

WHITE PAPER

Final report

Emergency Cell for Financial Reforms

(October, 2020)

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Introduction

This white paper contains the final report of the Emergency Cell for Financial Reform, which was formed pursuant to the Cabinet Resolution No. (12) adopted in its session held on May 12, 2020, with the aim of managing the financial situation in light of the current financial crisis, and developing the necessary solutions to achieve financial reform and improve the performance of the financial institutions. The Emergency Cell for Financial Reform has developed the economic reform program stipulated in the Domestic and Foreign Borrowing Law No. (5) of 2020, with the aim of restructuring the Iraqi economy to address the upcoming challenges.

The Emergency Cell for Financial Reform (ECFR) was chaired by the Prime Minister, and the cell's meetings were presided over by Minister of Finance, and included representatives from the economic ministries and the concerned state institutions, including Ministry of Finance, Ministry of Planning and Ministry of Oil, as well as the Central Bank of Iraq. ECFR held more than twenty (20) official meetings between May and August, 2020 and received detailed statements and reports from all concerned state agencies, as well as from the representatives of the private sector. ECFR has completed preparing its report, known as the "*White Paper*", referring to the approach followed in it, through which the government provides its recommendations on the key challenges, with the aim of crystallizing a common base to be agreed upon and approved, followed by presentation of the necessary legislations and, accordingly, the implementation procedures.

The White Paper was designed to present, in a locally and internationally reliable manner, a combination of strategies and policies needed to address the economic and fiscal challenges of Iraq that have largely exacerbated. The White Paper was written with a deep awareness and recognition of the urgent need that implementation of the core economic reforms can no longer be postponed or carried forward. We can no longer hope that oil prices will somehow rise again, giving us the fiscal space to carry forward the reforms indefinitely.

Given that accurate and systematic diagnose of the economic challenges and their deep roots is the essential basis for identifying the required remedies, nearly half of the paper has been devoted to describing the economic and financial challenges and analyzing their roots and implications, as well as the opportunities that can be utilized if the reforms are implemented. This section describes the key macroeconomic conditions of the country, as well as the reasons and the need for the reform and restructuring. Then, the *White Paper* continues to discuss the main axes of the reform proposals in the main sectors that drive the economy.

A number of technical appendices that support the *White Paper* have been developed, which will be released separately for researchers interested to obtain more details about the reasons behind our recommendations and our conclusions. A detailed action plan will be launched that will include the required actions, the agency responsible for implementation, the timeframe and the monitoring strategies. It was considered to postpone the launch of the action plan pending the approval of the reforms included in this draft, to reflect the comments of the Council of Ministers and the parliament representatives as the final action plan will depend on the final approved version of this paper. The details of the legislations to be amended will be provided after the due approval of the *White Paper*.

Emergency Cell for Financial Reform

October, 2020

Assessment of the Current Situation

Iraq undergoes several shocks as a result of the financial and economic crises it is facing due to the drop in oil prices, due to the lack of agreement among OPEC members and its allies outside the organization (OPEC+), starting from last March, as well as the devastating effects and decline the world has also witnessed during the full lockdown imposed globally due to the outbreak of Corona pandemic (COVID-19). Within the next six to twelve months, the crisis resulting from these shocks will worsen, unless the measures suggested in the "white paper" are taken urgently and comprehensively. While these economic shocks are exceptional and cannot be predicted, the structural imbalance in the Iraqi economy, exacerbated by the population pressures, would inevitably lead to such crises - the question before COVID-19 was about the timing of the crisis, and not about the possibility of occurrence.

The imbalance in the economic structure is the sum of the accumulated public and economic policies since the 1970s - employing the growing oil revenues as a tool to amplify the role of the state in the economy and society through expanding: (i) the public sector; (ii) direct and indirect control of the economy by the state; and (iii) the rentier role of the state in public service delivery to the society. Opportunities have existed to change this course after 2003. However, the new political regime wasted and misused those opportunities, as it was unable to create a free and diversified economy in accordance with the principles approved by the constitution, and continued to apply the previous philosophy, with the emergence of new power centers and the trend towards using sectarian quotas as its tool. The result of these policies was a fragile economy, which contributed to the development of the conditions that led to the current economic crisis.

1. General objectives of the paper

The "white paper" aims to "rebalance and reposition the Iraqi economy on a track that allows the state to take appropriate steps in the future to transform it into a diversified and dynamic economy, creating opportunities for the people to live a decent life, through proposing a set of "comprehensive reforms and policies", as described in the subsequent sections. Implementation of these reforms requires harsh measures, though bitter, to address the current severe financial crisis. With that in mind, implementation of such set of reforms requires political courage, buy-in and acceptance of the Iraqi people – with the political elites and in the forefront – and ensuring their participation in the implementation of these difficult, yet indispensable economic measures to provide the minimal fiscal space needed to embark on the program of reform set forth in the proposed paper.

- Redefine the role of the state in the economy and society, in line with the principles of the constitution.
- Introducing radical improvements to the state's management of the public finance system.
- Creating enabling environment to create a competitive and dynamic economy.
- Restructuring the financial and banking system.
- Addressing the factors that led to the poor labor productivity in the country.
- Protecting vulnerable groups in the society during and after the implementation of reforms.

This paper seeks to achieve a set of general objectives, including:

- Redefine the role of the state in the economy and in the society by transforming it gradually from a controlling role to a regulatory role, ensuring enforcement of the law and order, creating public infrastructure, and ensuring delivery of education, healthcare and social protection services to the vulnerable groups.
- Introduce radical improvements to the state of public governance of the public finance system to achieve effective management of the state revenue, and ensure public service delivery with the minimal wastage of the available scarce resources. This can be achieved by operationalizing the “Public Financial Management System” and the “Public Investment Management System”.
- Revitalize the current worn out economy, which depends mainly on the state, and creating a competitive and dynamic economy, by addressing some of the structural challenges facing its growth.
- Restructure the financial and banking system and granting them a fundamental role in the economic development, by starting to develop banks deposits and loans, for being the key drivers of the economic expansion, and managing the means of the payment system in a different way from the current monetary economy with all issues associated with it.
- Moving from the current low productivity and low income level to a high level of productivity and income, by addressing the factors that led to the low labor productivity in

the country, which recorded in 2018 less than half of its score in the 1970s¹, due to the dominance of the non-productive public sector, in addition to the decline in the traded goods sector, and the negative effects of the non-competitive exchange rate of the Iraqi dinar - particularly against the exchange rates of the country's trading partners - on the agriculture and primary industries in the country over the past decades².

- Protect vulnerable groups in the society, by providing a comprehensive welfare system and comprehensive education and healthcare services, and ensuring that scarce resources are directed to these groups during the upcoming difficult transitional period.

¹ Some indices, such Labor productivity index of Conference Board, show that the productivity rate of the Iraqi worker in 2018 was (47%) of what the case was in 1970, while the total index at constant value in 2017 shows 36% of what it was in 1975.

² Over the years, the influx of foreign currency from oil sales revenue contributed more to the growth of foreign reserves as compared to the influx resulting from imports, which led to increased exchange rate. This phenomenon is known as Dutch disease.

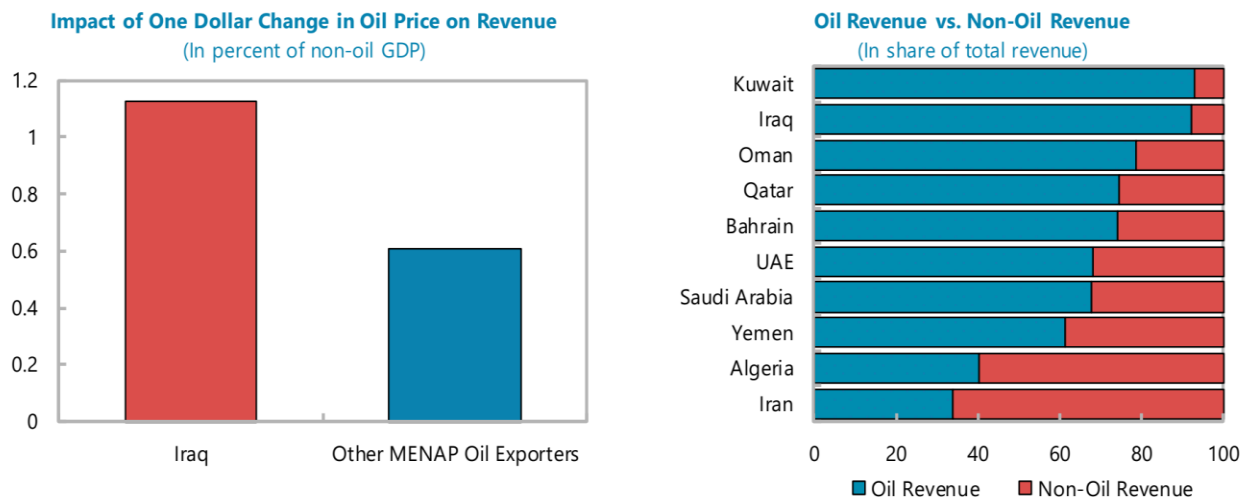
2. Roots of the problem

The policies of expanding the state's role in the economy and society, especially the high expenditure on salaries of the employees³ and pensions, have come at the expense of the much-needed spending on the dilapidated public infrastructure as a result of the conflict over more than four decades, as well as at the expense of building fixed capital in the country - which form two key axes of sustainable economic growth away from over dependence on oil resources. The expansion of the role of public sector in the economy has caused significant damage to the private sector and narrowed the space available to it for growth. All this resulted in an economy mainly driven by imports of goods and services, a stifled private sector, a public employment-oriented labor market, and a continued over-reliance on oil revenues.

- Between (2004-2020), the expenditure of public servants' wages and pensions (wages bill) increased by 400% in real terms, and the total number of public sector employees increased by more than threefold.
- Between (2006-2018), the average public sector payroll expenditure increased by (431%), and this increase is three folds the increase in labor productivity (12%) or the cost of living (28%).
- The latest projections indicate that the Pension Fund is expected to face a large deficit, starting from 2025, which requires the public budget to cover that deficit in the foreseeable future.
- The Pension Fund failed to realize financial sustainability due to several reasons, including lack of regulation and failure to conduct cost studies for the granted benefits.
- Most publicly-owned companies are loss-making and rely on the state for their funding, through budget direct transfers and indirect subsidies.
- The special privileges granted to the public companies and their increasing role in the economy, despite their low productivity, constitute a major constraint for the development of the private sector.

³ "Salaries of the employees" here refers to the public sector's payroll. All figures mentioned here do not include the salaries of the public companies who are estimated to be more than 600,000 due to the lack of updated information about them over the past years.

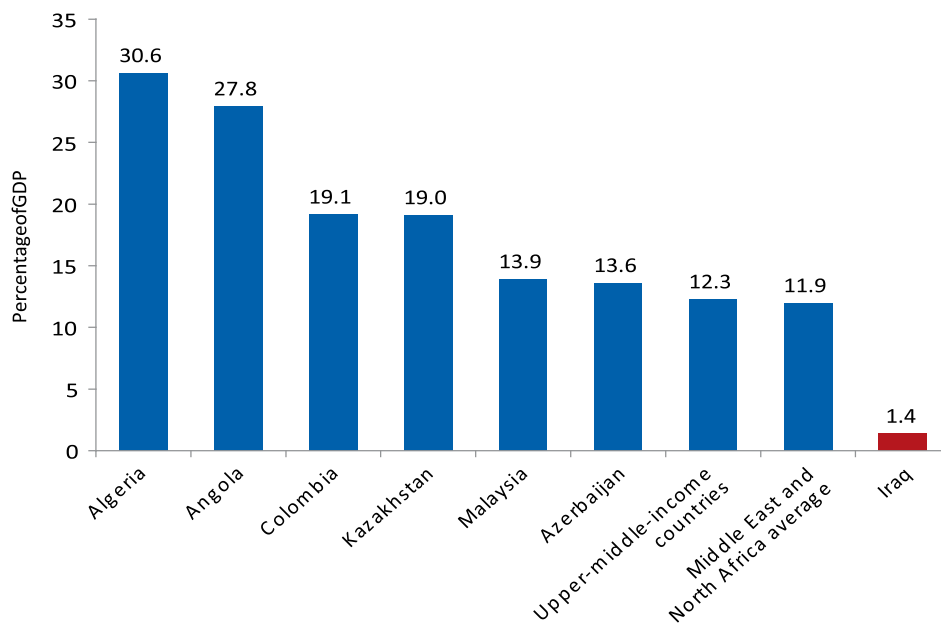
Figure 1: Iraq dependency on oil revenues and the other oil exporting Comparators



Source: IMF Country Report No. 19/249

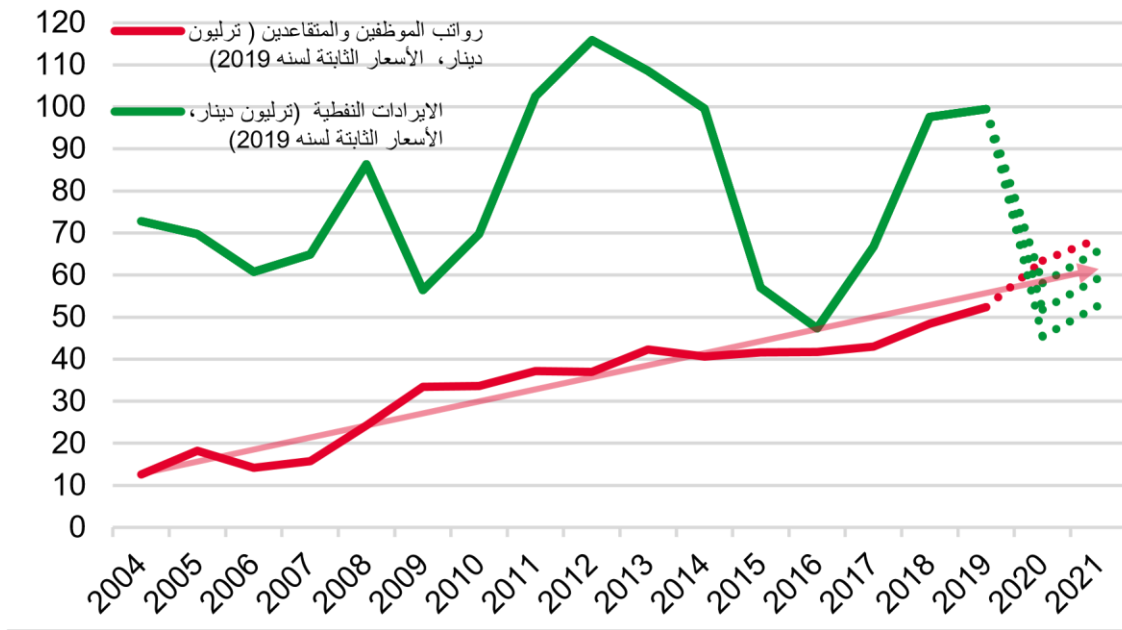
Iraq's high dependence on oil is much higher than its counterparts in the MENA region, which are severe vulnerabilities to adverse trends in oil prices, as evidenced by the impact of one-dollar change in oil prices on revenues (as percentage of non-oil GDP)

Figure 2: Comparison of Iraq and selected countries on the average of non-oil tax revenues as percentage of GDP (2012-2019)



Source: World Bank, Iraq Economic Memorandum, September 2020. Non-oil revenues such as taxes and tariffs represented a small percentage of the GDP compared to oil resources, and compared to the majority of the other countries.

Figure 3: Salary and pension versus oil imports



Source: (2004-2018) International Monetary Fund⁴, Article IV Consultation report based on the data provided by the Iraqi authorities, 2019 (Ministry of Finance), (2020-2021) estimates based on budget execution data, issued by the Ministry of Finance, assuming the sale price of the Iraqi oil at \$35- \$45/barrel in 2020, and \$45-\$55/ barrel in 2021. The dotted lines are projections, light colors represent the trend).

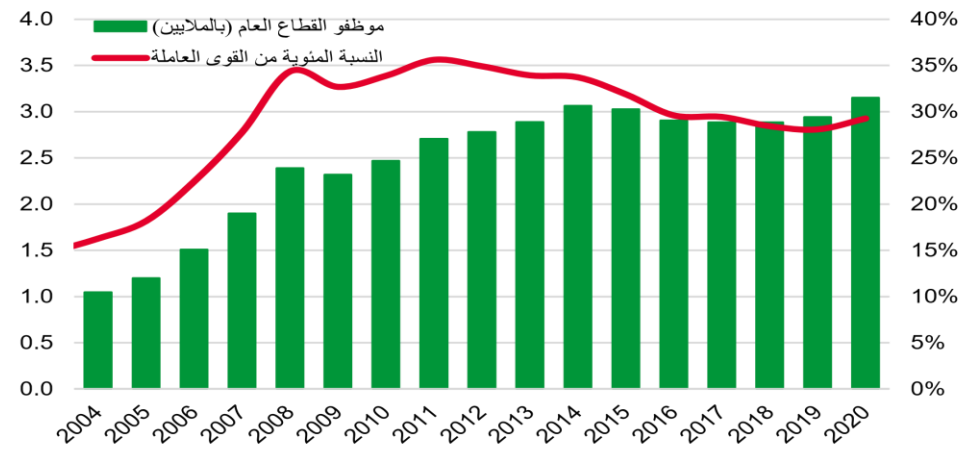
The increase in the size of the public sector has been the primary means of expanding the state's role in the economy and society, especially the salaries of its employees. Over the past 17 years, the salary and pension expenditures have been the fastest growing budget expenditures, rising by about 400% in real terms during 2004-2020⁵, to become the largest component of public expenditures accounting for 47% of total expenditures in 2019, and about 74% of the estimated expenditures in 2020. This expansion included both an increase in the total number of public sector employees, which increased by more than threefold during the period (2004-2020), as well increased average of their salaries gross salary, including the benefits; and this is where the real value behind the increase of the payroll expenditure by around 121% between 2006 and 2020 lies. Those large allocations not related to performance, such as healthcare, allowances and pensions, have come to mean that a public job based on an educational system that prepares graduates to work in the public sector and not productive jobs⁶ is the way most people take to obtain social status and financial security.

⁴ IMF Reports (19/248, 17/251, 13/217, 11/75, 08/383, 06/15) are used as primary sources in this paper for details of salary and pensions expenditures, oil imports, and non-oil investment during 2004-2018.

⁵ Salary and pension expenditures of the public sector increased by more than 350% of their real value between 2006 and 2020, while the payroll payments expenditures increased by more than 360% and pension expenditures increased by more than 30% - all in real terms.

⁶ Even those with higher levels of education lack the relevant skills demanded by the market.

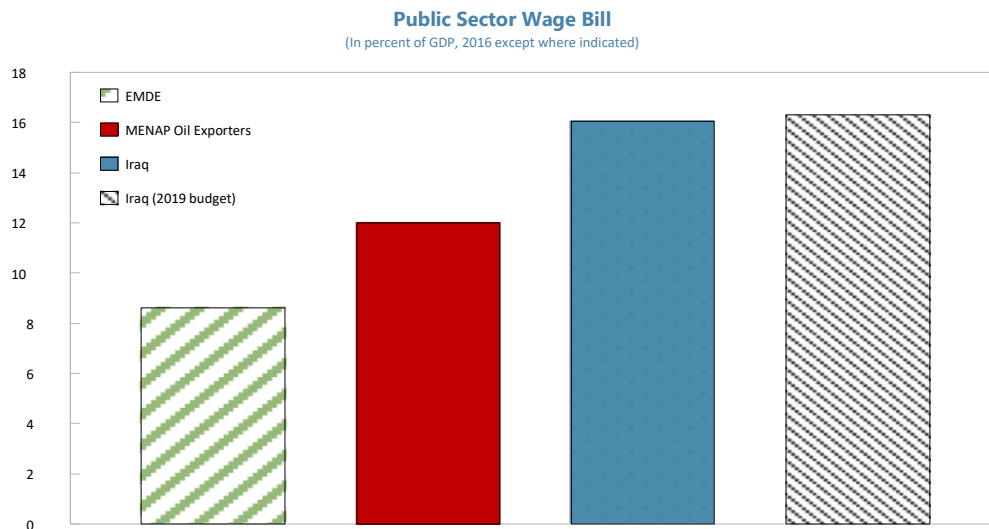
Figure 4: Public Sector Employment: numbers versus % of the labor force



Source: World Bank, 2017⁷. Public Sector Employment: number of employees as compared to their percentage of the labor force⁸)

This increased spending on the expansion of the public sector did not translate into improvements in its productivity, which partly explains its poor service delivery, as shown in Figure (6):

Figure No. (5) Public sector Gross salaries relative to GDP versus the other oil-producing countries (2016)

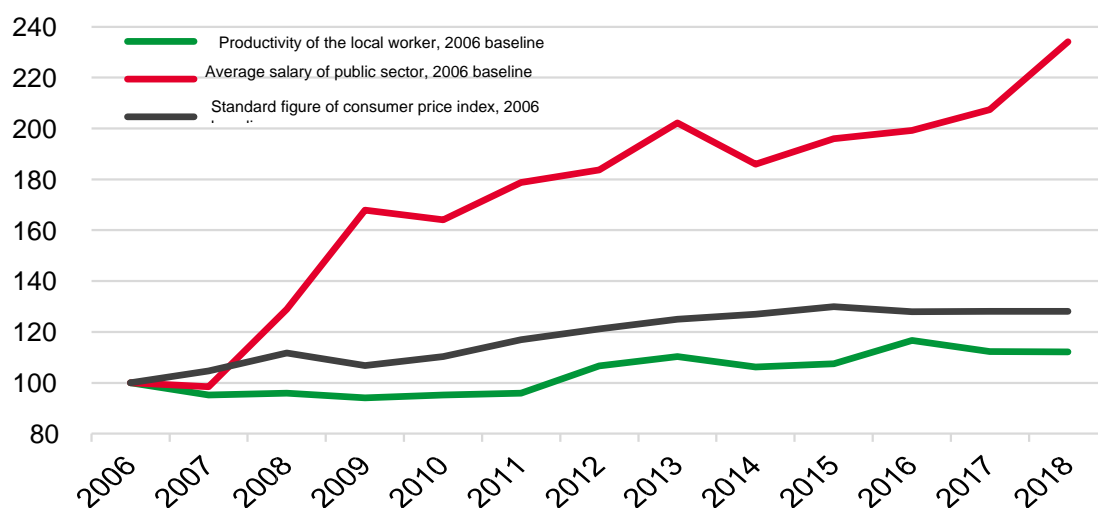


Source: IMF Reports (19/248). The wage bill in Iraq is much higher than the counterpart oil-exporting countries in MENA region, emerging markets and developing economies. The 2019 budget was based on this high wage bill of public sector and increased it, leading to significant increase with the decree of the former government to expand public employment and reducing the retirement age, and providing many payments following the uprising in October 2019).

