



Working Paper

IRAQ

UNITED NATIONS / WORLD BANK

Joint Needs Assessment

The Investment Climate

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1. INTRODUCTION

1. Iraq is currently facing high unemployment.¹ Probably the single greatest developmental challenge is job generation. Experience everywhere, in both oil and non-oil producing countries, is that most job creation is generated by the private sector. As demonstrated by other countries in the Middle East and North Africa (MNA) region, employment in the state-owned enterprise (SOE) sector and public sector is not a viable option. The key to sustainable job-generation is foreign and domestic investment in productive areas. In turn, this requires an attractive investment climate² and a predictable and low cost of doing business. Analysis of the present investment climate shows the obvious: the present security situation and the lack of clarity regarding macroeconomic direction are fundamental obstacles to investment. Infrastructure and finance are also major problems (see Chart 1 below). The second and long-term challenge relates to the impact of oil on the private sector, where “Dutch Disease” makes competitiveness hard to achieve.

2. The good news is that, if the World Bank’s pre-intifada West Bank and Gaza experience is anything to follow, some immediate problems can be resolved. Moreover, a non-accountable, large, and weak rent-seeking public sector is the factor that poses the greatest constraint to the private sector in the MNA region. As the report discusses below, there is a very real risk that this factor – if not addressed now in Iraq – could emerge as a main constraint for investment, and subsequently be difficult to remedy.³ At this time, there is a unique window of opportunity to build both public and private sector institutions that will lead to the most dynamic private sector environment in the Middle East.

3. Moreover, if a predatory public sector can be avoided, the assessment team is confident that there will be a powerful private sector response. Nevertheless, action is needed quickly because there are powerful motivations within both the Iraqi public and private sectors to replicate a more typical MNA investment climate, which would not generate the needed jobs. Witness the present debate within Iraq on Foreign Direct Investment (FDI), where there is a strong lobby to severely restrict foreign ownership and grant local businessmen lucrative monopoly agency-type relationships. This has been a pattern in a neighboring state and the result has been a loss of investment and funding to create needed jobs. Market-friendly institutions are the key to building a strong investment climate.

4. In the short term, the immediate objective for the sector is to generate productive investment and turn around the decades-long situation of virtually no productive investment in the private sector. The keys to this, once the security situation is resolved, are: (i) getting private capital flowing, which will require some “pump priming;” and (ii) rebuilding Iraq’s commercial connections with the rest of the world. One area where there is an immediate and substantial opportunity to support the Iraqi private sector is through procurement processes involved in the reconstruction. It is vital that strong signals are made which support transparent and competitive procurement processes.

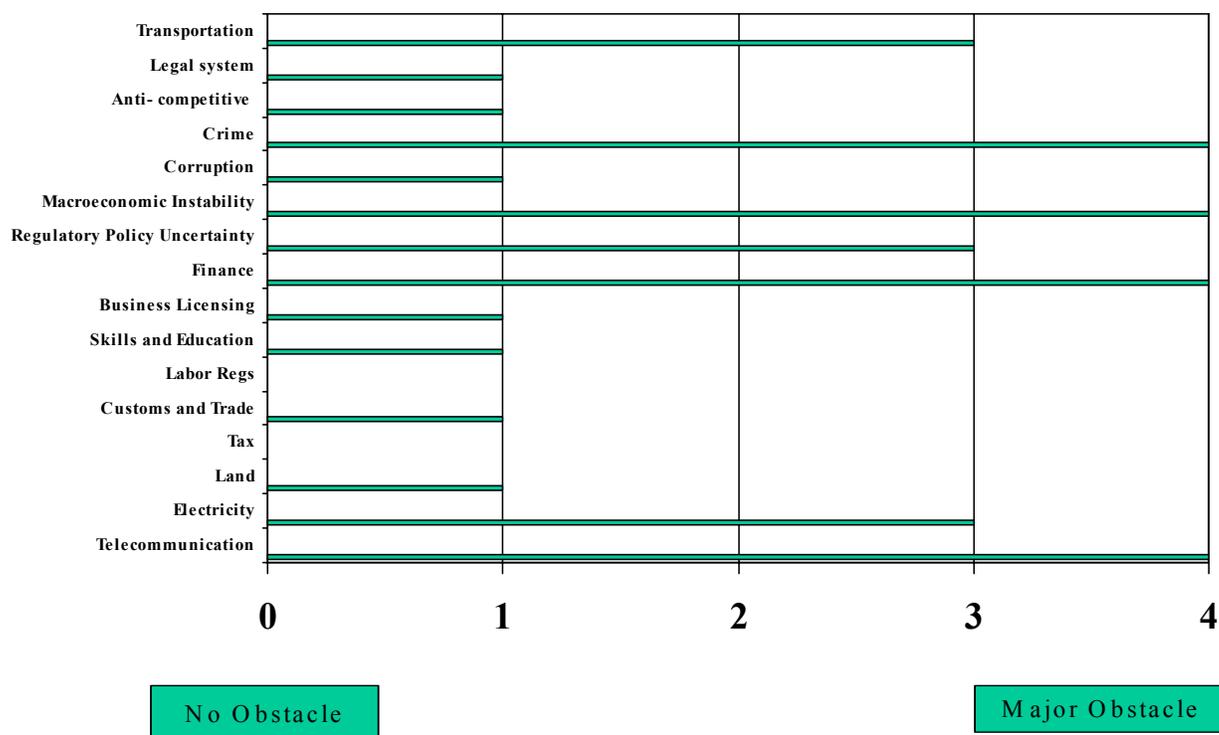
¹ The high level is supported by a considerable weight of anecdotal evidence.

