



MERI
Middle East
Research Institute



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About MERI

The Middle East Research Institute engages in policy issues contributing to the process of state building and democratisation in the Middle East. Through independent analysis and policy debates, our research aims to promote and develop good governance, human rights, rule of law and social and economic prosperity in the region. It was established in 2014 as an independent, not-for-profit organisation based in Erbil, Kurdistan Region of Iraq.

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Abbreviations

CBI	Central Bank of Iraq
GDP	Gross Domestic Product
IDP	Internally Displaced People
IOM	International Organisation for Migration
IQD	Iraqi Dinar
KRG	Kurdistan Regional Government
KRI	Kurdistan Region of Iraq
MERI	Middle East Research Institute
MNR	Ministry of Natural Resources
SMEs	Small and Medium-sized Enterprises
UK	United Kingdom
UN	United Nations
US	United States



Introduction

The Middle East Research Institute (MERI) launched its 2016 Economic Forum, the first of its kind to take place in Iraq. In the wake of severe financial and economic difficulties, the need for restructuring and diversification of the economy has never been greater. Accordingly, the event brought together a range of political and business leaders, as well as figures from universities, non-governmental organisations and foreign representatives to discuss visions of a successful economy for the future.

On Wednesday, April 27th, the opening session was a workshop on the major obstacles to future growth, including economic instability, poor consumer confidence, bureaucracy and corruption. This was followed by panel discussions on reform in the energy sector, and debates on how alternative industries such as agriculture and tourism can flourish as alternative pillars of the Kurdistan economy - while competing in an increasingly globalised market.

The second day of the conference, Thursday 28th April, began with a workshop discussion on prospects for future economic development. This included challenging traditional dependency on oil, models for taxation, and avenues for diversification. A panel that focused on building trust and access to credit in the financial sector followed, before a discussion on the rule of law and combatting corruption. Finally, the closing session, discussed how the lessons and issues raised at the conference could shape strategies and prioritisations when looking towards future reform.

The goal of the conference was to provide an open forum for experts and policy-makers to meet, debate and exchange ideas on how best to shape the future of the Iraqi Kurdistan economy. By raising solutions to the obstacles to economic progress, and identifying avenues for diversification and growth, the objective is for this engagement to translate into real changes that will benefit the Kurdistan Region of Iraq (KRI), and the region as a whole.



1 Reforming the Energy Sector

In this panel:

- Bilal Wahab, The American University of Iraq Sulaimani (Chair)
- Sherko Jawdat, Chairman of the Oil and Gas Committee, Kurdistan Parliament
- Howri Mansurbeg, Lecturer, Soran University
- Taha Zangana, Deputy Minister for Natural Resources, KRG
- Hogir Shali, Deputy Minister of Electricity, KRG

The oil and gas sector generates 99% of the Iraqi and Kurdistan Regional Government (KRG) public revenue. Naturally, the four-fold drop in oil prices has had a serious impact on the economic performance of Baghdad and Erbil. In opening this panel, Bilal Wahab remarked that so far oil has been a curse for the KRI. “In 2013, when I told my students oil is a curse they were all puzzled, and asked, ‘Why! Aren’t we benefiting from this grace?’ But nowadays whenever I make the same statement they are all nodding in agreement”. As oil price is determined by global market dynamics, any country that depends solely on this sector is vulnerable to any volatility in the system. A thriving oil sector does not help reduce unemployment or create a healthy finance sector unless the government has a thorough plan and efficient management.

Howri Mansurbeg argued, “Oil is neither a blessing nor a curse, it is an opportunity”. Countries can exploit revenue generated from natural resources to develop other sectors infrastructure or to damage other sectors; it all depends on how they manage this revenue. He argued that the KRI does not have political will, studies, strategic planning, and reliable data and that the Ministry of Natural Resources does not have the capacity and expertise to manage the sector. Howre opined that it is essential for the KRG to have a designated national oil company.



Moreover, the KRG should regulate the recruitment process by international companies operating in the KRI to ensure that companies recruit and train technicians and highly skilled nationals, not just unskilled local workers.

