

1. Introduction

In 2003, the country inherited a difficult legacy of economic and social deterioration represented by the decline in production, low living standards, prevalence of unemployment, increase of inflation rates, decadence of infrastructure, decline in public services, and the evident discrepancy in development levels among the governorates in addition to other indicators that confirm this fact. Alongside continuous wars (since 1980) and the international economic sanctions, centralized economic policies have played a significant role in disrupting most of the society sectors from participating in a sustained economy. The most important sector is the private sector whose role has been substantially limited and, accordingly, economy and society are trapped in a vicious circle between cause and effect which made change a necessity to get out of this trap.

Since that time and up to present, the type of change that took place was not as ambitious at the economic and social levels. The political and security circumstances have had their impacts on all sectors of national economy and society in general not to mention depletion of major resources in comparison with the obtained benefits.

On the other hand, consumer and investment expenditure policy is also of an unknown direction and features as it tends for instantaneous treatment of issues addressing each case individually without an obvious strategy. This is confirmed through the documents of the State federal budget where investment, which is the corner stone of the capital accumulation of the state, receives insufficient attention in the budget compared to the consumer aspect which has been dominating the largest proportion of the State federal budget, in addition to absence of the concept of economic institution, multiplicity of economic and development decision making posts and nonexistence of clear definition of the roles of the federal and local governments.

This paper highlights the most eminent economic and social challenges that the Iraqi economy and society face, the basic visions of the five-year plan, the foundations and principles of these visions and methods of implementation at the macro-economic level leaving the sectoral aspects to the studies and papers to be discussed during the two days of the conference.

2. Challenges

a. Economic Challenges

First: The economy of Iraq still suffers from the consequences of being unilateral where the domestic product of crude oil extraction and exportation sector constitutes a high percentage (the average of which reached 44% during the period of 2004-2008) of the gross domestic product (GDP) of the country. At present, it is the major source of financing for the current and investment expenditure.

This situation creates a significant challenge that development of activities faces as it is directly dependent on volatile oil prices in the world and consumer

demand policy of this product. Despite confirmations in all development plans since the sixties of the last century on the need to shift away from this association and dependence, no results were achieved towards this goal.

Second: The domination of the extractive oil sector, along with the recession of consumer goods (not including oil), stands as a second challenge. This situation weakens the role of these activities in fulfilling the domestic and external demand on these products leading to excessive imports and transference of a major percentage of the added value to abroad. The average of contribution in GDP for commodity activities (not including oil) is 28.6%, and 38% for distribution activities and 33.4% for service activities for the period 2004-2008. This clearly indicates that expenditure on trade, transportation, and social and personal services has been more financed from the returns of crude oil exportation rather than from the added values obtained from commodity activities.

Third: The limited role of the private sector in the economic process has kept the lead in the hands of the governmental sector where the average of contribution in GDP is 70% for the last years, most of which resulting from ownership of crude oil products and other strategic activities such as electricity, transportation and industry by this sector, not to mention possession of a very high rate of gross fixed capital formation.

b. Social Challenges

Iraq has faced substantial social challenges represented by increase in unemployment rates, particularly among youth and women, in addition to disguised unemployment particularly in state institutions which became largely unwieldy and the consequential decline in performance and productivity. Iraq also faces serious problems in the educational and health systems, increase in poverty rate in addition to possibility of realizing the internationally approved millennium development indicators. Below is a summary of the major challenges:

First: Education

All strategies relevant to this sector reaffirm the right of education for all working to achieve compulsory education, promote gender equality, enabling the poor in addition to improving education quality through attention to curricula and educational staff and the entire requirements of the educational process. Yet, the relevant indicators starting from school enrolment rates (85% for males and 82% for females), dropout and efficiency of requirements are still below the required level. This also indicates a great deficiency in schools, an increase in the number of schools with dual or triple system and an increase in the number of buildings unsuitable for the educational process particularly in the rural sector.

At the higher education level, the significant horizontal expansion in universities has affected the quality of higher education system outputs in addition to lack of accepted consistency between the educational system outputs and the market needs due to the considerable direction towards humanitarian specialties which are easier in ensuring the physical and human requirements.

