



**2009 Annual (Tenth) Progress Report on Activities Implemented  
Under the United Nations Development Group Iraq Trust Fund  
(UNDG ITF) of the International Reconstruction Fund Facility for  
Iraq (IRFFI)**

**Economic Reform and Diversification Sector Report**

Multi-Donor Trust Fund Office  
Bureau of Management  
United Nations Development Programme  
[mdtf.undp.org](http://mdtf.undp.org)

## 1.1 Economic Reform and Diversification

### 1.1.1 Sector Outcomes and Outputs

<b><i>Economic Reform and Diversification</i></b>	
<b><i>Outcome 1</i></b>	<b><i>Improved policies, strategies and related institutional developments that are sensitive to Millennium Development Goals (MDGs), social inclusiveness, gender equality and pro-poor economic growth</i></b>
Output 1.1	Strengthened capacities for federal budget preparation and execution
Output 1.2	National capacity strengthened for social safety net adjustment and employment promotion policies
Output 1.3	Strengthened capacity of public authorities and other service providers for equality-based small and medium enterprise (SME) development
Output 1.4	Private sector development strategy drafted and investment promoted
Output 1.5	Awareness of MDGs promoted at national and local levels
<b><i>Outcome 2</i></b>	<b><i>Enhanced key sectors of local economy in most deprived areas</i></b>
Output 2.1	Local economic strategies and plans developed in line with national and provincial frameworks in most deprived geographical areas
Output 2.2	Economic and social regeneration pilot projects implemented in most deprived areas
<b><i>Outcome 3</i></b>	<b><i>Strengthened electricity and transportation sector plans for rapid economic growth</i></b>
Output 3.1	National capacities and institutions strengthened for rapid recovery of the electricity sector
Output 3.2	National capacities and institutions strengthened for development of transport infrastructure

### 1.1.2 Operating Context During Reporting Period

The strong performance of the Iraq economy in 2008 has been affected significantly during 2009 by high volatility in oil prices between July 2008 (US\$124 per barrel) and early 2009 (\$35 per barrel). This had a serious negative impact on the federal budget and the allocations of capital investments by the state.

The average export price in 2009 was around \$57 per barrel, well below the average export price of \$92 per barrel in 2008. The Government of Iraq (GoI) budget, which recorded surpluses over the past few years due to higher-than-expected oil revenues, showed a deficit of more than \$16 billion owing mainly to falling oil revenues. As Iraq's reconstruction needs are still very large, the government will need to keep spending under control to limit the budget deficit and make room for higher levels of investment so as not to imperil the country's medium-term growth prospects. The report of the federal budget in 2009 outlined the GoI's realization of structural problems within budget spending. New principles for the economic policy were introduced by which the government started distancing itself from central planning and moving toward strengthened decentralization. The report also focused on the need to shift public expenditures directed primarily to subsidizing food consumption toward a new approach that invests strategically in enhancing productive capacities and increasing employment rates.

The application of this shift of expenditures did not bring about the needed adjustments. Iraq's federal budget was \$63 billion in 2009, of which 80 percent was operational expenditures and only 20 percent capital expenditures. More than one third (36 percent) of operational expenditures went to cover public-sector salaries. Public-sector employment dominates overall employment (providing 35 percent of all jobs

in Iraq and almost 44 percent of all full-time employment) with the share of public-sector salaries and compensation exhausting the federal budget.

The public sector also remained the primary source of essential services in key economic infrastructure sectors such as electricity. The public network is identified as the primary source of electricity for three quarters (76 percent) of the total population. It provides a daily average of 7.9 hours of power; only 22 percent of the population can solely rely on the public network for electricity. About half of the population (53 percent) has access to one other source of electricity together with the public network

In spite of improvement in the security and political situation in Iraq, opportunities for investment promotion and business development are still slim and maintained the same rate of 2008 at around 28 percent of GDP. Doing Business surveys for 2009 indicated that Iraq is ranked 150 out of 181 economies for ease of doing business. In order to better enable the economic sector, foundations for a modern regulatory economic reform framework should be built. A robust operational basis to support the economy (mainly energy and water resources in addition to transport infrastructure) should also be established.