² In this paper the term “investment climate” is used synonymously with the term “private sector development”.

³ It took the British two generations at the turn of the 19th Century to fix this problem (Landes). Some observers argue the sweeping away of the old order in Germany and Japan was key to their competitiveness and powerful economic revival (Yergin).

5. The longer-term challenges include: (i) building a robust institutional platform at the national, municipal, and sectoral levels; and (ii) developing an investment climate that is competitive and in synch with the dominating oil sector.

Chart 1 – Iraq Investment Climate Assessment, August 2003⁴



6. The oil sector presents a particular challenge to job generation. Although this sector will generate a lot of wealth, it will generate very few jobs.⁵ This begs the question: “where will these jobs come from?” One obvious answer is the services sector, and other likely areas include industries based on agriculture and energy. The building of a strong services sector relates fundamentally to the quality of human resources – a topic beyond the scope of this assessment.

7. As Chart 1 shows, the investment climate is a cross-sectoral topic also addressed in many different sectoral needs assessments: financial sector, infrastructure, urban development, governance, employment generation, and trade. By and large, those assessments dealt with getting the relevant sector functioning. The interventions proposed in this sector needs assessment are additional and focus solely on generating sustainable productive investment.

⁴ Based on a round-table discussion with the Iraqi Businessmen’s Association and in consultation with Iraqi and Coalition Provisional Authority (CPA) officials.

⁵ Bank staff estimate that the oil sector will account for at most 3 percent of the work force.

2. CURRENT STATUS AND ISSUES

A. PRESENT SITUATION

8. During the period of sanctions, little private sector investment was possible due to restrictive investment rules⁶ and virtually no formal FDI.⁷ Nevertheless, the private sector in Iraq is not insignificant in terms of its contribution to employment, within an excess of 100,000 small and medium enterprises (SMEs) and micro enterprises,⁸ and a contribution of SMEs to employment estimated at close to 40 percent.⁹ As best as the assessment team can determine, there exists a critical mass of SMEs to provide a sustainable platform for employment growth.¹⁰ The private sector is engaged in retailing, trading, services (construction/ transportation), and small-scale manufacturing. The key industrial sectors are: textiles, food industry, engineering, chemical, and plastics.

9. The assessment tried to estimate the size of the informal sector, to see what role it might play in moving the economy forward. Based on limited data available, the number of people engaged in subsistence and informal activities appears to at least match the formal private sector. This is an important part of the investment climate story and should not be forgotten. Interventions that can help this group lie primarily in the microcredit arena, where there is presently a proposal to establish broad-based micro-credit facilities throughout Iraq.¹¹ As well, it is important to: (i) avoid the creation of entry barriers (onerous registration, labor regulations, tax procedures) to the formal sector; and (ii) create incentives, through access to inputs (finance/land) and business support mechanisms.