⁷ Iraq Systematic Country Diagnostic, World Bank Report, 2017 based on Ministry of Finance data. The figures of (2016-2020) from the final budget and budget proposals, 2006 and 2007 are estimates based on World Bank figures

⁸ The labor force is defined as individuals of +15 years, including employed and unemployed who are looking for a job, as well as those looking for employment for the first time, and does not include unpaid workers, family workers and students.

Figure No. (6) Average salary of the Public sector versus productivity of the local worker and inflation



Source: (2006-2018) IMF reports, Article IV Consultation report. According to the data provided by the Iraqi authorities, Conference Board, during 2006-2018, the average payments of public sector payroll increased significantly much more as compared to the labor productivity or the cost of living. Moreover, increases in labor productivity lagged behind the increases in the inflation rate."

Pension schemes are an essential part of the public sector payroll, and they are of two types: the first type is the direct expenditures from the public budget due to the emergency policies that were implemented after 2003, which replaced regular salaries with fixed emergency payments, and it covers those who retired before 2006 (when the current retirement act was enacted) and their dependants, survivors of martyrs, political prisoners, and others⁹. The second type is the Pensions Fund expenditures, which is managed by the Fund's board of directors, and covers the pensions of the civil employees and security forces. The latest World Bank projections indicate that the pension fund is expected to suffer a large deficit in 2025¹⁰, which requires the budget to bear that deficit. The absence of organization and failure to conduct cost studies of the benefits granted represent the main reasons for the financial unsustainability of the Pensions Fund, and in return, the fund's proceeds comprising withheld pensions and investment proceeds will not fully cover these pension payments. Moreover, the financial position of the Pensions Fund is very complicated given the lack of liquidity in its deposits with Al-Rafidian and Rasheed banks, which represent the financing arm of government spending over two decades - which contributed to their weakening and their lack of liquidity.

This expansion of government employment also includes the public companies, which cover all sectors of the economy, despite their weak operations, lack of transparent procurement controls, and weakly audited by the State. These companies are not profitable, except for few of them¹¹, and often rely on the state to cover the salaries of their employees through direct transfers from the budget, collaterals provided by government banks, and other indirect subsidies, such as obtaining fuel and electricity subsidies¹². Large portion of the resources of these companies, in addition to everything they produce, are spent on paying the salaries of their employees, who are estimated to exceed 600,000. Moreover, all special privileges enjoyed by these companies, in addition to their increasing role in the economy despite their low productivity, constitutes a major obstacle to the growth of the private sector.

⁹ Survivors of martyrs and political prisoners (they do not make any contributions to the fund), and their numbers have increased by more than threefold during 2010-2016. IMF Report 17/252, based on Ministry of Finance data), but it is likely that it has increased significantly since then, especially after the war on ISIS terrorist organization.

¹⁰ World Bank Report Spring 2020." Updated data indicate that the deficit is likely as early as 2022, after the government in November 2019 revised pensions.

¹¹ Source: World Bank, *Systematic Country Diagnostic*, 2017.

¹² These loan collaterals become one of the state's conditional obligations, in addition to the indirect subsidies which further drain the budget.

The presence of public companies as a major obstacle facing the growth of the private sector is very critical, especially in the financial sector, where public sector banks monopoly (82%) of total loans and (86%) of total deposits in Iraq, which is almost a total dominance of the public sector in terms of loans, deposits and trade finance operations¹³, as well as for the private sector where the majority of its deposits and loans are with the state-owned banks – leaving no room for the development of private banks.

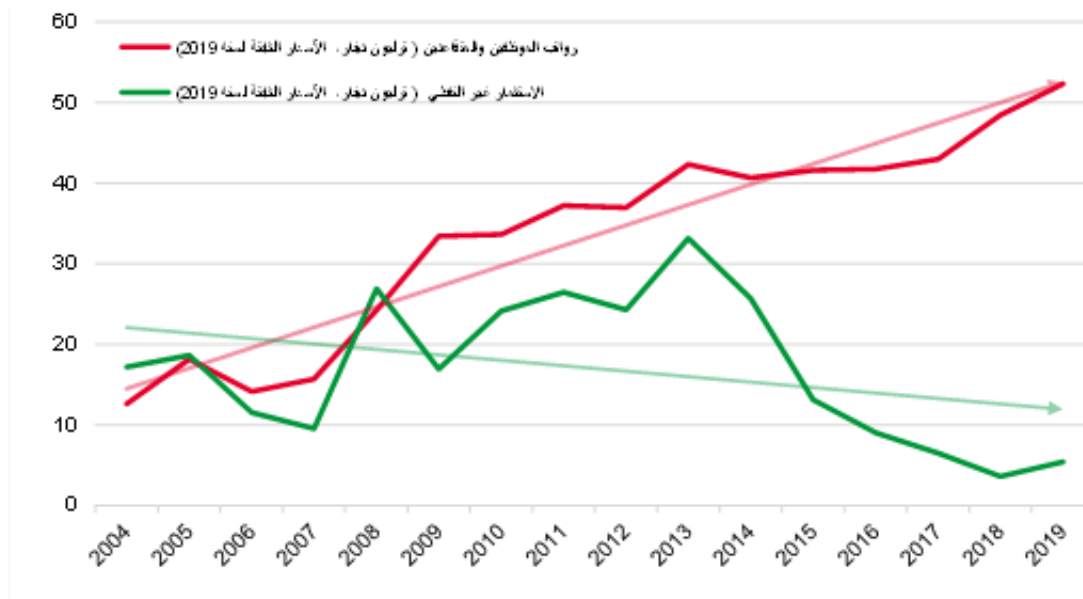
As a result, the deposits base of the private sector banks, equaled to about 10.8 trillion Iraqi dinars, which is approximately (14%) of the total deposits, did not develop simultaneously with the declined loan base of (3.7) trillion Iraqi dinars, or nearly (18%) of total loans. The financial sector, under this situation, cannot give sufficient liquidity to the private banks, to provide the necessary capital for the development of the private sector¹⁴.

The budget has become the means by which the state enhances its role in the economy and society, as can be seen in the following chart, where the constant increase in the salary and pension payments, which consecutively accounting for increasing proportions of oil revenues, while the share of investment in (non-oil) infrastructure decreases constantly.

¹³ Letters f credits here are cash credits and do not include credits associated with trade financing.

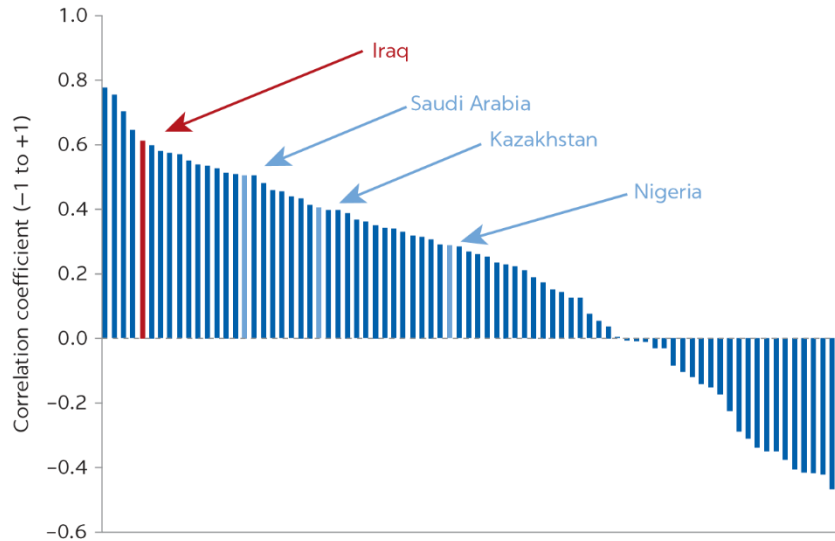
¹⁴ All data related to loans and deposits in this paragraph are extracted from the Central Bank of Iraq, as provided in the "Annual Statistical Bulletin" of 2018. Note: About (70%) of private sector bank deposits are in current accounts or in on-demand deposits, which means that banks need to have high liquidity to meet withdrawals, which limits the amount of lending they can offer.

Figure No. (7) Wages and pensions versus non-oil investment spending



Source: (2004-2018), IMF reports, Article IV Consultation report, based on the data provided by the Iraqi authorities, Ministry of Finance, 2019. The light colors represent the trend/direction.

Figure No. (8) Correlation of oil prices and government expenditures in oil-producing countries



Source: World Development Indicators.

Source: World Bank, Iraq Economic Monitor, September 2020. Iraq's expenditures, specifically on infrastructure, rely more on oil prices as compared to the other countries. Hence, decline in oil prices is reflected in a similar decline in expenditures on infrastructure, taking into account the inflexible nature of the current expenditures.

- The policies of expanding the state's role in the economy and society have come at the expense of spending on public infrastructure and building up fixed capital, and have hindered the progress of the private sector.
- The majority of the private sector is mainly active in the informal economy, represented by MSMEs (with the exception of a few large private sector companies).
- The majority of large companies in the private sector depend mainly on providing services to the state and government contracts (with the exception of the telecommunications sector).
- The density of small and medium size enterprise (MSMEs) sector (i.e. number of MSMEs per 1,000 people) is much lower as compared to MENA region and emerging and developing countries.
- The complex government policies, the weak ability of the State to enforce the rule of law, the increased militarization of the society, and the influence of non-governmental actors in the public institutions, led to the emergence of a repulsive environment for MSMEs, which are forced to remain within the informal economy.
- These obstacles were compounded by the non-competitive exchange rate of the Iraqi dinar, which made the local product non-competitive.
- As of 2018, labor productivity in Iraq was about a quarter of the high levels in 1979, less than half of 1970, and increased by only 2% since 2004.

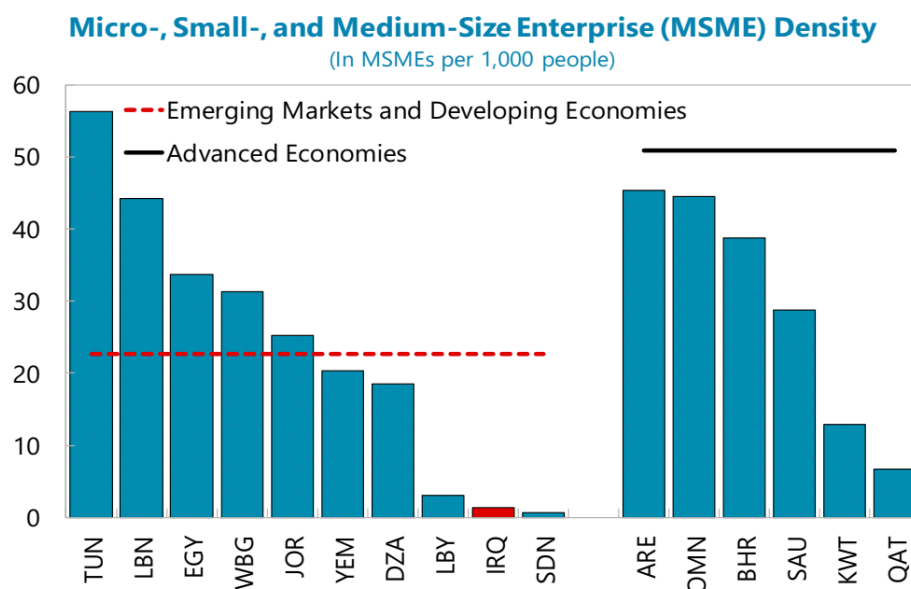
This shortage in spending on infrastructure, plus the complex administrative apparatus of the state - accompanying the increasing role of the public sector in the economy – has stifled the development and growth of the private sector, with the exception of a few private sector companies operating in specific fields such as oil and telecommunications. The private sector is mainly active in the informal economy, and this is represented by MSMEs¹⁵, operating in trade, retail, construction and transportation, and in the fields of textiles, food, hospitality, engineering and chemicals, with almost no involvement by any of these MSMEs in the field of marketed goods.¹⁶

¹⁵ Iraq only possesses a handful of large, typically family-run multi-industry conglomerates, and these are in retail, domestic trade, telecommunications, and construction rather than in traded goods and services (World Bank, 2014a). Furthermore, the politically connected firms capture public sector contracts, further reducing the opportunities available to MSMEs.

¹⁶ Traded goods in the economy are the outputs of the industrial sector that are marketed inside and outside the country.

To make matters worse, the small and medium size enterprise (MSMEs) sector is largely underdeveloped, with density - measured by the number of MSMEs per 1,000 people- is substantially lower than both the MENA region and emerging and developing countries (Figure 9).

Figure No. (9) Micro-, Small-, and Medium-Size Enterprise (MSME) Density

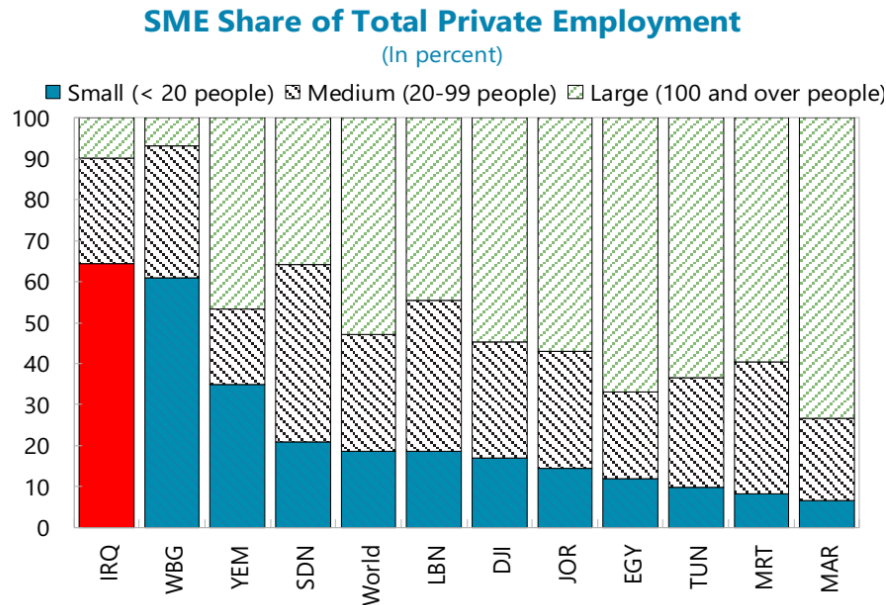


Source: IMF Country Report No. 19/249. Density of MSMEs in Iraq is very low in terms of absolute value and percentage, given that these companies account for more than (90%) of the private sector employment, and the majority of which are informal.)

The majority of large companies in the private sector depend mainly on providing services to the state and on government contracts (with the exception of the telecommunications sector). Consequently, the state's delay in making much of payments due to the private sector has caused widespread bankruptcies, due to the accumulation of government debts following the economic crisis of 2014, of which the private sector has not recovered yet, as the outstanding debts represent heavy burden for MSMEs which try to remain in the market.¹⁷

¹⁷ The private sector ultimately relies on oil revenues in the public spending. Moreover, the retail trade, trade, hospitality and other industries in the private sector depend on the consumer spending ultimately led by the income of public sector employees, which is mainly from oil revenues.

Figure No. (10)
Share of SME of the Total Private Employment
(in percent)



(Source: IMF Country Report No. 19/249, Article IV Consultation report, based on the data provided by the Iraqi authorities)

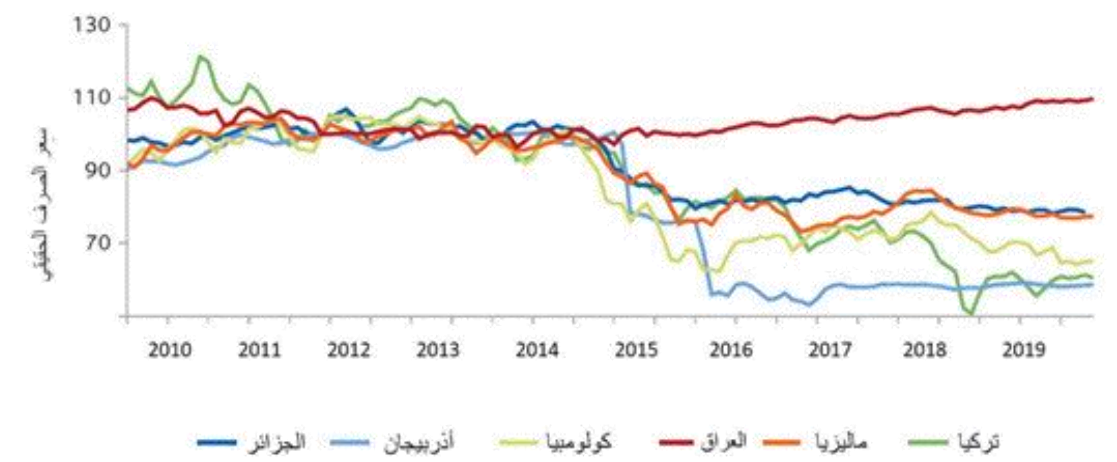
The complication level in the state's policies, combined with the weak ability of the State to enforce the rule of law, increased militarization of society, and the influence of non-governmental actors in the public institutions¹⁸, have led to the emergence of a repulsive environment for MSMEs, which are forced to remain within the informal economy. These SMEs accounts for more than (90%) of the private sector employment, the majority of which are unorganized, and have increasingly become a source of livelihood for the poor and vulnerable groups, which represented 20% of the population prior to this crisis. The vulnerability of this sector was more evident in the wake of the Corona pandemic (Covid-19). This is due to the fact that the vast majority of the population is actually daily-wage workers, and they lost their livelihood due to the lockdown, making the at risk of hunger. As a result, poverty rates among the population have increased by more than 31%, compared to (20%) before the lockdown¹⁹. As the pandemic remains at its peak, the vulnerable situation of low-income community members leaves hard choices for them; either to resume looking for a job and risk themselves to Coronavirus (Covid-19), or loss their livelihoods and remain safe.

¹⁸ This means that MSMEs incur additional costs due to the militarization of society and the interference of some parties in the economic opportunities, which creates a repulsive environment for these firms. Moreover, militarization has other negative effects on the types of businesses that are developed, often fast financial returns, with low capital expenditures, such as trade, hospitality and transportation, not those that require long term investment, such as marketed goods, as the private sector depends on imports, which represents a source for draining the foreign currencies rather than generating them.

¹⁹ Data available from Ministry of Planning

These obstacles facing the development of the private sector were doubled due to the non-competitive exchange rate of the Iraqi dinar, rendering the local product non-competitive and unable to meet the increasing market demands for imported products. This situation is further exacerbated by the volatile currencies of the main trading partners of Iraq against the US dollar during the past years, which has contributed more to the declined competitiveness of the national products.

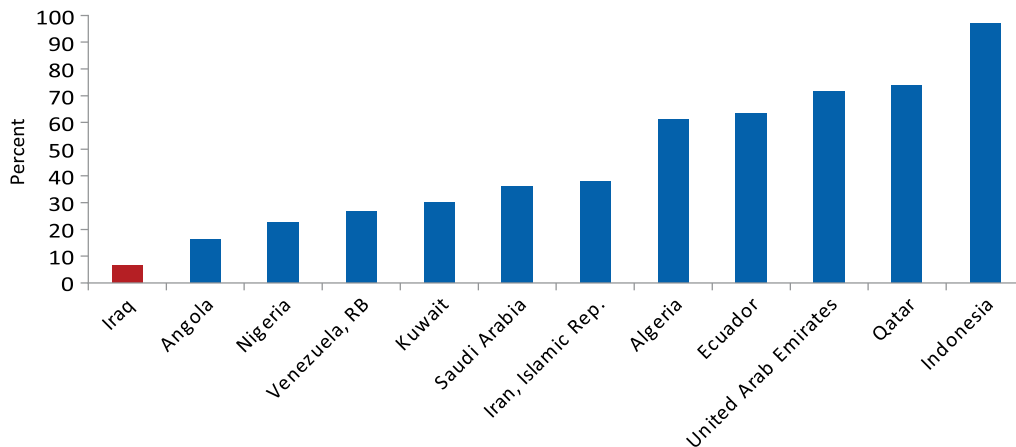
Figure No. (11)
Comparison of the real exchange rate of Iraqi dinar and with the currencies of other countries
2019—2010



(Source: World Bank, Iraq Economic Memorandum, September 2020. Over the past few years, the exchange rate of the Iraqi currency has further depreciated. Unlike other countries whose currencies have depreciated significantly, the market commodities in Iraq and the majority of the productive sectors lost their competitiveness.)