### **1.1.3 Implementation Constraints and Challenges**

Despite the prevailing security situation and restrictions placed on the movement of UN staff in most of the country, UN agencies are expanding their presence in Iraq. At the same time, UN staff are seeking to delegate implementation responsibility to government counterparts by progressively moving toward a national execution implementation modality. A programmatic approach was adopted to ensure national ownership and capacity development of public and private institutions in Iraq. UN agencies have resorted to area coordinators and have fielded national staff in addition to partnering with local municipalities, universities and community institutions. The agencies have also depended on modern communication technology to interact with counterparts in Iraq including telephone conferences, email, and courier when needed. These mitigation approaches have to some extent helped achieve progress under the projects. However, late kick-offs and delays in implementation of project activities continued to pose major challenges, causing postponement of many project outputs. Other challenges included:

- Limited and strained resources of Iraqi counterparts that resulted in inadequate, inconsistent and untimely responses to queries and follow-up action.
- Cumbersome and lengthy bureaucratic processes to fulfill the requirements of new security procedures for travelling Iraqis that produced delays in arrangements for training/study visits.
- Poor or unreliable access to information and communication technology that hampered timely dissemination of information.
- Lack of institutional capacities for high quality macro economic analysis.

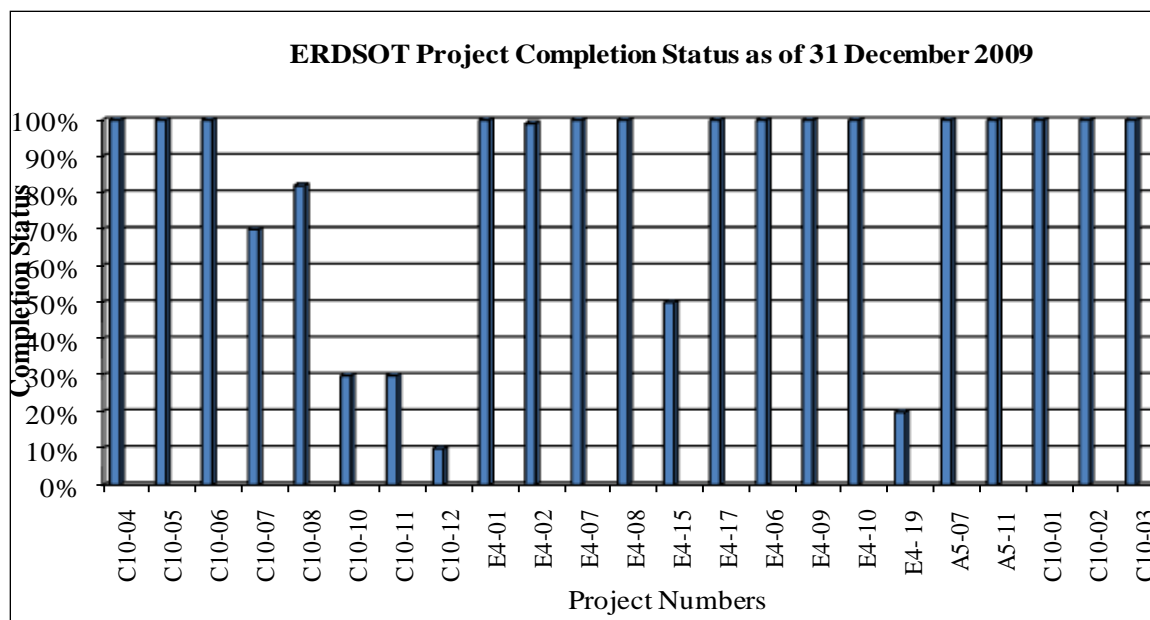
### **1.1.4 Coverage and Counterparts**

Key counterparts playing an important role in achieving the sector's outcomes include the ministries and governmental institutions concerned with economic reform and diversification. These include the Prime Minister's Advisory Board; the Mayoralty of Baghdad; the Ministries of Agriculture, Education, Environment, Health, Industry and Minerals, Labour and Social Affairs, Municipalities and Public Works, Oil, Planning and Development Cooperation, and Water Resources; and the Kurdistan Regional Government (KRG). Other partners include selected Chambers of Commerce and Industry of Iraq in the targeted governorates, the General Directorate for Electricity Production (GDEP), Economists Union of