Sherko Jawdet emphasized the importance of institutionalizing codes of governance to smooth the reform process in many sectors of the economy. Even if the KRG implements strong policies to tackle the economic crisis, it is doomed to fail if corruption persists. Transparency is the key, but the government does not allow international auditing of companies to review the data and does not trust local auditing entities. He went on to say that it must be questioned why the Ministry of Natural Resources does not publish accurate data about each operating oil well. Despite these impairments, the KRG can still approach this economic crisis and reform the energy sector if it implements and follows four procedures: first, institutionalizing ethics in government; second, monitoring; third, control; and finally, reform. He



stressed that for this reform to take effect the KRG needs data. He argued, “It is essential to reactivate Parliament and the government again, and all political decisions must be left in the hands of Parliament to reorganize and reform the system”.

Taha Zangana began by explaining the nature of the work of the Ministry of Natural Resources (MNR), and its activities in supplying the Ministry of Electricity with enough oil and gas to generate power at full capacity. He also expressed that as the Ministry of Natural Resources is an executive party, it does not have influence on the reform of the energy sector. “Reform is not in the hands of one minister, but collectively of parliament, government, and political decision makers to reinforce and implement any reform”. Furthermore, he stressed that his ministry is not aware of to whom or how the exported oil is sold. There is confusion as to who is making rules and regulations regarding the oil sector; is it the government or parliament?





In comparison, Hogir Shali was more optimistic about the energy sector. He did however highlight that although the KRG can produce 5000 megawatts of electricity, due to eroded and incompatible infrastructure only 3500 megawatts is delivered to consumers. Thus, upgrading the system from 132 kv lines to 400 kv lines is essential in order to provide 24/7 electricity. He continued by pointing out a number of issues, including the financial crisis, that have played a role in halting development projects. According to Shali, the Ministry of Electricity can overcome these difficulties if the KRG hands over distribution to the private sector, with transmission remaining under government control. Secondly, all contracts should be amended, revised and reviewed in such a way that the KRG and its people's interests should be put in front of the interests of all other stakeholders. Therefore, it is essential to seek support and benefit from external expertise and experiences in drafting these contracts to stop financial bleeding.

This panel ended with a Q&A session where panellists and audiences alike highlighted some key issues and ongoing efforts by the KRG in reforming this sector.

Hawri Mansur Bag pointed to the environmental risks imposed by tankers transferring crude oil, roadside accidents, and polluting and contaminating aquifers, and the importance of imposing taxes on the exported oil. Some audience members suggested that the KRG must think about shifting its policy towards introducing green energy use. In response to this suggestion, Shali reported that the Ministry of Electricity in collaboration with International Organisation for Migration (IOM) has implemented three solar pilot projects in Kasnazan, Ainkawa, and Koya and a hydropower project in Amedi. To harness potential wind power, the Ministry of Electricity hired a German company to do an initial assessment. However, they are concerned about the sustainability of this energy source. Professor Frank Gunter commented that subsidizing the energy sector is counterproductive. He recommended that the KRG abandon this policy and let households pay market prices for this service, thus encouraging the population to use this service more wisely to mitigate the economic burden on the KRG. In the end both panellists and the audience advocated for data transparency as the main pillar for change and reform and to build trust between the government and people.





2 Making Kurdistan Competitive Again: Away from the Rentier State

In this panel:

- **Fawzi Hariri, Former Minister of Industry, Iraq (Chair)**
- **Ali Qaradaghi Secretary-General of the International Union for Muslim Scholars**
- **Naji Ezzulddin Mohammed, Chairman of Kurdistan Contractors Union, Sulaimaniyah**
- **Frank Gunter, Professor of Economics at Lehigh University, USA**

Despite the fact that oil revenues have helped the KRI to economically prosper over the last decade by increasing domestic consumption, it has equally hindered it from diversifying its economy. Particularly the agriculture and manufacturing sector have been suffering due to high prices and wages and scarcity of capital and labour at a time when oil prices were high and the oil sector was booming. Although the fall of oil prices has currently created difficulties in building capital for further investments, it can also be seen as a window of opportunity to shift capital and labour to other sectors and diversify Kurdistan's economy. Accordingly, the panellists assessed the opportunities for the Kurdistan Region of Iraq to move away from

a rentier-model economy and diversify its economic activity building new, promising sectors. A lack of transparency and strategy and a high level of corruption can all hinder the diversification of a hydrocarbon-based economy. The panel recognized these issues while also highlighting the need for a more efficient and systematic approach to taxation.





