



Iraq Economic Policy Papers

An ‘Economic Development Board’ for Iraq, *not* a ‘Construction Board’! By Dr. Amer Korkis Hirmis*

[‘Majlis al-Tanmiya al-Iqtisadiya’ lil al-‘Iraq, *wa laysa* ‘Majlis al-I’mār’!]

The ‘Ministerial Programme’ presented to the Iraqi Parliament on October 25, 2018 by the new Prime Minister of Iraq, Mr. Adil Abd al-Mahdi, represents a positive qualitative improvement since 2003. The programme has a number of strengths and provides many opportunities, which, if seized efficiently, based on good governance and rule of law, should achieve higher *economic growth* (as distinct from *economic development*), adding new capacity to the Iraqi economy. The programme sets clear graded priorities and targets to individual ministries, to be implemented within specific timescales.

The 2018-22 Ministerial Programme (henceforth the Programme) also suffers from serious flaws ¹, which might jeopardise the implementation of the Programme and take the country in a direction that might not serve national (Iraq’s) interest, and the Iraqi people, especially, women, the unemployed and the 30 percent of Iraqis living in poverty. For example, the Programme could have benefited from the characterisation of the Iraqi economy, the quantification of a few key socio-economic indicators ², by way of providing a context for the Programme. The Programme appears to be over-confident in their promise to engage the private sector in a major way, although past experience does not appear encouraging, at least since 2003. Other weaknesses in the Programme include the meagre emphasis on reviving the manufacturing industry (a key prong to any credible economic development strategy for Iraq) and establishing the mechanisms for increasing participation of women in the economy and labour market ³. The Programme should have expressed the intention of retaining state power over allocating oil export revenue, rather than leaving this vital role to the new ‘National Oil Company’ (*cf.* Sabri. Z. al-Saadi, 2018) ⁴. The notion that Iraq should move towards establishing a ‘Social Market Economy’ (Programme: 67), a German post WWII invention ⁵ is sadly baffling – the idea verges to the point of extreme implausibility, given Iraq’s socio-religious make up, the extent of the backwardness of its economy, the widespread tribal work ethics and extent of corruption, to say the least.

Within this context, the focus of this note is the proposal made in the Programme (page. 12) relating to the establishment of a ‘Construction Board’ ⁶.

The Purpose



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The purpose of this note is to propose to the Prime Minister of Iraq Mr. Adil Abd al-Mahdi, and his Cabinet colleagues, to carefully consider establishing a Construction Board, learning from the lesson of recent history of Iraq. The proposal does not fall under the theme of ‘strengthening the economy.’ Instead, it is mentioned under the sub-heading ‘tackling corruption of wasting public money.’ The relevant paragraph reads as follows:

“Attempt to *legislate a law for a Construction Board*, up-date the investment law and the (National) Investment Commission, as investment is an essential means to rid (Iraq from) a rentier economy and dependence on oil, and initiate a take-off for the real national economy, reduce unemployment, provide services, alleviate poverty, illiteracy, ill-health, corruption and establish peace and social stability” (author’s literal translation, italics and brackets are added).

It is well known that Iraq had established a ‘Construction Board’ (translated as Development Board - DB) in 1950, under the Monarchy. Some 70 percent of Iraq’s oil revenue was allocated to the DB at the beginning of its operation, for mainly infrastructure projects in the agriculture sector. The DB did not play the role of a facilitator/enabler to initiate a strong, export-oriented, manufacturing sector, in spite of absolute advantage of low cost of oil extraction in Iraq. There is a body of opinion which suggests that in spite of many challenges it faced, during its eight years, the DB did achieve marked success ⁷.

What is not clear from the Programme is whether the implied intention is to gradually phase out the Ministry of Planning, only to be replaced by the Construction Board. As it happened, the development planning system that evolved after 1958, and translated into successive national development plans did not, on balance, have a high degree of success. The rate of implementation of the plans has been low; falling in the 50-60 percent bracket on average during 1960-2017. Explaining NDPs’ poor performance is outside the scope of this note ⁸.

