking place, and other services are improving (like road network, electricity, ...etc).

Water supply had been improved in Iraqi Kurdistan (IK) with resources made available from the oil for food program, especially in rural areas. Many new construction, extension and rehabilitation of the existed water projects took place. Also there has been a good improvement at the Urban and Semi urban areas.

The sanitation services are similarly affected. In Baghdad alone the pumping stations for the sewerage network are functioning at less than 40 percent efficiency. This in turn is leading to a more rapid deterioration of the sewerage network as the pipelines, especially those made of concrete, are corroding faster due sewerage sitting and decomposing in these pipes. Effluent is now leaking from the pipe joints causing the lower soil strata to dissolve and the pipelines themselves to collapse.

Similarly, the state of Sanitation sector is very poor in the Kurdish Region. Currently, with limited support from 986, storm drain networks are implemented in the three main cities, where there is no Sewerage for Waste Water constructed anywhere. At the same time limited sanitation Works is done in the small cities and towns. At the rural areas, sanitation projects are Limited on just the construction of latrines for individual houses.

A new program is needed for an integrated plan for the sanitation sector with emphasis on recycling options and environment protection.

The drought and unavailability of efficient amount of rain during the years of 1999, 2000, and 2001, has increased the concern for water supply to the population. Decision makers should look toward making comprehensive plans to deal with the water issue on a strategic manner.

In the future the WATSAN sector should be given a priority. Parallel to that a campaign for community awareness toward water consumption and water protection should be implemented to ensure household water security.

Today, UNICEF supports the rehabilitation of the WATSAN systems using supplies and equipment procured under the Oil For Food Program (OFFP).

#### **BASIC FACTS**

#### Total Population with water access:

- For the Center and South: 93% of urban population and 48% of rural population. 79% total (15.75 million). Source: UNICEF/Care International (Preliminary Survey results 2001/2002).
- For the North: 97.4% of urban population and 85% of rural population. 93% total (3.2 million).
   Source: UNICEF (Survey results 2002).

#### The situation from 1990 - 1999:

- Decrease in quantity of water supply by more than 50 %
- Six-fold increase in water contamination
- Deterioration of raw water quality due to untreated sewage disposal and drought effects
- . More than 90% cut in government budget allocation to cover local expenses
- More than 40% cut in number of personnel, loss of experience and expertise of 20 years
- Decrease in auxiliary machinery and equipment (garbage collectors, tractors, loaders, etc) from estimated 6.500 units to 700
- Two-thirds decrease (from 60 to less than 20) in operational workshops, with the remaining 20 in very poor condition.
- Water losses through the deteriorating network have more than doubled (from 15% to more than 35%)
- Frequent power cuts interrupting system operation by at least 10 hours/day.

#### Progress made from 1997 - June 2001:

- · Rehabilitation of 35 Water and Sewage systems benefiting 5.5 million people.
- On-the-job training of 1,300 technicians and operators
- Undertake a comprehensive sector assessment due for completion by June 2001
- · Training of core staff for MIS operation in four local WES authorities

#### Partner Government Agencies: (for the center and south)

- Baghdad Water Authority (BWA)
- Baghdad Sewerage Authority (BSA)
- . General Corporation for Water and Sewerage (GCWS) and local water and sewerage authorities

#### Partner Government Agencies: (for the north)

- · Municiplaities in Dohuk, Erbil and Suliemaniyah.
- . Departments of Rural Water in Dohuk and Erbil
- Water and Sewerage departments in Dohuk, Erbil and Suliemaniyah.

#### Future of the program (Sustainability):

- The government at present does not have the financial and technical means to properly maintain
  water and sanitation systems. It is important to consider resources beyond what is being provided
  (equipment and supplies) under the Oil-for-Food Program.
- · Capacity building of existing local water and sanitation workers.
- Establish/expand water and sanitation Management Information System
- Completion of a comprehensive study to set possible scenario for sector's mid-term and long-term rehabilitation and development.

#### Other agencies/organizations implementing a similar type of program

- UNPHS (United Nations Program for Human Settlements), especially in the north.
- UNOPS (United Nations Office of Project Services), especially in the north.
- CARE International in the center and south.
- International Committee of the Red Cross across the country.

#### 2. OVERVIEW

#### a- The Situation in the Center and South

Iraq is a country where water resources are available in abundance. By the end of the last decade Iraq enjoyed potable water coverage of more than 95% in urban areas and 70% in rural areas. The advanced water system in center/south Iraq is composed of 220 traditional water treatment plants mainly to serve urban areas, 1200 compact water treatment plants (mobile) to serve rural areas, 90 well schemes, 130 boosting stations and hundreds of thousands of kilometers of water conveyance pipes. Water is mainly drawn from surface water bodies.

In sanitation, one quarter of the population (in urban areas) is served by piped sewage systems. These systems are composed of 14 sewage treatment plants, some 250 vertical sewage-pumping stations, and more than 1500 sewage and storm submersible pumping stations. 50% of the population relies on septic tanks supported by fleets of cesspool emptiers and the rest dispose of sewage directly into rivers, streets or open areas forming ponds of stagnant water and causing contamination and environmental hazards.

Due to the absence of human and financial resources, lack of spares, equipment and proper maintenance, the system's overall efficiency has dropped drastically over the last decade. At the same time, no new systems have been constructed to cater for the increase in population. This is over-stretching the weakened capacity of the existing systems.

Recent estimates showed that US\$700-800 million is required to rehabilitate the existing system. Rehabilitation, which cover supplies and cash requirements will entail an efficiency increase from a current 40-50% to an average 70%. Filling the gap to reach universal accessibility to Water and Environmental Sanitation services where the under-served and the un-served will also be covered would require several billions of US Dollars.

Problems that characterize the present situation of the sector can be summarized as follows:

- The quantity of delivered water has deteriorated. The average per capita share of water has
  decreased due to reduced efficiency of the exiting water schemes, increase in the Unaccounted For
  Water (UFW) and increase in population without having an increase in treated water quantity.
  (UNICEF/CARE survey in 1997 and preliminary results of 1999-2000 survey)
- Contamination of water samples increased from an average of less than 5% to more than 25%. Moreover, contamination detection and containment systems are weak.
- The quality of raw water has drastically deteriorated due to discharges of untreated sewage and other effluents' disposal into surface water bodies. The drought has even magnified the effect of this factor.
- 4. Auxiliary machinery and equipment such as garbage collectors, tractors, loaders, lorries, excavators, water and sewage tankers, jetting vehicles, personnel and transport vehicles, etc, have dropped from estimated 6,500 units to 700 (statistics of 1997). The number of repair workshops has dropped from more than 60 to less than 20. (Since 1997 and under the Oil For Food program many machinery and equipment were brought to the country and hence the numbers should be up).
- 5. The number and the quality of personnel including managers and engineers, technicians, supervisors and clerks and operators drivers and laborers has decreased substantially due to low income. For example, the current number of staff working for the General Corporation for Water and Sewage is 11,000 compared to the approved number of posts, which is close to 20,000. Average years of experience dropped from estimated 20 years to 9 years. Exposure to training courses has dropped from 2 weeks/person/year to almost nil.
- Water losses through the network have increased from an estimated 15% to more than 35%. The incidence of breaks in networks increased threefold. Illegal connections and misuse increase the total amount of UFW to 50%. The same applies for sewage networks.