The political dynamics of the Kurdistan Region are having an impact on the economic recovery. As Ali Qaradaghi, Secretary General of the International Islamic Union stated, “We need to face the challenges and difficulties in an organised way. Both the economy and politics are two sides

of the same coin. We need a constitutional solution in the Kurdistan Region. The political parties have to come together and solve the issue. Unless we solve the political issue, we cannot solve economic problems.” He went on to highlight the need for accountability, international oversight, and decentralization if Kurdistan is ever going to overcome the economic hurdles it is facing.



Another significant issue that makes private sector reform a vital part of any government strategy, is the ever changing demographic of the Kurdistan Region. As Frank Gunter, Professor of Economics at Lehigh

University highlighted, the population of the KRI is young; an issue that the KRG is not addressing. With approximately 20% of the population unemployed (up from 6.2% two years ago) and with an increasingly young populous, the KRG will have to produce 70,000 new jobs a year. However as Professor Gunter stated, “We are probably looking at the next decade where there will be no increase in public sector jobs.” This would have significant repercussions if these issues failed to be addressed.

Naji Ezzulddin Mohammed, Chairman of Kurdistan Contractors Union in Sulaimaniyah also highlighted the need for a concerted reform process for any significant outcomes. Mr. Mohammed voiced his frustration at the government’s reaction to the economic situation. He stated,



“I don’t see any plan from the government to effectively recover from the crisis. We don’t have any program and we don’t trust government to be able to produce solutions. We have failed to mobilise people in order to make a change in the economy. I only hear voices but officials don’t listen.”





3 Making Kurdistan Competitive Again – Agriculture and Tourism

In this panel:

- **Dlawer Ala'Aldeen, President of MERI (Chair)**
- **Abdulsattar Majid, Minister of Agriculture, KRG**
- **Nawroz Mawlood, Minister of Municipality and Tourism, KRG**
- **John Nash, Lead Economist in Sustainable Development, The World Bank**
- **Rizgar Qadir, Businessman in Tourism Industry, Erbil**

The Kurdistan Region remains heavily dependent on revenue generated from the sale of natural resources. The oil and gas sector creates relatively few jobs and leaves the region and its government vulnerable to the vagaries of international markets. Over the last two years, oil prices have fluctuated between \$20-\$100 a barrel. As long as the government relies on oil sales for over 90% of its budget, macro-economic stability and therefore a favourable business environment remain unobtainable.

Consequently, the KRG has to start implementing policies aimed at diversifying its economy. In order to achieve this, it is wise to look at promising sectors with

potential for growth – i.e. currently underdeveloped sectors where the Kurdistan Region has a competitive advantage. According to the panellists, agriculture and tourism are two such sectors that could benefit from policy reform and additional investment.

In terms of agriculture, Kurdistan has highly suitable soil as well as a favourable climate for farming. Yet the sector has been in decline over the last several years according to Abdulsattar Majid, the Minister of Agriculture for



the KRG. “Until two years ago, only 16% of people were involved in agriculture while it used to be as high as 68%.” In order to resolve the issues, “We need to get in contact with farmers... Closing the door is something terrible. People cannot see Director Generals and Ministers, and they do not know who to talk to”, according to the Minister in his opening statement. In hopes of boosting the domestic sector the minister has already increased import taxes on products that can be produced locally.

According to John Nash, senior economist at the World Bank, the government has been too heavily involved in the market, setting up support prices and subsidies which distort the mechanism of supply and demand, leading to inefficient and undiversified production. Moreover, the influx of foreign money from oil sales has led to an appreciation of the exchange rate, rendering imports cheaper and leaving the domestic sector incapable of competing with imports from Turkey and Iran. Nash advocated for the KRG to do two things to facilitate growth in the agriculture sector: “First, let the government withdraw from the market and reduce subsidy levels. Secondly, incentives for farmers to invest in their own land can be improved because they don’t own land, they rent it from the government.”



Tourism is another underdeveloped sector where there is room for improvement. According to Nawroz Mawlood, Minister of Municipality and Tourism, Kurdistan has many attractions because of its history and nature; beautiful mountains and lakes. However, “Many of these important sights have not been developed because of problems in legislation, property and ownership.” Security of course is another issue. “Unless you have a stable and secure place, you cannot develop tourism.”