10. The private sector in Iraq has similar characteristics to the private sector in other Arab countries (notably, Algeria, Egypt, and Syria) with one or two significant exceptions. One prominent exception is that large, billion-dollar level family groups do not exist. This may be a positive factor for Iraq. In other MNA countries, many of these family groups benefit from the status quo, and have proven to be reluctant reformers.

11. The large cities of Baghdad, Basra, Karbala, Mosul, and Najaf dominate the private sector landscape. However, each city faces a different set of issues, with Baghdad primed for early takeoff. In Basra, it appears that much of the middle class has dissipated, but, on the other hand, Basra is Iraq's sole seaport and has a long and powerful trading history. Therefore, a key underlying recommendation (while work continues at the national level on the overall policy and institutional aspects of the investment climate) is to tailor interventions on a city-by-city basis and, at least initially, focus on these five cities. Iraq had strong controls over where people lived and what people

⁶ Under the sanctions regime, foreign investment was forbidden. Under existing Iraqi law, only Arab foreign investment was allowed in a limited range of activities.

⁷ Anecdotal evidence suggests a vibrant level of informal FDI already exists and is presently taking place through regional business connections and family relationships.

⁸ SMEs – less than 250 employees. There are approximately 100,000 businesses based on the assessment of local Iraqi businessmen.

⁹ Based on the current employed workforce, the estimated size of the SOE sector and public sector, and the existence of an informal sector.

¹⁰ As a rule of thumb, when SMEs account for 40 percent or more of current employment, “catch up” employment growth is possible – Transition Economics Study.

¹¹ There are two microlending programs in southern Iraq. There are plans to develop a program for the rest of the country.

where allowed to do.¹² It is not clear what people will do who live in rural areas and secondary cities – in the absence of powerful and very expensive regional development programs, there is likely to be significant migration to these five cities.

12. In the three northern governorates (Dohuk, Erbil, and Suleimanya), the situation seems to be notably better and much more stable; security is reasonable and infrastructure (electricity/water) is also better. These three governorates have, de facto, been almost autonomous since 1991, and the private sector seems to be significantly more active and better organized.

13. As observed in Chart 1, security is an overarching problem and a fundamental requirement for productive investment. Nevertheless there is a “chicken and egg”-type issue, as investment itself can improve security. For example, World Bank experience shows that when investment is coordinated at the community level, this can help improve security. Also, to stimulate investment, it may be possible to design some guarantee schemes that allow investors to recoup their investment if the security situation deteriorates to the point where it cannot operate.¹³ At this stage, intervention is not proposed, but it may become necessary, if the investment response is poor.

14. On the macroeconomic side, the key is to answer the Iraqi peoples’ questions: will inflation be controlled? what will the trade regime be? and what will the tax regime be? At present, investors do not know the long-term answers to these questions. Similarly to the point on security, if this macro uncertainty proves to be a major obstacle, the above-mentioned guarantee fund may be useful.

15. The other constraints highlighted by this assessment (see Chart 1), capital and infrastructure, are dealt with in other needs assessments. Suffice it to say, these problems are currently being solved by Iraqi’s private sector in a very sub-optimal way. In the power sector, there is an estimated 1,000 MW of power generation capacity (typically stand-by generating capacity) in privately held hands. In the transport sector and the telecommunications sector, there are the obvious major gaps – no private air service and a non-functioning telephone system – although in the transport sector, trucks and buses are doing the work and ways are found to deliver critical messages. Within a relatively short time frame, dramatic improvements can be expected in this area. The private sector can also play an important role through private provision. This is a reason why regulation is critical.

16. The trading sector is active and has found working capital to flood the streets with “white goods.”¹⁴ Nevertheless, because of a combination of factors: the sanctions regime isolation; the conflict; and the command style of economic management, there are many logistical bottlenecks which will slow or limit the pace of development.

17. There are two key interventions proposed in this assessment to deal with these constraints. The first is two capital market interventions, which feature a Venture Capital Fund and a SME-targeted Credit Facility.¹⁵ These funds aim at stimulating and catalyzing private sector capital flows

¹² In Baghdad, nobody born after 1957 was allowed to own property.

¹³ In Russia, a broad ranging Investment Guarantee Scheme was designed which covered this and also political risk.

¹⁴ A term used to describe all manner of electrical appliances – refrigerators, washing machines, etc. Some streets in Baghdad have literally become large open-air-markets dispensing these appliances, with refrigerators and television sets clogging the sidewalks.