However, in considering the rejuvenation of a ‘Construction Board’ by the government of Prime Minister Adil Abd al-Mahdi, it is vital to critically and objectively reflect on the new context and the (tumultuous) socio-political and economic transformations Iraq has been through since 1958. The damage inflicted on Iraq’s economy and social and physical infrastructure, let alone the Iraqi citizen, is enormous – indeed it is difficult to comprehend the extent of this damage, compounded by the (physical and psychological) destruction that has been caused by ISIS more recently, and before that the



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inter-sectarian, and ethnically/racially-driven violence, across the country. In consequence, the current state of the Iraqi economy remains to have all the hallmarks of a backward economy⁹.

Establishing an ‘Economic Development Board’ for Iraq – a radical approach

Difficult times, such as those Iraq is witnessing at this juncture, need bold, imaginative, alternatives to the *status quo*, and, equally importantly, a strong political will and leadership that will effect constructive changes in the economy (and society) within a rational, reasonable and realistic vision for Iraq that has the continuous improvement of the well-being of all Iraqis at its core¹⁰. The new government should adopt the concept of *economic development*, which goes beyond the concept of *economic growth*, and which the proposed Construction Board could help initiate. It is much more focused than the concept of *sustainable development* – the latter having become a cliché attached to every economic or otherwise policy¹¹. Here *economic development* is seen to involve:

The design and the implementation of policies that aim to initiate and achieve not only economic growth, but also the enhancement of people’s multiple skills, education, health, civility, work ethics, employment creation, eradication of poverty, improvement of physical environment and infrastructure, to the highest levels possible, regardless of people’s race, gender, ethnicity, social background, geography, all achieved with humanity¹².

In brief, *economic development is about (and should be defined as) the constant improvement of the well-being of all (Iraqi) citizens*. Arguably, as economic development evolves, with it would evolve the supporting institutions, legal frameworks, good governance, proficient government and functional democracy that would work to sustain economic development, and increasingly higher levels of well-being of people, in the long term, from one generation to the next. Of course, the direction of causation runs both ways.

On this basis, instead of rejuvenating a Construction Board, the Programme would benefit from instituting an ‘Economic Development Board.’

Towards an economic development strategy for Iraq by an ‘Economic Development Board’



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If the Programme has concerns about the development planning process/outcomes since 1958, it should also recognise that Iraq does not (at present) have an economic development strategy¹³. Most of the possibly 3000 or so projects included in the 2018-22 NDP lack rigorous socio-economic feasibility study based on internationally accepted norms (e.g. SCBA, NPV/IRR...)¹⁴. In its essence, the 2018-22 NDP does not provide realistic predictions on how/to what extent the *well-being of the Iraq people* will improve materially in (per-capita) income, income distribution, progress in education, health services, housing, physical infrastructure, and so on¹⁵. The 2018-22 predictions are tied to those made by the IMF for the period to 2022¹⁶, maintaining more or less the same GDP structure, as in the base year 2015. Although modest successes have been made, the experience of the past 15 years in planning economic growth in Iraq does not make a good reading.

A four-pronged economic development strategy for Iraq

In brief outline, a 3-year economic development programme, drawn within the context of an overarching strategy, integrated with a 3-year national federal budget should be considered by the new Prime Minister and Cabinet. The programme and the budget should be approved by the Cabinet and Parliament. An annual review of both should be presented to, and discussed by, parliament. So it is right that the current Programme (page 21) suggests that the structure and nature of the budget should change, accordingly.

