



Ministry of Planning

# KURDISTAN REGIONAL GOVERNMENT ECONOMIC REFORM IMPLEMENTATION PROGRESS

## REFORM ACHIEVEMENTS AND NEXT STEPS July 2017



**WORLD BANK GROUP**

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**KURDISTAN REGIONAL GOVERNMENT**  
**ECONOMIC REFORM IMPLEMENTATION PROGRESS**

**REFORM ACHIEVEMENTS AND NEXT STEPS**

*MOVING FROM GOOD REFORMER TO GOOD PERFORMER*







# KURDISTAN REGIONAL GOVERNMENT

## ECONOMIC REFORM IMPLEMENTATION PROGRESS

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## ABBREVIATIONS AND ACRONYMS

AUIS	American University in Sulaymaniyah	MoAWR	Ministry of Agriculture and Water Resources
BoI	Board of Investment	MoE	Ministry of Education
BOT	Build, Operate and Transfer	MoFE	Ministry of Finance and Economy
CCT	Conditional Cash Transfer	MoLSA	Ministry of Labor and Social Affairs
CCGT	Closed Cycle Gas Turbine	MoP	Ministry of Planning
CGE	Computable General Equilibrium	MoTI	Ministry of Trade and Industry
ESIA	Economic and Social Impact Assessment	MW	Megawatt
EY	Ernst & Young	NGO	Non-Governmental Organization
FFERKRG	Funding Facility for Economic Reform Kurdistan Regional Government	OCCGT	Open Cycle Gas Turbine
HFO	Heavy Fuel Oil	OSS	One-Stop-Shop
ICT	Information and Communication Technology	PFM	Public Financial Management
IDP	Internally Displaced Person	PIMS	Public Investment Management System
IFC	International Finance Corporation	PMT	Proxy Means Test
IFMIS	Integrated Financial Management Information System	PPP	Public-Private Partnership
ILO	International Labor Organization	RAND	Research and Development Corporation
IOCs	International Oil Companies	RAS	Reimbursable Advisory Services
IPPs	Independent Power Producers	ROI	Return on Investment
ISIS	Islamic State in Iraq and Syria	SBDs	Standard Bidding Documents
KDMS	Kurdistan Development Management System	SCADA	Supervisory Control and Data Acquisition
KRG	Kurdistan Regional Government	SMEs	Small and Medium-Sized Enterprises
KRI	Kurdistan Region of Iraq	SOEs	State-Owned Enterprises
KRSO	Kurdistan Regional Statistics Office	SPSF	Social Protection Strategic Framework
LTO	Larger Taxpayer Office	TVET	Technical Vocational Education and Training
MENA	Middle East and North Africa	UNDP	United Nations Development Program
MNR	Ministry of Natural Resources	WBG	World Bank Group



## EXECUTIVE SUMMARY

**1. The Kurdistan Regional Government has made remarkable progress in the implementation of economic reforms and social mitigation measures since the launch of its Economic Reform Roadmap.** In February 2016, to address short-term as well as medium- to long-term structural issues, the Kurdistan Regional Government (KRG) officially requested a special partnership for growth and development from the World Bank. As a response to the Government's request, the World Bank Group and the KRG Ministry of Planning jointly delivered an economic reform roadmap "*Reforming the Economy for Shared Prosperity and Protecting the Vulnerable*" based on extensive multi-sectoral analyses. The objectives of this program are, in the short-term, to achieve fiscal consolidation and stabilization and, in the medium-term, to promote inclusive and sustainable growth through increasing private sector investment and economic diversification. Social sector reforms are also required to ensure that Kurdistan Region of Iraq's (KRI) most vulnerable citizens have a reliable safety net. Since the launch of the Economic Reform Roadmap on May 30, 2016, the Government has delivered fast and impressive reform actions in all sectors of the economy. This Progress Report summarizes Government's reform achievements since end-May and presents next steps and what will be delivered in the next six months. This document also contains concrete steps on how the World Bank Group will help the Government to implement these priorities. Moreover, this report will also provide a window to international partners to contribute to the reform through potential interventions.

**2. Reforms are necessary to stabilize the economy.** KRG is facing a wide range of immediate and medium to longer-term challenges that are intrinsically linked to the overall macroeconomic situation of Iraq as well as the regional and global environment. The immediate challenge consists in coping with (a) the deep fiscal crisis, and (b) the security and social problems brought about by the conflict with the Islamic State in Iraq and Syria (ISIS) group and the resulting influx of Syrian refugees and Iraqi Internally Displaced Persons (IDPs). The issues KRG is facing from inflow of refugees and IDPs are important for the international community to consider. The fiscal crisis and the security challenge posed by the ISIS insurgency have had a significant adverse impact on economic growth in the KRI. The fiscal shock is severe. KRG has been dealing with the fall in revenues by a combination of postponing its investment projects, letting payments fall in arrears including wages and salaries of government employees. These challenges are clearly immediate priorities for the KRG, and would bear significant repercussions nationally and internationally if inadequately addressed. The medium to longer-term challenges pertain to moderating dependence on the oil sector and transforming the KRI economy into a diversified one that supports private sector-led economic growth and job creation in a sustainable manner.

**3. The Government is implementing the most impactful reforms in the history of the Kurdistan Region.** In light of the economic crisis, the Government has committed itself to a sweeping reform program, with technical support from international partners. There is a strong ownership for the economic reform roadmap from the Government. Shortly after the launch event on May 30, the Council of Ministers endorsed and adopted the economic reform roadmap on June 11, 2016, as the Government's own reform program. KRI Council of Minister's Decree, operationalizing the roadmap, is presented in Annex 1. The Government is highly committed to implementing the roadmap in the next three years. President Masoud Barzani issued a statement on June 9, 2016, emphasizing the importance of the KRG's reform plan. He reiterated full backing to this reform plan to succeed, and called on the Government to implement the plan thoroughly. The President called on political parties, Non-Governmental Organizations (NGOs) and media organizations to "support and



monitor” the three-year reform plan. Prime Minister Nechirvan Barzani has also provided full support and informed the public that reforms will focus on economic diversification and private sector development to create better opportunities for the people while protecting the vulnerable through social mitigation measures. Deputy Prime Minister Qubad Talabani has provided leadership in implementation of important reforms for the welfare benefit of the people in the whole region. This Progress Report is the first monitoring document presenting what has been achieved since the launch of the reform roadmap, and what will be achieved in the next six months. This exercise will show the citizens of the Kurdistan Region what is yet to come, and how their lives will change from upsides and downsides of upcoming reform actions. This will also show international partners how serious the Government is with reform implementation.

**4. International partners are highly supportive of economic reforms.** The success of the reforms and the ability to deal with multiple shocks require support from KRG’s partners. The World Bank Group is providing technical assistance for implementation of selected priority reforms. To operationalize the economic reform plan, the United Nations Development Program (UNDP) created a “Funding Facility for Economic Reform-Regional (FFER-KRG)” with the intention to mobilize expertise that will transform and diversify the region’s economy, restructure and strengthen public administration, instill state-of-the-art financial management practices, and improve the delivery of public goods, capital investments and basic services. FFER-KRG—approved by KRG Ministry of Planning on September 28, 2016—is positioned as a financing instrument for KRG’s top priority reform initiatives. This is a multi-donor trust fund to provide technical assistance to the Government to implement the reform roadmap in the next three years. Some bilateral partners have already contributed to this Funding Facility. The Funding Facility is open to all bilateral and multilateral partners who are interested in contributing to KRG’s economic and social development. The specific reform actions in the implementation matrix of the roadmap provide a menu of actions for donors: Partners could chose to provide budgetary support, investment project funding or in-kind assistance directly, or they could contribute to FFER-KRG pool funding with an option of earmarking their support for specific sectoral projects or reform actions.

## **What has been achieved since the launch of the Roadmap?**

**5. Important steps have been taken by the Government to implement the economic reform roadmap.** The Council of Ministers’ Department of Coordination and Follow-up reported that 42 Council of Ministers Decrees were issued to implement the Economic Reform Roadmap since the launch event on May 30, 2016 (see Annex 2 for the full list). The Kurdistan Region Presidency has published a report on February 15, 2017, detailing updates on reforms. The Presidency reported that the KRG has undertaken a reform process to encounter the financial crisis, decrease expenditure and increase revenues. The report stated that expenditure has been reduced by half—on a cash basis—in one year and that revenue mobilization is underway. The KRG Council of Ministers has merged 452 directorates and offices.

**6. The Government has introduced several short-term austerity measures to address the fiscal shock.** The KRG has started implementing austerity measures including wage bill and subsidy reforms. In January 2016, the payroll of government employees was cut—salaries of high-ranking officials by 75 percent and other employees by 10-20 percent in nominal terms. The Government considers this as a deferred payment. This helped the Government to reduce the average total monthly payment for salaries, pensions, and stipends by more than one-third, from US\$750 million to US\$450 million. This is intended as a temporary measure by the Government, with the expectation that salaries

will be paid back later when the fiscal situation stabilizes. However, this plan presents a strong risk of building up unsustainable arrears in the medium-term. Therefore, the KRG will reconsider its salary structure going forward. The Government also reduced non-salary operating expenses by over 50 percent. The overall result has been an 80 percent drop in the consolidated fiscal deficit—measured on a cash basis—from US\$6.6 billion in 2014 to an estimated US\$1.3 billion in 2016. Although the austerity program has substantially narrowed the gap between monthly operating revenues and expenditures, the Government still continues to struggle to pay salaries, pensions, and stipends on time. The Ministry of Finance and Economy is planning to introduce a new unified salary system for all employees including civil servants and security personnel. The Ministry is also seeking to bring a unified system for pension payments for all parts of the Government. On fiscal management side, the Council of Ministers issued a Decree to establish a new Debt Management Office.

**7. In addition to spending controls, the Government has also moved to non-oil revenue generation.** The Ministries of Interior, Municipalities, and Higher Education contributed significantly to revenue generation. The Government increased fees, penalties, water charges and electricity tariffs for industrial consumers. KRG also initiated customs and tax reforms to raise revenues. There has been some progress in migrating from manual to computerized data entry in Haji Umran and Bashmakh customs offices facilitated by a private sector consultancy company, Inventis. In addition, some work has been done by the authorities to increase fiscal revenues. Customs General Directorate increased some customs fees in coordination with Ministry of Trade and Industry. In taxation, the priority is to improve tax administration by establishing a new service center for large taxpayers. This large taxpayer office (LTO) to be set up in 2017 will support a shift in procedure from presumptive taxation to self-assessment in line with international standards. The LTO is expected to promote modernization of the accounting system. The Ministry of Finance and Economy has established a computerized self-assessment system which will allow large companies to approach the General Directorate of Taxation and State Real Estate to get their taxes to be estimated. Once fully operational, this system will help Ministry of Finance and Economy (MoFE) to collect an estimated ID 180 billion—20 times higher than what the Ministry is collecting now.

**8. Austerity measures improved the Government's immediate cash balance, while structural reforms began to tackle the medium-term challenges.** Shortly after the launch of the reform roadmap, the Government has issued the new public procurement regulation in Kurdistan Region on August 9, 2016. Furthermore, on September 21, 2016, the Government has put in place a Social Protection Strategic Framework. These reforms have been done jointly with the World Bank Group. On good governance reforms, the Government has started current and retroactive external auditing of oil revenues by Deloitte. The audit includes all oil exports and current operations of domestic refineries. The Government has also launched electronic payments to employees in the Kurdistan Region to enhance transparency where around 50.4 percent of the Region's workforce is on government payroll (Labor Force Survey 2015).

**9. Reform of the social protection framework is delivering on the KRG 2020 Vision to 'put people first'.** The KRG social protection strategy introduces systems to address the aftermath of the current shock and to respond more effectively to future shocks that may affect the Region. It encompasses plans to: (i) strengthen the labor market-including pensions for private sector job creation, (ii) expand pensions and social insurance including pensions for private sector workers and creation of unemployment insurance, and (iii) improve the (non-contributory) social safety net including using poverty as a main determinant of eligibility. The Strategic framework has been developed in cooperation with the World Bank, which is also supporting the implementation phase.

**10. The Kurdistan Regional Government has delivered important governance reforms to strengthen credibility, transparency and promote participation.** Shortly after the launch of the reform roadmap, the Government has issued the new public procurement regulation in Kurdistan Region. The updated procurement legislation was published in the Kurdistan Gazette. A training program has started. The next step is to put in place an e-procurement system. The Government has also accomplished a critical reform on transparency of oil sector transactions. A remarkable governance action was the introduction of international audit of Kurdistan Region's oil and gas operations. A contract with an international auditor has been signed and initial work is underway. The audits cover oil exports, international oil companies (IOCs), and domestic operations (e.g., sales of crude and refined products). To promote public engagement and awareness, an observatory encompassing key representatives of civil society will be established to follow the audit process and help disseminate the results. The Government is keen to improve citizen engagement and build public support for the KRG's programs. KRG is working to step up its public communications efforts.

**11. The Cabinet approved a strategy to combat corruption.** On May 2, 2017, the KRG took a big step at achieving anti-corruption targets through adoption of a strategy to fight corruption. Upon presentation of a report on "A National Strategy to Combat Corruption in the Kurdistan Region" by the Integrity Commission, the Council of Ministers approved the strategy and express commitment to its success and implementation. The strategy is a five-year plan produced with participation of the Cabinet, Parliament, Judiciary Council, Public Prosecutor, Integrity Committee, and the Board of Supreme Audit. It was produced in consultation with NGOs and under the supervision of the UK-based Westminster Foundation for Democracy Organization. The strategy seeks to ensure protection from and prevention of corruption, the rule of law, awareness, training and cooperation between institutions and civil society organizations. It comprises planning, implementation, monitoring and evaluation phases.

**12. Another good governance reform was achieved through biometric registration of public employees, pensioners and other citizens receiving monthly stipends.** Rightsizing government stands out as an important goal of the KRG's reform program. Biometric registration represents a first step down this road. The registration process—encompassing public employees, pensioners and beneficiaries of stipends—is now underway after an intensive start-up phase. The result will be an Identity Management System that drives broader reform of government payroll, and eventually human resources. Through this initiative, the Government has identified ghost employees and people unlawfully receiving more than one salary. This will pave the way to subsequent e-payroll and e-payment systems that will further enhance administrative performance and transparency, as part of the ultimate objective of transitioning to modern e-government services in Kurdistan Region.

**13. The KRG has also initiated institutional reforms through restructuring of the Government.** KRG hired a consultancy company, Inventis, to study the structure of the Ministry of Finance and Economy. The planned program covers five reform streams: macro-fiscal, customs, tax, public financial management, and IT infrastructure and services. The consultancy company worked with the Ministry to produce a work plan on public financial management, customs, and taxes. The company proposed to reduce the number of directorates in MoFE from 10 to 5 for better control and supervision of work. Restructuring of the government will include re-deployment of employees. In 2015, it was agreed that the institutional modernization of MoFE would prioritize building the capacity of the ministry to lead fiscal policymaking. However, results and achievements on the policy front are yet to be seen and reported. This is still a work in progress.

**14. On electricity sector reform, the Government is executing a two-pronged strategy.** The immediate goal is to cut costs and improve financial sustainability, while developing a medium-term reform plan also in cooperation with the World Bank. The Government has undertaken steps to curtail costs for electricity generation, including: (i) a shift in supplying natural gas to the power stations in place of diesel fuel; (ii) the introduction of more fuel efficient combined-cycle technology by Independent Power Producers (IPPs); and (iii) voluntary renegotiations to lower take-or-pay penalties in light of excess generation capacity. As a result, minimization of use of diesel fuel has led to an estimated fiscal saving of US\$1.2 billion in 2016 in fuel costs. The immediate focus is now to shift to revenue improvement. Tariff adjustments for industrial consumers came into effect in 2016.

**15. The Government has made progress in addressing water and wastewater treatment issues in Erbil and Sulaymaniyah.** In December 2016, the KRG signed a US\$34.8 million loan agreement with UK Export Finance (UKEF), the UK's export credit agency, to finance the first phase of a contract between the KRG and UK water engineering company Biwater to boost water sector infrastructure. As a part of the project, Erbil will be provided with a 600,000 m<sup>3</sup>/day for a water treatment plant, while Sulaymaniyah will benefit from water treatment plant upgrades and the construction of wastewater treatment works and sludge treatment facilities.



## What will be achieved in the next six months?

**16. KRG is focusing on public service delivery in the next six months, and has prioritized water, sanitation, electricity, transport, health, and education sectors for public investment.** To restore growth and create jobs through private sector development, the Government is seeking to re-launch a capital budget program for the benefit of people who live in KRI including host communities and guest communities. The focus is on public-private partnerships. Significant infrastructure gaps remain in the region especially after the regional conflict. Furthermore, austerity is expected to continue in 2017. In the context of a fiscal crisis, the Ministry of Planning (MoP) developed a strategy and reprioritized the projects so that the most critical ones are completed first. The Ministry designed a methodology to prioritize all KRI capital investment projects in the order of their ability to produce the greatest return of public spending. These prioritized public capital investments are intended to increase the stock of public goods for long-term sustainable economic development. International partners have the opportunity to support priority public investment projects.

**17. To improve revenue performance in the electricity sector, the Government intends to introduce smart metering and robust billing and collection.** The medium-term reform plan aims to improve and sustain the quality of service for all electricity consumers through a transition to a modern institutional and regulatory framework that: (i) clearly delineates generation from transmission and distribution; (ii) strengthens financial discipline and energy accountability; and (iii) promotes private sector participation and investment in downstream activities. This transition will encompass a shift to fully cost-reflective tariffs that protect vulnerable groups in line with international practice. The KRG's ultimate goal is to ensure consumers are provided with better electricity service without recourse to fiscal or quasi-fiscal subsidies.

**18. KRG Vision 2020 promotes effective, transparent, trusted, and honest government.** The immediate goal of public financial management reform is to strengthen control over public expenditures, while improving management of government liabilities. A new chart of accounts compatible with international standards has been prepared and will be put in place in 2017-18. One component of the MoFE reforms is to publish annual and quarterly consolidated reports on MoFE and Ministry of Natural Resources (MNR) operations. So far, the reports have been prepared but not published yet. The MoFE is also focusing on improvements in IT infrastructure and services. This will drive the transition to automation and away from outdated manual procedures. As such, it will underpin the entire modernization effort by equipping the ministry with an international standard, integrated financial management information system.

**19. In the next six months, the Government will build on procurement reform achievements.** The authorities will finalize the annex to the procurement regulation as part of the "Procurement under Public-Private Partnership Initiative." In addition, a complaints mechanism system will be established: another annex to the procurement regulation will be developed as part of the "Review of Complaints" and "Complaint Review Manual" that aims to introduce the complaint review procedures to public officials that are involved in handling of complaints from bidders. Furthermore, an inception report for preparation of the e-learning modules will be prepared. KRG will continue building the capacity of public and private sectors on the new regulations and use of Standard Bidding Documents (SBDs).

**20. The Ministry of Interior will continue working with UNDP to support the E-Governance efforts.** External technical assistance will be deployed to support the local team. A special E-Governance Task Force will be established to bring together key E-Governance practitioners from other line ministries and also to link up with respective counterparts from the Federal Government. It is expected that the project will produce an E-Governance roadmap. UNDP is supporting the Ministry on both Government-to-Citizen, and Citizen-to-Government avenues of E-Government compact matching projected technological solutions with absorption capacity of wide segments of population. In other words, the project team is making sure that services are harmonized with needs and user preparedness levels of the KRI's population. Use of social media applications with special emphasis on gender and youth is to be one of the key priority areas.

**21. Private sector development is one of the Government's top priorities in the next six months,** The Government is committed to address not only the current crisis, but also to lay the foundations to address long-standing structural policy weaknesses. With substantial support from international partners, a prioritized and sequenced program may include (i) creating legal and regulatory framework that make it easier to start, operate, and exit a business; (ii) engaging the private sector in reforms through an efficient public-private dialogue; (iii) putting in place an effective technical and vocational education and training program; and (v) increasing access to finance, especially for Small and Medium-Sized Enterprises (SMEs). Progress has been made in company registration, however Ministry of Trade and Industry (MoTI) seeks to accelerate reforms in trade and industry reforms including online licensing, centralized industrial information, and database on logo and copyrights.

**22. Social protection for the poor and vulnerable will continue under the Government target of "Equity, Opportunity, and Resilience for All."** In the next six months, the Government will scale-up the new poverty targeting program across KRI. Technical assistance will be provided by the World Bank with funding support from UNDP. Instead of costly and ineffective universal subsidies, targeted conditional cash transfers will be provided to the poor on the condition that households send their children to school. The World Bank is helping Ministry of Labor and Social Affairs (MoLSA) with poverty targeting through proxy means-testing. Another priority action is women's economic inclusion for which donor support would be required.

**23. KRG is also focusing on improving macroeconomic statistics to provide necessary information for policy making and monitoring of economic developments in the region.** Recognizing the existing shortage of accurate, timely data and an advanced financial system, the KRG has intensified efforts to collect, analyze and improve key statistical and financial data in line with international standards in order to improve transparency, inform evidence-based policy-making, and measure implementation effectiveness. The Kurdistan Regional Statistics Office (KRSO) needs resources to launch key economic surveys to support key statistics. The Statistics Office would need US\$3 million a year to conduct much-needed basic surveys.

## **The World Bank Group is working closely with the Government to implement economic reforms**

**24. The World Bank Group is providing technical support for Government's reform actions and implementation of these reforms.** Under the leadership of KRG Ministry of Planning, the World Bank Global Practices are fully engaged with the Government and other stakeholders in KRG to help implementation of priority reforms. World Bank's analytical work focused on priority issues as well

as medium-term challenges. Based on the input from analytical work economic and social impact assessment, economic growth diagnostics, and policy recommendations provided through the economic reform roadmap, the Bank has now launched a technical assistance program designed to support implementation of this agenda as requested officially by the Government. In addition to advisory support on economic policy and reforms, the World Bank also provided technical assistance on modernization of the procurement system, Shura Council capacity building, social protection, and electricity sector reforms. On the way forward, building on progress achieved during the first year of implementation of economic reforms, the World Bank Group will continue supporting priority reforms in KRG. During the next six months, the Bank will assist with “five priorities,” namely: 1) Social protection and women’s empowerment; 2) Technical assistance for electricity sector reform; 3) Private sector development: company registration and one stop shop; 4) Public Financial Management (PFM) oversight, public investment management system strengthening, and comprehensive review of legislation; and 5) Public procurement reform. In addition to these five priorities, the World Bank will continue providing technical assistance in implementation of the Economic Reform Roadmap with potential new activities in Doing Business, industry, agriculture, water, and health sectors.

### **Valuable lessons have been learned from first year implementation of austerity measures and the reform roadmap**

**25. Overall, implementation of reforms by all line ministries were successful amid security and fiscal crises, but some negative externalities emerged from sectoral reform actions that need to be corrected.** For example, austerity measures introduced wage cuts but did not address the underlying civil service issues. Major structural public employment issues are still pending. The Government would need to launch a Civil Service Reform Program. A KRG Public Service Commission will need to be created to monitor implementation of the civil service reform. The reform should include functional reviews of mandates, organization and staffing of main departments including the state-owned enterprises. Another issue is that some austerity measures have had a negative impact on private sector development—these actions will need to be reversed. For example, when the fees for private sector increased as part of austerity measures, this negatively affected the number of new entrepreneurs entering the market. Increased land costs, license fees for manufacturers, electricity tariffs, and fuel costs are hurting the industrial projects.

**26. The Government should consider introducing fiscal rules that will bring the discipline required for medium-term policies to be followed.** Otherwise, there is a risk of abandoning good fiscal policies when the fiscal situation eases. It is important to establish sufficiently binding commitment devices to make sure that medium term strategies are sustainable. On fiscal management side, in addition to addressing priority humanitarian issues caused by the regional conflict, fiscal savings from austerity measures should be allocated to domestic spending in productive areas where their return would be higher. Some Government resources should be redirected to public investment and basic services.

**27. Overall, the KRG authorities agree that the Economic Reform Roadmap will need to be better absorbed at the decentralized levels.** Currently, reforms are handled at Minister and DG levels. It is critical that the implementation of reforms would trickle down to provincial levels. Province-level stakeholders will need to be included in the implementation of reforms and authorities in municipalities would need instructions from the Government and line ministries to implement

specific economic reforms at the local levels. The Government should reorient a greater proportion of spending to productive capital investment priorities at the decentralized levels through private sector initiatives so jobs can be created at the local levels.

**28. The KRI has the strengths and opportunities required to get the economy out of the fiscal crisis and onto a sustainable growth path.** These include: (i) large oil and gas resources; (ii) fertile agricultural land; (iii) a young and dynamic population; (iv) a central location at the crossroads of regional trade routes; (v) a government that is determined to implement reforms; (vi) a donor community that is eager to help; (vii) the entrepreneurial spirit of its population; and (viii) a pro-business philosophy. If these strengths and opportunities are used effectively in a supportive policy environment, the KRI economy will overcome the current difficulties and have a more diversified economy and enjoy sustainable levels of higher growth. Universities in KRI, including University of Kurdistan Hewler and the American University in Sulaymaniyah, have the capacity and willingness to contribute to economic reforms through academic work and dialogue.

### **Fiscal injections are the first step to close the financing gap for priority public investment projects and to stabilize the economy**

**29. KRG's financing gap is expanding due to unprecedented fiscal and humanitarian crisis.** KRG's fiscal situation is dire. This crisis is the result of low fiscal revenues and the influx of IDPs and Syrian refugees caused by regional conflict. As a consequence, KRG's fiscal deficit (cash basis) was US\$5.3 billion in 2015 and US\$1.6 billion in 2016. Since mid-2014, around 3,700 public investment projects stopped, economic growth declined, and unemployment and poverty increased. Out of these stalled projects, the Ministry of Planning has identified priority public investment projects that are critically needed in critical sectors such as water and sanitation, electricity, and health services. Fiscal injections are immediately required to fill the financing gap for the capital investment budget to deliver priority public investment projects.

### **The KRG is committed to implementing an ambitious reform program, but donor support is required**

**30. The Government has been communicating reform progress and next steps publicly with citizens and the international community.** In December 2016, the KRG Council of Ministers issued a "Government Factsheet" summarizing progress achieved under the austerity program and highlighting the KRG's structural reform priorities. Financial and technical support from its partners is crucial to success of the KRG's reform efforts. The Government expressed deep appreciation for the financial and technical support provided to date, including for the Peshmerga. However, given the extent of the crisis and reforms required, further support is needed in order to increase the odds of success and alleviate risks.

**31. There are ongoing risks that could jeopardize the success of the reform program, including the failure of the donor community to provide the required assistance.** The KRG is grappling with an unprecedented fiscal and humanitarian crisis. It is doing so in the midst of a militarized conflict with ISIS group. Moreover, external shocks have further reduced fiscal revenues and economic growth. Despite these challenges, KRG has committed itself to an ambitious reform program, including fiscal reform and reforms designed to strengthen the private sector and the social protection regime. The success of this reform program depends not just on the will of the people of KRI, but on the technical and financial assistance of the international donor community as well.



## 1. ECONOMIC REFORMS: WHAT HAS BEEN ACHIEVED?

**1.1 Kurdistan Regional Governorate has demonstrated commitment and significant progress in implementation of important reforms.** At the KRG's request, the World Bank and Ministry of Planning have jointly prepared a comprehensive 3-year roadmap for economic reforms in the Kurdistan Region. This roadmap introduced short-term priority fiscal consolidation actions to stabilize the economy and medium to long-term robust structural sectoral reforms to diversify the economy and create jobs through private sector development. Implementation of reforms has been ongoing under four pillars: 1) fiscal consolidation; 2) structural reforms to lay the foundations for sustainable and inclusive growth; 3) social sector reforms and mitigation; and 4) accountability.

**1.2 So far, the Government has successfully implemented reforms amid a major regional conflict.** Kurdistan Regional Government and all line ministries were commended by the international community for the immediate implementation of reforms right after the launch and ratification of the Roadmap despite serious economic and security issues brought about by the regional conflict and oil price shock. KRG made the right decision to focus on both short-term and medium-term economic reform actions while fighting with ISIS as it is clear that the opportunity cost of delaying reforms would have been much higher. This chapter summarizes Government's progress in implementation of specific reforms. According to the Department of Coordination and Follow-up,<sup>1</sup> 42 Council of Ministers Decrees were issued to implement the Economic Reform Roadmap since the launch event (Annex 2). Out of 42 Decrees, 21 Decrees were issued on fiscal consolidation, 12 on accountability, 3 on social sector reforms, and 2 on structural reforms.

**1.3 Reform achievements ranged from social protection to fiscal adjustment and good governance actions.** KRG has focused on priority areas that include biometric registration of government employees and pensioners to eliminate ghost workers and double-dippers. KRG started reforms on macro-fiscal, customs, and tax. The Government reduced the wage bill for civil servants salaries, pensions by more than one-third. Non-oil revenues increased by revised fees, penalties, and electricity tariffs. In addition, petroleum product subsidies were eliminated. The Government enhanced transparency and citizen engagement to strengthen credibility and build public support for the KRG's programs—independent audit of oil and gas sectors, and procurement reforms are important examples of this action. Electricity sector reform aimed at improving the quality of service and achieving financial sustainability. Furthermore, development of a Social Protection Strategy aimed at promoting shared prosperity (more equity in living standards) and reducing vulnerability over time.

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<sup>11</sup> The Council of Ministers Department of Coordination and Follow-up's role is to inform and support the public sector capacity improvement. The Department leads the implementation of the Government's agenda based on Prime Minister's vision plan. Tasked with supporting the delivery of Prime Minister's priorities, the Department focuses on setting targets, establishing performance indicators, and tracking performance of the public sector.

## I. SOCIAL PROTECTION REFORMS: PUTTING PEOPLE FIRST

To protect the poor and the vulnerable from the impacts of external shocks and upcoming economic reforms, the Kurdistan Government has prioritized bringing social mitigation measures for the people in KRI. The Government has started implementing a rigorous and successful social protection program focusing on social safety nets, pensions and social insurance, and labor market policies to create “*equity, opportunity, and resilience*” for all people in the Kurdistan Region.