¹⁵ This would follow the standard Project Development Facility Model.

by demonstrating (in a visible way) the returns that are available from productive investment. While the resources proposed are relatively insignificant in the context of a potentially US\$100 billion-plus economy, the resources proposed will have important demonstration effects for investment. The two capital market interventions will start the ball rolling. The second key intervention is a fund that enables high-return bottleneck situations that can be: (i) classified as “public goods” to be resolved; or (ii) to catalyze private sector investment – industrial estates¹⁶ being one example (see paragraph 29 below). In parallel with these activities, the assessment noted the proposal to establish a Trade Bank.¹⁷ For similar reasons and for the logistical reasons mentioned elsewhere, this initiative is strongly supported.

18. This assessment notes a number of areas that are not problems at present: tax, typically the private sector’s biggest bugbear, is not a problem at present for the simple reason there is no tax;¹⁸ likewise, the many cumbersome and burdening regulations are not being enforced,¹⁹ and there is no customs at present. Inevitably, these will return. A huge challenge will be to ensure their return in a way that does not represent a major constraint for the private sector. The proposed institutional fund deals directly with this issue. In parallel with this, deep civil service reform will be required to ensure sustainability.

19. The availability of skilled labor is not identified as a constraint. When probed, Iraqi businessmen note unemployment levels are very high. There are, however, causes for concern in this area. Although Iraqis are rightly proud of the country’s human resources, the school system is very much run down.²⁰ Moreover, while the workforce is literate, the kind of computer skills and management skills that are needed to build a strong services sector appear weak. One early intervention that could have a big payoff is the encouragement of private vocational schools, particularly in the computer training area.

20. Throughout the MNA region, access to land at reasonable prices is an industrial development issue. At this stage, it is not seen as an issue in Iraq, but it could quickly become one. Typically, wherever there are flows of oil, this has resulted in distorted real estate markets. Kuwait’s industrial land prices rival those found in Tokyo. Therefore, it may be advisable for the state to reserve some lands now which can be made available for productive industrial purposes at reasonable prices. This may be a useful area for the “bottleneck fund” to investigate. Private sector-led models along these lines have been developed in Aqaba and Gaza.

B. INVESTMENT

21. In thinking about where investment will flow, it is likely that it will flow where Iraq can enjoy comparative advantage. There are three areas that were mentioned repeatedly to the assessment team: energy, agriculture, and human resources. The downstream oil services sector and the

¹⁶ Industrial estate are areas of land set aside for industrial development where major gaps which exist in the general enabling environment are resolved (power, water, security, etc.).

¹⁷ JP Morgan won the bid to open a Trade Bank to finance imports/exports by issuing Letters of Credit for SOEs and private sector companies with overseas collateral.

¹⁸ There are some minor taxes being collected, but there is an income and corporate tax holiday at present.

¹⁹ If Syria is any indication, the extent and power of these regulations will be very significant.

²⁰ We were very saddened by our visit to Baghdad University, the buildings were in very bad shape, there was virtually no equipment and books were not evident. This University was once the pride of the Arab World.

agribusiness sector are two areas that are likely to attract initial interest. Human resources are important because successful oil-based economies feature significant service sectors, and strong human resources are the fundamental input. In addition to these areas, the long-term diversification challenge remains, and there is a need to promote export-oriented industries.

22. There are very few large enterprises outside the SOE or mixed sector.²¹ Most of these have strong links to the former regime. Therefore, reform of the SOE sector will be crucial to generate a broadly-based, productive sector. There is the potential for some SOEs to be broken up or to spin off peripheral activities, which will further stimulate investment in the SOE sector. (See SOE Needs Assessment.) The private sector is highly reliant on the SOE sector for key inputs, and in some cases, it represents the market.

23. From where will this investment flow? In the long run it will flow from the Iraqis themselves. Here, the challenge will be to invest the significant capital which is locked up in illiquid assets like real estate.²² In every country in the world, domestic investors dominate. Nevertheless, foreign investment will also be important,²³ particularly in the initial stages of recovery. This does not necessarily mean investors from large foreign multinationals, but more likely (at least initially) it will mean investors from the Iraqi diaspora, and neighboring countries, particularly from the Arabian Gulf, and also from Turkey and the Mahgreb.