A *four-pronged* economic development strategy should replace the 2018-22 NDP, and may be implemented by the new EDB, should our understanding of the Programme turns out to be correct. The four key themes of the strategy should be:

1. The development of the **manufacturing sector**. This is an absolute necessity for diversifying the economy away from its dependence on oil, with increased emphasis on satisfying the domestic demand, as well as developing export-oriented industries, where Iraq could develop comparative advantage in contested markets over a short period of time. For example, the petrochemical industries, plastics, pharmaceuticals, cement, agri-processing, poultry production, fisheries, and so on (*cf.* Programme: 16; 24);
2. The development of the **agricultural sector**, which requires a rigorous management of the water resources, labour force skills development and stronger links with manufacturing. Securing affordable, high quality food, to the Iraqi masses, produced efficiently is of paramount importance. Instead of dispersing land

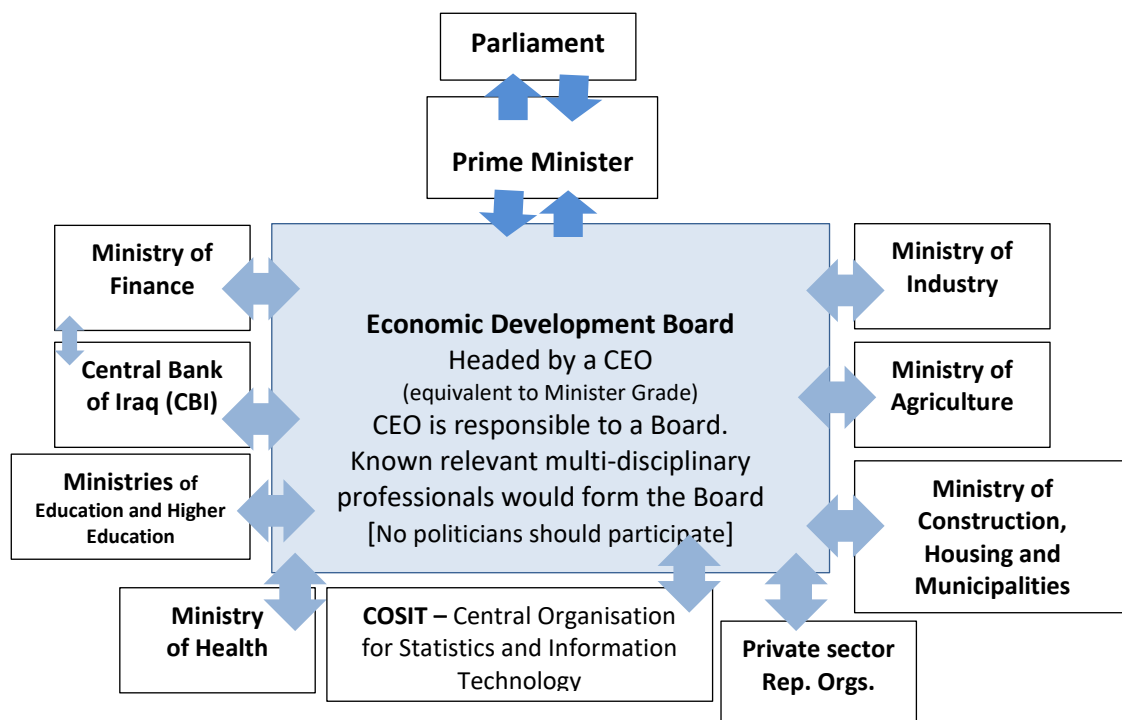
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into small holdings, the Programme would benefit from introducing ‘*agricultural corporations*’ on a wide scale, reaping the benefits of economies of scale, and long term investment (*cf.* Programme: 22-3; 42);

3. **Physical and social infrastructure development.** Building roads, bridges, airports, housing, schools, hospitals, etc. is a key area for creating well-paid jobs, reducing unemployment, alleviating poverty, and, as in other sectors, instilling professional work ethics, eradicating corruption or violence (*cf.* Programme: 29-30; 32);
4. **Development corridors** should be initiated beyond urban centres, to link up various muhafathas with their rural hinterland. A parallel housing strategy should be in place, thus creating flexibility in the movement of labour and capital across the country, so alleviating the pressure from major urban centres, like Baghdad, Basra, Mosul and Erbil.

Proposed structure for an ‘Economic Development Board’

The proposed initial key links of the EDB with key ministries/private sector representative organisations that have *direct* impact on designing an economic development strategy, and policy implementation are set out in Figure 1 below.