**1.4 Under the Economic Reform Roadmap Implementation Phase, the Government has endorsed the new social protection framework.** KRG launched the Social Protection Strategic Framework (SPSF), on September 21, 2016. The KRG SPSF was developed with support from the World Bank through a reimbursable advisory services technical cooperation program that was initiated in January 2015, and concluded on April 30, 2016. The KRG SPSF encompasses the three main pillars of social protection: Social Safety Nets; Pensions and Social Insurance; and Labor Market Policies and Programs, and includes strategies and programs that together focus on “Equity, Opportunity, and Resilience.” The portfolio of reforms leads to new legislation, institutions, and programs to enable implementation, to be accompanied by an effective communications strategy that would engage, empower, and enable implementation across all stakeholders. The KRG SPSF was formally endorsed by the KRG Council of Ministers in October 2016. The KRG SPSF is integral to the Economic Reform Roadmap developed by KRG with support from the World Bank.

**1.5 In close partnership with Ministry of Planning, the World Bank is currently providing follow-up implementation technical assistance for specific programs within the KRG SPSF.** The program is focused on providing implementation support to three areas: (i) overall policy guidance across the three pillars of the KRG SPSF, with a main focus on supporting development of needed legislation, regulations, and legal instructions; (ii) technical advice on pension administration system, particularly as it relates to pension records to allow for future financial and actuarial analysis of pension reform options; and (iii) support to the introduction of the new poverty targeting program, and further development of conditional cash transfers in KRI.

**As part of social protection reforms, the Government seeks to move from “categorical targeting” to “poverty-based targeting”**

**1.6 Under the regulatory reforms, the KRG SPSF calls for three new laws (labor; social insurance; and social assistance) to support institutionalization of the overall social protection agenda.** The World Bank team provided comments to the draft labor law—coordinated with the International Labor Organization (ILO)—and the draft law has been completed and is awaiting KRG Council of Ministers approval. For social insurance, it was agreed that KRI could benefit from the draft social insurance law currently being drafted at the federal level. Once the federal level social insurance law is approved by the Iraq Council of Ministers, a copy will be reviewed by KRG social insurance officials for adaption to the KRG context and requirements under the KRG SPSF. With regards to social assistance program, the “Parliamentary Committee for Social Affairs, Family, and Children” reiterated its desire to finalize the draft law as soon as possible and requested continued World Bank support in this regard. The World Bank team has provided detailed comments in May 2016 to the draft version, and has met several times with committee members on this topic. While KRG Council of Representatives is currently not holding session, in the interim, KRG MOLSA is

revising instructions related to targeting (issued by the Minister of Labor and Social Affairs) to facilitate the move from categorical targeting to poverty-based targeting.

**1.7 Pensions administration reform is ongoing.** In KRI, there are around 210,000 pensioners. Approximately 5,000 employees retire every year. MOLSA found that 1,037 employees are getting more than one pension salary. This adds to 2,000 people already identified getting more than one pension salary starting from 2007. MOLSA provided ID 5.4 billion fiscal savings to the Government by correcting pension payments for these 3,037 people. One of the main issues is a lack of an electronic database which makes it difficult to track illegal payments. In KRG, 14 MoFE Pensions Directorates are still operating in paper and hard copy system. In the absence of an electronic data sharing system between MOLSA and Ministry of Health, information on deceased employees do not flow properly among line ministries. Moreover, there is a large gap between pension payments to public officials ranging from ID 220,000 to ID 6,560,000 per month. Because of the fiscal crisis, pensions were not paid for 4 months in 2015 and 6 months in 2016—but if it were paid, the pension payments would have costed ID 1.3 trillion a year to the Government. There are other issues related to bank payments to pensioners. Local banks are not electronically connected and retirees are waiting long lines every month. In 2016, there was a pilot activity for MoHE and MoTI to get salary payments from private sector banks. Following the launch of the Social Protection Framework in September 2016, the World Bank team conducted technical meetings with counterparts from the MoFE Pensions Department to confirm the principles of a good pension system in KRG. As the ultimate objective of the SPSF is to improve the administrative capacity and efficiency of the public and private pension schemes, the World Bank team will continue to provide advice to counterparts from MoFE and MOLSA on organizing their pensions administration systems, basic record management, data to be collected, management of data, and systems advice on how to develop the needed database. **DFID is interested in supporting pensions reform.**

**1.8 KRG has initiated the process for the pilot poverty targeting program using Proxy Means-Test (PMT) to assess household welfare status supported by the UNDP Funding Facility FFER-KRG.** The pilot has been implemented in the Qada of Dashti Hawler, and the field work—funded by the UNDP FFER-KRG—commenced on April 2 and concluded on April 27, 2017. The field work was preceded with technical assistance and capacity building provided by the World Bank. The work was conducted by social workers from MOLSA, with supervision by KRISO. The World Bank team has provided survey software infrastructure, and extensive training to the social workers. An assessment report of the pilot program will be finalized by end-June, 2017, and will be presented to COM by MoP and MOLSA. This report will contain lessons learned from poverty targeting pilot program which would then determine a scaling-up process for the rest of KRI.

## **II. PRIVATE SECTOR DEVELOPMENT: ECONOMIC TRANSFORMATION AND JOB CREATION**

Economic diversification is key. A main short and medium term goal of the KRG, as articulated in the Vision 2020, is to stimulate the private sector and shift a significant amount of the workforce to the private sector. During the implementation phase of the Economic Reform Roadmap, the Government has started accelerating structural reforms to liberalize the economy, especially to support reforms for easing business regulation and strengthening competition. Accompanying measures include deeper reforms to diversify the economy away from oil, particularly by improving the business

environment and banking sector, creating incentives for private entrepreneurship, and increasing private sector employment.

## **KRG's Ministry of Trade and Industry has demonstrated progress in simplification of business registration and the optimization of the One Stop Shop services**

**1.9 On private sector development, the Ministry of Trade and Industry partnered with the World Bank Group to deliver reforms.** Since the launch of the economic reform roadmap, important achievements have been observed in a short period of time. Joint Ministry of Trade and Industry and World Bank teams have worked on (1) simplification and streamlining of the business registration by standardization of the registration process and optimization of the requirements; and (2) optimization of the One Stop Shop (OSS) services and workflow to accommodate the new reforms in company registration, but also other institutions directly involved in the OSS approach for the KRI context.

**1.10 KRG's Ministry of Trade and Industry has started reforming the business registration scheme in August 2016.** The World Bank technical assistance is supporting the current business registration online portal and aiming to establish a viable One Stop Shop in Erbil. This will help encourage private sector growth, especially SMEs, and improve KRI's business environment in areas covered by the Doing Business Indicators. The project started in August 2016, and will be finalized during the first half of 2017.

**1.11 The initial IT solution is focusing on the portal with suitable functionalities to achieve an acceptable level of automation.** The portal platform will provide the following functionalities: (i) enabling clients (investors/lawyers) and users (registered government stakeholder employees) to login into the portal; (ii) enabling upload and download of business registration applications documents and related Information; and (iii) enabling workflow process coordination and exchange of data between the government stakeholder.

**1.12 Implementation of one stop shopping for commercial registration has started.** The implementation phase covers the technological development, legal adjustment (if necessary) and organizational adjustment and capacity building:

- 1) Technological development. The technological development consists of building a portal as an interface for filing for company registration, information service catalogue (company registration requirements, and fees), service consumption (name registration), and regulatory requirements. It will allow for direct interaction between potential investors/companies, and status notifications. Introduction of lawyers as trusted filing agents can allow for a hybrid model of electronic registration. The portal also includes a module for on-line payment of fees, depending on existence of national payment gateway and the possibility to settle transactions within the public sector.

Based on the concept of electronic service bus, the OSS engine will allow for process orchestration, process tracking, structured data exchange between the stakeholders, and electronic communication with back-office systems of the existing stakeholders.

Information consumption module will serve for submission of commercial data to all line ministries involved in the process of industrial licensing, as basis for issuance of a license.

- 2) Legal adjustment. The level of legal adjustment will be based on the output of the streamlining and standardization activities.
- 3) Organizational adjustment and capacity building. This component will focus on necessary organizational adjustment as an outcome of the recommendations related to the streamlining and standardization activities. It will also cater for the need of training and capacity building for the staff operating the one stop shop system both from operational and technological aspect.

### **1.13 Implementation of the reform components will result in important achievements:**

- Streamlined process for company registration with compounding the legal, fiscal and social security registration into a single seamless procedure;
- On-line registration through lawyers;
- Significant reduction of the number of steps of registration;
- Significant decrease of time necessary for registration;
- Decrease of costs associated with fulfilment of reporting/regulatory requirements;
- Decrease of costs within the public administration associated with gathering and processing same information in multiple instances;
- Increase of quality and trustworthiness of data associated to companies;
- Increase of quality of data as basis for macroeconomic and fiscal planning; and
- Improved enforcement mechanisms and tracking of effects related to state subsidies.

## **III. GOOD GOVERNANCE REFORMS: TRANSPARENCY AND ACCOUNTABILITY**

**1.14 The Government is focusing on improving institutional capacity and governance weaknesses.** In accordance with the KRG 2020 Vision’s “Putting Government to Work for the People” pillar—particularly the components related to effectiveness of the government, budget administration and transparency reform—authorities have prioritized combatting corruption, and establishing strong institutions and systems to enable transparency and accountability. Implementation progress was visible. The Government has delivered the public procurement reform, started independent auditing of oil and gas sectors, adopted a national strategy to combat corruption, and launched institutional modernization of MoFE.

### **III.A. MODERNIZATION OF PUBLIC PROCUREMENT IN KURDISTAN REGION**

Public procurement reform is one of the greatest achievements of KRG towards good governance and accountability. The adoption of a new legal framework for procurement that reflects international good practice standards puts KRI firmly in the top tier of public procurement systems in the Middle East and North Africa (MENA) region. As the experience of other countries that have taken this step demonstrates, the new legal framework, and the procedural techniques and institutional arrangements that it establishes, provide the KRG with a cross-cutting strategic system of good governance for public investments and service delivery.

**1.15 Under the leadership of the Ministry of Planning, the KRG recently embarked on modernizing its public procurement system through a comprehensive and multi-faceted reform program supported by the World Bank.** In line with the KRG 2020 Vision of ‘Effective, Transparent, Trusted and Honest Government,’ and as part of the 3-year economic reform plan, the Government is exerting every effort to build an effective and socially accountable public procurement system that delivers quality services and supports the sustainable development of KRI.

**1.16 To date, accomplishments in the area of modernizing the public procurement system in KRI can be summarized as follows:**

- The KRG officially adopted the modern Public Procurement Regulation (Regulation #2 for 2016) defining the legal, institutional and procedural framework. The Regulation became effective in July 2016.
- Seven SBDs and templates were issued in August 2016.
- Comprehensive capacity building programs on the new regulation were delivered:
  - Fifteen training workshops on the new regulation were organized for public sector representatives; including sessions aimed at training the trainers.
  - Ten training workshops on procurement for the private sector were organized in cooperation with the KRG Contractors' Federation.
  - Public procurement was officially introduced in academic curricula, and six diplomas on public procurement were awarded to professors from the Universities of SalahDeen and Sulaymaniyah.
- The “Doing Business with KRG” toolkit for the private sector to raise awareness on the new regulations, was issued and disseminated in August 2016.
- An annex to the procurement regulation, as part of the “Procurement under Public-Private Partnership Initiative” was produced.
- Seven explanatory notes were issued on the new procurement regulation.
- An e-procurement strategy and a roadmap were developed for implementation.

**1.17 The Government of Kurdistan Region remains keen on further reforming the procurement system.** By adopting the new legal framework and standard bidding documents, KRI joins an advanced rank of economies that empower the potential of a modern public procurement system not only for improved efficiency and effectiveness in public expenditures, and service delivery, but also as a key tool in promoting core development and governance objectives and initiatives. On the way forward, in collaboration with the World Bank, the Government will activate the procurement reform roadmap to better serve its people.

### **III.B. INDEPENDENT AUDIT: REBUILDING TRUST**

The Council of Ministers has prioritized reform actions that will strengthen credibility and promote citizen engagement and participation. A cornerstone is the introduction of international audit of Kurdistan Region’s *oil and gas operations*. Independent audit companies have been contracted to audit all oil and gas revenue, domestically and via the pipeline starting from 2003.



**1.18 The KRG has made good progress towards government transparency and citizen engagement through a successful implementation of independent auditing reform.** Contracts with the international auditor Deloitte has been signed and initial work is underway. The audits cover oil exports, IOCs, and operations (e.g., sales of crude and refined products). All processes and transactions in oil and gas production and exports are included in the audit: the production process, refining, trading crude oil in domestic market in the Kurdistan Region, selling crude oil domestically, exported oil to Ceyhan via the pipeline, exporting oil via tankers, financial dues of the oil companies, auditing financial flows of all of the money, bank accounts of the Region's oil and gas income and expenditure in banks inside the Kurdistan Region and abroad. Moreover, legislation has been drafted to establish oil marketing and production companies (i.e., KOMO and KEPCO) to ensure all contracts are done in accordance with international standards.

**1.19 Transparency in oil revenue and spending is a big step towards good governance, and relays an important message to citizens and the international community on Government's commitment to accountability.** KRG chose to conduct an in-depth, comprehensive and credible audit of oil and gas sectors going far beyond EITI suggestions. Work orders for independent audit have been issued, and Deloitte started the test run. The audit will be done for 2017 on a monthly basis starting from January 2017. Once the audit is completed, a summary report will be presented to the public together with information on measures taken in response to results and suggestions. In addition, a retroactive audit will be conducted starting from 2014. To promote public engagement and awareness, an observatory encompassing key representatives of civil society will be established to follow the audit process and disseminate the results.

### **III.C. ANTI-CORRUPTION REFORMS**

The Cabinet made a significant progress with adoption of a national strategy to combat corruption. This strategy attempts to build a system where an active anti-corruption system is in place and able to effectively combat the threats of corruption. One of the main tasks of the Commission of Integrity is to fight with corruption in cooperation with the agencies and institutions. Within this strategy, the public authorities—at different levels of governance—have the duty to combat corruption through the improvement of legal framework and institutional capacity building. However, efforts on strengthening the systems should focus on building the capacity of the Board of Supreme Audit so public spending and revenues could be audited effectively.

**1.20 The Cabinet adopted a five-year plan to fight corruption.** On May 2, 2017, the Council of Ministers approved a strategy to combat corruption. Upon presentation of a report on “A National Strategy to Combat Corruption in the Kurdistan Region” by the Integrity Commission, the Council of Ministers approved the strategy and express commitment to its success and implementation. The strategy is a five-year plan (2017-2021) produced with participation of the Cabinet, Parliament, Judiciary Council, Public Prosecutor, Integrity Committee, and the Board of Supreme Audit. This strategy was developed according to the international standards and the United Nations Convention against Corruption (UNCAC), with the support from the Westminster Foundation for Democracy and in consultation with NGOs. The overall objective is the improvement of integrity, accountability and transparency of the public institutions and public trust in them. This is an attempt to unite all parties

around a national anti-corruption vision that serves as a roadmap to combat corruption. In this strategy, corruption is treated as a structural and institutional issue. The mechanism to combat corruption is developed at four main levels: prevention of corruption; enforcement of laws; awareness; and training and cooperation and coordination between the relevant parties including coordination between the public institutions and the civil society. However, further efforts are required to build the capacity of the Board of Supreme Audit to provide better systems.

**1.21 The preparation of the strategy was conducted in a participatory manner based on surveys and focus group meetings.** A research was conducted on the main elements of the anti-corruption strategy in the Kurdistan Region by experts in the field. This research served as a roadmap for the strategy. The research recommended a specific structure and model for the development of anti-corruption strategy in Kurdistan Region. Moreover, a survey was conducted and focus groups meetings were held with relevant institutions. In the three governorates of Kurdistan Region, consultations were held with the civil society actors and activists. Local experts prepared a number of policy papers to inform the anti-corruption strategy. The outputs of all these efforts provided the necessary input in preparation of the strategy. The draft strategy was closely analyzed and compared to other international experiences and successful models.

**1.22 The anti-corruption strategy is fully in line with other enforced laws in the Kurdistan Region, the international treaties, and UN and EU practices.** Objective for regional and international relations and cooperation. The Government has encouraged the implementation of the UNCAC and the European Commission Civil and Criminal Law Conventions on Corruption. In KRI, the Commission of Integrity was established in 2013 to combat corruption, and ensure rule of law and transparency as stipulated by Law 3 of 2011 and its first amendment under Law 7 of 2014. All the relevant institutions have the responsibility to develop and implement anti-corruption policies in light of this strategy. The relevant authorities will conduct periodic monitoring and self-assessments to better implement the strategy and its implementation plan. The Government is promoting anti-corruption culture and awareness at the education and institutional levels.

#### **IV. FISCAL ADJUSTMENT: AUSTERITY MEASURES**

As a result of sudden decline in revenues, the KRG recognized the need for austerity to close the financing gap. The Government announced new measures to withhold a significant percentage of government salaries, pensions and stipends—excluding Peshmerga and other security forces. In 2016, these delayed payments provided a temporary fiscal saving of ID 531 billion (US\$455 million). In addition, the KRG took action to unify district and sub-district departments and downsize office space, thereby further reducing operating costs. The Government has also moved to increase non-oil revenues by raising fees, penalties, water charges and electricity tariffs for industrial consumers; as well as by slashing petroleum product subsidies. The overall result has been an 80 percent drop in the consolidated fiscal deficit—measured on a cash basis—from ID 7.7 trillion in 2014 to an estimated ID 1.6 trillion in 2016.

**1.23 As a result of a rigorous fiscal adjustment program, the Government managed to reduce spending (on a cash basis) by as much as 40 percent of total spending.** In early 2016, the KRG adopted a package of austerity measures in order to withhold a substantial share of public expenditures on employee compensation, pension and social stipends. In addition, the 3.5 months of unpaid compensation, pensions, and stipends leftover from 2015 were converted into withholdings.



This measure effectively reduced the Government’s expenditures on employee compensation, pensions, and social stipends by an aggregate of 40 percent. Table 1.1 presents the spending reduction by employee compensation, pensions, and social stipends. Moving forward, this is expected to have a large positive effect on the KRG’s cash balance, as employee compensation, pensions, and social stipends comprised around 65 percent of the KRG’s total expenditures in 2015. However, the Government announced that these withholdings will eventually be paid to employees—therefore, it is recorded as public debt.

**Table 1.1: Effect of 2016 Austerity Measures on Average Monthly Employee Compensation, Pensions, and Social Stipends Expenditures**  
(ID billions unless otherwise indicated)

	Current	Withholding	Net	Percent Reduction
Permanent Employees	687	241	446	35%
Pensioners	109	58	51	53%
Social Care	66	40	26	61%
Contractors	16	8	8	50%
<b>Total</b>	<b>878</b>	<b>347</b>	<b>531</b>	<b>40%</b>

Sources: Ministry of Finance and Economy; and Directorate General of Public Accounting.

**1.24 Why did the Government implement austerity measures?** In 2014-2015, the fiscal crisis caused by sharp decline in KRG’s revenues led to the emergence of a large fiscal deficit in 2014 of some ID 7.8 trillion (Table 1.2). As a response to this major shock, during 2013-2015, KRG: (a) cut operating expenses by 47 percent; (b) increased region’s revenues by 41 percent; (c) halted most public investment projects; and (d) stopped giving loans to citizens. The deficits were funded through advances from the banking sector, bilateral loans, forward sales of oil and refined petroleum products, as well as arrears on salaries & pensions and on payments to contractors. As a result of the austerity program, Government’s deficit declined from ID 7.7 trillion in 2014 to an estimated ID 1.6 trillion in 2016.

**Table 1.2: KRG: Consolidated Budget**  
(ID billions)

	2013	2014	2015 (prel.)	2016 (est.)	2017 (proj.)
Total Revenues*	20,082	9,059	10,671	9,536	11,209
Total Expenditures**	21,841	16,825	15,935	11,126	11,876
<b>Total Balance Deficit (-) Surplus (+)</b>	<b>-1,759</b>	<b>-7,766</b>	<b>-5,264</b>	<b>-1,590</b>	<b>-667</b>

\* Includes federal transfers, all revenues, and tax and non-tax revenues.

\*\* Includes current, capital, and an estimate for the Ministry of Natural Resources directly financed expenditures.

Sources: Ministry of Finance and Economy; Directorate General of Public Accounting; and the Ministry of Natural Resources.

**1.25 Austerity measures are expected to continue in 2017.** The ultimate goal is to generate an operating surplus in order to fund critical public investments and over time to repay government debts, including advances from the banking system. The austerity program has substantially narrowed the gap between monthly operating revenues and expenditures, although the KRG has continued to struggle to pay monthly salaries, pensions and stipends on time despite the measures taken to date. The Government has announced on March 1, 2017, that martyr’s families will be exempt from salary

saving-scheme. Revenues are expected increase in 2017 on the back of higher oil prices and improved economic conditions post-Mosul liberation, while budget expenditures would rise more slowly as the Government attempts to restart some essential public investment projects. As a result, the deficit is expected to decline further to ID 667 billion (US\$550 million). However, if this deficit is not financed, there is a serious risk of falling short of paying a full year's worth of salaries in 2017.

**1.26 The Council of Ministers approved the creation of a new Debt Management Office.** In April 2017, the KRG announced a new office to oversee repayment of public debt. The Council of Ministers Decree is presented in Annex 3. The Debt Management Office will manage and repay the loans that the KRG has borrowed. The new directorate will collect and store detailed information about the status of KRG loans. The Office is established to record information about the loans that the KRG has made from domestic banks or from international credit institutions. The Office will also manage and store information about the outstanding compensation that the government owes to companies and investors as well as the oil revenue deposits. The new office is currently reporting to Prime Minister's Office but will soon move to the Ministry of Finance and Economy.

## V. REVENUE GENERATION: CUSTOMS REVENUES AND TAXES

**1.27 The KRG has initiated a customs reform.** Some work has been done to transition from manual to computerized data entry at Haji Umran and Bashmakh customs border crossing points. This will pave the way to an internationally recognized customs modernization reform that links all border crossings through an electronic system. Once fully operational, computerization of customs operations at the borders will help increase Government's revenues in addition to improving good governance. The Government will be able to monitor customs revenues on a daily basis. Revenue generation will be significant from customs offices based on the fact that customs revenue is the second source of income followed by oil revenues. In addition, Customs General Directorate increased some customs fees in coordination with Ministry of Trade and Industry. However, more work needs to be done to perform customs modernization reform in accordance with best practices including improvement of infrastructure, trade policy, customs systems and legislation—that are recognized by international standards—with a focus on customs and trade facilitation to increase KRI's competitiveness.

**1.28 The General Directorate of Customs contributed to overall fiscal saving efforts.** Administrative expenses were reduced from rental buildings, government cars, allowances, and staff costs. For example, some customs buildings were vacated or merged to save budget. In addition, Customs authorities did not employ new staff in accordance with austerity measures despite increased pressure at customs border crossing points. The administration has plans to reduce the number of staff by half in the accounting department. According to the KRI Customs authorities, expenses declined by 70 percent to a monthly level of ID 60 million.

**1.29 KRI Customs Administration would need financial support for hardware, software and training (open to donor assistance).** To increase the effectiveness of border management and to increase revenues, KRG authorities would need support for infrastructure investments at the border crossing points including warehouses, equipment and electricity services. The administration would also need necessary hardware, software and staff training to fight illegal entry.

**1.30 The Ministry of Finance and Economy has established a computerized self-assessment system** which will allow large companies approach General Directorate of Taxation and State Real

Estate to get their taxes to be estimated. This has started for 150 companies already in January 2017. There will be fines for companies if they provide wrong information. Once fully operational, this system will help MoFE to collect an estimated ID 180 billion—20 times higher than what the Ministry is collecting now. The Ministry has not approached foreign firms yet. Modification of the tax system will require Parliament approval. Other potential taxes, such as sales tax and VAT, will also require legislation and parliamentary approval.

## **VI. MINISTRY OF INTERIOR REFORMS: LARGE REVENUE MOBILIZATION**

**1.31 In addition to cutting administrative spending by 40 percent, the Ministry of Interior has provided significant new revenues to the Government budget.** The Ministry of Interior is one of the top performers of the Economic Reform Roadmap Implementation Phase. As per Decrees 76, 77, 79 of Council of Ministers, the Ministry formed a committee and increased budget revenue through upward revisions in traffic fees, driver's license fees, taxes on cars, car plate fees, speeding penalties, residency fees, and work permit fees for foreign security companies.

**1.32 The Ministry of Interior started applying new fees on foreign residency.** Rules for obtaining residency card have been revised. Foreign residents now have to pay between US\$1,000 – US\$1,300 annually for residence card. If renewal is delayed, the penalty is between ID 100,000 – ID 800,000. As a result, revenues from residency increased from ID 4.5 billion in 2015 to ID 28 billion in 2016. The Ministry estimates to collect US\$26 million from foreign residency fees in 2017 and 2018.

**1.33 Traffic fees and fines were revised.** Revenues from traffic fees and fines in 2016 were about ID 178.9 million remaining the same with 2015 despite increase in fees and fines by 15-20 percent. The reason is the decline in car imports by 60 percent which is resulting in less revenues from registration of new cars. The new car registration fee changes between US\$1,000 and US\$3,000 however there is less demand for purchase of new cars. In 2016, about ID 135 billion traffic fine amount was not settled by drivers due to the economic crises. As a solution, Ministry of Interior has decided to bring payment installment option so that citizens can settle due amounts in twelve installments.

**1.34 The Ministry of Interior introduced new fees for security companies for licensing and renewal of licenses.** According to the new instructions, security companies registered to work in KRI have to pay a registration fee of ID 6 million for one year and a license renewal fee of ID 2 million annually. These companies also need to deposit an insurance amount of US\$50,000 in a bank. As a result, revenues from security companies increased from zero to ID 587 million in 2016, and an amount of US\$3,609,000 as insurance was deposited in the bank. The Ministry has a plan to increase these fees in 2017.

**1.35 There is a potential to generate more revenues for the budget if the Government agrees to increase visa fees.** For example, if Ministry of Interior increases visa fees from US\$7 to US\$50, this will bring sizable revenues to KRG. This may bring around US\$18-20 million revenues. The Ministry is currently conducting a detailed study to decide on next steps. As an outcome of this study, visa fine fees may increase as well as fees on residency and company licensing (by 10-15 percent) and traffic fee fines (by 5 percent).

## VII. BIOMETRIC REGISTRATION: A REFORM CHAMPION

Rightsizing government stands out as a priority goal of the KRG's reform program. Biometric registration—*carried out under the Council of Ministers' decision*—represents a first step down this road. Implementation is conducted by Deputy Prime Minister's Office and the Department of Information Technology (DIT).<sup>2</sup> This system is expected to provide precise and continuous information on the number of KRI employees, pensioners and beneficiaries. It will become the basis for a permanent, unique 'Identity Management System' for the Kurdistan Region.

**1.36 The biometric registration process—encompassing government employees, pensioners and beneficiaries—is nearing completion after an intensive start-up phase.** Under the direct supervision of the Deputy Prime Minister of KRG, the biometric registration program was launched on in November 2016 and it is expected to be completed by June 15, 2017. Registration centers are open at 74 public bank branches across Kurdistan Region. After taking iris scans and fingerprints, registrants are mapped to one of over 1,000 MoFE accounting units.

**1.37 The output of the biometric registration will be an Identity Management System that drives broader government reform starting with payroll.** Through the biometric registration, the Government will obtain solid and accurate data. The KRG will be able to identify ghost employees and double-payment situations and address those that are not eligible. The mandatory electronic system is expected to pave the way to subsequent e-payroll and e-payment systems that will further enhance administrative performance and transparency, as part of the ultimate objective of transitioning to modern e-government services in the Kurdistan Region. KRG is already in position to generate a unique personal number (UPN) for over one million registrants with no occurrence in biometric matching results, paving the way for a public key infrastructure which will allow the identity management system to be used for other purposes, such as e-health, e-education, and e-land management services.

**1.38 The system is designed to improve the management of public resources.** Currently, excluding students who receive stipends, about 1.3 million people receive salaries, pensions or benefits from the KRG accounting in total for approximately 70 percent of government's budget. According to the Department of Information Technology, as of May 29, 2017, some 1,183,536 people out of 1.2 million have registered. To date, the DIT has processed and biometrically matched more than 800,000 records, and has found 168,946 cases of multiple registrations by individuals. However, it is estimated that majority of these cases could be legal multiple beneficiaries, permitted by law to receive more than one salary.<sup>3</sup> Until each case is examined individually, it is not possible to tell with

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<sup>2</sup> The DIT is leading development of IT and modernization of public services in the Kurdistan Region. Driving technological development in the region, DIT is currently implementing the IT Blueprint for E-Government focusing on the following domains: 1) Strengthening IT capacity in the region through education and training; 2) Designing and implementing a connected and secure IT infrastructure; 3) Providing clear IT governance and leadership for government-wide programs; 4) Creating government-wide IT applications, including utilities, data hubs and E-services; 5) Encouraging the emergence of a dynamic IT industry; 6) Pursuing the adoption of sound IT policy; and 7) Ensuring efficient and transparent mechanisms for IT investment.

<sup>3</sup> The majority of the 98,000 martyr family beneficiaries have another salary. In addition, civil servants with a handicap, also receive an extra salary.

certainty how many illegal double-dippers exist in the system. The authorities estimate that most of the illegals and ghost workers did not turn up for biometric registration. Those who have been abroad during the registration campaign, as well as civil servants who could not register for various reasons, such as lack of proper ID cards and disabilities, will be registered at a later stage.

**1.39 Peshmerga forces are also registering under biometric payroll system.** Registration of peshmerga forces (including Unit 70 and Unit 80) and members of security agencies is ongoing. Currently, total number of peshmerga is around 175,000. A committee has been established to review the eligibility of disabled peshmerga (approximately 8,000), veterans, and peshmergas receiving payments from both regional and central governments.

**1.40 Once the biometric registration is completed, the system will continue functioning as part of the standard human resource management of KRI employment and benefits.** The ongoing registration campaign is expected to finish on June 15, 2017, pending a Council of Ministers' decision. The COM is expected to announce in July the results of the biometric registration campaign in terms of how many persons have registered by category (that is, employees, pensioners, martyrs and other beneficiaries). The process of examining and verifying cases of multiple registration of individual persons will begin in July. This process will be based on the legislation currently in force in the Kurdistan Region. The verified biometric registration lists for each accounting unit in the KRG will be used to determine eligibility for payment starting with the August 2017 payroll. The eligibility for payment process based on the biometric registration will be automated in a second phase of the project to start in September 2017. Electronic payment of salaries, pensions and benefits is expected to commence in 2018.