### 1.1.5 Results

**Figure Error! No text of specified style in document.–2 Project Implementation Status for Economic Reform and Diversification Sector**



### 1.1.6 Narrative Explanatory Summary of Results

During 2009, three projects were successfully completed and operationally closed while two new projects started. The closed projects are: Development of National Gender Statistics in Iraq; Governance in Support of Employment Creation; and Technical Assessment for the Development of Agro-Industries Sector in Iraq. The new projects are: Enterprise Development through Information and Communication Technology; and the Rehabilitation of the Specialized Institute for Engineering Industries. Additionally, the ERDSOT landmark joint project, Private Sector Development Programme for Iraq (PSDPI), started programme activities.



*ERDSOT meeting 13 September 2009*

**Outcome 1: Improved policies, strategies and related institutional developments that are sensitive to Millennium Development Goals (MDGs), social inclusiveness, gender equality and pro-poor economic growth**

**Outcome 2: Enhance key sectors of local economy in most deprived areas**

During the reporting period, major achievements under Outcomes 1 and 2 included the following:

In 2009, under the technical guidance of ERDSOT, PSDPI implementing partners started programme activities and undertook a number of capacity-building initiatives. In January 2009, at the Organisation for Economic Co-operation and Development/Middle East and North Africa (OECD/MENA) meeting in Paris, the PSDPI team helped establish the Task Force for Economic Reform (TFER), which became the Iraqi counterpart (government and private sector) for planning and implementation of PSDPI activities.

The TFER focused on specific areas through dedicated working groups on (1) legislative revision, (2) state-owned enterprise (SOE) restructuring, (3) small and medium enterprise (SME) development, (4) investment policy, (5) social dialogue, (6) land reform and (7) tax policies. Each working group was headed by a chair appointed by Council of Ministers Secretariat (COMSEC) decree. Subsequently, the PSDPI team drafted and submitted to GoI/TFER a memorandum for a law on economic reforms to support creation of a legal framework for economic diversification, private sector development, and social support for poverty reduction. Other draft policy papers were prepared in consultation with GoI/TFER and other partner organizations as input to the private sector development strategy, including a draft policy papers on SOE restructuring and change management for micro-lending.

Technical assistance also was provided in the following areas: institution building for restructuring and privatization, legislation concerning restructuring and privatization, methodologies used in making decisions on restructuring and privatization, management reform of existing SOEs, training needs assessment for SOE management, and selection of pilots.

The UN facilitated the GoI to participate in the regional Global Compact meeting and a study tour to the Egypt Centre (Cairo, October 2009). This addressed topics including corporate social responsibility, corporate governance, investment policies and promotion, and the institutional framework for private sector development. The UN also supported knowledge development through weekly meetings in Baghdad with TFER, line ministries, Council of Representatives (CoR) members and private sector organizations to enhance understanding and public and political support for economic reforms toward inclusive growth.

As part of the ‘Governance in Support of Employment Creation’ project, the UN Office for Project Services (UNOPS) completed construction of three local markets in Al-Fao district and four pedestrian bridges in Abu Al-Khaseeb district. Also, UNOPS extended Al-Aerfan intermediate schools for boys and Shatt Al-Arab School for Girls in Shatt Al-Arab district. Loans of US\$500,000 were disbursed to emerging entrepreneurs. This resulted in 113 business start-ups and supported 96 additional businesses in Al-Fao, Abu Al- Khaseeb and Shatt Al-Arab districts. Moreover, three Business Development Centres in Al-Fao, Shatt Al-Arab and Abu-Al Khasseb were established and equipped and were providing trainings to participants from the three districts.