Figure No. (12)

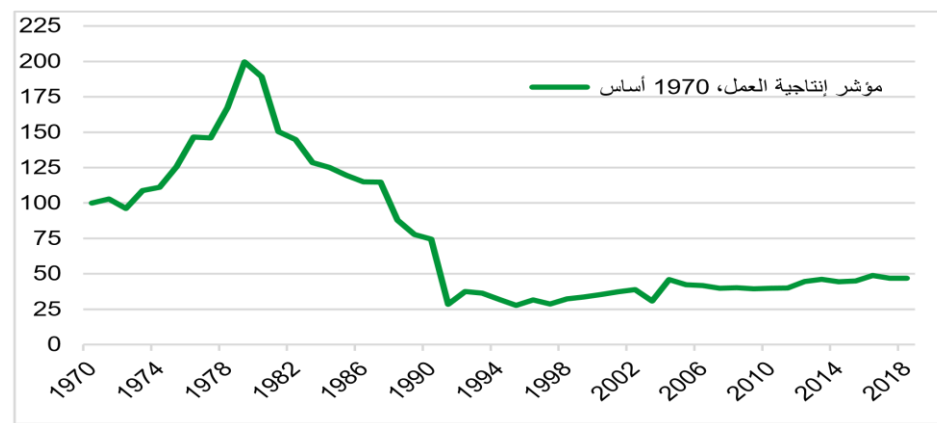
Share of non-crude oil exports in total merchandise exports, 2016–18 average
mirror data



(Source: World Bank, Iraq Economic Memorandum, September 2020. This figure reflects the small size of the traded goods sector in Iraq as a contribution to the Iraqi exports compared with other countries.

The non-competitive exchange rate, the decay of the tradable goods sector, the priority of employment in the public sector, and the lack of investment in education, technology and infrastructure have resulted in the loss of the Iraqi labor productivity, which can be seen below.

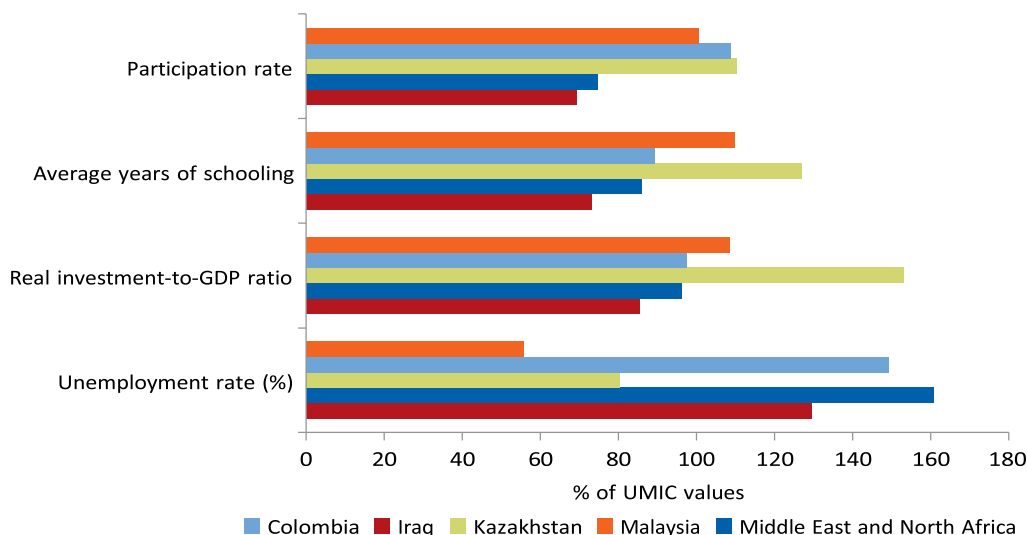
Figure No. (13)
Iraqi labor productivity



(Source:²⁰ Labor productivity in Iraq has decreased dramatically from the past. As of 2018, it reached about a quarter of the high levels of 1979, less than half of 1970, and only about 2% higher than in 2004).

²⁰ Macroeconomic database, Conference Board. 2018

Figure No. (14)
Comparison of Iraq GDP inputs with other countries



Note: GDP = gross domestic product; MENA = Middle East and North Africa;

(Source: World Bank, *Iraq Economic Memorandum, September 2020*. Poor infrastructure means that Iraq lags behind other countries on many economic indicators. “Inclusion means the rate of economic activity for individuals”).

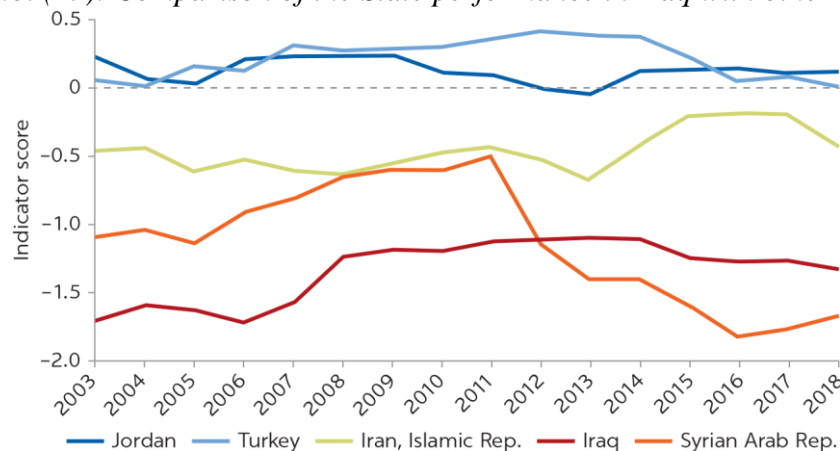
Political instability has exacerbated the aforesaid negative impacts, diverting investment trends away from tradable commodity sectors such as manufacturing, while foreign investment tends to focus heavily on natural resources and to a lesser extent on non-tradable service sectors, both of which are vulnerable to the same amount of negative influence caused by political instability and the weak ability of the state to exercise its authority.

3. Rentier role of the state

The rentier expansion of the state has distorted the economy and society, especially in the performance of both electricity and water sectors, and the ration card scheme, which led to an unparalleled social situation where the state provides these services for free or almost free of charge, because citizens assume that the government should provide these services to them as their acquired rights. As these services are considered free or almost free according to market standards, their quality has become poor at best.

- The rentier expansion of the state distorted the economy and society, particularly in the performance of the electricity and water sectors and the ration card scheme.
- That the state almost fully owns the generation plants and transmission and distribution networks and stations in the water and electricity sectors, and to have massive influence and control of the inputs and outputs, including setting the prices and providing subsidies, impose huge burden on the state budget to finance these services without cost recovery.
- The state delivers these services for free or almost free of charge, because citizens assume that the government should provide these services to them as their acquired rights. This leads to poor quality of the services provided in light of the great waste and the resulting increased unnecessary demand for such services.

Figure No. (15): Comparison of the State performance in Iraq with other countries



(Source: World Bank, Iraq Economic Memorandum, September 2020. Declined State performance in Iraq as compared to other countries).

Likewise, the ration card scheme that was established in 1991 to mitigate the significant impacts of the international trade embargo after the events of Kuwait was designed on the basis of allocating a quota for each Iraqi family based on the number of its members irrespective of per capita income. This policy has led to major distortions in the economy, thus adding much greater economic costs than the direct costs estimated at about (2.4) trillion Iraqi dinars. As a result, the levels of service provided to the consumer declined to poor levels below the expectations of the beneficiaries, while allowing greater opportunities for corruption and illegal gain along the supply and distribution chain.

For a State to have almost complete ownership of the generation plants, transmission and distribution networks and stations in the water and electricity sectors, and to have massive influence and control on input and output, including setting prices and providing subsidies, imposes huge burdens on the state's

budget to finance these services without recovering their costs, and exacerbates the poor quality of services delivered in light of the increased demand. All such policies have exacerbated the people's sufferings and fueled the public anger.

This situation has been evident in the electricity sector, where the deficiency in service delivery begins in the generation phase, with a large gap between the "nominal capacity" (the maximum sustainable energy generation under ideal conditions and actual generation) and the actual capacity²¹. For example, in 2018 the nominal capacity was (3.30) GWh while the actual capacity during the same year was 13.0 GWh²². While complete data has not been published for 2019, data from the Ministry of Electricity shows improvements, as the actual capacity increased from (13.0) GWh to (14.0). One of the main reasons for this gap lies in the lack of adequate fuel supplies (gas in this case), which leads to replacing it with less efficient fuel, such as black or crude oil, which leads to operating the plants at less than (60%) of their capacity. In addition, there were other important reasons, including poor maintenance and inadequate cooling for the equipment at high temperatures in Iraq. Also, approximately (21%) of the "nominal capacity" of the power plants of Ministry of Electricity in 2018 were out of service.

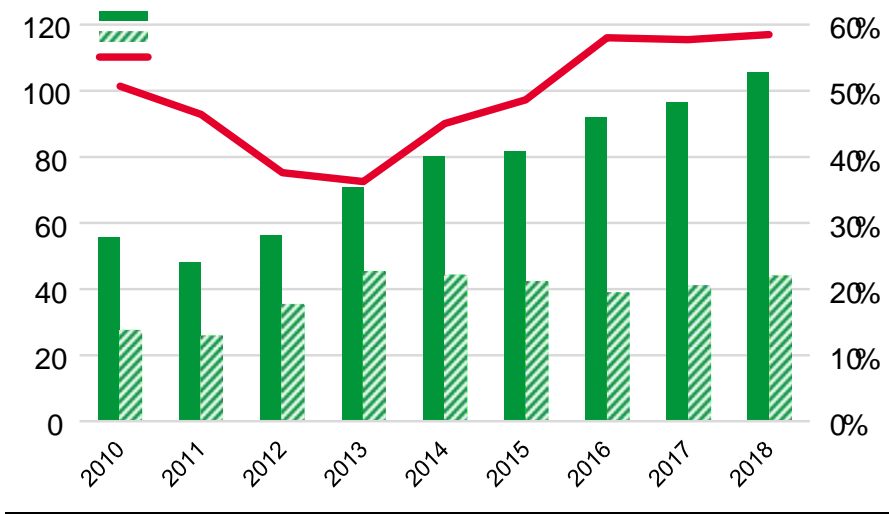
²¹ All electricity figures used, whether in gigawatts or terawatt hours, are from electricity generated by the power plants of the Ministry of Electricity, including those that use the Iranian gas, imported electricity, private power producers (IPP) and electricity from ships, all of which are based on the annual reports published by MoE (2018-2020), and presentations made during June 2019. These figures are for the general average of demand / supply during the year, and should not be confused with peak demand / supply during summer. The nominal capacity also includes the production capacity of MoE power plants, electricity imports, private energy producers (IPP), and electricity from ships.

²² This is the result of decades of conflicts that have destroyed most of the parts of the power grid (consisting of power plants; transmission lines to population centers; and distribution networks to the end user), in addition to poor maintenance of the parts that survived damage, rendering the grid impotent. The deficiencies of successive governments impeded restoration of the grid after 2003, as large capital expenditures were wasted due to mismanagement, and lack of coordination between the ministries (particularly Ministries of Electricity and Oil regarding the purchase of gas-fired power stations without securing adequate gas supplies), in addition to the rampant corruption.

All this broaden the gap between supply and demand. In 2018, the average demand was estimated at (17.7) gigawatts versus (13.0) gigawatts of active power produced²³, but this gap is only part of the reasons for failure to provide electricity, as power generation to meet the demand does not necessarily mean that it actually delivered to the end consumer - the total electricity produced in 2018 was some 105.4 TWh²⁴, but only (43.7) TWh reached the final consumers, which means 58.5% of the generated power is lost.

Most of these losses occur in the distribution stage, where losses are close to two-thirds, in addition to the technical issues related to war damage and poor maintenance, while non-technical losses constitute one third, most of them occur as a result of illegal connections to the main network. While the occurrence of certain technical losses is normal in the electricity networks, the rate of such losses is very high in Iraq. While the overrun (uncontrolled consumption of power) is estimated at about (17.2) TWh, the level of electricity supply reaches (61.0) TWh equivalent to a loss (42.2%), as can be seen in the following chart.

Figure No. (16): Power generation versus delivery to the end user



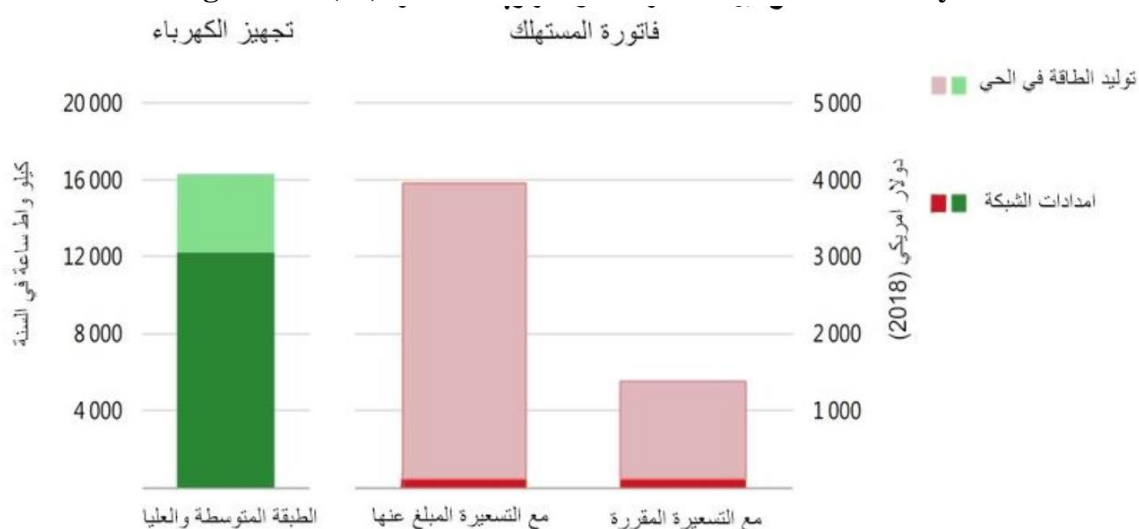
(Source: Annual Reports, Ministry of Electricity, (2010-2018))

²³ In 2018, the peak of supply was (16.5) GWh versus peak demand of (27.3) GWh, resulting in a gap between the supply and demand of 10.8 GWh. While complete data are not available for 2019, and that complete data has not been published for 2019, data from the Ministry of Electricity indicate that peak generation during summer months was 219 GWh versus peak demand of 329 GWh, resulting in a gap between the supply and demand of 10.1 TWh.

²⁴ While complete data are not available for 2019, data from the Ministry of Electricity show that the total electricity generated was to 122.8 TWh.

Due to lack of reliable power supply, families resort to private power generators to meet their household needs for power. Estimates of the International Energy Agency (IEA) indicate that in 2018 the Iraqi families spent US\$ 4.00 Billion on the additional power services from private power generators - roughly equivalent to the investment spending of the Ministry of Electricity - but the same families expect the state to provide electricity for free, and most of them do not pay the public electricity bills.

Figure No. (17): Consumer bills and consumed electricity



(Source: (Source: International Energy Agency (IEA)²⁵. Consumer bills for electricity supplied through the grid and diesel generation in neighborhoods for a medium to high-income household in 2018. For a specific household, the grid (i.e. State-produced electricity) provides about (80%) of the electricity used, however, more than (90%) of the consumer's electricity bill (or electricity costs for the household) goes to expensive neighborhood generators. The prices charged by the neighborhood generation are regulated, but statistics indicate that these tariffs are not adhered to, resulting in much higher actual payments, as shown in the middle bar.)

This division in the social attitudes toward paying electricity bills means that the growth rates of per capita electricity consumption have increased and will continue to increase at much higher rates than the government's ability to bridge the gap between supply and demand. The result of the society's expectations for free power supplies by the state has been the failure to provide electricity at the desired level and increased financial burden on the state's budget, which negatively impacts its ability to deliver other public services, and incurring a large economic cost due to the increased cost of the alternative power supply, and loss of production due to power outages. Moreover, the use of small private generators results in environmental costs and high levels of pollution, which adversely affect the public health.

The structure of electricity tariffs that is not based on economic grounds, and failure to collect the utility bills promote unlimited use of electricity produced by the state, without regard to the waste and misuse of public funds. This waste is exacerbated by the government subsidy scheme – power subsidies alone sot

²⁵ International Energy Agency (IEA), *Power Sector in Iraq*, 2019.

the State about 10 trillion Iraqi dinars annually, according to recent estimates - . Such adverse impacts of such subsidies extend beyond the large depletion of the budget, i.e. distortion of the performance of power sector and people's suffering as a result.

Table No. (1)
Summary Budget and Financing of Electricity Sector, 2018
In percent of GDP)

| | |
|--------------------------------------------------|------|
| Tariff Collection | 0.4 |
| Expenditures | 2.6 |
| Deficit | -2.3 |
| Total Financing | 2.3 |
| Transfer from Ministry of Finance | 1.2 |
| Project financing and suppliers' credit | 0.3 |
| Debt to Ministry of Oil | 0.8 |
| Payment of old arrears to Iran (- means payment) | -0.1 |
| Accumulation of new arrears to Iran | 0.3 |
| End of year balance (- means surplus) | -0.2 |

Sources: Iraqi authorities; and IMF staff calculations.

Table No. (2)
Cost of Electricity Generation, 2018
(In percent of GDP)

| | Providing Ministry | MoE Rate | If Priced at International Prices |
|--------------------------------------|-----------------------|-------------|--------------------------------------|
| Imported Electricity from Iran | MoF [budget transfer] | 0.1 | 0.1 |
| Purchased Electricity from IPPs | MoF [budget transfer] | 0.3 | 0.3 |
| Imported Gas from Iran | MoF [budget transfer] | 0.6 | 0.6 |
| Dry Gas from BGC | MoO [debt] | 0.2 | 0.4 |
| Imported Gas Oil | MoO [debt] | 0.2 | 0.2 |
| Fuel Gas | MoO [debt] | 0.3 | 0.6 |
| Crude Oil | MoO [debt] | 0.1 | 1.6 |
| Total Support from Ministries | | 1.8 | 3.8 |

(Source: International Monetary Fund (IMF) report # 19/248, Article IV Consultation report, based on data provided by the Iraqi authorities. The report notes that “the electricity sector is a major obstacle to public resources, as it incurs a large operational deficit covered through direct budgetary transfers, borrowing from the Ministry of Oil (MoO) and arrears to Iran. The sector also receives oil and gas products from the MoO at below market prices: it paid 1.8 percent of GDP in 2018 for these inputs, compared with 3.8 percent of GDP if they were valued at market prices.”

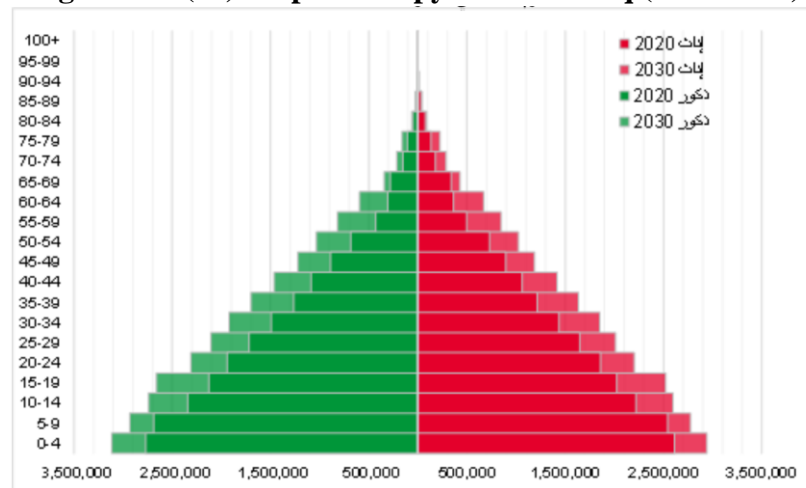
The challenges facing the electricity sector recures following similar patterns as in the water and oil refining sectors, agricultural support and the entire subsidy scheme.

4. Demographic Pressures

The population of Iraq witnessed a growth rate of 53% from 26.3 Million in 2004 to an estimated 40.2 Million in 2020. This growth constitutes strong pressure on the state's resources due to the increasing needs of the young population. The share of those under 30 years is 66% of the total population in 2020. Despite the slowdown in the country's high fertility rate at 3.7 births per woman (down from 4.6 in 2004 when the percentage of those under 30 years was 71% of the population, the number of those under 30 years increased by 42% between 2004 and 2020. The current fertility rates mean that the population will grow by 25% by 2030 to reach 50.2 Million, while the percentage of those below 30 years will grow at 17% during this period to account for 62% of the total Population.