**1.41 Biometric registration and subsequent payroll reform may generate significant fiscal savings although it is too early to estimate the amount.** In January 2017, KRG spokesperson announced that once this exercise is completed, they expect to decrease the number of civil servants significantly when ghost workers are eliminated and employees illegally receiving more than one salary are addressed. The KRG's total monthly spending on salaries, pensions and benefits is currently around ID 878 billion.

**1.42 The system for salary payments will be modernized following biometric registration.** The new payment system will incorporate modern banking technology that identifies the user and authorizes the payment through a bank account. Once entitled public servants are identified through biometric registration, they will get individual bank accounts and will be included in e-services. All public servants will be connected to the future core banking system.

## VIII. ELECTRICITY SECTOR REFORMS

The Government has already taken important steps towards cost reduction including minimization of the use of liquid fuels, maximization of use of combined cycle plants, reduction in capacity 'take-or-pay' costs, deferring new generation projects, and revising the tariffs for large industrial consumers.

**1.43 The KRG has initiated electricity reforms to tackle the financial imbalances and structural weaknesses that have resulted in huge quasi-fiscal losses and poor quality of service to consumers,** despite near universal access to electricity and an impressive increase in private power generation by IPPs. The government is pursuing a two-pronged strategy. The immediate goal is to cut costs and improve financial sustainability, while developing a medium-term reform plan in cooperation with the World Bank. The KRG has already undertaken steps to curtail costs for electricity generation, including: (i) a shift in towards natural gas in place of diesel fuel, (ii) the introduction of more fuel efficient combined-cycle technology by IPPs, and (iii) voluntary renegotiations to lower take-or-pay penalties in light of excess generation capacity. As a result, minimization of use of diesel fuel has led to an estimated fiscal saving of US\$1.2 billion in 2016 in fuel costs (Table 1.3). This is a major achievement compared to US\$3 billion deficit in 2014.

**Table 1.3: KRI: Electricity Sector**  
(US\$ millions unless otherwise indicated)

	2014	2015 (prel.)	% change	2016 (est.)	% Change
Total Cost of Electricity	3,310	3,224	-3%	2,000	-38%
Total Revenue Collected	242	303	25%	250*	17%
<b>Net (Deficit (-)/Surplus (+))</b>	<b>-3,068</b>	<b>-2,921</b>	<b>-5%</b>	<b>-1,750</b>	<b>-40%</b>
<b><u>Performance Indicator</u></b>					
Average supply-Mw	2,197	2,269	3%	2,2978**	1%
Average load-shedding (hours/day)	3:03	0	81%	7:28	35%

Source: KRG Ministry of Electricity.

Note that the preliminary and estimated figures will be updated when MoE publishes final figures.

\* Assumed 70 percent as per 2015 but actual collection for 2016 maybe lower.

\*\* Power generated from the power plants. Excludes 219 MW that was sent to Kirkuk and Mosul.

**1.44 KRG has made progress in shifting from diesel fuel to natural gas.** The Government has minimized use of diesel fuel by leveraging the higher amounts of electricity available from Closed Cycle Gas Turbine (CCGT) plants. Table 1.4 presents declining use of diesel, and increasing use of natural gas and heavy fuel oil (HFO). In 2016, diesel used in power plants declined by 17 percent from 2,335,169 kilo-liters to 399,456 kilo-liters. Consequently, the cost of diesel for power generation declined from an estimated amount of US\$1.7 billion to US\$133.2 million.

**Table 1.4: KRI: Fuel Used in Power Plants and Cost of Fuel for Power Generation**

	2013	2014	2015 (prel.)	2016 (est.)
<b>Fuel Used in Power Plants</b>				
Diesel (Kilo-Liters)	2,084,718	2,549,399	2,335,169	399,456
HFO (Tons)	240,092	226,710	176,247	361,227

Natural Gas (mmcfs)	123,932	125,631	134,579	139,080
<b>Cost of Fuel for Power Generation (US\$ millions)</b>				
Diesel	1,509.1	1,901.2	1,665	133.2
HFO	42	39.7	28.2	72.3
Natural Gas	432.3	438.3	469.5	346.1
Total	1,983.4	2,379.2	2,162.7	551.6

Source: KRG Ministry of Electricity.

**1.45 KRG has introduced a more fuel efficient combined-cycle technology.** Installed capacity has been gradually converted from OCGT (Open Cycle Gas Turbine) to CCGT (Closed Cycle Gas Turbine). Table 1.5 shows that installed capacity in OCGT declined from 2,640 MW in 2015 to 1,640 MW in 2016 while CCGT doubled from 1,480 MW to 2,960 MW.

**Table 1.5: KRI: Installed Capacity in Electricity Sector (MW)**

	2013	2014	2015	2016
<b>Total Installed Capacity</b>	<b>3,886</b>	<b>4,526</b>	<b>5,057</b>	<b>5,537</b>
OCGT 1/	3,000	3,640	2,640	1,640
CCGT 2/	-	-	1,480	2,960
Diesel (Small Generators)	87	87	87	87
HFO	150	150	201	201
Hydro	649	649	649	649

Source: KRG Ministry of Electricity.

Notes: 1/ In 2016, 1000 MW OCGT remained in Dohuk and 640 MW remained Khurmala.

2/ In 2016, Erbil and Sulaymaniyah plants had 1480 MW CCGT each.

**1.46 Government's immediate focus is now on revenue improvement. Tariff adjustments for industrial consumers came into effect in 2016.** However, revenue performance remains very low, hampered by high losses (including theft) and poor collection. The government intends to turn the situation around in 2017 through a program centered on the introduction of smart metering and enhanced billing and collection. Tariffs will also be reviewed.

**1.47 The medium-term reform plan aims to improve and sustain the quality of service for all electricity consumers through a transition to a modern institutional and regulatory framework** that: (i) clearly delineates generation from transmission and distribution: (ii) strengthens financial discipline and energy accountability: and (iii) promotes private sector participation and investment in downstream activities. This transition will encompass a shift to fully cost-reflective tariffs that protect vulnerable groups in line with international practice. The KRG's ultimate goal is to ensure consumers are provided with better electricity service without recourse to fiscal or quasi-fiscal subsidies.

**1.48 The World Bank's technical assistance program has been instrumental to examine the electricity sector's challenges and to present proposed solutions.** World Bank team finalized first drafts of three reports: 1) Private Sector Participation in Transmission Study; 2) Pathways to Distribution Reforms and Performance Improvement; and 3) Cost of Service and Tariff Reform Study. In addition, the World Bank team is conducting a Computable General Equilibrium (CGE) Model for assessing economic impact of reduction in energy subsidies. Communication support is an important component of energy sector technical assistance. Under communications component, initial stakeholder analysis and immediate action plan have been delivered. It is advised that messaging



strategy should be implemented immediately, i.e., core messages focusing on financial cost and fairness of subsidies, and the link with quality of electricity service.

**1.49 Private sector participation has already been introduced in power generation through the IPP program with good results.** This has improved power generation capability from less than 500 MW in 2005 to around 7000 MW. MoE has tied-up with some IPPs to take-up the construction of some sections of transmission lines. However, investment of an estimated US\$568 million is still needed for the critical high voltage network in addition to US\$1.5 billion investment needed if full smart meter program to be implemented throughout the region. Under a World Bank funded technical assistance study, the Government is examining the options for private sector participation in power distribution. At present, independent power producers are being regulated through provisions of bilateral contracts. MoE has initiated some discussions about the sector structure, need for enhanced private sector participation and overarching reforms.

## IX. AGRICULTURE SECTOR

**1.50 In 2016, KRI's agricultural production increased significantly.** Table 1.6 presents agricultural productions volumes during the past three years compared to Region's requirement. Some basic products recorded highest level of increase. For example, wheat production doubled between 2014 and 2016, highly exceeding the Region's consumption requirement. Part of this agricultural production success is due to increasing number of KRI citizens moving to rural areas to pursue agricultural business. Due to the economic crisis, 4 percent of people in urban areas lost their jobs and moved to rural areas to work in agriculture sector. Furthermore, the Ministry of Agriculture and Water Resources (MoAWR) started applying tax. As a result, KRI producers started competing with Iranian and Turkish agricultural products.

**Table 1.6: KRI: Agricultural Production, 2014 - 2016**  
(tons)

Product	Production (2014)	Production (2015)	Production (2016)	Region's Requirement
Wheat	844,585	1,097,427	1,686,784	650,000
Chicken meat	69,568	81,513	99,738	128,000
Eggs	48,200	48,611	15,400	48,000
Red Meat	66,000	68,000	71,500	77,126
Milk	226,128	25,200	260,000	439,192
Tomato	64,782	60,772	86,205	133,736
Potato	123,334	150,383	276,104	80,340
Onion	59,491	47,501	61,497	58,258
Eggplants	21,584	21,948	42,514	37,466
Squash	15,778	16,630	20,798	17,267
Cucumber	58,656	66,442	56,607	169,069
Other Vegetables	131,393	140,060	126,200	146,641
Apple	7,006	16,806	4,078	52,332
Grape	6,486	11,451	15,690	65,038
Pomegranate	21,419	24,851	19,807	65,304
Peach	9,245	9,707	4,106	18,472
Other Fruits	6,768	16,445	10,635	58,055
Fish	2,175	4,000	4,730	6,000
Honey	800	853		1,490

Source: KRG Ministry of Agriculture and Water Resources, 2017.



**1.51 The MoAWR is prioritizing farmer support.** The objective of farmer support programs should be to diversify the crop base to meet consumption demands and export potential, to raise crop yields to global standards, to make farmland well-developed and sustainable, and to integrate farmers into a modern food supply chain.

## X. WATER SECTOR

**1.52 The Government has made progress in addressing water and wastewater treatment issues in Erbil and Sulaymaniyah.** In December 2016, the KRG signed a loan agreement with UK Export Finance (UKEF), the UK's export credit agency, to finance the first phase of a contract between the KRG and UK water engineering company Biwater to deliver water and wastewater treatment solutions in Erbil and Sulaymaniyah. UKEF has agreed a US\$34.8 million loan to the KRG to finance the "Development Works Phase" of the Erbil and Sulaymaniyah Water and Wastewater Project under a US\$1.2 billion contract signed by the KRG with Biwater in 2015. As a part of the project, Erbil will be provided with a 600,000 m<sup>3</sup>/day for a water treatment plant, while Sulaymaniyah will benefit from water treatment plant upgrades and the construction of wastewater treatment works and sludge treatment facilities.

**1.53 The project is designed to alleviate the current strain on existing infrastructure and reduce the Kurdistan Region's reliance on dwindling groundwater reserves.** The project's development works phase will include all relevant site surveys, social and environmental impact assessments and detailed designs. This phase will run for 6-12 months. It is the first time the UK government has provided a direct loan to the KRG to boost water sector infrastructure. The KRG expects that this initial loan will pave the way to attracting finance for the next stage of this J.P. Morgan is acting as the Mandated Lead Arranger for this initial loan on behalf of UKEF to the KRG. This loan is a result of the Memorandum of Understanding signed between the UK Government and the Kurdistan Regional Government in 2014.

## XI. TOURISM SECTOR REFORMS

**1.54 The Government has adopted a Tourism Strategic Plan and has started its implementation,** including through the development of the National Board of Tourism, the deployment of marketing efforts, data collection, the establishment of a training center, and support to the private sector. Tourism Board had already demonstrated a great progress in implementation of reforms including setting up quality assurance to improve service quality in touristic areas and providing better instructions to travel companies. Ministry of Municipality and Tourism is focusing on long-term policy setting, strategic promotions and regulatory reforms while facilitating operations for the private sector. The Ministry has identified the strategic targets as: i) strengthen the strategic roles of policy setting and promoting touristic activities with a view to upgrade the sector's competitiveness in partnership with the private sector; ii) develop and lead a marketing strategy for the sector in KRI that employ media campaigns to promote the diverse natural, historic, religious, and cultural attractions; and iii) revise the rate structure of existing fees and assess the widening of fee base to enhance the sector's modest revenues. The Ministry and Board of Tourism would need Government support in implementation of the tourism plan. The authorities would also need Government support for implementation of the satellite account and training of staff. This will help capture tourism statistics.

**1.55 The Ministry of Municipality and Tourism sees potential to raise significant revenues from antiquities.** The Ministry seeks to organize and standardize the relation with external academic and NGO partnerships, and explore new revenue streams. The Ministry has identified the following next steps: i) develop a plan for the promotion of cultural heritage and social value discussion on the significance of culture, the state of the cultural heritage, and the direction in which it should be developed; ii) develop standard set of qualifications and guidelines that govern the partnerships with external academic and non-governmental organizations; and iii) explore peripheral added-value services to be offered to visitors in regional heritage sites, to be operated by the private sector and thus expanding the revenue stream.

**1.56 Number of tourists and revenues from tourism increased significantly in 2016.** Tourism revenues increased 5-fold from ID 1.1 billion in 2015 to ID 5.6 billion in 2016. Number of tourists increased by 84 percent in 2016 compared to previous year despite regional conflict. In 2016, the number of people visited KRI from all parts of Iraq was 1,250,000.

## **2. LESSONS LEARNED FROM IMPLEMENTATION OF REFORMS: WHAT WENT WRONG?**

*Overall, the first year of the 'KRG Economic Reform Roadmap Implementation Phase' was successful and line ministries have demonstrated great achievements in the middle of a security, humanitarian, fiscal and political crises as discussed in the first chapter. However, the Region experienced some lags in critical structural reforms and negative externalities from sectoral actions. This chapter summarizes main setbacks and proposed policy options to address these issues.*

**2.1 The Economic Reform Roadmap will need to be better absorbed at the decentralized levels.** Currently, reforms are handled at Minister and DG levels. It is critical that the implementation of reforms would trickle down to provincial levels. The Government needs policy advice on how to strengthen administrative decentralization. Province-level stakeholders will need to be included in implementation of reforms and authorities in municipalities would need instructions from the Government and line ministries to implement specific economic reforms at the local levels.

**Some austerity measures caused unintended consequences: new policies that hurt the private sector or vulnerable groups will need to be reversed**

**2.2 Austerity measures introduced wage cuts but did not address the underlying civil service issues.** Wage cuts provided fast fiscal savings to the Government<sup>4</sup> but the major structural public employment issues are still pending. A major civil service and wage bill reform is needed to address the underlying causes of the large public sector workforce. This will help reduce inefficient spending and encourage to move away from public sector employment. Currently, the size of the public sector workforce in KRI is unsustainable. Many public sector employees do not have adequate training or skills appropriate for the private sector. Productivity is low and performance incentives weak. The

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<sup>4</sup> In early-2016, the KRG introduced the salary-saving scheme as an austerity measure. This scheme introduced wage cuts ranging from 25 to 75 percent for public sector workers for repayment at an unspecified later date. This salary-saving scheme did not address the main public employment issues but resulted in an accumulative debt. The Government is currently reviewing this scheme with a view to modify the system.

Government would need to launch a Civil Service Reform Program. A KRI Public Service Commission will need to be created under Prime Minister's leadership to monitor implementation of the civil service reform. The reform should include functional reviews of mandates, organization and staffing of main departments. The Government should address the re-sizing of employment across Ministries, including the state-owned enterprises. It is also important to improve the public sector employment selection criteria, recruitment and promotion systems, and dismissal procedures. It is advisable to introduce equitable separation for redundancies, and voluntary retirement scheme for staff choosing to leave. The Public Sector Commission should review governance framework for parastatals to improve performance. It is also critical to provide re-training for public sector employees to meet private sector skills demand.

**2.3 How to generate revenues in a right way?** Some austerity measures have had a negative impact on private sector development—these actions will need to be reversed. For example, when the fees for private sector increased as part of austerity measures, this negatively affected the number of new entrepreneurs entering the market. Increased land costs, license fees for manufacturers, electricity tariffs, and fuel costs are hurting the industrial projects. Moreover, lack of coordination among ministries is creating unintended consequences. For example, the Ministry of Municipalities increased the land allocation price without consulting with MoTI. All these new measures are effecting private sector development coupled with high interest rate on loans of around 10-12 percent. The Government should follow a balanced revenue mobilization without hurting the private sector-led growth. Rate structure and composition of new taxes and fees will need to be reviewed first in order to determine the appropriate tax system for KRI. The MoFE should first estimate the distributional effects of potential revenue mobilization actions so that the poor and vulnerable people are not affected. The Government will also need to take actions on the institutional side, such as strengthening controls to reduce informality and improving compliance.

**2.4 Where to use the fiscal savings from austerity measures?** In addition to addressing priority humanitarian issues caused by the regional conflict, Government's revenues should be allocated to domestic spending in productive areas where their return would be higher. Fiscal savings should be redirected to public investment and basic services. The Government should eliminate inefficient and ineffective spending, and withdrawals from fiscal savings should be guided by a medium term macro-fiscal policy framework, designed to provide support for a sustainable economic growth. In order to have the greatest impact, public spending needs to be aligned with national development priorities and poverty reduction targets. This will improve the strategic orientation and alignment of public expenditure. Macro-fiscal policies should be linked to actual resource allocation decision making. The Government could also consider introducing fiscal rules that will bring the discipline required for medium-term policies to be followed. Otherwise, there is a risk of abandoning good fiscal policies when the fiscal situation eases. It is important to establishing sufficiently binding commitment devices to make sure that medium term strategies are sustainable. The Government should reorient a greater proportion of spending to productive capital investment priorities at the decentralized levels through private sector initiatives so jobs can be created at the local levels. For this, KRG should strengthen public investment management with strong institutions, systems, and business processes to improve the capacity for implementation of much needed infrastructure projects. Authorities should ensure that resources saved for investment are indeed invested in valuable physical and financial assets and yield the hoped-for benefits for the population both in the short and in the long term. Other means to improve household welfare, such as service delivery effectiveness, can deliver near-term gains to households while the revenue management strategy is being implemented.

## **Progress yet to be seen in establishing basic functions of the Ministry of Finance and Economy: formulating fiscal policy and leading fiscal management**

**2.5 Most important and basic reform actions of the Ministry of Finance and Economy are lagging.** In 2015, the KRG hired a consultancy company, Inventis, to help with institutional modernization of MoFE. The company and the Government agreed on a three-phase reform program that would prioritize building the capacity of the Ministry to lead fiscal policymaking. The top critical priorities were creating a macro-fiscal policy unit within the Ministry and establishing a medium-term fiscal framework to guide the fiscal policy and management which were urgently needed for sound economic management. However, two years later, as of May 2017, both important reform actions have not been delivered yet although the agreed timeframe was October 2016 under the first phase of the MoFE reform program. Similarly, designing guidelines for budget circular has not been achieved under Phase 1. There have been some developments in IT infrastructure and services to transition away from manual procedures, however reform actions on the policy and fiscal management side are missing.

**2.6 As the KRG Economic Reform Roadmap advised as a high-priority action, creating a macro unit and a fiscal framework is critical for economic management.** To cope with the volatile fiscal situation and highly unpredictable budgetary process, the medium-term expenditure planning should be delinked from the short-term revenue transfer estimates. This would require a medium term fiscal framework (MTFF) to guide Council of Ministers' fiscal management decisions. Such a framework should be based on identification of essential needs. The MTFF would also assure the quality and sustainability of expenditure levels by ensuring that capital investment projects are properly budgeted and completed as planned, rather than their completion being contingent on the fluctuations of oil revenues and transfers. The MTFF would provide the Government a more reliable picture of the resource envelope over the medium term. This would also help the authorities better manage public debt and arrears.

**2.7 Currently the Council of Ministers is not able to see clear macro-fiscal targets because of the delay in MoFE reforms.** Through a macroeconomic framework, the MoFE should link broad development plans to economic policy formulation. This will ensure that spending, revenue, and debt targets are consistent with growth targets as part of a MTFF. The Government could set medium-term wage bill targets. This will also improve the quality and effectiveness of austerity measures. Connecting sector strategies to resource allocation is critical. The MoFE should develop policies and institutions to mitigate the detrimental effects of price booms and busts. Alternative price and quantity scenarios need to be produced and factored into the MTFF and in this way resource flows can be estimated and disruptions to budgetary process could be minimized. Currently in KRI, there is no determination of the resource envelope, except the capital budget. While at one level this is one of the results of lack of a MTFF, it is also the result of lack of appropriate budgetary process.

**2.8 A key step will be restoring annual budgeting and accounting.** Currently, there is a lack of an annual budgetary process in KRI. No budgets have been prepared in the past three years. The foundation of a strong PFM system in any jurisdiction requires that budget estimates are prepared regularly, submitted to the legislature for approval, reported and accounted for in a timely way, and published. In recent years, formal budgeting rules have been set aside, and informal PFM practices have proliferated. When, for an extended period, there is no annually approved budget, everything becomes off-budget and control systems break down. The first step for KRG is re-establishing annual

budgets and accounts, based upon the authorization of spending, in the sectors for which the KRG has constitutional responsibility. The MoFE should underpin fiscal adjustment with strengthening of the public financial management system, starting with the resumption of annual budgets, and their approval by the regional legislature, to restore the cycle of accountability, on which systems of improved financial control and management, reporting, procurement, accounting, and external audit can be built. Once the basic discipline of annual budgeting has been re-established, attention can be paid to improving the quality of budgets. The lack of budget predictability makes it difficult for ministries to effectively plan and implement programs that are policy based rather than unconnected projects.

### **In fight against corruption, the focus should be on putting governance systems in place to prevent corrupt behaviors before they start**

**2.9 More needs to be done to build the capacity of the KRG Board of Supreme Audit.** The BSA is assessed to be underdeveloped and underperforming and in urgent need for a long-term capacity building program.<sup>5</sup> The KRG BSA should be developed to provide guidance for maintaining a system of internal controls and external audits after the implementation of the budget. To achieve transparency and to prevent corruption, the BSA needs to be strengthened to fulfill its duties in relation to the budget. There is an urgent need to modernize KRG external audit practices of the BSA that faces a number of challenges. One of the main challenges is the ineffective institutional structure. There is a need to upgrade BSA's auditing practices in order to meet sound international standards. The BSA is advised to move forward with twinning arrangements with regional and international auditing institutions to help building its capacity and knowledge of regional and external experiences. The BSA needs technical support from international partners for training courses on auditing and e-auditing. Furthermore, staff capacity requires enhancement.

**2.10 In order to modernize the KRG BSA external audit practices, significant reforms are required.** These reforms include: i) enhancing the legal and institutional framework, its link to the parliament, the legislatures, and the executive (Government and its administration authorities) to ensure strong, independent, and effective audit institute; ii) improving KRG BSA governance structure and organization to enable the institutions to meet all of its mandates in efficient and effective manner; iii) gradually implementing international standards of financial, compliance, and performance audit with related audit methodologies; and iv) providing capacity building for staff at all levels. It is also necessary for the KRG MoFE to follow up on BSA findings, and ensure that remedial action is taken. The BSA is aware of the weaknesses and requests technical assistance from international partners to build institutional and human capacity in following areas: (1) auditing skills in public finance management; (2) auditing feasibility studies; (3) financial performance appraisal; (4) auditing of oil and gas sector transactions; and (5) anti-money laundering overseeing capacity.

### **The chamber of commerce in KRI is weak in advocacy and lobbying, and not representing best interests of the overall private sector**

**2.11 In KRI, private sector organizations are very weak and have limited capacity for effective advocacy and lobbying.** The Chamber of Commerce and Industry (CoCI) is the main active business organization in KRI. The main objective of CoCI should be establishing business contacts particularly

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<sup>5</sup> A Strategy for Development – BSA-KRG-Iraq, UNDP, May 2013.

in other countries and serving as an advocacy and lobbying body in KRI. Currently, it lacks capacity to conduct economic and policy analysis, identify needs for the private sector, and influence public opinion and policy. CoCI has a strong bias towards trading in its policy stance. Industrial development seems to be a secondary objective. This reflects the dominance of traders in its membership. The private sector in the Kurdistan Region is not well organized and there is not much coordination between the private and public sectors. The main actors of the private sector complain about lack of government support but CoCI is not playing a successful leadership role as a sounding board. There is no “champion” for private sector development in both private and public sectors. This has negative consequences on private investment and entrepreneurship development.

**2.12 Private sector development is a key objective for KRI, but there is a need for “champions” to achieve this objective both in the private sector and in the Government.** Globally, strong business organizations, as self-help institutions, play an important role for building a vibrant private sector. In KRI, business organizations (together with their partners in the Government—possibly in the MoTI) can become the champion of private sector development. The main policy actions would be to: (i) transform the region’s CoCI into a modern advocacy and lobbying organization; (ii) set up a partner organization in the government; (iii) promote cooperation between the private sector, public sector and the civil society; and (iv) strengthen work and trade ethics. Substantial technical assistance is needed to realize these actions. CoCI is in the process of building partnership with Swedish CoCI to receive such assistance.

### **Diversification efforts should be accelerated to benefit from regional untapped economic opportunities**

**2.13 High re-fueling costs are preventing Erbil Airport to become a regional hub.** If the Government decreases fuel prices at the airport, this may provide an incentive for airline companies to re-fuel in Erbil so that KRI will gain the potential of becoming an air transport hub in the region. Currently, airline companies use Dubai as a hub because it is cost effective to re-fuel in Dubai although Erbil is a shorter distance to many major destinations in the whole region.

**2.14 Regional connectivity can be improved through ICT and transport services.** There are complementarities to be realized from trade in IT services in addition to the benefits of enhanced ICT services as an enabling platform for trade. In addition to being an important sector of the economy, ICT, and broadband in particular, is a powerful enabler of trade development. The transformative role of digital technologies in the KRI resides in its ability to create jobs, diversify the economy and increase the overall competitiveness and efficiency of the private sector. Besides ICT sector, air transport needs significant upgrade. Railway sector and logistic hubs are not developed which is a constraint for KRI to benefit from regional economic opportunities. Furthermore, the legislation for the transport sector is outdated. It is necessary to carry out customs and trade facilitation reforms to strengthen cooperation among neighboring counties. Therefore, with improved transport and ICT services, KRI has a significant potential to become a transport and logistics hub for the whole region based on its proximity to major markets and relatively safe geopolitical position.

**2.15 Services could play an important role in economic diversification efforts.** Services are essential inputs in any form of production, as well as a major component of the regional connectivity, hence a key determinant of KRI’s competitiveness and ability to join and move up regional and global value chains. Services could also become an important source of exports outside the oil and gas sector,



along models in the region, and provide jobs outside the public sector. Being landlocked, the KRI could become a platform for transit and services provision in the region. In particular, the KRI could become a gateway for the provision of a large array of services in other areas of Iraq. Therefore, this is a win-win situation for overall Iraq. This will require, however, that the KRI first removes a number of barriers to services trade that remain, given that services trade mainly takes place at the intermediary level and within global networks. It will also require restoring some legal certainty, adapting modern laws and regulations, and building capacity (skills, standards, and infrastructure). Beyond the economic dimension, the reform of the regulatory framework and the improvement of the services offered in the KRI will first and foremost benefit the local population. The oil and gas sector could also be used as a stepping-stone for diversification: local sourcing and workforce development programs are in the pipeline and could help upgrading domestic services and developing a competitive sector with some export potential. Health services are also typically lagging, in spite of huge needs. A holistic approach could be adopted that links upgrading in the services (from clinics to laboratories) as well as the pharmaceutical industry (generics). From professional services to retail, opportunities exist and need to be better exploited, but require the state to play an incubator role.

**2.16 Reforms in agriculture, industry, education, and health sectors are lagging behind.** There should be more clear vision on where the Government wants to see these sectors are heading in the medium to long-term. For example, in education and higher education sectors, policies seem to focus on short-term needs and challenges although in the long-run education sector and human capital growth will be instrumental in economic growth. There is a need for a clear vision and action from line ministries to prepare graduates for requirements of private sector skills demand. Currently, there is a skills gap in labor markets to support economic diversification and private sector-led economic growth. In contrast, KRI's health sector has a vision to address medium-term challenges and to deliver public services, however the ministry is not receiving adequate support from international partners. With regards to agriculture and industry sectors—critical areas for economic diversification—necessary public investment is missing to increase productivity and competitiveness. Proposed policy actions for all these sectors are presented in the next chapter.

### 3. ECONOMIC REFORMS: WHAT IS NEXT?

**3.1 KRG is focusing on public service delivery in the next six months, and has prioritized water, sanitation, electricity, transport, health, and education sectors for public investment.** To restore growth and create jobs through private sector development, the Government is re-launching the capital budget program for the benefit of people who live in KRI including host communities and guest communities. In the context of a fiscal crisis, the MoP developed a strategy and reprioritized the projects so that the most critical ones are completed first. The Ministry designed a methodology to prioritize all KRI capital investment projects in the order of their ability to produce the greatest return of public spending. These prioritized public capital investments are intended to increase the stock of public goods for long-term sustainable economic development. The focus is on public-private partnership as private sector development is one of Government's top priorities in the next six months. The Government has already signed a loan agreement with UK Export Finance Agency to deliver water and wastewater treatment projects in Erbil and Sulaymaniyah. The Government is committed to address not only the current crisis, but also to lay the foundations to address the long-standing structural policy weaknesses.

**3.2 On the way forward, KRG Vision 2020 promotes effective, transparent, trusted, and honest government.** The immediate goal of public financial management reform is to strengthen control over public expenditures, while improving management of government liabilities. A new chart of accounts compatible with international standards has been prepared and will be put in place in 2017-18. Improvements in IT infrastructure and services within MoFE will drive the transition to automation and away from outdated manual procedures. As such, it will underpin the entire modernization effort by equipping the ministry with an international standard, integrated financial management information system. Furthermore, the Government will build on procurement reform achievements.

**3.3 Social protection for the poor and vulnerable will continue under the Government target of “Equity, Opportunity, and Resilience for All.”** In the next six months, the Government will scale-up the new poverty targeting program across KRI. Technical assistance will be provided by the World Bank with funding support from UNDP. Instead of costly and ineffective universal subsidies, targeted conditional cash transfers will be provided to the poor on the condition that households send their children to school. The World Bank is helping MoLSA with poverty targeting through proxy means-testing. Another priority action is women’s economic inclusion for which donor support would be required.