The latter point was reiterated by Rizgar Qadir, a businessman active in the tourism sector. Tourism is being sacrificed in favour of security. Discriminatory policies at checkpoints hamper the sector because Arabs are less willing to travel to the region. “We need to train security officers and coordinate with them to stop the discriminatory policies,” Qadir advocated.



Crises such as these provide a window of opportunity for governments to implement necessary reforms. That is why John Nash, a veteran at the World Bank with over 30 years of experience in reforming economies, remains positive. “With the right policies, the economy will emerge stronger, more resilient and diversified than before it went into the crisis. This is what I’ve seen in other countries.”



4 The Financial Sector – Increasing Access to Credit and Building Trust

In this panel:

- **Matthias Mitman, U.S. Consul General, Erbil (Chair)**
- **Fazil Nabi, Deputy Finance Minister, Iraq**
- **Mario Al-Jebouri, Director of Banque Cantonale de Genève**
- **Wadee Al-Handhal, Chairman, League of Iraqi Private Banks**
- **James Parks, Senior Economist, Advisor to KRG**

The people of the Kurdistan Region do not have proper access to financial services such as credit, savings, and insurance. The banking system in Kurdistan has never been fully functional or able to gain the trust of the general public. The Central Bank of Iraq (CBI) regulates the banking sector throughout the country, while also determining the monetary policy. Overlapping jurisdictions and an overregulated banking system has made the process slow and costly leading to a majority cash based economy. Commercial banks and informal sectors took advantage of this situation and refuse to serve households and small-enterprises with low interest loans. Increasing access to financial services can play an important role in alleviating the financial crisis and

help to achieve sustainable growth in the KRI. The focus should be on enabling access to credit and small loans while also boosting Small and Medium-sized Enterprises (SMEs), since they are important drivers to economic development.

In the first workshop, “Obstacles Businesses Face in the Kurdistan Region”, Ahmed Haji Rasheed, Chairman of Parliamentary Committee for Integrity in Iraq, emphasized the importance of the banking system: “The best way to reform and revive our economy is to reform, reorganize, and regulate our banking system.” He proceeded by saying that the CBI must be an independent entity from the Ministry of Finance and the rest of government in order to

influence the banking system and gain the trust of citizens as the financial institution facilitating every transaction and circulation of money in the economy. There is 60 trillion Iraqi Dinars (IQD) in liquidity assets in Iraq's market; 38 trillion is in the hands of households. Out of that 38 trillion, people only use 8 trillion in their daily transactions, while the rest is hidden under their mattresses. Had this amount been circulated in the market and in the hands of bankers, the economy could have created more opportunities and livelihoods for cash-strapped individuals, and the economic crises may not have had such grave impacts on the KRG's budget.

Matthias Mitman assured the United States (US) is very worried about the economic situation in Iraq and the Kurdistan Region. The US understands the KRG's need for cash to face the compounding crises, thus it funnels money through several channels, including 105 million dollars of extra assistance to deal with Internally Displaced People (IDPs) and 450 million dollars to assist the Peshmerga force. He emphasized the importance of addressing the fiscal imbalance, diversifying the economy, and reducing the KRG's public sector employment. The banking industry can play a key role in tapping into the capacity of potential entrepreneurs. Capitalism is built on credit; funds that are available to some and borrowed by others. This will fuel economic growth. However, in the Kurdistan Region, the CBI branches in Erbil and Sulaymaniyah are no longer functioning and there is a severe shortage



of liquidity in both the private and public banking sectors. How can the banking sector be recapitalized? How can access to credit for investment projects be increased?

Fazil Nabi noted that everyone acknowledges that the financial system in Iraq is in trouble. It has been neglected for so many years and only the oil industry has the attention of politicians and policymakers. Some people would like to get loans, but in Iraq there is no infrastructure or legal code to support businesses. "I have been the Deputy Minister of Finance for over eight years, since 2007. I am aware that each year the Iraqi budget depends on oil revenues for more than 90% of its income. The slump in oil prices has a great negative impact, but it is not only impacting the economy. To deal with the present crisis, both Kurdistan and Iraq can work together with mutual understanding and a bilateral relationship."



Mario Al-Jebouri stated, "The banking sector is one of the pillars to drive economic growth, it is critical and I believe it has been neglected for the past 5-10 years. Logically so, because the price of oil was over 100 dollars and things were just so easy. But now that things are more difficult, to whom and where do we turn? And where does the private sector get its capital?"