- According to current estimates, the population will grow by 25% by 2030 and will reach 50.2 Million, and the percentage of those under 30 years will grow at 17% during the same period to account for 62% of the total population.
- Cumulatively, about 5 Million new persons will enter the labor market between 2020 – 2030.
- It is not possible to accommodate job seekers in the currently inflated public sector, which employs about 29% of the labor force, and accounts for around 40% of all jobs.
- The private sector provides about 60% of the jobs (mainly in the informal sectors). With its current situation, it cannot accommodate all job seekers, let alone the labor force that will enter the market in the future.
- The majority of participants in the October uprisings, 2019 (or the previous uprisings were below 30 years old.

Figure No. (18): Population pyramid in Iraq (2020-2030)

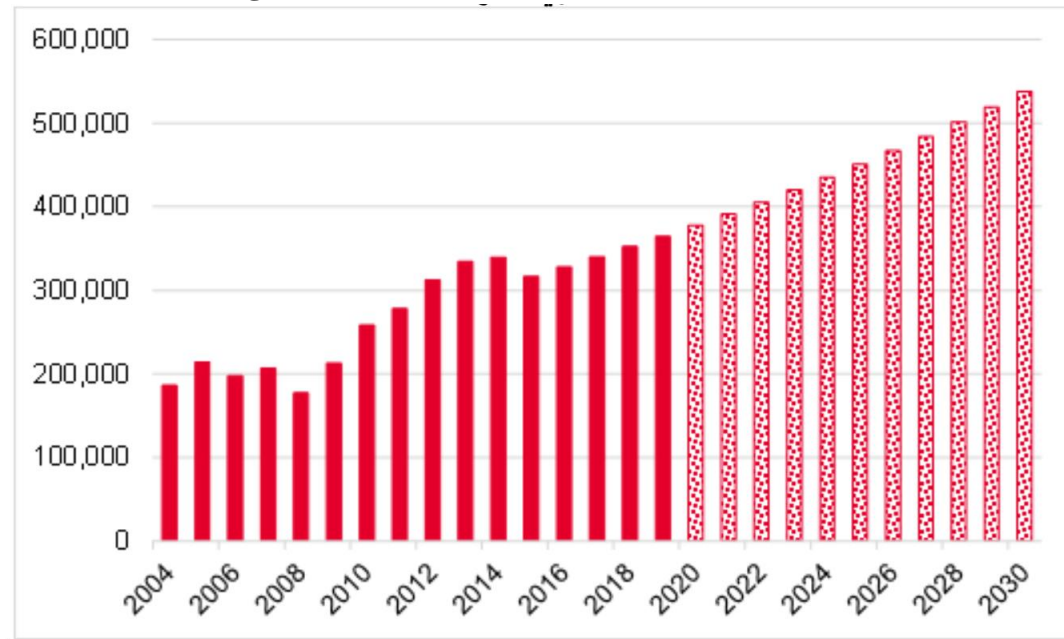


(Source: United Nations "World Population Prospects" database).

All this means that there will be significant additions to the labor forces²⁶, and, cumulatively, about (5) million new people will enter the labor market between 2020-2030.

²⁶ The labor force, in terms of age, is defined as the individuals aged +15 years. It includes employees and unemployed individuals who are looking for a job, as well as the first-time job seekers, and does not include unpaid workers, family workers and students. The concept associated with it is the rate of economic activity of individuals and manpower, which is the percentage of the population aged +15 years. The percentage of employed individuals or those seeking employment outside the home is compared with those who are unemployed or are looking for employment outside the home, (i.e. it consists of two parts: the first part is the individuals entering the workforce (the workforce), including employed and unemployed individuals, and the second is individuals who are not in the labor force). Regarding Iraq, the average percentage was 43% during 2004-2019, which is very low for a country with a young majority, and this is affected by the very low female participation rate, which was 11.6% in 2019 compared to 74.2% for males. Source: World Bank, derived using data from International Labor Organization, ILOSTAT database.

Figure No. (19): Annual additions to the Labor Force



(Source: UN database "World Population Prospects, "dashed lines are expectations.)

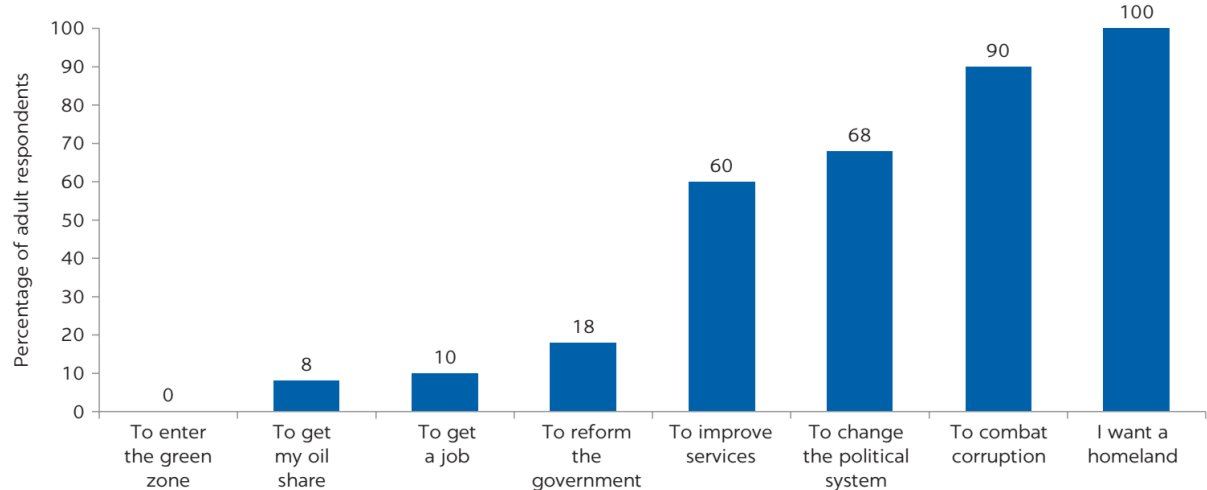
It is not possible to absorb these numbers in the currently inflated public sector, which employs about 29% of the labor force²⁷. It accounts for around 40% of all jobs. The non-performing private sector, which accounts for 60% of all jobs (mostly informal), cannot accommodate the all job seekers, let alone the workforce that will enter the market in the future²⁸. It is likely that the SMEs sector, which accounts for 90% of the private sector jobs, has suffered more than others due to the economic disruptions caused by Covid-19. Therefore, many private sector jobs are at risk, which will contribute to the increase in poverty - risen to more than 40%, and is still likely to increase in the coming months.

²⁷ The public sector accommodates only 13% of the workforce, given that the labor participation rate is very low, standing at only 43%.

²⁸ The official figures for unemployment are 13.8% for 2018, and youth unemployment for those between (15-24) years is 27.5%. It is likely that these percentages have increased in the recent period.

The 2015 uprising was a natural result of a combination of poor infrastructure and poor public services, and the policies of constant expansion in the numbers and salaries of the public sector’s employees, which adversely affected young people under 30 years (accounted for 67.8% of population at the time), who formed 60% of the protest movement in 2015²⁹. This scene was repeated in the 2018 protests. In addition, early reports on the October 2019 demonstrations indicate that the majority of the participants, same as the previous protests, were under 30 years of age. The demands of the protestors were developed into a broader range of issues related to jobs and services, and tended to protest against the overall political situation.

Figure No. (20): Motivation for participating in the current (2019) protests



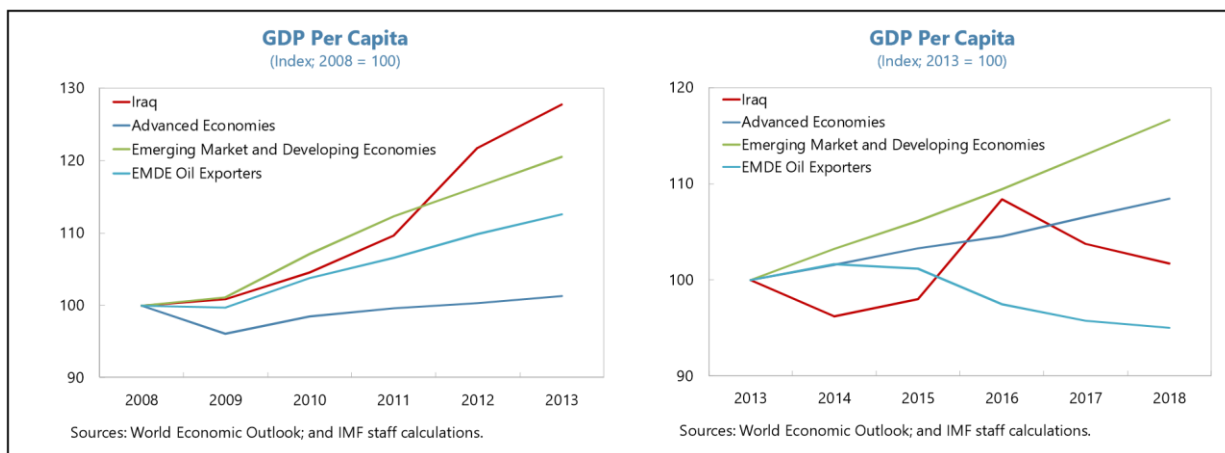
(Source: World Bank, Iraq Economic Memorandum, September 2020.)

²⁹ Jabar, Faleh A. (2018) The Iraqi protest movement: from identity politics to issue politics. LSE Middle East Centre papers series.

The repercussions of the current crisis, in addition to the impacts of Corona pandemic (Covid-19), show that the current socioeconomic conditions provide a very fertile ground for more social disorders, at a level higher than that witnessed in 2019. What further exacerbated these pressures is the weak growth rate of the GDP per capita during 2013-2018 following the growth it witnessed during 2010-2013, which was a direct result of the large increase in oil prices at that time).

- ISIS terrorist organization and the war against it caused an estimated \$46 billion of damages to infrastructure and property, which requires about US\$ 88 billion of investments to restore such damages.
- The US\$ 30 billion committed at Kuwait conference were not realized, and for that reason the imbalance continued in most of the infrastructure.

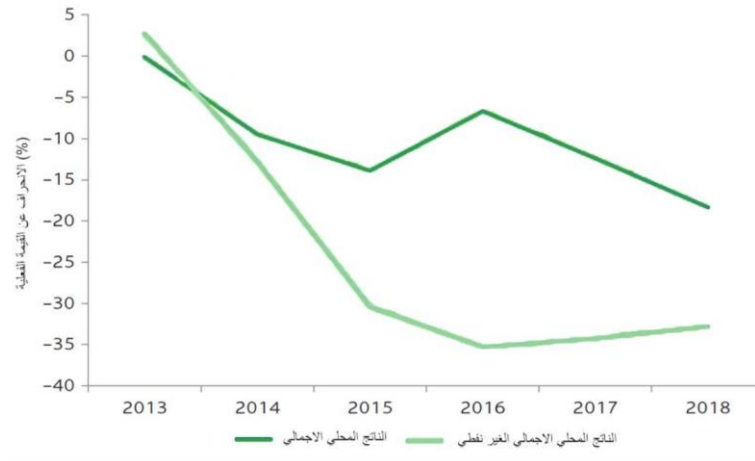
Figure No. (21)



(Source: International Monetary Fund Report on Iraq 19/248. Iraq performed below its peers in 2013-2018, after surpassing them in 2008-2013).

ISIS terrorist organization and the war against it caused an estimated \$46 billion of damages to infrastructure and property, and required about US\$ 88 billion of investments for restoration, which was discussed at Kuwait Conference in February 2018.

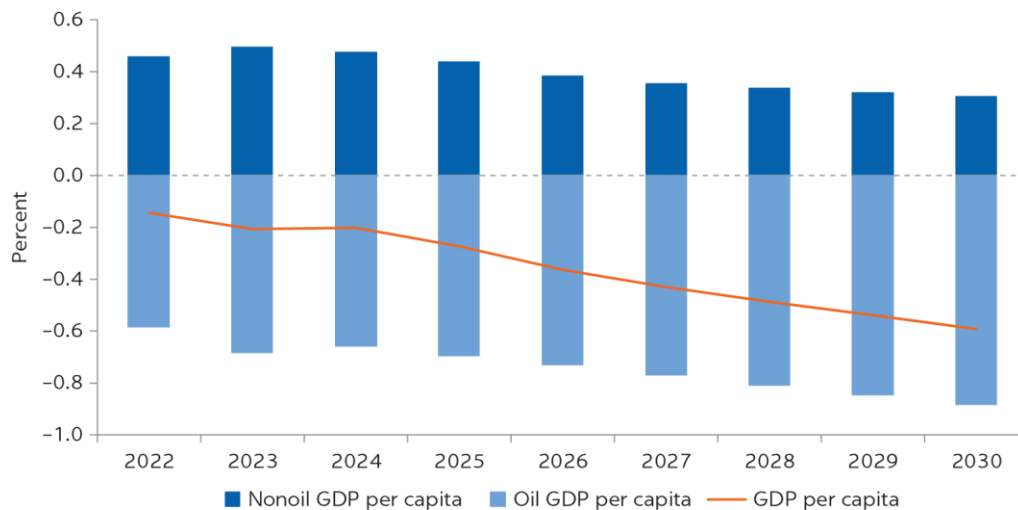
Figure No. (22): Deviation between oil GDB and non-oil GDP caused by the war against ISIS



(Source: World Bank, Iraq Economic Monitor, Spring 2020. The chart shows the estimated deviation between actual GDP and non-oil GDP resulting from the conflict with ISIS and the drop in oil prices - meaning that the actual figures are lower in amount shown than the figures that would have been recorded if the war against ISIS did not happen and if there was no drop in oil prices.)

However, the US\$ 30 billion committed at Kuwait conference were not realized, and for that reason the imbalance continued in most of the infrastructure, and the reconstruction needs were not met adequately. Moreover, the decline in the per capita share of GDP (as shown in the previous graph), has led to growing feelings of dissatisfaction among the population, as the end of the war against ISIS did not lead to an increase in prosperity, but rather an increase in social unrest.

Figure No. (23): Projections for Iraq's GDP per capita, 2022–2030



Source: World Bank calculations.

(Source: World Bank, Iraq Economic Memorandum, September 2020. If the recommendations of the White Paper are not implemented, in light of the declined oil prices and the steady growth of the population, the Iraqi scarce resources will erode.)

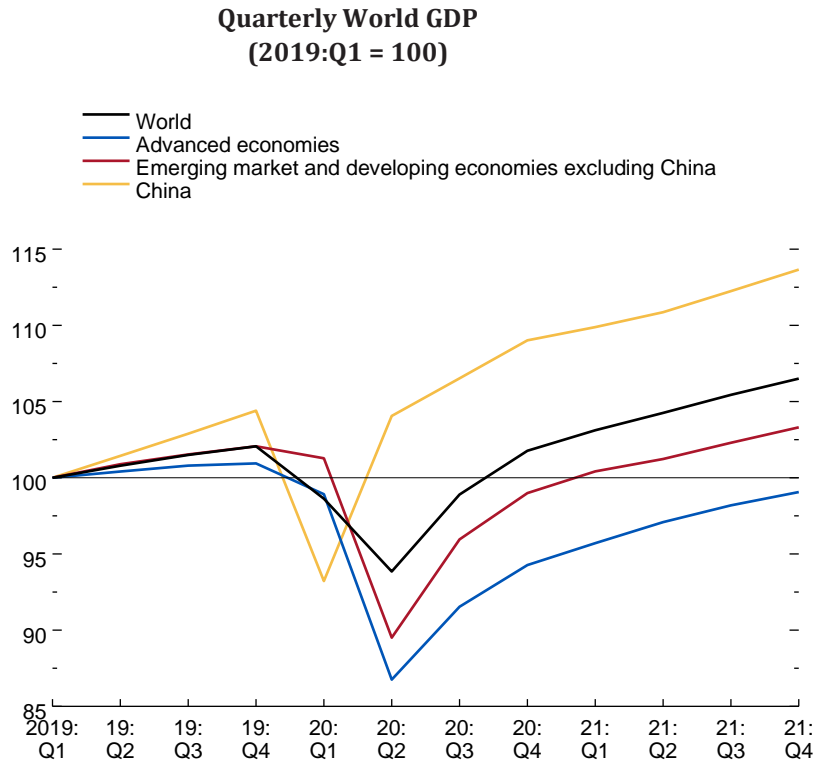
5. Corona pandemic (Covid-19) and the collapse of oil revenues

- The global economic outlook appears narrow, with IMF estimates that it will decline by about 49% in 2020, and back to rise by 5.4% in 2021.
- Oil sector experts' forecasts indicate a return of the balance in supply and demand in a way that supports the stability of oil prices in 2021. However, the resurgence of the second wave of Corona pandemic (Covid-19) may threaten this relatively moderate scenario of 2021 with the presence of weak demand that is not in line with expectations, and consequently, oil may suffer a drop in prices or delayed recovery.
- Projected oil revenues for 2021 and 2022 will not be able to cover salary and pension payments only, regardless of any other current expenditures.

The world economic outlook appears narrow, with IMF estimates that it will decline by about 49% in 2020, and back to rise by 5.4% in 2021 - these statistics are much weaker than the decline witnessed by the global economy during the financial crises in 2009 at 0.1%, and a resumed increase by 4.5% in 2010³⁰. The International Monetary Fund also refers to the expected risk due to the inability to predict the trends of the epidemic progression, as the risk will increase with the re-emergence of Covid cases in various parts of the world, which is likely to lead to another series of lockdown in most countries, which is likely to eliminate projected growth in 2021.

Figure No. (24)

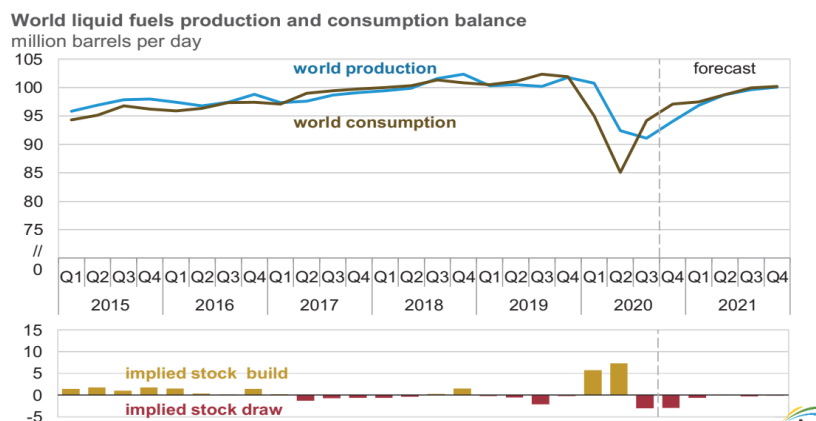
³⁰ The fundamental difference is that the recovery in 2010 occurred following a milder decline than that which will occur in 2020.



(Source: IMF, World Economic Outlook, June 2020)

Oil sector experts predict that the balance in supply and demand will return in a way that will support oil prices in 2021. The Energy Information Agency (EIA) also predicts that the average price of Brent crude oil will reach \$44 / barrel in the fourth quarter of 2020 and \$49 / barrel in 2021.

Figure No. (25): World liquid fuels production and consumption balance

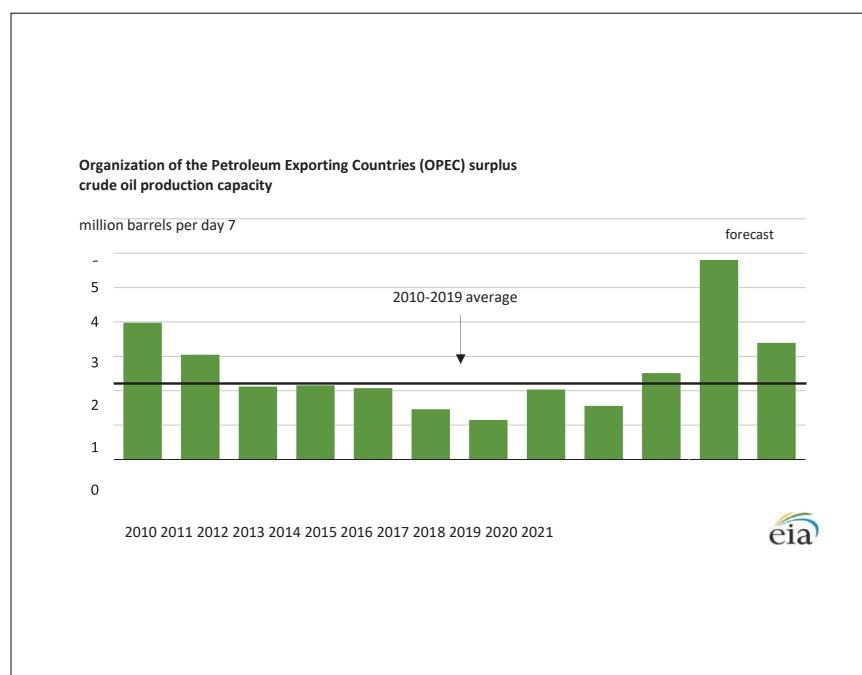


(Source: Energy Information Agency (EIA), Short-Term Energy Outlook - Sep. 2020)

- a) The payroll spending witnessed a growth of about 60% between 2014-2020.
- b) Payroll payments (wages and pensions) account for about 122% of the predicted oil revenues in 2020, while the worst percentage witnessed in previous crises was in 2016, at 88%.
- c) The large gap between the necessary expenditures and the expected revenues will lead to a huge deficit in the budget, which makes it necessary to implement serious measures to reduce the gap and provide financing.
- d) The budget deficit has been financed, especially during the financial crisis (2014-2016) through a combination of external and domestic accumulated debts.
- e) International support for the budget represents a very limited area due to the sharp increase in spending and the financial deficit suffered by the governments in other countries of the world as a result of the policy adopted to address the impacts of Covid-19 pandemic.
- f) It is unlikely that the international financial institutions will extend a helping hand in financing debt without requiring the implementation of major reforms in return.
- g) The potential of local financial institutions to finance the budget deficit is very limited.
- h) In the event that no serious measures are taken to achieve significant spending cuts, indirect monetary financing by the Central Bank of Iraq is the only remaining source, which will lead to acute pressure on the reserves of the Central Bank of Iraq, with the resulting unsustainable future consequences.