- 7. Power cuts, which directly affect system operations average more than 10 hours/day. The quality of electrical power (missing phases, altered frequency, etc) is also damaging electrical systems. Almost all the standby generators are old and out of order with capacity reduced to 30-50%. The effect of power cuts is actually longer than the duration of the power cut as re-commissioning of the plant and refilling the main pipes of the network normally requires extra hours.
- Stocks of effective spares have been depleted. For example, the book value of effective spares in Nineveh governorate dropped from US\$391,200 in 1990 to US\$12,500 in 1999.
- Increase in the number of collapses of sewer pipes. In Baghdad city for example there were 18,000
  pipe' settlements and breaks during 1990 1997 compared to only 18 during the period 1985 to
  1990.
- 10. Reduction in the water levels of the rivers, branches and tributaries due to the drought season. The dryness of the canals in some rural areas caused complete shut down of water projects. Water discharge in some of the main rivers such as Diala River decreased to 29% of its normal discharge. Maximum flow in the Tigris in the year 2000 is 46% of that in 1996. All of this has had a negative effect on water treatment efficiency.
- 11. Though the "Oil for Food Programme" (OFFP) Iraq is able to partially cover the supply side of the problem. Supplies that have so far arrived through the programme within the past four years (eight phases of the OFFP) amount to around US\$120 million. This is barely 20% of the required inputs. Moreover, the absence of the cash component is limiting the extent to which benefit is achieved from the arriving supplies. In many cases, spares and equipment are lying idle in warehouses for lack of sufficient cash for installation, purchase of local materials and labor, and operation.

#### b- The Situation in the North (Kurdish Region)

The impact of Saddam's policies of destruction and neglect to urban and rural settlement and needs for operation and maintenance in IK, and the sanctions on Iraq, has been particularly noticeable in the delivery of infrastructure services such as water supply, drainage, wastewater disposal and the management of solid waste. The current situation could be summarized as follow:

- Current limitations in Institutional management capacity, low citizens' awareness on the appropriate use of services, and the absence of resources for funding their operation and maintenance has only compounded the problems in this sector.
- Provision and upgrading of urban infrastructure, particularly water supply, drainage and wastewater disposal, and solid waste ("Urban WatSan") cannot be isolated from broader urban rehabilitation activities. Therefore, programs for their improvement, while specific in nature, need to take into account integral urban rehabilitation strategies.
- UNICEF is the lead agency responsible for developing policy approaches and plans for WatSan sectoral action in the IK under SCR 986 in consultation with the Kurdish Authorities. UNICEF has made a general assessment of present conditions of Urban and Rural WatSan in IK. In the meantime, UNCHS (UN-Habitat) is proceeding with the implementation of integrated programs for housing provision and for the upgrading of rural and urban settlements. WatSan services are an integral part of such programs aiming at providing adequate and efficient shelter solutions to their target groups.
- There are presently clear gaps in the overall implementation of WatSan activities in IK that, if not attended in time, will jeopardize the impact and sustainability of actions in complementary sectors, namely:
- 1. Absence of standards and performance criteria for WatSan services in rural and urban areas;
- Detailed assessment of WatSan conditions in medium size urban areas, and the setting of priorities for action on a city/town basis (from drinking water production to wastewater treatment);

- Detailed assessment of solid waste management needs and options in medium size urban areas, and the setting of priorities for action;
- Upgrading local capacity for the management of WatSan services in rural and medium size urban areas, including the funding of operation and maintenance routines;
- Setting of standards and criteria for the improvement/extension of WatSan services in large urban areas, pending the production of citywide plans.

#### 3. GOALS AND OBJECTIVES

#### Center and South

- Rehabilitate, repair and maintain water and sanitation facilities including water treatment plants, sewage treatment plants and pumping stations, and associated water supply and sewerage networks in center/south Iraq. Efficiency of rehabilitated/repaired/maintained facilities will increase by 10-30% depending on scope and size of works. Population will benefit from the enhanced services in terms of better quality and quantity of potable water and quality of sewage disposal and treatment.
- Install new compact water treatment plants coming through the Oil for Food Programme. This will ensure proper water services to un-served rural areas and under-served urban areas in center/south Iraq. Procure more.
- Install new compact sewage treatment plants coming through the Oil for Food Programme. This will ensure proper sewage disposal thus reducing contamination loads on water bodies.
- Improve technical capacity of the local workers through exposure to on-the-job-training by the contractors who will undertake the rehabilitation works.
- Ensure that supplies coming from the Oil for Food Programme are properly installed and functional. This will ensure optimum utilization of these supplies for maximum performance and healthy life span.

#### North

- Construction of new, extension and rehabilitation of water projects in IK. Including, securing new sources, improvement in the old networks, capacity building and operation and maintenance. Consideration must be given to the Drought threat.
- 2. For Water Security, each household should receive:
  - a) For urban dwellers: 250 litter/capital/day
  - b) For semi-urban dwellers: 250-150 litter/ capital/day
  - c) For rural dwellers: 80-100 litter/capital/day
- Improvement in water quantity should be parallel to improvement in water quality involving good action in purification aspect.
- Establishing a comprehensive combined storm drainage and wastewater networks in the cities and towns, involving recycling with high technical level.
- 5. Constructing solid waste management plants with different scales in cities and towns.

#### 4. SETTLEMENT/MUNICIPLAITIES DEMAND

#### 4.1 Population

#### Iraqi Population per Governorate

Governorate	Population	Adults*	Children under one
Ninewa	2,521,260	2,455,412	65,848
Таморен	881,494	859,791	21,703
Baghdad	6,499,975	6,329,742	170,233
Salah al-Din	976,128	949,461	26,667
Diyala	1,271,310	1,239,573	31,737
Anbar	1,270,952	1,234,299	36,653
Babylon	1,408,730	1,374,081	34,649
Kerbala	741,744	722,646	19,098
Najaf	950,222	923,087	27,135
Qadissiya	915,564	891,438	24,126
Mythana	569,933	553,852	16,081
Başrah	1,981,901	1,922,659	59,242
Missan	848,322	817,591	30,731
Thi-Qar	1,538,871	1,492,764	46,107
Wassit	938,734	915,174	23,560
Dakuk	817,376	799,130	18,246
Erbil	1,334,176	1,310,784	23,392
Sulaymaniyab	1,605,506	1,582,435	23,871
Total	27,072,198	26,373,919	698,279

#### 4.2 Population distribution (only available for the 3 Kurdish governorates)

The present population in IK as reported by WFP is 3.707 million. Some 30% of it is reported to live in rural areas. Population is distributed as follow:

Governorate	Population in settlements Total: 3,707,850	Percentage of total in settlements
Duhok	807,005	21.1
Erbil	1,316,162	36.2
Suliemaniyah	1,584,683	42.7

The figures include urban, semi urban and rural area. More than 1.445 million lives in the main three cities are as follow:

Duhok city

220,000

Erbil city

703,022

Suliemaniyah city

522,636

Another 1.1 million lives in other urban and semi urban areas. Bringing the total urban population to 2.6 million. The remaining 1.1 million live in rural areas. More detailed figures per Rural and Urban for each district:

RURAL	URBAN	TOTAL	
39,996	10,235	50,231	4%
55,340	783,022	838,362	64%
35,544	39,275	74,819	7%
78,700	52,051	130,751	11%
87,403	87,513	174,916	12%
37,942	9,341	47,283	2%
334,925	981,237	1,316,162	100%
91,420	44,120	135,540	17%
75,907	44,794	120,701	15%
20,254	77,371	97,625	12%
35,528	228,730	264,258	33%
22,051	38,134	60,185	8%
15,555	113,041	128,596	15%
15,555 260,715	113,041 546,290	128,596 807,005	15% 100%
260,715	546,290	807,005	100%
260,715 31,373	139,340	160,713	100%
260,715 31,373 25,359	546,290 139,340 35,000	807,005 160,713 37,359	100% 11% 2%
31,373 25,359 26,596	139,340 35,000 52,882	160,713 37,359 77,478	100% 11% 2% 6%
31,373 25,359 26,596 41,122	139,340 35,000 52,882 106,270	807,005 160,713 37,359 77,478 137,392	100% 11% 2% 6% 9%
31,373 25,359 26,596 41,122 20,183	139,340 35,000 52,882	807,005 160,713 37,359 77,478 137,392 99,345	1100% 111% 2% 6% 9% 7%
31,373 25,359 26,596 41,122 20,183 9,452	139,340 35,000 52,882 106,270 89,162	807,005 160,713 37,359 77,478 137,392 99,345 9,452	11% 2% 6% 9% 7% 1%
31,373 25,359 26,596 41,122 20,183 9,452 4,899	139,340 35,000 52,882 106,270 89,162 20,099	807,005 160,713 37,359 77,478 137,392 99,345 9,452 24,998	110% 2% 6% 9% 7% 1% 2%
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260,715 31,373 25,359 26,596 41,122 20,183 9,452 4,899 32,016 38,126 45,601	139,340 35,000 52,882 106,270 89,162 20,099 20,196	807,005 160,713 37,359 77,478 137,392 99,345 9,452 24,998 42,212 37,126 133,605	100%  11% 2% 6% 9% 7% 1% 2% 3% 2% 9%
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֡֜֜֜֜֜֜֜֜֜֜֜֜֜֜֜֜֜֜֜֜֜֜֜֜֜֜֜֜֜֜֜֜֜֜֜֜	39,996 55,340 35,544 78,700 87,403 37,942 334,925 91,420 75,907 20,254 35,528	39,996 10,235 55,340 783,022 35,544 39,275 78,700 52,051 87,403 87,513 37,942 9,341 334,925 981,237 91,420 44,120 75,907 44,794 20,254 77,371 35,528 228,730	39,996         10,235         50,231           55,340         783,022         838,362           35,544         39,275         74,819           78,700         52,051         130,751           87,403         87,513         174,916           37,942         9,341         47,283           334,925         981,237         1,316,162           91,420         44,120         135,540           75,907         44,794         120,701           20,254         77,371         97,625           35,528         228,730         264,258

3,707,850

#### 4.2 Prioritization/Selection Criteria

#### 4.2.1 Water Supply

During implementation, we should prioritize our selection of intervention areas. Four criteria could be used: (i) population density, (ii) mortality, (iii) growth rate and (iv) service level. These criteria are indeed very good criteria to reflect the conditions and therefore the need for improvement on water supply in the Municipalities. Applying these criteria would result in a list of towns per Governorate with the highest need for improving the water supply situation in these towns.

In a next step the situation at the quarter level of the towns should be further analyzed using the collected data; after that priority setting at town level could be done.

Data on morbidity should be collected, more specific those related to diarrhea and hookworm. The first one is a common indicator for diseases associated with water quantity and water quality. The latter one is exclusively related to sanitation.

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SULEIMANIYAH		- 41.50		IN N
CHAMCHAMAL				
	31,373	139,340	160,713	11%
DARBANDIKHAN	31,373 25,359	139,340 35,000	160,713 37,359	11% 2%
DARBANDIKHAN DOKAN				
	25,359	35,000	37,359	2%
DOKAN	25,359 26,596	35,000 52,882	37,359 77,478	2% 6%
DOKAN HALBAJA	25,359 26,596 41,122	35,000 52,882 106,270	37,359 77,478 137,392	2% 6% 9% 7% 1%
DOKAN HALBAJA KALAR	25,359 26,596 41,122 20,183	35,000 52,882 106,270	37,359 77,478 137,392 99,345	2% 6% 9% 7%
DOKAN HALBAJA KALAR KHANAQIN	25,359 26,596 41,122 20,183 9,452	35,000 52,882 106,270 89,162	37,359 77,478 137,392 99,345 9,452	2% 6% 9% 7% 1%
DOKAN HALBAJA KALAR KHANAQIN KIFRI	25,359 26,596 41,122 20,183 9,452 4,899	35,000 52,882 106,270 89,162 20,099	37,359 77,478 137,392 99,345 9,452 24,998	2% 6% 9% 7% 1% 2%
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#### 4.2 Prioritization/Selection Criteria

#### 4.2.1 Water Supply

During implementation, we should prioritize our selection of intervention areas. Four criteria could be used: (i) population density, (ii) mortality, (iii) growth rate and (iv) service level. These criteria are indeed very good criteria to reflect the conditions and therefore the need for improvement on water supply in the Municipalities. Applying these criteria would result in a list of towns per Governorate with the highest need for improving the water supply situation in these towns.

In a next step the situation at the quarter level of the towns should be further analyzed using the collected data; after that priority setting at town level could be done.

Data on morbidity should be collected, more specific those related to diarrhea and hookworm. The first one is a common indicator for diseases associated with water quantity and water quality. The latter one is exclusively related to sanitation.

Population density and growth is the most important demographic criteria for prioritization. Apart from Population Density, the Total Town Population and the Percentage of town population being Internally Displaced Persons (IDPs) could be used for priority setting.

Population density is a key indicator for priority setting, because in dense populated areas there are fewer alternatives for water sources than in less densely populated areas.

The following table shows the weighing factors for each of the priority setting criteria. The water supply service level criteria score highest because they are most critical for the priority setting in water supply.

Table: Weighting factors for water supply

Priority setting criteria	Water supply coverage (% of houses connected)	Water service in total hours water delivery per week	Percentage of total population being IDPs	Total municipal population	Density
Weight factor/ Percentage	0.3 (30%)	0.3 (30%)	0.2 (20%)	0.1 (10%)	0.1 (10%)

When applying those five selected criteria for water supply to the collected WatSan data, a list of municipalities prioritized according to the need for intervention in water supply would be resulted.

#### 4.2.2 Sewerage/Drainage

The following three key issues for sewerage reflect the need: i) demographic aspects (population density), ii) environmental and health aspects and iii) the presence and functioning of existing systems. Concerning Storm Water drainage the main issues are: iv) the adequacy of the present infrastructure and v) demographic and industrial development.

Regarding indicators for the discharge of sewage from the houses: the first indicator concerns the discharge of human excreta. The indicator chosen focuses priority on houses -without septic tank -, which discharge to an open sewer, directly into the street or into a leach pit.

Two indicators could be used to measure the present conditions: 1) the length of the sewer in km per square kilometer (km2) and 2) length of the sewer in kilometers (km) per 1.000 inhabits.

The first indicator measures the sewer infrastructure per unit of area in disregard of the habitation and other infrastructure. The second indicator however, relates the length of the sewer line to the number of people living ill the quarter. This is highly relevant, as It does at the same, time implicitly points at the population density and the effects (peak run-off) on discharge and, drainage of larger areas covered with roads and houses.

Population figures, population migration and population growth or decline is key information in the process of prioritization of water and sanitation interventions. In addition to population density the town populations at anyone time is also regarded as an indicator as the overall population size does have strong influence on the need for human waste discharge and storm water removal from the inhabited areas.

Special attention should be given to the number of IDPs in the quarters, as percentage of the total quarter population, as it is them who are first and foremost a priority. For that reason, indicators have been used, which address population density, IDP- population (as % of whole population), and total town population.

The following table shows the weighing factors for each of the priority setting criteria.