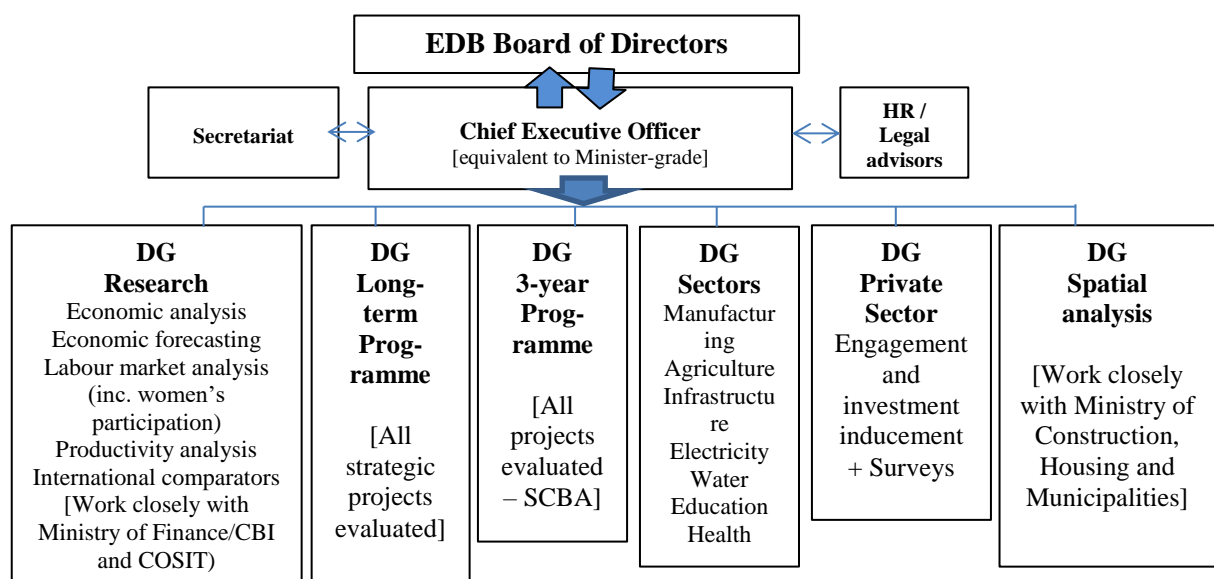
These links should be reviewed every three years, in part to improve performance. Key operational rules must be set out. For example, Members

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of the Board must not serve more than two (3-year) terms. The EDB law should define its organisational structure, responsibilities, budget, financial resources under its jurisdiction, and so on. To undertake its responsibilities fully, both Iraqi government and parliament should learn from previous experience, and may decide to *allocate a percentage of oil revenue to the EDB* to oversee the implementation of planned projects and to induce domestic and foreign private investment in *productive sectors* of the economy. As economic development begins to take root in Iraq and as employment shifts from the public to private sector, the need for the currently overblown ‘operational budget’ will decline, and more of the (oil/tax) revenue should be allocated to ‘investment budget.’

The new EDB must be regulated by a new *independent* ‘Office for Economic Development Responsibility’ (OEDR) ensuring that the EDB performs and delivers policies efficiently and effectively, as set out in the law. This means that the operator *must not* be the regulator.

Like the proposed links of the EDB, the EDB’s organisational structure, should be given careful thought so that it could rise to the complex and sophisticated challenges it will have to face. The organisation must be lean, efficient, and have first-in-class cadre whose professional reputation is above all suspicions. The EDB must be an effective organisation, ensuring that its policies are implemented. A crude organisational structure of the EDB could look as in Figure 2 below:



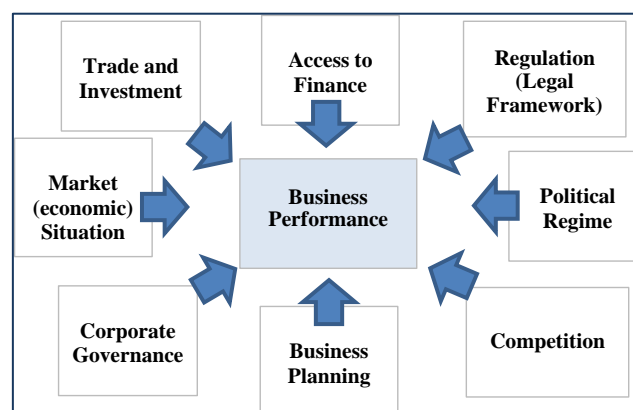
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The private sector as the motor of economic development

If the government of Adil Abd al-Mahdi wishes to give the private sector a prominent role in achieving economic growth and developmental objectives (*cf.* Programme: 42) then they must firstly engage the private sector in the economic development process. This could be achieved in part through proper, timely and meaningful consultations with the representatives of the private sector, for example ‘Chambers of Commerce’ and ‘Iraqi Federation of Industries’ as well as trade unions so as to address the issues that would induce private sector investment in the productive sectors of the economy, where graduates from vocational training colleges and universities might find new jobs.

Moving to a market economy will take generations of hard work, with possible setbacks. The ‘Iraq 2030 Vision – Economic Prosperity’ appears to be unrealistically ambitious - the private sector is expected to contribute 56 percent of GDP¹⁷. The conditions for this to happen over the next 12 years are so lacking (see next paragraph). COSIT’s figures show that since 1991, the private sector’s contribution to total gross fixed capital formation (GFCF), a key component to GDP, has declined from 50 percent to 15 percent in 2014!

Instead of setting out unrealistic targets for 2030, a more realistic scenario would be to create a conducive environment for the (domestic and foreign) private sector to invest in the productive sectors through partnerships or establishing corporate PLCs. Such an environment, where the private investors weigh the rewards against potential risks in the short/medium term, has been subject to numerous studies. In short such an environment (which is lacking at present) comprises *eight key elements* (Figure 3 below) which the private investor considers when investing¹⁸.





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In the case of Iraq, it is reasonable to add the heavy cost of corruption, and the time-cost to the potential investor of very long time taken to establish a business. The potential for sectarian violence and political instability also remains real.

A concerted and coordinated effort from within government will, therefore, be required to assure/induce the private sector to invest. In reality, the private sector would (typically) operate in an environment that is perceived to protect their commercial interest through a sound legal framework, applied by an impartial judiciary.

Changing the objective conditions to make the Programme work

Many *objective conditions* would need to prevail for economic development to take root in Iraq. These include a political will for change to a secular state, desectarianisation of polity/government machinery, changing the 2005 constitution, making it a secular, not a religious one, opening space for the formation of democratic/secular political parties proper, engaging with civic societies, trade unions, private business representatives, and genuine change towards girls/women education and participation in the labour market, eradicating tribal work ethics, especially in government and, last but not least, serving Iraq and the Iraqi people.

These conditions are difficult to achieve in the short- and medium-term. If economic development is initiated though, a gradual transformation will take place, of which the nature might facilitate such changes, in the long-run.

For the present, the formation of the 'Economic Development Board' could usher a positive first step forward. For the Board to be effective in realising its objectives, one of the key conditions is a *supportive legal framework* within which it could operate. This means that all the laws that impact on the economic activity of people and businesses as well as the public sector should be co-ordinated, to avoid inconsistencies and contradictions.

Examples of such laws include ¹⁹: The Labour law (37) 2015; Investment law 13 (2006); Company law 21 (1997); Industrial development law 164 (1964); Implementation of large projects law 157 (1973) and the Economic Establishment law 98 (1964). The abolished 'Development Board' law 33 (1950) might also provide some lessons when promulgating the EDB law? As noted above, the operator must not also be the regulator; otherwise, the seeds of corruption will be easily sown.



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In conclusion

In proposing to re-establish Majlis al-I'mār (Programme: 12), the government of Adil Abd al-Mahdi should not duplicate roles and responsibilities of other ministries/public organisation, for example the Ministry of Planning, unless the latter is seen as redundant given the intended move to a market economy. In this case, the EDB, with a defined investment budget from the oil revenue, would replace the Ministry of Planning.