The re-emergence of a second wave of the epidemic may threaten this relatively moderate scenario for 2020 with weak demand unmatching the expectations, and thus oil prices will drop down or delay recovery for a longer period. Even if the demand meets expectations of 2021, this may lead to an increase in supply with OPEC+ seizes the opportunity to enhance its market share versus the US shale oil, as OPEC has enough spare production capacity to be able to set a ceiling for oil prices by increasing the supply.

Figure No. (26): Organization of the Petroleum Exporting Countries (OPEC) surplus crude oil production capacity

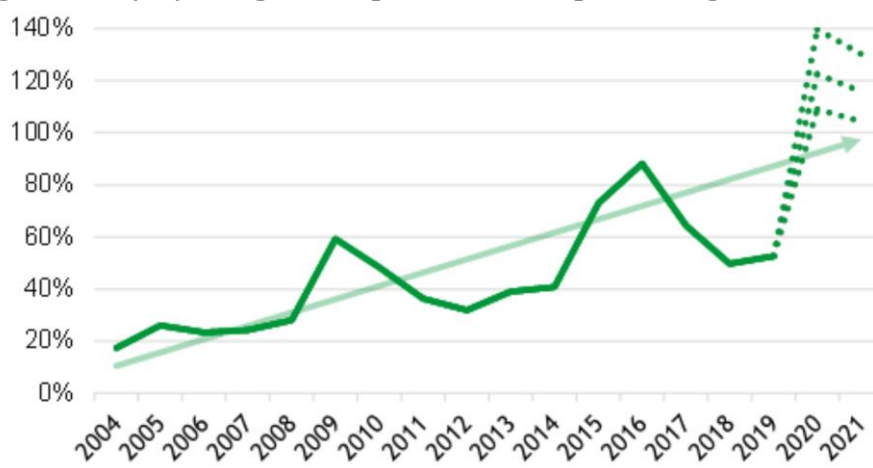


(Source: Energy Information Agency (EIA), Short-Term Energy Outlook - Sep. 2020)

The White Paper's scenario assumes an average selling price of Iraqi oil of \$35 - \$45 per barrel in 2020 and \$45 - \$55 per barrel in 2021. Building on that, the expected oil revenues of 2020-2021 will not adequately cover payroll payments (wages and pensions), not to mention any other recurrent expenditures – a completely different situation from the previous crisis of 2014-2016, payroll spending witnessed a growth by around 60% between 2014 and 2020 (increased from 40.2 trillion Iraqi dinars to an estimated 64.2 trillion Iraqi dinars. Further, the recurrent spending also increased significantly between 2019 and 2020³¹. Payroll payments account for 122% of the predicted oil revenues in 2020, while the worst percentage witnessed in previous crises was in 2016, at 88% of oil revenues, as shown in the following chart. The matter will get worse if the demand for oil decreases below expectations in 2021, or if the supply increases in a way that makes the prices tends to decline.

³¹ In its Spring 2020 Economic Monitor, the World Bank noted that in 2019, recurrent spending, irrespective of the income, accounted for over 77 percent of total budget, largely due to transfers hike and additional public sector hiring. The public wage bill rose by over 13 percent in 2019 as compared to the previous year, and that both goods and services, and transfers—namely pensions and Public Distribution System (PDS) - increased by 127 and 18 percent (y/y), respectively. As for the recurrent spending, the World Bank adds: MOF data shows a substantial 26.4 percent (y/y) rise in recurrent spending following GoI's decision to expand public employment, reduce the retirement's age and offer numerous cash transfers following the demonstrations of October 2019.

Figure No. (27): Wages and pensions as a percentage of oil revenues



Source: (2004-2018) International Monetary Fund³², Article IV Consultation report based on the data provided by the Iraqi authorities, 2019 (Ministry of Finance), assuming the sale price of the Iraqi oil at \$35-\$45/barrel in 2020, and \$45-\$55/barrel in 2021, in compliance with the current OPEC's quota in 2020 and 2021. Salary and pension payments consumed an increasing percentage of oil revenues - a share that has risen successively and unsustainably during each crisis as oil revenues decline. This rise has reached dangerous levels in the current crisis.

This has dire implications for the budget deficit in 2020-2021, as shown in the following figure.

³² IMF Reports (19/248, 17/251, 13/217, 11/75, 08/383, 06/15) are used as primary sources in this paper for details of salary and pensions expenditures, oil imports, and non-oil investment during 2004-2018.

Table No. (3)
Ministry of Finance: Budget execution data using cash-based accounting data

| Year | Total expenditure (IRD) | Current Expenditures (billion IRD) | Employees' salaries (billion IRD) | Pensions (billion IRD) | Investment Expenditures (billion IRD) | Non-oil investment expenditures (billion IRD) | Oil-Investment Expenditures (billion IRD) | Total revenue (billion IRD) | Non-oil revenues (billion IRD) | Oil revenues (billion IRD) | Average price of Iraqi oil (barrel/US\$) | Average price of Brent crude oil price(barrel/US\$) | Oil exports (Million barrels) | Surplus/deficit (Billion IRA) |
|-----------------------------------------------------------|-------------------------|------------------------------------|-----------------------------------|------------------------|---------------------------------------|-----------------------------------------------|-------------------------------------------|-----------------------------|--------------------------------|----------------------------|------------------------------------------|-----------------------------------------------------|-------------------------------|-------------------------------|
| Actual (MoF) 2019 | 111,724 | 87,301 | 40,634 | 11,700 | 24,423 | 5,437 | 18,986 | 107,567 | 8,076 | 99,491 | 61.01 | 64.36 | 1,287 | 4,157 |
| Actual 1 st – 6 th month (MoF) 2020 | 31,354 | 30,860 | 18,171 | | 494 | 464 | 31 | 28,083 | 2,020 | 26,062 | 35.35 | 39.89 | 593 | 3,272 |
| Estimated 2020 | 95,605 | 81,431 | 50,521 | 13,632 | 14,174 | 2,782 | 11,392f | 51,129 | 4,041 | 47,089 | 37.96 | 41.45 | 1,092 | 44,476 |
| Estimated 2021 | 102,020 | 87,847 | 55,573 | 14,995 | 14,174 | 2,782 | 11,392 | 64,196 | 4,041 | 60,155 | 46.52 | 50.00 | 1,094 | 37,824 |
| Proposed budget 2020 | 148,606 | 113,311 | 50,521 | | 35,295 | 23,277 | 12,018 | 67,425 | 9,198 | 58,227 | 40.51 | | | 81,181 |
| Estimated 2021 as per the proposed budget for 2020 | 153,658 | 118,363 | 55,573 | 14,995 | 35,295 | 23,277 | 12,018 | 81,065 | 9,198 | 71,867 | 50.00 | | | 72,593 |
| Estimated (IMF) 2020 | 101,500 | | 43,200 | 14,800 | | | | 61,000 | 6,600 | 54,400 | 36.30 | | | 40,500 |
| Estimated (IMF) 2021 | 105,400 | | 44,800 | 15,400 | | | | 66,800 | 6,900 | 59,900 | 39.50 | | | 38,600 |

Source: General budget implementation data using cash-based accounting standards. For 2020/2021, the table uses market estimates along with the proposed 2020 budget for comparisons. The last two lines are IMF estimates based on recent discussions with the Iraqi authorities. There are significant accounting differences in reporting / estimating the balancing figures between cash-based accounting standards, as used by the Ministry of Finance, and the International Accounting Standard as used by the International Monetary Fund which explains part of the differences between the figures. There are other differences related to the assumptions of oil prices, exports, and assumptions about salary and pension expenditures following the Iraqi government's decision to expand public employment and lower the retirement age after October demonstrations.

Whether the assumption is based on market estimates, budget proposals, or estimates of the International Monetary Fund, this table indicates a huge deficit in the budget for the coming years, which imposes the need for financing. The budget deficit was funded, especially during the financial crisis (2014-2016) through the combination of accumulated debt and the external and domestic debt.

On the contrary, the accumulation of debts added to the previous unpaid debts leads to an increase in spending and increased deficit in the future budgets, which ultimately increases government debt. Likewise, the accumulated debts of international oil companies will lead to a decrease in production, which limits future revenues and increases the budget deficit. Additionally, debts owed to private sector lead to increased rate of insolvency and fewer job opportunities, as the increasing rate of default negatively affects the ability of banks to lend. This, in turn, amplifies the pressures on the local economy.

International budget support represents a very limited area, given the sharp increase in spending and fiscal deficits faced by the states around the world as a result of the policies adopted to address the implications of Covid-19. Therefore, it is unlikely that international financial institutions would extend help for debt financing without significant reforms (deeper and much more structured than those made under 2016 Credit Standby Agreement). Similarly, the ability of local financial institutions to finance the budget deficit is limited, as can be seen in the following table:

Table No. (4): Size of the internal public debt

| Domestic public debt | 12/2013 | 12/2014 | 12/2015 | 12/2016 | 12/2017 | 12/2018 | 12/2019 | 8/2020 |
|--------------------------------------------------|--------------|--------------|---------------|---------------|---------------|---------------|---------------|---------------|
| Treasury transfers (Billion IRD) | 1,300 | 6,313 | 19,312 | 32,764 | 32,295 | 28,413 | 26,003 | 34,106 |
| MoF debt (Billion IRD) | 2,756 | 2,456 | 2,356 | 2,356 | 2,156 | 1,956 | 1,756 | 1,556 |
| Bonds (Billion IRD) | 0 | 0 | 15 | 1,697 | 2,682 | 1,953 | 1,921 | 1,909 |
| Financial institutions loans (Billion IRD) | 0 | 0 | 10,461 | 10,546 | 10,546 | 9,501 | 8,652 | 14,669 |
| Total (Billion IRD) | 4,056 | 8,768 | 32,143 | 47,362 | 47,679 | 41,823 | 38,332 | 52,240 |
| MoF deposits in foreign currencies (Billion IRD) | 109 | 867 | 4,232 | 3,500 | 4,625 | 14,957 | 7,294 | 4,904 |
| MoF deposits in local currencies (Billion IRD) | 1,895 | 1,107 | 1,523 | 455 | 2,478 | 5,315 | 1,006 | 1,875 |
| Total deposits (Billion IRD) | 2,004 | 1,974 | 5,755 | 3,956 | 7,103 | 20,272 | 8,300 | 6,779 |
| Net debt (Billion IRD) | 2,051 | 6,794 | 26,388 | 43,407 | 40,576 | 21,551 | 30,032 | 45,461 |

Table No. (5): Details of the Public Domestic Debt

| Debt from the central bank | 12/13 | 12/2014 | 12/2015 | 12/2016 | 12/2017 | 12/2018 | 12/2019 | 8/2020 |
|--------------------------------------|--------------|--------------|---------------|---------------|---------------|---------------|---------------|---------------|
| Discounted Remittances (Billion IRD) | 0 | 0 | 6,225 | 16,225 | 16,225 | 14,925 | 14,125 | 28,452 |
| MoF debt (Billion IRD) | 2,756 | 2,456 | 2,356 | 2,356 | 2,156 | 1,956 | 1,756 | 1,556 |
| Total (Billion IRD) | 2,756 | 2,456 | 8,581 | 18,581 | 18,381 | 16,881 | 15,881 | 30,008 |
| Debt from State-owned banks | 12/13 | 12/2014 | 12/2015 | 12/2016 | 12/2017 | 12/2018 | 12/2019 | 8/2020 |
| Treasury transfers (Billion IRD) | 1,313 | 3,752 | 10,523 | 11,224 | 12,353 | 10,768 | 8,906 | 4,239 |
| Bonds (Billion IRD) | 0 | 0 | 15 | 1,697 | 2,682 | 1,953 | 1,921 | 1,909 |
| Loans (Billion IRD) | 0 | 0 | 10,461 | 10,546 | 10,546 | 9,501 | 9,501 | 14,669 |
| Total (Billion IRD) | 1,313 | 3,752 | 20,998 | 23,467 | 25,581 | 22,222 | 19,479 | 20,817 |
| Other owners of treasury bonds | 12/13 | 12/2014 | 12/2015 | 12/2016 | 12/2017 | 12/2018 | 12/2019 | 8/2020 |
| Private banks (Billion IRD) | 76 | 562 | 364 | 587 | 471 | 70 | 379 | 172 |
| Pension funds (Billion IRD) | 110 | 2,752 | 2,200 | 4,728 | 3,245 | 2,650 | 2,593 | 1,243 |
| Total (Billion IRD) | 187 | 3,313 | 2,564 | 5,314 | 3,716 | 2,720 | 2,972 | 1,415 |

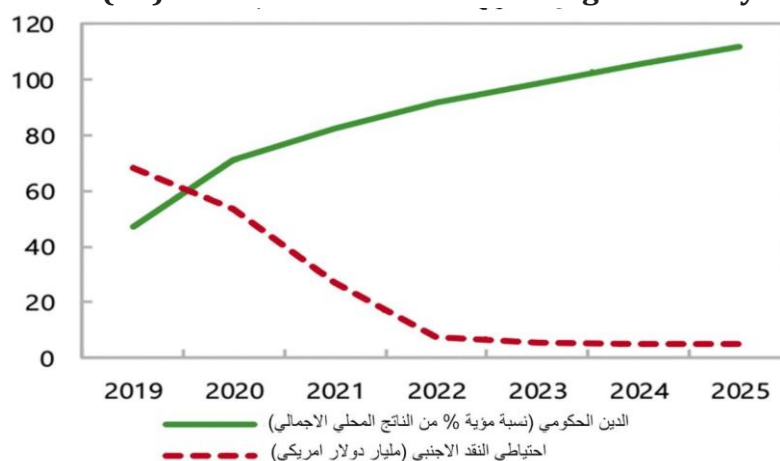
Pension funds here mean the state employees' Pension fund and workers' Pension and insurance fund

Source: Central Bank of Iraq, items in italics are estimates. These debts do not include debts payable to the private sector, which is estimated at 5 trillion dinars, and do not also include the state's conditional obligations, which amounted to (as end of June 2017) US\$ 19.4 billion as pledges for service payments to independent energy producers (IPPs), and US\$ 2.3 billion for debt according to the discussion between IMF and the Iraqi authorities during the consultations as per Article 4 in 2019, and as indicated in IMF Report for Iraq No. (19/248)

This leaves the indirect monetary financing by the Central Bank of Iraq the only remaining source. The reserve of the Central Bank of Iraq as of August 2020 is estimated at about 71.3 trillion Iraqi dinars, as compared to 79.9 trillion Iraqi Dinars end of December 2019. This can provide finance for around 12 months, depending on spending cut and the levels of oil prices. However, the need for this reserve to fund imports of goods and services means that serious decrease of the reserve within 9 months will ultimately lead to a real crisis in the value of the Iraqi dinar, accompanied by possible collapse of its value.

- Depreciation of dinar will contribute to restoring the competitiveness of the Iraqi economy towards its trading partners.
- Despite the positive aspects of the depreciations of the Iraqi dinar, which is linked to the government's ability to meet salaries and pension payments, it will later lead to an increase in the cost of living, and thus reduces its levels for the majority of the population, given the country's heavy reliance on imports to meet consumption.

Figure No. (28): Government Debt and foreign currency reserves



Source: International Monetary Fund and Iraqi authorities, based on discussions held by Iraqi authorities with the International Monetary Fund. The graph shows the depletion of the foreign reserves, in the absence of financial stability reforms as stated in the white paper, which shows the decline in the reserves below sufficient levels by mid-2021, or nine months from now, and to very serious levels by mid-2022.

Despite the positive aspects of the devaluation of the Iraqi dinar, which is linked to the government's ability to meet salary and pension payments, it will later lead to an increase in the cost of living, and thus reduces its standard for the majority of the population, given the country's heavy reliance on imports to meet consumption. This will also exacerbate the pressure on the informal economy, which has been hit hard by the shocks caused by the lockdown associated with Covid-19, reduced government spending on capital expenditures, and restricted spending on goods and services, etc. However, depreciation of the national currency will restore the competitiveness of the Iraqi economy towards its trade partners.

6. Vulnerability of the Financial Institutions

- Financial institutions suffer from structural vulnerability caused by the damage sustained by the institutional infrastructure of the country, as a result of conflicts over the past four decades.
- The situation has further exacerbated by the politicization of the civil service and division of loyalties over the past two decades.
- Iraqi institutions are unable to deal with the complexities of budget management in times of crisis, and are unqualified to play a leadership role in the economic development.

The financial institutions in Iraq, particularly Ministry of Finance, suffer from structural vulnerability caused by the damages sustained by the institutional infrastructure of the country, as a result of conflicts over the past four decades. The situation has further exacerbated by the politicization of the civil service and division of loyalties over the past two decades. The result is Iraqi institutions incapable to deal with the complexities of budget management in times of crisis, and are unqualified to play a leadership role in the developing the economy

The absence of coherent policies and systems for revenues management, especially the public finance management system (PFM), along with the continued adoption of paperwork in the budget calculation process (including planning, auditing, parliamentary approval, execution, and finally monitoring of budget execution), makes it impossible for the government to provide effective real-time monitor of performance, specifically cash management operations despite its critical importance during financial crises.

Moreover, Iraq lacks two basic features of the public financial management, namely the Integrated Financial Information Management System (IFMIS), which connects all government spending units electronically, and automates the basic budget execution functions, in addition to the treasury single account (TSA), which integrates all government accounts into a single treasury account, which means that the government lacks control over all the data and information related to its financial resources and all its cash balances.

7. White Paper Reforms

- The White Paper has diagnosed the economic fragility over time in the face of crises that have increased steadily.
- The key reason of fragility is the growing socioeconomic role of the state, which is more evident in the federal budget.
- The existing vulnerabilities have deepened and led to the current situation in which such vulnerabilities have further advanced and exacerbated.
- The steady, yet inflexible increases of expenditures, especially the wages and pension expenditure, are inconsistent with the fluctuating revenues that are much below those expenditures. This makes it not possible to address the financial crisis not possible without resorting to difficult and painful options.
- The faster the state takes serious, determined and informed measures to address this crisis and its root causes, the greater the level of protection for members of society as a whole, especially the most vulnerable groups.

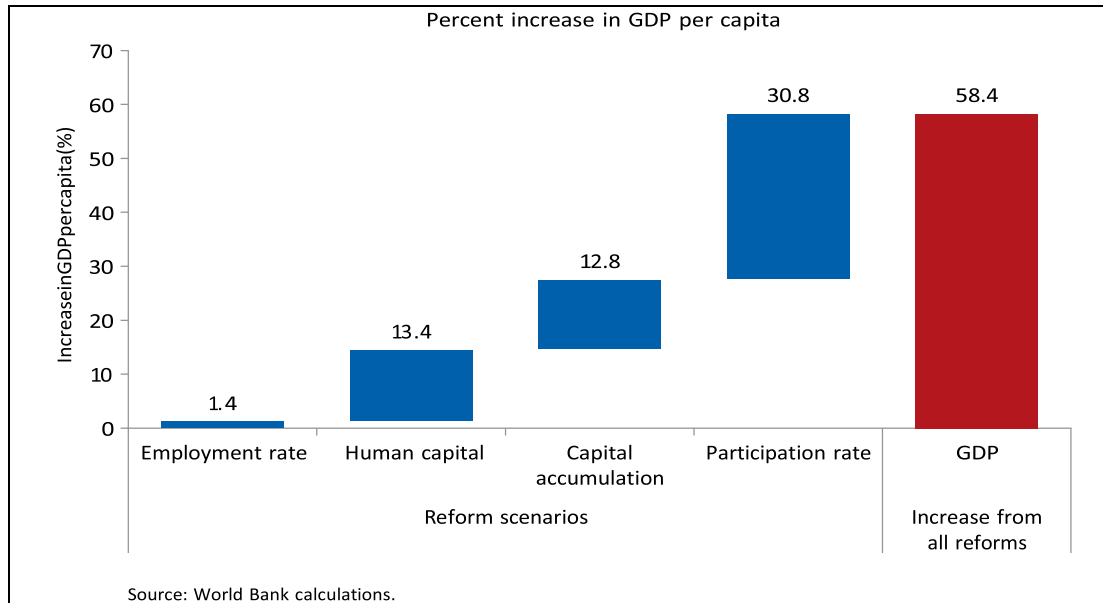
The *White Paper* has diagnosed the economic fragility over time in the face of the shocks that have increased exponentially. In both crises (2007 – 2008) and (2014-2015), structural distortions have been the key reason of the fragility, that is the growing socioeconomic role of the state, which is clearly evident in the federal budget, and led to a severe economic recession and suffering of the people.

Yet, in the aftermath of each crisis, there has been a rise in oil prices, creating opportunities for implementing structural reforms to address fragility. However, these opportunities were not invested. Rather, the state adopted more negative policies, influenced by social demands, which deepened the existing vulnerabilities, leading to the current situation in which these vulnerabilities have become more advanced and exacerbated, accompanied by radical and dynamic changes in the global oil markets, which makes it impossible to address the financial crisis without resorting to difficult and painful options, in order to mitigate the risk of a more difficult and painful collapse or at least mitigate its negative impacts.