The notion that the entire economic burden falls on the government's shoulders is not true. The government's role only lies in regulating the system and implementing the laws. The KRG has the proper laws and regulation for the banking system; but what is absent is an enforcing party implementing those rules and regulations. There are no mechanisms through which they take effect.

The KRG needs to create its version of a Marshall Plan. Building infrastructure will generate jobs, help develop non-oil sectors and diversify the local economy. People and the government have become heavily dependent on oil and gas revenue. The KRI cannot remain solely dedicated to one asset; it needs to diversify its economy. For instance, agriculture is inherently a potentially successful sector in the KRI's economy and policy makers needed to focus on this sector. People do not have an effective mechanism to consolidate land and ownership.

On the other hand SMEs are a critical engine for the local economy, but it is difficult for them to get credit from financial institutions because there is no collateral, liability, or accountability. The government, businesses, and individuals do not keep

proper records of their transactions, which makes it harder for banks to grant loans. He went on to say that “Banks want to see that you did the math, that you do your accounting.”

This can be an opportunity for Kurdistan to build a better economic structure. Kurdistan can look at many examples. Luckily, it has natural resources, which can help to speed up the recovery process – as long as it has the right policies.

Wadee Al-Handhal stressed the importance of microcredit to support small entrepreneurs and promote livelihoods for cash deprived individuals. His bank has so far granted 80,000 micro loans which amount to 22 million IQD. Through keeping constant records and following up, they realized their goal to contribute to growing employment by 1.4%. The traditional role of banks in Iraq's economy is engaging in buying currency, whereby they can enter the microcredit market. Al-Handhal's private sector bank opened a channel of dialogue with the Central Bank and convinced them to allocate liquidity to



incentivize private banks to engage in the microcredit market. Eventually, the Central Bank committed to activating this process and allocated one trillion dollars to private banking for less than 1% interest. Another issue is regulation; there are many financial institutions operating in the market that have not been regulated. Lack of education and awareness of these problems among the general public has caused a negative view toward banks, which must change.



James Park pointed out that it is important to have vision, but one needs a strategy to get there. The key conditions for economic development are first, macro-satiability; second, a positive investment plan; and third, credible financial regulation.

A developed economy is diversified with many agents, institutional investors, pension funds, individual savers, and capital markets. Financial sectors in Iraq fundamentally differ from the rest of the world, as there are no extra reserves as a backup plan. As such, it is essential for the KRI to diversify its economy and find ways to address the lack of liquidity.

Panelists in this session gave an overview of the financial sector in the Kurdistan Region and addressed the challenge of improving financial services that can contribute to economic development and growth.





5 Rule of Law and Combating Corruption

In this panel:

- **Angus McKee, UK Consul General to the Kurdistan Region & Northern Iraq (Chair)**
- **Ahmed Haji Rasheed, Chairman of Parliamentary Committee for Integrity, Iraq**
- **Ghada Zughayar Director of the Middle East and North Africa Department, Transparency International**
- **Fazlullah Myrzavnd, Centre for Technical and Development Support to the Presidency, Iran**
- **Raheem Al-Iqeeli, Former Chairman of Integrity Board, Iraq**

Managing substantive oil-revenues in an accountable and transparent way proves difficult for many developing countries relying in large part on their natural resource reserves to cover public expenses. This is particularly so in cash-based societies such as the Kurdistan Region. However, encouraging examples of other countries managing oil-revenues and combatting corruption do exist. Accordingly, the speakers examined how widespread corruption is in Iraq and the Kurdistan Region, and what the causes and possible solutions are.

More specifically, the UK Consul-General, Angus McKee, argued that corruption hinders economic progress and that it could cost up to 17% of a country's Gross Domestic Product (GDP). He raised questions about how to introduce good governance and change the culture of corruption.



Ahmed Haji Rasheed, Chairman of the Parliamentary Committee for Integrity in Iraq, said that the rule of law is about implementation more than anything else. He stressed the need to implement the law without



any discrimination vis-à-vis the political class and the rest of the population. “We do not have a problem with the revenues but with the management of revenues”, he added. Raising awareness against corruption through media and civil society can be part of the solution, Rasheed said.