Table: Weight of indicator in priority setting

Priority setting criteria	IDP population as percentage of total population	Population density	Total population in town	Uncontrolled discharge of human excreta	Uncontrolled discharge of household wastewater	Length sewer per square kilometer	Length sewerage infrastructure per 1,000quarter inhabitants
Weight factor (perce ntage)	0.10 (10%)	0.25 (25%)	0.15 (15%)	0.20 (20%)	0.20 (20%)	0.5 (5%)	0.5 (5%)

#### 4.2.3 Solid Waste Management

The criteria for improvements in solid waste management arise from the hazards to public health from the wastes left uncollected or kept in open while waiting for collection, and the subsequent effects of wastes lying around.

The possibilities for interventions which should be kept in mind when assessing the needs for, or improvements in, solid waste management vary according to the size, location and functional nature of the settlements.

The felt need of the inhabitants is often high in a small rural settlement, which may be categorized as a municipality, but that is best described as a rural village. In this kind of a settlement the felt need of an individual family is high, but the number of families is low. Resulting that the hazard to public health is mostly towards the other members in the settlement only and does not typically extend to other settlements. The intervention possible and needed will hence include only a small investment, if any,

When the settlement grows the potential danger that solid waste creates grows too. The biggest public health hazards occur in settlements, which have large population and commercial and industrial activities. A high population density will further intensify the need for proper solid waste management. This kind of settlement form a potential threat for public health also in other settlements, as the wastes, or harmful substances from them, are transported by flood waters or blowing wind from open spaces where solid waste has been dumped. The required investment to improve the situation is typically high. However, there also is a possibility for secondary benefits such as development of private sector and employment opportunities in material recovery or recycling activities, which will make the investment more justified.

In the biggest settlements of IK efforts have been made to solve the problems of neighborhood soiling by collecting the wastes and transporting them outside the city, but there has not been much of effort to stop the adverse effects towards the settlements downstream, or downwind. The result of the above is that the problem has just been transferred to another place, not eliminated.

The above-described categorization of settlements had a direct impact on the needs assessment. It had to address the real need instead of the felt one. However, it is necessary to take into consideration and respond to the felt need too in order to create demand and acceptance for the interventions.

The majority of the municipalities of IK are small, 64% of them have a population of less than 10,000. However, only 9% of the populations live in municipalities of that size. 38% of the populations live in municipalities of the size between 10,000 and 100,000 and 52% in the three cities a town of over 100,000 pop. In total the municipalities are sorted in four categories with corresponding score values.

The population density is an important factor when the public health impacts of solid wastes are concerned. According to surveys, the population density varies from 31,900 to 13 persons per km2. The results are still considered indicative and population density is included in the tools, though reducing the effects of the extreme values and with less weight.

The present situation in the solid waste management in the target area varies. In some of the settlements, especially in the cities, wastes are collected and transported out of the settlement. The situation is not, however, satisfactory in any of the settlements and thus the quantity and quality of the facilities currently in use would not be fully justified to be included in the tool for the needs' assessment. However, to describe the service level of solid waste management from the point of view of the inhabitants (their nearest neighborhood) an indicator, cleaning frequency, was included in the analysis.

The following table shows the weighing factors for each of the priority setting criteria. The water supply service level criteria score highest because they are most critical for the priority setting in water supply.

Table: Weighing factors for solid waste management.

Priority setting criteria	Total municipal population	Density	Percentage of total population poor neighbor	Cleaning frequency
Weight factor/ percentage	0.3 (30%)	0.3 (30%)	0.2 (20%)	0.2 (20%)

#### 4.2.4 Institutions and Operational Training (Capacity Building)

The Sanction regime, Iraq has been experiencing, have isolated the sector professionals, and decision makers, from the ongoing development of the sector outside Iraq. Globally there is a profound change in thinking, how the services should be provided and managed. The very latest way of thinking is expressed in a statement called VISION 21, A SHARED VISION FOR HYGIENE, SANITATION AND WATER SUPPLY and A FRAMEWORK FOR MOBILISATION OF ACTION. This document was produced by the Water Supply and Sanitation Collaborative Council for the World Water Vision in 1999 using global participation of all stakeholders through selected representatives in the South and the North, in developing countries, in countries in transition and in the industrialized countries of market economy.

The basic core principles of the Statement can be summarized as follows:

- Building on people's energy and creativity at all levels requiring empowerment and building the capacity of people in households and communities to take action, and applying technologies that respond to actual needs.
- Holistic approach acknowledging hygiene, water and sanitation as a human right, and relating it to human development, the elimination of poverty, environmental sustainability and the integrated management of water resources.
- Committed and compassionate leadership and good governance changing longaccustomed roles, leading to new responsibilities of authorities and institutions to support households and communities in the management of their hygiene, water and sanitation and being accountable to users as clients.
- Synergy among all partners encouraging shared commitment among users, politicians
  and professionals; requiring professionals within the water and sanitation sector to combine
  technical expertise with an ability to work with users and politicians and with the health,
  education, environment, and community development and food sectors.

The core points based on the above are:

	People	come	first
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- A human right to basic services
- Entry-point to human development and poverty elimination
- Committed and compassionate leadership
- Synergy of action
- Hygiene and sanitation as a revolutionary priority
- Gender equity for lasting change
- The challenge of the urban poor
- □ Institutions as change agents
- Mobilization for affordable services
- Shared water resources management

The above explains the importance of the criteria developed in this report and also justifies the conclusion that the present technical personnel holding various positions in the service provision chain, starting from the top to the most junior technician, are in need of awareness raising and brush up training to bring up-to-date their professional skills. There is also a need to conduct a skills assessment study to form a base for a systematic awareness raising and training programme.

The administrative tradition in the region has not encouraged citizen initiatives. This tradition does not comply with the modern thinking of sustainable service provision for water supply, sewerage/drainage and solid waste management. The fact may also cause resistance of the decision-makers to allow a change in the approach of service provision management. Because of this it is important to convince them about the need for a change and the benefits of the bottom-up management style.

#### 4.2.5 Awareness rising

Awareness raising of the users of the services is one of the key factors for sustainability of the services. At present, the level of understanding (and feeling) the importance of a water supply service is not questioned. There is a large-scale waste of potable water at the cost of the limited resources. Especially worrying is the situation where groundwater is used as the source. This has led to over-pumping, mining of the groundwater body. To avoid this, and naturally the unnecessary costs of pumping and purifying the water, an awareness campaign is needed. The action has to be repeated regularly as the memory of the public is limited.

Another point of concern is the wear and tear of the facilities caused by misuse, and sometimes also vandalism. The only known effective way to eradicate, or at least strongly reduce, this phenomenon is awareness raising and creation of feeling of ownership. This work must be continuous and, regrettably, combined with policing.

The users seem not to have any understanding on the cost of water supply service. Their thinking is tied to the traditional "free water as gift from God" pattern. To change this to facilitate cost recovery is a major task, as there is also reluctance to adopt something that creates costs to the users. Understandable, but not a reason to avoid introduction of this new idea. Social marketing is needed.

No real felt need for improvements in sewerage or solid waste management was observed. Drainage is a felt need. There is a need to create awareness on the health impact of lack of proper, functioning systems for the two, wastewater and solid waste management, which applies hygienic acceptable methods and facilities. Without strong inputs for this purpose, it is unrealistic to expect effective demand.

#### 5. INVESTMENT STARTAGEY

#### 5.1 Objective

The objective of the investment plan is to improve the service level of water supply, sewerage / drainage and solid waste services in Iraq to the National target level as indicated in the national WSS policy.