Second: Health

The Millennium Goals include fourteen objectives within the health aspect. Indicators monitored so far reflect an improvement in the level of these targets. However, the gap between the required achievements for 2015, which is the final year for realizing these goals, is still considerable which requires addressing a significant number of problems and difficulties

The achievement of these goals, on top of which are the scarcity of safe drinking water supply, wastewater treatment and processing waste which have direct impacts on human health. Moreover, serious problems exist in the health system, itself, represented in the low ratios of beds and doctors per 1000 persons compared to international indicators.

Not to mention that the currently available health capabilities are not optimally used; the current bed occupancy rates, particularly in government hospitals, is almost 60% which indicates the citizens' lack of confidence in health services provided by state health institutions.

Third: Housing

Even though there is variation as to the estimations of the required number of proper housing units, it ranges between 1 and 3.5 million housing units, according to hypothetical estimations upon which housing studies are based. This indicates that there is a considerable shortage of residential units, something that needs to be addressed in the plan. Policies and procedures that would eradicate this problem or at least greatly reduce it also need to be provided. Obviously, the private sector and foreign investors should be given leading roles in addressing this problem if not crisis.

Fourth: Eradication of Poverty

Poverty-related data indicates that the absolute poverty line in Iraq is IQD77 thousand per month and the extreme poverty line is IQD34 thousand per month. 23% of the population is below the threshold of poverty line. On the other hand, income distribution indicators at the present time are not reassuring for planners addressing the issue of poverty. In 2007, the average per capita income amounted to IQD125 thousand a month and the inequality in income distribution amounted to 40%. This requires government policies to aim at raising the average per capita income which would raise the per capita GDP, decrease the proportion of the population under the threshold of poverty line and bring about equality in income distribution. This requires that investment policies focus on

activities that attract a high proportion of unemployed people. According to 2008 statistical data, the unemployment rate amounted to 15%.

Fifth: Employment and Unemployment

Unemployment is considered one of the high priority challenges. Available indicators show a considerable rise in the unemployment rate. According to the latest survey conducted in 2008, the unemployment rate is estimated by 15%. It is higher, however, among youths and women, 30% and 32.5% respectively. In addition to higher unemployment rates, there is a big waste of manpower as indicated in higher disguised unemployment rates particularly in the state and unorganized sectors. This poses serious challenges for the plan and requires that solutions be put forward to put an end to this issue.

Employment strategies and policies show that the 2008 participation rate in economic activity among economically active populations is 51%, which equals 15221 thousand persons of varying qualification levels. With the prevailing unemployment rates, unless efficient employment policies are adopted, the situation will become worse and the dependency level is going to rise from 1 to 4 (i.e. one working person with 4 dependents). The current employment policy is based on employment in the public sector which suffers from overstaffing. The number of employees in the public sector exceeds 2.5 million persons.

Sixth: Youths

Youths constitute the main manpower required for production, development and social, intellectual and economic progress. Therefore, it is important to protect and guide them in a constructive manner taking into consideration their personal inclinations and intrinsic to the world cultures according to their ages in order to keep them open to and interactive with the outside world.

Despite the improvement in the youths' educational level according to the 2007 Household Socio-Economic Survey, whether among men and women or in urban and rural areas, the participation of education in employment is modest and unemployment rates indicated in **Fifth** above are high. Not to mention the low educational qualifications of young laborers, as according to data provided by the abovementioned survey, 24% of laborers in the work force are still illiterate, 41.2% are literate and 43.1% hold elementary certificates.

Accordingly, the educational, cultural and professional qualities of youths constitute a major challenge that faces the Iraqi economy. It is important that effective policies be adopted to boost, qualify and employ youths.

C. Dual Spatial Development

Spatial development in Iraq is still dominated by a dual spatial development phenomenon represented in the existence of some relatively advanced governorates and regions as well as those that are socially, economically and culturally less developed or underdeveloped. This is due to the investment policies which have not given balanced attention to all areas of Iraq. The phenomenon of dual development is not restricted to the discrepancy in development levels among the different governorates; there is even bigger discrepancy between urban and rural areas. This spatial development pattern led to the concentration of the population, economic activity and services in few cities not to mention the attraction of manpower from small boroughs and rural areas and the depletion of their effective human resources.

The concentration of human resources and development in certain areas but not in others has negative social, economic and environmental consequences should be addressed in the plan. The plan should also give local administrations the chance to determine their growth and development trends as well as their needs, especially when it comes to domestic activities, needs and services. They should also have an active role in determining the strategic activities within their administrative jurisdiction which serve the national interest or that of a number of neighboring governorates.

