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Statement by the Hon. **BARHAM AHMED SALIH**,  
Governor of the Fund for **IRAQ**,  
at the Joint Annual Discussion



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Mr. President, Vice-Presidents, your Excellencies, ladies and gentlemen,

I would like to take the opportunity of addressing you on the occasion of the annual meeting. I want to thank the World Bank team in Washington, the country team in the region and especially the team in Baghdad with whom I am in regular contact.

It is undeniable that for Iraqis, and friends of Iraq, the continued violence and the pace of progress has been a source of deep frustration. But while acknowledging the setbacks and the challenges, we must also recognize the important progress that has been achieved. In recent times, the security environment has improved in tangible ways. Of course we still have a long way to go before attaining the stability and security we need, but the progress is undeniable. Levels of violence are way down compared to a year ago-- A year ago, entire areas such the Anbar province were deemed lost to Al Qaeda—now these regions have become

denied territory to Al Qaeda terrorists. These changes in the security dynamics affirm that success is possible in Iraq.

In terms of Economic Performance we are still not living up to the potential a country with such an abundance of natural and human resources should be showing. Security challenges have been a primary impediment to improving our economic performance at a faster pace. But also bureaucratic inertia, the overbearing legacy of a socialist command economy and corruption—and indeed political instability, have proven serious impediments to accomplishing the reforms needed to unleash Iraqi's economic potential.

These are no easy challenges for a state emerging from decades of tyranny, wars and sanctions-- but we are committed to an ambitious agenda of reform manifested in the International Compact with Iraq—this was an initiative launched by the government of Iraq with the UN, and with the help of the World Bank, aimed realising our National Vision in establishing a stable unified, federal democratic state with a prosperous economy with a diverse production base capable of providing the requirements of

sustainable development based on the market factors and opened to the world and integrated with it and with the regional economies.

The Compact aims to create a mutually reinforcing dynamic of national consensus and international support. Domestically the aim is to build a national Compact around the government's political and economic program and to restore the Iraqi people's trust in the state and its ability to protect them and meet their basic needs—it includes a far reaching agenda of economic reform at unlocking Iraq's development and economic potential.

The Compact reaffirms the commitment of the Government of Iraq to good governance and fighting corruption. Achieving prosperity is a key part of the Vision. We know that sustainable growth in employment and living standards has to be driven by a strong, diversified private sector. The Government has a key regulatory and legal functions – but the real source of sustainable prosperity has to be the private sector.

Since the launch of the compact earlier in the year, we can report progress on many of the bench marks defined in the socio-economic arena:

In public resource management, the government can reports continued progress in improving budget execution performance. In particular, execution of its investment budget is 35% (around Iraqi Dinars (ID) 4.5 trillion) as at July 2007. For perspective, the investment budget execution result for the full year in 2006 was around 26%.

The Government's joint Public Expenditure and Institutional Assessment being conducted in partnership with the World Bank continues to be on track for completion by the end of the year.

Good progress is being achieved in economic reform. A generally positive outcome has been achieved following meetings between the Government and the IMF on Article IV consultations and the fifth review under the Stand-By Arrangement (SBA). The Government is currently implementing measures to reenergize efforts to meet certain structural performance criterion under the SBA and is preparing for a third program in support of the final phase of debt forgiveness under the agreement with the Paris Club.

The SBA is important because of the close relationship between its implementation and the process of debt reduction. The Paris Club agreement postulated that 80% of the debt owed to Paris Club

countries is to be cancelled. The agreement also states that other creditors (public and private) should treat Iraq in the a comparable way. Without going into the details of the matter almost \$70 billion dollars of debt (amounting to about \$ 130 billion) has been written off. The implementation of the new SBA due to end by the end of 2008 will make it possible for Iraq to get the final 20% reduction of the Paris Club debt.

The Government's efforts to control inflation are beginning to deliver tangible results. Annual Consumer Price Inflation (CPI) reached around 65% for 2006, up from 32% for the preceding year. The Government targeted the primary causes of inflation by addressing areas such as fuel supply bottlenecks as well as implementing new IMF supported monetary policy. Core inflation (excluding fuel and transportation) has consequently been reduced from 32% in 2006 to 14%, and it is hoped that the CPI will decline to 12% in 2008.

The Government has approved up to USD 1 billion for micro-credit lending. This decision was made on the basis of the successful USD 50 million micro-credit pilot programme for Baghdad.

The Government has also provided funding for the development of economic free zones. Funds are earmarked for the rehabilitation of new and existing zones. Work with the Governorates continues with a focus on investment promotion, but also involves work on improving budget execution for regional economic development. Particular achievements in the investment area include the appointment of the Chairman of the National Investment Board.

Progress has been achieved in increasing electricity supply with record levels of generation being reached. For example, in a day in September around 120,000 mw was produced. Attacks by terrorists on the electric networks hamper the effective distribution of current and future generation capacity. To this end, the Ministry of Electricity, with the help of security ministries, will continue efforts to increase sustainable electricity generation capacity and improve distribution networks; the Ministry is also in process of enhancing its strategic plan for the sector.

From the declining rates of production experienced during 2006, oil production and export volumes have increased though not to levels initially forecast for 2007. Improved prospects for oil production and economic growth will be contingent on the completion of planned investments in the oil sector.



We are working to bring the negotiations on the hydrocarbon law to closure— if and when enacted, this law will cause the restructuring of the oil sector and will provide a conducive investment environment to unlock Iraq's real potential as an oil producer. I am hoping that year 2008 will witness major improvement in our production and export levels.

We are also making progress with the restructuring of the banking sector and are looking to increase the possibilities of Foreign Direct Investment. As our capacity to implement projects increases, there will be a need for the participation of International Financial Institutions, including the World Bank and IMF. In many cases we are only just beginning to re-engage with the international community through trade and financial services. I do believe that as we restructure our economy we will need high quality advisory services.

With some of the World Bank funded projects there have been some difficulties in implementation. These are being taken seriously and I am already in touch with the senior ministers involved to resolve these issues.

For the future, we need to examine how the engagement between the Government of Iraq and the international financial institutions will deliver results. One of the main advantages of the International Compact with Iraq is that it enables us to examine the main economic priorities of the Government and assess how we are performing.

When there are difficulties, we are trying to find Iraqi solutions. When we identify a need for expertise or finance we have a way of involving other partners. When we make progress, we need to look at the lessons learned and apply these to future priority areas. The World Bank's role in helping to launch and establish the International Compact with Iraq is very much appreciated by our Government. The roles that the IMF and World Bank have played in ensuring debt forgiveness, has taken a great burden away from the Iraqi people. We now have to invest in improving infrastructure and developing many different sectors to ensure that wealth created in Iraq is distributed more fairly. We have to help people who were unable to reach their full potential under Saddam to fulfill their dreams and build a stable and prosperous Iraq.

We need to recognize that ultimately it is up to us Iraqi politicians and people to resolve our problems. Outsiders cannot deliver for us. The Iraqi leadership must assume responsibility and deal with these challenges and turn the tide. This can be done by Iraqis and by Iraqis alone, but undoubtedly we will need sustained support from the international community.

For us failure is not an option, success will be difficult – it will take time – there will be no easy nor quick fixes – but it is possible – we must succeed.