#### 5.2 Proposed Investment Strategy

The plan is based on needs assessment (more accurately for IK). The needs assessment led to three priority order tables, one for each of the sub-sectors. Water supply, sewerage/drainage and solid waste management. This report, the investment strategy, transforms the above into an action plan.

The overall principle in this strategy is five-fold:

- Address all the three sub-sectors simultaneously in the chosen target municipalities.
- Improve the service level of the whole municipality in order to serve all population groups to avoid confrontation between them.
- Progress step by step towards the National standards through intermediate targets of service level
- Separate wastewater (sewerage) from storm-water and leave storm-water (drainage) improvements to be dealt with road/street improvement
- Examine the current institutional set-up and its capability to manage and operate the services in a sustainable way.

The action order to improve the WatSan services of the settlements/municipalities should follow the priority order based on summing up the three sub-sectoral priority orders. The reasoning behind this proposed priority order is that those municipalities, which suffer from a service level furthest down from the national standards, indicated through the criteria developed during this assignment, should be served first.

To make the physical improvements sustainable, an operational training program is needed. The term operational training includes in this context both institution building and operational training of the personnel responsible for service provision. This program must be based on thorough discussions at decision making level of the wanted and accepted organizational model, its structure and degree of autonomy as well as studies, which reveal the present's skills, the needed ones and the gap between them. The limited scope of the operational training -and also awareness raising -is reflected in the proposed allocation of additional 10 % to the estimated investment. A full-fledged capacity building and awareness-raising programme could require as much as 15 to 20 % on top of the investment.

An other prerequisite for sustainability of the services is an **agreement on cost recovery**. Either consumer charges or budgetary funding, or a combination of these two to cover O&M costs and replacement investments must be in place.

The foreseen large-scale investment programme will be an extra load on the institutions in charge of service provision. To build-up the public sector organizations (LA and municipalities) for managing and implementing the investment programme is not advisable, as the large investment programme is going to be an "one-off exercise for all the municipalities (next time augmentation or rehabilitation is needed in 15 to 20 years), and to a certain extent also to the LA. A special implementation structure is proposed. It should consist of a planning and design consultant, who is capable also for the operational training and awareness-raising component, and that, can also act as the engineer of the construction project on behalf of the owner and a contractor. It is important to break the construction contracts into manageable lots to facilitate also use of local and national contractors and consultants. FIDIC contracting models are advised to guarantee transparency.

The prevailing mandate structure and time points to the need for a revolving planning system:

- Lot I; planning and design-
- Lot 2; a construction task manageable in one year with clear further steps according to technical requirements;
- Lot 3 and onwards; continuation the same way until the whole municipality is served.

The limiting factor for the improvement volume is the availability of skilled implementers; it is planners, designers and contractors.

## 5.3 Rehabilitation Stage for Center and South

## A) Water Treatment Plants Rehabilitation Stages

Rehabilitation per stage	*Supplies provided under OFFP	Locally purchased supplies	**Percentage of Total Rehabilitation cost
Installation of pumps with pipes modifications.     Overhaul existing pumps.     C. Wiring and control panels     d. Repair strainers and intake pipes	a. Pumps b. Control panels, circuit breakers. c. Pipes and fittings	a. Pipes & fittings b. Wires Strainers. Spares	25%
Sedimentation Tanks     Repair of sludge scrapers including geared motors, scraper wheels, skeleton, etc.     Repair of leaks from the tank.     Maintenance of de-sludging assembly.     Wiring and control panel	a. Motors and starters b. Control panel, circuit breakers	a. brushes, bushes, etc. b. Cernent & additives sand.      Different types of lubricatants.      Steel pieces     Rubber strips	15%
Replacement of sand, broken pipes, nozzles, etc.     Overhauling the inlet/outlet control valves.     Overhauling the backwash assembly d. Wiring and control panel	a. Control panel and circuit breakers	a. Filter media (sand & gravel), Nozzles. Spares	15%
(4) Chemicals Dosing a. Repair/installation of chemicals dosers with fittings and accessories  1. Repair of Alum mixing tanks, Alum mixers, flash mixers and chlorinators.  2. Wiring and control panel	a Alum dosing pump(s), b. Chlorinator(s) c. Control panel electrical accessories	a Eittings & accorpories	24%
(5) Water Storage & Highlight Assembly  a. Repair/installation of highlift pumps with required modifications and fittings  b. Repair and cleaning of storage tanks; leaks, inlet/outlet valves, etc.  c. Wiring and control panel	a. Highlift pumps b. Control panel c. Electrical Accessories	a. Brushes b. Ball bearings c. Cables & fittings d. Cement, adhesives, Sand, additivesetc. c. Wires	12%
(6) Repair of WTP Building  a. Repair of leaks, roofing, plastering of damaged walls and ceilings, etc.  b. Fixing of ventilation and cooling systems.  c. Fixing of broken windows, fences, handrails, tiles, doors, etc.		a. Cement, sand, and gravel, brick gypsum, paint.     b. Glass and putty c. Wooden panels d. handrails, tiles, doors, hinges, etc	9%
(7) Repair of the Network This involves partial replacement of pipes segments that are defective and leading to waste of water.	a. Pipes	a. Pipes	NA***

## B) Sewage Treatment Plants and Pump Stations Rehabilitation Stages:

2	Rehabilitation Per Stage	*Supplies provided under OFFP	Locally purchased supplies	**Percentage of Total Rehabilitation Cost
1) Inlet	Works			
a.	Penstocks overhaul / repair	a) Pumps	a) Dinas & Strings	
b.	Screens overhaul / repair	b) Motors & starters	a) Pipes & fittings b) Wires	1
c.		c) Contr. Panel circuit	c) Spares	PATERN
	Overhauling suction & delivery valves	breaker elect. Access.	, -,	25%
	Wiring & control panels overhaul			
2) Grit	Removal System		a) Brushes,	
a.	Detritor motor & gearbox overhaul/repair	a) Motors & starters	bushes etc.	
	Detritor scrapers repair/maintain	b) Contr. Panel circuit	b) Steel pieces	
	Wiring & control panels overhaul	breaker elect. Access.	c) Wires	10%
	Penstocks and valves overhaul/repair		d) Spares	
3) Pre	- Aeration & Grease Removal System		a) Pauchae	
a.	Aeration unit motor & gearbox overhaul/repair	a) Motors & starters	a) Brushes, bushes, etc.	
	Grease removal assembly overhaul/repair	b) Contr. Panel circuit	b) Steel pieces	
	Penstocks & valves overhaul/repair	breaker, elect. Access.	c) Wires	10%
SPECIAL PROPERTY.	Wiring & control panel overhaul			
	nary & Final Sedimentation			
a.	Repair of sludge scrapers & revolving bridge wheels			1
		a) Motors & starters	a) Brushes,	1
	Scraper driving motor & gearbox overhaul	b) Contr. Panel circuit	bushes, etc. b) Steel pieces	
	Repair of peripheral concrete weirs, scum plates & scum collecting assembly	Electric acce	c) Rubber strips	
	Tank cleaning from accum. sludge & debris	ssories	d) Wires	18%
e. f.				
_	Penstocks & valves overhaul /repair			
includir	ation System (for the Activated Sludge process) ng Return Sludge Pump Sta.			
	Aeration unit motor & gearbox overhaul	a) Screw Pump	a) Brushes,	
	Inlet & outlet control penstocks overhaul	b) Motors & starters c) Contr. Panel	bushes, etc. b) Steel pieces	\$7.
c.		Circuit breaker	c) Different types	
d.	Replace/repair screw pumps vanes	Electrical	of lubricants	
e.	Screw pumps greasing system overhaul	Accessories	d) Wires e) Spares	25%
f.	Wiring & control panel overhaul			
6) Raw	& Consolidated Sludge Pumping	a) Pumps & motors	a) Brushes'	
a.	Pumping Sets (pump & motor) overhaul	b) Pipes, fittings	bushes, etc.	
	Overhauling suction & delivery valves	c) Contr. Panel	b) Pipes & fittings	7%
c.	Wiring & control panel overhaul	Elect. Access.	c) Spares	, ,,,
	tric Generation	a) Diesel Essins	Missellanesus	
	Overriading the generator dieser engine	a) Diesel Engine b) Compressor	Miscellaneous minor electrical &	
b.	Replacing the existing compressor and also other	c) Electrical controls	mechanical	
	defective parts by new ones	access.	accessories	5%
C,	Overhauling the control panel	-) BV0 -!-		
		a) PVC pipes	1	
8) Main		DI PVC: Tee		
	a & Subsidiary Sewers Network	b) PVC Tee c)Manh, Cover	a) Conc. Pipes	
This wo	n & Subsidiary Sewers Network ork involves replacement of settled and damaged pipes, manholes & appurtenant structures to prevent	c)Manh. Cover	a) Conc. Pipes b) Cement, sand,	
This wo sewer p forming	n & Subsidiary Sewers Network ork involves replacement of settled and damaged pipes, manholes & appurtenant structures to prevent	c)Manh. Cover		