### **3.1 PRIORITY #1 (NEXT SIX MONTHS): SOCIAL PROTECTION**

**“GOVERNMENT PROTECTION FOR THE POOR AND VULNERABLE COMES FIRST”**

#### **IMPLEMENTING PARTNERS: WORLD BANK AND UNDP**

**3.4 Based on the evaluation of the pilot program, the Government would scale-up the new poverty targeting program across KRI.** The pilot program was completed in April 2017, with World Bank and UNDP support along the way. Technical assistance was provided by the World Bank with funding support from UNDP. The pilot program will be assessed and monitored for lessons learned, which would then determine a scaling-up process for the rest of KRI, including the revision of existing MOLSA-level regulations and instructions that govern targeting of social assistance, and evaluation of pilot program implementation aspects and outcomes.

**Instead of costly and ineffective universal subsidies, targeted conditional cash transfers will be provided to the poor on the condition that households send their children to school**

**3.5 The launching the conditional cash transfers program depends on the results generated out of the PMT pilot program.** An operational manual was developed by the World Bank team and the KRG Conditional Cash Transfer (CCT) technical committee (representing MOLSA, Ministry of Education, Ministry of Health, MOP, and KRSO) for this purpose. The scaled-up process to implement PMT goes through seven main stages: (i) Pre-planning (managerial, technical, logistical, and administrative aspects to receive Questionnaire 1, and launching the communications campaign); (ii) call for population to apply to the program; (iii) filtering of applications based on general provisions of the regulations and legal instructions; (iv) visits to the screened households and by social workers to fill out the PMT form; (v) assigning scores to each household based on the PMT formula; (vi) setting cut-off point for eligibility for cash transfer based on availability of resources; and (vii) effectuating the actual cash transfers to the eligible households on the condition that they send their children to school. Presently, the implementation of the communication strategy that was



previously developed as part of the KRG SPSF emerges as a top priority, as both the PMT and the CCT pilot program require strong support of key stakeholders and deep understanding by the general public.

**3.6 Conditional cash transfers will be provided to poor households.** Currently, under the poverty targeting pilot program, 3,055 households registered in the central database<sup>6</sup> that benefit from MOLSA cash transfers in the pilot zone of Dashti Hawler (based on categorical targeting). Once the pilot program is completed, if there is a decision by the Government, targeted poor HHs will receive cash transfers (of around ID 135,000 – ID 150,000 per month) at the condition of HHs sending their children to school and taking children to vaccine centers on time.

**3.7 The Government's target is to phase out universal subsidies and phase in targeted social safety nets.** The current social safety net is costly, untargeted, and ineffective. Since 2000, the number of families benefiting from social safety nets in KRI is 80,765.<sup>7</sup> According to the MOLSA estimates, only 15 percent of these people are entitled and qualified to receive SSN. Since August 2015, these families did not receive SSN because of the fiscal situation, but the issue remains until a targeted SSN will be put in place.

## **Integrating the different pensions databases will help improve fiscal management**

**3.8 The World Bank is providing IT support to KRI on requirements for the pilot welfare database.** The World Bank team undertook a preliminary assessment of information technology systems at the Pensions Department of MoFE and the Social Security Department of MOLSA, in preparation for the eventual social insurance integration. Currently, datasets exist but need to be digitized. Most records are still on paper, which makes database management slow, error-prone, and hard to archive. The absence of a unique identifier for insured individuals causes duplicate records for the same person. There are many fragmented databases hosted in almost every governorate, and sometimes at the district level. It is a priority to put in place a unified pensions database. For contributors, records should provide the age, gender, wage subject to contribution, total remuneration (basic salary and allowances), starting date of each contract (if there is more than one, or at least one), length of service (number of years of contributions) and number of dependents. For beneficiaries, the fields are age, gender, type of pension (old-age, invalidity, survivorship, or others), retirement age (if he/she is beneficiary of old-age pension), length of service (number of years of contributions at the moment of retirement), pension benefit, and number of dependents.

**3.9 The first action needed is to create a Unique ID for every individual.** The World Bank team is developing an action plan for introducing sequenced improvements. First step is creating a Unique ID for every individual and establishing a team (likely to be working within KRSO) to start the process of data entry and digitalizing paper data. The ultimate goal is to integrate the different pensions databases, while in the interim data can be used for fiscal projections. The medium to long-term vision is to establish a regional data center at MoP and staff it with skilled personnel to be trained.

## **Another priority action is women's economic inclusion: Donor support required**

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<sup>6</sup> The data showed that previously 4,500 households were cashing their transfers in Dashti Hawler, out of which 53 percent were found to reside outside the area of Dashti Hawler.

<sup>7</sup> Out of 80,765 families in KRG, 24,241 are in Erbil, 30,749 in Sulaymaniyah, 18,795 in Dohuk, and 6,980 in Germiyan.

**3.10** *The Government has prioritized women’s labor force participation.* The World Bank team is in the process of securing funding for the proposed pilot project, “Women and Jobs for an Inclusive Labor Market in KRG.” This will contribute to the “Labor Market Policies and Programs” pillar of the KRG SPSF and aims to increase women’s labor market participation in KRI. The project will assess the behavioral, regulatory, and social barriers to women’s employment, design intervention mechanisms to boost women’s economic inclusion, and examine impact of the pilot for potential scaling-up in KRI. The project is consistent with the gender action plan in KRI. If donor resources are secured, implementation could start in March 2017 with a duration of 15 months. **This project (with an estimated cost of US\$300,000) may be funded by UNDP FFER-KRG.**

**3.11** *The World Bank’s proposed pilot project on women’s labor market participation will introduce a series of interventions that target (i) employers; (ii) jobseekers; and (iii) households.* For employers, the pilot project will establish advisory mechanisms for employers on non-discriminatory hiring processes, effective implementation of the current protective regulations. For job seekers, the project plans to strengthen the existing intermediaries for job search by identifying the current bottlenecks participants might be facing and developing and testing solutions to these bottlenecks informed by behavioral insights. For households, the project will first conduct an assessment of the behavior and social norms that hurdle women’s employment in KRI by measuring views of men and women separately on female employment and inclusion in the economy, and with these insights, a communication campaign will be designed to shift household perceptions regarding girls and women’s role in education and the labor market.

## **International support required to overcome main challenges**

**3.12** **Ongoing challenges affect implementation risks.** While there is strong willingness for reform implementation, especially at Ministry of Planning by the Minister of Labor and Social Affairs, progress towards achieving the goals of the KRG SPSF faces challenges related to the resources needed for implementation on one hand, and the prevailing environment in KRI at this time. These challenges include the follows:

- Securing funding for the implementation of the pilot PMT and CCT programs, and anticipating costs of potential scale-up at KRI level. Preparations and implementation will require the allocation of budget to cover all operational cost, the contracting of social workers, logistics arrangements, computer software/hardware, and communication material. The reduction in staff salaries due to the financial crisis also creates disincentives to dedicated work.
- Dedicating staff to work on the programs, and building their capacities to perform efficiently. While the World Bank is providing technical assistance and capacity building, the teams in charge of the programs need to be well informed, supported and dedicated to the running of day-to-day operations, and monitoring.
- The Council of Representatives not holding session since is delaying the legislative process of the new Social Assistance law, and the other laws. As this is beyond the control of the

implementing agencies. Further delays may compromise the process and the momentum for having clear legislative framework supporting the reform, which decision-makers need to be aware of.

- Scaling-up of the poverty targeting program will face challenges related to availability of resources, both to administer the system, but more importantly resources to provide to the poor.

### **3.2 PRIORITY #2 (NEXT SIX MONTHS): EDUCATION AND VOCATIONAL TRAINING**

#### **IMPLEMENTING PARTNERS: WORLD BANK (AND OPEN TO OTHER INTERNATIONAL PARTNERS)**

**Currently, there are 196 stalled projects in education sector. MoP needs US\$122 million to finish these priority projects. Donor support required.**

**3.13 Government objectives are to increase labor force flexibility, create better working conditions, enhance private sector jobs, and match the skills of the labor force with market demand.** Some opening has taken place in services markets, and foreign services firms established local offices. A number of obligations and programs have been progressively put in place, including the Ministry of Natural Resources' workforce development program. A new policy document is being prepared by the MNR that addresses the issues of workforce development, local enterprise development, and community development.

**3.14 One of the proposed actions is the education retention and completion program.** This could be a potential World Bank technical assistance to Ministry of Education (MoE) with support from KRSO, High Level Council for Human Development, and MOLSA. The strategy of the labor market pillar of the Social Protection Strategic Framework is creating an effective labor supply of well-equipped job seekers and skilled workers through the education and training systems and market driven incentives. The objective of this program is to increase the enrolment in schools, especially till the age of 15 and particularly for girls, so that future job seekers are at least minimally equipped for life-long employment. **Total estimated cost is US\$770,000 for this activity.**

**3.15 The program would ensure that no child stays illiterate or drops out of school for financial reasons,** an issue that can be supported by the social safety net component of the SPSF through CCTs. To attain this goal, the program will initially involve a series of studies that will assess the current situation and prospects of basic education through stocktaking of its characteristics and trends. The findings of the stocktaking will be then complemented with demographic projections and needs analysis. The results will be used for education planning, namely the development of an implementation roadmap that will include resource requirements for achieving the target of universal enrollments in basic education.

**The proposed program has four components:**

1. Component 1: Stocktaking of education sector (statistics on enrollments, teachers, school GIS). Successful expansion and improvement of education sector requires adequate and timely data.

This component will consolidate the administrative data of MOE regarding key characteristics of the education system such as student enrollments, gender composition, teacher numbers and their qualifications, location and size of schools. It will also be useful to conduct a GIS mapping to assess access and adequacy of coverage for the school-age population. This will be led by MOE with support from KRSO.

2. Component 2: Demographic projections and analysis leading to Education Planning. This component will complement component 1, the stocktaking undertaken by MOE, by establishing the trends of the school age population growth as well as some key characteristics such as urban/rural residence. The demographic projections will be led by KRSO and their implications will be subsequently considered by MOE with regard to education needs to increase enrollments (such as increase in the number of schools, and future teacher requirements). The analysis will be conducted under the supervision of the High Level Council for Human Development.
3. Component 3: Expansion of education through capital investments, equipping schools with teachers, materials and resources, and attracting students through CCTs. The results of component 1, the stocktaking of the education, system and the demographic projections will be used as inputs to an education expansion plan that will determine resource requirements for achieving the objectives of the Program.
4. Component 4: Communications. The program will require public information campaign as part of the KRG SPSF communication strategy, focusing on the importance of female education for families, especially poorer ones.

### **Early Childhood Education: Investing in the Future of Kurdistan Region**

**3.16** The first draft of the Early Childhood Education Strategy has been finalized with technical assistance from the World Bank. In March 2017, based on a three-month consultation with stakeholders, the draft KRG Early Childhood Education (ECE) Strategy was developed building on KRG Vision 2020. This work is part of the World Bank technical assistance to the Ministry of Education in KRI, the objective of which is to support capacity building of the MoE in three priority policy areas: early childhood education, student learning assessment, and private sector engagement. Once finalized and approved, this strategy is expected to guide the Ministry's work in improving access, quality and efficiency of the pre-primary education in KRI. ECE refers to education services for young children in pre-primary institutions such as kindergartens or pre-schools. It entails a holistic approach to childcare, learning and development. The first step towards the implementation of this vision on the pre-primary level was the development of a new curriculum.

### **Teacher Education and Training (*open to international partners' support*)**

**3.17** Teacher training is one of the top priorities of the Ministry of Education. There is a wide range of education and training stakeholders involved in the management of education institutions in the Kurdistan Region. However, these programs are not well regulated. The provision of training services requires guidance and regulation in order to sustain high educational standards. Currently, there is a lack of effective coordination and clear reporting mechanisms between the MoE and its various specialized agencies and other international partners involved in education and training. In addition to addressing regulation issues, MoE

is focusing on expanding teacher training programs. Under the leadership of Minister of Education, a committee was formed to design a new long-term strategic plan for teacher training. Currently, MoE has three teacher training centers in Erbil, Sulaymaniyah, and Dohuk.

**3.18 Ministry of Education is seeking donor funding for teacher training.** The MoE is currently only able to carry out a limited amount of teacher training programs and this has only been made possible through the international organizations as the Ministry itself lacks the necessary funds to implement these programs. Teachers in KRI lack the up to date teaching skills needed to enhance learning in the classrooms. There are currently 126,112 teachers employed by the MoE across the Kurdistan Region, covering all subjects. The Ministry has prioritized the training of English Language teachers of which there are currently 14,311. However, the Ministry lacks the budget and expertise to carry out this comprehensive training. Therefore, the Ministry is seeking donor support to increase number of qualified teachers through in-service teacher training with a focus on adapting new teaching and learning methods, and technology that enables training from a distance. The estimated budget for this potential training activity is US\$524,745.

### **Vocational Training (open to international partners' support)**

**3.19 Vocational training is one of the priorities to respond to private sector skills demand.** After laying a solid foundational skills at early grades, continuous intervention should be provided to strengthen Technical Vocational Education and Training (TVET) and skills development areas to respond to rapidly changing local and global labor markets. Collaboration with private sector, business communities, and tertiary education institutions would be critical in identifying essential skills and competencies to be taught at K-12 and TVET schools. Further, in order to promote women's labor market participation, and to support school-to-work transition, research and development on gender would be also strengthened through close collaboration with public and private universities in order to inform policy development in this critical area.

**3.20 Currently, TVET programs are very weak:** old curriculum and teaching methods, insufficient trainers, inadequate equipment and facilities, lack of teaching and learning materials, no after training activities. There is no adequate skill pool for private sector development. High unemployment especially among young population and over employment in the public sector are serious problems. There are a few government-run and donor supported TVET programs. However, they are uncoordinated and lack local matching funding. The Research and Development Corporation (RAND) developed a phased set of recommendations for improving TVET, however it was not fully implemented due to lack of financing.

**3.21 A needs assessment needs to be conducted to identify critical elements to be incorporated in TVET curriculum.** Follow-up steps should include revising the curriculum to provide relevant skills to labor market needs, training TVET teachers, and providing equipment, teaching and learning materials. These TVET activities should be delivered in close coordination with business communities and employers. Out of seven vocational centers in KRI, one of the training centers need budget support. Training centers in Erbil, Dohuk, Zakho, Sulaymaniyah, Germiyan and Soran need new equipment.

**3.22 International partners are supporting vocational training programs.** MOLSA is working jointly with ILO on vocational training programs for starting business. Training programs on life skills and technical skills target IDPs, refugees, and the host communities with a focus on the youth. More than 8,000 young people receive loans to establish business. The Japanese Government is providing high quality training workshops at the Swedish Academy<sup>8</sup> in collaboration with UNIDO. Educational programs such as computer skills, life skills, English language, mechanical training, basic truck maintenance, forklift driving, and mobile phone repair are in high demand at the Swedish Academy. The Academy collaborates with “Education First” in the UK. English language courses are offered online. In average, 400 people in age group 16-35 are trained every year in the Academy including refugees and IDPs. Around 33 percent of mechanics students and 45 percent of computer skills and English language students find jobs every year. Currently there are 8 classrooms and one workshop but the management assesses that there is room for expansion of courses and student numbers. The Academy would need supervision from the Government on content of vocational training. There are other training centers in KRI that could be used as a platform for expansion of vocational education. For example, MOLSA has one training center on Kirkuk road in addition to German training centers and small-capacity private sector education programs.

**3.23 A labor market assessment for development of TVET system is underway managed by UNESCO and implemented by CIDE.** The labor market assessment and sector skills analysis (LMASSA) for the future development of the TVET system in Iraq is a component of the UNESCO TVET Reform Program. The objectives of the LMASSA project are (i) to inform education policy and priorities at secondary and tertiary level, especially curriculum development for TVET and the development of training and opportunities for unskilled and/or unemployed people (with emphasis on women and youth) to enter the labor market and participate in formal and informal economic activity; and (ii) to build the capacity of stakeholders and TVET systems to monitor labor market dynamics, and use the analysis to develop TVET programs. The inception report has been completed in November 2016. The fieldwork including 3,000 surveys and data entry are complete and the experts are currently analyzing the data. The final report is expected to be finalized in August 2017. The project is managed by the UNESCO Office in Iraq and implemented by the Consortium for International Development in Education (CIDE) under the guidance of the TVET Reform Steering Committee and a specialist technical committee, representing the main stakeholder organizations. Based on existing statistical information, strategic development plans and consultation with national stakeholders during the inception phase, seven economic sectors and twenty-seven subsectors have been selected for the focus of the research.

**3.24 The inception phase of the TVET labor market assessment will be followed by a capacity building program.** The project is designed in three phases. The inception phase ends in early November 2017 with the acceptance of the report, the Research Methodology and Plan, and the employer survey instrument. The implementation phase, starting in mid-November, includes all data collection and processing. The final synthesis phase of the project consists of synthesis and reporting of the labor market assessment information from all

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<sup>8</sup> The original plan was to provide jobs to graduates at the Swedish company Scania but when the Swedish counterparts left KRI because of the crisis, these plans were put on hold. It is possible that Swedish counterparts may return back to KRI in 2017.



sources, and delivery of the capacity building training. Desk based research includes mapping the demand and supply systems and developing PESTLE analysis of the selected economic sectors. Empirical data are gathered in cooperation with the Central Statistical Organization and the Kurdistan Region Statistical Organization, by implementing a survey of a sample of employers in the seven economic sectors across eight provinces. The Sector Committees are the main source of qualitative data, and they also serve to interrogate the results of the employer survey and validate the desk-based research. All the streams of information will be synthesized in the final “Sector Skills Analysis” report, which will include recommendations for TVET training to be developed to meet the needs of the sectors. Capacity building training (tool kits and training plans) will be developed to address skills gaps identified (i) during the implementation of the employer survey; (ii) in the process of mapping the institutional landscape of the demand and supply systems; and (iii) through a capacity building assessment of the skills needs of the target groups. The training packages will be delivered to 25 officials working in labor market assessment, and to 140 staff of TVET institutions.

### **3.25 The EU is supporting a large number of education and TVET programs in Iraq.**

Jointly with the implementing partner British Council, the EU is supporting capacity building in primary and secondary education. The overall objective is to improve the quality and equality of the primary and secondary education systems in Iraq. This will be achieved through capacity building at the Ministry and school level. In addition, the EU has partnered with UNESCO to improve access to inclusive quality primary and secondary education for IDPs and refugees in crisis-affected areas in Iraq. The EU is also contributing to the reform of TVET system in Iraq jointly with implementing partner UNESCO. This program aims to reform the TVET in Iraq, to make it more competitive and relevant, and to deliver qualitative education preparing young generations for wage and self-employment. The specific objectives under the project are to: (i) improve TVET quality system and revise governance model; (ii) support a modern, demand driven TVET by comprehensive interpretation of the current and expected future needs of the labor market; (iii) strengthen capacities and competencies of TVET stakeholders; and (iv) enable school to work transition of TVET graduates. Direct beneficiaries are 600,000 young people who choose TVET, and 20,000 employers who are in need of work force with technical and vocational skills.

### **3.26 The EU is also active in development of a replicable competency-based training model piloted in the oil sector.**

The Ejada Project aims at powering workforce development throughout the oil industry. Taking into account the discrepancies between the education system’s outputs and the labor market needs, this EU project intends to develop a competency-based skills training approach in the oil sector that can be replicated in other labor market sectors. The contractor is the EY Advisory Services. This is a TVET Project signed with MoP with the main beneficiary being the oil industry in Iraq, including the KRI. The oil and gas industry includes the public and private sectors, the oil training institutes and the young people in the country. The overall objective is to increase the quality of training and workplace to produce competent new entry staff for the industry. This will be done by applying international standards and a competence-based approach. The overall objective is to support the establishment of an open, stable and sustainable society based on a diversified and growing market economy that generates employment, reduces poverty and promotes equitable economic and social development. The piloting of this project will start in October 2017 when the oil training institutes start their academic year. Before then, training materials will be prepared and trainers will be fully trained.

### **Online Connection of Schools to Ministry of Education through E-Parwarda System (*open to international partners' support*)**

**3.27 The Ministry of Education is adopting the E-Parwarda Technology System to build robust and reliable information for the planning, monitoring and evaluation of education systems.** The Ministry has submitted a proposal to EU for consideration with an estimated budget of US\$1,612,708. The E-Parwarda system is estimated to connect schools and the Ministry of Education in an online platform. This initiative is Ministry's response to address planning and management issues in the KRI education system. The MoE is responsible for nearly 6,500 schools in various levels, 1.7 million students and 170,000 teachers and educational staff. In the absence of an electronic system, it is a challenge to manage these large numbers of schools, students and teachers. The proposed system is expected to improve the communication between educational institutions and authorities who design policies and educational plans. The project intends to bring better education outcomes through the availability of better data: more timely, accurate and subnational data for decision-making. The UNICEF agreed to conduct the piloting of this project with an estimated budget of US\$186,618. This piloting phase will be done in 255 schools by UNICEF and MoE.

### **Construction of School Buildings (*open to international partners' support*)**

**3.28 KRI needs to construct new schools to meet the demand.** Classes in KRI are often over-crowded especially in the urban areas. Approximately, 82 percent of the students live in the urban areas. In an ideal case, class size varying between 15 and 25 are considered to be desirable. However, in KRI, 65 percent of the urban primary schools are overcrowded with an average of 42 students per class. In rural areas, 5 percent of the rural schools with an average of 13 students per class are considered to be over-crowded judging by the small size of the schools which are designed to serve a smaller population. In September 2016, the MoE through the financial support of UNICEF has finished 27 uncompleted school buildings. During the academic year of 2015/2016, the MoE actively campaigned to encourage donations to help renovate local school buildings. According to MoE, 3,092 school buildings need to be constructed by 2022 with an estimated cost of ID 1.4 trillion.

**3.29 The inflow of IDPs and Syrian refugees has pushed the limits and capacity of the KRI education system.** Total number of Syrian refugees in the KRI education system is 25,340, and number of IDPs is 171,312. A significant number of the displaced children under the age of 18 years remain largely out of the education system. The "back to school campaign" has managed to enroll some IDPs into local schools. In 2016, large number of cabinet schools were constructed in cooperation with international organizations for the emergency situation. The cabinet schools are facilities made of plastic and fabric material to serve as a school building for the displaced children. Government's policy is to deliver education services while the refugees and IDPs are in the camps. The needs vary from one camp to another. Most international and local NGOs have provided school buildings inside and outside the camps. The international organizations focus on school construction, psycho-social support, printing textbooks and providing financial incentives for teaching and non-teaching staff. Many of the Syrian children are being taught by their own Syrian teachers who fled Syria. The secondary school teachers are paid by UNESCO and the primary school teachers by UNICEF. Recently, 740 teachers were paid by the KRG government a salary of US\$250 per month.



### **3.3 PRIORITY #3 (NEXT 6 MONTHS): PUBLIC INVESTMENT FOR ECONOMIC GROWTH (EU Budgetary Support could be used to deliver this priority action)**

Kurdistan Region is facing an unprecedented economic crisis. In order to restore growth and create jobs through private sector development, the Kurdistan Regional Government is seeking the support of the international community, including donors and the private sector, to re-launch a capital budget program for the benefit of people who live in KRI including host communities and guest communities.

**3.30 Kurdistan Region is undergoing major economic challenges, and public investments have the potential for spurring economic growth while helping the Government to deliver basic public services.** KRG should prioritize its capital investment program so that limited financial resources can achieve maximum return in terms of economic growth, job creation, poverty reduction, and integration of its growing population of refugees and IDPs. The focus should be on Public Private Partnerships (PPPs) by identifying the most promising sectors for such cooperative arrangements. Both fiscal savings from inefficient recurrent spending areas and donor budgetary support should be mobilized towards closing the financing gap in capital budget and stimulating investments and growth.

**3.31 Kurdistan's economic crisis has created large gaps in the Government's capital investment budget.** The fiscal shock has hit the investment budget first similar to other oil economies. The disruption of public investment projects severely affected sectors of the economy dependent on government spending. The deterioration of government finances, starting from 2014, has dried government liquidity and slashed public investment. Overall, the fiscal crisis led to a reduction in provision of public goods and services as a result of reductions in public investments. Similarly, a sharp increase in defense spending because of fight with ISIS and a surge in Syrian refugee and Iraqi IDP inflows also affected the public finances by reducing the resources allocated to provision of public goods and services.

**3.32 With public investment projects stalled, the crisis increased the stress on infrastructure including water and sanitation, solid waste management, electricity, transport sectors, and health and education services: stabilization cost is high.** Regional conflict and the flow of 1.8 million new people into the KRI has negatively impacted core infrastructure. The construction sector has particularly been hit hard, with follow-on effects for other segments of the economy, and the financial sector. The crisis had an impact on domestic energy demand and prices. Loads on the electric grid have increased by 22 percent. Water demand has increased, and the sanitation situation is a concern, especially in the camps. Demand for water has increased by 11 percent. This sharp increase in water demand requires investments in wastewater infrastructure. The sanitation situation is alarming, and the major gaps for the sewerage sector relate to the lack of physical facilities: no wastewater treatment plants, no sewage collection networks except in the Sulaymaniyah Governorate. The crisis is adding stress on an already existing ailing system of solid waste management. The transportation sector has sustained major damages. Strategic roads and eight bridges have been destroyed during the regional conflict. Rerouting of trade has placed unprecedented demand on secondary roads. The crisis has led to major increase in demand in the health sector and in the absence of a budget increase the current burden of disease and other health

outcomes were negatively impacted. Due to increased population, the host communities in KRI have been deprived of health spending, with implications on overall health system performance. While external donors have striven to support the KRI, a significant amount of financial resources is still required to restore stability to the health sector, while maintaining the host community's pre-crisis access levels.

### **Significant infrastructure gaps remain in the region especially after the ISIS crisis. The government prioritizes water, sanitation, electricity, transport, health and education sectors for public investment.**

**3.33** In order to address the shortfalls in the budget, the MoP developed a strategy and reprioritized the projects so that the most critical ones are completed first. The KRG Ministry of Planning designed a methodology to prioritize all KRI capital investment projects in the order of their ability to produce the greatest return of public good. This methodology is described in Box 1. Overall, KRG has around 3,700 public investment projects. During the prioritization exercise, around 1,680 projects disqualified that are either not a development priority (i.e., government buildings) or at design phase. Then, MoP applied a 7-step criteria to identify the priority projects with the greatest public return on investment out of remaining projects. On the basis of these criteria, MoP has broken down the projects into four quartiles, with some 421 projects placed in the first quartile and thus identified as being of highest priority. This includes projects, inter alia, in water and sanitation, electric power, road transportation, and the health and education sectors. It is crucial to emphasize that all these projects have been approved and budgeted for, however their progress has been interrupted by the current fiscal and humanitarian crisis. Total estimated cost of these projects was US\$1.5 billion of which US\$1.1 billion has already been paid by public resources. These public capital investments are intended to increase the stock of public goods for long-term sustainable economic development.

#### **Box 3.1: Methodology Developed by Ministry of Planning to Identify Priority Public Investment Projects**

The KRG MoP developed a methodology to identify priority public investment projects. The return on investment (ROI) for public capital is measured differently than for a private investment. A private corporation will make an ROI decision based on whether the investment is profitable given other options for the use of scarce capital. Public investments have multiple stakeholders, many of whom may not be investors but are nonetheless beneficiaries, and the investment itself has multiple purposes beyond the maximization of profit. The greatest public return on investment in the case of KRI is measured by a combination of considerations related to:

- 1) Financial performance;
- 2) Effectiveness of implementation;
- 3) Achievement of national development goals;
- 4) Economic efficiency of the investment;
- 5) Fulfilling social demands;
- 6) Poverty relief; and
- 7) Refugees and IDPs.

These criteria are being applied against some 2,000 capital projects. These are projects with a current budget allocation, many of which have been suspended due to the current crisis. The projects have been prioritized

for completion based on the criteria but their advancement depends upon the availability of donor (and eventually private sector) support.

The first criterion, financial performance, refers to how well the project has performed to date in terms of spending its allocation. Those projects that have met their spending allocation are assumed to have been operating at a greater administrative efficiency than those which were unable to spend their allocation, and have received a higher score as a consequence.

The second criterion, effectiveness of implementation, evaluates capital projects according to their completion rate. At the beginning of each project, the line includes a start date and estimated completion date as part of its project description. The Kurdistan Development Management System (KDMS) database monitors their progress against their completion date. Projects are sorted by their percentage completion and those projects that are closest to being completed have been scored the highest.

The third criterion, achievement of national development goals, favors projects that will have the greatest impact on meeting KRG's Vision 2020. These goals were further reinforced and analyzed for implementation in a recent report published jointly by the Ministry of Planning and the UNDP. These include core infrastructure projects that are vital to public health, like sanitation and water.

The fourth criterion, economic efficiency, is measured by its ROI. When any government builds public infrastructure it is investing in a public good. Which infrastructure projects should the government build that will generate the greatest public good for the money spent? This criterion is designed to score highest for those projects with the greatest public returns on investment and score lowest those with the least returns. This measure again points to the importance of key economic infrastructure, including water and sanitation, energy, and transportation.

The fifth criterion, societal demand, emphasizes the "supply gap" between what the Kurdish people need in order to achieve "the good life" and the public supply of that service. For example, education is in high demand among Kurds, yet its supply is sharply constrained. Job creation is another area in which demand and supply are out of balance; therefore, investment in job creating sectors is essential.

The sixth and seventh criteria, poverty relief, including for refugees and IDPs, reflects the crisis in which KRI finds itself in light on regional conflict and the fiscal crisis. As a consequence of these developments, poverty rates have soared in Kurdistan Region. The disadvantaged people often live in places with poor public health infrastructure, compounding the difficult situation they face. Therefore, projects that improve public health, like water and sanitation, are again of critical importance.

### **To manage the impact of the shocks, the KRG will need additional resources to restore access to public services: US\$316 million required to finalize top priority public investment projects.**

**3.34 Top priority public investment projects have been identified.** Due to very limited public resources, the MoP further identified top 100 projects through a scoring system looking at performance, economic returns and social relevance (Annex 3). For example, projects targeting poor areas got high scores. Overall, US\$316 million would be required to complete these 100 projects.