D- Environmental Challenge:

During the past decades, the environmental perspective for the development in Iraq did not acquire necessary attention whether at the national strategies or enterprises levels. Iraq also lacks to a comprehensive follow-up and environmental monitoring systems which ultimately result in large-scale of environmental pollution represented by air, water and soil elements. Likewise, the use of banned weapons in wars like depleted uranium, and attacks against military installations have positively contributed to deepening the environmental pollution problem.

Addressing the environmental issues and disseminate community environmental outreach are great challenges facing the aim of this plan to achieve sustainable development which maintain balance among the three constituent perspectives namely, economic, social and environmental aspects.

E- Rural Development:

Rural areas in Iraq suffer from large economic, social, cultural, constructional retardation. It also suffers from a clear decline in productivity along with the domination of seasonal disguised unemployment phenomenon, low contribution to the gross domestic product (GDP), and the declined level of services delivery. According to related surveys, large proportion of poor people settles in the Iraqi rural areas. The perpetual predominant poverty in these areas has been and still is a major cause for the migration of the population from rural to urban areas, particularly to big cities which consequently lead to deplete the workforce from the rural areas. Hence, the plan is required to render special attention to develop the Iraqi rural areas including the creation of plans and strategies of

rural settlement through the compilation of the small villages in one village to ensure the minimum average of population in order to enable better delivery of basic services like primary education, primary health care and establishment of roads in the rural areas...etc.

3- Economic Perspective:

The challenges that face the Iraqi economy and have impacts on the normal life of the Iraqi citizens and families who suffer from low living standards in comparison with other states of comparative characteristic of natural resources, requires comprehensive economic insight based on an optimal use and engagement of its resources to increase the production capacity of the economy and diversification of its resources according to the marked capabilities of the country towards the gradual disposal of unilateral phenomenon through the availability of non-governmental sectors contribution, particularly the private sector in an integrated and consistent manner that ensure fair revenue allotment to enable the entire social groups to take their role efficiently and reduce the suffer of the vulnerable groups through inflation control and alleviation of unemployment and poverty. The economic enterprises should steer the economy in an efficient and brilliant manner and broad perspective in order to achieve sustainable development with economic, social, environmental perspectives supported by the rule of law under a democratic ruling system that believes in peaceful coexistences and dissemination of equality culture among all members of the Iraqi society.

Beside the internal insight, the Iraqi economy should be open to the external world based on equality, economic and cultural integration. It should also benefit from the global experiences to support the transitional economic track through foreign investment and provision of the supportive encouraging facilities, or through the acquisition of expertise and the transfer of knowledge.

4- Objectives of the Economic Perspective:

The economic perspective, through the implementation of the Five-Year National Plan based on the volume of the governmental available investment during the coming years, aim at building strong and diverse economy which is more susceptible to challenge internal competitions and external interactions, establish basic foundations to strengthen the role of none-governmental sectors; mainly the private one, and lay the first groundwork for the establishment of market economy and free competition.

This perspective with its sectoral details will help the government to take necessary steps to regulate the process of the transition from the phase of central government dominance in making economic decisions to the phase of participation of other sectors in the development and reconstruction process to ease the burden on the government sector.

From social point of view, this perspective focuses on human-building and welfare and achieves prosperity and equality among different components based on sound and well-studied foundations of a consistent and sustainable characteristic.

5- Perspective Foundations and Principles:

The basic factor of this economic perspective is transparency and publicity in taking executed decisions. This would allow all members of the society and organizations to participate in the provision and evaluation of the perspective throughout all of the implementation stages.

The second fundamental and equally important factor is integration, parity and accord of the economic activities in order to achieve sustainable and balanced development with other social activities that directly support citizens such as education, health care, and creation of work opportunities. Additionally, disparity among governorates and territories, urban and rural areas should be minimized based on the population size, level of deprivation, and the provision of economic, financial and human potentials and other comparative advantages of these spatial components.

The other fundamental factor is enabling the private and other non-governmental sectors to participate in the economic process on the basis of economic efficiency which should be consistent with the principles of free market and competition. The last principle is the persistent guiding role of the central government to create an appropriate environment aiming at achieving the objectives and principles of its perspective supported by direct supervision of strategic benefits and infrastructures to ensure equal access of all components of the society.