C. CURRENT POLICY AND INSTITUTIONAL FRAMEWORK

24. There is a powerful link between the investment climate and the general macroeconomic framework. Iraq's economy will be based on oil (for now and the foreseeable future), and this has important consequences for the investment climate. This means that the general level wages will likely be higher than countries at similar levels of productivity, putting Iraq at a competitive disadvantage. Therefore, this assessment encourages the playing field to be leveled. Maintaining a diverse set of job opportunities will require:

- A low tax rate (oil will more than pay for Government expenditure in most years);
- An attractive energy pricing policy where the opportunity cost is low (e.g., in natural gas);
- A modest degree of tariff protection to protect foreign and local investors;
- Access to capital and intermediate goods at international prices;
- Sensible labor market regulation; and
- Access to credit and free movement of FDI.

25. There is no single body in Iraq that coordinates the investment climate. This is in itself not unusual. Nevertheless, the recent trend has been to mandate a country's investment promotion agency with a strong policy advocacy function of lowering the costs of doing business. There are a number of relevant ministries that have important roles, including the Ministries of Trade, Science

²¹ The mixed sector in Iraq consists of businesses which have a mix of government ownership, private sector, and Ba'ath party ownership.

²² De Soto argues that this is a key measure to promote investment throughout the developing world.

²³ The existing Foreign Investment Law allows foreign investments in Iraq from Arab investors only.

and Technology, and Industry. There are no regulatory bodies, standard setters, or investment promotion agencies.²⁴ On the private sector side, there is a Federation of Industries and a Chamber of Commerce, which as in most MNA countries, play a quasi-regulatory role. Recently, a number of new business associations have been established, the largest being the independent Iraqi Businessmen’s Association.

26. The present process of developing a new Foreign Investment Law is illustrative of the kind of debates being played out in Iraq on the role of the private sector. This has been a matter of considerable debate within Iraq. What role should foreign investment play in the reconstruction? While most Iraqis recognize it can play a positive role, they are also concerned that they will miss out on many of the very attractive ground-floor business opportunities that exist. This debate highlights the tension that exists in Iraq between the risks and opportunities of opening up, and the comfort of the status quo. There are many oppressive regulations and controls on the private sector that touch every facet of business operation from the former regime that are not enforced at present. It would be disastrous for the investment climate if they were reintroduced.

²⁴ There is a newly-created Business Center which is responsible for facilitating investment promotion activities, with a “one-stop shop” focus.

3. NEEDS AND PRIORITIES FOR THE PRIVATE SECTOR

A. PRIVATE SECTOR NEEDS

27. Private sector needs can be summarized as follows:

- Measures that encourage long term sustainability-
 - Building the institutional and policy framework for a vibrant private sector;
 - Supporting Iraq's comparative advantages through an integrated program.
- Measures that will have a medium-term payback-
 - Priming the pump – SME and Venture Capital Fund;
 - Resolving key bottlenecks to trade and investment.

As noted previously, the immediate employment needs are dealt with in the Employment Generation Needs Assessment.

B. BUILDING THE INSTITUTIONAL FRAMEWORK FOR A VIBRANT PRIVATE SECTOR

28. The preliminary assessment of the investment climate shows Iraq has a window of opportunity to build powerful institutions that will underpin and sustain growth in the private sector. Unlike the rest of the MNA region, where administrative barriers (red tape and corruption) represent the most significant constraint to private sector businesses, businesses in Iraq's report relatively high degrees of freedom because of the removal of the previous regime. World Bank work in the MNA region highlights administrative barriers as the crucial issue for private sector success. The resources proposed in this process will be routed through the budget process. Governance mechanisms for fund disbursement will have private sector involvement.

29. These resources will support institution building at three levels through:

- Supporting the establishment of key public sector institutions.
- Strengthening private sector institutions.
- Dialogue, benchmarking, monitoring, and evaluation.