The UN’s Economic and Social Commission for Western Asia (ESCWA) successfully completed the ‘Development of National Gender Statistics in Iraq’ project, which was jointly executed with the Central Organization for Statistics and Information Technology (COSIT). In total, the project trained 109 participants from 15 line ministries in Iraq; two thirds (66 percent) of the participants were women. Five workshops and meetings were organized in Amman, Ankara, Turin, Delhi and Beirut during 2006–2009. The project also helped set up a Gender Statistics Unit within COSIT. Iraq undertook a thorough assessment of gender data availability and produced a report considered to be the first in the region. Iraq also pioneered a detailed gender statistics database disaggregated at the sub-national level and a dedicated national gender statistics website. Moreover, Iraq implemented a time-use survey and published an in-depth study on its results, and produced its first ‘Women and Men’ publication.

The UN Industrial Development Organization (UNIDO) extended institutional support to the Ministry of Industry and Minerals, Kurdistan Regional Government (KRG) and Thi-Qar Provincial Council in the field of SME development. Through this technical assistance three Enterprise Development Units were

established in Erbil, Baghdad and Thi-Qar and are providing enterprise development services to local SMEs. These units have supported 253 entrepreneurs in the creation and expansion of their businesses.

In the reporting period, UNIDO in collaboration with the MoP and COSIT completed a detailed survey of the agro-industrial sector in Iraq, covering 2,641 agro-industrial manufacturing establishments.

On the ‘Rehabilitation of the Specialized Institute for Engineering Industries (SIEI)’ project, UNIDO analyzed the SIEI human resources skills gap and identified an overall training program for both management and technical subjects. UNIDO finalized assessment of the SIEI existing laboratories/production workshop and identified related equipment and training needs. An overall training program for SIEI executive management was defined, including potential training institutes, and a first training program on “management for success” was organized with the participation of 6 SIEI executive managers.

Under the ‘Enterprise Development through Information and Communication Technology’ project, UNIDO consultants mentored institutional partners operating in existing Enterprise Development Units (EDUs). The purpose is to increase capacities to provide business advisory services. Since the project began, 19 EDU staff have been provided with mentoring support to counsel entrepreneurs on procedural/legal requirements, market information, technology, finance and other requirements. During the reporting period more than 50 counseling reports were prepared and approved.

As a result of the reconstruction work under the ‘Restoration of Al Askari Shrine in Samarra City and Rehabilitation of Other Damaged Religious Sites Throughout Iraq’ project, the Shrine has again become an active place of worship. During this reporting period about 50,000 pilgrims visited the Shrine weekly, from Iraq and other countries. Moreover, five priority sub-projects have been completed including two schools, two mosques and one church. In May 2009, a holistic recovery plan was developed with the publication of the Samarra Development Agenda in both English and Arabic. Additionally, the Al Lateen Church in Baghdad has been completed and work on the surgical unit at the Samarra General Hospital is 90 percent complete. More than 1,000 children per academic year have benefited from school reconstruction, and more than 1,200 families have benefited through employment creation. The project also witnessed the signing of two Memoranda of Understanding for establishing a College of Archaeology in Samara and Restoration of the Al-Malawyah Minaret, the Great Mosque of Samara.

### **Outcome 3: Strengthened electricity and transportation sector plans for rapid economic growth**

During 2009, the United Nations Development Programme (UNDP) continued to make progress in the energy sector. It assisted in the development of an electricity master plan to guide long-term nationwide efforts to improve the electricity infrastructure, including greater use of renewable energy and adoption of measures to mitigate environmental impacts in the production and distribution of electricity. UNDP-supported GoI efforts to attract private-sector investments in the electricity sector have yielded over \$18 million worth of investments by independent power producers (IPPs).