6. Vision Implementation Means:

A. Development of Oil and Gas Sector:-

At this particular stage, oil and gas sector is considered one of the most important sectors that must be the focus of attention as it is the major financier of the development process in Iraq. In order to maintain this characteristic, it is necessary to pursue:

First: Increasing the daily production of crude oil from (2.4) million barrels per day in 2009 to (5.4) million barrel per day in 2014, i.e. an average annual increase of (600) thousands barrels per day starting from (300) million barrels per day in 2010.

Second: This increase requires about (\$12.0- 12.5) billion per year, i.e. a total of (\$ 60- 62.5) billion at the end of the duration of the plan, apart from the amounts required for the infrastructures of the sector, transportation and storage .

Third: Oil exports are expected to reach (80%) of production and the price of the exported barrel is estimated at about (40). Hence, the total accumulated revenues at the end of the duration of the plan (2014) is expected to reach about \$ 242 billion, i.e. an annual average growth of about 12.5 %.

B. Development of non Extractive Oil Sectors

In order to develop sectors other than crude oil and bring them out of recession, provide more commodities and services to the citizens and meet the demand on products so as to achieve balance between supply of local product and imports so that imports focus on the essential supplementary commodities and services, and in order to weigh investments, the following alternatives have been adopted:

First Alternative:

The increase of oil prices during 2008 has significantly affected the level of product and production. Accordingly the average increase between the third and fourth quarters of 2008, which is (4%), has been adopted to estimate products in 2009.

To support these activities with a powerful impetus of investment during the plan years, the plan assumes an increase in product at a compound growth rate of (8%) and according to the enclosed table.

First estimation: By considering 2007 as the base year, the required investment is (ID 101931) billion, i.e. (\$ 91) billion.

Second estimation: By considering 2008 as the base year, the required investment is (ID139800) billion, i.e. (\$ 125) billion.

Second alternative:

This alternative links the Gross Domestic Product (GDP) of non-crude oil activities with crude oil product. Additionally, two growth rates for oil production are adopted; the first is 10% which represents the increase between 2006 and 2007, while the second is 12% which is the assumed rate of increase in oil revenues during the years of the plan. Thus, there are 4 estimations for 2009 against each of which, an investment in dinar and dollar is required and as follows:

10% Growth Rate

First estimation: Base year 2008

The investment required is (ID124180) billion, i.e. (\$ 127) billion

Second estimation – Base year 2007

The investment required is (ID114028) billion, i.e. (\$ 102) billion

12.5 % Growth Rate

Third estimation – Base year 2008

The investment required is (ID 154408) billion, i.e. (\$ 138) billion

Fourth estimation - Base year 2007

The investment required is (ID 119272) billion, i.e. (\$ 106) billion

Summary: billion dollars

Estimations	Non-Oil Product	Oil Product	Total
<u>First alternative</u>			
First	91	60	151
Second	125	60	185
<u>Second alternative</u>			
First	127	60	187
Second	102	60	162
Third	138	60	198
Fourth	106	60	166

Accordingly, the required investment during the years of the plan ranges between (\$ 151) billion and (\$198) billion. The general federal budget of the state is not expected to be capable of providing more than (\$ 75-100) billion during the years of the plan. It is, therefore, imperative to break the grounds of foreign investment and private sector along with following up implementation of grants and loans.

D. Private Sector Support Policies

As previously illustrated, and according to all economic standards, the role of the private sector is limited and confined to a narrow angle. From the development perspective, this role stands behind the current economic recession particularly that the government is focusing attention on certain aspects according to stage and circumstances against which it becomes incapable of funding all development activities. Accordingly, and in view of free economy concept and adoption of market and competition mechanisms, it becomes necessary to revive the role of the private sector and empower this sector to be an active contributor/partner in the decision making and planning of the economic process.

On the other hand, developing the role of the private sector in economic and social life keeps the country away from minor issues and dependency of citizens on the state which creates innumerable problems and crises.

If the State has assumed this historical role by depending on basic natural resource, i.e. oil; this resource, however, is being strongly threatened by the consumer who seeks energy alternatives to reduce reliance on oil. Accordingly, unless we are capable of building a strong and diverse economy, it will continue to face substantial funding problems and the country will lose important opportunities towards development.

In this regard, the following policies are proposed:

First: Various forms and methods of partnership and concession contracts between public and private sectors.

Second: Transference of public enterprises to private or mixed companies through benefiting from the laws currently in force, particularly Laws no. 21 and 22 of 1997.

Third: Reform of the financial sector, improving performance of the banking system, and increasing loans through small and medium term loans against preferential conditions as well as funding small and medium projects.