\* Availability of Oil for Food Programme supplies depends on allocation as per "distribution plans" Of the programme. If the program got suspended, those supplies have to be imported.

\*\* The estimated percentage for the cost of each stage of rehabilitation covers the cost of modifications (if item is provided under the Oil for Food Programme), installations or overhaul/repairs and labor work. These estimates could drastically vary from one project to another depending on the specific situation of each location and the size of works required at each stage.

\*\*\* This depends on the condition of the specific network.

#### C) Compact Water or Sewage Treatment Plant Installation Stages:

Installation Per Stage		*Supplies provided under OFFP		Locally purchased supplies	**Percentage of Total Rehabilitation Cost
1) Civil	Works				1
a.	Cleaning of site from debris.	1			
<ul> <li>Back filling, compaction and leveling.</li> </ul>				a) Pipes & fittings	
c.	Construction of concrete foundation and platform.	a) Pipes & fittings.		b) Cement, gravel, sand and sub-base.	60%
d.	<ul> <li>d. Laying suction &amp; delivery pipes &amp; accessories.</li> </ul>			·	
2) Elec	ctro-Mechanical works.				
a.	Assembly & installation of compact unit.	a.	Compact		
b.	Cabling.	WTP.		a) Cables and wires.	40%
c.	Commissioning and fine-tuning.	oning and fine-tuning.			

#### D) Locating sites:

The following is a list that shows the Water and Sewage Treatment Plants in Center/South Iraq, which require urgent intervention.

Governorate	Water Treatment Plant	Capacity (m³/day)	Est. Rehab. Cost US\$	Beneficiaries
Anbar	Old Falluja     New Ramadi (Albu Faraj)	10,000 12,000	20,000 20,000	50,000 60,000
Babil	Hashimiyat Al-Qasim     Nahyat Saddam     New Mahawil	7,200 4,880 6,000	12,000 8,000 10,000	40,000 20,000 15,000
Baghdad	Al-Latifiya     Old Al-Mada'in     Al-Tarmiyah     Al-Yousifiyah Villages	2,800 20,000 1,690 7,200	4,000 25,000 5,000 15,000	15,000 100,000 10,000 50,000
Basra	Al-Dair     Old Al-Shuaiba WTP & Cus     Old Al-Suwaip     Old Al-Midaina     Al-Nashwa Unified	4,000 36,000 3,600 3,600 10,000	8,000 31,000 8,000 10,000 20,000	12,000 160,000 10,000 12,000 30,000
Diala	1. Kan'an	8,500	15,000	25,000
Karbala	1. Hai Al-Hussain 2. 7 Nissan project 3. Old Al-Hindyah 4. Aim Al-Tamir (WTP & BSs)	50,000 100,900 5,000 11,200	55,000 50,000 10,000 20,000	90,000 250,000 30,000 60,000
Missan	Ali Al-Gharbi     Al-Salam     Qal'at Saleh	8,000 2,000 3,200	14,000 4,000 6,000	10,000 20,000 15,000
Muthana	Al-Warka'     Salman     Samawa Ground WS tank     Al-Khidhir	11,920 400 72,000 4,320	20,000 2,000 40,000 9,000	50,000 3,000 150,000 10,000
Najaf	New Najaf-Kufa     C.U complex (6 in Al-Abaciyah)     Al-Mishkhab     Al-Manadhira	180,000 7,200 11,800 10,000	50,000 13,000 12,000 18,000	500,000 30,000 50,000 40,000
Ninewah	Al Mosul Old left Bank and Extension     Al-Kuwair     Akqoush     Hammam Al-Aleel     Al-Rasheediyah Old and Extension	83,360 7,698 17,600 4,800 10,500	40,000 5,000 7,000 5,000 12,000	370,000 10,000 30,000 20,000 25,000
Qadissia	<ol> <li>Old Diwaniyah</li> <li>Diwaniyah Unified (Project No.6)</li> <li>Shafiayah &amp; Al-Malaab BS</li> <li>Sader Al-Daghara</li> </ol>	12,000 91,000 94,00 4,600	13,000 50,000 45,000 10,000	50,000 240,000 250,000 15,000
Salaheldin	Old Tikrit     Balad (Old & New)	14,000 17,600	25,000 20,000	60,000 50,000
Tamim	Debis     Al-Hawija	70,400 9,600	40,000 20,000	250,000 14,000
Thiqar	<ol> <li>Al-Bat-ha'</li> <li>Al-Fuhoud</li> <li>Al-Fajr</li> </ol>	3,000 8,000 1,000	8,000 13,000 3,000	15,000 30,000 5,000

Total Cost for	the Rehabilitation of (48) Water Treatment Plants + i of 5 Compact units	880,000	3,171,000	
All Installation of 5 compact water treatment plant @ US\$15,000 each.		23,000	75,000	60,000
Wasit	New Suwaira     Shaikh Sa'ad	25,000 7,200	18,000 12,000	80,000 30,000

Governorate	Sewage Treatment Plant	Capacity (m³/day)	Est. Rehab. Cost US\$	Beneficiaries
Basrah	Basrah STP	74,000	55,000	250,000
Karbala	Kerbala STP	116,000	50,000	150,000
Baghdad	Installation of two sewage compact units	28,800	70,000	90,000
Thiqar	Nasseriah STP 48,000		40,000	110,000
	he Rehabilitation of (3) Sewage Treatment P 2) sewage compact units.	lants and	215,000	600,000

Total estimated cost will be US\$ 1,450,000.

#### Other costs

	Allocation	Percentage of total cost	Amount in US\$
1. Physical rehal	bilitation costs of water treatment plants.	58%	880,000
	cilitation costs of sewage treatment tallation of sewage compact units.	15%	215,000
Installation of	compact water treatment plants.	7%	105,000
750US\$/engir	osts, covering hiring site engineers @ leer/month, transportation to and from nd partial coverage of project staff	15%	225,000
Emergency		5%	75,000
	Grand Total	100%	1,500,000

TOTAL BUDGET REQUIRED FOR THE MOST IMMIDATE NEEDS IS US\$ 6,121,000

#### 4.5 Investment Plan for the Northern Governorates

#### A) Plan volume

The planned investment volume is governed by the difference of prevailing service situation and the National normative level of service provision. The other factor is the number of population in the settlements. The factor governing annual investment rate is the capacity of available contractors to implement the programme. It is assumed that the absorption capacity of the LA and the municipalities will not limit the investment programme as it is foreseen that a strong operational training component for operating and managing will be running parallel with the construction period and the extra skills base for managing the investment programme will be recruited (consultancy option of construction management).