The steady inflexible increases in expenditures, especially those of wages and pension, are inconsistent with fluctuating revenues that are much less than these expenditures, while the state has no control over the trends or volume of these revenues. While measures to decrease expenditures will lead to economic suffering for many groups of the population, the sooner the state takes serious, determined and informed measures to address this crisis and its root causes, the greater the level of protecting the members of society as a whole, especially the most vulnerable groups.

Expenditures, especially those of employees 'and retirees' salaries, are not compatible with fluctuating revenues that are much less than these expenditures, as the state does not have control over the trends or the size of that revenue. While measures to reduce expenditures will lead to economic suffering for large groups of people, the sooner the state takes serious, resolute and deliberate measures to address this crisis and its root causes, and the greater the area of protection for members of society as a whole ,especially from the most vulnerable and fragile groups.

Figure No. 29
Potentialities to improve its GDP per capita
Percent increase in GDP per capita



(Source: World Bank, *Iraq Economic Memorandum*, September 2020. If comprehensive and radical reforms are implemented, not only will the economic course be rectified, but will, over time, achieve a remarkable increase in the per capita share of GDP.

The *White Paper* seeks to achieve two basic strategic objectives: (i) initiate a radical and immediate reform program to stop the bleeding and deficit of the budget (i.e. shifting the ailing economy from the intensive care unit to the intermediate care ward), to provide adequate financial and time space for implementation of the medium-term reform; while objective (ii) of the reform program seeks to place the economy and the budget on a sustainable track, which is the common track for future options, after which the country can then make its decisions regarding the final economic direction (i.e. shifting the ailing economy from the intermediate care ward to the recovery and rehabilitation houses). As such, the *white paper* aims to prescribe the necessary and urgent remedies to be applied in the immediate and medium term (3-5 years), which provides a sufficient period to develop and implement a long-term economic strategy, and appearance of its initial outcomes.

In view of the above, the reform program presented by the *White Paper* aims to address the structural imbalance of the Iraqi economy, as well as the challenges presented above, through the reforms chain described in this paper, and within a set of key and urgent priorities to be applied in the medium term, as follows:

Axis 1: Achieving sustainable financial stability with the aim of slowing down or stopping the financial bleeding and giving a longer opportunity to achieve the other structural reforms.

Axis 2: Implementing macroeconomic reforms according to strategic principles, giving priority to productive economic sectors and creating sustainable jobs, with the aim of providing realistic and sustainable economic alternatives based on the productive sectors that can be mobilized quickly to strengthen the non-oil sectors and their contribution to the GDP.

Axis 3: improving the basic infrastructure that contributes to the advancement of future sectors, with the aim of creating enabling platform to expand and diversify the economic base and re-map its strategic tracks in order to achieve the required competitiveness on the long term.

Axis 4: Providing the key services and rationalizing and directing social care, giving priority to the poor, and protecting them during and after the reform process. The aim is to meet the urgent needs of the population and provide the necessary protection for the vulnerable groups during the reform process and its remedial measures.

Axis 5: Develop governance and the legal and administrative environment to enable individual institutions to implement the reform. It aims at reforming the key institutions with leading roles in implementing the reforms and ensuring the sustainability of its effects.

Axis 1: Achieving sustainable financial stability

The previous paragraphs show that Iraq is experiencing difficult financial conditions requiring deep and radical solutions to address heavy accumulations which have persisted over more than five decades and that have exhausted its infrastructure and financial and human resources.

The needed real reforms – whatever efforts are made to implement them urgently – require adequate timeframe for their results to be seen, in a way that changes the current general track on the right direction towards stability and growth. By its nature, the current crisis is both structural and financial at the same time, so it is necessary to first stop the large financial drain and correct the track of expenditures, in order to give a greater opportunity for the results of the structural reforms to be seen in terms of improving the development track to achieve the required macroeconomic growth.

Macroeconomy is the key to the solution which determines the priorities. However, it is not possible to wait for the results of the overall reform to be achieved in light of the significant distortion and tremendous pressure on the state's finances, which requires urgent fundamental financial reforms, without which the sustainability of the state's financial position cannot be guaranteed, provided that those reforms are carried out in the direction that promotes macroeconomic growth and sustainability and not vice versa .

The Iraqi economy – similar to the economies of other countries - cannot flourish and grow without achieving financial stability in the general budget, and reforming the financial institutions and infrastructure that enable effective management of such reforms. Therefore, the first axis in this paper focuses on achieving sustainable financial stability, which requires: (i) rationalizing expenditures by taking immediate and medium-term measures applicable to the Iraqi environment; (ii) increasing revenues, improving cash flow, and providing the necessary liquidity to meet expenditures; and (iii) reforming financial management systems, to lay the foundations for reform and empower the institutions to effectively and sustainably manage public finance.

Rationalizing expenditures, increasing revenues, improving cash flow, and reforming financial management systems

Rationalizing expenditures:

- Decrease the preliminary budget deficit to a sustainable rate (3% of GDP)
- Decrease the rate of the wage bill from 25% to 12.5% of the GDP within three years.
- Prepare and launch the operational and investment allocations on a quarterly basis.
- Reform the Pension Fund and phase out its finance from the budget, restricting payments to the fund only, while preserving the state's contribution, reviewing that contribution, and amending the law accordingly.
- Reduce the total government support as a percentage of GDP to 5%.

Increasing revenues and improve cash flow

- Collecting the revenues for all electricity uses based on real time fuel price in the global market.
- Review fuel subsidies provided to the state-owned companies.
- Activate the smuggled and stolen funds recovery program.
- Develop and implement a program to sell part of the government assets, taking into account the public interest.
- Issue national bonds and instruments, and offering them for public trading, in coordination with the Central Bank of Iraq.
- Increase customs and tax revenues through improved administration and collection.

Reforming Financial management systems

- Implement the "Integrated financial information management system project (IFMIS) to modernize the public financial management and the single treasury account (TSA).
- Implement a comprehensive census of state employees in order to implement an electronic system for human resources and align government wages and allocations in accordance with international standards.
- Establish program-based budget principles (PBB).
- Study the current exchange rate of the dollar against dinar.
- Form an advisory group consisting of economists with international experience and reputation to support the reform process.

(1) Rationalizing expenditures

1. Decrease the preliminary budget deficit to a sustainable rate of (3% of the GDP) - the deficit is currently 20% of GDP.
2. Decrease the rate of the wage bill from 25% to 12.5% of the GDP within three years through implementing measures including: restricting new employment and replacement in the public sector to the most necessary cases and only with exceptional approvals of the concerned higher authorities, separating the payroll of self-financed state-owned companies and administrative institutions from the central government funding, and setting a threshold for the salaries of employees in ministries and financial spending units so as to achieve equality and narrow the gaps.
3. Prepare and launch the operational and investment allocations on quarterly basis, develop the rules and regulations related to the core expenditures in the budget and investment projects, monitoring compliance and submitting accounting and audit reports.
4. Reform the Pension Fund and phase out its finance from the budget, restricting payments to the fund only, while preserving the state's contribution, reviewing that contribution, and amending the law accordingly.
5. Establishing a performance and merit-based support system for the state-owned and administrative institutions and decreasing financial support for state-owned companies by 30% annually for three years.
6. Applying reduction on the overall government support as a percentage of GDP, to reach %5 within three years (the current support is around 13% of GDP).

(2) Enhancing revenues and improving cash flow

- a. Applying an economic formula for electricity tariff in line with the actual fuel prices in the global market and collecting revenues of all electricity uses based on this price.
- b. Review of fuel subsidies for public companies.
- c. Reviving the smuggled and stolen money recovery program.
- d. Developing and implementing a program for sale of certain State's assets with view of improving their performance in line with the public benefit, promote the national economy and achieve optimal investment of such revenues.
- e. Issuing national bonds and instruments and offering them for public trading in the Iraqi Stock Exchange in coordination with the Central Bank of Iraq.
- f. Increase customs and tax revenues by improving management and collection, and developing a new tax system in the form of simple, fair and equitable tax rates, including indirect taxes, property taxes and all remunerations of employees, including salaries, allowances, incentives, bonuses and other forms of income, computerizing all work sections, introducing tax Identification number (TIN) for all citizens to be able to conduct an electronic tax assessment.

(3) Reforming financial management systems

- 1) Accelerate implementation of the Integrated Financial Information Management System project (IFMIS) to modernize the public financial management and the "Consolidated Treasury Account (TSA)" in cooperation with the World Bank.
- 2) Conduct a comprehensive census of government employees in order to implement an electronic HR system linked to payroll systems and other databases, and develop a management software for biometric data of all public sector employees.
- 3) Harmonize government salaries and allocations according to international standards, review job levels in a consistent and rational manner, and develop and establishing a medium-term financial goal for public sector wages and salaries.
- 4) Restructure the domestic government debt.
- 5) Amend the law of Ministry of Finance to update and restructure it according to the latest international standards, assess its functions and responsibilities to make it the only executive body responsible for implementation of the public financial policy, establishing, implementing and monitoring the Public Finance Management System (PFM), so that MoE assumes full responsibility for implementation of the PFM and monitoring its performance.

- 6) Building technical and administrative capacities and skills of the employees of Ministry of Finance and for all posts, and establish a specialized public finance management institute to provide training and strengthen the skills of all medium and high-rank employees as well as front-line employees within Ministry of Finance as the first step, and then roll out to cover all employees of the public sector.
- 7) Strengthen the administrative and financial capabilities of the Ministry of Finance in the field of data collection and projections, and reporting on macroeconomic factors.
- 8) Reviving the petrodollars and customs revenues, and the commitment related to sharing revenues with governorates, according to the laws in force.
- 9) Establish a program-based public budgetary framework (PBB) and implement it on the medium term (3-5 years), including institutional restructuring, capacity building and generating quarterly budget reports for auditing and control purposes.
- 10) Review the design and funding of the investment budget to ensure project financing over the project life in order to prevent delays due to the impact of delayed budget approval and execution.
- 11) Establish sustainable formal structures and systems to implement the principles of fiscal federalism.
- 12) Study the current exchange rate of the dollar against the Iraqi Dinar (IRD), taking into consideration the requirements of financial and monetary stability and realizing competitiveness for the Iraqi economy.
- 13) Improve the public investment framework by setting medium-term investment goals as part of the GDP, and redefine the public investment management system (PIM) based on the international best practices, link public investments with the national and sectoral strategic framework, operationalize the central monitoring system to review and monitor project implementation, auditing, reporting, evaluation and accountability, as well as integrating GDP measurement system with the integrated financial management information system.
- 14) Establish an advisory team consisting of economists with international experience and reputation to support the reform process.

Axis 2: Achieving macroeconomic reforms according to strategic principles, giving priority to productive economic sectors, and creation of sustainable employment opportunities

Our region and the entire world undergo rapid economic and social changes that pose significant challenges on the country, which call for the development of strategic plans and taking the required measures to protect the society and the state from major crises and the resulting economic fluctuations. Achieving sustainable growth and prosperity requires the Iraqi economy be competitive and productive to ensure prosperous future for the Iraqi people and for future generations.

The economy continues to suffer from structural imbalances, including steady decline in productivity, over dependence on the revenues of exporting crude oil, the largely undeveloped financial sector and the absence of setting strategic priorities in order to focus on their development in order to allow production of new sustainable locomotives to drive the wheel of sustainable growth into the future.

Macroeconomic reform guarantees resolving an important portion of the societal, service, security and other challenges, including providing a decent life for the Iraqi people and creating decent job opportunities for them, especially with regard to private sector empowerment to play its primary role in the development and service delivery. Economic reforming is the key to the rest of the reforms and is the key priority that should be taken into consideration in the immediate and future programs, legislations and plans. Therefore, the second axis of this white paper has been devoted to developing an approach aimed at achieving macroeconomic reforms according to strategic basis.

To achieve a qualitative leap in the macroeconomy in the medium term, the key essential enablers and sectors that can leverage the macroeconomy and address its imbalances. This includes: (i) rehabilitating the financial sector, including reforming government banks and enabling private banks to play their required role, applying international accounting standards, developing the insurance sector and upgrading the stock exchange market; (ii) prioritizing the sectors that drive the economy, which currently possess better potential for rapid advancement, creating job opportunities, enhancing non-oil GDP and balance of payment, or those representing large-scale strategic opportunities for the Iraqi economy, including agriculture, oil and gas sectors; (iii) enabling the private sector to play its required role in production, growth, achieving added value and creating job opportunities by reviving the private sector support fund, simplifying procedures, providing non-financial support to it and paying back arrears due to the private sector by the government; (iv) restructuring self-financed state-owned companies and transforming them from pressure factors into support factors for the economy and the public budget; and (v) activating labor-intensive public works to provide fast employment opportunities, increase the productivity of the public sector, absorption surplus labor and disguised unemployment; and (vi) developing a national strategy for education and training with the aim of increasing productivity, making available the required human resources according to market needs, and linking training and education outputs to future labor market inputs.

(1) Rehabilitation of Financial sectors

Rehabilitate financial sectors through reforming state-owned banks, developing private banks, developing the insurance sector, and upgrading the stock exchange market.

- 1) Addressing the capitalization level of all government banks, regulating the process of increasing their capital, if needed, and establishing and operationalizing the Core Banking System in Al-Rafidain and Al-Rasheed Banks.
- 2) Accelerate the development of electronic banking and mobile banking services.
- 3) Activate the deposit insurance system in order to enhance the confidence of the people in the private banking sector.
- 4) Finalize roll-out of international accounting systems (IFRS) to all banks, to improve their transparency practices.
- 5) Increase insurance thresholds that enable insurance companies to cover large economic projects.
- 6) Enacting a new securities law and review the guidelines of establishing a Custodian bank.
- 7) Opening other specialized markets such as the commodity market and the currency exchange market (Forex)

(a) Banking sector

Objective:

The reform of this sector aims to “*reform government banks towards working according to commercial standards, reduce their hegemony over the banking sector and pave the way for private banks to ensure the development of the sector and take its role as a lever for the Iraqi economy, end the role of government banks as an arm to finance government spending, return to the independence of these banks from the Ministry of Finance and restore people's confidence in the sector Banking in general*”, through the following steps

- 1) Addressing the level of capital of all government banks and organizing the process of increasing their capital, if necessary
- 2) Establishing and activating the basic banking system in the Rafidain and Rasheed banks, and continuing with the steps previously taken towards restructuring these two banks after conducting a full financial review by international auditing companies
- 3) Appointing an international law firm to conduct a full audit of the international legal position of Al-Rafidain and Rasheed banks in order to return them to international dealings
- 4) Reconsidering the Industrial Bank Law and increasing its capital in order to expand its business base and present it as a model for reforming other government banks
- 5) Accelerate the development of electronic banking and mobile banking services to become the primary means of the payments system to encourage more access to traditional banking services and enhance financial inclusion

- 6) Strengthening the ability of the Central Bank to perform its supervisory functions and enabling it to effectively supervise and regulate the banking sector, including the power of forced merger of low-performing banks
- 7) Implementing a deposit insurance system in order to enhance the confidence of depositors in the private banking sector
- 8) Complete the application of international accounting systems in all banks to improve their transparency practices and according to the Central Bank's instructions in this regard
- 9) Providing an appropriate environment to encourage private banks to lend a stimulus to the economy and move away from focusing on generating revenues through the issuance of guarantees, the currency window and other fees.
- 10) Adopting market mechanisms in determining the interest rate and profits for the Iraqi financial markets

(b) Insurance sector

Objective:

The objective of the Insurance sector reform plan is to develop the insurance sector to ensure a stable environment for the economy, foster the sector's contribution to the GDP, and promote the culture of insurance among individuals and firms through:

- (i) Open the door for Iraqi insurance companies to expand the geographic scope of their services in Iraq by creating allocations for companies operating in this field to benefit from the Iraqi insurance companies to cover insurance on assets in Iraq by amending the relevant legislations;
- (ii) Appointing an external consultant to prepare an organizational plan for the state-owned insurance companies, raise the technical level of the working cadres, promote insurance awareness among the public, and prepare a feasibility study for corporate branch networks.
- (iii) Increase insurance threshold that enable insurance companies to cover large economic projects, ensure access for the foreign companies operating in Iraq to insurance coverage from the Iraqi companies, and analyze the capitalization level of the companies by the Insurance Bureau to work with them to gradually increase their capital.
- (iv) Develop the existing insurance products and introducing new ones to expand the sector, improve insurance analysis for various companies and people, and gradually introduce the electronic insurance sector.
- (v) Improve investment management by understanding the real investment bonds of insurance companies, and investing funds by increasing investment in various projects and in foreign capital markets, in line with international best practices, while reducing bank deposits gradually.

- (vi) Setting controls to regulate access to insurance policy in cases of lease contracts and sales of (only commercial) properties, imports, housing and industrial loans, cars loans and health insurance in the public and private sectors, and allowing the sector to cover banking loans and facilities.
- (vii) Introduce guidelines for the banks, in cooperation with the Central Bank of Iraq and the Iraqi Private Banking League to provide insurance companies with the banking services they provide.
- (viii) Require the various official and non-official bodies to provide insurance coverage, including the operators of electrical transformers, fuel stations, and health insurance for public sector employees, industrial firms, ships and consignments, oil installations, refineries, poultry farms and trucks carrying products in excess of four tons.

(c) Stock Exchange Market

Objective:

The objective of this initiative is to “upgrade the stock exchange market to create an attractive environment for investment characterized by fairness, efficiency and transparency by creating confidence in the stock market, regulating, monitoring and developing stock markets and companies operating in this field, which requires the following:

1. Restructuring the Securities Commission;
2. Accelerate the enactment of a new securities law and introduce new concepts in it such as corporate governance, treasury stocks and international accounting standards (IAS);
3. Review Instructions No. (17) of 2012 regarding the establishment of Custodian Entity in the Iraqi Stock Exchange in order to eliminate the current obstacles preventing provision of this service by the banks.
4. Move towards privatizing certain public companies by converting them into mixed joint-stock companies to improve their performance in line with the public benefit, promote the national economy to increase the number of listed companies and an increase the national and foreign direct investment in the Iraqi Stock Exchange and thus increase the state's revenues from the revenues of these companies.
5. Update the current instructions/guidelines that are not linked to the law, like “margin trading”, amend the clearing period and the third market, and expanding the powers of the brokers;
6. Opening other specialized markets in the country under the umbrella of the Securities Commission, i.e. the commodity market, in cooperation with counterpart bodies in other countries, and the currency exchange market (Forex).

(2) Economy-driving Sectors

Operationalizing the economy-driving sectors, including agriculture, and oil and gas

Agriculture Sector

- Draft a modern law for the agricultural sector that includes institutional reform, reviewing or abolishing laws in force.
- Activating the Concessional Agricultural Credit Fund and making amendments in the Agricultural Cooperative Bank.
- Improving the entire value-added chain from the start to the end, developing incentives and promotional policies to attract private investment and allowing the export of agricultural and livestock products.
- Building trust with the farmer and meeting the promises committed by the government, particularly releasing the farmers' dues, and stressing on the measure of protecting the local agricultural product according to the agricultural calendar.
- Focusing on comprehensive rural development, including creation of an enabling environment to revive cooperatives, and increase budget allocations for rural access roads, and irrigation systems.
- Activating the work with the electronic farmer and agricultural investor card

Oil and gas sectors

- Promote the production capacity of the current oil and gas fields and increase the pace of exploration and drilling activities for the purpose of increasing reserves, and review the contractual policies with international companies, taking into account the national interest and in line with developments of the global markets.
- Implement the integrated southern project in different phases, and complete gasoline improvement projects, and resolve the pending files of the investment refinery and other projects.
- Repair the infrastructure of the (domestic) transport networks of LNG/LPG/petroleum products and crude oil.
- Attract investors to establish a petrochemical complex as a starting point towards establish an industrial city and activities.
- Automating the distribution sector, and introducing sober local, regional and international companies specialized in marketing and distributing of petroleum products, and decontrol the prices of improved gasoline.
- Establish a national gas company by a law which mandate it to establish joint ventures, develop a policy for the gas sector that promotes national gas production and ends dependence on imported gas.
- Establish a framework for private sector participation, allowing international companies to invest in the natural gas industry in Iraq and overseeing the implementation of gas licensing rounds contracts.

(a) Agriculture sector:

Objective:

The objective of this initiative is to “*sustain and develop the agricultural sector and invest the success of the agricultural seasons (2019-2020) to increase non-oil GDP, create job opportunities in the private sector, achieve food security, and reduce migration from rural to urban areas*”, through the following steps:

1. Draft a new law for the agricultural sector, which includes institutional reform, review or cancel old laws, including amending the (Agricultural) Land Leasing Act, develop practical solutions to address land tenure, management and use, address issues like urbanization, resolving land disputes, and prevent favoritism in land tenure and distribution.
2. Improve the entire value chain from the start (land and inputs) to the end (agricultural outputs and agricultural-dependent sector's inputs), and targeting the key opportunities to increase the agricultural sector's contribution to the GDP.
3. Revive the Concessional Agricultural Credit Fund and make amendments in the Agricultural Cooperative Bank to ensure monitoring of credit, and provide access for the small and medium-size farmers to credit.
4. Establishing promotional incentives and policies to attract private investment, encourage farmers to use modern irrigation techniques, and invest in establishing cold chain and silos near productive lands to store agricultural crops, prolonging the marketing season, enhancing price stability and farmers' proceeds.
5. Focus on supporting outputs, stressing on building confidence with farmers, and meeting the government commitments, especially with regard to releasing farmers' dues, while gradually reducing the subsidy rates in line with the global market prices and reducing the incentives of smuggling.
6. Direct attention to comprehensive rural development, including creation of an enabling environment to revive cooperatives, and increase budget allocations for rural access roads, and irrigation systems, land maintenance and restoration.
7. Allow and promote export of agricultural and livestock products through promotion and publicity, and activating the Export Support Fund.
8. Strict compliance with the measures related to protection of the local agricultural product by the border crossings, security authorities, and other bodies according to the agricultural calendar.