30. There are three categories of public sector institutions that are critical to the private sector, which: (i) are engaged in a regulatory role; (ii) define the legal framework for the private sector; and (iii) support private sector development. On the regulatory front, work should start now to build effective regulatory institutions in those sectors where there are market failures, such as in the infrastructure and social sectors.²⁵ In addition, competition and labor regulation capability are required. Regarding the legal framework, the strong lesson of experience from other post-conflict

²⁵ The EU has a regulatory building project in Jordan, which deals with four sectors over a three-year period. The budget allocation for this project is euro 20 million.

situations suggests that the creation of Alternative Dispute Resolution (arbitration) mechanisms for commercial/legal issues can be especially helpful. In this area, many of the existing laws and regulations will likely need to be rewritten or repealed. In reworking the legal and regulatory framework, it is important that it be developed in a way which ensures the promotion and protection of human rights,²⁶ as well as being neutral from a gender perspective.

31. The key institutions that support the private sector are those engaged in investment promotion (foreign and local), vocational training, and SME up-skilling.²⁷ These institutions should operate at both the national and municipal levels. This should include provision to support Local Economic Development Departments (LEDDs)²⁸ in the five major cities.

32. Resources will be required to help build these institutions, the primary inputs being know-how and training. These costs are estimated at US\$30 million over the 2004-2007 period. For ongoing operations it is assumed these institutions will be self-financing or supported through the budget. The initial requirements in the first year would be approximately US\$6 million, as this first phase will involve scoping the issue and taking preliminary steps to establish these institutions. The recurrent costs are estimated at US\$10 million.

33. The third area of involvement is building strong private sector institutions. This works at several levels – at the general chamber of commerce level (nationally and regionally); at the sectoral level; and at the special interest level (foreign investors, women’s business organizations, professional industry associations). The core idea is that strong private sector institutions can play three important roles by: (i) advocating for or monitoring the maintenance of reforms; particularly at the sector level; (ii) helping to promote know-how; and (iii) establishing connections with markets. This will help set up institutions to encourage, regulate, and make private investment secure in the medium to long term. One area of reform that is particularly important to investment lies in the corporate governance area - transparency, accurate accounting, and independent directors. Overall, relatively modest resources can make a substantial difference. A total allocation of US\$10 million spread over the 2004-2007 period is proposed.

34. Dialogue, benchmarking, monitoring, and evaluation are crucial for policy makers to build information on the private sector, as well as being able to monitor and report on progress. Are reforms having the desired impact? Is there recidivism on the institutional front? There is a total paucity of information about the Iraqi private sector. This work would include regular investment climate assessments,²⁹ assessments of public sector delivery, administrative barrier studies, foreign investor surveys, and an accumulation of relevant statistical data on the private sector. An important output of this work will be an analysis of the specific issues facing gender and ethnic/religious minorities. This work will support an ongoing dialogue with policy makers. Initially, the dialogue will share the lessons learned from international experience. The cost is estimated at US\$5 million over the 2004-2007 period. There are no recurrent costs.

²⁶ In accordance with Office of the United Nations High Commissioner for Refugees (OHCR) checklist.

²⁷ The question of financial support for SMEs is dealt with below.

²⁸ City Development Strategies that link to the LEDDs are a key component of the Urban Management Needs Assessment.

²⁹ The budget for the Syria ICA is US\$500,000.

C. PRIMING THE PUMP - VENTURE AND SME CAPITAL FACILITIES

35. While there is virtually no formal capital in Iraq at present, in large part a function of the former regime, there is clearly considerable informal capital available in Iraq:

- There is significant real estate, which has virtually no debt attached to it. It is likely that wealth which could not be converted into dollars or precious metals is stored by the Iraqi people in this form.
- The recent Iraqi diaspora is estimated at some four million people; there are also family ties into Syria, Lebanon, Jordan, and even Kuwait.
- There are a number of strong family-based “cash generating businesses.”

36. A key challenge is to convert these strengths into investment capital that can be used by Iraqis to build up their businesses. The Financial Sector Needs Assessment identifies that the banking system in Iraq is not ready at present to assist in intermediating this capital. Also, the insurance sector is not able to meet the needs of investors at present.

37. The team working on the financial sector has encouraged the establishment of separate stand-alone institutions to manage these funds. When the banking system is ready, perhaps in 2005/2006, credit lines to financial institutions would be a helpful intervention to unlock this significant potential. In the meantime, stand-alone independently managed credit and equity facilities appear to be one way of moving forward. A mechanism that worked very well in Russia was the establishment of a series of small, regionally-based Venture Capital Funds (US\$10 million capital). This would be one way to kick-start investment. These funds, which would require donor funds to seed them, would be designed in a way to privatize relatively quickly and become vehicles for attracting additional private sector equity capital.