**3.35 The identified top priority project results can be used by the international community, including donors and private sector actors, for three purposes.** First, it identifies the funding gap for existing capital projects in order of priority. Projects rated higher are those

which are expected to return the greatest public good and therefore provide the most productive, effective, and efficient use of these limited financial resources. Second, this prioritized list could provide the basis for discussions of a “Kurdistan Recovery Fund” for the financing of the highest priority projects. The Kurdish people have borne a large share of the burden associated with the fight against ISIS and from the effects of the Syrian war. These costs are being imposed today on Kurdistan Region, in the form of a fiscal crisis. The international community can help ensure that future generations face a brighter economic future. Third, and related, the results identify projects that could be funded and managed through PPPs. KRG welcomes the opportunity to arrange PPP schemes and find private partners in the sectors that produce the greatest public return on investment. The government recognizes its obligation to use public and international resources wisely, and where PPPs are feasible it is open to considering them.

**International partners have the opportunity to help with priority public investment projects in water and sanitation, electricity, health, and education sectors.**

**If the EU provides US\$50 million budgetary support, this could be used in priority public investment projects in health, education, electricity, and water and sanitation projects—in coordination with other international partners—as discussed below:**

### **Priority #3.1: Proposed Public Investment Projects - Water and Sanitation**

**3.36 Ministry of Municipality and Tourism has prioritized water-recycling, treatment, and revenue generation in the short term.** The Ministry has already attained significant fiscal savings from building costs, vehicles, and staff cost. The Ministry also saved resources by way of collecting water fees by ministry employees rather than contracting a company. A private sector company is currently providing advisory support to the Ministry to improve revenues. In terms of public investments, the Ministry prioritized water treatment and recycling, and recently conducted negotiations with a German company.

**3.37 Water and sanitation sector has the highest priority in Government’s public investment projects.** KRG’s ‘Water and Sanitation Policy’ was prepared in June 2010. The policy analysis and formulation have been undertaken by the Ministry of Municipalities and Tourism’s Directorate for Water and Sewerage in consultation with several governmental and nongovernmental stakeholders. The policy was informed by the perspectives of government, civil society, and the private sector. Policy priorities are the following:

- (a) Increasing access to clean water. The strategy for improving water access entails five elements: (1) estimating the amount of water leakage in the existing water transportation infrastructure and supporting investments to eliminate it; (2) investing in water storage facilities to address seasonal fluctuations; (3) upgrading water treatment infrastructure to international standards; (4) expanding opportunities for private participation in water provision; and (5) reforming the water tariff system to reduce waste and provide for cost recovery.

- (b) Upgrading sewerage systems. This will include development of a sewerage master plan for investments in treatment plants and infrastructure, making water and sanitation infrastructure an integral part of city planning, helping residents of low-density areas install and maintain septic tanks, expanding infrastructure for refuse collection and treatment, creating facilities to treat industrial waste, and introducing a system of municipal taxes and user fees to pay for sanitation services. The plan also calls for water treated by the new sewerage treatment plants to be recycled for agricultural purposes.
- (c) Completing a hydrological study. Such a study would assess both the quantity and quality of all natural water sources, including rivers, groundwater supplies, and aquifers, to better understand groundwater potential, and would analyze water inputs, uses, storage, and flows. This study will provide the basis for all future management and investment decisions.
- (d) Completing an integrated water resources management plan. Building on the hydrological study, an integrated water resources management plan will be developed. This plan will help develop and manage quality and quantity of all water resources for the benefit of public health, agriculture, and industry, while at the same time helping sustain the ecosystems and environment.

**3.38 Progress has been made in the provision of drinking water to the growing population, but sewerage management has not kept pace.** Improvement to sewerage services will be a major focus through 2020, with benefits to the health of the population and the environment. Service in rural areas especially needs to be strengthened. In those areas only 10 percent of the households are connected to the public sewerage network, and more than 50 percent have to use outside covered canals. There is a more extensive sewerage system in the urban areas, but still less than half of the urban population uses the public network and almost one-third uses outside covered canals. There is inequality in access to services between urban and rural areas.

**3.39 Access to clean water is a priority.** Numerous water projects have been completed or are underway to improve water management and to provide clean water. Ninety-five percent of the urban households and sixty-two percent of rural households access drinking water through the general water network. About 70 percent of residents get their drinking water piped directly into their homes from improved sources. However, access to clean drinking water remains a key challenge, especially for rural areas. Only 25 percent of urban residents and 18 percent of rural residents report being able to access the general water network for more than 10 hours each day.

**3.40 The city of Erbil has a serious deficiency in potable water supply, and has no wastewater network or wastewater treatment capability.** The water supplied to Erbil is a mix of potable and non-potable quality, from both borehole and surface water sources, with a limited supply to the outlying communities. The lack of effective sanitation poses a severe health risk to the population through the contamination of groundwater resources and is restricting the city's development. Fed by the Greater Zab River (tributary to the Tigris), Erbil is supplied by three treatment plants in addition to approximately 850 ground wells. With an average total daily production of 666,000 m<sup>3</sup>, the residents face intermittent water supply due to insufficient supply and serious issues associated with the distribution network.

- 3.41 The increase in water demand has not been accompanied by investments in drinking water and wastewater infrastructure.** There are over 1.8 million Syrian refugees and Iraqi IDPs in the KRI. Of the total IDPs and refugees, 60 percent are in Dohuk Governorate. The large number of Iraqi IDPs and Syrian refugees reside in many of the same host communities, placing strains on the local economy and water and sanitation services which were already facing challenges prior to the arrival of refugees and internally displaced people. The additional demands are estimated at 11 percent. As a result of the crisis, KRI now needs to meet an additional estimated total water demand of 17.1 million m<sup>3</sup>/year. The Ministry of Planning and World Bank's joint Economic and Social Impact Assessment (ESIA) of 2015 of the Syrian conflict and the ISIS crises, estimated that the cost of the additional water and sanitation services to refugees and IDPs would range between US\$214 to US\$347 million.
- 3.42 The Government is currently making efforts too address water and wastewater treatment issues in Erbil and Sulaymaniyah.** As discussed in the first chapter, the KRG signed a loan agreement with UK Export Finance to finance the first phase of a contract between the KRG and UK water engineering company Biwater to deliver water and wastewater treatment solutions in Erbil and Sulaymaniyah. The project's development works phase will include all relevant site surveys, social and environmental impact assessments and detailed designs.
- 3.43 The sanitation situation is of concern,** and the major gaps in the sewerage services relate to the lack of physical facilities: there are no wastewater treatment plants, and no sewage collection networks. Due to the current lack of wastewater treatment plants, wastewater is directly discharged in the rivers.
- 3.44 Good planning and large investments will be needed to ensure sustainable water supply.** It will require improved management of the water resources, particularly groundwater, and improved resilience to water variability caused by climate change. It will also require safe collection and treatment of wastewater to avoid pollution of ground and surface water resources.
- 3.45 Institutional capacity can be improved.** The current institutional setup for water resources management is through two ministries: the Ministry of Municipalities and Tourism, and the Ministry of Agriculture and Water Resources. There is a Directorate of Water and Sewerage at the central level, however, at the Governorate level water and sewerage are managed separately. KRG also has separate directorates for several surrounding areas of the three main cities. The water and sewerage directorates are in charge of operation and maintenance under supervision of the Ministry of Municipalities and Tourism. KRI has no water utilities. In terms of investment planning, approval and funding, the two sector Ministries are heavily dependent on the approval of the Ministries of Finance and Planning—with the first being responsible for budget approval, auditing and monitoring, and the second being responsible for capital projects. More decentralization may help to improve accountability in the sector. Although the private sector does not officially have a role in the water and sewerage sector, the low quality of services has resulted in the private sector picking up where the public sector leaves gaps, especially in the provision of drinking water and in the provision of sanitary facilities as many citizens cope with the low quality of services by purchasing bottled water, the use of water tankers, and the installation of septic tanks.



## **An investment project in water and sanitation sector is needed to address these priority issues**

**3.46 The proposed project will support improvements in high-priority water and wastewater services to improve the performance in water and wastewater service delivery.** The proposed project would combine institutional, technical and operational steps to be undertaken by the Water and Sewerage Authorities, while ensuring that they improve their financial situations. In addition, the project would also aim to identify (and selectively address) key challenges and opportunities in the decentralized institutional framework. To increase the reliability and continuity in drinking water supply services as well as to improve wastewater collection and its treatment in the three Governorates of Dohuk, Erbil and Sulaymaniyah, following actions are proposed. Table 3.1 presents the list of proposed water sector investment sub-projects.

### a) Investment in drinking water supply and wastewater infrastructure:

(1) The rehabilitation of three water supply and sewerage schemes for the three Governorates; and (2) Non-revenue water reduction: This will ensure that the cities of Dohuk, Erbil and Sulaymaniyah improve their operational efficiency through the introduction of measures to manage demand and reduce losses. Leakage reduction activities will be carried out in targeted locations to improve services and save water to serve more people.

### b) Institutional strengthening for water security and integrated urban water management:

This will support the Water and Sewerage Directorates of the three main cities in operational and strategic decision making with regard to water security and water conservation. The focus will be on improving the institutional knowledge and preparedness with regard to all aspects of water security and urban water management, including resilience (climate change adaptation measures), sustainability of water use, groundwater management and governance at the city level, and the use of non-conventional water (reuse of wastewater). This activity would also support the assessment of the current billing and collection practices, including the practices related to customer databases, levels of metered and unmetered service provision, billing structure and cycles, staff capacity, facilities for customer payments and enhancing internal audit function.

### c) Project implementation, and monitoring and evaluation

This will support project implementation consultants (engineering, and construction supervision and quality control), feasibility studies for future projects, and the operational costs of the project implementation teams who will coordinate, implement, supervise and monitor the project. This activity will also finance training, and other technical assistance activities to improve the capacity of the Water and Sewerage Directorates staff in implementing the project.

**Table 3.1: List of Proposed Water Sector Investment Sub-Projects**

Governorate	Sub-Project	Description
Erbil	Urban areas	Network, transmission line, and treatment
	Shaqlawaw drinking water supply	Transmission line and electrical installation
		Upgrade the network including 40 percent
Dohuk	Bardarash water and sanitation	Water and wastewater network
	Dohuk City drinking water supply	Network and treatment plan
Sulaymaniyah	Dukan water supply	Rehabilitation of network
	Dukan wastewater	Sewerage treatment plan
	Derbendikhan water supply	Water supply network

**Priority #3.2: Proposed Public Investment Projects – Electricity Sector (Partly receiving World Bank technical assistance. Additional international partners are needed to support the reforms)**

**3.47 The World Bank has been working with KRG on an action plan to mitigate power cuts.** The objective of this activity is to support the government in developing an action plan to address power outages in KRI, to build consensus among stakeholders to implement short term measures, and to identify reforms required to achieve reliable and affordable electricity services in the longer term. This work was conducted as a part of Economic Growth Diagnostics assessment for the Kurdistan Region. The analyses focused on examining specific aspects of performance improvements and reform in electricity sector. The key reports which are leveraged in producing this assessment include: (i) *‘Cost of Service and Tariff Design Study’* conducted by Economic Consulting Associates; (ii) *‘Pathways for Distribution Strengthening, Loss Reduction and Revenue Enhancement in KRI’* conducted by UNICON International; and (iii) *‘Private Sector Participation in Transmission Strengthening in KRI’* conducted by Economic Consulting Associates. Proposed short-term and long-term reform actions for power sector performance improvement is presented in Annex 4.

**3.48 On the way forward, a ‘Seven Pillar Strategy’ is proposed to deliver electricity sector reforms.** In consultation with the Ministry of Electricity, the World Bank team suggested a seven pillar strategy for electricity sector reforms and performance improvement in KRI. The pillars and summary observations related to each pillar based on detailed analytical work are as follows:

- **Pillar-1: Arrange more natural gas for power.** Assessment reports discussed the demand and supply scenarios for electricity in KRI examining how constrained availability of natural gas affects power generation at present, and in turn alleviation of natural gas supply constraints over the medium term would enable increased supply of electricity. Improved electricity supply from increased natural gas supply would necessitate investments for distribution and transmission infrastructure.
- **Pillar-2: Eliminate avoidable costs in generation.** Analytical work examined the cost of supply of electricity, including inter-alia the cost of fuel for generation (where liquid fuels cost nearly six times more than natural gas), as well as the impact of under-utilization of installed generation capacity in face of ‘take-or-pay’ contracts with IPPs (where generation charges as well as availability charges are levied).

- **Pillar-3: Strengthen critical transmission links.** Transmission strengthening requirements over the short and medium-long terms are examined. Detailed transmission investment needs analysis has been conducted based on load flow studies using PSSE models, taking into account the underutilization of installed generation capacities due to constrained availability of natural gas. Transmission investment needs ramp-up significantly by the medium term (by 2020) when natural gas constraints start to get alleviated. However, procurement and implementation of transmission lines would need to start early in order to ensure that transmission lines do not pose a binding constraint when natural gas becomes available. Opportunities for electricity trade with neighboring areas are also discussed in assessment reports.
- **Pillar-4: Rationalize tariffs.** The cost of electricity supply has been examined and projections have been developed for the next ten years. These projections are based on a host of scenarios for electricity demand, supply, installed capacity, natural gas availability, technical and non-technical losses, and investments in transmission and distribution. The report also discussed tariff rationalization strategy and changes to the overall tariff structure based on the comprehensive review of the cost of service, a feasible tariff transition pathway, analysis of marginal costs, and economic signals to consumers for efficient consumption.
- **Pillar-5: Reduce losses, improve revenues, and strengthen distribution.** Distribution performance improvement is analyzed, which specifically looks at strategies for reducing technical and non-technical losses, improving revenue collection, and improving the quality of supply. The report also examined the approaches for strengthening the institutional capacity, including business operations, information availability, financial management and reporting, and customer management system.
- **Pillar-6: Undertake strategic communication.** The need for strategic communication is reflected in assessments, including in the context of tariff rationalization, renewable energy, energy efficiency, energy conservation, and demand side management.
- **Pillar-7: Sector restructuring and private sector participation.** The reports examined the opportunities for private sector participation in distribution and transmission, and the structural and institutional reforms in electricity sector respectively.

**Tariff adjustment coupled with improved load dispatch, smart metering and some critical transmission and distribution strengthening investments would be the key elements of KRG’s energy sector reform.**

**USAID is interested in providing US\$10 million to establish Supervisory Control and Data Acquisition (SCADA) systems, however additional international partner support is needed for an estimated US\$120 million investment to implement smart-metering.**

**3.49** The first phase of reform would focus on improving financial performance of the electricity sector through loss reduction and revenue enhancement, while also preparing for deeper structural, institutional, and PSP related reforms in the subsequent phases. In order to

have the 400kV transmission links in place by 2020, the preparation for PSP transaction needs to start now, as nearly 18-24 months may be required for award of contract and another 24 months for implementation of the transmission lines. Furthermore, SCADA systems are critical investments in T&D strengthening, and technical assistance. **USAID showed interest in providing US\$10 million to establish SCADA systems.**

**3.50 The Government is keen on coupling the tariff adjustments with a major smart-meters program to enhance energy and financial accountability.** MoE has asked one smart-meters firm (Verizon) to run a demonstration pilot of about 100 consumers over the next 2-3 months. This would bring in technology-led solution to the problem of poor billing, metering and collection. It is advised that technology solutions must be applied cost-effectively and should be accompanied by appropriate policy, management and administrative measures. The firm may implement the pilot project of 100 consumers while a full-scale implementation may see refinement of technical specifications and open competitive bidding among all interested firms. **An estimated US\$120 million investment required from international partners to implement smart-metering.**

**3.51 The Government would need technical assistance support from international partners for structural and institutional reforms including for preparing a draft new electricity law.** The Government would like to quickly achieve enhanced financial performance and then go for PSP in distribution at the earliest possible. Technical assistance would be needed during the short term for (i) drafting a new sector law, (ii) setting-up a new regulator, (iii) designing PSP transactions for the identified medium-term investment needs in transmission and distribution, (iv) consumer mapping exercise, (v) strengthening the metering-billing-collection cycle, (vi) implementing IT solutions, and (vii) SCADA training. **This overall TA requirement for the first phase is estimated at about US\$5 million and is open to donor consideration.**

**3.52 Privatization of electricity sector is an important reform agenda on the way forward.** The transition from a vertically integrated sector structure to a more distributed structure would require a step-by-step approach. This would include accounting and administrative separation of various businesses, establishment of a regulatory cell, and selective private sector participation (under regulation by contract) in the first phase. In a subsequent phase, the businesses can be carved out as separate corporatized entities, and finally out-up for full privatization. Once the privatization starts, the Government would continue to shoulder the responsibility for policy and governance, apart from some crucial functions such as sector planning, investment approvals, international trading, load dispatch, and market oversight. This would require a new electricity law, an independent sector regulator, unbundling of the vertically integrated sector, corporatization of sector entities and their eventual privatization. Privatization of sector entities can be done after the legal and regulatory frameworks have been promulgated, electricity markets have been established, and entities have been corporatized. The Government should explore private sector participation options to attract investments as well as to improve commercial performance of the distribution business. While full privatization may be difficult, initially billing and collection services could be outsourced under robust contracts as a first step.

**Priority #3.3: Proposed Public Investment Projects – Health Sector (Urgent donor support required)**

**3.53** **Despite improvements during the last decade, the health sector in the KRI is facing major challenges especially with the arrival of IDPs and refugees.** The influx of 1.8 million IDPs and Syrian refugees has placed an additional burden on the system, particularly in the areas where these populations are concentrated. The fiscal crisis had negative impact for overall health system performance, including equity and responsiveness of the system. While external donors have striven to support the KRG in managing the impact of these effects, a significant amount of financial resources is still required to restore stability to the health sector and to enable the KRI health authorities to cope with influx of the displaced and provide quality services for all KRI residents. In a World Bank assessment of the impact of the Syrian crisis on the health sector in KRI, results indicated that in a low influx scenario, the total stabilization cost for the October 2014 – December 2015 period adds to a little over US\$339 million, which translates to nearly US\$362 per refugee/IDP. Additional resources will be needed with the arrival of new IDPs from Mosul. There is a shortage of drugs in hospitals. Ministry of Health urgently needs drugs, medical supplies, mobile clinics, and ambulances. **International community has the option to provide in-kind assistance (i.e., purchase of mobile clinics for refugee camps), or provide financial contribution to ongoing efforts for example through UNDP FFER-KRG funding facility.**

**3.54** ***KRG Ministry of Health prioritized protecting citizens' health from counterfeit drugs, and harmful and expired substances imported from other countries.*** The Ministry needs help for greater pharmacovigilance (surveillance and regulatory oversight), with increased quality criteria, stricter rules for prescription, storage and distribution, and fight against counterfeiting drugs. This will require intervention locally and at customs crossing points. The Ministry suggests to establish a company that will help with good drug procurement to protect public health. The Ministry would also need laboratories at major customs entry points, such as Iran border, to check expiration date and quality of food and drugs. KRG has made some progress recently. Committees have been set up to prevent the use of illegally imported medicines that do not meet health and safety requirements. It is announced that in Erbil alone, 101 tonnes of expired medicines had been seized. A database is also needed to document entry of counterfeit and expired food and drugs. **These actions require donor support.**

**3.55** **Government is keen on improving the quality of health services and patient safety by pursuing international accreditation standards for health care facilities and personnel.** KRI is going through a demographic and an epidemiological transition which is having an impact on the ability of the health sector to respond to changing and increasing health demands. Such transition is typically characterized by decreasing birth and premature death rates, aging of the population, and transition from predominance of communicable, maternal and child diseases toward increased prevalence of non-communicable diseases. Much remains to be done to strengthen the health system and rebuild a cadre of trained health care and medical professionals. One of the most acute needs is for enhancing the professional training. While the health workforce has been increasing, the sector still faces shortages in human resources and has not reached its targets. A RAND report found that growth rates and delivery efficiency that by 2020 the KRI would need almost a 20 percent increase in physicians to maintain the present physician-to-population ratio.

**3.56 Ministry of Health seeks to increase taxes on harmful materials and accelerate public private partnership in delivery of health services.** Ministry is proposing to put taxes on harmful materials such as tobacco and alcohol to protect public health and also to generate revenues for the Government budget. The Ministry is also focusing on strengthening regulation and PPP, and ‘build, operate and transfer (BOT).’ In this context, Turkey’s Ministry of Health is sharing experience with KRG. This will help KRG Ministry of Health institutionalize a policy framework for private sector participation in health financing, insurance and service delivery. The Ministry already conducted a pilot project in the past six months. Efforts are needed to build skills in PPP, BOT, and hospital management. **Donor support needed.**

### **3.4 PRIORITY #4 (NEXT SIX MONTHS): PUBLIC FINANCIAL MANAGEMENT OVERSIGHT**

#### **IMPLEMENTING PARTNER: WORLD BANK WITH SUPPORT FROM THE EU**

(EU PFM Oversight program for KRG is currently under discussion with the EU team)

KRG has proven that the authorities are committed to good governance reforms through improving current systems and institutions. In the next six months, the focus will be on conducting a comprehensive legislative review, and providing additional training for new staff on the automated case management that was recently developed. Preliminary identification of activities of EU PFM Oversight program for KRG is currently under discussion with the EU team. If agreed by EU and World Bank and endorsed by KRG officials, planned activities will be implemented in 2017.

**3.57 The public financial management technical assistance program will focus on strengthening the capacities of key KRG institutions to fulfill their PFM oversight and accountability roles and responsibilities.** The European Union intends to support the Government of Iraq and the Kurdistan Regional Government in enhancing public financial management oversight and accountability, through policy dialogue and a program of technical advisory services to be implemented by the World Bank. This technical assistance will provide the KRG with the opportunity to maximize and complement the upstream and midstream PFM actions planned under the ongoing World Bank supported Modernization of PFM Systems Project.

**3.58 The Government is improving transparency and accountability for effective, efficient and equitable management of public institutions.** The objective of the PFM oversight technical assistance program will be to enhance budget oversight and accountability mechanisms in the use and management of public financial resources of relevant public institutions. The focus will be on promoting accountability in public procurement; strengthening the external audit function of the KRG Board of Supreme Audit; and strengthening legislative budget oversight at the KRG Parliament.



### 3.5 PRIORITY #5 (NEXT SIX MONTHS): PUBLIC INVESTMENT MANAGEMENT SYSTEM STRENGTHENING

#### IMPLEMENTING PARTNER: WORLD BANK

KRG has requested World Bank assistance to support the strengthening of its Public Investment Management System (PIMS) in line with the implementation of Vision 2020. The main objectives are to carry out a comprehensive program of technical assistance and related support required for: The modernization and strengthening of *KRG's PIM system, including through:* (i) the carrying out of an efficiency and functional review of the General Directorate of Capital Investment Budget within MoP; (ii) updating and improving project appraisal methodologies and guidelines, including instructions, guidelines and templates; (iii) strengthening and further development of the KDMS including through the establishment of an integrated bank of investment projects, to support investment planning and decision making, to track and monitor investments, and to serve as an investment project registry; and (iv) PIM capacity building for KRG MoP staff.

**3.59 Strengthening public investment management system is critical to boost investment in productive sectors.** Based on discussions during the project preparation with senior KRG officials, it appears necessary to gradually improve efficiency in public investment management through the strengthening of the KRG PIM system, which should be developed as a comprehensive set of concepts, techniques, standards, and methodological procedures, and as a uniform information and document depository and management system for the formulation, preparation and evaluation of projects. A detailed PIM Action Plan for the period 2017-2021 will be prepared in 2017. Some key PIM issues will be addressed during the first year of implementation:

- KRG will identify the types of investment spending that might best be undertaken to combat the current economic crisis. What gives the biggest value for money in terms of stimulus and/or social protection?
- KRG will look at how to reach high quality investments, i.e., how to measure the performance of public investment projects.
- KRG will reform institutional arrangements, systems, procedures, and managerial arrangements to promote efficient public investment.

**3.60 The potential outcomes of a strengthened KRG PIM system will be beneficial for the overall economic performance.** First of all, selecting investments that are likely to be most effective in terms of stimulating the economy or protecting vulnerable groups will bring large gains for economic and social development. Investment spending in productive sectors will scale up. Public investments will accelerate by reducing the time between conception to implementation. Finally, there will be significant improvements in the general quality of investment spending, i.e., reducing waste or enhancing efficiency and effectiveness.

**3.61 The milestones for public investment management project implementation in the next six months are expected as:**

- Conduct functional review of the KRG MoP’s General Directorate of Capital Investment Budget with proposal of a new PIMS organizational structure in KRG;
- Develop IBP as a module of the existing KDMS database to register, monitor, and control all capital projects during their lifecycle;
- Officially adopt PIM framework for the KRG by 2017; and
- Develop analytical tools, methodologies, guidelines, templates, and processes for project identification and appraisal.

**3.6 PRIORITY #6 (NEXT SIX MONTHS): PROCUREMENT REFORM  
“VISION 2020: EFFECTIVE, TRANSPARENT, TRUSTED, AND HONEST GOVERNMENT”**

**IMPLEMENTING PARTNER: WORLD BANK**

**3.62 The Government will continue working with international development partners, particularly the World Bank, for the on-going and planned procurement reform activities.** As one component of the World Bank’s public financial management project, the Government will continue the progress made under previous interventions through the following activities:

- Proper implementation of the newly enacted procurement regulations that include strengthening the capacity of KRG MoP’s policy unit functions and resources; preparation for the establishment of the complaint mechanism system; and regular training for all implementing agencies.
- Implementation and issuance of the SBDs and development of framework agreements to enhance efficiency gains through speeding up bidding operations in line with the newly enacted regulations.
- Establishment of the e-procurement single portal for the KRG (including establishment, operation, maintenance, and capacity development) to strengthen and promote the principles of transparency, good management, accountability, and access to information.
- Capacity development and professionalization of the procurement workforce through introducing e-learning courses to be certified by the KRG MoP. The e-learning modules will include courses such as basic procurement, bid opening, and evaluation procedures for different types of procurement. This will also include enhancing the capacity of the private sector to do business with the Government under the newly enacted regulations through workshops, seminars, and issuance of the guiding toolkit.

**3.63 In the next six months, the Government will build on procurement reform achievements.** The authorities will finalize the annex to the procurement regulation as part of the “Procurement under Public-Private Partnership Initiative.” In addition, a complaints mechanism system will be established: another annex to the procurement regulation will be developed as part of the “Review of Complaints” and “Complaint Review Manual” that aims to introduce the complaint review procedures to public officials that are involved in handling of complaints from bidders. In the next six months, this annex will be issued and a committee for review of complaints will be established. In the short-term, an inception report for preparation of the e-learning modules will be prepared. Furthermore, first draft of framework

agreement for the health sector will be prepared. KRG will continue building the capacity of public and private sectors on the new regulations and use of SBDs.

**3.64 The milestones for upcoming procurement reform actions in the next six months are agreed as:**

- Proper implementation of the newly enacted public procurement regulations by strengthening the capacity the Public Contracting Directorate at the MoP, and development of complaint review mechanisms;
- Increased transparency and public access to information through publication of procurement and contract award notices for the majority of tenders for piloted agencies on the e-portal; and
- Sustained capacity development and professionalization of public sector procurement workforce by creating online courses.

**3.7 PRIORITY #7 (NEXT SIX MONTHS): KRG SHURA COUNCIL  
“COMPREHENSIVE REVIEW OF LEGISLATION”**

**IMPLEMENTING PARTNER: WORLD BANK**

Preparation of KRG Shura Council capacity building program is currently under discussion with the President of the KRG Shura Council. If agreed by the World Bank and endorsed by the KRG officials, implementation of planned activities will start in 2017. So far, six activities have been identified by the authorities: 1) Conduct comprehensive review of legislation in the Kurdistan Region; 2) Improve the efficiency of administrative courts in administrative trial management; 3) improve the ethical behavior of the staff of the KRG Shura Council through the preparation and issuance of a “Code of Integrity” and a “Code of Conduct”; 4) Develop HR procedures for the KRG Shura Council in line with the KRG Civil Service Law; 5) Develop the administrative excellence model based on EFQM;<sup>9</sup> and 6) Develop the Knowledge Management System of the KRG Shura Council.

**3.65** *KRG’s legislation needs to be reviewed and updated.* Kurdistan Region continue to suffer from the accumulation of different layers of legislations over time, with some outdated. More recently, since 2003, the articulation between new KRG law and Iraqi federal legislation has posed new issues. Lawyers consider that this composite heritage has caused a number of ambiguities, complexities, discrepancies, contradictions, or legal gaps, which need to be eliminated, or at least mitigated, for central and regional governments to offer a stable and consistent legal order conducive to investment and growth. Such an improvement of the legal framework would require a joint approach encompassing both the federal and the regional level, with the best possible cooperation between them.

**The purpose of the legislation review would be to identify the faulty or missing legislations, and prepare the necessary corrective measures, i.e., repeal or modernization**

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<sup>9</sup> The EFQM Excellence Model is a non-prescriptive business excellence framework for organizational management systems, promoted by EFQM (formerly known as the European Foundation for Quality Management) and designed for helping organizations to become more competitive.

**3.66 In KRI, there already is a clear awareness of the issue and a determination to proceed, including a specific request for external technical assistance.** This is clear from the KRG 2016-2020 Strategy Document,<sup>10</sup> in which the KRG Shura Council has adopted the following strategic objective: "Redraft laws that are not congruent with the reality of the Region." This is based on the diagnostic that "since there are numerous inherited laws that do not apply specifically and accurately to the needs and requirements of the Kurdistan Region, these laws will need to be redrafted to ensure that all laws that are applicable in the region are relevant and specific." This strategic objective would primarily be pursued by way of a comprehensive review of all laws or instruments applied in the Region, as well as of existing drafts not yet enacted.

**3.67 KRI could benefit from international expertise.** Similar legislative reviews have been conducted in several countries.<sup>11</sup> Best practices that could be examined in detail include the Irish Statute Law revision ongoing since 1999, and the Egyptian Regulatory Reform and Development Activity inventory and modernization of business regulation. However, the success of the operation will ultimately depend on the mobilization, under Shura Council leadership, of all legislating authorities in the KRI, who are ultimately the only authorized, and competent, to say what is appropriate for inclusion into the KRI legal order.

**3.68 Support from civil society and business leaders would also be a success factor.** The KRG Shura Council Communication and Outreach Strategy provides the necessary guidance and a framework for organizing the consultation and mobilization of stakeholders in support of the comprehensive legislative review.