9. Activate the work by the farmer and agricultural investor's electronic card, and linking it to the payment mechanisms of farmers, which would support banks to assess the creditworthiness of farmers, and to provide working capital during the season.

(b) Hydrocarbon Sectors

Reform of these two sectors aims to "increase the effective performance in these two sectors by applying business-based approach and governance standards, accelerating enactment of the federal oil and gas law, separating the organizational and administrative work routes, and gradually moving from a state-led approach to a private sector-led approach supervised and monitored by the state".

a) Oil Sub-sector

Objective:

This initiative aims to *"enhance the effectiveness of the oil sector in performance leading to an increase in the state's revenues from the various internal and external activities of the oil sector, through:*

- a. Enacting and making the necessary amendments of laws and regulations, such as the law on investment in refineries, the law on import and sale of petroleum products, the law organizing Ministry of Oil, and organizing a contractual mechanism along the value chain, contractual approaches between the Ministry of Oil and the beneficiaries, and the National Oil Company law.
- b. Merge several public departments and companies of similar activities associated with the Ministry of Oil.
- c. Initiate production increase and enhance production capacity from the existing oilfields, after expiry of Iraq's commitment under OPEC+ agreement.
- d. Increase exploration and excavation activities to increase reserves, and subsequently intensify production programs.
- e. Implement the integrated southern project in phases, finalize gasoline improvement projects, resolving the pending issues of the investment refinery pending files and the other projects.
- f. Repair the infrastructure of the (domestic) transport network of LNG/LPG/ petroleum products and crude oil and unifying the operator for this network, expand the export system, and complete the monitoring and control project.
- g. Attract investors to establish a petrochemical complex as a starting point to establish an industrial city and activities.
- h. Resolve the issue of Al-Nibras petrochemicals project, or attract investors to establish a petrochemical complex as a starting point towards establishing an industrial city and activities.
- i. Automating the distribution sector, and introducing sober local, regional and international companies specialized in marketing and distributing of petroleum products, and decontrol the prices of improved gasoline.
- j. Striving to provide storage for the Iraqi oil near the main consumption areas, which would allow a margin for marketing maneuver and preference to meet the needs of

- customers, through leasing or establishing partnerships, entering into JVs in foreign refineries to ensure sustainable markets for the Iraqi oil, engaging in the business of exporting oil products, as well as meeting the local market demand.
- k. Within the of financial reform and its relationship with the oil sector reform, the current and future contractual policies with international companies need to be reviewed, in line with the country's interest and coping with developments in global markets.
 - l. Establishing an informed approach to replace the existing marketing approach of crude oil for domestic consumption, provided that its revenues go back to the public treasury, and taking into account protection of the upstream and downstream companies, and ensure to avoid inflation of the prices of staple products for the local consumer.

b) Gas Sub-sector

Objective:

This initiative aims to "*develop the administrative and financial structure of the gas sector so that it operates with an economic, institutional system to achieves optimal gas investment and high economic returns*", through the following steps:

- a. Establishing a national gas company by a law that allows it to establish joint ventures in production, processing, collection and transportation.
- b. Establishing a policy for gas sector, including setting priorities, increasing focus, interconnectedness and efficiency, in order to enhance national gas investment, through utilizing the associated gas instead of burning it, and developing natural gas fields, which will end dependence on imported gas.
- c. Establishing a framework for private sector participation, in a transparent and competitive manner, based on sustainable standards and models for interconnected contracts.
- d. Allowing international companies to invest in the natural gas industry in Iraq.
- e. Supervising the implementation of gas licensing rounds contracts, and building integrated gas complexes in some fields (Artawi, Maysan, and Nasiriyah).

(3) Private Sector

Creating enabling environment to strengthen private sector's contribution to the economic activity

- Financing private sector projects through establishment of a fund to be supported by government agencies and private banks, and allocating part of external grants for this fund.
- Issuing bonds by Ministry of Finance to support the Iraqi economy, in dollars and dinars, for 5.0 trillion dinars, subject to increase.
- Expanding partnership programs between the public and private sectors, by enacting the partnership law between public and private companies (PPP law).
- Strengthening product and consumer protection policies through control over border crossings, and developing dynamic import tariff policies, standardization and quality control procedures.
- Simplifying private sector's operation in the areas of starting business, i.e. business licenses, and decentralized company registration, according to a comprehensive database.
- Amending the key laws related to the economy and business, such as the Companies Act, Insurance Act, and the Insolvency Act, with the aim of improving the business environment and updating the relevant legal framework.
- Making payment of the outstanding dues accrued after 2014 to the private contractors of government project, farmers, and independent power projects (IPP) investors and any other payments due to the local private sector, as well as compensation to the Property Claims Commission.

This initiative aims to "strengthen private sector's participation in the overall economic activity of the country, making it the main leverage of the economic performance, addressing the current and future unemployment, and alleviating pressure on the public sector."

(a) Reviving the private sector support fund

The objective of this fund is to "*develop the private sector and increase its share in the economic activities, which would support recovery of the Iraqi economy and achieves social benefits*", through:

- 1) Providing finance for the private sector projects by establishing a fund supported by government agencies and private banks, allocating part of foreign grants for this fund, and developing investment climate for the foreign investment.
- b. Issuing bonds by Ministry of Finance to support the Iraqi economy, in dollars and dinars, for 5.0 trillion dinars, subject to increase, with incentive interest for each currency bonds.
- 1) Restructuring the Supreme Committee of Lending in the Prime Minister's Office to activate the Central Bank's initiative to support the private sector.
- 2) Encourage State-owned and private banks to grant loans to professionals who do not receive a salary from the state, to develop their professions or pursue a new profession.
- 3) Promote sectoral regulations, supervision and oversight by imposing accounts reporting procedures.
- 4) Expanding partnership programs between the public and private sectors, by enacting the PPP law, and developing detailed technical rules and procedures for its implementation.
- 5) Simplifying investment procedures through creation of one-stop shop and allowing establishment of service companies.
- 6) Strengthening product and consumer protection policies through control over border crossings, and developing dynamic import tariff policies, standardization and quality control procedures.
- 7) Mainstreaming private sector development into the external financing proposals.
- 8) Developing human resources through training and capacity building programs adopted by the government.

(b) Simplify procedures and provide non-financial assistance to the private sector

Objective:

This initiative aims to "*stimulate the national economy by supporting the private sector, simplifying procedures for its engagement, and providing non-financial assistance to it*", through the following actions:

10. Forming a specialized team to monitor implementation of the private sector support plan, comprised of the relevant authorities and representatives of the private sector and international and legal consultants, identifying a single body for all sector's procedures, and inviting the World Bank Business Follow-up Team to approve the reforms that have been implemented.
11. Developing and committing to a short and long-term actions map based on the indicators listed in the World Bank's ease of doing business report to facilitate the operation of the private sector in the areas of starting business, i.e. business licenses, decentralized company registration, according to a comprehensive database, dealing with construction permits, getting electricity, registering property, getting credit, protecting minority investors, paying taxes, trade across borders and resolving insolvency.
12. Review Investment Law No. (13) of 2006 and the mandate of the National Investment Commission and its internal regulations to enable it to apply international best practices in order to create an attractive environment for foreign direct investment (FDI), employ internal liquidity, and benefit from global experiences in re-mapping the investment process and combating corruption.
13. Changing the category of lands located outside the municipality's borders and do not have a water share for the purpose of establishing industrial projects, after purchasing the share of the Ministry of Finance against a real allowance to be determined by the valuation committees, and allowing the holder of the state-owned lands disposition to apply for correction of the category of the weighted land in cash or sorting his share, and establishing tourism, service, or commercial projects, as an exception from the law of unifying the categories of State-owned lands.
14. Canceling the Cabinet Resolution No. 197 of 2016, and the State-owned Real Estate Department assumes selling the confiscated agricultural lands in accordance with the provisions of the dissolved Revolution Command Council's Resolution No. 973 of 1985.
15. Ministry of Finance announces the sale of lands outside the right of way, as an exception to the public auction provided for under the provisions of Article (25/repeated) of the Law No. 21 of 2013 on Sale and Lease of State-owned Land. The Ministries of Agriculture and Water Resources identify the lands covered by the provisions of Articles (1113-1115) of the Iraqi Civil Code No. (40) of 1951 and

dispose of them in coordination with the Ministry of Finance, in line with the principle of maximizing the State resources.

16. Permitting the import of damaged vehicles within the permitted model years, and repairing them inside Iraq to create job opportunities in maintenance workshops, subject to safety and security conditions, and allowing the import of leading brands vehicles for an additional fee of one million dinars for each year older than the permitted model years.
17. Exempting contracting companies from payment of renewal fees and penalties due on non-payment of the classification ID, for one time, with 3 years validity, with the aim to bring these companies back to the market and create job opportunities.
18. Selling and permitting re-export of all types of (idle and surplus) cars, machinery, equipment, generators and construction machinery kept with state departments, as well as production lines and imported goods, to the private sector.
19. Amending some of the key legislations related to the economy and business, like Companies Act, Insurance Act, and the Insolvency Act.
20. Amending Article 149 of the Customs Law to allow re-export of all new and used imported goods, machinery, equipment and vehicles.

(c) Payment of the dues payable to the private sector and contractors' arrears

Objective:

The objective of this initiative is to “*create confidence with the private sector and ensuring its effective participation in the development course, by fulfilling the state’s obligations based on the regulations and guidelines, ending the state of negligence in dealing with private sector debts, promote productive sectors and achieve economic diversification, exit the single-sector economy and create employment opportunities*” by paying the dues accrued after 2014 to the private contractors, farmers, independent power projects investors (IPP) and any other dues to the local private sector, as well as compensation of the Property Claims Authority”, through:

1. Issuing local or foreign bonds with remunerative interest that are convertible and negotiable.
2. Corresponding payment of debts in exchange of payment of any debts payable to the state institutions.
3. Release and liquify credit equivalent collaterals provided by the beneficiaries, such as letters of guarantee for businesses and taxes, and others.
4. Compensating the illegible beneficiaries with the state-owned lands offered for sale, or selling the state’s right to shared property and disposal rights.
5. Providing eligible beneficiaries with in-kind materials they need for their work at subsidized prices, i.e. leasing farmers' equipment available with the General Company for Agricultural Supplies.

6. Selling attractive investment opportunities with a special advantage and a first preference for the contractors participating in the competition over public contracts offered with special controls.

(d) Creating employment opportunities in the private sector, starting with support to SMEs

Objective:

The objective of this initiative is to “*establish a program under the auspices of the Prime Minister’s Office aimed at facilitating and accelerating the administrative and financial requirements for establishing new companies, creating an environment which promotes SMEs sector, and making it a viable goal for university graduates, state employees and retirees*” through:

1. Amending the regulations to encourage Iraqi banks to review their standards for collaterals, and strengthening the skills of their departments to provide access to credit for establishing SMEs.
2. Rehabilitation of vocational training centers in the Ministry of Labor and Social Affairs, and establishing modern centers to bridge the gap in the process of building an educated and better trained workforce in the various labor-demanding sectors (like hospitality, construction, services, and others).
3. Supported spaces by government agencies may be used for commercial activities (i.e. abandoned government buildings, warehouses, heavy equipment, reducing customs duties, etc.) to create spaces for joint work with SMEs.
4. Amending the companies' registration laws and the investment law to meet the requirements for establishing small and medium companies.

(4) Structuring self-financed State-owned Companies

Improve the capacity of the public companies and transforming them into real self-financed firms

- Issuing a law to restructure public companies and convert them into private companies and subsidiary companies.
- Conducting an integrated analysis of the financial situation of these companies to have a clear image about their business and effectiveness, and assessing their viability.
- Classifying these companies as “*Successful Companies*” to be totally or partially privatized or converted into mixed joint-stock companies, “*Troubled Companies*” to be restructured and transformed into successful companies within three years, “*Failed Companies*” to be liquidated.
- Implementing a transitional plan for sale and purchase of the goods and services provided by these companies.
- Addressing employment imbalances in these companies following the previous procedures by transferring the surplus labor to public works.

Objective:

The objective of this initiative is to *"improve the level of the public companies as firms operating on purely economic principles, and turn into real self-financing institutions and not firms that depend on direct or indirect government subsidy"*, through:

- a) Enacting a law for restructuring public companies, transforming them into private companies and subsidiary companies, organizing their incorporation, operation, management, liquidation and bankruptcy, in the same way as applicable to private sector companies, and applying management accountability over their performance.
- b) Implement a program by Ministry of Finance to phase out the financial support provided to the public companies at an annual rate of (30%) up to 2024 when all public companies become fully self-financed.
- c) Collecting the most recent financial data for all public companies by the Economic Reform Unit within the Prime Minister's Office in order to conduct an integrated analysis of the financial situation of these companies to get a clear image about their business and effectiveness, and to assess their viability.
- d) Classifying Public Companies as “*Successful Companies*” to be totally or partially privatized or converted into mixed joint-stock companies, “*Troubled Companies*” to be restructured and transformed into successful companies within three years, “*Failed Companies*” to be liquidated.

- e) Implementing a transitional plan for sale and purchase of the goods and services provided by these companies.
- f) Addressing employment imbalances in these companies following the previous procedures by transferring the surplus labor to public works, and as will be detailed below.

(5) Public Works

Redirecting surplus labor to construction and infrastructure projects, and addressing flabbiness in within the State institutions

- Creating legal and regulatory frameworks needed to operationalize public works programs.
- Attracting large numbers of low-productivity and low-paid public sector employees and redirecting them to public works programs, and creating job opportunities in public works for low-income unemployed workers.
- Providing support to vital small-sized projects in all regions of Iraq to be implemented through local institutions.
- Providing funds to the public works programs separately from three sources, including: general government revenues, direct loans from the market with sovereign guarantees, and loans and grants from international agencies, up to 5.0 trillion Iraqi Dinars over five years.

Objective: "create job opportunities in construction and infrastructure projects, enhance the income of working households and provide safety net in times of economic shocks", through:

- a) Creating legal and regulatory frameworks needed to operationalize public works programs.
- b) This initiative aims to design and implement the public works project that relies on two key criteria: (i) attracting large numbers of low-productivity and low-paid public sector employees and redirecting them to public works programs and; (ii) creating job opportunities in public works for unemployed workers from low-income groups.
- c) Providing support to vital small-sized projects in all regions of Iraq to be implemented through local institutions that have better understanding of local needs and which more flexible and transparent in implementation. These projects will help promote local development and strengthen infrastructure.
- d) Providing funds to the public works programs separately from three sources, including: general government revenues, direct loans from the market with sovereign guarantees, and loans and grants from international agencies, up to 5.0 trillion Iraqi Dinars over five years.

(6) Human development and setting up a national strategy for Education and Training

Adopting a national Education and Training Strategy that links educational outcomes to the future need of labor market

- Study the expected future trends of the Iraqi labor market on the basis of continuous and increasing needs and development strategies over the next two decades, identifying the required knowledge and skills, drawing up the educational plans required to meet them, and providing the necessary resources for that.
- Conduct comprehensive awareness campaigns to educate the community to value skillful people, including professional and technical skills, and develop clear work tracks offering priority to graduates of vocational institutes and preparatory schools.
- Review legislations that contribute to distorting the labor market, and provide financial and organizational support to enable those who possess technical and technical skills to establish small enterprises.
- Review the business administration programs in the universities, and encourage establishment of post-graduate applied programs (MA) in partnership with internationally recognized institutions.

Objective: This reform aims to “adopt a national strategy for education and training, linking educational outcomes with the future need of the labor market, diversifying education and training, focusing on middle levels of technicians, craftsmen and skilled labor, focusing on and linking incentives to knowledge and skills development, while focusing on the quality outputs to achieve competitiveness in the labor market, "through:

- e) Study the expected future trends of the Iraqi labor market on the basis of continuous and increasing needs and development strategies over the next two decades.
- f) Identify the required knowledge and skills and draw up the required educational plans, and provide the necessary resources for that.
- g) Establish clear work tracks that offer priority to the graduates of vocational institutes and preparatory schools, by linking the professional licenses with education or training according to market standards.
- h) Conduct comprehensive awareness to motivate the community to value skillful people, including professional and technical skills, and encourage young people to choose

educational and training tracks consistent with the needs of the labor market during the years following their graduation.

- i) Review legislations that contribute to distorting the labor market beyond market standards, amend such legislations in order to alleviate or eliminate the material differences arising out of degree titles, and replacing them with standards consistent with the needs of society and the labor market.
- j) Provide financial and organizational support to enable those who possess technical and technical skills to establish small enterprises.
- k) Review the business administration programs in the universities, and encourage establishment of post-graduate applied programs (MA) in partnership with internationally recognized institutions

Axis 3: Improving the key infrastructure which contributes to the advancement of future sectors

The infrastructure in Iraq sustained significant damages as a result of decades of conflict and lack of maintenance, causing huge suffering to citizens, and creating significant constraints and barriers for sustainable economic development. Therefore, the third axis in this paper was devoted to improving the key infrastructure, especially those that contribute to the advancement of the potential sectors, which would enable sustainable provision of resources to establish, develop and maintain infrastructure needed by individuals and society.

The key infrastructure includes: (i) **electricity** with the aim of improving performance and enhancing the returns on the large public funds invested in this sector for both the citizens and the state, including rationalizing consumption and collection of state revenues, developing transmission and distribution networks, sustaining production necessary to meet the need, and developing renewable energy, (ii) **communications**, to contribute to the gradual transformation of Iraq towards a digital economy, and (iii) **transport** with its essential role in the movement of people and goods, support and empowerment of trade, investing Iraq's strategic location as a corridor for international trade, and implementing that using modern financing modalities, especially through partnerships between the public and private sectors to cover costs and attract investments, and (iv) **free zones and industrial cities** in order to create business enabling environment and avoiding the complicated and bureaucratic obstructive procedures, in the nearest possible time.

(1) Electricity

Strengthening performance and effectiveness of the various components of electricity network in Iraq.

- Adopt the use of advanced smart meters that work with all payment options.
- Allocate a percentage of the proceeds as incentives for the collectors.
- Expand electricity transmission network to cover more areas, especially in the south of the country, and provide continuous maintenance for the transmission and distribution networks.
- Finalize construction of the power plants and provide continuous maintenance for the gas generators of the Ministry of Electricity companies, and ensuring that IPP contractors finalize construction of their own power plants.
- Implement a comprehensive plan to attract IPP joint investments with the State in the field of electricity sector reform, specifically operating small-scale gas power plants.
- Update the energy strategy in Iraq (2020-2030) to introduce renewable energy into the energy mix.
- Direct the provincial administrations to adopt the Solar Energy plants installation project of 10-100 MW to be distributed according to the districts and sub-districts, and invest solid waste to convert it into energy using environment-friendly technologies, and announcing that as investment opportunities.

Objective:

Reform of electricity sector aims to *"increase the effectiveness and performance of the various components of the electricity network in Iraq, from generation to supply, and finding a regulatory approach to oversee the sector"*.

(a) Revenues Collection and Rationalization of Consumption**Objective:**

The objective of this initiative is to *"increase the effectiveness of the collection system within the power sector in order to increase revenues and encouraging individuals and institutions to rationalize consumption to strengthen the capacity to meet the increasing demand for power"*, through:

- 1) Establishing an approach to deal with the transgressors in areas where there is no electrical network, including collection of a lump sum.
- 2) Forming a specialized team in the Ministry of Electricity to follow up with the industrial subscribers to install smart meters, take inventory of the network materials and equipment, numbering the transformers and entering their details in the GIS system, set up circuit breakers, install smart energy meters in the fields of generation, transmission and distribution, and automating the readings of the meters.
- 3) Adopting the use of advanced smart meters that work with all payment options, designing mechanisms to correct the names of the subscribers, considering a specific number of units free for the household covered by the social protection (safety) system, exempting debts accrued within specific timeframe prior to installation of the meters, and granting investment licenses to collection companies in non-covered areas, and granting an opportunity to the contracting companies to develop their operation.
- 4) Ministry of Electricity to study the possibility of using alternative energy systems and mechanisms to ensure the rationalization of power consumption within the public institutions and facilities, in addition to designing specifications and conditions to be adopted in public and private buildings, and importing air-conditioning equipment, in order to achieve the goal of rationalization, and provide the necessary facilities for electricity production projects through the alternative energy systems.
- 5) Reducing electricity charges by a specified percentage for the committed subscribers within certain consumption threshold, and establishing procedures to prosecute the non-committed subscribers.
- 6) Allocating a percentage of the revenues as incentives for the collectors, provided that the loss is below 30% in the regulatory unit, within the governorates in which MoE is collecting revenues.