Ghada Zughayar, Director of the Middle East and North Africa Department of Transparency International, talked about the global and regional challenges of corruption. She argued that there is extensive corruption among officials not paying taxes. She referred especially to the Panama Documents. In addition, she highlighted that Baghdad is doing poorly in the fight against corruption and that Iraqi Kurdistan has failed to implement the 16 points against corruption. Therefore, she continued, people have started losing confidence



in their governments. People consider political parties, the parliament and the judges to be the most corrupt institutions, according to Zughayar, and 47% of the

Iraqi people said that they do not trust the government. She also said that reforming the system requires good knowledge of the problems and its causes.

Fazlollah Mirzavand, economic advisor of the Center for Innovation and Technology Cooperation, talked about corruption as a by-product of transitional periods and weak governmental structures. He also cited insecurity as one of the reasons why officials engage in illegal activities. Raising awareness against corruption will help to minimise it.



Finally, Raheem Al-Iqeeli, Former Chairman of the Integrity Board in Iraq, said that it is difficult to define the cost of corruption. He argued that corruption exists in every sector of the economy. A United Nations (UN) research report revealed that 97% of employees would not report corruption if they saw it, he said. Lastly, he argued that the criminal code in Iraq is not implemented, militias control the country and the judiciary is corrupt.





6 KRG Reform Strategies: A Debate with Deputy Prime Minister

In this panel:

- Qubad Talabani, Deputy Prime Minister, KRG
- Dlawer Ala'Aldeen, president of MERI (Chair)

This final session was designed to shed light on three aspects of the economy in Iraq. The status quo of the economy in the KRI and the difficulties it faces, lack of liquidity and problems in the system of governance in the Region were discussed firstly. Secondly, the financial and the economic crises in Iraq as a whole, with a specific emphasis on their impact on Baghdad-Erbil relations, were analysed. The final area of debate within this panel concentrated on the influences of regional economies on the economy of Iraq.

Speaking on this panel, Qubad Talabani, Deputy Prime Minister of the KRG, referred to the limited power the KRG can exert to shape the economy as it is heavily affected by the Central Government's economic and financial decisions and policies. He added that the economic landscape in the KRI has now reached a level of complexity and intricacy where finding ways forward and providing answers to the convoluted economic issues has become no easy task.



The underlying problem is not the drop of oil prices; rather it is largely related to the size and function of the institutions in the KRI. The bloated number of civil servants within the government absorbs a large amount of the budget. There is no mechanism in place to circulate the finances within the economy in a way that the KRG could generate income of such a process. Therefore, the challenge is to reduce the size of the institutions and their financial burden on the general budget.

The economic system in the KRI suffers from complex structural and procedural deformities. For instance, generating electricity does not seem to be the only major obstacle in the region; transmission, distribution, usage and collecting bills are also aspects that present as much of an issue.

Mr. Talabni also mentioned that the economic crisis is further worsened by the political deadlock and failure to reach an amicable agreement by the major parties in the KRG. The disagreements have left clear gaps within the government and undermined the formation of a unified approach towards solving the economic downturn in the KRI. There are various views among the political parties as to how to address the crisis, but the political split has kept these voices apart.





7 Reforming the Economy: Strategies and Prioritisations

In this panel:

- **Dlawer Ala'Aldeen** , president of MERI (Chair)
- **Qubad Talabani**, Deputy Prime Minister, KRG
- **Cevdet Yilmaz** – Turkish Minister of Development
- **Ali Allaq** – Governor of Iraq Central Bank

The session brought together two speakers to discuss strategies and prioritisation for reforming the economy; Cevdet Yilmaz – Turkish Development Minister, and Ali Allaq – Governor of Iraq’s Central Bank. Mr. Yilmaz was asked to share Turkey’s experience of turning a dismal economic situation into a period of extensive development. He compared the situation of Turkey then, to the challenges the KRG – as well as other regional and oil exporting countries – are currently facing: lack of security and low oil prices. He noted that while the KRG seems to be aware of, and realistically assessing, these problems according to Turkey it is vital that countries in the region create market oriented economies, free

and democratic societies, and rule of law. “In our experience,” Mr. Yilmaz stated, “political stability is key to progress. Generating a predictable climate is so important and the private sector relies on it.” He suggested a power and revenue sharing agreement between the regional and central governments to create a positive environment. Furthermore, it would generate trust in the government if it carried out its true mission, to provide infrastructure, rule of law, and stability.