**3.69 If agreed by the World Bank and Government, a comprehensive review could rapidly be launched in 2017, with the following main steps and components:**

- 1) Right at the start, the international experts selected by the World Bank meet with the KRG Shura Council President and judges to finalize a common understanding of the scope, objectives and key features of the comprehensive review. This understanding needs to cover:
  - A procedure and a methodology on the basis of best international practice;
  - A typology of instruments, reflecting primarily their legal basis or historical origin;
  - Quality standards and criteria to be applied during the screening of existing instruments (examples of criteria for judging the suitability of existing texts include: legal basis, appropriateness to conditions in the KRI, and business-friendliness). The legal basis criterion naturally includes the consistency with the Constitution of Iraq, and particularly the articles concerning the distribution of competencies between the federal and the regional levels; and
  - If required, a list of priority areas, deemed crucial for the KRI legal order and economy, which would determine the order in which the instruments are examined during the scrutiny phase. For instance, a priority could be given to economic legislation, like in

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<sup>10</sup> This strategy was prepared during Phase II of the Shura Council Capacity Building Program implemented in 2015-2016 with the technical support of the World Bank.

<sup>11</sup> Refer to 2001 review of draft laws conducted by the World Bank in Afghanistan.

Egypt. The list would also be consistent with sections 4 and 5 of the Iraq constitution defining the competencies of federal and regional authorities.

These initial scoping discussions with relevant authorities would include risk analysis and assessment of capacities of relevant departments. If the initial scoping reveals risks and capacity weaknesses, a pilot study should be undertaken. The outcomes and outputs of the pilot study may be of wider application than to the KRI.

- 2) The Shura Council informs ministries and regulating agencies of the launch of the program, and invites them to provide lists of legal acts that they propose for consideration in the comprehensive review. Information about the project is at this stage published with guidance from the KRG Shura Council Communication Strategy.

The lists provided by the ministries include both instruments in application and texts, enacted or not, that should be part of the future legal order. These lists are consolidated in an "inventory" that defines the scope of the project.

Ministries are also invited to prioritize their lists, for instance in three categories: A for "immediate attention" in the review, B for "as soon as possible" and C to be handled during the main phase of the operation.

Once the lists have been discussed and approved, the ministries and agencies collect and transmit the officially selected instruments in paper and electronic format, unless they are already available.

Throughout this step, ministries may propose new draft texts concerning priority or urgent issues for reform, or to tackle legal gaps in the legal order.

- 3) The instruments received from the ministries are then subject to a scrutiny by the comprehensive review lawyers, supported by the international experts, under the authority of the Shura Council President. This is the phase where difficulties and issues are identified, overlaps or gaps are spotted. All issues may be discussed with the ministries in charge, and recommendations for solution agreed. The instruments under review can then be subjected to a variety of techniques to ensure that they are relevant to KRI needs, efficient and user-friendly. These techniques include repeal, consolidation without change of legal content, re-drafting for clear understanding, amendment or codification, or combinations of these techniques. The support given by the international experts would not extend to substantive issues raised by KRI laws, except to the extent that experiences from other countries may be of relevance.
- 4) Once these new legislative texts have been drafted, along with their supporting reports and documentation, they follow the KRI legislative procedure. If deemed necessary and possible, a special emergency procedure can be envisaged.

**3.70** Some rapid results could be achieved by June 2017, on top-priority legislation submitted to the screening and redrafting. Box 3.2 presents the short-term expected outputs by mid-2017. Intermediary findings will be useful. The inventory would rapidly provide an overall picture of the existing legal environment, with its strengths and weaknesses, overlaps

and gaps. Rapid results would depend on the extent of the mobilization of resources. In this respect, it would be appropriate to optimize the international team's involvement by appointing a national coordinator, to act as an interface between the team and the KRI participants. A comprehensive review of this scope and ambition will naturally take time. But, the delay would be significantly reduced by adopting the best procedure and methodology right from the start. The long-term benefits to be expected of the project derive from the advantages of a consistent and stable legal order in KRI, clearer and efficient instruments conducive to a better economic environment for business, improved interaction with the citizens and better delivery of public services.

### **Box 3.2: KRG Shura Council Comprehensive Review of Legislation: Short-term Expected Outputs**

**OUTPUT 1:** A **procedure manual** giving guidance on how to carry out the comprehensive review of KRI legislation. This would be a practical guide, to be developed after discussion with the KRG Shura Council. The process would seek to be as efficient as possible by making clear the roles of each participant, strengthening cooperation, identifying priorities, and specifying timelines. Timeline: 15 working days after launch meeting.

**OUTPUT 2:** A **methodology** for conducting the scrutiny of instruments, which is the central operation of the project. Timeline: same as procedure manual.

**OUTPUT 3:** An **inventory** of relevant instruments within the scope of the KRG legal order: this is a verified consolidation of the lists provided by the ministries, including the prioritization in three categories. Timeline: three months.

**OUTPUT 4:** A **course** for senior officials: training government officials in charge with the quality of legislation in KRI. Training seminars will provide an introduction to the objectives and techniques of regulatory reforms, and disseminate the sound principles that are necessary for a sustainable improvement of the legal order.

**OUTPUT 5:** Relevant **communication material**: as the project progresses, it would be necessary to make full use of information channels with guidance from the KRG Shura Council Communication and Outreach Strategy. Two outputs can be defined at this stage:

- Material for a web page dedicated to the project, in Kurdish, Arabic and English, with the stable content: objectives, method, and expected outputs.
- Regular updates on the milestone achievements.

**OUTPUT 6:** An **end-of-phase report** collecting the results, interim project-management lessons, and outlining the way forward. It would also include a risk analysis and assessment of capacities of relevant authorities.

## **3.8 PRIORITY #8 MINISTRY OF INTERIOR: E-GOVERNANCE CHAMPION**

### **IMPLEMENTING PARTNER: UNDP**

**3.71 Ministry of Interior is working jointly with UNDP to computerize the ministry.** The project will focus on supporting the E-Governance team of the Ministry of Interior in further zooming in on specific key objectives required for the successful scale-up of existing pilot experience. External technical assistance will be identified and deployed to support the national team as necessary. The project also aims at establishing special E-Governance Task Force to bring together key E-Governance players/practitioners from other KRI Government



institutions also linking up with respective counterparts from the Federal Government. It is expected that the project will produce an E-Governance roadmap with several levels of priorities seen in a bigger context of implementing E-Governance for development. Special attention will be paid on identifying low hanging fruits capable of demonstrating multiple advantages and cost-efficiency of effective E-Governance solutions. In doing so, UNDP is supporting the Ministry on both Government to Citizen, and Citizen to Government avenues of E-Government compact matching projected technological solutions with absorption capacity of wide segments of population, in other words, making sure that products (services offered) are harmonized with needs and user preparedness levels of the KRI's population. Use of social media applications with special emphasis on gender and youth is to be one of the key priority areas.

**3.72 Expected Output 1: KRI E-Governance for better service delivery: establish task force and institutionalize**

Activities:

- Support the establishment of the Task Force involving relevant line ministers, private sector, civil society and international development partners.
- Provide support and guidance to Task Forces to develop E-Governance Pilot Roadmap with specific indicators to measure the progress.
- Support advocacy and resource mobilization plans targeting government and non-government entities, both national and international, generating momentum for larger programmatic interventions

**3.73 Expected Output 2: Identify pilot projects, design and partially implement pilots**

Activities:

- Ensure synergy between national and international experts for selected areas, utilizing Task Force as think tank and engine of change.
- Identify most pertinent areas where E-Governance potential can generate quick tangible results and agree on practical solutions to cover those areas and provide support to relevant Government institutions in implementing related actions.
- Apply South-to-South and Triangular cooperation modules.

**3.9 PRIORITY #9: PRIVATE SECTOR DEVELOPMENT**  
**“DIVERSIFY THE ECONOMY AND STIMULATE PRIVATE SECTOR”**

**IMPLEMENTING PARTNERS: WORLD BANK**  
**(AND OPEN TO OTHER INTERNATIONAL PARTNERS)**

Private sector development is one of *Government's* top priorities in the next six months, With substantial support from international partners, a prioritized and sequenced program may include (i) creating legal and regulatory framework that make it easier to start, operate, and exit a business; (ii) engaging the private sector in reforms through an efficient public-private dialogue; (iii) putting in place an effective technical and vocational education and training program; and (v) increasing access to finance, especially for SMEs.

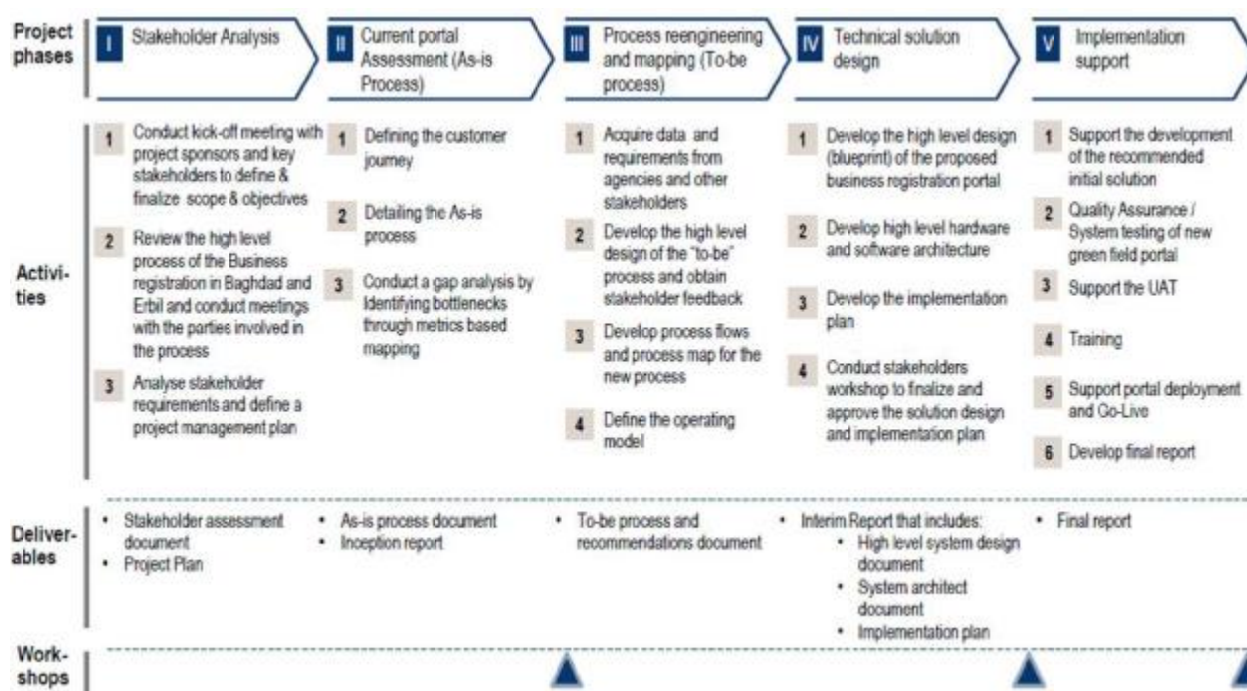
## **Priority #9.1: Company Registration and One Stop Shop (Implementing Partner: World Bank)**

**3.74 Ministry of Trade and Industry will accelerate private sector development reform efforts in the next six months.** World Bank's technical assistance for MoTI will continue during the first half of 2017. The following four stages will be completed by MoTI and WB teams:

- 1. Recommendations and modeling of processes and procedures and standardization.** At this stage the project team will conclude the analysis by suggesting precise recommendation for each of the project's objectives. This will outline and justify the suggested "to-be" situation with sufficient details concerning the actual implementation of each recommendation. This will be coupled with recommendations related to standardization consisting of a full set of recommendations related to introduction of standards such as technological standards for the data exchange, introduction of standard application form, and introduction of ISIC Rev. 4 for national classification of activities.
- 2. Legislative reform recommendations.** At this stage, the project team will analyze the impact of the suggested recommendations over the current legislation governing the process of company registration, receive feedback and additionally tailor the recommendations to secure they are implementable in the KRI context.
- 3. Organizational adjustment.** At this stage, the project team will build an action plan of changes and improvements to be made within the stakeholder's organization for the purpose of implementation of the suggested requirements. Additionally, the effort will support further optimization of the current processes within company registry for the purpose of building a comprehensive OSS.
- 4. Technological development.** Finally, the project will deliver the proposed OSS system including registration portal, commercial registry upgrade/implementation, back office systems adjustment, and service provisioning component.

**3.75 Implementation has been impressive in a short period of time.** MoTI and World Bank teams have finalized first two phases of the project aimed at reforming MoTI and facilitating business for private sector development. So far, stakeholder analysis and portal assessment have been completed. During the first half of 2017, the remaining three phases will be delivered: process re-engineering and mapping; technical solution design; and implementation support. Figure 3.1 summarizes five project phases and reform actions.

**Figure 3.1: Technical Assistance for Ministry of Trade and Industry: Project Phases**



**Progress has been made in company registration, however MoTI wants to achieve more in trade and industry reforms including online licensing, centralized industrial information, and database on logo and copyrights.**

**Priority #9.2: Online Licensing (open to international partner support)**

**3.76** Coordination of licensing should be given to one ministry. Currently, license are given by Ministry of Labor, Natural Resources, and Board of Investment (BoI). However, there is lack of coordination among public offices. Potentially, MoTI Directorate General of Industry could play the coordinator role. KRI would need technical assistance for online licensing from international partners.

**Priority #9.3: Centralized Industrial Information (open to international partner support)**

**3.77** The Government would need technical assistance to reduce the steps on procedures and introduce one-window system. Centralized information should be with one ministry, ideally Ministry of Planning, so that relevant information from line ministries, such as MNR and BoI, could flow to a centralized database.

**Priority #9.4: Logo and Copyrights (open to international partner support)**

**3.78** The Ministry of Trade and Industry would need technical support to establish a database on logo and copyrights. Currently, information is not flowing from businesses to the Ministry. There is lack of information at the ministerial level on trading logo and address for the businesses. Barcodes are needed to gather information from businesses. The Ministry

seeks to establish quality control measures. Information flow on product standards will need to be established. The Ministry would need a system to be put in place together with a training program.

### **Priority #9.5: Doing Business**

**3.79** A *sub-national technical assistance on “Doing Business” could contribute to a broader business environment reform initiative*. This could be done under the ‘Indicator Based Reform Advisory’ to address issues outlined by international investment climate indicators. This initiative could help KRI to design and implement reforms in areas measured by a broad set of actionable investment climate indicators. The broad goal is to advance regulatory reforms by benchmarking and measuring the performance on relevant Doing Business indicators, such as: starting a business, enforcing contracts, and trading across borders. This could help identify regulatory constraints and reform opportunities. The micro-level data from KRI, as an output of this initiative, could provide an action plan to manage and implement change.

**3.80** **Through a comparative analysis of the business regulation, benchmarking exercises like sub-national Doing Business can create incentives for reform.** Sub-national Doing Business has proved an effective way to identify and address key challenges. This approach, initially piloted in Mexico, was effective in proving to local governments that by adopting simple reforms and implementing them effectively, they can improve their competitiveness. DB indicators have been tested successfully at the sub-national level in more than 50 countries.

### **Priority #9.6: Support for Industrial Sector (open to international partner support)**

**3.81** **Ministry of Trade and Industry would need international support for industrial zones.** In 2010, four industrial zones were planned but they were never functional because of the economic crisis. Currently, industrial zones are mapped under Ministry of Municipalities and Tourism. In KRI, specialized industrial zones are also needed which could function under MoTI General Directorate of Industry. There is shortage of basic services in industrial zones such as water for both drinking and industrial purposes, electrical grids, and sewerage systems. Furthermore, roads are not asphalted. There is a lack of competent staff and advisors for education and training in the industrial zones. Private sector is not getting industrial loans—it may be advisable to reactivate the industrial banks.

**3.82** **Required legislation and guidelines are missing.** The Law #25 “The Industrial Development Law” approved in 1991 has been updated, however it is still waiting for COM approval. It’ll be important for the Government to pass this law. UNIDO is helping with drafting a law on industrial zones. It will be finalized in March 2017. The ministry would need help in preparation of industrial instructions booklet to clarify permission process for industrial factories, and quality controls terms.

### **Priority #9.7: Privatization of SOEs (open to international partner support)**

**3.83** **The Government should contain current spending by reducing transfers to ineffective and inefficient state-owned enterprises.** Improving the efficiency and financial

viability of state enterprises is crucial for fiscal sustainability. This can be achieved through privatization of State-Owned Enterprises (SOEs). The Government should review management practices and financial performance of SOEs and develop an action plan. The SOE reform should include reviewing of the size of employment, accountability in the delivery of products and services, and accountability in the management staff. Authorities should establish a database first to take a stock of all SOEs in KRI, collect data on their operations, and monitor the fiscal risks of these enterprises. This will help improve tracking SOEs' performance. It will also improve the monitoring of the liabilities and risks to public finances.

**3.84 Privatization of SOEs would bring fiscal savings and level the playing field with the private sector.** Restructuring and privatization of SOEs would improve fiscal situation and promote private sector-led growth. Many of the SOEs are in a state of physical degradation and have limited rationale beyond providing public employment. They are over-staffed with high production costs. As a result, they are structurally loss-making and present a large burden for public finances. Similarly, the transparency of financial SOEs is limited.

**3.85 Given the excessive number of civil servants, an issue to tackle would be the conversion of public into private sector jobs.** Some obsolete and non-competitive industries are still run by the Ministry of Trade and Industry and should be updated and privatized or abandoned with appropriate reconversion plans. A reconversion scheme could be put in place as part of the public sector downsizing efforts (government and state-owned enterprises) to help workers transition from public to private sector jobs. Financial severance packages could be offered to public sector workers (voluntary and involuntary separation programs) in addition to training and job matching programs.

### **3.10 PRIORITY #10 (NEXT SIX MONTHS): AGRICULTURE SECTOR**

**3.86 Development of agriculture sector in KRI requires strong legislation in international standards.** The MoAWR has prepared a draft law ready for submission to the Parliament. It is important to have proper laws and regulations to encourage investment in agriculture sector. Clear information needs to be disseminated with public and potential investors by 13 relevant directorates including water, municipality, dams, irrigation, electricity, and archeology. These directorates will need to inform public through their websites the restricted areas for agriculture investment—informative maps will be useful for potential investors. Furthermore, the Ministry is proposing reforms in land tenure as currently not all farmers own agricultural land.

**3.87 On the way forward, the MoAWR is seeking public-private sector partnership.** Some public sector services could be privatized to provide fiscal savings for the Government. For example, management of vaccines, artificial insemination, nursery and forestry could be done by private sector. The MoAWR is proposing PPP in marketing of products, certified seeds, and laboratories. Marketing corporations could be established so farmers can bring their products to sell. The Ministry proposed 62 projects, in total, to encourage private sector investment in agriculture sector. This proposal has been sent to Council of Ministers. One of the projects is about providing loans to farmers to buy cows. Another project is construction



of new dams. Currently, KRI has 6 dams. The Ministry is proposing to build additional 8 dams through PPP.

### **3.11 PRIORITY #11 (NEXT SIX MONTHS): IDPs/REFUGEES** **(Urgent donor assistance required)**

- 3.88**      **The KRG is calling for immediate, direct assistance to minimize a humanitarian catastrophe as a result of a lack of proper shelter and medical care for refugees and IDPs.** The KRG has not only supported and hosted fleeing IDPs, but also provided leadership in planning humanitarian response and advocacy for resource mobilization. The Government is alerting the international community of an ongoing humanitarian catastrophe which will worsen at the end of the Mosul operation. Up to now, the regional conflict has forced more than 1.8 million refugees and IDPs to seek shelter in KRI. This humanitarian crisis has caused a 30 percent increase in population placing a significant burden on the Region's infrastructure and social services. The World Bank has estimated the cost to be US\$1.4 billion in 2015.
- 3.89**      **The dramatic increase in the volume of critically injured people has flooded Kurdistan Region's hospitals, and is overwhelming the Region's already strained healthcare sector.** Conducting adequate security screenings for incoming IDPs as well as maintaining internal security surpass the KRG's technical and personnel capacities. Since the start of the Mosul operation in October 2016, over 195,000 individuals have fled Mosul city and its periphery. The KRI's latest data show that more than 96,000 individuals of these recently displaced people have arrived and are being cared for in Khazir, Hassan Sham and Dibaga camps in Erbil Governorate, as well as Qaymawa and Nergizli camps in Dohuk Governorate. Around 10,340 injured civilians have been transferred to the hospitals in Kurdistan Region. The numbers will increase significantly once the operation is completed. Prior to the Mosul operation, hospitals throughout the Region were already flooded with refugees and IDPs. There are simply not enough intensive care units, recovery beds, and medical supplies to absorb all cases.
- 3.90**      **KRG is recognizing the Region's limited capacity to manage the humanitarian crisis and appealing to national and international partners to increase the provision of humanitarian assistance** and basic service delivery to the IDP families. Without immediate international assistance, this humanitarian emergency will not be addressed sufficiently. With the support from the Iraqi Ministry of Displaced and Migration and UNHCR, the KRI has constructed 5 emergency camps for new arrivals from Mosul in Dohuk and Erbil. The finished emergency camps are already fully occupied and accommodated over 26,000 families (96,000 individuals). Therefore, the KRI's capacity for sheltering more IDPs is limited, and if all camps under construction finished, KRI can only accommodate 12,000 more families. However, every day over 1,000 individuals are fleeing to KRI. Today, the KRG covers all operational, administrative, protection and security costs of the camps and reception centers, totaling US\$3.5 million monthly.



**3.12 PRIORITY #12 (NEXT SIX MONTHS): WOMEN’S EMPOWERMENT  
“A VISION FOR CREATING WOMEN LEADERSHIP IN THE MENA REGION”**

**IMPLEMENTING PARTNER: OPEN TO INTERNATIONAL PARTNERS’ SUPPORT**

**Support from the international partners is needed to empower women in the MENA Region through a ‘Gender Program Hub’ in KRI**

**3.91 KRI has the potential to become a hub for women empowerment for the whole region,** as well as a vector of social change in the MENA region starting from Iraqi and Kurdish societies—a concrete way for women to gain the voice and agency that belong to them. In the last three years, five gender centers have been established in Iraq. These are based in the universities of Baghdad, Basra, Soran, Sulaymaniyah and recently in American University in Sulaymaniyah (AUIS). The new centers need support to become the place where cultural values and gender stereotypes are challenged. A holistic approach to tackling gender inequality is essential. This must include: i) using the AUIS hub for the whole MENA region for a “gender movement” to obtain much-needed rights for women; ii) encouraging women leadership through capacity building on personal leadership, confidence, and economic empowerment skills; iii) mentoring women in the MENA region through coaching arrangements with accomplished and progressive women in the region and elsewhere; iv) offering gender studies to educate students from the whole region; v) increasing capabilities and skills in the fields of science, math, entrepreneurship, and engineering; vi) conducting gender-related research to further the production of female-empowerment knowledge; and vii) disseminating this knowledge within the community through a variety of tailored outreach activities.

**3.92 The hub could encourage research establishing links with scholars from other countries, and producing recommendations for the whole MENA region.** AUIS can be used as a platform given the University’s strong international and local community ties. Embedded in an academic institution, the gender hub could have direct access to international textbooks, curricula, and the networks that are necessary to set a high academic standard, maintain high level engagement with gender scholarship, and remain up to date. The University is already committed to promoting gender in the academic program by making material available in Kurdish, Arabic, Turkish, and Farsi, and developing a training program for gender lecturers in other universities. The training will enable them to teach a variety of gender-related courses; develop research methodology, and support faculty and students to carry out research in in this field. Furthermore, the University could organize conferences jointly with the other international organizations that will address the most pressing issues, discuss research outcomes and provide an opportunity to scholars, activists and local authorities to build stronger links and produce recommendations and guidelines. The University has already demonstrated significant achievements to address the issue of gender equality with a specific view to preparing female students for the professional work force. Based on this success, there is a room for growth and where support from international partners could help achieving greater progress towards empowering the women in the MENA region.

**3.93 The Hub will primarily aim to accomplish objectives on two interconnected levels: academics and empowerment of women in all economic, political, and social spheres.** KRG

requires significant support from the international community in order to make greater strides towards economic empowerment through the development of programs and services targeting female students, as well as training and advocacy targeting local businesses and the community at large. Support from international partners, both financial and by way of guidance and sharing expertise, is key to the achievement of this important goal. International organizations can provide support in a number of ways, most notably through:

- Creating a ‘Regional Hub for Women Leadership and Empowerment’ to lead efforts in the whole MENA region;
- Contributing to the development of new programs and curricula in the fields of science, math, engineering, business, and gender awareness;
- Providing expertise and consulting in program development for lectures, trainings, and career services;
- Helping the Hub build regional partnerships with institutes and individuals;
- Offering financial support to the Hub’s various programs and initiatives; and
- Assisting with media and communication with a view to expanding Hub’s gender empowerment activities to the whole MENA region.

### **3.13 PRIORITY #13 (NEXT SIX MONTHS): MACROECONOMIC STATISTICS**

#### **“CONDUCTING SURVEYS TO IMPROVE POLICY MAKING DECISIONS AND MONITORING OF ECONOMIC DEVELOPMENTS”**

#### **IMPLEMENTING PARTNER: OPEN TO POTENTIAL EU SUPPORT AND SUPERVISION**

**The KRSO needs resources to launch key economic surveys to support key statistics. The Statistics Office would need US\$3 million a year to conduct much-needed basic surveys.**

**3.94 KRI urgently needs an enterprise census.** Enterprise census is aimed to list all enterprises by economic activity through a door to door field visits to be conducted by Enumerators after being trained on latest available or applicable ISIC coding aiming to update the structure of all economical activities through completing a questionnaire that is designed for this purpose. It is essential to do this census every 5 years to be able to measure GDP and economic growth. In Iraq and Kurdistan Region, the last operation that was done in this regard was 2009 listing which was not followed by the census. In 2012, KRSO was able to calculate GDP for KRI based on the 2009 listing, however now the listing and the sporadic surveys are all outdated.

**3.95 A new Labor Force Survey is needed.** The KRSO has done this survey between 2012 and 2015 but stopped in 2016 due to funding shortage. This survey is very important to understand economic behavior in terms of employment/unemployment throughout economic sectors in the region in addition to obtaining information on income incurred from labor, educational background of employed/unemployed, geographical distribution of labor throughout the region. The Labor Force Survey and the Household Socioeconomic Survey were the backbones of two newly released strategies, economic reform roadmap and strategic framework for social safety in KRI. It is important to update these surveys regularly to be able to measure progress in economic and social development.

**3.96**      **It is important to re-launch the agriculture survey in KRI.** Agriculture survey has not been conducted since 2013. It is critical to re-launch the survey as it allows collecting data during two main seasons, winter and summer, and gathering information from all irrigated areas in the region. Furthermore, livestock and fisheries surveys can be done in between. In agriculture survey, KRSO collects data on winter and summer planted crops in addition to income and expenses incurred for planting one hectare in addition to other important information such as types of crops and the productivity of each hectare. Furthermore, a survey on forestry do not exists in KRI. Previous attempts by MoAWR failed, but this can be done now through remote sensing technology.

**3.97**      **Priority should be given to the systematic collection of price data, and production data by economic sectors and by main expenditure categories.** The KRSO is currently collecting price data on a monthly basis and calculating inflation rates, however there is a lack of incentives for employees to collect data in the field. Other important activities include MICS6 (Multiple Indicator Cluster Survey), and SWIFT which will measure household welfare at governorate levels.

## 4. WORLD BANK GROUP'S SUPPORT IN IMPLEMENTATION OF REFORMS

**4.1 The World Bank Group is working closely with the Government to implement economic reforms.** Based on the input from analytical work “Economic Growth Diagnostics,” and policy recommendations provided through the “Economic Reform Roadmap,” the Bank has now launched a technical assistance program designed to support implementation of this agenda as requested formally by the Government. The objective of this program is to address immediate and medium-term challenges for economic stabilization and social protection. The implementation phase plans a role for technical assistance from several donors and institutions. The Government plans on forming sectoral task forces and a steering committee to implement reforms.

**4.2 The World Bank Group is providing technical support for Government's reform actions and implementation of these reforms.** Under the leadership of KRG Ministry of Planning, the World Bank Global Practices are fully engaged with the Government and other stakeholders in KRG to help implementation of priority reforms. The Government has already demonstrated success in implementing reforms in selected sectors, but further advisory services are requested from the Bank for reforms in agriculture, industry, education, and health sectors. The Bank has delivered four Reimbursable Advisory Services (RAS) activities in KRG including economic growth diagnostics, procurement reform, social protection, and Shura Council capacity building. The impact of these work were visible and significant. All these work have been done in consultations with Government agencies, private sector, international partners, civil society, and academia. Based on the success of RAS activities, the Government has started working with the Bank in trade and electricity sectors. The Government is requesting further advisory services from the Bank in agriculture, industry, education, and health sectors. Previously completed Bank projects between 2004 and 2014 are listed in Annex 5.

**4.3 World Bank's analytical work focused on priority issues as well as medium-term challenges.** The Economic and Social Impact Assessment (ESIA) of the Syria and ISIS crises for the KRI in late-2014 not only measured the cost of the refugees and IDPs on the hosting communities but developed complementary analytical reform roadmaps in sectors such as infrastructure, power, water, agriculture and social development. This ESIA constituted a first step to responding to the urgent needs while addressing longer-term impact of potential protracted displacement due to the conflicts in the region. Building on policy dialogue with the Government under the ESIA work, the Bank is also leading an analytical work on “KRG Economic Growth Diagnostics.” The objective of this study is to support the economic growth diversification and to lift the economic potential of the KRI. This study supports sustainable growth in the non-oil segment of the economy, and elevate prospects for employment and productivity gains. An analysis of the drivers and potential sources of growth of KRI is conducted. The market failures and distortions that constrain economic growth are analyzed with the purpose of alleviating these issues through informed policy decisions. The study reviews regulations and policies, and discusses the relevancy of strategies. The KRG authorities are substantially involved in the conduct of this study.