In parallel with this, Project Development Facilities for SMEs³⁰ could also be developed. The total initial funding requirement for these facilities is suggested at US\$200³¹ million.³² As part of the total financing requirement, it is estimated US\$30 million will be required for parallel technical assistance. The facilities would also include arrangements to deal with insurance issues. Initially, it is suggested these mechanisms be based on the five major cities.

D. RESOLVING KEY BOTTLENECKS TO TRADE AND INVESTMENT

38. As Iraq begins to open up its trade regime and moves from a sanction-driven environment to an open modern economy, many critical infrastructure, service and technology gaps will be exposed. The proposed fund will be used to resolve key constraints to trade and investment. The proposed fund would be primarily driven by the LEDDs proposed in the institutional intervention. These interventions could range from feasibility studies for industrial zones, or technology parks, to the provision of customs software, to training on export promotion, marketing and transacting, to the resolution of a basic transport bottleneck – a critical round about, to the rebuilding of public markets.

³⁰ IFC is preparing a more detailed proposal.

³¹ By way of comparison, the EIB recently approved a US\$200 million credit line for the SME sector in Syria.

³² It is assumed that any recurrent costs associated with these facilities will be self-financed.

The key would be subjected to a competitive, transparent process that will judge interventions on their contribution to trade. The model applied would route resources through the budget.

39. Over a four-year period, it is suggested US\$95 million be allocated.³³ Recurrent costs associated with developing this program are estimated at 5 percent.

E. SUPPORTING IRAQ'S COMPARATIVE ADVANTAGES - INTEGRATED CLUSTER DEVELOPMENT PROGRAM

40. The two sectors where Iraq has a clear comparative advantage are oil and agriculture. These two sectors warrant special attention from an industrial point of view, since there is potential for a high payback in investment and jobs. Indeed, anecdotal evidence suggests it is these areas where foreign investors are most likely to commence business. Therefore, an integrated program³⁴ of activities that helps industrial development in the agribusiness and oil services sector is proposed.

41. The core idea is to encourage the development of clusters. This is particularly relevant in Iraq, which has been tightly controlled so the natural forward, backward, and horizontal linkages that develop have not occurred. The kind of oil services sector that one would expect to find in the world's potentially second-largest oil producer does not exist. Similarly, the high value-added food products that one would expect to find in the MNA regions largest and richest agricultural lands also cannot be found.

42. The program consists of the following activities:

- **SOE Reform** – Because these are critical sectors, one finds a number of SOEs. This work would coordinate as plans for restructuring and privatizing those SOEs³⁵ or parts of these SOEs that are developed. In particular, it is expected this work will highlight potential areas of new investment that can be encouraged by the privatization process.
- **Cluster Strategy** – This work would develop a program that would increase the level and depth of intermediation through subcontracting and cluster relations between SOEs and private sector enterprises.
- **Agribusiness Export Market Development** – In addition to the bottleneck fund proposed previously, this would identify targeted interventions for the Agribusiness sector that would encourage trade. This would involve quality, standards, and productivity.

43. Over the 2004-2007 period the total budget cost would be US\$35 million.³⁶ There are no capital costs.

³³ This budget is based on the experience of the Port Cities Development Project in Yemen, which has a similar investment profile. In this case approximately US\$25 million per city was allowed.

³⁴ This program is a set of catalytic interventions that UNIDO has developed on a sectoral basis.

³⁵ This would include any mixed companies.

³⁶ The cost is based on detailed UNIDO estimates.

F. CROSS CUTTING ISSUES

Gender and Ethnic/Religious Minorities Issues

44. On the gender topic, the assessment has identified that there are no observable physical or cultural barriers to investment by women. Nevertheless, in meetings with Iraqi businessmen, the assessment team did not meet any women. Further, the team was not able to identify any women's business groups. Therefore, this is an issue. Clearly, if there is to be a focus on developing a strong services sector, there will be many investment and job-participation opportunities for women. Therefore, it is crucial that the women's voice be given the opportunity to be heard now. As a starting point, there are three important measures that should be encouraged: (i) the establishment and support of strong women's business associations; (ii) mandatory participation of women in the governance arrangements of institutions that support the private sector,³⁷ (in Jordan the heads of the Telecom Regulatory Authority and the Investment Authority are women); and (iii) careful attention to gender issues as laws and regulations affecting the private sector are examined.³⁸