Ali Allaq, Governor of the Iraq Central Bank, identified challenges in fiscal and monetary policy making. A system of analysis, he said, for identifying the needs and problems of the economy does not exist. Economic policy in Iraq is dominated by oil, which leads to fiscal deficits when prices are low. However, Mr. Allaq noted that even when oil prices are stable, there are many issues that need to be considered. For example, with 90% of to budget from oil revenue, the budget is at high risk. The

way forward, he said, is to benefit from more stable times by ensuring the future. Yet, the political parties act in their own and “do not allow you to choose the right path.” Diversifying government revenues is a challenge and a necessity for both the KRG and the central government. Additionally, Governor Allaq discussed the lack of a synchronized banking system including banks in the KRI, operating under the CBI’s jurisdiction. He pointed out, “The currency is one, and so the monitoring should be one.”



Panelist Recommendations *

Panel 1: Reforming the Energy Sector

- The MNR requires investment in capacity building to help manage the hydrocarbon sector and increase employment opportunities. It also needs to further develop the sector's infrastructure.
- The KRG should regulate the recruitment process by international oil companies to ensure recruitment and training of highly skilled nationals in order to provide local employment.
- Taxes should be imposed on exported oil to mitigate environmental risks.
- Transparency must be implemented, as it is key to ending corruption and supporting reform. Data transparency is the main pillar for change and reform, and will build trust between the government and the people.
- The MNR must publish accurate data about each operating oil well.
- The electricity delivery system must be upgraded in order to provide 7/24 electricity.
- The KRG should hand over electricity distribution to the private sector, but remain responsible for transmission.
- Seek external expertise to help the KRG review and revise all contracts to be in the interest of citizens of the KRI.

Panel 2: Making Kurdistan Competitive Again: Away from the Rentier State

- Establish an efficient and systematic approach to taxation.
- The political issues must be solved so that the economic issues can be addressed.
- Promote accountability, international oversight, and decentralization in the KRI.
- The KRG needs to focus on job creation for the youth due to young population of the KRI.

Panel 3: Making Kurdistan Competitive Again – Agriculture and Tourism

- Focus on facilitating the growth of the agricultural sector and provide incentives for farmers to invest in their own land.
- Introduce import taxes on products that can be produced locally.
- Invest in and develop tourist and natural attractions. Streamline legislation and property ownership to facilitate this.
- Train security officers at border check points, and coordinate with them to stop discriminatory entry policies. Do not sacrifice tourism for security.

* *These are the recommendations of the panelists and not of MERI.*

Panel 4: The Financial Sector – Increasing Access to Credit and Building Trust

- Increase access to financial services, credit and small loans for small-enterprises and households.
- Establish independence for the Central Bank of Iraq from the Ministry of Finance and the rest of government. It must have autonomy in setting policy. This will also help to build trust in the banking system.
- Increase liquidity in the private and public banking sectors.
- Change the legal code, and strengthen the infrastructure to support businesses.
- The KRG needs to enforce and implement the current laws and regulations.
- Land ownership laws need revising, particularly in relation to investment and business.
- Government, individuals, and businesses need to keep proper records of their transactions to enable banks to lend more money.
- All financial institutes operating in the country need to be under regulation, and the same system.

Panel 5: Rule of Law and Combating Corruption

- Transparency in oil-revenue management will lead to accountability and less corruption.
- Raise awareness against corruption through media and civil society.
- Laws must be implemented and enforced without any discrimination of political class.
- Iraqi Kurdistan must implement Transparency International's 16 points against corruption.
- Review and analyze the problems and causes which are leading to corruption and lack of trust in the parliament, judiciary, and political parties.

Panel 6: KRG Reform Strategies: A Debate with Deputy Prime Minister

- Reduce the size of government institutions and their financial burden on the general budget through personnel reduction.
- The government needs to form a more unified approach towards the economic problems.

Panel 7: Reforming the Economy: Strategies and Prioritisations

- Kurdistan must develop a long-term vision to create a market-oriented economy.
- Establishing political stability between the regional and central governments should be prioritised, as it is key to predictability – important from a private sector, investment standpoint – and progress.
- Diversifying the economy must take precedence in order to counteract the KRG's reliance on high oil prices.
- The monitoring and regulation of the banking system should be under one jurisdiction as the currency is the same.

* *These are the recommendations of the panelists and not of MERI.*







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