#### **4.4 In addition to advisory support on economic policy and reforms, the KRG Reimbursable Advisory Services for the World Bank Group focused on following activities:<sup>12</sup>**

- Modernization of KRG Procurement System (World Bank Group (WBG) Governance Global Practice): A procurement self-assessment workshop was conducted to identify the shortcomings of the system. New procurement regulation was issued and enacted in February, and became effective in July 2016. Currently, standard bidding documents are under preparation in collaboration with an inter-ministerial task force to make the bidding documents consistent with the recently enacted KRG procurement regulation and with other relevant laws and regulations in the region.
- KRG Shura Council Capacity Building Program (WBG Governance Global Practice): The publication and dissemination of the “KRG Guide to Legislative Drafting” have been completed in June 2016. This guide is addressed to all legal drafters in the KRG, as well as parliamentarians, government advisors and legal departments in ministries and departments in KRI. Public Investment Management TA is designed to support the KRG Ministry of Planning and other relevant stakeholders in preparing and implementing Phase 1 of the PIM Roadmap (PIM Framework and PIM Methodologies) to lift the efficacy of investment budget management function in the KRI to levels consistent with international benchmarks in accordance with the objectives of the regional strategy (Kurdistan Region of Iraq 2020 – A Vision for the Future).
- Social Protection Reform (WBG Social Protection & Labor Global Practice): KRG Social Protection Strategic Framework has been completed. Agreement has been reached to draft a new social insurance law, and a sustainable and efficient pensions system in KRI. World Bank provided a framework for the law. Work on reforming administrative system has started as part of the social protection TA. Draft labor law is now available. World Bank team provided extensive comments (in coordination with ILO).

**4.5 The World Bank is providing technical assistance to KRI on energy sector reforms.** World Bank’s Technical Assistance program has focused on examining the electricity sector’s challenges and presenting solutions for discussion. So far, the implementation has been successful: “Private Sector Participation in Transmission Study” has been delivered. Draft grid code has been submitted for review. “Pathways to Distribution Reforms and Performance Improvement” inception report has been delivered. “Cost of Service and Tariff Reform Study” inception report has been delivered. A CGE Model for “Assessing Economic Impacts of Reduction in Energy Subsidies” draft analysis has been delivered.

**4.6 IFC has an important role in KRI.** The International Finance Corporation's (IFC) investments in Iraq have steadily grown over the last several years supporting the private sector and leveraging regional investments. IFC has arranged a US\$375 million financing package in partnership with Lebanon’s Bank Audi that will allow Mass Global Energy Sulaymaniyah to add 500 megawatts of capacity to a 1,000-MW power plant in the KRI, providing power to 3 million people. The project is also expected to reduce carbon dioxide emissions by 250,000 tons per year as it includes the conversion to a more energy-efficient combined-cycle gas turbine.

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<sup>12</sup> Due to severe fiscal crisis in KRG, the Bank agreed to postpone RAS payment for the timebeing.

#### **4.7 ‘Five Priorities’ the World Bank Group will assist during the next six months:**

Building on progress achieved during the first year of implementation of economic reforms, the World Bank Group will continue supporting priority reforms in KRI. The previous chapter provided concrete steps and substantiated actions on how the WBG will help Government implement reforms in the next six months. In summary, the following five priorities will be delivered by the Bank:

- 1) Social protection and women’s empowerment
- 2) Technical assistance for electricity sector reform
- 3) Private sector development: company registration and one stop shop
- 4) PFM oversight, public investment management system strengthening, and comprehensive review of legislation
- 5) Public procurement reform

In addition to these five priorities, the World Bank will continue providing technical assistance in implementation of the Economic Reform Roadmap with potential new activities in Doing Business, industry, agriculture, water, and health sectors.



## 5. IMPLEMENTATION STRUCTURE AND FUNDING

**5.1 KRG is implementing the economic reform roadmap through an inclusive and inter-ministerial process in participation of line ministries.** For economic and social development of the KRI, the Economic Reform Roadmap represents Government's umbrella roadmap combining input from all groups in the Government. The implementation phase is facilitated by Ministry of Planning in close partnership with the Prime Minister's Office. The reform actions are delivered by Government officials from line ministries under the leadership of KRG Ministers. Reforms actions are implemented in partnership with international organizations through a combination of various tools including technical assistance, capacity building, analytical work, knowledge sharing, and project financing.

**5.2 To operationalize Government's reforms, a coordination structure will need to be put in place.** This will help development partners to interact with public and private sector counterparts for the purpose of supporting specific actions in various sectors. The proposed coordination structure is presented in Annex 6. It is suggested that task forces and special committees should be formed to implement sectoral reforms. All stakeholders including Government officials, private sector representatives, academia, civil society organizations, and international specialized agencies should be included in these task forces.

### **Monitoring Reform Achievements and Communications Campaign**

**5.3 The KRG Ministry of Planning is setting up a monitoring and evaluation framework to monitor and measure impact of reforms.** Under the implementation phase of the KRG Economic Reform Roadmap, the Ministry of Planning is developing a monitoring and implementation framework which would serve as a "score card" for the Kurdistan Regional Government in implementation of reforms. Through this set-up, the Government will monitor key performance indicators on a quarterly and semi-annual basis. Achievements will be measured through clear milestones and targets for solid and visible reform actions.

**5.4 The Government is also prioritizing to develop communications means for implementation of reforms.** The Government needs to communicate reform achievements effectively with internal and external audiences. Through a well-designed communications campaign, the Government will engage in internal communications (within the administration), external communications (engaging stakeholders and the public at large on the various reforms it is undertaking) as well as international outreach focused on donor countries. The MoP has finalized messaging of progress and key developments/expectations, and took the lead on writing briefs on a regular basis, and utilizing communication tools for print media, radio, visual and social media.

**5.5 A World Bank Communications team has engaged with the Government.** In November 2016, a World Bank team visited Erbil to undertake an initial communications diagnostic. This entailed a series of meetings with Government officials at different levels, as well as in-depth interviews with a variety of stakeholders, international partners, opinion makers, and communications professionals. Prior to the visit, the team met with the various WBG teams who contributed to the KRG Economic Reform Roadmap. At the end of the mission, the communications team proposed to follow a phased approach for communications campaign.

## **Funding of the Technical Assistance for Reform: UNDP Funding Facility**

**5.6 To operationalize the economic reform plan, KRG teamed-up with UNDP for technical assistance to support the implementation of the specific recommendations outlined in the Roadmap.** UNDP developed a Project Document to establish the Funding Facility for Economic Reform (FFER-KRGional or FFER-KRG) in KRI that was recently approved by KRG Ministry of Planning. The FFER-KRG will support KRI in ensuring implementation of the Roadmap. FFER-KRG is positioned as a financing instrument that will be used to channel high-caliber international expertise and technical support into top priority reform initiatives directed by KRG’s Reform Roadmap. The Facility will mobilize expertise that will transform and diversify the region’s economy, restructure and strengthen public administration, instill state-of-the-art financial management practices, and improve the delivery of public goods, capital investments and basic services. A fully-funded FFER-KRG will:

- bring special measures and fast-track procedures to ensure the quickest possible implementation;
- create Sectoral Task Forces in each Line Ministry;
- create sector Action Plans with civic and private stakeholders; and
- operationalize the Roadmap in each Ministry with policy, regulatory and administrative reforms.

**5.7 In 2017, US\$19 million will be needed to implement priority economic reforms.** So far, international partners have contributed around US\$1.6 million to FFER-KRG. First contributors are listed below. Other bilateral and multilateral partners also showed interest in funding important reform actions based on Government’s implementation achievements up to date.

UNDP	US\$100,000
USA	US\$1,250,000
Netherlands	US\$270,000

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## **ANNEXES**

## **ANNEX 1: KRG COUNCIL OF MINISTERS DECREE NO. 89**

### **Kurdistan Region of Iraq Council of Ministers**

### **Council of Ministers Decree No. (89) of 09/06/2016**

### **Unofficial Translation**

Based on the provision of Kurdistan Region's Council of Ministers Revised Law No.(3) of 1992, and according to the minutes of the Council of Ministers Meeting No. (14) on 09/06/2016, the following has been decided:

- 1- Ratification of the main findings (main lines) of the Kurdistan Regional Government and the World Bank joint roadmap for the economic reform under the name of (KRG Reforming the Economy for Shared Prosperity and Protecting the Vulnerable) launched in an official ceremony on 30/05/2016 by Ministry of Planning to Ministries and other related institutions.
- 2- Assigning each ministry and institutions not linked to any ministry in Kurdistan Region to develop proper plan and mechanisms for implementation of the related main findings (main lines) of the roadmap, and review, audit and update data and information included in the roadmap in coordination with Presidency of Council of Ministers and Ministry of Planning.
- 3- All implementing authorities of this decree to submit their progress and implementation constraint reports every (90) ninety days to Council of Ministers copying Ministry of Planning.
- 4- Ministry of Planning has to conduct meetings and arrange seminars to clarify details of the roadmap.
- 5- Ministries and institutions not linked to any Ministry should implement this decree and it should be announced in official KRG Gazette.

Nechirvan Barzani  
Prime Minister

**ANNEX 2: DECREES ISSUED BY COUNCIL OF MINISTERS  
TO IMPLEMENT ECONOMIC REFORM ROADMAP**

<b>Responsible Ministry</b>	<b>Description</b>	<b>Category</b>	<b>Date</b>	<b>Decree No</b>	<b>No</b>
All Ministries	Form a Logistic Board headed by the DCF Director	Accountability	15.2.2016	773	1
All Ministries	Establish a committee on governorate and districts level to monitor market prices of food and goods	Accountability	16.02.2016	825	2
All Ministries	Establish a technical public project with participation of the private sector to improve the quality of public services	Structural Reform	16.02.2016	829	3
All Ministries	Setup an electronic IT payroll system for the public-sector employees	Accountability/ Fiscal Consolidation	16.02.2016	831	4
All Ministries	Provision of strategies to reduce the costs of public sector vehicles operations	Fiscal Consolidation	16.02.2016	835	5
All Ministries	Provision of strategies to restructure the government institutions to reduce public sector expenditures	Fiscal Consolidation, Structural Reform	28.02.2016	1022	6
All Ministries	Hold a congress to launch legislative actions to reinstate the public services regulations	Fiscal Consolidation	25.10.2016	4457	7



Responsible Ministry	Description	Category	Date	Decree No	No
Ministry of Interior	Lift burden on the KRI power gridline	Structural Reform	10.01.2016	147	8
Ministry of Interior	Obtain visa and work permit and traffic violations fees in KRI	Fiscal Consolidation	16.02.2016	837	9
All Ministries / Ministry of Finance and Economy	Establish a committee represented by the CoM on KRG's public revenues	Accountability	16.02.2016	823	10
All Ministries / Ministry of Finance and Economy	Implementation on pay cut on public sector payrolls	Accountability	16.02.2016	824	11
Ministry of Finance and Economy	Form a committee to restructure the currency exchange in KRI	Structural Reform	10.01.2016	148	13
Ministry of Finance and Economy	Enforce companies and citizens acquired business loan to pay loans within 30 days	Accountability	10.01.2016	149	14
Ministry of Finance and Economy	Freeze public sector employees pay grades	Fiscal Consolidation	14.01.2016	262	15
Ministry of Finance and Economy	Establish a committee to adjust KRG institutions budgets	Fiscal Consolidation	14.01.2016	264	16
Ministry of Finance and Economy	Suspend electricity and generator fees reimbursements from the special general budget	Fiscal Consolidation	14.01.2016	265	17

Responsible Ministry	Description	Category	Date	Decree No	No
Ministry of Finance and Economy	Freeze executive and special grade employees and DGs monthly allowances	Fiscal Consolidation	14.01.2016	267	18
Ministry of Finance and Economy	Suspend the implementation of article 13 of the 2008 public sector payroll law	Fiscal Consolidation	14.01.2016	268	19
Ministry of Finance and Economy	Suspend overtime pay for the public-sector employees	Fiscal Consolidation	19.01.2016	370	20
Ministry of Finance and Economy	Prepare information table for operational budget for all government institutions in KRI	Accountability	28.02.2016	1021	21
Ministry of Finance and Economy	Establish a committee on legal, finance and management to apply for loans	Accountability	03.11.2016	4635	22
Ministry of Natural Resources	Task the Minister of Natural Resources to prepare a private regulation draft in regard to selling petroleum locally.	Accountability	16.02.2016	832	23
Ministry of Natural Resources	Trade condensate and shell gas for the benefit of KRI	Accountability	16.02.2016	833	24
Ministry of Natural Resources	Assign the KRG Oil and Gas higher committee to contract with the international companies	Accountability	30.03.2016	1387	25

Responsible Ministry	Description	Category	Date	Decree No	No
All Ministries / Ministry of Finance and Economy	Approval on the highlights of Reform Roadmap with WB	Fiscal Consolidation, Structural Reform, Social Sector Reform & Accountability	22.06.2016	2748	26
Ministry of Planning	Provision of the strategic frame for the social protection	Social Sector Reform	25.10.2016	4456	27
Ministry of Labor and Social Affairs	Collect information on social network protection beneficiaries	Social Sector Reform	14.01.2016	263	28
Ministry of Labor and Social Affairs	Review and inspect registered disabled and special needs and the social network	Social Sector Reform	05.04.2016	1515	29
Ministry of Justice	Revise 2007 Ministry of Finance decree no. 50 on real estate titles registration fees	Fiscal Consolidation	16.02.2016	836	30
Ministry of Communications	Authorization for MoMT to collect fees on garbage removal services	Fiscal Consolidation	16.02.2016	828	31
Ministry of Communications	Collect fees on communication frequencies allocation	Accountability	11.08.2016	3453	32
Ministry of Municipalities and Tourism	Authorization for MoMT Board of Tourism to collect special services fees	Fiscal Consolidation	16.02.2016	834	33

Responsible Ministry	Description	Category	Date	Decree No	No
Ministry of Municipalities and Tourism	Authorization for the Minister of Municipality to collect waste removal services fees	Fiscal Consolidation	28.12.2016	5428	34
Ministry of Municipalities and Tourism	Authorization for the Minister of Municipality to initiate a new system for water distribution collection fees	Accountability	28.12.2016	5429	35
Ministry of Higher Education	Authorization for the Minister of Higher Education to decrease education services fees	Fiscal Consolidation	16.02.2016	827	36
Ministry of Higher Education	Implementing the Council of Ministers recommendation on obtaining higher education fee	Fiscal Consolidation	08.11.2016	697	37
Ministry of Electricity	Preliminary system development and reforms for the ministry of electricity	Fiscal Consolidation	17.04.2016	359	38
Ministry of Health	Authorization to reduce healthcare costs for Ministry of Health	Fiscal Consolidation	16.02.2016	826	39
Ministry of Trade and Industry	Acquire inspection fees from the private sector factories licensed by Board of Investment	Fiscal Consolidation	03.10.2016	4136	40
Ministry of Trade and Industry	Reform private sector companies law fee table indexes	Fiscal Consolidation	27.10.2016	4532	41

Responsible Ministry	Description	Category	Date	Decree No	No
All Ministries	Authorize all ministries to approve five years non-pay leave for public sector employees	Fiscal Consolidation	20.04.2015	3064	42

## **ANNEX 3: COUNCIL OF MINISTERS DECREE ON ESTABLISHING A DEBT UNIT**

### **Kurdistan Region of Iraq Council of Ministers**

#### **Amendment to the Presidency of Council of Ministers Regulation Number (1) of the year 2006**

#### **Unofficial Translation**

Referring to paragraph number (3) of article number (8) of the amended Council of Ministers' Law No (3) of 1992, as well as article 30 of the amended Presidency of Council of Ministers Regulation No (1) of the year 2006, and the provisions of paragraph (3) of Article (6) of the law to raise funds through borrowing in the Kurdistan Region-Iraq No. (7) for the year 2015, and for the purpose of creating a special department to organize and manage all public debt, and follow-up and coordinate the financing operations for oil and gas sales' contracts and other financial obligations in the Kurdistan Region-Iraq, we issued the following regulation:

#### Article 1

The Presidency of the Council of Ministers shall establish a Directorate for the coordination and management of public debt which will be called the "Directorate of Public Debt Management and Coordination" and shall be linked to the Prime Minister.

#### Article 2

The Directorate consists of the following divisions:

- Operations Management and Coordination Division
- Financing Transactions Execution Management Division

#### Article 3

Each of the divisions referred to in Article 2 above shall have the following functions:

a- Operations Management and Coordination Division (back office):

- Prepare the annual repayment schedule (i.e., installments, interest, and expenses) due in foreign currencies or in Iraqi Dinar for all loans and other financial obligations or contracted loans guaranteed by the Government of the Kurdistan Region and oil revenues related financing operations.
- Coordinate with the concerned parties including the Ministry of Finance and Economy and the Ministry of Natural Resources to prepare needed financial transactions to settle due installments.
- Administering loans and other financial obligations or other contracted loans guaranteed by the government of the Kurdistan Region according to law number (7) of year 2015 and in foreign currencies or in Iraqi Dinar.
- Monitor the settlement of loans or any other financial obligations or contracted loans guaranteed by the Government of the Kurdistan Region in foreign currencies or Iraqi Dinar according to



the repayment schedule in coordination with the Ministry of Finance and Economy and record/archive all related documents.

- Receive information related to all other financial obligations from concerned parties.
- Manage a computer-based application for the debt recording and financial analysis.
- Prepare statistical reports in relation to public debt and other financial obligations.
- Any other duties in relation to the roles and responsibilities of the Operations Management and Coordination Division.

b- Financing Transactions Execution Management Division (front office):

- Provide advice on project loan agreements or other financial obligations or contracted loans guaranteed by the Government of the Kurdistan Region to the specialized committee in accordance with law number (7) of year 2015.
- Provide technical support to the specialized committee in the negotiations with the lending financial institutions, and select the best available proposals in regards to the terms and conditions.
- Provide technical support to the specialized committee in the execution of borrowing operations and other financial obligations or contracted loans guaranteed by the Government of the Kurdistan Region in accordance with law number (7) of year 2015.
- Supervision of the adequacy of loan agreements in terms of the borrowed amounts, terms and conditions, and the use of proceeds.
- Monitoring of financial transactions and market movements.
- Monitoring and recording of foreign exchange operations in the money markets.
- Prepare reports on executed borrowing transactions or loans.
- Ensure coordination with fiscal policy including the impact of financing operations on the public debt situation and its cost.
- Any other duties in relation to the roles and responsibilities of the Financing Transactions Execution Management division.

#### Article 4

1. The Prime Minister and his Deputy may appoint competent and experienced persons to assume positions at the Directorate of Public Debt Management and Coordination on contractual basis, the duties and rights of the contractors are determined in the contract, in addition to permanent government employees.
2. The contractor referred to in paragraph (1) above shall be subject to the same terms and conditions as per those of regular permanent government employees' terms and conditions.

#### Article 5

The Directorate of Public Debt Management and Coordination shall maintain constant contact with the specialized committee in accordance with the provisions of Article 5 of Law No. (7) of year 2015, and submit periodic reports on the status of the public debt and the scheduling of payments, taking into account and subject to paragraph (b) of Article (3) of this regulation.

#### Article 6

The Directorate of Public Debt Management and Coordination is a transitional stage until the establishment of a special administrative unit to manage the public debt within the Ministry of Finance and Economy.

#### Article 7

The Prime Minister may issue instructions to facilitate the implementation of the provisions of this regulation.

#### Article 8

All ministries and concerned government authorities shall implement the provisions of this regulation from the date of its publication in the official gazette (Kurdistan Gazette).

## ANNEX 4: TOP 100 PRIORITY CAPITAL INVESTMENT PROJECTS

	<b>Title</b>	<b>Executing Body Government Entity</b>	<b>Governorate</b>	<b>Sector</b>	<b>Sub-Sector</b>	<b>Estimated Cost (ID million)</b>	<b>Total Actual Spending (ID million)</b>	<b>Remaining Funding Needs (ID million)</b>
1	Koya water project	Ministry of Municipality and Tourism	Erbil	Water and sanitation	Basic drinking water supply	38,630	35,039	3,591
2	Construction of two (4000) m <sup>3</sup> concrete tanks in Shresh sub-district	Sulaymaniyah Governorate	Sulaymaniyah	Water and sanitation	Basic drinking water supply	1,722	1,498	224
3	Sewerage construction for Zhiyan Sq. in Erbil	Erbil Petro Dollar	Erbil	Water and sanitation	Water supply - large systems	2,669	2,493	176
4	Shorish water department	High Committee for Developing Diverse Areas of Kurdistan Region	Sulaymaniyah	Water and sanitation	Water supply - large systems	620	465	155
5	Drinking water net in Birawa, Gurkan, Kani Bard, Biro, Spilka and Balisan Shahidan	Erbil Governorate	Erbil	Water and sanitation	Basic drinking water supply	680	538	142
6	The construction of Hashazini dam	Ministry of Agriculture and Water Resources	Sulaymaniyah	Agriculture	Agricultural water resources	4,250	3,432	818
7	Construction and installation of waterpipe network and sewerage for a main street next to the new terminal to the kornish at 159 <sup>th</sup> of Gulan	Erbil Petro Dollar	Erbil	Water and sanitation	Water supply and sanitation - large systems	2,305	1,894	411
8	Extension of the main line from (6000 m <sup>3</sup> ) main tank for Qadr Karamyan, Sangawyakan and Qarahanjeeryakan neighborhoods and the replacement of Qarahanjeeryakan neighborhood main line	Ministry of Municipality and Tourism	Sulaymaniyah	Water and sanitation	Basic drinking water supply	1,350	858	492
9	Purchase of cleaning material for the Water Directorate	Ministry of Municipality and Tourism	Erbil	Water and sanitation	Basic drinking water supply	400	262	138

	<b>Title</b>	<b>Executing Body Government Entity</b>	<b>Governorate</b>	<b>Sector</b>	<b>Sub-Sector</b>	<b>Estimated Cost (ID million)</b>	<b>Total Actual Spending (ID million)</b>	<b>Remaining Funding Needs (ID million)</b>
10	Road and sewerage in Hawari Nwe & Farmanbaran Quarter in Sangasar municipality boundaries	Raparin Administration	Raparin	Water and sanitation	Basic drinking water supply and basic sanitation	1,431	1,307	124
11	Construction of irrigation in Atconz City to Erbil International Airport	Ministry of Municipality and Tourism	Erbil	Water and sanitation	Basic sanitation	9,382	7,033	2,349
12	Purchase of equipment for the main water project in Dohuk	Ministry of Municipality and Tourism	Dohuk	Water and sanitation	Water supply - large systems	1,500	1,249	251
13	Water network in Tanahi/ Hawshik 1	Dohuk Governorate	Dohuk	Water and sanitation	Basic drinking water supply	714	510	204
14	Construction of temporary fence for Kore village project, concreting and construction of pipe sewerages of Kore town in Salahaddin sub-district	Erbil Governorate	Erbil	Water and sanitation	Basic sanitation	558	457	101
15	Expansion of water net in Shekh Ababekr in Kore	Ministry of Municipality and Tourism	Erbil	Water and sanitation	Basic drinking water supply	600	459	141
16	Implementation of water network extension in Qala Dzee, Zharawa and Sangasar cities and connecting them with main water tank	Ministry of Municipality and Tourism	Raparin	Water and sanitation	Water supply - large systems	4,275	3,570	705
17	Implementation of 5 irrigation projects in Zakho district (3 Zakho, 1 Darkar, 1 Rizgaree)	Ministry of Agriculture and Water Resources	Dohuk	Agriculture	Agricultural water resources	1,000	712	288
18	Sewerages in Penjwen municipal territory	Sulaymaniyah Governorate	Sulaymaniyah	Water and sanitation	Basic sanitation	909	796	113
19	Water project of Mihabad & Nawroz 2 Quarters in Zakho	Dohuk Governorate	Dohuk	Water and sanitation	Basic drinking water supply	478	335	143
20	Construction of room for the wells number 34, 33, 32, 31, 30, 28 in Qushtapa sub-district	Ministry of Municipality and Tourism	Erbil	Water and sanitation	Basic drinking water supply	295	152	143
21	Sewerage construction for Hindren Sq. and Sector 26 of Gulan in Soran District	Erbil Petro Dollar	Erbil	Water and sanitation	Water supply - large systems	769	640	129
22	Construction of box sewerages, 400 m length, in Khurmal sub-district + construction or shoulders	Sulaymaniyah Governorate	Sulaymaniyah	Water and sanitation	Basic sanitation	2,274	2,142	132

	<b>Title</b>	<b>Executing Body Government Entity</b>	<b>Governorate</b>	<b>Sector</b>	<b>Sub-Sector</b>	<b>Estimated Cost (ID million)</b>	<b>Total Actual Spending (ID million)</b>	<b>Remaining Funding Needs (ID million)</b>
	for Khormal market with kerbstone in Khormal + lighting set up for Khormal market							
23	The construction of (4000) m <sup>3</sup> capacity water tank in Hawara Barza	Ministry of Municipality and Tourism	Sulaymaniyah	Water and sanitation	Basic drinking water supply	1,415	1,083	332
24	Extension of culvert sewage system for Sharazoor district center	Ministry of Municipality and Tourism	Sulaymaniyah	Water and sanitation	Basic sanitation	780	625	155
25	The project of expanding main pipeline of Kalar water purification for the Kalar city neighborhoods / Kalar district	High Committee for Developing Diverse Areas of Kurdistan Region	Garmian	Water and sanitation	Basic drinking water supply	2,523	2,321	202
26	Project of water supply for Garmian and Rizgari quarters with digging deep wells/ Kalar district	High Committee for Developing Diverse Areas of Kurdistan Region	Garmian	Water and sanitation	Basic drinking water supply	1,204	1,072	132
27	Pavement, water net and sewerage net for the areas with no service yet in Piramagrun	Sulaymaniyah Governorate	Sulaymaniyah	Water and sanitation	Basic drinking water supply and basic sanitation	4,268	3,711	557
28	Installing water pipe system from Darbandikhan to Bawakhshen	Damaged Affected Border Areas	Sulaymaniyah	Water and sanitation	Basic drinking water supply	1,604	1,320	284
29	Services of investment projects where the government's share is 50% from the Charimo city houses in Chamchamal	Ministry of Municipality and Tourism	Sulaymaniyah	Water and sanitation	Basic drinking water supply and basic sanitation	7,495	5,217	2,278
30	Construction of street and pipe sewerages for Sebardan village	Erbil Governorate	Erbil	Water and sanitation	Basic drinking water supply and basic sanitation	3,006	2,008	998
31	Connection of all three water reservoir of Kore with the main distribution net for the quarters in Kore sub-districts	Ministry of Municipality and Tourism	Erbil	Water and sanitation	Basic drinking water supply	500	303	197
32	Construction of sewerages and service road near Gulan bank - Khabat district	Erbil Governorate	Erbil	Water and sanitation	Basic sanitation	776	344	432
33	The implementation of Aquban dam	Ministry of Agriculture and Water Resources	Erbil	Agriculture	Agricultural water resources	7,195	6,283	912

	<b>Title</b>	<b>Executing Body Government Entity</b>	<b>Governorate</b>	<b>Sector</b>	<b>Sub-Sector</b>	<b>Estimated Cost (ID million)</b>	<b>Total Actual Spending (ID million)</b>	<b>Remaining Funding Needs (ID million)</b>
34	Changing water net of Qandil quarter + extension of water net in Bapshtyan quarter + renovation and extension of water net in Shahidani Bakhtyari quarter	Erbil Governorate	Erbil	Water and sanitation	Basic drinking water supply	993	670	323
35	The delivery of electricity to Shahana city housing project / electricity / (Investment Board)	Investment Board	Erbil	Energy generation and supply	Electrical transmission and distribution	1,644	1,525	119
36	Construction of Guezha and Zhwela villages road in Sidakan sub-district	Erbil Governorate	Erbil	Transport and storage	Road transport	645	533	112
37	Expansion of water net to Qasre sub-district and water net to Shewagulan village and water net to Shinawa village in Choman	Erbil Governorate	Erbil	Water and sanitation	Basic drinking water supply	653	504	149
38	Construction of a sewerage in Ronahi quarter, Layla Qasim road/ binTika Quarter Dohuk	Ministry of Municipality and Tourism	Dohuk	Water and sanitation	Basic sanitation	1,086	690	396
39	Culvert sewage system for Bosken village	Ministry of Municipality and Tourism	Sulaymaniyah	Water and sanitation	Basic sanitation	757	569	188
40	Water for villages of Razan and Guezhan in Galala subdistrict in Dashti Erbil District	Erbil Petro Dollar	Erbil	Water and sanitation	Water supply - large systems	420	310	110
41	Irrigation Sulaymaniyah airport surrounding	Ministry of Transportation and Communication	Sulaymaniyah	Water and sanitation	Basic sanitation	7,630	5,712	1,918
42	Concreting streets of Qoritan village in Shamamk sub-district	Erbil Governorate	Erbil	Transport and storage	Road transport	994	813	181
43	Construction of the road of (Erderash-Kelekchy) second phase 9 km	Ministry of Reconstruction and Housing	Dohuk	Transport and storage	Road transport	6,945	6,358	587
44	Completion of Khormal, Zamaqi, Tawila & Biyara's quarters	Sulaymaniyah Governorate	Sulaymaniyah	Water and sanitation	Basic drinking water supply and basic sanitation	798	668	130
45	Project of Bekhal Water- rewanduz	Ministry of Municipality and Tourism	Erbil	Water and sanitation	Basic drinking water supply	3,750	2,080	1,670