Fourth: Improve and diversify infrastructures and support services such as electricity and all types of transportation, so as to ensure a smooth and cost effective transportation of product and production requirements by the private sector.

Fifth: Streamline and simplify government procedures, developing laws that encourage investment and creating an investment environment to improve the competitive position of Iraq in dealing with businessmen and investors.

Six: Open opportunities for direct and indirect foreign investment and developing the regulatory laws and legislations.

6. Vision Implementation Policies

Macro Policies

A. Financial Policies:

First: Pursue diversification of funding sources in order to increase the contribution proportion of non-oil sources, adopt appropriate tax policies to this end and reconsider government service fees.

- Second: Reconsider the expenditure structure to reduce spending in operational areas to obtain funds for investment in order to bridge the gap between the need for investment and the volume provided by the State general budget.
- Third: Link the amounts allocated for development of governorates with the proportion of population, vulnerability, and potentials in governorates in a way that supports the objectives of this plan.
- Fourth: Coordinate issuance and purchase of government bonds in addition to lending among relevant parties to support the financial position of the budget.
- Fifth: Seek foreign funding from the remaining grants and loans that other countries have pledged to Iraq and expedite procedures of utilization.
- Sixth: Restructure and reform the banking sector so as to ensure provision of internal and external banking services required for the development process.
- Seventh: Boost financial management and follow up and monitor public expenditure.
- Eighth: Carry out structural reforms at the macroeconomic level as agreed with IMF and ICI.
- Ninth: Improve the quality and timeliness for issuance of financial and economic statements by governmental offices to enhance the economic planning process.

B. Monetary Policy

First: Creation of balance between tough monetary policy necessary for curbing inflation and exaggerative speculations. This policy certainly maintains a good level of the purchasing power of national currency. However, it is essential to create balance with the volume of liquidity that supports the development process

Second: Despite acceptance of the principle of moving the interest rate along with capacity of funding, but stable economic situation needs a stable interest rate so as to insure a credit increase necessary for empowerment of the private sector, as well as other sectors, to fund the development process and free economy from the current tough recession, which will increase reliance on oil revenues. By so doing, the Iraqi economy will be a long term revenue economy that imports all its needs particularly that the inflation rate between 2007 and 2008 is 2.7% according to the data provided by the Central Organization for Statistics and Information Technology (COSIT).

C. Regional and Decentralized Policies and Federal Government

The expected and prevailing trend is to render a greater role for the local administrations, particularly with the allocation of funds, since 2006, for the development of governorates outside investment allocations. This issue is of paramount importance as governorates

must be empowered to manage their amounts, whether those received within the governorate development program or those within the government investment program which eventually goes to governorates. In both cases, governorate councils should undertake their roles in defining the development needs so as to be included in the five-year national plan.

In this respect, the following policies are defined:

First: To involve local authorities of governorates in the development prioritization and preparation, particularly in the area of social services provided to citizens on the condition that the federal government, in consultation with the relevant local authorities, undertakes planning and implementation of strategic projects that serve all part of Iraq as well as many governorates.

Second: To adopt a balanced distribution of investments on sound economic foundations, thus creating interdependence and integration among regions and governorates on basis of relative features, potentials, and development determinants for the region and governorate.

2008										
Fourth quarter of 2007	20027	—								
During years of plan	Exports									
2010	34560									
2014	62208	12.5								
2009 (1)			75736	77457	111281	113809	142180	154408	127	138
2009 (2)			60742	63534	89249	93352	114028	119272	102	106

Fourth Quarter of 2008	17814	3.7 (rounded to 4)						
2009 (1)			54296	4	58640	79779	101931	91
2009 (2)			74469	4	80426	109419	139800	125

**Alternatives of weighing Investment of Gross Domestic Product (GDP) for economic activities not including crude oil activities
(Plan years 2010 – 2014)
(First Alternative)**

Estimations by Billion Dinar or Dollar

Year	GDP in Current Prices	Percentage of Annual Increase %	Estimations for 2009 (1) Adopting 2008 as base year at 4% rate (2) Adopting 2007 as base year at 4% rate	Capital Gradient	Estimations for 2010 - 2014 adopting a growth rate of 8%		Required investment	
					2010	2014	Dinar	Dollar
2006	43215.3							
2007	50200	16						
2008	68851	37						
Third quarter of 2008	17184							