Under the ‘Rehabilitation of the National Dispatch Centre in Baghdad, Stage 2’ project, the UNDP trained 86 Ministry of Energy (MoE) personnel in various technical fields; 43 Remote Terminal Units (RTUs) were delivered, with 39 positioned, erected, connected, assessed and monitored throughout the grid areas; more than 100 personnel gained experience with new supervisory control and data acquisition (SCADA) technology during field work; and a software system was developed to monitor electricity availability and maximize usage and completion of network modeling and database population.



*UNDP power generation project 2009*

Under the ‘Rehabilitation of Mussayib Power Station, Stage 2’ project, manufacturing of parts of shipment 4 (final shipment) was completed by Hitachi in Japan and the Philippines, and goods under this shipment were delivered successfully to the power station in May 2009.

### **1.1.7 Other SOT Major Contributions and Implementing Partners**

In the transportation sector, UNDP is helping to build institutional and management capacity for port access and navigation safety through its visual navigation aid project for Umm Qasr Port. The ‘Sustainable System of Navigational Aids for the Approach Channel to Umm Qasr and Az-Zubayr Ports’ project was initiated by UNDP during 2009. This project to establish and maintain the buoy system to international standards and signaling was extended during the fourth quarter of 2009 to include an automatic identification system and vessel traffic services to further improve safety of navigation.

In 2009, a Ten Year Master Plan for Civil Aviation, which includes a comprehensive audit of requirements to meet international standards, has been produced by the International Civil Aviation Organization in partnership with UNDP. Legislation has been written and presently is with Parliament and the Prime Minister’s Office. A series of training workshops on safety management systems and aviation economics at Baghdad International Airport (BIAP) was held in Basrah and Erbil in June 2009.

Through the Japan International Cooperation Agency (JICA) Loan Management Programme, UNDP provides capacity-building in financial and procurement management to service-provider line ministries according to internationally accepted standards. It is also supporting the Ministry of Finance and MoPDC to strengthen their project monitoring capability. With the direct support of UNDP, a \$20 million contract was signed to procure 1,000 electric transformers and to train 15 Iraqi project managers in Tokyo on procurement and financial management in 2009.

In the area of public financial management (PFM), UNDP organized a PFM Preparatory Technical Meeting in May 2009 and the KRG PFM Action Plan Conference in Erbil under the ‘Support to Budget Execution’ project in the Northern region. With UNDP support, the KRG PFM Action Plan was adopted and launched by KRG authorities, and a Memorandum of Understanding on the respective PFM Action Plans was signed by the Central Government and the KRG Authorities. Also under the ‘Support to Budget Execution’ project, in Basrah governorate, two modules of budget execution support training (Iraq Constitutional framework, public procurement) were completed, targeting 25 civil servants in the Basrah Governor’s Office. A plan and methodology for the data collection phase of the Basrah 2008–



2010 Provincial Development Strategy (PDS) Review were finalized in January 2009, and the desk-review/data-collection phase for PDS Review was completed in February.

Under the 'Budget Execution Support – Al-Anbar Governorate' project, UNDP facilitated a workshop in Istanbul gathering senior governorate officials, Al-Anbar council members, senior administrators, academics and community leaders. The workshop reviewed the proposed plan and the strategic orientations of the governorate as well as implementation methods contemplated to realize them. Additionally, agreement was reached on the draft UNDP Strategy for Al-Anbar Governorate with the Al-Anbar Provincial Reconstruction Team, capacity-building training for the Anbar Provincial Investment Commission was held in May 2009, 46 business investment profiles have been developed remotely, the physical design of a pilot information center was finalized in August 2009, and a Video Telecommunication System (VTS) was installed at the Governorate Center in August 2009.

During 2009, CHF International (ERDSOT member) supported 19,223 enterprises with a total value of loans amounting to \$60,730,930, sustaining 19,223 jobs (2,883 for women). The overall number of jobs created with CHF support to date has totaled 20,736, of which 3,110 are for women. CHF disbursed 86,019 loans with a total value of \$209,382,773. As of December 2009, the number of active women borrowers was 2,902 and the outstanding portfolio of women borrowers was \$3,570,722.