The total cost, estimated at present day value sums up to USD 264 million. Dividing the total amount needed for the three components gives the following investments:

- For water supply improvements USD 110 million
- For sewerage improvements USD 81 million
- For solid waste management improvements USD 73 million. (Incl. also Duhok, Erbil and Suliemaniyah cities)

The cost of drainage improvements are excluded, as they are proposed to be dealt separately in connection of road/street improvements, as the removal of waste water from the storm-water will bring in the major part of the health benefits.

The estimated total investment in US dollars per Governorate and sub-sector is presented in the table below:

Governorate	Water supply	Sewerage	Solid waste management	Total investment
Duhok	33.258.000	21.955.000	14.832.000	70.045.000
Erbil	33.155.000	23.257.000	27.612.000	84.024.000
Suliemaniyah	43.513.000	36.234.000	30.351.000	110.098.000
TOTAL	109,926,000	81,446,000	72,795,000	264,167,000

Taking the population figure (urban and semi-urban) obtained in this study, in the Needs Assessment phase, the total investment per capita will be USD 158 and a sector-wise per capita investment USD 66 for water supply, USD 49 for sewerage and drainage, and USD 23 for solid waste management.

An investment strategy, which addresses the high priority municipalities during the first ten years (years 1-10), the medium priority municipalities during the next five years (years 11-15) and the low priority municipalities during five next years (years 16-20) leads to the following calculation on the total investment (in USD) need per Governorate:

Governorate	High priority (Y.1-10)	Medium priority (Y.11-15)	Low priority (Y.16-20)
Duhok	46.894	22.800	0.351
Erbil	34.106	47.828	2.096
Suliemaniyah	77.456	31.230	1.411
Total investment	158.456	79.058	3.858
Annual investment	15.9 million	15.8 million	0.8million

On top of the above a sum of 10% should be added to cover the costs of the operational training needed to safeguard sustainability of the improvements. The limited scope of the capacity building- and also awareness raising -is reflected in the proposed allocation of additional 10 % to the estimated investment. A full-fledged

capacity building and awareness-raising program could require as much as 15 to 20 % on top of the investment.

Other

# Master Plan for Social, Political and Economic Engineering of New Iraq

June 2002

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#### GOALS INBUILDING A NEW DEMOCRATIC IRAQ

Iraq is a country rich in both natural and human resources with substantial income from oil revenue. In order to make the best use of these resources and bring Iraq into the world family and build a market economy, reform must take place along the following areas. At the heart of these reforms, however, is the evolution of a broad-base Economic Empowerment System.

Our group is not seeking or competing for political power or control in governing new lraq. We are a group of business professionals whose interest is in rebuilding the infrastructure and economy of new Iraq, who can enable the country to function and/or assist the new government to function well. We have access to professional resources at both national and international level. Our team's role is to facilitate a strategic planning and implementation and assist the new leadership in this process.

The strategy for new lraq will fall into the following three segments:

#### FIRST ONE HUNDRED DAYS

IMPORTANT ISSUES TO BE DEALT WITH IN THE FIRST ONE HUNDRED DAYS OF NEW IRAQ:

- 1. Immediate control of the weapons and Weapon's Mass Destruction
- 2. Control of Critical Institutions: Army, Security, Broadcasting
- Controlling the aftermath of a violent end of current regime (by war, coup or street battles.)
- Controlling Security: borders, revenge & mafia, ethno-tribal and political quest for power, ex-regime
- 5. Control of Critical Assets: Banks, Documents, and National Treasure
- Communications with Iraq's neighbors, the US and the UN
- 7. Management of Human Needs: Health & Food, security, law and order
- 8. Management of key infrastructure: Electricity, communications and water
- Provision of Political Framework for the main political, ethnic, armed or tribal representatives
- 10. Provision of public Framework for other Iraqi voices
- 11. Measures for Maintaining Local Administration: village standard and provinces
- 12. Measures for Maintaining Central Administration: Baghdad and Ministries

#### II. FIRST YEAR

IMPORTANT ISSUES TO BE DEALT WITH IN THE FIRST YEAR OF NEW IRAQ:

- 1. Birds view of the economy
- 2. Medical care in general, Hospitals in specific
- 3. Education and Schools in specific
- 4. Security
- 5. Judiciary
- 6. Representation, accountability and transparency
- 7. Strengthening local administration
- 8. Functioning frameworks:
  - Constitutional issues
  - Media access
  - Public Gatherings
  - Local Elections

#### III. FIVE TO SEVEN YEARS PLAN

This plan will work in depth in reforming the following areas:

- 1. Reforming social system
- 2. Reforming government and political system
- 3. Reforming economical system

Specific items to be addressed within each area of the five to seven year plan:

- 1. Social System
  - Family structure reform
  - Tolerance: ethnic, religion and social class

- Educate and make the people aware of what has been happening to them
  psychologically and socially as well as economically and politically in
  creating a new popular mentality as a precondition to fundamental reforms
  of its institutions.
- Create a public relations organization to present Iraq to the world in a new light. At the same time, assist in the rebuilding and restructuring of Iraqi society to its remotest corners.
- Encourage intellectuals to form societies that give them special recognition and status.
- Cultivate the arts and pride in the rich historical heritage of the Iraqi people
- Provide adequate public and social services to all Iraqi citizens
- Create educational programs for Iraqi youth to build trust and confidence in the new Iraq
- Create special programs for senior citizens so that they can have a smooth transition to integrate into the new Iraq
- Create programs to educate people on equality for all citizens especially in regards to gender, religion and ethnicity
- Close the gap between the Iraqi expat and the local Iraqi people

#### 2. Government and Political

#### Military

- Reform the mentality of the Iraqi military to give them greater independence from abusive government and sufficient professionalism to insulate them from divisive Iraqi politics.
- ii. Give amnesty to the lower ranking military officers in order for the military organization to continue functioning throughout the transition period and make use of their expertise to serve and open and democratic society that values transparency and ethic
- iii. Rebuild the Iraqi military image and reeducate the military to serve and protect the new democratic Iraq
- iv. Reform the military service requirements determine the time period for serving and discharging from the military
- v. The function of the military should focus on the defense of the people of Iraq as opposed to the ruling government
- vi. Reduce size of the military to an adequate level

#### Judiciary System

- i. Reform the legal system that will consist of the following
  - 1. human rights
  - 2. civil and criminal laws
  - 3. family laws
  - 4. foreign and domestic investment laws

- 5. business laws
- 6. real estate laws

#### Legislative and Political

- Build a democratic Iraq based on a multi party system inclusive of all Iraqi people.
- ii. Make use of expertise acquired in the service of the current functioning government after retraining and re-channeling into new avenues more conducive to serving an open and democratic society that values transparency and the work ethic.
- Reform constitution of Iraq to provide equality and respect for all ethnic and religious groups

#### Environment and Public Safety

- i. Remove land mines
- ii. Environmental clean up
- iii. Clean up of the Iraqi rivers, ponds, lakes, and streams

#### 3. Economic Empowerment System

Although economic reforms cannot be separated from the needed political and social transformations, the economic goals featured in a master social engineering blueprint drawn to serve all segments of the population of Iraq will be listed first.