45. In framing the investment climate, the intention is to create an environment that represents a level playing field for all. For ethnic/religious minorities, this in itself may not be sufficient, because the minorities may suffer from barriers to entry, and very poor relative endowments in terms of education and physical resources. As part of the initial investigation work on the investment climate, the existence of disadvantaged ethnic/religious minorities will be identified together with an inventory of the issues they face. The first step will be to give voice to these issues and then design an appropriate set of interventions to deal with these issues.

Regional Development Issues

This strategy focuses on five cities, partially for pragmatic reasons of not overreaching, but also because the present spatial distribution of people is artificial and it is not clear where people will end up if they have a choice. This means there will be important groups who will not have access to the resources proposed in this assessment, although the agribusiness support strategy is one intervention that will help with the rural areas. These groups include rural and small-town populations, and the three northern provinces.

³⁷ This would include the proposed LEDDs, and the various funds proposed to support the private sector.

³⁸ For example, women were not allowed to travel outside Iraq without the company of a male relative.

4. CONCLUSIONS – IMMEDIATE ACTIONS

46. In terms of what can be done in the next few months to move the investment climate agenda forward, the following measures can be highlighted:

- The pump priming mentioned activities (SME and Venture Capital Fund) that augment other similar initiatives already underway – the microfinance and trade finance initiatives. The technical assistance that will establish delivery mechanisms and support small businesses is crucial to this program’s success. In the first year the assessment estimates US\$30 million that can be absorbed; this will rapidly build thereafter, once the systems have been applied.
- In getting the trade and investment regime moving. The assessment estimates US\$20 million which can be absorbed in the first year. This money will be utilized on institution building, benchmarking, and resolving critical, immediately-identifiable bottlenecks.

47. This will clearly represent “a drop in the bucket” in terms of the private sector’s needs, and providing the necessary jobs. As mentioned in the Employment Generation Needs Assessment, employment generation schemes and Iraqi private sector-friendly procurement represent other ways of quickly helping the Iraqi private sector. From the outset, it is important that these schemes, which are not sustainable, are designed in a way that is non-distortionary to the overall investment climate. This means paying careful attention to competition rules and transparency.

48. The set of interventions proposed represent the beginning. They represent a bare minimum. In the context of Iraq, they are small and will need significant augmentation. This augmentation is likely to come from the private sector. Therefore, getting the private sector flows moving through a sensible set of ground rules – good laws, and strong institutions, and then through interventions that will unlock the capital flows. As observed by the former head of the Irish Investment Promotion Board³⁹ (arguably the world’s most successful investment promotion agency), investors are like sheep – the key is getting the first one. Iraq, with its rich oil reserves, also has the opportunity to use these resources to assist the development of the investment climate by increasing the proposed resource allocations, strengthening vocational training, and developing a guarantee fund.

³⁹ P. Macmanemin.

ANNEX

Table 1 - Preliminary Calendar 2004 Budget for Investment Climate*in US\$ Million*

	2004	2005-2007
Gross Expenditure		
Recurrent Expenditure		
Staff Expenditures		
Services Requirements		
Goods Requirements		
Of Which Strategic Consumables		
Assets Maintenance		
Rehabilitation/Reconstruction		
<i>(Required to Bring Sector Back to March 2003 Level)</i>		
Investment	44	296
Gross Revenues		
Investment Requirements (Base Case)		
Priority 1 Building the Institutional Framework for a Vibrant Private Sector		
Capital Costs (not included in the above)	6	39
Recurrent Costs (not included in the above)	-	10
Priority 2 Priming the Pump – Venture and SME Capital Facilities		
Capital Costs (not included in the above)	30	170
Recurrent Costs (not included in the above)		

Priority 3 Resolving Key Bottlenecks to Trade and Investment

Capital Costs (not included in the above)	8	87
Recurrent Costs (not included in the above)	2	3

Priority 4 Supporting Iraq's Comparative Advantage – Integrated Cluster Development Program

Capital Costs (not included in the above)		
Recurrent Costs (not included in the above)	4	31

Additional Investment Requirements (High Case)