If the government chooses this path, it is strongly advised to ensure that the new EDB becomes an effective, transformative agent for economic development. The EDB should not only have the right expertise, act in a strictly professional manner, report to the Prime Minister/Cabinet, its 3-year proposed economic development programme should be approved by parliament. It should have the power and budget to implement the agreed programme. Parliament could/should legislate to allocate a certain percentage of the oil revenue for the EDB to invest in strategic projects, and to use part of the money to induce the private sector to invest in the productive sectors of the economy.

Finally, if the government is serious in initiating economic development, its strategy must have encouraging investment in manufacturing as its first priority, even though this might run against the advice of international organisations²⁰. Its second and third priorities should be investing in agriculture, social and physical infrastructure, respectively. This effort should be supported by cogent legal framework that will enable this to happen. If it does, the EDB might have a good chance of success.

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¹ A likely source of these, and other, flaws in the Programme might originate from *some* of the key sources used in drawing up the programme (see MP, p. 6), including the 2018-22 National Development Plan (NDP) and the 'Iraq – 2030 Vision – Prosperous Economy.' In setting out its key assumptions (NDP: 16) has regard to the Iraq-IMF 2017-20 SBA. It is also heavily influenced by the International Monetary Fund - IMF's financial/economic projections for Iraq to 2022 (www.imf.org/en/.../Iraq-2017-Article-IV...). Most damagingly the sectoral allocations of 'planned' investment show a meagre 3.4 percent of the total for the agriculture, and 2.2 percent for



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manufacturing (NDP: 63). The IMF required Iraq to adopt a stringent fiscal regime, with which resonates a surprising paper by Muthhir M. Saleh, justifying the importance of fiscal consolidation policies, which, typically, affect the poorer sections of society much harder.

² Some key economic variables (drawn from the 2018-22 NDP) that reflect the weaknesses, if not the backwardness, of the Iraqi economy include:

- i. Oil sector comprised 55.1% of GDP in 2015 (up from 51.3% in 2010)
- ii. Agriculture sector contributed 2.0% to GDP in 2015 (down from 4.2 in 2010). The NDP projects a rise in its contribution to 2.2% by 2022? (NDP: 61)
- iii. Manufacturing contributed 0.84% to GDP in 2015 (down from 2.1% in 2010). The NDP projects a rise in its contribution to 1.12% by 2022? (ibid).
- iv. Oil exports comprised 99% of total exports in 2015.
- v. The parallel (black) economy in Iraq is rife, avoiding taxation and not included in GDP
- vi. Women's participation in the labour market is a mere 13%
- vii. The rate of unemployment is around 16% (and 25% amongst the youth)
- viii. 30% of Iraqis live in poverty.

³ The current rate of women's participation in the labour market hovers around 13%, compared to over 50% in, for example, Denmark, UK, and Singapore. The process of increased participation starts with universal world-class co-education in the primary schools, so that boys and girls learn how to respect each other from an early age, becoming effective partners in the future.

⁴ The prominent Iraqi economist Sabri Z. al-Saadi has this month (November 2018) produced a thoughtful critique of the key economic aspects of the MP, circulated privately. This note draws on this critique.

⁵ This proposal appears to resonate with a paper by Muthhir Muhammed Saleh (2017) 'A Reading in the Future of the Political Economy of Iraq' (posted on <http://iraqieconomists.net/>). The idea of 'Social Market Economy' was originally promoted and implemented in West Germany by the Christian Democratic Union (CDU) under Chancellor Konrad Adenauer in 1949. Its origins can be traced to the interwar Freiburg school of economic thought. Arguably, Iraq has no resemblance to post WWII Germany, in economic, social, and political spheres, nor the general outlook to life/culture.

⁶ The name 'Development Board' is a linguistic English construct. In England, the construction of major projects is normally referred to as 'development.' The 'Development Board' ('Majlis al-I'mār') in Iraq was founded to construct infrastructure projects. It was abolished in 1958, following the overthrow of the Monarchy in July of that year.