- Attract the Iraqi expatriates to return back from the Diaspora to their ancestral homeland so they may transfer, in part or in whole, knowledge and resources acquired abroad to the home base. Create an agency to serve the expatriate community consisting of both local Iraqi nationals and returning expatriates.
- Show no partiality in reforming or restructuring every sector of Iraq's economy.
- Involve as many nationals of Iraq both men and women in the country's sustainable economic development efforts, through reeducation campaigns to make aware of their opportunities to build better lives for themselves and their families by participating in the new prosperity of the land.
- Remove all legal, bureaucratic, and other obstacles that stand in the way of creating wave after wave of small businesses so potential pools of entrepreneurial talent and material ambition may activate previously economically inactive populations.
- Rebuild the Iraqi middle class as an indispensable force in sustaining economic growth with low taxes, simplified regulations, business and vocational education, dissemination of information on new business

opportunities, new technologies, optimal production and marketing systems through TV, Internet, satellite and other communication systems.

- Establish indisputable rights to own private property, freely to enter into contracts, and gain access to the legal system to settle commercial disputes.
- Create free trade (and business) zones, temporary exemption from business taxes and other mild forms of infant industry protection.
- Reform and modernize the Iraqi banking and financial system.
- Create a credit guarantee fund or agency to guarantee about 75% of new loans banks make to expand their markets dramatically by financing new ventures of previously discouraged entrepreneurs and talented minorities excluded from the economic mainstream under the guidance of mentortechnicians with financial incentives to motivate and guide them in preparing workable business plans and adopting optimal technologies and business practices.
- Legislate business friendly tax and regulatory laws for responsible not exploitative - domestic and foreign corporations.
- Protect the rights of women, children, labor, cooperatives, and the environment.
- Protect intellectual property copyrights and patents and facilitate development of cadres of managers, CPAs, engineers, lawyers, and information technologists.
- Sponsor new foreign investment laws to attract foreign capital.
- Revisit and reform oil industry policies and raise the industry to current standards.
- Develop a system of national accounts to monitor economic developments.
- Prohibit vertical integration of business operations and provide incentives to open distribution centers and end-users' outlets to prevent abuse of market power.
- Build registers of professionals and other human resources to have on hand lists of individuals who may be called upon to assist various projects of national importance.
- Participate in productivity enhancement programs of advanced countries to give Iraqi business and professional leaders access to state of the arts practices in their respective fields through internship or short-term training programs.
- Open the health service and pharmaceutical industries of Iraq to competition from alternative health systems and nutritional programs.
- Encourage the development of family farming and a diversified agricultural sector.

The path for an economically stable New Iraq that contributes to the world economy consist of the following steps:

- 1. Build a democratic Iraq based on multi party and inclusive of all Iraqi people
- Reform and restructure the economy of Iraq in all sectors. (Iraq is a resourceful country both on human and natural resources with a good income from its oil
- Reform and reeducate the Iraqi people's mind and thinking. Make the people aware of what has happened, what are the plans for now and future
  - Create a PR organization to reintroduce Iraq to the world. At the same time rebuild and restructure the Iraqi society from every corner of Iraq
- Involve the people of Iraq men and women in the new economic development of Iraq
  which will be reeducating the people about the possibilities for prosperity and better
  life
- Rebuild the Iraqi middle class to sustain the economy
- 6. Reform and rebuild the Iraqi banking system and all financial institutions
- Reform the Iraqi military by separating the military from government and not to get involved in the politic of Iraq
- 8. Create new foreign investment laws to attract foreign investors
- 9. Create free zones (trade and business)
- 10. The right of Iraqi individual to own property
- 11. Encourage and develop the farming family and agriculture sector
- 12. Develop the agriculture sector
- 13. Encourage the intellectual people give them special status
- 14. Clean up Iraqi rivers, ponds, lakes, streams
- 15. Attract the Iraqi expat both small and big
- Encourage the people to depend on the Iraqi resources in the industry and other sectors
- 17. Revisit and reform the oil industry policies and bring the industry to today's standard

- Reduce the spending of military to a minimum and essential for defending the country
- Create a wave of small businesses by encouraging the potential entrepreneurial people
- 20. Provide public and social services to all Iraq
- 21. Create a budget for each province and have the province to manage its affairs
- Encourage and create laws for small businesses and minorities and special financial institutions to provide funding for their projects and operation
- 23. Create a transparent tracking system to monitor the progress of economy
- 24. New laws for corporation domestic and foreign
- 25. New laws for copy right (intellectual property) technology protection (patents)
- 26. Incentive for businesses and all people
- 27. Incentive for investors, domestic and foreign
- 28. Environmental laws
- 29. Land mines
- 30. Health industry, pharmaceutical
- 31. Develop manufacturing, distribution centers, end-user's outlets.
- 32. Regional cooperation to enhance the cooperation in the region. Recognize the right to existence of all au neighbors and other nations.
- 33. Create new waves of managers, CPA, lawyers and etc.
- 34. Need technology to disseminate information such satellite system TV etc.
- 35. Create a credit guarantee fund agency that will help to guarantee a portion or whole loan for entrepreneurial people who will build and develop businesses. This agency will be able to support itself and make money from the fees that will be charged to guarantee the loans
- Build a databank that will consist of people of whole kind of background and other tools to be used as resource center.

- 37. Create consultants/mentor/advisory agencies that will help and guide the entrepreneurs to develop their new businesses and to be there as their advisor for the entrepreneur. At the same time, they can be used as a bridge between banks and potential entrepreneurs.
- 38. Encourage potential entrepreneurs
- 39. Iraq has a functioning government. We must use the expertise of the existing government personnel, but at the same time train new people based on a democratic and open society that believes in transparency and work ethics.
- 40. Create productivity enhancement program. This program's function is to send people to outside Iraq to be trained on various fields such as banking, law, management, administration, accounting, etc. These people will go back and train the local people and transfer the know-how to them.
- 41. Create an agency that will deal with the expat community. This agency should consist of local Iraqi people and expat Iraqi people. One of the function of this agency is to attract the Iraqi expat community to return to Iraq to transfer their resources and knowledge to Iraq in whole or in part.
- 42. Since Iraq has a functioning government, it will not be wise to dismantle the entire system despite that the system was built and controlled by one man. Therefore, to compete and replace the current Iraqi structure which has been controlled by one man. We should form the People's Association (PA). The member of this association will be business community, chamber of commerce, tribal leaders, arts and leisure, recreational clubs and social activity groups. The mission of the PA is to provide advice and services in community centers that will be set up through out the country to conduct literacy classes, hands on courses in automobile repair, cooking, sewing, radio and television repair, agriculture and etc. By competing against and out doing the existing structure of the current regime, we will gradually win back part by part of the ground that the regime has controlled so long. The Iraqi expat community will be involved in this process by contributing their skills and resources.
- 43. The sanction naturally has created a black market business, we need to deal with this black market step by step and stabilize the currency.
- 44. Conduct workshops through out the country to educate religious tolerance specifically focus on clergies.
- 45. Due to the ethnic cleansing and religious discrimination policies that was adopted and practiced by the current Iraqi regime, many people have been displaced from their homes and natural place of birth and in some cases, they were expelled from Iraq to countries like Iran and this is specifically true in the case of Faili Kurdish. Those people should have the right and should be allowed to return to their original places and reclaim their assets.

This is a gradual process and it should be done on a proper plan. In many cases, some people will not be able to repossess what they have lost due their displacement, the government should either provide them with adequate compensation or offer them with another comparable site.

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