(b) Transmission and distribution networks**Objective:**

The objective of this reform is to *"The reform plan in this sector aims to "sustain, develop and expand the transmission and distribution networks of electricity to ensure reliable supply to the beneficiaries, and to reduce the issues and waste in the generated power"*, through:

1. Expanding the electricity transmission network to cover more areas, especially in the south of the country, and activating the agreements of MoE concluded with the international companies.
2. Finalize electrical connection with the neighboring countries to strengthen the supply and achieve better transmission capacity, as well as improving the country's ability to maintain the supply during maintenance operations of their power plants.
3. Carry out maintenance operations for the transmission and distribution networks on an ongoing basis.

(c) Generation

The reform plan in the electric power generation sector aims to "ensure the ability of the national generation system to maintain the current generation capacities and keep pace with the increasing demand for electric power", through:

1. Finalize construction of the power plants under implementation;
2. Finalize construction of the new Al-Khairat thermal station to take advantage of heavy fuel oil from the nearby Karbala refinery.
3. Finalize the ongoing maintenance of the gas generators of the Ministry of Electricity companies in the various power plants.
4. Ensure that the independent power producers, who signed purchase contracts with the Ministry of Electricity, finalize their generation plants, and increase production by converting simple-generation cycle plants into combined-cycle generation plants.
5. Ensure supply of adequate volumes of gas needed for the operation of the power plants by Ministry of Oil.
6. Promote power generation projects using renewable energy, particularly the solar energy.
7. Implement a comprehensive plan to attract the owners of private generators to joint ventures with the State in the field of reforming the electricity sector, specifically operating small-scale gas stations.

(d) Renewable (alternative) Energy

Objective:

The objective of this reform is to "phase out dependence on the traditional power generation system operating with oil and gas, and move towards new renewable sources of electric power generation", through:

1. Directing the governorates' administrations to adopt solar power plants projects of 10-100 MW, and distribute the generated power to the districts and sub-districts, using investment and purchase of generated power approach.
2. Update the National Energy strategy in Iraq for 2020-2030, to introduce renewable energy into the energy mix.
3. Adopt nuclear energy project as a future option, within the public safety controls.

4. Shift towards the use of hydrogen fuel cells in the isolated areas outside the grid, communications, waste and water treatment plants, and promoting their use in cars and oil refineries.
5. Directing all governorates, and Baghdad Municipality, to exploit solid waste and convert it into energy using environment-friendly technologies, and to announce this as investment opportunities.
6. Encourage import of fuel cell-operated or hybrid cars through granting customs exemption on their imports, and direct the National Investment Commission to offer investment opportunities for investment in this field.

(2) Telecommunication

Iraq's transition towards a flexible and inclusive digital economy

- Provide digital infrastructure, by introducing advanced technology (4G) beginning of next year, and prepare for introduction of 5G in the future.
- Introduce digital financial services and the online platforms necessary to stimulate the movement of funds and transactions.
- Complete the procedures for granting the fourth license in accordance with the best international standards.
- Lift restrictions on efficient private sector operators to build, own, and operate international and domestic optic fiber infrastructures.
- End Internet capacities smuggling cases through complete control of access gates.
- Gradually liberalize and privatize the public sector, infrastructure, and the Informatics and Telecommunications Public Company (ITPC)

Objective:

The objective of this initiative is to “Transform Iraq towards a flexible and inclusive digital economy through implementation of economic reforms and adoption of long-term development priorities, including affordable access to high-speed internet services, broader adoption of electronic payments, provision of digital government services, and improved access to data”, through:

1. Making available digital infrastructure, by introducing advanced technology (4G) beginning of next year, and prepare for introduction of 5G in the future, providing digital financial services and online platforms necessary to activate the movement of funds and financial transactions in accordance with the objectives of the Central Bank of Iraq, and finding building digital skills and entrepreneurship to increase employment opportunities.
2. Finalize the procedures for granting the fourth (4G?) license in accordance with the best international standards.

3. Reform the wireless landline market by offering investment opportunities to move this market, lifting the restrictions imposed on competent private sector operators to build, own and operate international and domestic optic fiber infrastructure.
4. Reform the Informatics and Telecommunications Public Company (ITPC), eliminating the overlapped functions between ITPC and the National Communications and Media Commission, and applying to ITPC and its contractual companies the same procedures approved for licensing fees, taxes and others, which would create additional revenues for the state.
5. End Internet capacities smuggling cases through complete control of access gates, as well as finalizing the security projects to control incoming and outgoing from and into Iraq.
6. Gradually liberalize and privatize the public sector, infrastructure, and the Informatics and Telecommunications Public Company (ITPC) to ensure competitiveness, sector development and generating revenues for the State.

(3) Transport

Effective transport sector facilitating the movement of people and goods

- Update the legal and regulatory framework of transport sector to increase financing for infrastructure projects in this sector through attraction of investments, and building partnerships between the public and private sectors (PPP).
- Implement a comprehensive plan to develop the main road networks that support trade and areas of key service.
- Design a comprehensive policy to achieve integration between the Al-Faw grand seaport and Umm Qasr seaport, and activate the implementation and development tracks of the two ports.
- Prepare appropriate feasibility studies for the development of railway sector, in parallel with establishment of Al-Faw Grand Port.
- Develop an integrated strategy for airports, including the services provided therein, in accordance with international standards.
- Developing a comprehensive strategy for Iraqi Airways Company with a vision for its marketing and possible privatization.

Objective:

This plan aims to “*develop the transport sector to empower it to play a key role in the movement of individuals and goods, and support trade and competitiveness*” through the following steps:

1. Establishing a comprehensive national vision for the transport sector, and developing an action plan for restructuring and marketing all its subsectors.
2. Update the legal and regulatory framework of transport sector to increase financing for infrastructure projects in this sector through attraction of investments, and building partnerships between the public and private sectors (PPP).

3. Implement a comprehensive plan to develop the main road networks that support trade and key service areas, achieving the international connection of roads, developing operational and commercial standards for the public means of transport inside and between cities, operating on the basis of business principles, and if possible, privatize internal transport systems and inter-provincial transport.
4. Activating land, sea and air transit of goods via Iraq.
5. As for seaports, design a comprehensive policy to achieve integration between Al-Faw Grand and Umm Qasr ports, and activate implementation and development tracks of the two ports, according to the following:
 - *Al-Faw Grand Port*: Setting a realistic goal for the port to convince investors of the benefits of investing in this port, and synchronize project establishment with the development of the other related projects, such as the refinery, water desalination plant, various petrochemical projects and adequate and reliable power supply
 - *Umm Qasr Port*: Design a clear policy for port development, which includes reactivating the various quayside development operations, and reviewing the concluded contracts in light of that policy.
6. Conducting appropriate feasibility studies for the development of the railway sector, in an integrated manner with the establishment track of Al-Faw grand port, which includes extending trains network from Basra to the rest of Iraq, and initiate implementation of the mass transport project in Baghdad.
7. Develop an integrated strategy for airports, including the services provided therein, in accordance with international standards, and shifting towards partnership between the public and private sectors (PPP), attracting the key international airport operators to invest in Iraq, and developing the framework for authorizing new airlines for freight and passengers.
8. Developing a comprehensive strategy for Iraqi Airways Company with a vision for its marketing and possible privatization.

(4) Free zones and industrial cities

Free zones and industrial cities capable of attracting investment and creating jobs:

- Amending the Free Zones Law to be more aligned with the modern business promotion policies.
- Focus primarily on developing the free zone in Khor Al-Zubair.
- Identify other sites by the Council of Ministers to establish free zones, and consider the possibility of expanding these areas.
- Finalize the grand investment cities project in Basra, Babylon, Baghdad, Middle Euphrates, Nineveh, Diyala and Anbar.

Objective:

The objective of this initiative is to *"develop free zones and industrial cities in Iraq and increase their share in the Iraqi economy, create additional job opportunities, and strengthen their ability to attract investors"*, through:

1. Amending the Free Zones Law of 1998 to make it more aligned with the modern policies of business promotions.
2. Focus primarily on developing the free zone at Khor Al-Zubair in Basra Governorate, for its location near the oil production fields and access to the sea, which gives it a strategic competitive advantage, by developing the infrastructure in this area based on a short term contract with a private developer to assume rehabilitation and management of the zone under the supervision of the Free Zones Authority.
3. Identify other sites by the Council of Ministers to establish free zones, particularly in Basra Governorate, given its competitive advantage, and conclude agreements with private developers to participate in the establishment and management of these free zones, and consider the possibility of expanding these areas.
4. Activating the industrial cities law to regulate the investment in the industrial cities, creating an effective organized administrative structure, and defining incentives, guarantees and exemptions systems for the investors operating in those cities, as well as the required infrastructure.
5. Finalizing the grand investment cities projects in Basra, Babylon, Baghdad, Middle Euphrates, Nineveh, Diyala and Anbar, which are approved as part of the National Investment Commission's strategic plan for investment areas in Iraq, prepared in cooperation with the MENA Investment Program of OECD.

Axis 4: Providing the key services, and rationalizing and directing social welfare, giving priority to the poor, and offering them protection during and after the reform process

The accumulated crises and mismanagement of wealth, for more than half a century, have affected large social groups of the people due to the poor delivery of the key services, destruction of the economic infrastructure, and declined ability of a significant proportion of Iraqi households to achieve adequate income to meet their needs for a decent living, which requires urgent remedial measures.

Moreover, the reform process, by its nature, requires development of special solutions to protect the poor during implementation of the reform. Therefore, axis 4 of this white paper focuses on key service delivery, and rationalizing and directing social welfare to the actual beneficiaries, especially the poorest and deprived groups.

This includes: (i) providing access to water for drinking and agricultural purposes, and finalizing sanitation networks; (ii) re-drawing the entire social protection system, and standardizing the various types of support in order to rationalize and improve delivery of such support to the eligible beneficiaries; (iii) reforming the pension scheme; and (iv) implementing school construction plan to meet the huge shortage in school buildings and eliminate the need for double shift.

(1) Provide access to water for drinking and agricultural purposes, and finalize sanitation networks

A water and sanitation management system that rationalizes consumption and maintains sanitary and environmental system

- Develop a comprehensive plan for the water and sanitation services sectors based on cost analysis and introducing service fee collection principle.
- Restructure the municipal departments and the concerned institutions in charge of water and sanitation services on commercial or semi-commercial basis.
- Laying the foundations for public-private partnerships in the water and sanitation sectors and opening the sector to qualified private investors and operators.
- Establishing an independent regulatory body, according to the law, to provides oversight and regulate water and sanitation sectors.
- Finalize Basra Grand Water Project and water and sanitation projects in the rest of the governorates.

Objective:

Reform in this sector aims to "*strengthen effectiveness of the water supply schemes to ensure that citizens have access to water supply for various uses, and increase the capacity for wastewater treatment to ensure a better public health and environmental for the Iraqi citizen,*" through:

1. Developing a comprehensive plan for the water and sanitation sectors based on cost analysis and introducing service fee and environmental user fees collection principle, in accordance with international best practices.
2. Restructure the municipal departments and the concerned institutions in charge of water and sanitation services on commercial or semi-commercial basis, to be primarily funded through user fees, and provide an appropriate safety net for low-income groups.
3. Laying the foundations for public-private partnerships in the water and sanitation sectors and opening the sector to qualified private investors and operators
4. Establishing an independent regulatory body, according to the law, to provides oversight and regulate water and sanitation sectors.
5. Finalize Basra Grand Water Project and water and sanitation projects in the rest of the governorates.

(2) Redraw the social protection system completely, and standardize the different types of support

A standardized and effective protection system for the low-income groups

- Standardize the databases of the beneficiary groups, and define the key priorities for the support.
- Finalize enactment of the health insurance Act and establishing health insurance fund to be the primary source of funding for the health sector, to ensure delivery of healthcare services to all citizens,
- Address the imbalance in the ration card system, both targeting and implementation, to ensure protection of the low-income people from the poor and most vulnerable groups.
- Compensate those covered by the social protection network with monthly sums, according to the plan approved by the emergency cell, after applying a clear timetable for the gradual exit from the ration card system.

Objective:

The reform in this field aims to "review and revive the various aspects of support for the citizen and standardize them within one channel, to ensure that the citizen gets the actual benefits of such support, especially with respect to health insurance, food security and social protection", through:

1. Standardize and develop the databases of the beneficiary groups to ensure that all target groups are covered;
2. Identify the key priorities for support based on the needs of the citizen and the financial and executive capacity of the state institutions to meet such needs.
3. Identify the main gaps in the support systems currently approved for support, to ensure the effectiveness of these systems and delivery of such support to the target groups, specifically with respect to the support delivery approach and improving targeting.
4. Finalize enactment of and enforce the health insurance Act to ensure that all citizens have access to healthcare services, irrespective of their financial capacity, achieve social justice and protect vulnerable groups, improve the quality of medical services and develop the performance of the healthcare workers in the healthcare institutions, within stages starting after three months of enforcement of the law and ends after seven years.
5. Establish Health Insurance Fund to be the primary source of funding for the healthcare sector in Iraq, and activate its operation according to market approach, to serve as the mediator between the insured and the service provider, and between government funding sources.

6. Address the imbalance in the ration card system, both targeting and implementation, to ensure protection of the low-income people from the poor and most vulnerable groups, and implement real time blocking of the card for the households whose income exceeds a certain level.
7. Compensate those covered by the social protection network with monthly sums, according to the plan approved by the emergency cell, after applying a clear timetable for the gradual exit from the ration card system, in a manner that ensures the balance of prices for staple commodities in the market.

(3) Pension scheme

A single pension scheme that covers all employment sectors

- Restructuring the pension fund by achieving its financial sustainability and amending its contribution and interest system.
- Develop a draft comprehensive retirement law entitled "Social Insurance Law".
- Ensure that all employees of the public, private, cooperative and mixed sectors are covered by the pension scheme to allow smooth transition from one employer to another.

Objective:

The reform in this field aims at "establishing a unified and financially sustainable pension scheme that covers all Iraqi people working in the public, private, cooperative and mixed sectors, and enacting a new pension and social security Law", through:

- Restructuring the Pension Fund by achieving its financial sustainability and amending its contribution and interest system.
 1. Finalizing the procedures related to preparation of a draft comprehensive Pension Act entitled "Social Insurances Law" to replace both the Unified Pension law and the Workers Pension and Social Security, Law.
 2. Ensuring that all workers in the public, private, cooperative and mixed sectors are covered by the pension benefits scheme to allow smooth transition from one employer to another, whether in the public or private sector, with the same coverage, and promoting people's confidence in this scheme.
 3. Ending the financial consequences of the personnel exchange between the various employers within the public sector.

(4) Implementing School Construction Plan

Decent schools for our children and learning enabling environment

- Initiate construction of 1000 new schools within the duration of the reform plan.
- Making available the key requirements to attract private specialized companies into school construction business.
- Addressing the issue of lagging schools according to a table of priorities based on the achievement and disadvantage rates.

Objective:

The purpose of this reform is to “*initiate implementation of a broad plan, according to time-bound stages, to build new schools according to typical specifications, that contribute to resolving congestion in the existing schools, cope with the increasing need for building new schools, and create a better learning environment for student*”, through:

1. Initiate construction of 1,000 new schools, within the duration of the reform plan.
2. Making available the key requirements to attract private specialized companies into school construction business, and linking that with specific timeline for their maintenance, which will enhance quality assurance of school construction.
3. Addressing the issue of lagging schools according to a table of priorities based on the achievement and disadvantage rates.

Axis 5: Developing governance/ legal and administrative environment, to empower institutions and individuals to implement the reform

Over the past decades, Iraq has undergone major changes in the state governance system and regulation of the vital sectors. However, it continues to suffer from a heavy legacy of the Ba'ath regime, for the state institutions and its work culture, as well as the social culture as a whole, were built according to its philosophy and requirements. Severe centralization was strengthened and the size of the public sector witnessed massive expansion at the expense of the private sector, and government institutions became a hindering factor rather than empowering one.

To address this situation, the permanent Iraqi constitution laid the foundations for transformation of the state governance system towards decentralization and market economy. However, most of the legislations in force remain inconsistent with the constitution and its philosophy. The current governance systems in Iraq carry the features of both philosophies at the same time, which causes confusion, flabbiness, and reluctance in governance, which largely affect the performance of the public institutions and the wider society.

Improving governance in Iraq, especially the reform process - including the reforms contained in this white paper - requires creation of an enabling environment and a legal and administrative framework for its effective implementation. Therefore, axis 5 of this white paper focuses on developing governance and the legal and administrative environment to empower the public institutions and individuals to meet the requirements of real reform and its implementation. This includes, (i) reviewing and amending the guidelines for implementing Public Procurement Contracts, with the aim of enhancing efficiency, transparency and accountability, and combating corruption and waste of state resources; and (ii) reforming the public governance in order to create an enabling environment for businesses and contribute to their empowerment, growth and liberation, instead of hindering and restraining them.

(1) Review and amend the guidelines for implementing Public Procurement Contracts

Greater transparency and effectiveness of public procurement contracts

- Amending the guidelines for implementation of public procurement contracts.
- Establishing a higher committee for central procurement to look into all contracts of more than 10.00 billion dinars.
- Forming a team to review the contracts of all government departments that include international arbitration decisions.
- Forming a team by the government to monitor implementation of major contracts to avoid unjustified delay in the implementation of the projects.

Objective:

The objective of this reform is to "improve government contractual procedures to ensure higher level of efficiency, transparency and accountability in the management of public investments and Public Procurement Contracts," through:

1. Amending the bylaw of the Guidelines for implementation of government contracts and converting it into law, to make the process of granting exemptions to official bodies that intend to contract outside of these guidelines more difficult, and introduce electronic governance procedures into Public Procurement Contracts.
2. Establishing a supreme committee for central contracts to look into all contracts whose value exceeds ten billion dinars and auditing the work of this committee by an international auditing company to ensure that breaches are curbed.
3. Establish a team to review contracts for all government departments in which there are international arbitration decisions, and train the concerned personnel by international experts to implement these contracts in a more efficient manner.
4. Forming a team by the government to follow up the implementation of major contracts to ensure that projects are not delayed without justification.

(2) Governance and public administration reforms

An administratively effective government, and a more responsive business environment to reform requirements

- Introducing electronic signature and transactions law.
- Implementing the electronic entry visa project, and applying the procedures for granting visa at the Iraqi ports.
- Instilling the principles of merit-based employment to gradually replace the existing hybrid system built around the perceived right to employment in the public sector.
- Ensuring that the administrative structure responds to market standards in public service delivery.
- Improving the accountability of civil servants, moving from the evaluation based on compliance with rules and procedures to results and performance-based evaluation.
- Adopting "results-based management" approach throughout the project life cycle, and promote participation of local people in the implementation of the programs.
- Cooperating with international investigation organizations in conducting international criminal evidence investigations to prevent smuggling of large funds abroad.
- Introducing e-governance system in public procurement, tax and customs collection.
- Developing the powers of the Financial Supervision Bureau, and amending its law in order to strengthen its powers.
- Finalizing the National Information Center project to automate the services provided to the citizens.

Objective:

The objective of this initiative is to *"improve governance and public administration systems to create high quality and productive business environment"*, through:

1. Implement the electronic signature and transactions law, which will reduce the procedures and modernize the ministries' operation by gradually eliminating paperwork.
2. Implementing the electronic entry visa granting project, and applying the procedures for granting entry visa at the Iraqi ports.
3. Reconsidering cars registration controls, including correcting the position of the unduly registered cars, and opening the door for cars registration at the automobiles sales and purchase exhibitions.
4. Instilling the principles of merit-based employment to gradually replace the existing hybrid system built around the perceived right to employment in the public sector, in order to ensure a politically neutral, well-regulated civil service that is relatively corruption-free, accountable, open, responsive, well-trained and performance-oriented.
5. Ensuring that the administrative structure responds to market standards in public service delivery, and applying business principles to government operations, while ensuring the citizen's satisfaction and choice, in light of the state's orientation towards a market economy.

6. Adopting the concept of “inclusive government” approach that focuses on coordination between departments and working across organizational boundaries, through teamwork and improved training, self-development and motivating public sector employees.
7. Improving the accountability of civil servants, moving from the evaluation based on compliance with rules and procedures to results and performance-based evaluation, and adopting evaluation systems for each level in conjunction with moving towards the program-based budget.
8. Adopting “results-based management” approach throughout the project life cycle, by integrating strategy, people, resources, processes and performance indicators to improve decision-making, transparency and accountability, as this approach focuses on achieving results, implementing performance indicators, learning, and adaptation, as well as performance reporting.
9. Promote local participation in programs implementation, which thus making the administrative apparatus more accountable, lobbying to improve the efficiency and effectiveness of the public program, improve community awareness about these programs maximize their benefits from these programs.
10. Cooperate with international investigation organizations, through official agreements, to assist Iraq in conducting international criminal evidence investigations to prevent large funds smuggled abroad as a result of corruption deals.
11. Introduce e-governance system in public procurement and collection of taxes and custom duties to reduce the chances for violations and corruption.
12. Train an advanced cadre of auditors and jurists specialized in conducting investigations into large financial embezzlement operations, in accordance with the international standards.
13. Update the powers of the Financial Supervision Bureau, and amending its law in order to strengthen its powers.
14. Finalize the National Information Center project responsible for linkage of the data of all state institutions, to automate the services provided to the citizens in their official transactions, especially in the Directorates of nationality and passports, pension and social security, taxes, etc.
15. Making use of the international experiences in governance field.