⁷ See, for example, Al-Haidari, Ibrahim (2015) The Development Board and its Pioneering Role in Economic Development (posted at: <http://iraqieconomists.net/ar/2015/06/06>, accessed on July 10 2015).

⁸ See for example, Al-Saadi, S.Z. (2009) The Economic Experience of Modern Iraq: Oil, Democracy and the National Economic Project 1951-2006 (Dar al-Mada publishing and Hirmis, A.K. (2018) The Economics of Iraq – ancient past to distant future (GHP, Chapter 7).

⁹ See Hirmis, A.K. (ibid: 316-7)

¹⁰ A good starting point would be to review, and improve on, the vision statement adopted by the 2010-14 NDP. This states that "Iraq is seeking to ...be a peaceful and stable nation... seeking to be an effective nation that functions in accordance with market mechanisms and a regional economic power that complements and is part of the international economy in a manner that embodies the principle of international partnership. Based thereupon, Iraq will use its economic resources, both human and natural, effectively and efficiently to attain a competitive and diversified economy in which the private sector has a leadership role in generating wealth and jobs, while the government performs an organizational and enabling role to address market failures and ensure equitable distribution of national income so as to enable the most vulnerable social groups to fulfil their role effectively in achieving economic and social progress. All of this is to be achieved with guidance from the principles of democracy, the rule of law, good governance, sustainable development, competitiveness, social justice, freedom, and human rights"

(<http://www.unesco.org/education/edurights/media/docs/795ff8cb2cd3987aba07572026cdb6d0958cd27a.pdf>: p.

24. This is a UNDP/UNAMI translation of the below Arabic version). In the author's view, this statement is superior to the current 'Iraq - 2030 Vision: Prosperous Economy' (July 2017) which contains numerical targets for private sector contribution to GDP, at 57%. This is difficult to comprehend, as a 'vision' is actually a statement of intent, not of specific targets given within such a long-term timescale?

¹¹ Essentially, the concept of 'sustainable development' in the context of this note might refer to economic resource allocation/use to improve the well-being/living conditions of the Iraqi people, without undermining the integrity and stability of the eco-system.

¹² This definition is based on Kindleberger, C.P. (1958) Economic Development (McGraw Hill Ltd. London), Seers, D. (1969) The Meaning of Development (Institute of Development Studies – communication # 44) and Sen, A. (1999) Democracy as Freedom (Oxford UP). Here 'economic growth' means an increase in real GDP. An increase in real GDP in turn means there is an increase in the productive capacity of the economy and value of national output/national expenditure.



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¹³ Kadhim al-Hassani's 'Iraq Government's Economic Strategies', provided in the form of a Power Point presentation in Berlin 27-28 February 2018, is an amalgam of sector strategies that do not appear to follow a cohesive overall quantifiable objectives, thus becoming a set of intentions that Iraq government would wish to pursue (see www.iraqieconomists.net).

¹⁴ SCBA refers to social cost benefit analysis, NPV refers to Net present Value techniques, and IRR refers to Internal Rate of Return of investment.

¹⁵ The 2018-22 NDP does not have a legal power to effect growth, let alone induce private investment (of a projected IQD 88.6 trillion) in a meaningful way (NDP: 62). The mechanisms to induce the private sector to invest under the aegis of the NDP simply do not exist.

¹⁶ See NDP 2018-22: 60, Table 6 (posted at: <https://mop.gov.iq> in Arabic), and IMF (ibid: 4, Table 1)

¹⁷ See Muthhir Mohammed Saleh (2018) Fiscal Consolidation for Iraq – a vision for 2018-22 (posted at www.iraqieconomists.net).

¹⁸ See Hirmis, A.K. (*op cit*: 58)

¹⁹ Compare with Al-Zuhairi, Riad A.Isa (2018) the legal system for government economic activity in Iraq (Academic Voice, Association of Iraqi Academics – UK, No. 1 June 20, pp. 12-15)

²⁰ For example, UNIDO, UNAMI, World Bank (WB) and the IMF.

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