	<b>Title</b>	<b>Executing Body Government Entity</b>	<b>Governorate</b>	<b>Sector</b>	<b>Sub-Sector</b>	<b>Estimated Cost (ID million)</b>	<b>Total Actual Spending (ID million)</b>	<b>Remaining Funding Needs (ID million)</b>
46	Extension of services to Awbra and Asha Spi quarters	Sulaymaniyah Governorate	Sulaymaniyah	Water and sanitation	Basic drinking water supply and basic sanitation	5,900	3,848	2,052
47	The delivery of water services to Dalal city project	Investment Board	Dohuk	Water and sanitation	Basic drinking water supply	210	76	134
48	The construction of Khornawazan dam	Ministry of Agriculture and Water Resources	Garmian	Agriculture	Agricultural water resources	16,789	15,725	1,064
49	The construction of Chamrga dam with compensation of dam lands	Ministry of Agriculture and Water Resources	Erbil	Agriculture	Agricultural water resources	4,800	3,388	1,412
50	The project of water supply line (to Kani Sard Quarter) in Darbandikhan / Garmian	High Committee for Developing Diverse Areas of Kurdistan Region	Sulaymaniyah	Water and sanitation	Basic drinking water supply	1,051	893	158
51	The construction of Dwar irrigation project	Ministry of Agriculture and Water Resources	Sulaymaniyah	Agriculture	Agricultural water resources	600	338	262
52	Construction of sewage and road paving for alleys in Basni	Ministry of Municipality and Tourism	Sulaymaniyah	Water and sanitation	Sanitation - large systems	433	322	111
53	Water project in Trezhan 1 and 2, Mle Maydane 2 Quarters in Sheladza complex	Dohuk Governorate	Dohuk	Water and sanitation	Basic drinking water supply	811	555	256
54	Extension of water net to Gargoli Saru and Khwaru villages	Sulaymaniyah Governorate	Sulaymaniyah	Water and sanitation	Basic drinking water supply	475	328	147
55	Water net, pavement, shoulders and concrete works for both Raparin and Shahidan quarters (Kela Spi and Janjan)	Sulaymaniyah Governorate	Sulaymaniyah	Water and sanitation	Basic drinking water supply and basic sanitation	1,727	1,399	328
56	Construction of internal streets and sewerages of Zilan quarter in Erbil city- fourth stage	Erbil Governorate	Erbil	Transport and storage	Road transport	2,687	2,371	316
57	Renovation of Khanaqeen water project with water networks / Khanaqeen district / Garmian	High Committee for Developing Diverse Areas of Kurdistan Region	Garmian	Water and sanitation	Water supply and sanitation - large systems	1,387	1,017	370
58	Renovation Erbil public mall from Carpenters' alley to dairy alley	Erbil Petro Dollar	Erbil	Transport and storage	Road transport	1,610	1,406	204



	<b>Title</b>	<b>Executing Body Government Entity</b>	<b>Governorate</b>	<b>Sector</b>	<b>Sub-Sector</b>	<b>Estimated Cost (ID million)</b>	<b>Total Actual Spending (ID million)</b>	<b>Remaining Funding Needs (ID million)</b>
59	Repair and asphaltting Balisan-Khalifan main road in Balisan sub-district	Erbil Petro Dollar	Erbil	Transport and storage	Road transport	599	483	116
60	Construction of Doli Zarze road (11.5) km length in Sidakan sub-district in Soran	Erbil Governorate	Erbil	Transport and storage	Road transport	3,270	2,560	710
61	Drawing water from Small Zab for the villages Kela Zindani Sero, Kela Zindani Khwaro, Hawari Kani Kurda, Chalaw, Kawlan, Dawdawan in Ashty sub-district	Ministry of Municipality and Tourism	Erbil	Water and sanitation	Basic drinking water supply	500	333	167
62	Construction of sewerages, gravelling, construction of shoulders and pavement of streets behind Sarqabran and construction of (20) m road	Sulaymaniyah Governorate	Sulaymaniyah	Water and sanitation	Basic drinking water supply and basic sanitation	949	529	420
63	Extension of electricity to Palka Rash, Qabr Batan and Suska villages in Shoresh sub-district, Koya district	Erbil Governorate	Erbil	Energy generation and supply	Electrical transmission and distribution	802	555	247
64	Establishing Kalachi station	Ministry of Electricity	Dohuk	Energy generation and supply	Electrical transmission and distribution	20,137	16,364	3,773
65	Construction of internal streets in Kani Qrzhala complex in Rizgari sub-district	Erbil Governorate	Erbil	Transport and storage	Road transport	511	404	107
66	Expansion of water net in Brait and Khabat in Khalifan	Ministry of Municipality and Tourism	Erbil	Water and sanitation	Basic drinking water supply	300	108	192
67	Reconstruction of Akre Road-Qandil , Bashkal section and Sharefunane connection, 27.5 km	Ministry of Reconstruction and Housing	Dohuk	Transport and storage	Road transport	1,060	857	203
68	The construction of a dam in Khanas	Ministry of Agriculture and Water Resources	Dohuk	Agriculture	Agricultural water resources	9,571	6,751	2,820
69	Construction of pipeline and sewerages for various places in Ainkawa	Ministry of Municipality and Tourism	Erbil	Water and sanitation	Basic sanitation	520	259	261

	<b>Title</b>	<b>Executing Body Government Entity</b>	<b>Governorate</b>	<b>Sector</b>	<b>Sub-Sector</b>	<b>Estimated Cost (ID million)</b>	<b>Total Actual Spending (ID million)</b>	<b>Remaining Funding Needs (ID million)</b>
70	Street construction with extension of water network and sewerage at Waziran 9 <sup>th</sup> sector phase 5	Erbil Petro Dollar	Erbil	Transport and storage	Road transport	1,634	1,474	160
71	Changing in water net of Hamza Kor village in Qushtapa sub-district	Ministry of Municipality and Tourism	Erbil	Water and sanitation	Basic drinking water supply	188	56	132
72	Construction of sewerage and roads around Dohuk Sport Club plus construction of a parking area	Dohuk Governorate	Dohuk	Water and sanitation	Basic sanitation	580	333	247
73	Installing compact unit for Chman District's water project	Erbil Governorate	Erbil	Water and sanitation	Basic drinking water supply	841	556	285
74	Reconstruction of Dolly Smel-Gally Zakho, 15 km , section of (smel-Batel) / first phase	Ministry of Reconstruction and Housing	Dohuk	Transport and storage	Road transport	36,570	22,225	14,345
75	Sewerage construction for Namrood Quarter + concrete paving the alleys of old Hajiawa + paving the streets in Daban Quarter	Raparin Aministration	Raparin	Water and sanitation	Basic sanitation	2,869	1,736	1,133
76	Construction of the sewerage and internal streets in Mamostayani Zanko Quarter next to Engineering Faculty	Ministry of Municipality and Tourism	Erbil	Water and sanitation	Basic sanitation	9,490	3,533	5,957
77	Construction of two tunnels each with length 3600 m in Gelly Zakho with design of the road from the tunnel to Dohuk-Zakho main roads	Ministry of Reconstruction and Housing	Dohuk	Transport and storage	Road transport	180,088	149,250	30,838
78	Concreting streets at Azadi Sq. and Shawais collective village and tubular sewerage for Shawais alleys	Erbil Petro Dollar	Erbil	Transport and storage	Road transport	1,533	1,333	200
79	Street and sewerage construction at Zilan Sq. in Erbil, Phase two	Erbil Petro Dollar	Erbil	Transport and storage	Road transport	2,396	2,078	318
80	The delivery of electricity services to Pank village project	Investment Board	Erbil	Energy generation and supply	Electrical transmission and distribution	500	394	106
81	Construction of green belt for parliament street in Erbil city	Erbil Petro Dollar	Erbil	Transport and storage	Road transport	908	808	100

	<b>Title</b>	<b>Executing Body Government Entity</b>	<b>Governorate</b>	<b>Sector</b>	<b>Sub-Sector</b>	<b>Estimated Cost (ID million)</b>	<b>Total Actual Spending (ID million)</b>	<b>Remaining Funding Needs (ID million)</b>
82	The project of connecting electricity power to the villages of Sangaw + villages of Qoratu / Garmian	High Committee for Developing Diverse Areas of Kurdistan Region	Garmian	Energy generation and supply	Electrical transmission and distribution	1,215	1,057	158
83	Pavement of internal streets on Roshenbiri quarter in Erbil municipality (5) territory	Erbil Governorate	Erbil	Transport and storage	Road transport	1,690	1,396	294
84	Pavement of internal streets of Erbil city and Municipality (5) territory	Erbil Governorate	Erbil	Transport and storage	Road transport	1,829	1,497	332
85	The construction of a field pond in Makrdan village	Ministry of Agriculture and Water Resources	Erbil	Agriculture	Agricultural water resources	650	427	223
86	Drilling 34 deep wells for Erbil city and surroundings	Erbil Governorate	Erbil	Water and sanitation	Basic drinking water supply	609	313	296
87	The delivery of main water network for Qularais and Raparin areas in Sulaymaniyah	Ministry of Municipality and Tourism	Sulaymaniyah	Water and sanitation	Basic drinking water supply	12,182	6,961	5,221
88	The construction of Awwal and Tazade irrigation projects	Ministry of Agriculture and Water Resources	Erbil	Agriculture	Agricultural water resources	575	269	306
89	Construction of internal roads in new Qushtapa quarter and Mzuriyakan + construction of pipe sewerages for new Qushtapa quarter in Qushtapa sub-district	Erbil Governorate	Erbil	Transport and storage	Road transport	1,183	974	209
90	Fixing and expanding electricity networks in the boundaries of Raparin administration	High Committee for Developing Diverse Areas of Kurdistan Region	Raparin	Energy generation and supply	Electrical transmission and distribution	2,193	2,061	132
91	Construction of sewerages + installation of water net + extension of electricity + construction of industrial area in Qushtapa sub-district	Erbil Governorate	Erbil	Water and sanitation	Basic drinking water supply and basic sanitation	1,767	923	844
92	Construction of internal roads 2.1 km in Sarhaldan Quarter in Sheladza	Dohuk Governorate	Dohuk	Transport and storage	Road transport	791	675	116

	<b>Title</b>	<b>Executing Body Government Entity</b>	<b>Governorate</b>	<b>Sector</b>	<b>Sub-Sector</b>	<b>Estimated Cost (ID million)</b>	<b>Total Actual Spending (ID million)</b>	<b>Remaining Funding Needs (ID million)</b>
93	Reconstruction and renovation of Bateel - Gally Zakho, 13.5 km	Ministry of Reconstruction and Housing	Dohuk	Transport and storage	Road transport	70,000	38,645	31,355
94	Roads of Kore-Shaqlawa-Mamejelka-Qandil- two tunnels, 51 km	Ministry of Reconstruction and Housing	Erbil	Transport and storage	Road transport	280,903	246,685	34,218
95	Implementation of 8 irrigation projects in Dohuk city center (3 Zaweta, 4 Mangesh, 1 Semel)	Ministry of Agriculture and Water Resources	Dohuk	Agriculture	Agricultural water resources	1,600	901	699
96	Procurement of asphaltting materials for new factory in Bastora which will be used for Erbil development projects	Erbil Governorate	Erbil	Transport and storage	Road transport	1,942	1,585	357
97	Construction of internal streets of Ziyarat village (2.4) km length in Hiran sub-district, Saqlawa district, Erbil	Erbil Governorate	Erbil	Transport and storage	Road transport	805	700	105
98	Expanding the production capacity of Dukan - Sulaymaniyah water project (1) from (3200m / 3 hours) to (6400 m / 3 hours)	Ministry of Municipality and Tourism	Sulaymaniyah	Water and sanitation	Water supply - large systems	16,000	11,262	4,738
99	Construction of street and pipe sewerages behind Ala Aldin Sujadi school + construction of pipe sewerages in Hanjirok quarter + construction of pipe sewerages in Ashty quarter	Erbil Governorate	Erbil	Water and sanitation	Basic sanitation	1,417	621	796
100	The construction of a (18 class) school in Daratoo L	Ministry of Education	Erbil	Education	Secondary education facilities	1,383	1,149	234

## ANNEX 5: PATHWAY FOR POWER SECTOR PERFORMANCE IMPROVEMENT

Reform Area	Overall Reform	Short Term Actions (2016-19)	Medium Term Actions (2020-22)
<p><b>A. Distribution Performance Improvement</b></p> <p>Relates to Pillar-5: Reduce Losses, Improve Revenues, Strengthen Distribution</p>	<p>1. Strengthen energy and financial accountability systems</p> <p><b>Priority: High</b></p>	<p>1a. Based on a detailed assessment of commercial losses, develop a loss reduction and revenue enhancement program focused on consumer segments and geographies that account for the largest share of losses.</p> <p><b>Status:</b> Completed.</p>	
		<p>1b. Carry out a consumer-feeder-transformer mapping exercise with geographical information to foster energy and revenue accountability.</p> <p><b>Status:</b> Consultancy needs to be initiated shortly.</p>	
		<p>1c. Strengthen energy accountability by developing meter specifications, enunciating a metering policy, and implementing a phased meter replacement plan. Conduct complete meter installation audit of top 2000 to 5000 customers to ensure compliance with metering requirements and verification of consumer account details.</p> <p><b>Status:</b> Consultancy for transaction advisory and technical work needs to be initiated shortly.</p>	
		<p>1d. Undertake a program for bulk/boundary metering at the Generation-Transmission and Transmission-Distribution interfaces, as well as at any points of power Import or Export.</p> <p><b>Status:</b> Consultancy for preparation of procurement documents needs to be initiated shortly.</p>	
		<p>1e. Establish an Integrated Accounting and Management Information System. Also implement an ERP system connected to the accounting and MIS system.</p> <p><b>Status:</b> Consultancy needs to be initiated shortly.</p>	
	<p>2. Deploy AMI and Outsource Revenue Management Cycle</p> <p><b>Priority: High</b></p>	<p>2a. Deploy Advance Metering Interface (AMI) using the Revenue Protection Program (RPP) which focuses on smart-meters for the top 50% revenue yielding consumers in the first phase. These consumers may constitute just a few percentage of the overall consumer base.</p> <p>Outsource Revenue Cycle Management (RCM) to private firms to improve collections over the short to medium term. Conduct a competitive selection process for RCM franchisees. Establish quality-of-service standards for both technical and commercial aspects of service. Establish a Key Performance Indicators (KPIs) program, which should become a central</p>	

Reform Area	Overall Reform	Short Term Actions (2016-19)	Medium Term Actions (2020-22)
		<p>part of performance management under the new corporate management structure. Implement a new Customer Management System (CMS) across all distribution directorates. Deploy hand held devices to improve meter reading quality and reduce billing timeframe. Improve payment collection by introducing online payment and third-party collection facility.</p> <p><b>Status:</b> Consultancy for transaction advisory and technical work needs to be initiated shortly.</p>	
<p><b>B. Tariff Rationalization</b></p> <p>Relates to Pillar-4: Rationalize Tariffs</p>	<p>3. Rationalize tariff levels as well as tariff structure to cover costs and also provide economic signals to consumers.</p> <p><b>Priority: High</b></p>	<p>3a. Develop a multi-year pathway and a strategy for tariff rationalization. The approach could start with improved supply and cost-covering tariffs for high-end commercial and industrial consumers.</p> <p><b>Status:</b> Completed.</p>	<p>3c. Introduce capacity charges and time of day tariffs, as well as seasonal variation in capacity charges. Also, evolve the tariff calculation methodology to reflect the marginal costs.</p> <p><b>Status:</b> To be initiated after ‘3b’</p>
		<p>3b. Introduce the first tariff rationalization – largely focused on industrial and commercial consumers. A second tariff rationalization should bring the tariffs in-line with the expected cost-covering tariffs (assuming loss reduction targets are met). Simplify the tariff structure in line with the recommendations in the tariff study by ECA consultants. Only three tariff slabs – subsidized, full cost of service, and subsidizing blocks – may be needed.</p> <p><b>Status:</b> First tariff rationalization introduced. Second tariff adjustment is expected in multiple steps over the next several months.</p>	
<p><b>C. Increased Electricity Availability</b></p> <p>Relates to Pillar-1: Arrange More Natural Gas for Power</p> <p>Also Relates to Pillar-2: Eliminate avoidable costs in generation</p>	<p>4. Improve Availability of Natural Gas</p> <p><b>Priority: High</b></p>	<p>4a. Enhance the availability of natural gas and eliminate (minimize) the use of diesel for power generation. Resolve outstanding disputes.</p> <p><b>Status:</b> Use of diesel for power generation has been minimized by MoE. Availability of natural gas is still constrained and needs urgent attention of the Government of KRI. Resolution of outstanding disputes in gas sector is in arbitration and expected to be resolved soon.</p>	
		<p>4b. Conduct a study to examine the availability of natural gas for power generation and the need for a gas pipeline to connect gas fields in Central KRI with power plants in Western KRI.</p> <p><b>Status:</b> Consultancy needs to be initiated shortly.</p>	
		<p>4c. Deploy private sector participation to construct a gas pipeline parallel to the existing oil pipeline to connect gas fields in Central KRI with power plants in Western KRI.</p> <p><b>Status:</b> To be initiated after ‘4b’</p>	

Reform Area	Overall Reform	Short Term Actions (2016-19)	Medium Term Actions (2020-22)
<b>D. Curbing Overall Electricity Demand</b>  Relates to Pillar-5: Reduce Losses, Improve Revenues, Strengthen Distribution	5. Renewable Energy, Energy Efficiency, Energy Conservation and Demand Side Management (REED)  <b>Priority: Medium</b>	5a. Establish a working group within MoE which is focused on REED. The working group should be tasked with developing and implementing the REED strategy till a separate agency is formed. <b>Status:</b> Needs to be initiated shortly.	5c. Present the draft new REED law to the parliament for legislation. <b>Status:</b> To be initiated after ‘5a’ and ‘5b’.
		5b. Conduct a study to develop a REED strategy as well as the institutional framework necessary to implement it. The study should also develop the key provisions and a draft of a new REED law. <b>Status:</b> Consultancy needs to be initiated shortly.	5d. Establish a separate REED agency based on the new law. The agency should report to MoE, but have a separate governance structure. <b>Status:</b> To be initiated after ‘5c’.
<b>E. Strategic Communication</b>  Relates to Pillar-6: Strategic Communication	6. Develop and implement communication strategy for subsidy rationalization, energy conservation / efficiency, as well as overall reform approach.  <b>Priority: High</b>	6a. Develop and implement a communication strategy on impacts of subsidies and need for tariff rationalization. Also, start printing cost-of-service and subsidy information on bills. <b>Status:</b> Communication study is underway.	6c. Continue implementing the communication strategy with revisions to reflect the experience gained. <b>Status:</b> To be initiated after 6a and 6b.
		6b. Develop and implement a communications plan for energy conservation, energy efficiency and renewable energy. <b>Status:</b> Communication study is underway.	
<b>F. Urgent Investments</b>  Relates to Pillar-3: Strengthen critical transmission links.  Also Relates to Pillar-5: Reduce losses, improve revenues, strengthen distribution	7. Undertake urgent investments in Transmission  <b>Priority: High</b>	7a. A modern load dispatch center and SCADA infrastructure needs to be implemented at the earliest. <b>Status:</b> A mini SCADA is being implemented, but a full SCADA system is also needed to address system reliability concerns.	
		7b. Closely monitor the implementation of IPP commitments to build transmission lines. Proactively resolve any contractual difficulties with generation IPPs so that critical transmission lines are not delayed. <b>Status:</b> Ongoing, but requires a more careful review.	
	8. Undertake urgent investments in Distribution  <b>Priority: Medium</b>	8a. Prepare and implement investments for network strengthening, loss reduction & revenue management program, and operational efficiency & performance improvement program. <b>Status:</b> Financing arrangement for the investments needs to be identified. Investments needed over the next 2-3 years.	
<b>G. Legal, Policy and Regulatory Framework</b>	9. Legislate New Electricity Law	9a. Conduct expert consultations to outline a new sector structure, including segregation of the roles and mandates with regard to policy, regulation, grid expansion, load dispatch, single buyer, generation,	



<b>Reform Area</b>	<b>Overall Reform</b>	<b>Short Term Actions (2016-19)</b>	<b>Medium Term Actions (2020-22)</b>
Relates to Pillar-7: Sector Restructuring and Private sector Participation	<b>Priority: Low</b>	distribution, fuel provision, electricity trading, energy efficiency, and demand side management. <b>Status:</b> Completed.	
		9b. Develop a draft electricity law and conduct consultations with relevant stakeholders. <b>Status:</b> Consultancy needs to be initiated shortly.	
		9c. Present the draft new law to the parliament for legislation. <b>Status:</b> To be initiated after '9b'.	
	10. Establish an Electricity Regulatory Authority	10a. Establish and ring-fence a regulatory cell within MoE as a precursor to an independent sector regulator. <b>Status:</b> Functional regulatory cell yet to be established.	10c. Based on the statutes of a new Electricity Act (EA), establish an independent regulator. <b>Status:</b> To be initiated after '9c'.
<b>Priority: Low</b>	10b. Develop tariff determination models and provide training to regulatory cell members. <b>Status:</b> Development of tariff determination models completed.	10d. The regulator would develop regulations for tariff, performance and competitive bidding processes. <b>Status:</b> To be initiated after '10c'.	
<b>H. Corporatization and Privatization of Sector Functions</b>  Relates to Pillar-7: Sector Restructuring and Private sector Participation Also Relates to Pillar-2: Eliminate avoidable costs in generation.	11. Separation of Functions and Corporatization  <b>Priority: Low</b>	11a. Within the existing structure, ring-fence generation, transmission (including system operation), distribution, and trading (including fuel procurement) businesses to function nominally as separate entities. Segregate their assets, functions and manpower, structure transactions between them, and foster separate energy and financial accountability for each. <b>Status:</b> Consultancy needs to be initiated shortly.	11b. Establish generation, transmission, distribution, trading and holding entities as separate corporate bodies registered under the companies act. Establish their board of governors, management as well as performance accountability mechanisms. These corporatized entities may be privatized at a suitable stage. <b>Status:</b> To be initiated after '11a'.
			11c. Vest all PPAs (and conversion agreements) with the trading company (single buyer). Start routing tariff subsidies through trading company. <b>Status:</b> To be initiated after '11b'.

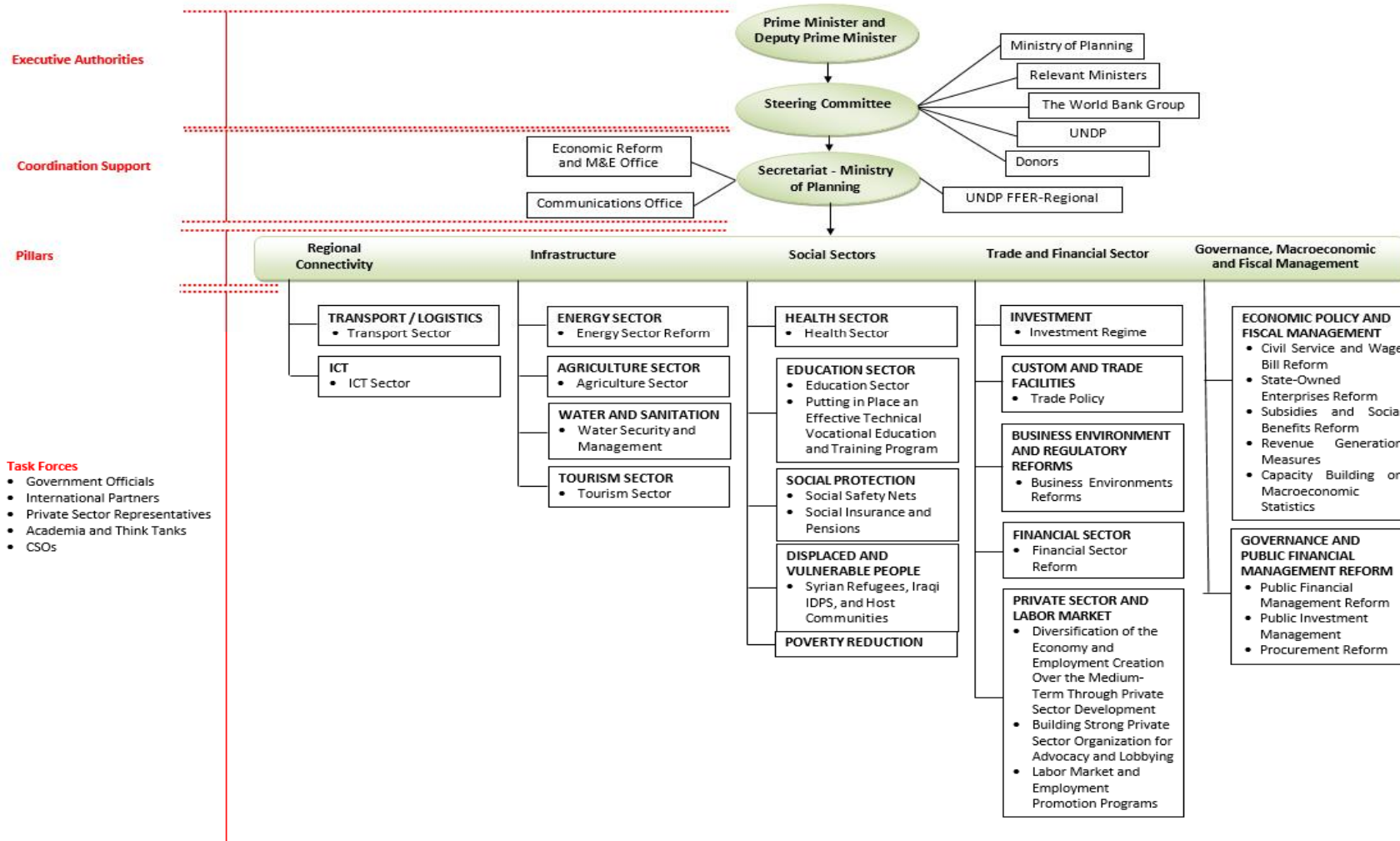
Reform Area	Overall Reform	Short Term Actions (2016-19)	Medium Term Actions (2020-22)
	12. Private Sector Participation in Electricity Distribution  <b>Priority: Medium</b>	12a. Explore options for private sector participation in distribution to attract investments as well as to improve commercial performance of the distribution business. While full privatization may be difficult initially, billing and collection services could be outsourced under robust contracts as a first step. <b>Status:</b> Study to explore options for private sector participation in distribution completed.	12c. Distribution companies may be privatized once corporatization is done, sustained performance improvement is achieved and a regulatory set-up is functioning effectively. <b>Status:</b> To be initiated after 10c, 11c, and 12b.
		12b. Develop procurement documents and undertake procurement to engage franchisees for distribution revenue cycle management. <b>Status:</b> Transaction advisory consultancy needs to be initiated shortly.	
	13. Private Sector Participation in Electricity Transmission  <b>Priority: Low</b>	13a. Develop a prioritized investment plan and explore options for private sector participation in transmission. <b>Status:</b> Completed. Prioritized investment plan for transmission has been prepared. Options for PSP indicate that BOOT model may be the most preferred.	
		13b. Enable private sector participation in development of high voltage transmission networks. This would also enable adequate transmission of nearly 4000 MW of additional capacity. Develop and implement BOOT transactions for award of transmission line development projects to the private sector. The related studies would include technical and safeguard studies for the specific transmission lines. <b>Status:</b> Transaction advisory consultancy needs to be initiated shortly.	
		13c. Conduct a study to explore opportunities for electricity trade with Central Iraq, covering technical and commercial aspects. <b>Status:</b> Needs to be initiated and completed over the next 1-2 years.	
	14. Private Sector Participation in Electricity Generation  <b>Priority: Low</b>	14a. Develop standardized documents for competitive procurement of power and/or award of generation projects to private sector. <b>Status:</b> Consultancy needs to be initiated shortly.	14c. Legacy generation company may be privatized. <b>Status:</b> To be initiated after '11b'.
14b. Review existing PPAs (or energy conversion agreements) with IPPs and also develop an IPP performance monitoring system. <b>Status:</b> Consultancy needs to be initiated shortly. <b>(Priority: High)</b>			

## ANNEX 6: COMPLETED WORLD BANK PROJECTS IN KRI, 2004 - 2014

Project Name	Location	Implementing Agency	Type of Fund	Start Date	Closing Date	Total Cost (US\$ million)	Committed (US\$ million)	Disbursed (US\$ million)	Recipient	Brief Description
Regional Health Emergency Response		Ministry of Health in KRI	ITF	Jun-08	Jun-12	5	4.9	4.8	Ministry of Health in KRI	Assisted the KRI to establish rapid, coordinated and effective response services to health emergencies.
Water Supply, Sanitation & Urban Reconstructing	Badawa	Ministry of Municipalities & Public Works	ITF	Dec-04	Jun-13	110	106.5	88.9	Mistry of Municipalities & Public Works	Aimed to upgrade and rehabilitate basic water supply and sanitation in seven cities, and conduct urban reconstruction in the poorest areas of Erbil city, benefiting about one million people. The project also provided technical assistance and institutional support.
Community Infrastructure (Supplement) Irrigation projects	Kani Shereen, Shelouk, Sidkan and Bakrajo	Ministry of Water Resources	ITF	Apr-08	Dec-12	25.5	24.8	22.3	Ministry of Water Resources	Aimed to undertake labor-intensive civil works to restore rural water infrastructure, create local employment, enhance community participation, and increase institutional capacity.
Public Finance Management		Ministry of Finance	ITF	Jun-09	Jun-13	16	7.4	2.3	Ministry of Finance	Aimed to support the Ministry of Finance to develop a more effective, accountable and transparent public financial management systems.
Emergency Road Reconstruction	Altoun Kobri Road and 3 access Road village	Ministry of Construction & Housing	IDA	Dec-06	Jun-14	135	133.7	88.6	Ministry of Construction & Housing	Aimed to improve the condition of the road network by rehabilitating highly damaged segments of the country's highway and rural road networks, reestablishing critical river crossings, and restoring the capacity to manage and maintain the road network.

Project Name	Location	Implementing Agency	Type of Fund	Start Date	Closing Date	Total Cost (US\$ million)	Committed (US\$ million)	Disbursed (US\$ million)	Recipient	Brief Description
Dokan & Derbandikhan Hydropower		Ministry of Electricity in KRI	IDA	Dec-06	Dec-13	40	38.2	28.7	Ministry of Electricity in KRI	Aimed to upgrade electricity supply primarily in the Kurdistan Region, but also nationally through its connection to the national grid.
Textbook Provision			ITF							Aimed to provide urgently needed textbooks in order to keep schools open and to improve learning conditions in primary and secondary schools.
School Construction & Rehabilitation		Ministry of Education	ITF	Oct-04	Jun-13	60	57.5	47.5	Ministry of Education	Aimed to improve the conditions of learning of students in primary and secondary schools in Iraq through the construction of new schools, the extension of existing schools, and the rehabilitation of schools in need of urgent repairs.
Private Sector Development			Iraq PSD Fund	Jan-11	Dec-13	1.4				

## ANNEX 7: “DRAFT” ORGANIZATIONAL CHART FOR REFORM IMPLEMENTATION



- Task Forces**
- Government Officials
  - International Partners
  - Private Sector Representatives
  - Academia and Think Tanks
  - CSOs

KURDISTAN REGIONAL GOVERNMENT  
ECONOMIC REFORM IMPLEMENTATION  
PROGRESS

REFORM ACHIEVEMENTS AND NEXT STEPS  
July 2017

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